



BANCA D'ITALIA  
EUROSISTEMA

# **INDICATIVE OVERVIEW OF THE PROCEDURAL STEPS FOR THE EXECUTION OF THE WRITE-DOWN AND CONVERSION AND BAIL-IN EXCHANGE MECHANIC**

DECEMBER 2023



***This document sets out the general criteria which would be followed in the event of a bail-in, without reference to specific cases. It is published in order to comply with the European Banking Authority guidelines implementing international standards on resolution by the 1 January 2024 deadline.***

## **CONTENTS**

1. Introduction and objectives of this document
2. Legislative framework: bail-in and the write-down and conversion powers; reference scenario Attori coinvolti: ruoli e responsabilità
3. Stakeholders: roles and responsibilities
4. The bail-in execution process: resolution scheme
5. The bail-in process: description
  - 5.1 Resolution initiation decision and resolution scheme
  - 5.2 Exclusion or suspension from trading
  - 5.3 Write-down of instruments
  - 5.4 Conversion of instruments and issuance of new securities
  - 5.5 Treatment of interest
  - 5.6 Treatment of transactions not yet settled
  - 5.7 Treatment of differences between provisional and final valuations

# 1. Introduction and objectives of the document

The *European Banking Authority's 'Guidelines to Resolution Authorities on the publication of the write-down and conversion and bail-in exchange mechanics'*<sup>1</sup> require resolution authorities to publish a high-level document on their websites describing their approach to writing down and converting capital instruments and bail-inable liabilities ('exchange mechanics'), from the preliminary stages to final execution, including any adjustments following a definitive ex post valuation, where applicable.

This document offers an indicative overview of the procedures which would be followed in executing write-down or conversion powers (Article 29 of Legislative Decree 180/2015 and Article 21 of Regulation (EU) No 806/2014, i.e. the Single Resolution Mechanism Regulation – SRMR) and the bail-in tool (Articles 48 et seq. of Legislative Decree 180/2015 and Article 27 of Regulation (EU) No 806/2014) with respect to Italian banks,<sup>2</sup> pursuant to a resolution scheme adopted by the Single Resolution Board for banks under its direct remit or a resolution measure adopted by the Bank of Italy for other banks.<sup>3</sup> Unless otherwise specified, the terms used in this document have the same meaning ascribed to them in Legislative Decree 180/2015.

The purpose of this document – which has been drawn up in accordance with the EBA guidelines – is to promote greater transparency in the use of 'exchange mechanics' by explaining the main procedural steps involved.

As indicated in the EBA guidelines, this document includes:

- an overview of the legislative framework;
- a general description of the processes and procedural steps for the execution of the bail-in by the different stakeholders involved,
- an examination of certain operational factors.

In addition, as regards the execution of a bail-in in post-trade systems, this document

---

1 The Bank of Italy has already notified the European Banking Authority of its intention to comply with these Guidelines.

2 For the sake of ease, in this document the term 'bank' refers to all those entities defined in Article 2 of Legislative Decree 180/2015.

3 Specifically, pursuant to Article 7 of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 (SRMR), the Single Resolution Board is responsible for taking all decisions regarding resolution for banks and banking groups under the direct supervision of the European Central Bank (ECB) and for other cross-border groups, as well as cases requiring the use of the Single Resolution Fund. Unless otherwise indicated, the term 'resolution authorities' shall refer indifferently herein to the Single Resolution Board or to the Bank of Italy.

is to be read in conjunction with the ['Report on PTPC-TF Resolution: Implementation of the external execution of the bail-in in the Italian post-trade systems'](#), published in July 2022,<sup>4</sup> which was prepared by the task force established to analyse and describe the procedures associated with measures for the write-down and conversion of financial instruments and bail-in by Monte Titoli – Euronext Securities Milan (MT-ESM), in its role as the central securities depository (CSD), and which sets out the various roles, timeframes and phases involved.

The document does not address the operational capabilities needed by banks to execute the bail-in, such as, for example, those relating to: the governance processes to be undertaken to implement the tool and the related communication arrangements with external stakeholders, and the information systems supporting data generation and internal processes.<sup>5</sup> It should be noted that this document does not impose any additional requirements or obligations on banks beyond those already provided for under the current framework.<sup>6</sup>

Therefore, the indications set out in this document are not binding nor they are to be taken as common practices to be followed, but are only intended to clarify how the hypothetical resolution scenario could unfold. The Bank of Italy and the stakeholders have the option of applying the bail-in tool differently than set out here when exercising their discretion on how to pursue the resolution objectives and in light of the relevant circumstances.

This document, which at present only sets out one simplified hypothetical scenario, may be revised in the future to reflect changes in international and national law and practices regarding the execution of bail-in.

---

4 The task force was made up of representatives of the major banks and trade associations (ABI and ASSOSIM), experts in the post-trading field and Monte Titoli – Euronext Securities Milan, which acted as coordinator by virtue of its role as central securities depository and provider of settlement services for regulated securities. The Bank of Italy and Consob took part in the project as observers.

5 These factors are normally covered in the bail-in playbooks, which are prepared by banks and followed in executing bail-ins. These playbooks – the contents of which are set out in the Single Resolution Board's publication ['Expectations for Banks'](#) – describe the steps that banks follow in executing write-downs and conversions (i.e. internal execution) and in supporting the various stakeholders in taking the actions required (i.e. external execution).

6 In addition to the SRB's 'Expectations for Banks', see the EBA's ['Guidelines for institutions and resolution authorities on improving resolvability'](#) and any task assigned to banks published in the Monte Titoli task force's report.

## 2. Legislative framework: bail-in and the write-down and conversion power; reference scenario

Bail-in<sup>7</sup> is one of the tools available to resolution authorities to enable them to intervene, should a bank meet the conditions for resolution.<sup>8</sup> Specifically, the resolution authority may decide to apply the bail-in tool:

- to absorb losses and recapitalize the bank put under resolution to the extent necessary to comply with prudential requirements and restore market confidence, if there is the reasonable prospect that the application of the bail-in, together with business reorganization plan measures, is sufficient to restore the bank's financial soundness and long-term viability (i.e. an 'open bank bail-in');
- in the event of a transfer to a third party, a bridge institution or a special purpose vehicle for the transfer of assets, to reduce the principal amount of the liabilities, including debt instruments, or to convert those liabilities into equity (i.e. a 'closed bank bail-in').

The crisis management regulatory framework also provides for the **power to write down or convert capital instruments**,<sup>9</sup> which may be exercised:

- independently of the resolution action, whenever doing so would make it possible to prevent the failure or likely failure of the bank and there is no reasonable prospect of any alternative solutions pursuant to Article 17 of Legislative Decree 180/2015;
- in combination with a resolution action, where the resolution scheme includes measures that would result in losses being borne by creditors or their claims being converted.

In addition to the conditions, the two tools differ in terms of the **objective scope of application**. In exercising its write-down or conversion power, the resolution authority may write down and/or convert reserves, shares, other holdings, capital instruments eligible to be included in the amount of own funds and liabilities referred to in Article 16-octies, paragraph 6, letter a of Legislative Decree 180/2015 and Article 12g (2)(a) SRMR. The bail-in tool also allows the write-down and conversion of all remaining liabilities, i.e. those liabilities that are not classified as capital instruments and which are not excluded from the scope of application of the bail-in pursuant to Article 27(3) SRMR and Article 49 of Legislative Decree 180/2015, into shares.


<sup>7</sup> Article 27 SRMR; Articles 48 et seq. of Legislative Decree 180/2015).

<sup>8</sup> The resolution process is initiated when certain conditions are met, specifically (I) there is failure or risk of failure, (II) there are no market and supervisory alternatives and (III) it is necessary in the public interest (see Article 18 SRMR and Articles 17 and 20 of Legislative Decree 180/2015).

<sup>9</sup> Article 21 SRMR; Articles 27 et seq. of Legislative Decree 180/2015.

In accordance with Articles 27(15) and 17 SRMR and Article 52 of Legislative Decree 180/2015, **the amount of the bail-in is allocated in the following order of priority:**<sup>10</sup>

1	Reserves and capital represented by shares, as well as other financial instruments classifiable as Common Equity Tier 1 instruments
2	Additional Tier 1 instruments, including the part not included in regulatory capital
3	Tier 2 instruments, including the part not included in regulatory capital
4	Subordinated debts other than Additional Tier 1 or Tier 2 instruments
5	Level 2 unsecured debt instruments under Article 12-bis of the Consolidated Law on Banking (TUB)
6	Unsecured debt securities and eligible liabilities with the same priority ranking
7	Other eligible liabilities according to the insolvency hierarchy (unsecured and non-preferred deposits, deposits of households and micro-, small and medium-sized enterprises for the part exceeding that protected by deposit guarantee schemes)



**Bail-in is applied uniformly to all shareholders and creditors belonging to the same hierarchy class** in proportion to the principal amount of their financial instruments or claims based on the hierarchy used in insolvency proceedings and on subordination clauses, except for the mandatory and discretionary exclusions provided for under Article 27 SRMR and Article 49 of Legislative Decree 180/2015.

According to Article 57 of Legislative Decree 180/2015, **bail-in takes full effect as of the date the resolution measure enters into force**, regardless of whether any related administrative or procedural requirements have been carried out.

**The processes and procedures for exercising the write-down and conversion power and for applying the bail-in tool are the same.** For the sake of ease, any references to 'bail-in' in this document encompass both cases.

Therefore, given this document's purpose and the complexity of the subject matter, the following indications use **baseline scenario** to identify the key factors of the procedure that can be adapted according to the specific situation. Specifically, this document uses

<sup>10</sup> Covered deposits protected by deposit guarantee schemes are not subject to bail-in (Article 27(3) (a) SRMR and Article 49(1)(a) of Legislative Decree 180/2015). However, under Articles 79 SRMR and Article 86 of Legislative Decree 180/2015, where bail-in is applied, deposit guarantee schemes are required to pay the bank under resolution an amount equal to that by which the covered deposits would have been written down in order to absorb the losses, had these deposits been included within the scope of the bail-in.

the scenario of a hypothetical bail-in of securities (shares, other capital instruments to be counted as own funds and other bonds) issued by an Italian bank, deposited with Monte Titoli – Euronext Securities Milan (MT-ESM) and traded on Italian trading venues. Furthermore, it is assumed that the bank subject to bail-in maintains its legal and operational continuity which results in the direct conversion of the instruments into new shares issued by the same bank (open bank bail-in) held with Monte Titoli – Euronext Securities Milan (MT-ESM).

### 3. Stakeholders: roles and responsibilities

Stakeholder	Role	Responsibilities
Bank of Italy	Resolution authority	<ul style="list-style-type: none"> <li>■ Based on the division of tasks as described in Articles 7 SRMR and Articles 3 and 6-bis of Legislative Decree 180/2015:               <ul style="list-style-type: none"> <li>□ issues the decision to initiate resolution for intermediaries under its jurisdiction, including the resolution scheme; or</li> <li>□ adopts the decision implementing the resolution scheme adopted by the Single Resolution Board</li> </ul> </li> <li>■ Requires Consob to suspend the securities from trading</li> <li>■ Communicates the resolution decision and/or implementing act to the entities involved, pursuant to Article 32(4) of Legislative Decree 180/2015.</li> </ul>
Bank subject to bail-in		<ul style="list-style-type: none"> <li>■ Incorporates the bail-in into internal systems and records</li> <li>■ Transmits operational data and instructions to the market infrastructures involved (directly or through an agent)<sup>11</sup></li> </ul>
Consob	Market authority	<ul style="list-style-type: none"> <li>■ Orders the exclusion or suspension of securities from trading</li> </ul>
Trading venues and systematic internalizers		<ul style="list-style-type: none"> <li>■ Carry out the exclusion or suspension of securities from trading</li> </ul>
Bank of Italy	<i>National Numbering Agency (NNA - ISIN assignment)</i>	<ul style="list-style-type: none"> <li>■ Generates the International Securities Identification Numbers (ISINs) for new shares issued to service the conversion</li> </ul>
Monte Titoli – Euronext Securities Milan (MT-ESM)	Central Securities Depository (CSD)	<ul style="list-style-type: none"> <li>■ Provides the operational management for the bail-in and makes the relevant book entries</li> <li>■ Communicates the technical information to the central maintenance system</li> </ul>
Minister of Economy and Finance		<ul style="list-style-type: none"> <li>■ Approves the resolution programme drawn up by the Bank of Italy for banks under its remit</li> </ul>

<sup>11</sup> Usually the bank may use an agent to pay interest or dividends; if the bank does not already have one, it may appoint an agent to perform certain bail-in activities.



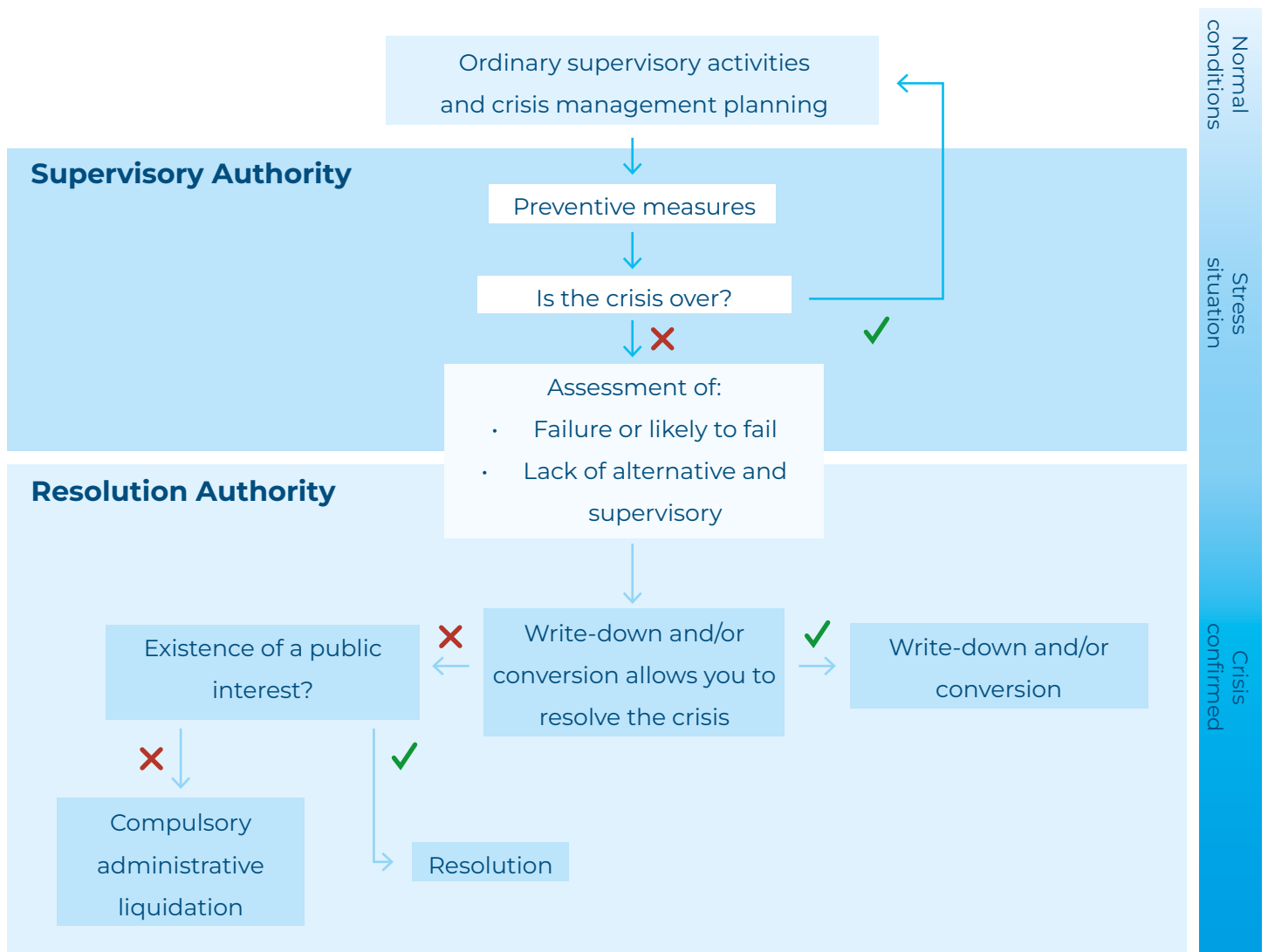
## 4. The bail-in execution process: resolution scheme

The diagram below summarizes the various stages of the bail-in execution process.

Stakeholders	Key operational steps for the execution of the bail-in					
Bank of Italy – (Resolution Authority)	Adoption of the decision providing for or implementing the bail-in		Publication of the decision providing for or implementing the bail-in			
Minister of Economy and Finance	Approval of the Bank of Italy's decision providing for the bail-in					
Consob		Adoption of the decision to suspend trading	Publication of the decision to suspend trading			
Bank of Italy – (ISIN assignment)	Communication of ISIN to the resolution authority					
Bank/Agent				Transmission of letter containing instructions for Monte Titoli		
Trading venues/systemic internalizers			Suspension of trading			
Monte Titoli					Bail-in implementation preparation – Communication of information to the system	Execution of write-down or conversion
SATURDAY – SUNDAY				T+1 (MONDAY)	T+2 (RECORD DATE, TUESDAY)	T+3 (PAYMENT DATE, WEDNESDAY)

The initiation of the resolution and the adoption of the bail-in decision are preceded by a number of preparatory activities, including resolution planning. These activities – the timeframe for which is not defined and depends on the specific case – involve:

- assessment of the resolution conditions: pursuant to Article 18 SRMR and Article 17 of Legislative Decree 180/2015, a bank is subject to resolution when all the following conditions are met:
  - I) the bank is failing or likely to fail;
  - II) no reasonable prospect of alternative measures or supervisory action would prevent the failure or likely failure within a reasonable timeframe;
  - III) the resolution action is necessary to achieve one or more of the resolution objectives, and winding up of the bank under normal insolvency proceedings would not meet these objectives to the same extent (i.e. the ‘public interest’);<sup>12</sup>



<sup>12</sup> It is not necessary to meet the third condition in the event of the exercise of the powers of write-down and/or conversion. As stated above, for the sake of ease, the example of a bail-in as part of a resolution action is used.

- Valuation: pursuant to Article 20 SRMR and Article 23 of Legislative Decree 180/2015, a fair, prudent and realistic valuation of the banks' assets and liabilities is carried out before a resolution action is taken. Except in urgent situations (see also Section 5.7), the valuation is performed by an independent expert. The purposes of the valuation include:
  - I) informing the determination of whether the conditions for resolution are met;
  - II) informing the decision on the most appropriate resolution actions to be taken;
  - III) quantifying the amount of the write-down or conversion of instruments required to cover the losses and ensure compliance with prudential requirements.

For the bail-in to be effectively implemented, banks, as part of the preparatory steps, produce the information needed for the decision to be adopted.<sup>13</sup> Under Article 38 of Legislative Decree 180/2015, the resolution is completed either when it is determined that it has achieved its objectives or that they can no longer be effectively achieved.

---

<sup>13</sup> See the EBA's 'Guidelines for institutions and resolution authorities on improving resolvability' and the SRB's 'Expectations for Banks'.

## 5. The bail-in process: description

### 5.1 Resolution initiation decision and resolution scheme

<b>Stakeholders</b>	Single Resolution Board Bank of Italy Minister of Economy and Finance
<b>Timeframe</b>	The decision to place a bank in resolution and its resolution scheme are adopted when the resolution conditions are met.
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Single Resolution Board: adopts decisions regarding banks within its remit</li> <li>2. Bank of Italy: adopts decisions relating to banks under its remit and implements the decisions adopted by the Single Resolution Board</li> <li>3. Minister of Economy and Finance: approves the decision to initiate the resolution and the associated resolution scheme adopted by the Bank of Italy</li> </ol>
<b>Riferimenti normativi</b>	Artt. 18, 23 e 29 RMRU Artt. 4, 32 e 34, D.Lgs. 180/2015

**Responsibilities.** For banks that fall directly under its remit, the SRB initiates the resolution action and adopts the associated resolution scheme that specifies the applicable resolution tool, among other things. The Bank of Italy implements it by issuing its own decision that reproduces the SRB's determinations and establishes how they will be carried out.<sup>14</sup>

For the remaining banks, the decision to initiate the resolution (with the attached scheme) is adopted by the Bank of Italy. The decision must be approved by the Minister of Economy and Finance to take effect.

**Content.** From an operational standpoint, a resolution scheme that envisages the bail-in tool must establish at least the following:

1. the total amount of the write-down and conversion of capital instruments and other liabilities;
2. the list of capital instruments and liabilities subject to write-down and conversion, grouped into classes according to the applicable insolvency hierarchy and indicating their ISINs;
3. the liabilities subject to discretionary exclusion, with their ISINs, if any;
4. the amount of the write-down;
5. the amount of the conversion, including the conversion rate, the number of shares

<sup>14</sup> For example, the appointment of special managers and oversight committee if the SRB's scheme provides for the removal of the administrative and supervisory bodies of the bank concerned.

- and the corresponding principal amount, and the handling of any fractional shares;
6. the record date;<sup>15</sup>
  7. the ISIN for newly issued shares, where applicable.

**Publication and communication.** The Bank of Italy's obligations are discharged in accordance with Article 29(5) SRMR and Article 32 of Legislative Decree 180/2015.

In particular, with regard to the situations covered by this document, the Bank of Italy sends the decision to the bank concerned, Consob, the payment system or securities settlement operators, and the central counterparties with which the bank transacts, and their respective supervisory authorities (see Article 32(4) of Legislative Decree 180/2015).

An extract from the decision is also published in the *Gazzetta Ufficiale della Repubblica Italiana* and on the websites of the Bank of Italy and the bank under resolution, in the register of companies and by any other means indicated by the Bank of Italy (see Article 32(3) of Legislative Decree 180/2015).

---

<sup>15</sup> This is the relevant date for correctly identifying the balances affected by the bail-in. Assuming that the resolution occurs during the weekend, the record date is set two working days after the transactions are executed (t+ 2 – Tuesday) in order to allow the settlement of the transactions recorded in the system by the preceding Friday.

## 5.2 Exclusion or suspension of trading

<b>Stakeholders</b>	Bank of Italy, Consob Trading venues and systematic internalizers
<b>Timeframe</b>	The order to exclude or suspend from trading is normally published at the same time as the bail-in decision
<b>Roles and responsibilities</b>	Bank of Italy: may request that Consob adopt an order to exclude or suspend the trading of the securities Consob: adopts an order to exclude or suspend the trading of the securities Trading venue: promptly implements the exclusion or suspension ordered by Consob
<b>Regulatory framework</b>	Article 61(1)(c) of Legislative Decree 180/2015 Article 66-quater, paragraphs 1 and 1-bis of Legislative Decree 58/1998

Pursuant to Article 61(1)(c) of Legislative Decree 180/2015, in exercising its resolution powers, the Bank of Italy may require the competent entities to exclude or suspend the trading or the listing of financial instruments on their respective trading venues or to exclude or suspend the public offering of the financial instruments.

Under Italian law, Consob, in its capacity as market authority, exercises the general power to order exclusion or suspension from trading. In the event of resolution, the Bank of Italy may request that Consob suspend the trading of securities issued by the bank under resolution, providing a list of the instruments affected – including ISINs – and the reasons for the suspension.

Having received this request, Consob adopts the relevant measures; the trading venues and systematic internalizers are required to implement those measures promptly.<sup>16</sup>

Suspension from trading may regard:

- a) only the instruments subject to bail-in;
- b) additional or all financial instruments issued by the bank under resolution or any financial instruments having such securities as underlying, which may be determined as a result of the valuations carried out by Consob in the course of its duties.

The Bank of Italy and Consob assess, within the scope of their respective responsibilities, the timeframe for the possible readmission of the instruments to trading. For this purpose, where appropriate, the Bank of Italy shall communicate when the conditions supporting its request for suspension are no longer relevant.

<sup>16</sup> Orders to exclude or suspend trading are usually adopted when the markets are closed. The orders are executed before the markets reopen.

### 5.3. Write-down of instruments

<b>Stakeholders</b>	Bank of Italy Bank concerned (or agent bank) Monte Titoli – Euronext Securities Milan
<b>Timeframe</b>	The write-down of securities is performed on the day following the record date
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Bank of Italy: issues or implements the bail-in decision which sets out, for each individual security, the amount of the write-down to be performed</li> <li>2. Bank concerned (or agent bank): it sends instructions to MT-ESM based on the Bank of Italy's decision</li> <li>3. MT-ESM: as the CSD, it writes down the instruments registered in its systems, implementing the instructions received.</li> </ol>
<b>Legislative framework</b>	Articles 20, 21 and 27 SRMR Articles 23, 24, 25, 28, 29, 51, 52, 60 (d), (e) and (f) of Legislative Decree 180/2015

The bail-in decision establishes the amount of the write-down to the extent necessary to cover losses.

The law requires that the application of bail-in be preceded by a fair, prudent and realistic valuation of the assets and liabilities, carried out by a person independent of any public authority and the bank concerned. That valuation is performed to, among other things, guide the decision on the amount of the write-down or conversion of bail-inable liabilities.

The losses and the amount of the write-down are quantified based on the valuation performed for the purposes of resolution pursuant to Article 20 SRMR and Articles 23, 24 and 25 of Legislative Decree 180/2015. If the amount of the write-down indicated in the decision, based on a provisional valuation, is higher than that determined based on the definitive valuation, the difference is written back (see Section 5.7 for more details).

The bank shall provide MT-ESM with the operational data needed to enable it to perform the technical steps to write down the principal amount of the securities based on the decisions issued by the resolution authorities. These data shall include, at the very least, the ISIN of each security to be written down, the relative amounts and the record date referred to in Section 5.1.

Following receipt of the instructions, MT-ESM communicates to the system the information on the operational steps that will be taken in relation to the identifying data of the securities and to the nature and methods for processing the transactions. The day after the record date, MT-ESM writes down the instruments based on the available balance on the record date and the information sent by the bank.

The write-down may be full or partial. Based on the circumstances, where the principal amount is fully written down, the instruments nevertheless remain recorded in the MT-ESM's registers<sup>17</sup> unless and until they are cancelled within a timeframe to be determined on a case-by-case basis.<sup>18</sup> For financial instruments eligible for inclusion in Common Equity Tier 1 capital, a full write-down triggers the extinction of the associated voting and dividend rights pursuant to Article 52(1) of Legislative Decree 180/2015.

---

<sup>17</sup> ISIN-identified securities subject to full write-down are not included in the calculation of the custodial fees payable to MT-ESM.

<sup>18</sup> In this case, the resolution authority also takes into account whether to write back a part of the write-down if there is a difference between the provisional and definitive valuations (see Section 5.7 for more details).



## 5.4 Conversion of instruments

<b>Stakeholders</b>	Bank of Italy (Resolution Authority) Bank of Italy (NNA) Bank concerned (or agent bank) Monte Titoli – Euronext Securities Milan
<b>Timeframe</b>	The securities are converted on the day following the record date
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Bank of Italy: issues or implements the bail-in decision which sets out, for each individual security, the amount of the conversion to be performed</li> <li>2. Bank of Italy (NNA): assigns the new ISINs if the conversion results in new equity instruments</li> <li>3. Bank concerned (or agent bank): it sends instructions to MT-ESM based on the Bank of Italy's decision</li> <li>4. MT-ESM: as the CSD, it converts the securities registered in its systems, implementing the instructions received.</li> </ol>
<b>Legislative framework</b>	Articles 20, 21 and 27 SRMR Articles 23, 24, 25, 28, 29, 51, 52, 55, 58, 60(g), 60(h) and 99 of Legislative Decree 180/2015

The bail-in decision provides for the direct conversion of securities into shares included in the regulatory capital to the extent necessary to ensure compliance with prudential requirements.

The amounts for the recapitalization and the conversion are determined based on the valuation for resolution purposes in accordance with Article 20 of the SRMR and Articles 23, 24 and 25 of Legislative Decree 180/2015. If the amount of the conversion indicated, based on a provisional valuation, is higher than that determined based on the definitive valuation, the difference in the value of the liability converted can be restored (see Section 5.7 for more details).

In order to enable the bail-in to be carried out quickly, the Bank of Italy may directly order the capital increase necessary to allow the conversion of liabilities into shares, pursuant to Article 58(3) of Legislative Decree 180/2015.

The securities are converted into shares eligible for inclusion in the bank's Common Equity Tier 1 capital, based on the conversion rate indicated in the Bank of Italy's decision. Different conversion rates may be applied to different classes of capital instruments and liabilities to take account of their different rankings in the insolvency hierarchy.<sup>19</sup>

<sup>19</sup> See Article 55 of Legislative Decree 180/2015 and the EBA's 'Guidelines on the rate of conversion of debt to equity in bail-in'.

Where necessary, the Bank of Italy, as National Numbering Agency, assigns a new ISIN for the purposes of conversion of the securities into shares. This ISIN is set out in the bail-in measure.

The bank shall provide MT-ESM with the operational data needed to enable it to perform the technical steps to convert the securities based on the decisions issued by the resolution authority. These data shall include the ISIN of each security to be converted, the new ISIN, if any, of the security to be assigned to the beneficiaries of the conversion, the relative amounts and the record date.

The treatment of any fractional shares resulting from the conversion is set out in the resolution decision.

Following receipt of the instructions, MT-ESM communicates to the system the information on the operational steps that will be taken in relation to the identifying data of the securities and to the nature and methods for processing the transactions. The execution of the bail-in is carried out on the day following the record date referred to in Section 5.1 (payment date).

The securities are converted based on the available balance on the record date and the information sent by the bank under resolution.

## 5.5 Treatment of interest

<b>Stakeholders</b>	Bank of Italy Bank concerned (or agent bank) Monte Titoli – Euronext Securities Milan
<b>Timeframe</b>	The bail-in decision contains information on interest accrued but not yet paid at the date of the decision on the bail-inable securities The bank, the CSD and the agent make the entries and payments within the timeframes provided
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Bank of Italy: determines the treatment of interest accrued but not yet paid as part of the bail-in decision</li> <li>2. Bank, central securities depository: make the entries and payments within the timeframes provided</li> </ol>
<b>Legislative framework</b>	Articles 52(2)(a), 57(4), 60(1)(e) and (i) of Legislative Decree 180/2015

The bail-in decision indicates how accrued but unpaid interest is treated, usually as follows:

Interest accrued but not paid on bail-inable securities is written down or converted. The write-down or conversion is carried out in proportion to the amount of interest and the amount of the principal.

Where a liability is partially written down, it is subject to changes in the amount of the interest to be paid as a result of the write-down.

## 5.6 Treatment of transactions in securities not yet settled with the central securities depository at the date of the measure and at the record date (pending transactions)

<b>Stakeholders</b>	Bank of Italy Monte Titoli – Euronext Securities Milan
<b>Timeframe</b>	Record date
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Bank of Italy: sets the record date</li> <li>2. Monte Titoli - Euronext Securities Milan: implements the bail-in with reference to the balances at the record date</li> </ol>
<b>Legislative framework</b>	<p>Article 39 of Regulation (EU) No 909/2014 (Central Securities Depositories Regulation - CSDR)</p> <p>Articles 3 and 5 of Directive 98/26/EC (Settlement Finality Directive)</p> <p>Article 57(1) of Legislative Decree 180/2015 Articles 2, 4 and 5 of Legislative Decree 210/2001</p>

The central securities settlement cycle provides that securities transactions are not settled immediately but, as a rule, two working days after the execution of the transactions (T+ 2).<sup>20</sup>

The bail-in decision indicates the record date, i.e. the reference date for entering the write-down or conversion, which is the second working day after the publication of the measure.

Any transactions carried out on trading venues up until publication of the measure and any over-the-counter transactions (even subsequent ones) can be settled up until the end of the record date. Any transactions that are not settled as of the record date (pending transactions) are handled as corporate actions on flow.

MT-ESM then writes down or converts the securities and carries out the actions mentioned above as described in the Report on ‘PTPC-TF Resolution – Implementation of the external execution of bail-in in the Italian post-trade systems’.

<sup>20</sup> In accordance with Article 5 of Regulation (EU) No 909/2014, the settlement date for transactions in transferable securities executed on trading venues may be no later than the second business day after trading.

## 5.7 Treatment of differences between provisional and definitive valuations

<b>Stakeholders</b>	Bank of Italy Bank concerned (or agent bank) Monte Titoli – Euronext Securities Milan
<b>Timeframe</b>	At the conclusion of the definitive valuation by the independent expert
<b>Roles and responsibilities</b>	<ol style="list-style-type: none"> <li>1. Bank of Italy: issues a decision which sets out, for each individual security, the amount of the write-back, if any</li> <li>2. Bank concerned (or agent bank): it sends instructions to MT-ESM based on the Bank of Italy's decision</li> <li>3. MT-ESM: as the CSD, it carries out the instructions received, registering them in its systems, which involves: (I) writing back the value of securities written down; (II) recalculating amount of the conversion</li> </ol>
<b>Legislative framework</b>	Article 20 SRMR Articles 23, 24, 25, 29(3), 51(2) of Legislative Decree 180/2015

The bail-in amount is determined based on a valuation by an independent expert, carried out pursuant to Article 20 SRMR and Articles 23 et seq. of Legislative Decree 180/2015.

Where, for reasons of urgency, a definitive valuation by an independent expert is not possible, the write-down or conversion may be done on the basis of a provisional valuation. The provisional assessment, usually performed by the resolution authority, includes a suitably calculated estimate of the losses that are not immediately identifiable and is followed up with a valuation by an independent expert as soon as possible.

If the amounts of the write-down or conversion calculated based on the provisional valuation are higher than those based on the definitive valuation, the difference in the value of the liability can be written back, pursuant to Articles 29(3) and 51(2) of Legislative Decree 180/2015. For this purpose, the resolution authority may issue a decision identifying, for each ISIN concerned, the new amount of the write-down or conversion and, consequently, the amounts to be written back.

The instructions shall be communicated by the bank to MT-ESM, which executes them in the same manner as set out in Sections 5.3 and 5.4, by writing back the value of the securities for the difference.

## Box 1 – Example of the impact of the bail-in decision

This example, which is based on a simplified scenario, is intended to provide information on the impact that the bail-in decision would have on the fictitious ABC Bank.

The following is offered merely as an example. The resolution authority may adopt different measures depending on the specific circumstances.

ABC Bank's situation at 31.12.X is as follows:

### ABC Bank

Assets		Liabilities	
Securities	200	Deposits	600
Loans to customers	700	Senior securities	300
Other assets	100	Subordinated securities	50
		Equity	50
Total	1000	Total	1000

During financial year X+1, the bank enters into crisis and, subject to verification that the regulatory conditions are met, is placed under resolution. Before the resolution is initiated, a provisional valuation is made by the resolution authority on the grounds of urgency, yielding the following results:

Provisional valuation	
Losses (on loans)	80
Losses (on securities)	10
Total losses	90
Recapitalization required	40

Losses exceed equity, which is therefore negative. Part of the subordinated securities must be written down in order to cover the losses and to restore equity back to zero.

## ABC Bank's situation after recognition of the losses indicated in the provisional valuation

Assets			Liabilities		
Securities	200-10	190	Deposits	600-0	600
Loans to customers	700-80	620	Senior securities	300-0	300
Other assets	100-0	100	Subordinated securities	50-0	50
			Equity	50-90	-40
Total	1000	910	Total	1000	910

## Position of ABC Bank after absorption of losses from the provisional valuation

Assets			Liabilities		
Securities	200-10	190	Deposits	600-0	600
Loans to customers	700-80	620	Senior securities	300-0	300
Other assets	100-0	100	Subordinated securities	50-40	10
			Equity	50-90+40	0
Total	1000-90	910	Total	1000-90	910

In order to recapitalize the bank, the remaining portion of the subordinated securities and a part of the outstanding senior securities must be converted.

## ABC Bank's situation following conversion based on the provisional valuation

Assets			Liabilities		
Securities	200-10	190	Deposits	600-0	600
Loans to customers	700-80	620	Senior securities	300-30	270
Other assets	100-0	100	Subordinated securities	10-10	0
			Equity	0+40	40
Total	1000-90	910	Total		910

Following resolution, the independent expert carries out a valuation with the following results:

	<b>Definitive valuation by the independent expert</b>	<b>Delta with respect to provisional valuation</b>
Losses (on loans)	75	5
Losses (on securities)	5	5
Total losses	80	10
Recapitalization required	40	0

The lower losses reported in the independent expert's valuation support writing back a part of the value of the securities that had previously been written down based on the resolution authority's provisional valuation. In particular, the senior securities, previously written down by 30, are now written down by 20, for a write-back of 10.

#### *Final position of ABC Bank post-definitive valuation adjustments*

<b>Assets</b>			<b>Liabilities</b>		
Securities	190+5	195	Deposits	600+0	600
Loans to customers	620+5	625	Senior securities	270+10	280
Other assets	100+0	100	Subordinated securities	0+0	0
			Equity	40+0	40
Total		920	Total		920