SMPG CA WG Zurich Meeting

**CA 353 – Input**

As per the Italian contribution we have set up a new “market practice” for a new specific event type that is on the pipeline to be introduced in Italy. It will be always detected as REPE

Event description :

The capital increases with significant dilutive effect (or highly-dilutive rights issues) have been monitored by the Authorities, the Market and the Operators since 2009.

In April 2016, after a first phase of analysis and four consultations, CONSOB indicated the so-called “rolling model” as the only solution potentially able to solve the price anomalies that often occurs in these cases .

It consists in the same day booking of the new shares every day during the subscription period, in order to overcome the shortage of securities and allow for the realignment of the stock market price to the fair value.

The capital increases with significant dilutive effect are corporate actions where a high number of new shares are issued at a heavily discounted price compared to the market price.

As previously mentioned, it leads to an extreme volatility of price which interferes with the standard pricing and generates distorting effects mainly due to the shortage of securities, especially during the very first days of the subscription period.

The classification of the corporate actions as “highly dilutive” is calculated through a **“K” factor, that is the ratio between the theoretical share price ex right and the last price cum right**.

If the value of “K” is equal or less than the value by 0.3, the rights issue will be considered highly-dilutive

In order to pre alert the Investors during announcement process, about the possibility that a capital increase will be classified with significant dilutive effect, a few days before the last trading day cum right, a coefficient "conventional K”, is calculated. Commonly on the date on which the Issuer publish the final terms of the event, conventional K”, be announced by the Market.

The deviation between "final K” and conventional K depends on the volatility of price during the last trading days of “cum anyway the event will be classified based on conventional “K” where the definitive one will be used only for fiscal purposes.

The “*rolling model*” consists in crediting the new incoming shares as freely transferable same day every day during the life cycle of the corporate event. The standard market deadline at the end of life of the event will be preserved and will be named as “accounting model” We would highlight that, in case an investor decides to exercise in "rolling" mode and in case an event that leads to publication of a supplement to the prospectus occurs following the new securities are credited to the Investor, the latter will not be entitled to exercise the revocation right (ex art 95-bis comma 2 of TUF anymore.

**The two models mentioned above, namely:**

**Rolling mode (MR)**

**Accounting mode (MA)**

**will co-exist only for capital increases classified as highly-dilutive according to the final "K" factor equal or less than 0.3.**

Intermediaries required to manage the above process having two options available for each option approved by the Issuer: one for the MR exercise and the other for the MA exercise.

Monte titoli decided for a “workaround solution” as it is not foreseen to expect having a huge number of events “high diluitive” events

With reference to the capital increases issuing a plurality of securities, Borsa Italiana confirmed that the K factor, related to the capital increase, will be unique even if the new financial instrument will be different assets class (equities + bonds / warrants).

Consequently, once calculated the coefficient "conventional" K that allow classification of the capital increase as “significant dilutive effect”, all rights will be exercisable also in the *rolling mode* (MR).

Market Intermediaries are defining a standard SWIFT reporting to be sent to the customer and are clarifying the impact of the new model on CAoF management and, in particular, on the Buyer Protection (and related potential regulations amendments).