

**Report on PTPC-TF Resolution**  
**Implementation of the external execution of the bail-in**  
**in the Italian post-trade systems**

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## Abbreviations

|                    |   |
|--------------------|---|
| <b>BRRD</b>        | <i>Bank Recovery and Resolution Directive - Directive 2014/59/EU of the European Parliament and of the Council and following amendments</i> |
| <b>CSD</b>         | Central Securities Depository   |
| <b>EBA</b>         | European Banking Authority  |
| <b>FSB</b>         | Financial Stability Board   |
| <b>FMI</b>         | Financial Market Infrastructure   |
| <b>MT – ES MIL</b> | Monte Titoli – Euronext Securities Milan  |
| <b>SRB</b>         | Single Resolution Board   |
| <b>SRMR</b>        | <i>Single Resolution Mechanism Regulation – Regulation 2014/806 of the European Parliament and of the Council and following amendments</i>  |
| <b>TF</b>          | Task Force  |
| <b>NNA</b>         | National Numbering Agency   |

## Glossary

|   |   |
|---|---|
| <b><i>Pending transactions</i></b>              | <i>Operations identified but not settled at the record date regarding financial instruments subject to nominal value write-down and/or conversion (bail-in);</i>  |
| <b><i>External Execution of the Bail-in</i></b> | <i>Operational executive phase of the bail-in involving subjects different from the authority and the credit institution subject to the resolution, in particular the market infrastructures;</i>                         |
| <b><i>Internal Execution of the Bail-in</i></b> | <i>Executive phase of the bail-in involving only the authority and the credit institution subject to the resolution;</i>  |
| <b><i>Record date (RD)</i></b>                  | <i>Relevant date for the correct identification of the balances subject to the nominal value write-down and of the subjects to whom the financial instruments derived from the eventual conversion will be delivered;</i> |

# 1. Introduction

The regulation and the international standards on banking resolution endorse the development of clear and standardized procedures in order to ensure an efficient and rapid implementation of the resolution measures.

In light of the international works and on the basis of the indications from the Bank of Italy, a Task Force is established with the specific purpose of analyzing the so called *external execution of the bail-in*<sup>1</sup> within the Committee called “*Post-Trade Participants Committee*” (PTPC) chaired by Monte Titoli – Euronext Securities Milan, in collaboration with ABI and ASSOSIM.

In particular, the activity of the Task Force aims at:

- analyzing the impact on the post-trade procedures (central maintenance and settlement systems) of the measures of write-down and conversion of financial instruments issued by the credit institution in resolution;
- defining, within an infra-systemic perspective, a procedure identifying clearly: roles, timelines and operational phases for the management of the financial instruments subject to the resolution measures.

Taking into account the abovementioned purposes, the Task Force elaborated and approved this document describing the procedural and technical aspects related to the implementation of the *external execution of the bail-in* in the Italian post-trade systems. This contributes also to support credit institutions in the writing of the *bail-in playbooks* requested by the Competent Authorities when planning the resolution.

The content of this document – that could be subject to integrations, revisions and updates, in light of whether the evolution of the European and International works on the topic or the indications of the Authorities – is the synthesis of both the participants’ contributions given during the works and the clarifications and reflections already shared with the Authorities.

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<sup>1</sup> The reference is to when the bail-in procedure is reflected in the internal systems of the market infrastructures becoming visible by all the market intermediaries.

## 2. Actors

**Table 1 – Actors involved in the operational management of the bail-in**

| <b>Roles</b>                                     | <b>Subjects</b>  | <b>Main activities</b>  |
|--|--|---|
| <b>Credit institutions subject to resolution</b> | Credit institutions participating in the central maintenance system  | <ul style="list-style-type: none"> <li>- Activation of the bail-in procedure;</li> <li>- Communication to MT of the necessary operational data for the execution of the bail-in procedure;</li> </ul> |
| <b>Central Depository</b>                        | Monte Titoli – Euronext Securities Milan, as “issuer CSD” for the issuance of the financial instruments subject to the bail-in | <ul style="list-style-type: none"> <li>- Operational management of the bail-in procedure;</li> <li>- Spread of technical information to the system;</li> </ul>  |
| <b>Resolution Authority (RA)</b>                 | Bank of Italy  | <ul style="list-style-type: none"> <li>- Emission of the provision disposing the bail-in, also implementing the resolution programme adopted by the <i>Single Resolution Board</i>;</li> </ul>        |
| <b>National Numbering Agency</b>                 | Bank of Italy  | <ul style="list-style-type: none"> <li>- Issuance of new ISINs, where provided.</li> </ul>  |

### 3. Bail-in execution in the central maintenance system

#### 3.1. Base scenario and technical scenarios

Given the complexity of the case, the analysis has been conducted starting from a base scenario in order to identify the essential elements of the procedure. The application of this procedure could be adapted taking into account specific circumstances.

In particular, the case analyzed regards the central depository (Monte Titoli – Euronext Securities Milan) operating as Issuer-CSD for financial instruments (notably shares and bonds) issued by issuers based in Italy. It is assumed that the resolution strategy adopted ensures the operational continuity of the institution subject to resolution (so called *open bank bail-in*) and therefore bonds will be converted into shares issued by the institution subject to resolution itself.

In light of this general scenario, the following technical sub-scenarios are elaborated on the basis of the bail-in extension.

**Table 2 – Technical scenarios**

| Number | Technical sub-scenario  | Description  |
|--------|---|--|
| 1.     | <b>Partial reduction of shares value, partial or total reduction of bonds and conversion into shares<sup>2</sup></b>              | Partial reduction of shares value. Bonds are partially or totally written down (and in the latter, subsequently cancelled) and the decreased part is converted into shares to re-capitalize the issuer (if necessary, a new ISIN is assigned by the NNA).        |
| 2.     | <b>Total reduction of shares value, partial or total reduction of bonds and conversion into shares<sup>3</sup></b>                | Total decrease of the shares nominal value (and subsequent cancellation). Bonds are partially or totally written down (and then cancelled). The decreased part can be converted into shares to re-capitalize the issuer (a new ISIN can be assigned by the NNA). |
| 3.     | <b>Scenario 1 or 2 plus partial or total reduction of liabilities different from bonds and conversion into shares<sup>4</sup></b> | In addition to scenario 1 or 2, the bail-in involves also liabilities different from bonds that are decreased and converted into shares (if necessary, a new ISIN is assigned by the NNA).   |

<sup>2</sup> The existing shares are partially written down; bonds are used only for the re-capitalization (the decreased part is converted into shares). It is included the extreme case in which the bond is totally converted (100%), hence written down to zero and converted into shares.

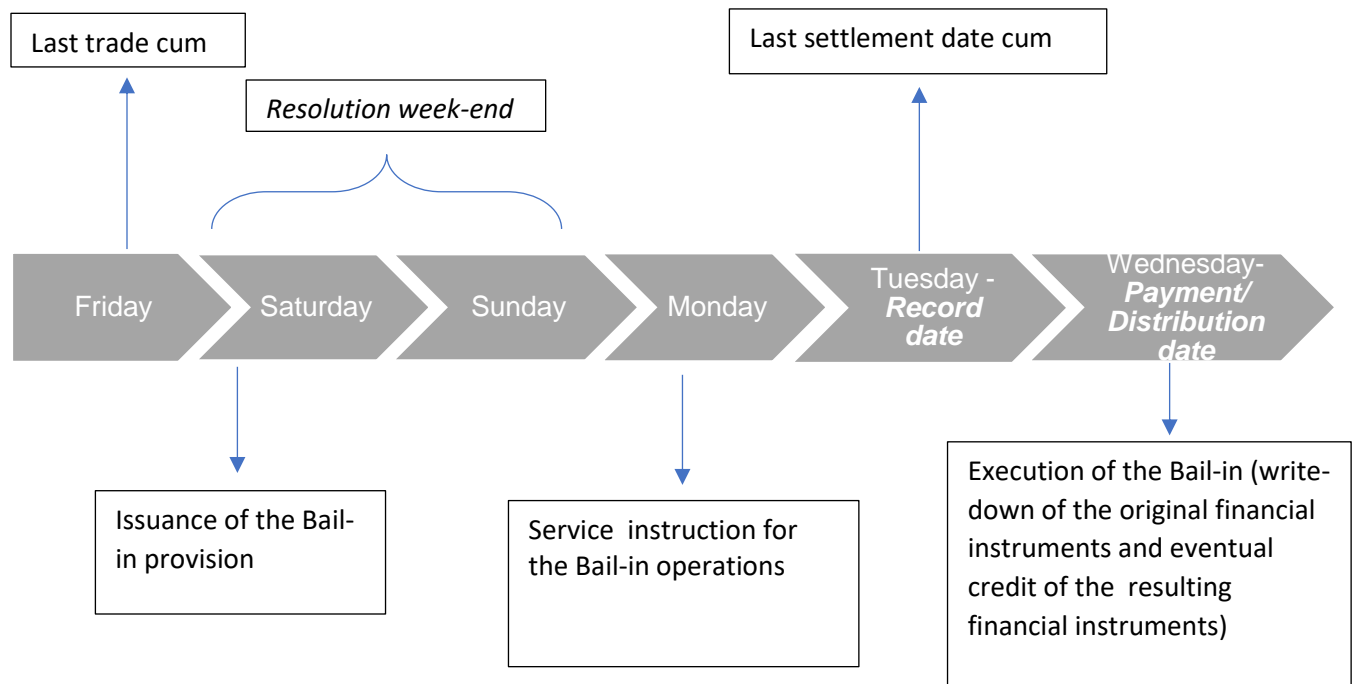
<sup>3</sup> It includes the case in which some bonds (e.g., subordinate) are totally written down to cover losses, without being converted, instead others (e.g. senior bonds) are converted (prior equivalent reduction).

<sup>4</sup> The conversion of liabilities into shares and the conversion of other financial instruments into shares would occur simultaneously.

### 3.2. Timeline

This document describes the implementation of the so called *external execution of the bail-in*. Therefore, the following operational and informational activities are performed immediately after the issuance of the provision with which the Bank of Italy disposes the write-down and the conversion in the fulfillment of the resolution program (pursuant to article 34 of Legislative Decree No. 180/2015, also combined with article 29 SRMR).

The hypothesis considers the start of the procedure of the *external execution of the bail-in* during the so called *resolution weekend*<sup>5</sup> through the submission of the necessary operational data for the bail-in execution from the institution in resolution to MT. The Record Date is pointed in the provision at least two business days after the provision date.



<sup>5</sup> The bail-in procedure can be also activated at any time during the week with the same timeline provided in the example above.

If the resolution procedure starts during the week, the timeline for the execution of the operations and the other relevant dates have to be based on the record date anyway (i.e., last trade date cum = RD – 2, last settlement date cum = RD). The timeline for the execution of the write-down and the eventual conversion are referred to the business days of the central maintenance and settlement systems.

### **3.3. Procedure phases**

Based on the content of the information flows and the activities carried out by the subjects involved, three phases are distinguished:

- **PHASE 1:** the institution subject to resolution collects operational data to be submitted to MT for the technical execution of the shares nominal value and bonds write-down and the eventual conversion;
- **PHASE 2:** MT spreads to the system the relevant operational data for the shares nominal value and bonds write-down and the eventual conversion;
- **PHASE 3:** MT carries out the book-entries related to the shares nominal value and bonds write-down, the eventual conversion and the issuance of new shares on the basis of the information submitted by the institution in resolution and the existing balances at the record date.

#### **3.3.1. PHASE 1: arrangement of information flow to CSD.**

The phase of **collection of operational data** aims at communicating to MT all the relevant and necessary information for the execution of the bail-in within the central maintenance and settlement systems.

The institution subject to resolution shall communicate the operational data to MT, also on the basis of the information contained in the provision issued by the Bank of Italy (pursuant to article 34 of the Legislative Decree No. 180/2015). Similarly to what is provided in case of other corporate actions, in lack of communication of such information, Monte Titoli – Euronext Securities Milan cannot carry out the functional activities for the execution of the bail-in. The operational data shall be submitted within 12 p.m. of the day previous the Record Date.



**Table 3 – Operational data**

| <b>Relevant operational data</b>  | <b>Mandatory/optional data</b>        | <b>Considerations</b>   |
|---|---------------------------------------|---|
| <b>ISIN involved in reduction or conversion</b> ( <i>Write down or Conversion</i> ) | Mandatory                             | In case of issuance of new shares, the ISIN assigned by the Bank of Italy as NNA shall be communicated  |
| <b>Amount subject to reduction/conversion</b>                                       | Mandatory                             | The institution in resolution shall also communicate the nominal value resulting after the write-down (in case of partial reduction) and the number of shares to be assigned after the conversion   |
| <b>Record date</b>  | Mandatory                             | It is necessary for the identification of the balances on which the reduction/conversion should be carried out.<br>It should be determined so as to allow the settlement of the market transactions concluded during the last trading day involving the financial instruments subject to bail-in. |
| <b>Payment Date/Distribution Date</b>   | Mandatory                             | Relevant date for the credit of the financial instruments resulting from the conversion; normally, the business day following the record date   |
| <b>Conversion ratio</b>   | Mandatory, only in case of conversion |   |
| <b>Interests management</b>   | Optional                              | The mode of calculation/credit/debit of interests shall be communicated to MT from the issuer/agent each time, considering the content of the implementing provisions of the bail-in adopted by the RA  |
| <b>Shares fractions management</b>  | Optional, only in case of conversion  | The mode of <b>shares fractions</b> management shall be communicated to MT each time, considering the content of the implementing provisions of the bail-in adopted by the RA   |

### **3.3.2. PHASE 2: spread of information to the system.**

The purpose of this second phase is to spread to the participants to the central maintenance system the necessary operational data for the **execution of the bail-in**. MT will inform the system using the same manners in place for the corporate actions, showing, for each provision, the operational fulfillment to be carried out, within the business day previous the record date.

In particular:

- The record data of the financial instruments involved;
- The nature and the manners of elaboration of the operations;
- The reference *key dates* for each aspect of the operations.

The communications will be mainly structured, according to the information standards, providing the possibility of associating each time textual supportive information, if the operation, the characteristics of the elaboration or the issuer's requests will require it. The information flow will be ensured for each telecommunication channel in use (RNI, SWIFT 15022 e MT-X).

The information of MT on the write-down and/or conversion of the financial instruments subject to the bail-in has a merely operational value in the fulfillment of the notary and central maintenance services to the participants and it does not substitute the information that should be provided by the institutions subject to resolution to the financial instruments' holders on the basis of the applicable law. However, Monte Titoli – Euronext Securities Milan can transmit eventual non-standardized communications on request of the institution in resolution through its own telecommunication channels.

### **3.3.3. PHASE 3: execution of write-down and conversion.**

The day after the record date, Monte Titoli – Euronext Securities Milan executes the total (or partial) reduction of the financial instruments nominal value and the equivalent issuance of new shares on the basis of the available balances at the record date and the information submitted by the institution subject to the resolution.

In case of total reduction of the concerned financial instruments nominal value, Monte Titoli – Euronext Securities Milan will proceed with the deletion of them from the book-entries system in accordance with the timeline defined in agreement with the competent Authorities.

If the bail-in entails liabilities different from financial instruments centralized at Monte Titoli – Euronext Securities Milan as in the scenario 3 (e.g., derivatives), the institution subject to resolution shall require the financial instruments to be centralized in a way similar to the mark-up procedure or, in case of issuance of new shares, the centralization FOP procedure.

If, given specific circumstances, it is considered necessary to credit all or part of the new shares on an intermediary account of the issuer, the latter shall require the opening of a dedicated account in accordance with the ordinary procedures established by MT.

Following the execution of the operations, Monte Titoli – Euronext Securities Milan proceeds to submit the information related to the final report to the intermediaries and to the issuer subject to resolution.

#### **4. Bail-in procedure involving financial instruments managed through a link with other CSDs (Monte Titoli – Euronext Securities Milan as Investor CSD)<sup>6</sup>**

For the financial instruments centralized at MT as investor CSD, Monte Titoli – Euronext Securities Milan, in line with the procedures for the management of corporate actions related to financial instruments managed through a link with other CSDs, duplicates in its own book-entry system the measures executed by the issuer CSD.

In case of write-down and conversion of financial instruments issued at ICSD or at third-countries CSDs level, if the financial instruments resulting from the conversion shall be issued at Monte Titoli – Euronext Securities Milan (Issuer CSD) level, the institution subject to resolution shall promptly submit to Monte Titoli – Euronext Securities Milan the necessary information for the issuance of the new financial instruments in accordance with the procedures settled in paragraph 3.3.1. Monte Titoli – Euronext Securities Milan will carry out the issuance according to the ordinary procedures<sup>7</sup>, except for specific circumstances requiring administrative and contingent procedures that should be agreed with the issuer and based on the information submitted (such as, for instance, the identification of a person with specific technical-operational role and/or the opening of accounts for the credit of the resulting shares). The issuance follows the FOP issuance procedure.

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<sup>6</sup> In line with the provisions provided in the SRB document *“Reflecting bail-in in the books of the International Central Securities Depositories (ICSDs)”*.

<sup>7</sup> Also see the Central Maintenance Service Instructions published on Monte Titoli - Euronext Securities Milan’s site.

## 5. Impact of the bail-in procedure on the settlement system

### 5.1 Settlement of the operations after the emission of the resolution provision

At the moment, in case of corporate actions, the settlement of the operations regarding financial instruments involved in the event can be carried out until the record date.

Supposing that the emission of the provision corresponds to the announcement of the event provided by the general procedures of execution of the corporate actions, an exemplification of the settlement cases is contained in the table below.

**Table 4 – Settlement cases**

| <i>Operation type</i>   | <i>Standard description of settlement</i>  | <i>Operational example</i>   |
|---|--|--|
| <b><i>Settlement of operations negotiated on the markets before the bail-in provision</i></b> | The operations negotiated until the Last Trade Date, if identified, will continue to try the settlement until the end of the Record Date ( <i>Last Settlement Date</i> ). <sup>8</sup>   | If we suppose that the bail-in provision is published on Saturday, the operations negotiated on a RM or a MTF until Friday included will try the settlement until the end of the Record Date, i.e. until Tuesday   |
| <b><i>Settlement of OTC operations entered before the Record Date</i></b>                     | <p>The OTC operations entered before the bail-in provision, if identified, will continue to try the settlement until the end of the Record Date.</p> <p>The OTC operations entered after the bail-in provision, if identified, will continue to try the settlement until the Record Date.</p> <p>The OTC operations, if not found, will remain in the system for 20 days, at the end of which the operations will be cancelled from the system. If found after the Record Date, the operations</p> | If we suppose that the bail-in provision is published on Saturday, the OTC operations inserted before the bail-in provision (namely within Friday), if identified, will try the settlement until the Record Date (i.e. Monday and Tuesday included). The instructions inserted after the emission of the bail-in provision (on Monday or Tuesday), if identified, will try the settlement until the Record Date (until Tuesday, included). |

<sup>8</sup> It is supposed that in this scenario the suspension of the negotiations has been decided and published by the competent Authority.

| <b>Operation type</b> | <b>Standard description of settlement</b>              | <b>Operational example</b> |
|-----------------------|--|----------------------------|
|                       | will be subject to Transformation (see paragraph 4.2). |                            |

## 5.2 Management of pending transactions

### Background Information

“Pending transactions” means the operations identified but not settled on the Record Date involving financial instruments subject to write-down of nominal value and/or conversion.

For the management of these operations Monte Titoli – Euronext Securities Milan normally applies the procedures established for the management of the so called “*Corporate Action on flow*” (i.e. *Transformation*).

The management procedure of the Transformation consists in the deletion of the settlement instruction related to the original operation and the automatic re-insertion of a new settlement instruction (TRAN) by Monte Titoli – Euronext Securities Milan, to allow the settlement of the operations not yet settled within the Record Date.

To this end, it is essential the identification of the Record Date, given that Monte Titoli – Euronext Securities Milan executes the Transformation for the operations that are identified but not settled within the Record Date. In particular, in the event of resolution, the Record Date is fixed at least two business days after the emission of the bail-in provision, so as to allow the settlement of the operations existing before the so called *resolution week-end*. As a consequence, the write-down and the eventual conversion established in the resolution provision will entail the balance resulting after the settlement of such operations.

The mode of application of the Transformation procedure in an hypothetical bail-in scenario are listed in the table below.

**Table 5 – Transformation management in case of bail-in**

| Operation type   | <i>Standard description of transformation</i>   |
|--|---|
| <p><b>Operations identified but not settled on the Record Date (i.e. pending transactions)</b></p> | <p>The operations that are identified<sup>9</sup> but not settled on the Record Date (i.e. pending operations) are carried out in accordance with the management procedure of the Transformation. The management procedure of Transformation consists in the deletion of the settlement instruction of the original operation and the automatic re-insertion of a new settlement instruction (TRAN) by Monte Titoli – Euronext Securities Milan. For each resulting financial instrument an instruction TRAN will be created.</p> |
| <p><b>Operations not identified on the Record Date</b></p>   | <p>The operations not identified on the Record Date are not carried out in accordance with the management procedure of Transformation; those instructions will remain in the system until the 20th business day of the settlement service after the Record Date. In case that the operations are identified within the 20 business days, the operations will follow the management procedure of the Transformation. If not, they will be deleted from the system.</p>   |

<sup>9</sup> For further information about the purchase, identification and settlement procedure see the Settlement Service discipline contained in the Services Rules of Monte Titoli and the relevant Instructions. In particular, with reference to the identification, see Article 69 of Services Rules: *“The identification is carried out with the purpose of verifying the correspondence between the information related to the settlement instructions inserted. The T2S platform provides the participants complete information on the status of the settlement instructions entered and on the settlement instructions entered by the counterparty waiting for the identification (allegement). The verification of correspondence pursuant to paragraph 1 regards mandatory information (key identification) and can also regard non-mandatory information. The settlement instructions not identified can be modified by the participants only with reference to the status indicators.”*

# ANNEX I – Legislative framework

## 1. National framework

The **Legislative Decree No. 180 of 16 November 2015** and following amendments implement the provisions on the harmonization of the discipline on the prevention and the management of banks and investment firms crisis (through more efficient measures and employing private financial resources) established in the Directive 2014/59/EU of the European Parliament and of the Council, *Bank Recovery and Resolution*.

The Bank of Italy is appointed as Italian Resolution Authority for the participation in the Single Resolution Committee and in the Resolution Authorities Committee of the European Banking Authority (**EBA**) and for the fulfillment of the linked activities set up in the BRRD and therefore in the Legislative Decree no. 180/2015. The Resolution Authority is provided with powers and special tools for the management of the resolution procedure.

Among the different resolution measures, the Authority can employ the bail-in to allow to absorb the losses of the institution subject to resolution through the reduction of the shares value, bonds and other liabilities as well as the re-capitalization through the conversion of debt instruments and other liabilities into shares of the institution subject to resolution (or even of a different subject).

## 2. International framework

The international works for the implementation of the bail-in procedure seems to be of particular importance. The **Financial Stability Board** organized in May 2019 a discussion table participated by the main European CSDs and the respective competent Authorities, with the purpose of illustrating the work in progress on the national level and some case studies on the bail-in. In the perimeter of the FSB work, two main workstreams have been identified, one on the proceduralization of the bail-in and one on the continuative access to the market infrastructures. With reference to the first topic, FSB has published in December 2021 the *Bail-in execution practices paper*, a document that provides a general description of procedures and operational agreements for the execution of the bail-in and each phase of it<sup>10</sup>.

The **Single Resolution Board** works on the operationalization of the bail-in focuses, in particular, on the interaction with the banks for the definition of the so called *bail-in playbooks* used, in particular, to identify the internal procedures that the institutions subject to resolution shall adopt for ensure the promptly implementation of the bail-in. In 2020, in particular, the so called *external execution of the bail-in* has been deepened, namely the interaction with the market infrastructures and with other intermediaries involved in the implementation of the tool<sup>11</sup>.

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<sup>10</sup> <https://www.fsb.org/2021/12/bail-in-execution-practices-paper/>

<sup>11</sup> Such work led to the publication of the document [Reflecting bail-in in the books of the International Central Securities Depositories \(ICSDs\)](#)