

Market Practice inherent to market liquidity enhancement activity (Practice no. 1)

Definitions

1. For the purposes of this practice the following definitions shall apply:

- a) **Financial Instruments:** shares or units/shares of Italian closed-end real-estate Undertakings for Collective Investment (CIUs) admitted to trading on regulated markets or multilateral trading facilities (MTFs) in Italy upon request or authorisation of the Issuer; shares are considered as liquid where the conditions set by Commission Delegated Regulation (EU) no. 2017/567 are satisfied, and as illiquid where such conditions are not met;
- b) **Issuer (beneficiary of the market practice):** the issuer of the shares or any other party in control relationships with said issuer and authorised by the issuer itself to subscribe the Contract; in the case of Italian closed-end real-estate CIUs, the CIU itself, even though any obligations arising from the activity are discharged by the relevant asset manager;
- c) **Financial Intermediary:** the intermediary authorised to provide the investment services and activities referred to under Article 1, paragraphs 5a) and 5b) of Legislative Decree no. 58/1998 (Italian Consolidated Law on Finance) which subscribes the Contract;
- d) **Contract:** the liquidity enhancement agreement between the Issuer or, in the case of Italian closed-end real-estate CIUs, even between the relevant asset manager, and the Financial Intermediary relating to the Financial Instruments;
- e) **Activity carried out with risk to the Issuer:** liquidity enhancing activity carried out by the Financial Intermediary upon assignment by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, where the economic effects of the trading activities carried out in execution of the Contract apply to the latter;
- f) **Activity carried out with risk to the Financial Intermediary:** liquidity enhancing activity carried out by the Financial Intermediary upon assignment by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, where the economic effects of the trading activities carried out in execution of the Contract apply to the Financial Intermediary;
- g) **Market:** Italian regulated market or multilateral trading facility (MTF) where the activity is carried out.

The Contract

2. This practice allows an Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, to enter into a Contract with a Financial Intermediary in order to enhance for a specified period of time the Market liquidity of the Financial Instruments thereby favouring regular trading activity and avoiding price fluctuations which are not in line with the market trend.

3. The Financial Intermediary shall be a member of the Markets where the activity is carried out and

shall directly enter the orders into the Market.

4. The relationship between the Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, and the Financial Intermediary shall be formalised in the Contract, which shall be in written form. It is allowed to enter into only one Contract for each Financial Instrument.

5. The Contract may provide that the activity is carried out with risk to the Issuer or with risk to the Financial Intermediary. In both cases the Financial Instruments and/or cash used for the purposes of the practice must not exceed the limits referred to in paragraph no. 7 and are allowed to be property of the Issuer or, in the case of Italian closed-end real-estate CIUs, even of the relevant asset manager, or of the Financial Intermediary.

6. The Financial Intermediary shall keep separate records of all the information regarding the orders placed or entered into the Market, the related transactions conducted and the cash movements carried out within the activity performed, both in the event in which such activity is carried out with risk to the Issuer and in the event in which the activity is carried out with risk to the Financial Intermediary. To this end, the Financial Intermediary shall hold in the name of the Issuer or, in the case of Italian closed-end real-estate CIUs, even of the relevant asset manager, or in its own name a specific securities account and a related cash account, which shall include the name of the Issuer and the words “liquidity contract”. The records shall be kept for at least five years.

6-bis. The Financial Intermediary shall possess resources for the compliance and audit activities necessary to be able to monitor and ensure at all times compliance of its conduct with the conditions laid down for the accepted market practice.

7. The Contract shall establish maximum limits for the resources (Financial Instruments and/or cash) allocated to the performance of the activity, which shall be proportionate and commensurate to the purposes of the Contract both with regard to the positions opened on the buy or on the sell side and to the positions held when the activity started.

These limits shall be:

- a) for liquid financial instruments, no higher than 200% of the average daily trading volume on the Market during the 30 days prior to the start of activity and, in any event, no higher than € 20 million;
- b) for illiquid financial instruments, no higher than 1% of the outstanding issued Financial Instruments to be determined at the beginning of the day when the activity started or 500% of the average referred to in letter a) and, in any event, no higher than € 1 million. The 1% limit is calculated at the beginning of the day when the activity starts and is updated when any significant change of the Financial Instruments issued occurs.

If the activity is performed on more than one Market, the limits are determined in relation to the most liquid Market.

If the time period referred to in letter a) is not applicable, another equivalent time period before the start of the activity shall be used.

The calculation of the limits takes into account the positions which are not closed and the resources

which are transferred at the expiry date of other Contracts according to paragraph no. 9.

8. The resources allocated to the performance of the activity shall exclusively be used for that purpose. Financial Instruments purchased or made available to the Financial Intermediary by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, cannot be used in order to hold long-term shareholdings. Cash made available to the Financial Intermediary by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, can be transferred to the latter only upon completion of the activity set forth in the Contract. Financial Instruments purchased or made available to the Financial Intermediary by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, cannot be allocated to other purposes before the completion of the activity set forth in the Contract. Article 132 of the Italian Consolidated Law on Finance applies.

9. Financial Instruments purchased (sold) in execution of the Contract (and therefore excepted those held when the Contract was signed) shall be sold (purchased) on the Market before the expiry date of the Contract, unless the Contract envisages the possibility to close those positions in a subsequent period, and provided that the conditions set forth by this practice are complied with. If the activity is carried out using Financial Instruments or cash made available to the Financial Intermediary by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, the Contract may, as an alternative, allow the transfer of the above Financial Instruments or cash to another intermediary which has subscribed a new liquidity enhancement agreement. The Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, which intends to rescind the Contract on its own initiative before the expiry date shall give adequate advance notice of its intention to the Financial Intermediary, taking into account available information concerning the size of the positions opened by the Financial Intermediary and related Market liquidity.

Conditions of independence of the Financial Intermediary

10. The Financial Intermediary shall decide in an independent manner its trading activity on the Financial Instruments. The Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, cannot give any specific instructions on the trading activity, unless the instructions are given to comply with paragraph no. 21 below. The Financial Intermediary shall not be in control relationships with the Issuer or, in the case of Italian closed-end real-estate CIUs, even with the relevant asset manager, and it shall take trading decisions independently from any interest that the Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, or other parties in control relationships with the latter have in relation to the price of the Financial Instruments.

11. The Financial Intermediary is required to adopt an organisational structure such that trading decisions concerning the activities regulated by this practice are independent from the interests related to investment services and activities it carries out and, in particular, independent from the orders to trade that it receives from clients or it places on behalf of clients (including possible orders to trade that the Financial Intermediary receives from the Issuer or, in the case of Italian closed-end real-estate CIUs, even from the relevant asset manager, beyond the relationship regulated by this practice) or on own account or in its capacity as specialist, and vice versa.

12. The liquidity enhancing activity may be performed in a way not separated from the activities under paragraph no. 21 below (share buy-back programs carried out in compliance with the

conditions set forth by Commission Delegated Regulation (EU) no. 2016/1052 or by other accepted market practices) undertaken by the Financial Intermediary in the Financial Instruments on that Market. This is without prejudice to paragraph no. 6 above regarding the keeping of separate records of all the information thereof.

13. The business unit of the Financial Intermediary authorised to take trading decisions shall not receive any inside information from the Issuer or, in the case of Italian closed-end real-estate CIUs, even from the relevant asset manager.

14. The remuneration methods of the Financial Intermediary shall be consistent with the purposes of the activity, shall not alter the effective exposure to risk of each party as defined in the Contract, and shall not provide incentives to the Financial Intermediary to influence prices or trades. As an example, the following are not consistent with the purposes of the activity: the absence of a maximum cap for fees related to each transaction and to the whole activity and the dependence of the variable component of the remuneration on indicators regarding the price movements. The fixed component of the remuneration must be greater than the variable component, which must not exceed 15% of the total remuneration.

Conditions for trading

15. Enhancing liquidity involves entering orders to trade into the Market with the level of continuity deemed necessary to favour regular trading activity and avoid price fluctuations which are not in line with market trend.

16. In normal conditions, the Financial Intermediary shall enter orders to trade on both sides of the book, though with no requirement to submit the best bid and best ask or to submit symmetrical bid and ask orders. During the life of the Contract, the number of Financial Instruments purchased shall tend to be equal to the number of Financial Instruments sold. Therefore, the Financial Intermediary shall close the opened positions as soon as possible, i.e. avoiding to delay closing the opened positions, taking into account, among others, liquidity conditions of the Market and the difference between current prices and book prices of the opened positions. All positions opened on a Market shall be closed on the same Market. Pre-arranged trades, i.e. matched orders of opposite sign with specific counterparties for predefined amounts and/or at predetermined prices, and off-market transactions (such as block trades) are not covered by this practice, thus they shall not be taken into account in order to quantify the opened positions and, for instance, they are not subject to trading conditions and disclosure requirements mentioned in this practice.

17. Buy orders shall be entered or amended during the continuous trading phase at a price not higher than the highest price between the price of the last independent trade and the current price of the highest independent buy order on the Market where the buy orders are entered into or amended.

17-bis. The price of buy orders entered or amended during an auction phase must be lower than the theoretical auction price. If the theoretical auction price has not yet computed, the price of the orders entered or amended during the auction phase follows the condition set in paragraph no. 17, referring where it is the case to transactions concluded in the preceding trading session. In any event, the orders are entered, amended or cancelled during the auction phase on condition that the final auction price is not affected and that the other participants have enough time to react.

18. Sell orders shall be entered or amended during the continuous trading phase at a price not lower

than the lowest price between the price of last independent trade and the current price of the lowest independent sell order on the Market where the sell orders are entered into or amended.

18-*bis*. The price of sell orders entered or amended during an auction phase must be higher than the theoretical auction price. If the theoretical auction price has not yet computed, the price of the orders entered or amended during the auction phase follows the condition set in paragraph no. 18, referring where it is the case to transactions concluded in the preceding trading session. In any event, the orders are entered, amended or cancelled during the auction phase on condition that the final auction price is not affected and that the other participants have enough time to react.

19. For the purposes of the application of paragraphs no. 17, no. 17-*bis*, no. 18 and no. 18-*bis* above, orders to trade entered into the Market and transactions carried out on the Market by the Financial Intermediary outside the liquidity enhancement activity are deemed as “independent” where the independence conditions set forth in paragraphs no. 10, no. 11, no. 13 and no. 14 above are complied with. The trading orders entered and/or the transactions carried out by the Financial Intermediary in the performance, in a not separated way, of the activities connected to assignments received in the event of share buy-back programmes, included those in compliance with the provisions of Commission Delegated Regulation (EU) no. 2016/1052 or of other accepted market practices (paragraph no. 21), are not deemed as “independent”.

20. For illiquid financial instruments, the number of Financial Instruments purchased or sold on the Market in one trading day shall not exceed 25% of the average daily volume of such Financial Instruments traded on the same Market in the previous 20 trading days. If, for instance, the average daily volume of financial instruments traded on the Market is 100, in one trading day the sum of the financial instruments bought and sold by the Intermediary must be no greater than 25. By way of derogation from this limit, the Intermediary may in any case carry out sales and purchases on the same day for a value of up to € 20,000 (so-called ‘hard threshold’).

20-*bis*. For liquid financial instruments, the percentage above is 15%.

21. If a share buy-back programme is ongoing, involving the purchase of own shares in compliance with the provisions of Commission Delegated Regulation (EU) no. 2016/1052 or of any other accepted market practices, the number of Financial Instruments purchased by the Financial Intermediary to be considered for the purpose of the quantitative limits set forth in paragraphs no. 20 and no. 20-*bis* above shall include the number of Financial Instruments purchased by the Issuer during such buy-back programmes. To this end, the Issuer or, in the case of Italian closed-end real-estate CIUs, even from the relevant asset manager, provides the Financial Intermediary with the necessary instructions before starting the trading activity on the Market.

22. (*repealed*)

23. For the purposes of this practice, the Financial Intermediary shall not operate:

- in case of IPOs or secondary offerings, in the periods during which the stabilisation activity referred to in Article 5 of Regulation (EU) no. 596/2014 and in Commission Delegated Regulation (EU) no. 2016/1052 can be carried out;

- in case the Financial Instruments are subject to a public tender and/or exchange offer, from the date of the announcement of the offer to the conclusion of the acceptance period; the Financial

Intermediary is however allowed to adhere to the offer by selling the Financial Instruments purchased during the activity;

- in case the Financial Instrument is solely traded in the auction phase on the basis of the Market rules or exceptional measures adopted by the Market operator.

Disclosure of the Contract and the trading activity

24. When entering into the Contract, the Issuer shall disclose without delay to the public the following: the fact that the Contract has been entered into; the identification details of the Intermediary; whether the activity is carried out with risk to the Issuer or with risk to the Financial Intermediary; the remuneration methods (fixed or partly variable) of the Financial Intermediary; the Financial Instruments to which the market practice applies; whether the Financial Instruments fall into the category of liquid financial instruments pursuant to Commission Delegated Regulation (EU) no. 2017/567 or in that of illiquid financial instruments (paragraph no. 1(a)); the Markets on which the activity is carried out; the starting date of the liquidity enhancement activity; the duration of the activity; the situations or conditions that determine the temporary interruption, suspension or termination of the activity; the number of Financial Instruments and/or the amount of cash to be used for the purposes of the practice made available by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, or by the Financial Intermediary; any other relevant condition set out in the Contract.

25. Any change to the information disclosed pursuant to paragraph no. 24 above shall be disclosed without delay to the public.

26. The Financial Intermediary shall inform the Issuer on the current situation of the accounts referred to in paragraph no. 6 with due regularity but only outside of Financial Instrument trading hours. In case of activity carried out with Financial Instruments owned by the Issuer or, in the case of Italian closed-end real-estate CIUs, even by the relevant asset manager, the Financial Intermediary shall establish a procedure for the immediate disclosure to the latter of the transactions carried out, in order to allow them to fulfil disclosure obligations to the public and to Consob according to rules and regulations.

27. Both in the event in which the activity is carried out with risk to the Issuer and in the event in which the activity is carried out with risk to the Financial Intermediary, the Financial Intermediary shall report to the Issuer within 15 days from the end of each quarter information on the number and value of Financial Instruments purchased and/or sold during the quarter on each Market, specifying for each trading session: date; average differential between the best sell order price and the best buy order price (so-called bid-ask spread), calculated according the Financial Intermediary's procedures; total number of Financial Instruments purchased and relevant size (%) in relation to the total Market volume; total number of Financial Instruments sold and relevant size (%) in relation to the total Market volume; total value of Financial Instruments purchased; total value of Financial Instruments sold; minimum price, maximum price and average price of purchases; minimum price, maximum price and average price of sales; number of transactions executed; average size of the transactions; overall position in Financial Instruments held at the end of the session in the securities account indicated in paragraph no. 6.

The above information shall be sent by the Financial Intermediary using the template available on the Consob website at [http://www.consob.it/web/area-operativa-interattiva/regolamento-abusi-di-](http://www.consob.it/web/area-operativa-interattiva/regolamento-abusi-di)

mercato.

The Issuer shall publish without delay the information received from the Financial Intermediary, specifying in the heading “quarterly report on liquidity enhancement activity”.

27-bis. When the activity ceases to be performed, the Issuer shall disclose without delay to the public: the fact that the performance of the activity has ceased; the reasons for or causes of the ceasing the performance of the activity; the information referred to in paragraph no. 27 in relation to the period following the last quarterly report. The report shall indicate in the heading “ceasing of liquidity enhancement activity”.

28. The information pursuant to paragraphs no. 24, no. 25, no. 27 and no. 27-bis above shall be disclosed to the public using the methods set forth for the disclosure of inside information.

Communications to Consob and to the Market operator

29. The Contract shall be transmitted without delay, and in any case before the activity is started, to Consob and to the Market operator, also in case of any amendment thereto.

30. Simultaneously with publication, the Issuer shall send Consob the information referred to in paragraphs no. 27 and no. 27-bis via certified email at consob@pec.consob.it, specifying as recipient “Markets Division” and indicating at the beginning of the subject line “Market practices: liquidity enhancement”.

Rationale for which the practice could constitute market manipulation

The liquidity enhancement activity could give misleading signals to market participants. Given that it is implemented by the Financial Intermediary on behalf of the Issuer or, in the case of Italian closed-end real-estate CIUs, even of the relevant asset manager, the activity could promote the interests of the latter, such as, in particular, an increase in the prices of Financial Instruments.

Furthermore, the reduction of price movements due to the liquidity enhancement activity could lead to artificial price levels.

This practice cannot benefit from the exemption from the prohibitions of market abuse pursuant to Article 5 of Regulation (EU) no. 596/2014 and Article 1, paragraph 3, of Directive EC no. 2014/57/EU.

List of criteria taken into account for the acceptance of market practices

a) Level of transparency provided to the market

Consob’s conclusion and rationale

In addition to the obligations set forth by current rules and regulations on trading in own shares in buy-back programmes, the Issuer shall ensure appropriate transparency, through the methods set forth for the disclosure of inside information, in relation to the key terms of the Contract and any

amendment thereto, as indicated in paragraphs 24, 25, 26, 27-bis and 28.

Moreover, on a quarterly basis the Issuer shall publish, using the same modalities indicated above, the information received from the Financial Intermediary on transactions carried out during the relevant period, as indicated in paragraph 27.

The Contract and any subsequent amendment thereto shall also be transmitted to Consob and to the Market operator without delay, as indicated in paragraph 29.

In addition, the Issuer shall provide Consob with quarterly detailed reports on the activities undertaken, as indicated in paragraph 30. The above is without prejudice to the fact that Consob may require information from the Intermediary and the Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, pursuant to general rules and regulations.

b) Degree of safeguards to the operation of market forces and the proper interplay of the forces of supply and demand

Consob's conclusion and rationale

This practice does not impede the normal interaction of demand and supply. Transactions carried out by the Financial Intermediary under this practice are reactions to orders which, considering the volumes and size of the market, create an imbalance between demand and supply.

The Contract facilitates the interaction between demand and supply, and may be a key factor in this interaction since it aims at enhancing liquidity for otherwise less liquid financial instruments, thereby favouring regular trading activity and avoiding price fluctuations which are not in line with the market trend.

The fact that, as indicated in paragraphs 1 c), 3, 6, 6-bis, 10, 11, 12, 13 and 14, the activity is carried out by an independent intermediary subject to supervision by Consob and that is also a member of the Market promotes the regular play of market forces.

Furthermore, the operational limits specified in paragraphs 7, 16, 17, 17-bis, 18, 18-bis, 20, 20-bis, 21 and 23 and the remuneration methods of the Financial Intermediary indicated in paragraph 14 reduce the possibility of the activity influencing the price formation process and the correct interaction between supply and demand.

c) Impact on market liquidity and efficiency

Consob's conclusion and rationale

The objective of this practice is specifically to improve market liquidity and operational and informational efficiency.

Moreover, as indicated in paragraph 27, the quarterly transparency of the activity carried out in terms of trading volumes, frequency of the transactions, price of the trades, bid-ask spread and the comparison of these data with other data publicly available on the Financial Instrument or on

comparable financial instruments allow market participants to identify whether any price movements caused by the activity of liquidity enhancement are not consistent with the fundamentals.

d) The trading mechanism of the relevant market and the possibility for market participants to react properly and in a timely manner to the new market situation created by that practice

Consob's conclusion and rationale

In the performance of liquidity enhancement activity, the Financial Intermediary must trade on the Market in accordance with the relevant trading rules and within the relevant trading hours. Off-market transactions are not covered by the market practice.

The possibility of the activity influencing price formation process is reduced by the operational limits specified in paragraphs 7, 16, 17, 17-bis, 18, 18-bis, 20, 20-bis, 21 and 23, and by the remuneration methods of the Intermediary referred to in paragraph 14.

Thanks to the liquidity that it offers to market participants, the activity promotes the valuation of the Financial Instrument and the proper functioning of the market.

The manner indicated in paragraph 28 in which the information is published, which is the same as that envisaged for inside information, allows market participants to be promptly and symmetrically made aware of the information they need for an accurate valuation of the Financial Instruments.

The limits envisaged for the activity during auction or while a share buy-back programme is underway, as indicated in paragraphs 17, 17-bis, 18, 18-bis and 21, as well as the conditions that temporarily suspend the execution of the activity, as specified in paragraph 23 (in the case of purchase of IPOs, public bids, capital increases, etc.), reduce the risk of the activity altering in those periods the correct public perception of the price movements and volumes traded.

e) Risks for the integrity of, directly or indirectly, related markets, whether regulated or not, in the relevant financial instruments within the Union

Consob's conclusion and rationale

This practice sets forth various mechanisms to protect the integrity of the market. These mechanisms concern measures to ensure independence of the trading decisions and minimize conflicts of interest as well as conditions designed to avoid that trading activities carried out under this practice have undesired effects on prices.

The transactions executed by the Financial Intermediary are, furthermore, the subject of periodic communication to Consob and the resources allocated for the performance of the activity must be proportionate and commensurate to the objective of enhancing liquidity.

The Contract establishes the independence of the Financial Intermediary vis-à-vis the Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, which shall not

give to the Financial Intermediary any instructions to drive its decisions related to the buy or sale of the Financial Instruments. The trading decisions of the Financial Intermediary shall be taken independently from any interest that the Issuer or, in the case of Italian closed-end real-estate CIUs, even the relevant asset manager, or other parties in control relationships with the latter have in relation to the price of the Financial Instruments. The Financial Intermediary shall not belong to the same group of the Issuer or, in the case of Italian closed-end real-estate CIUs, even of the relevant asset manager.

The Financial Intermediary shall adopt an organisational structure such that trading decisions concerning the activity regulated by this practice are independent from the interests related to investment services and activities carried out by the Financial Intermediary and, in particular, independent from the orders to trade that the Financial Intermediary receives from clients or places on behalf of clients (including possible orders to trade that the Financial Intermediary receives from the Issuer or, in the case of Italian closed-end real-estate CIUs, even from the relevant asset manager, beyond the relationship regulated by this practice) or on its own account or in its capacity as specialist, and vice-versa. Moreover, the remuneration methods of the Financial Intermediary must comply with the limit indicated in paragraph 14 and are reported to Consob and to the Market operator.

- f) Outcome of any investigation of the relevant market practice by any competent authority or other authority, in particular whether the relevant market practice infringed rules or regulations designed to prevent market abuse or codes of conduct, irrespective of whether it concerns, directly or indirectly, the relevant market or related markets within the Union**

Consob's conclusion and rationale

In Consob's experience, there have been no (supposed) violations of market abuse rules and regulations related to the liquidity enhancement activity carried out through independent intermediaries.

Similar market practices have been accepted in other EU countries.

- g) Structural characteristics of the relevant market, inter alia, whether it is regulated or not, the types of financial instruments traded and the type of market participants, including the extent of retail investors' participation in the relevant market**

Consob's conclusion and rationale

This practice concerns financial instruments traded on cash markets where retail investors involvement may be very significant. Nevertheless, this circumstance does not represent a risk since this practice enables retail investors to find counterparties interested in buying and selling Financial Instruments under reasonable conditions of liquidity. This practice is therefore favourable to retail investors.