



FREQUENTLY ASKED QUESTIONS ON THE TEMPORARY BAN ON NET SHORT POSITIONS OF 18 MARCH 2020

This is a series of responses to questions on the interpretation of the ban adopted by CONSOB on 18 March 2020. The FAQs may be updated and extended at any time. Please consult the latest version available on the CONSOB's website at the following webpage:

<http://www.consob.it/web/consob-and-its-activities/short-selling>

Version of 18 March 2020

1. Who is subject to the prohibition?

The prohibition applies to any natural or legal person (hereinafter "investor"), irrespective of their country of residence, regardless of whether trading takes place in Italy or in another EU or non-EU country, on a trading venue or over-the-counter ("OTC").

The ban does not affect market making activities.

2. When will the prohibition come into force and how long will it be in force?

The restrictions will apply from the start of the trading day of 18 March 2020 until the end of the trading day of 18 June 2020. The restrictions could be lifted before 18 June 2020 according to market conditions.

3. To which financial instruments does the prohibition apply?

The prohibition applies to shares included in the list attached to the resolution (hereinafter "restricted shares"), as well as to related instruments included in the calculation of net short position, like saving/preferred shares, derivatives, depositary receipts, index-related instruments (see point no. 9 below).

The relevant provisions of Regulation (EU) no. 236/2012 on the calculation of net short position apply (i.e. Article 3 of Regulation no. 236/2012 and Articles 5, 6, 7 and 10 and Annex I and II of Commission Delegated Regulation no. 918/2012 and the relevant ESMA FAQs).

In short, the net short position is the sum of all short positions minus all long positions held by that investor in relation to restricted shares and related instruments.

By means of illustration, positions stemming from the following transactions, among others, shall be considered in the calculations:

- purchases or sales of shares;
- transactions in options, swaps, futures, contracts for difference, covered warrants, certificates.

Financial instruments which entail a bearish position, such as the purchase of put options, shall be considered as short positions.

Positions in derivatives have to be delta adjusted, according to Annex II, Part 1, of Commission Delegated Regulation no. 918/2012.

Fixed income instruments or instruments that give an exposure to the creditworthiness of any share issuers (such as credit default swap) shall not to be taken into account.

Borrowed or lent securities are not included in the calculation of the position. In particular, securities lending transactions whereby shares are lent shall not be considered as creating a short position for the lender. On the other hand, securities lending transactions whereby shares are borrowed shall not be considered as a long position for the borrower.

Special provisions apply to short positions backed by long positions in subscription rights and convertible bonds (see also point no. 12 below).

4. What does the investor need to check before entering into a transaction in relation to the restricted shares or related instruments?

The investor must ascertain that the intended transaction in the financial instrument does not create or increase a net short position in a restricted share. Special care must be taken when dealing in derivatives since positions shall be accounted on a delta-adjusted basis.

5. Are intraday net short positions allowed?

No, creating or increasing a net short position (whatever the type of transactions used) during the trading day is prohibited, even if the investor intends to close the position before close of business on that day.

6. What should be done by an investor who opened a net short position before the entry into force of the prohibition?

The prohibition only refers to creating or increasing a net short position. Therefore, the investor who opened a net short position before the entry into force of the prohibition can reduce it or keep it. Keeping a previous net short position unaltered does not infringe the prohibition. On the other hand, increasing a position after having reduced it is not allowed.

In case an investor had placed an order that is not executed by the time the prohibition has entered into force and, if executed, would create or increase a net short position, the investor must cancel that order.

See also point no. 8 regarding derivative instruments.

7. Does the prohibition apply to transactions in the concerned financial instruments executed outside an Italian market?

Yes, the prohibition applies regardless of the trading venue where the transaction is executed if it results in creating or increasing a net short position in a restricted share. Therefore, it applies to transactions carried out on a regulated market or an MTF within and outside Italy. Similarly, the prohibition applies to OTC transactions.

8. Is an investor allowed to create a net short position in a restricted share by using derivatives?

No, investors are not allowed to use derivatives to create or increase a net short position; they may only use derivatives to hedge, create or increase a net long position.

However, in case a net short position is increased passively due to a variation of the relevant delta, this is not considered an infringement to the prohibition.

Investors holding a net short position in a restricted share through expiring derivatives are not allowed to roll forward their position.

9. Are trades in index-related instrument that contain one or more restricted shares allowed?

Trading in index-related instruments (like futures and other derivatives, ETFs, certificates) is not affected by the restriction if the overall weight of the restricted shares in the index is equal to or lesser than 20%.

At the opposite, trading in index-related instruments is affected by the restriction when the overall weight of the restricted shares in the index is greater than 20%.

However, creating or increasing a net short position in a restricted share by combining transactions in index-related instruments and other transactions is prohibited. For instance, it is prohibited to implement a strategy consisting in:

- selling futures contracts on an index whose underlying basket includes restricted shares, and
- buying futures contracts on all/most of the securities included in the underlying basket of the index except for restricted shares.

It is up to each investor to be able to prove that the transactions on index -related instruments are not carried out to enter into short strategies over restricted shares and circumvent the restrictions.

Please note that if, due to index trading, a net short position in a restricted share reaches a relevant threshold (i.e. 0.1%, 0.2%, 0.3%, 0.4% of the issued share capital and so on), the position holder has the obligation to notify to Consob the change in the net short position. In this case, it is recommended that the position holder clarifies, in the field “comments” of the notification, that the variation in the position has been caused by index trading.

Please note that, following ESMA Decision of 16 March 2020, the minimum threshold for net short positions reporting of shares admitted to trading on a regulated market has been lowered to 0.1% of the share capital.

10. If a fund manager acts on behalf of multiple funds, should the calculation of the net short position be made at the fund-specific or manager level or both? What about groups?

The rules provided for in Regulation no. 236/2012 apply. Thus, the calculation has to be performed at the level of the managing company. In case of groups, the calculation has to be done both at the individual entity level and at the group level.

11. Are market makers exempted?

Yes, market making activities as defined by Article 2(1)(k) of Regulation No. 236/2012, are exempted from the ban, provided that the entity performing the market making activity is included in the list published by ESMA.

12. Can you clarify the treatment of subscription rights and convertible bonds?

As provided for in Consob Resolution, the restrictions do not apply to the creation of, or increase in, net short positions in a restricted share when the short position is aimed exclusively at covering the risk stemming from the equity component of convertible bond previously purchased which convert in that restricted share.

The same exemption applies to short positions in a restricted share aimed at covering the risk stemming from subscription rights previously purchased which give the right to subscribe restricted share yet to be issued.

This means that, for instance, an investor can buy subscription rights or convertible bonds and sell a corresponding number of underlying shares.

In determining the corresponding number of shares, the investor must calculate and apply the relevant delta (see point no. 3 above). Subscription rights and convertible bonds which have been exercised by the investor have a delta equal to 1.

In both cases, the investor should report to Consob the net short position stemming from such risk hedging activity. In this case, it is recommended that the investor clarifies, in the field “comments” of the notification, that the short position is backed by long positions in subscription rights or convertible bonds.

Please note that, following ESMA Decision of 16 March 2020, the minimum threshold for net short positions reporting of shares admitted to trading on a regulated market has been lowered to 0.1% of the share capital.

13. Enforcement – What would be the consequences of non-compliance with the prohibition?

According to Article 193-ter of the Italian Consolidated Law on Finance, anyone who breaches the measures adopted by competent authorities pursuant to Articles 20 of the Regulation no. 236/2012 can be fined from 25,000 euro to 2,500,000 euro. The fines can be increased depending on the personal qualities of the guilty subject, the entity of the product or profit gained by the illicit fact or by the effects produced on the market. The application of the fines entails the confiscation of the product or profit gained by the illicit fact.

Any additional question can be sent to: shortselling-service@consob.it.