



MTS UK GILTS MARKET RULES

Effective 11th July 2011

MTS UK GILTS is an MTF organised and managed by EuroMTS Limited



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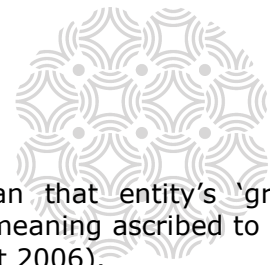


SECTION I GENERAL PROVISIONS

1 Definitions

In this Market Rules the following expressions have the following meanings:

"Best Price"	has the meaning determined under Article 13.
"Board"	means the board of directors of the Company or a duly appointed person or committee of the board of directors of the Company.
"Capital"	shall mean Tier 1 regulatory capital or the equivalent, as defined under the capital adequacy regime of the Participant's home state regulator.
"Central Counterparty or CCP"	means LCH.Clearnet Ltd.
"CCP Contract"	means a contract entered into through the System by two CCP Participants on a CCP Eligible Security that will be immediately novated and replaced by two transactions with the CCP becoming the seller to the buyer and the buyer to the seller.
"Company"	means EuroMTS Limited.
"Contract"	means the matching of two Quotes or of a Quote and an Order once they have been processed on the Systems.
"Double-Sided Quote"	means a Quote to buy and a Quote to sell.
"Eligible Securities"	means all UK GILTS issued or in the process of being issued by the United Kingdom that fit the criteria set out in Annex B and that are eligible for a CCP Contract.
"Fair Market Value"	has the meaning ascribed to it in Annex K: "Trade Cancellation Procedures".
"FSA"	means the Financial Services Authority in the United Kingdom.
"GEMM"	means a Gilt-edge-market maker accepted as such by the United Kingdom Debt Management Offices. All GEMMs must be authorised by the Financial Services Authority (FSA), either directly or under the terms of the EEA passport, and be registered as a market maker with an RIE.



"Group"	in relation to an entity, shall mean that entity's 'group undertakings' (such term taking the meaning ascribed to it in section 1161 of the UK Companies Act 2006).
"Live Data"	means information relating to Tradable Securities in respect of which not more than 15 minutes have elapsed from the time that such information was transmitted by the System to the Participants.
"Major Market Incident"	or "MMI" has the meaning ascribed to it in Annex K.
"Market Rules"	means these rules and regulations (including annexes) of MTS UK GILTS as may be made, amended or replaced from time to time by the Company.
"Mid-Price"	means the price for a Tradable Security calculated by the System that a Participant may make an Order to buy or sell.
"Minimum Mid Price Execution Size"	has the meaning determined under Article 17.
"Order"	means the acceptance, whether whole or partial, of a Quote, transmitted via the System and processed immediately by the System.
"Participant"	means all participants accepted by the Company to participate in the System, being a GEMM and a direct participant to the CCP.
"Price"	in respect of the sale/purchase of a Tradable Security traded on the System means the amount representing the percentage of the nominal amount of the Tradable Security payable in respect of such sale/purchase, excluding accrued interest, which may also be expressed by reference to yields unless explicitly stated otherwise.
"Quote"	means the double-sided or single-sided offer to buy or sell a Tradable Security via the System with specification of the quantity and the Price quoted and the security that is intended to trade.
"Single-Sided Quote"	means a Quote to buy or a Quote to sell.
"Spread"	means the arithmetic difference between the price of an offer to buy (Bid) and of a connected offer to sell (Ask) expressed as a percentage; it is expressed in cents for Tradable Securities.
"Striker"	means a limit Order linked to a single side Quote that will automatically hit/lift visible Prices within its range.





“System”	means the screen-based system organised and administered by the Company for the trading of certain Eligible Securities.
“Tradable Securities”	means Eligible Securities which can be traded on the System by Participants through Quotes and/or Orders.
“Trading Day”	means a day on which Tradable Securities may be traded on the System.
“Trading Hours”	means the hours of the Trading Day during which Tradable Securities may be traded on the System.
“UK GILTS”	means all securities issued or in the process of being issued by the government of the United Kingdom that fit the criteria set out in Annex B.
“United Kingdom”	means England, Wales, Scotland and Northern Ireland

2 Market Rules

1. The object of the Market Rules is to regulate the organisation and operation of the System.
2. The Market Rules and its Annexes are made and may be amended or replaced by the Company in its sole and absolute discretion.
3. Participants are required to accept the terms and conditions of the Market Rules and act accordingly.
4. Any substantive amendment to the Market Rules will be notified to the Participants normally at least 10 Trading Days prior to the amendment taking effect by any means that the Company considers appropriate, provided that such notification shall at least include electronic notification through publication on the System or the Company’s dedicated web-based portal.
5. The Market Rules shall be governed by and construed in all respects in accordance with the laws of England and Wales (unless explicitly stated otherwise).

SECTION II ADMISSION AND RESIGNATION





3 Participant

Participants in MTS UK GILTS must fulfil the following 2 requirements:

- a. they must be a GEMM; and
- b. they must be direct member of the CCP.

4 General conditions for admission

1. The following institutions may be admitted to trading on the System:
 - a. European Union and non-European-Union banks authorised to perform the service envisaged in Article 4, Directive 2006/48/EC; or
 - b. European Union and non-European-Union investment firms authorised to perform the service envisaged Article 4, Directive 2004/39/EEC.
2. To be admitted to trading, the institutions referred to in Article 4.1 must:
 - a. belong directly to the clearing and settlement institutions specified in Annex F and have suitable links with such institutions for the settlement of trades on the System;
 - b. be a fit and proper person, which includes, without prejudice to the generality of the foregoing, having an adequate organisation; and
 - c. have Capital of at least Pounds Sterling 30 million - or the equivalent in another currency - or has in place guarantees to the satisfaction of the Board in an amount of not less than such sum. For the purpose of satisfying this requirement, the institution may include in its calculation the Capital of its ultimate holding company

The Board in its sole and absolute discretion, using non-discriminatory standards, may reject an application for admission, particularly where its acceptance could jeopardise the proper functioning of the System.

5 Admission procedure for Participants

Institutions referred to in Article 4 that wish to be admitted to trading on MTS UK GILTS as a Participant must submit to the Company a completed written application form in the form specified by the Company.





6 Resignation of Participants

Any Participant may resign from membership in the Company on MTS UK GILTS by giving not less than 3 months notice in writing to the Company specifying the date on which the Participants would like to terminate the membership.

7 Regional Sub-Committee for MTS GILTS

1. Members of the Regional Sub-Committee are appointed in accordance with the Regional Sub-Committee Rules. Eligible members shall be Participants and representatives of the Company.
2. The Board at all times shall have the authority to overrule any decision or action taken by the Committee with respect to commercial, technological or regulatory matters notwithstanding the operation of the procedures.
3. Any decisions made by the Committee must not contravene any regulatory requirements of the FSA or any other applicable laws, or technical requirements of the System.

SECTION III UNDERTAKINGS

8 Undertakings of Participants

Each Participant shall undertake to the Company:

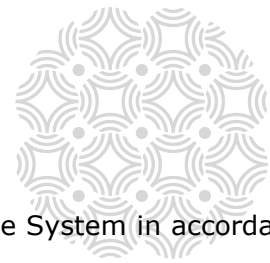
- a. to notify the Company, without delay, of any interruption in trading due to a software or hardware failure, or an interruption in connectivity;
- b. to comply with the Market Rules;
- c. to act with fairness and honesty;
- d. to act with due skill, care and diligence;
- e. to respect and comply with the established operating procedures for the System;





- f. to refrain from any act that may jeopardise the proper functioning of the System or undermine the integrity of trading on it;
- g. not to enter into trades on the System other than for proper trading purposes;
- h. to be responsible for the acts and omissions of its employees and agents and ensure those assigned to its trading activities on the System are competent and appropriately trained;
- i.
 - a) to keep confidential and not to disclose any information or data supplied to or derived from the System, save as may be required by a regulatory body or court having jurisdiction over the Participant or to members of the same Group as the Participant which have entered into a confidentiality agreement with the Company in a form approved by the Company;
 - b) agreeing and acknowledging that all rights, title and interest in, and to any work in any medium which incorporates or in the compilation of which there was used, any information or data entered by it on the System shall as between it and the Company be the property of the Company or its licensees, to grant to the Company the right to exploit the same and not to make any claim to any right, title or interest or to any payment in respect of the same; the Company undertakes not to distribute the above information or data with or without consideration unless so required by applicable laws or regulations;
 - c) to use and make available the information and data supplied to or derived from the System for the sole purpose of trading on the System and to clear and settle trades executed on the System;
- j. to pay not later than the due date all fees payable to the Company for utilisation of the System (in case of late payment, the Company will charge an interest on the amount due, as specified in Annex L);
- k. to deal with the Company in an open and co-operative manner;
- l. to have and maintain in its home State all necessary regulatory authorisations, approvals and consents for trading on the System;
- m. to notify the Company, without delay, of any material change to the information supplied in its application to the Company;
- n. notwithstanding suspension, exclusion or resignation it will comply with any requirements of the Company with regard to the execution of any outstanding contract entered into by it on the System;
- o. to safeguard passwords and other security credentials in accordance with the established operating procedures of the System and not to allow unauthorised access to the System;
- p. to effect trades on the System in its own name and not to act for a third party save for a company in its Group;
- q. to respect and accept the outcome of checks by Company referred to in Section VII of these Rules;





- r. to effect or procure timely settlement of each of its trades on the System in accordance with the relevant contract;
- s. to ensure continuing fulfilment of the conditions referred to in Articles 4 and 5;
- t. to demonstrate at least once a year, their continuing satisfaction of the conditions for admission referred to in Article 4. The Company may require the presentation of any data, information or documents useful to this purpose, including certifications from auditing companies; and
- u. to notify the Company immediately in case of a breach of any of the undertakings in Articles 8.

SECTION IV TRADING

9 General System operations

- 1. The Company shall adopt all acts necessary for the proper functioning of the System.
- 2. The Company shall determine the formats of the operative and informational computer screen “pages” of the System and may change the formats from time to time.
- 3. The Company shall promptly inform Participants of any of its actions that affect the operation of the System.

10 Opening Hours and Days of the System

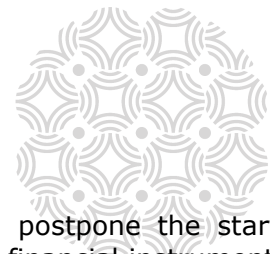
- 1. Trading Days on the System are defined by the TARGET calendar.
- 2. The Trading Hours of the system are determined as set out in Annex C.

11 Suspension and postponing of operations

The Company may, among other things:

- a. at any time suspend the operation of all or part of the System if it determines that normal market conditions do not apply;





- b. for the purpose of improving the functioning of the System, postpone the start of trading for the entire System or for single types or categories of financial instrument, or prolong trading beyond the scheduled closing time;
- c. temporarily suspend trading for the entire System or for individual types or categories of financial instrument, in case of serious technical malfunction or other exceptional circumstances.

12 Selection of Eligible Securities, Tradable Securities

1. All Eligible Securities issued by the United Kingdom will automatically be selected for trading on the System as Tradable Securities, unless the Company decides otherwise.
2. The minimum quoting and trading quantities for Tradable Securities shall be determined by the Company and are set out in Annex A. The Company shall communicate via e-mail transmission any change in the minimum Quote and Order quantities contained in Annex A with an advance notice of five Trading Days from the day the change will come into effect.
3. Securities that are in the process of being issued and for which the United Kingdom has made an official announcement may be traded on an as-if-and-when-issued basis from the day on which the announcement has been made to the day on which those securities will have been effectively issued.

13 Quotes

1. Each Participant may enter Quotes in the System.
2. Each Quote must be made in at least the relevant minimum trading amount as set out in Annex A.2.
3. Quotes may be modified at any time, but a Participant is obliged to conclude all contracts, at the Price quoted and up to the volume offered, for those Orders which have been confirmed by the System prior to reception of such modification.
4. Quotes relating to each Tradable Security are ordered by the System according to price that is best ("**Best Price**") and, subordinate to that, according to time of entry. At the end of each Trading Day, Quotes still registered in the System shall be automatically cancelled.
5. Participants may enter into the System both buy and sell Quotes prior to the start of trading; such Quotes will not be displayed to other Participants until the start of trading.





SECTION V CONTRACTS

14 Trades

Trades shall be executed by Participants in their own name and on their own account.

15 Types of Contracts

1. The Company shall determine and shall specify in Annex B the types of contract by means of which each Tradable Security may be traded on the System.
2. Tradable Securities may be traded on the System by Participants relying on normal market practice (as such term is determined by the Company). Only contracts conforming to normal market practice (as such term is determined by the Company) may be traded on the System.

16 Conclusion and registration of Contracts

1. Contracts are concluded by the matching, according to procedures laid down by the Company in Article 19, of a Quote and an Order or of two Quotes. The contract shall be deemed to be concluded at the time when the System displays on the screen the matching referred to above.
2. A contract entered into through the System by two Participants will be immediately novated and replaced by two transactions with the CCP becoming the seller to the buyer and the buyer to the seller.
3. A Quote that has received a partial Order shall be considered an effective Quote for the residual portion, retaining the time priority originally assigned to it, in conformity with the rules established by Article 20.
4. All the contracts concluded on the System shall be registered by the Company in real time. Each contract shall have a unique identification number and will be registered including:
 - a. type, object and time of conclusion of the contract;





- b. quantity and Price.

17 Mid-Price crossing functionality

1. In accordance with the criteria set out by the Company, the System will calculate a "Mid Price" generated from the bid offer spread existing at any given time. Participants may input a Single-Sided Quote on the anonymous Mid-Price order book. These Quotes will be automatically matched only with Orders present on the UK Gilts order book.
2. Quotes on "Mid-Prices" will be subject to a different minimum execution size ("**Minimum Mid-Price Execution Size**") which will be set by the Company (and set out on the system pages). Participants may enter Quotes with a higher execution size than the Minimum Mid-Price Execution Size, but not a lower size.

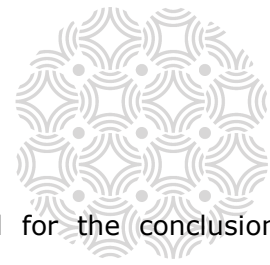
18 Striker functionality

1. Striker is a "fill and kill" Order ("FAK") linked to a "fill and store" Quote ("FAS"). The Participant when inputting a buy (or sell) FAS Order can indicate a Price or a Price range different from the FAS Quote. The matching of the corresponding FAK Order occurs automatically when a sell (or buy) Price, lower (or higher) than the Striker price (or the Striker price range) is input in the order book.

19 Procedures for the conclusion of contracts

1. Orders are made by indicating the quantity and the "exclusion price". The "exclusion price" indicates the Price up to which the Participant which sends the Order is willing to execute the contract. An Order is carried out automatically up to and including the "exclusion price".
2. The matching of an Order with Quote(s) that result in the conclusion of a contract occurs until the desired quantity is reached or no further matches are possible given the exclusion price.
3. The execution procedure is as follows:
 - a. The "Best Price" of the moment is applied;
 - b. Should there be more Quotes at the "Best Price", then the matching occurs according to when the Quotes were inserted, starting from the least recent, to the most recent;
 - c. If applying the above mentioned criteria the entire quantity of the Order is not fulfilled, then the succeeding Price to the "Best Price" is applied and so on.





4. The provisions contained in this Article 19 are also applied for the conclusion of contracts by the matching of Quotes.
5. It is at the Participants' discretion whether or not to accept Orders that are less than the minimum trading quantities as specified in Annex A.

20 Clearing and Settlement of contracts

1. In accordance with the procedures and regulations set by those clearing and settlement institutions involved with the System, the execution of contracts shall take place according to the rules set out in Annexes F and G.
2. Participants agree to give the Company the right to transmit settlement instructions on their behalf to the Central Counterparty specified in Annex F.

21 Cancellation of Contracts

The cancellation of contracts shall be carried out by the Company according to the procedure described in Annex K.

22 Law governing Contracts

Subject to the provisions of these Market Rules, or normal market practice as such practice shall be determined by the Company, Laws of England and Wales shall be the laws governing all Contracts concluded on the System.

SECTION VI PROVISION OF INFORMATION

23 Provision of information to Participants and public

1. The Company shall make available to Participants such information as it deems necessary for the correct performance of trading activities and for the execution of the contracts concluded on the System.





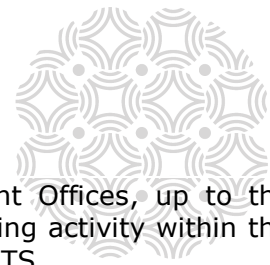
2. For each Tradable Security on the System, the Company shall make available to each Participant admitted to the System, in real time, at least the following information:
 - a. Price and quantity of buy and sell Quotes (quantity summed per Price level);
 - b. Price, quantity, and time of the most recently concluded contract of the Trading Day; and
 - c. for each Participant, the itemised list of all the contracts it has concluded on the current Trading Day.
3. For each Tradable Security traded on MTS UK GILTS, the Company shall make available to each Participant in real time the current status of all the Quotes it has entered.
4. The Company shall make available to each Participant via the System, the following tables, updated daily:
 - a. complete table of the identification codes of each Tradable Security, including the settlement date for concluded contracts; and
 - b. a complete table, with identification codes, of all Participants and descriptions.
5. For each Tradable Security, the Company may make available to the Participant in real-time, the information relating to the Price and quantity of the best buy and sell Quotes.
6. For each Tradable Security, the Company will make publicly available on its website, with a fifteen minutes delay, the Price, quantity and time of the most recently concluded contract. In the event of a contract in excess of £ 7 million, the exact size of the trade will not be published.

24 Provision of information to the authorities

The Company shall supply to the FSA (or any successor thereto) data and information on the contracts concluded and the activities carried out by Participants on the System and all other data, information, acts or documents as so requested by the FSA or required for the Company to comply with its obligations to the FSA.

25 Provision of information to the issuer





The Company may submit to the United Kingdom Debt Management Offices, up to the extent requested by it, all data and information related to (i) the quoting activity within the System and (ii) the activities carried out by Participants on MTS UK GILTS.

SECTION VII SUPERVISION AND SANCTIONS

26 Verification of regular course of trading

1. The Company shall monitor the behaviour of Participants during the Trading Hours and verify compliance with the Market Rules.
2. The Company may perform, amongst other things, the following activities:
 - a. verify, through the System's information flow, compliance with the undertakings referred to in Article 8 and where doubts in this regard arise, shall promptly request clarification from the Participant involved, who shall supply such clarification in the shortest possible time;
 - b. verify proper updating of the archives, the procedures and all else necessary to the orderly conduct of trading;
 - c. monitor the functioning of the System's technical structures and transmission networks;
 - d. perform technical checks with regard to the anomalous nature of certain trades as per Article 21;
 - e. handle incorrect Price input in the entry of Quotes and Orders into the System as per Article 21;
 - f. require Participants to provide the relevant data and information, as well as the transmission of relevant documents; and
 - g. for the sole purpose of checking Participants' fulfilment of the undertakings as set out in Article 8, carry out inspections at said Participants' premises.
3. Other than what is necessary for computerized, screen-based trading and for the provisions of information in accordance with Articles 23, 24 and 25 the Company shall keep confidential all information acquired in the course of its activities of managing and monitoring the market. Information available on the System can only be accessed via special passwords assigned by the company to Participants.





27 Breach of Participant undertakings

When a Participant which is in breach of one or more of the undertakings contained in Article 8, or where there are reasonable grounds for presuming that even one of the undertakings referred to in Article 8 is no longer satisfied, the Participant shall be liable to one of the following sanctions, depending on the nature and seriousness of the action and of any previous breaches committed by the same Participant:

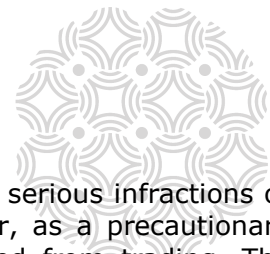
- a. a written censure;
- b. a fine of between Euro 2,000 and Euro 20,000;
- c. suspension from trading.

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28 Procedure in respect of Article 27

1. When the Board is of the opinion that a Participant has committed one of the types of conduct indicated in Article 27, the Company shall communicate to the Participant a written notice describing the breach with which it is charged and inviting it to submit an explanation.
2. Within ten days of the communication of the notice referred to in Article 28.1, the Participant involved may file with the Company defensive briefs and documents and may ask to be heard.
3. Once the filing deadline referred to in Article 28.2 has expired, the Company, having heard the Participant involved if the latter has so requested, and examined any defensive briefs and documents filed, shall adopt one of the sanctions referred to in Article 27, if it considers that the breach of which the Participant is charged has in fact taken place; otherwise, it shall declare the sanction proceeding concluded.
4. The decision pursuant to Article 28.3 shall be communicated in writing to the Participant involved.
5. A decision pursuant to Article 28.3 that orders the application of a sanction shall specify the form by which such decision shall be publicised, including always electronic notification through publication on the System. Such publicity can be omitted when the sanction applied is that of written censure.
6. Without applicability of the provisions in this Article 28 and Article 29 below, in all cases in which it shall prove necessary in order to safeguard the System and its correct and reliable functioning as well as in cases of special urgency when there are





reasonable grounds to believe that a Participant has committed serious infractions or is in a state of suspected insolvency, the Company may order, as a precautionary measure, the immediate suspension of the Participant involved from trading. The period of precautionary suspension cannot ordinarily exceed twenty Trading Days. In any event, the preliminary suspension order referred to above shall cease to be effective upon the decision taken pursuant to Article 30.3 being communicated to the Participant.

7. Save as provided by Article 28.6, sanctions take effect on the date on which they are notified to the Participant.

29 Adoption and enforcement of sanctions

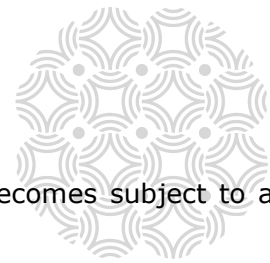
1. The sanctions referred to in Article 27 shall be imposed by the Company, at the conclusion of the proceedings referred to in Article 28.
2. The Company shall impose sanctions using non-discriminatory criteria.
3. The suspension shall be revoked when the reasons for it have been eliminated.
4. In any case sanctions shall not invalidate measures adopted by the authorities for the purposes of ensuring the execution of contracts still open.

30 Automatic suspension from trading

Subject to the procedures set forth in Article 28 and 29 the Company shall have the right to automatically suspend a Participant from trading:

- a. when it shall ascertain the absence of the continuing fulfilment of even one of the conditions referred to in Article 4 (except 4.2.c);
- b. when it shall ascertain the absence of the continuing fulfilment of the undertakings referred to in Article 4.2.c and proof of replenishment of Capital has not been provided to the Company, within three months from notification referred to in Article 28.1;
- c. where the Participant has been suspended from activity or from trading by the competent authorities, or such competent authority instructs the Company to suspend its trading on the System, or its relevant clearing and settlement institution advises the Company that it has suspended the Participant's account; or
- d. automatically takes or is subject to the following actions:





- (i) makes a UK voluntary arrangement with its creditors or becomes subject to an administration order;
- (ii) has a receiver appointed over any of its property or assets, or an encumbrancer takes possession;
- (iii) goes into liquidation;
- (iv) takes or is subject to any action similar to that specified in Clauses 30.d (i) to (iii) in any jurisdiction.

SECTION VIII FINAL PROVISIONS

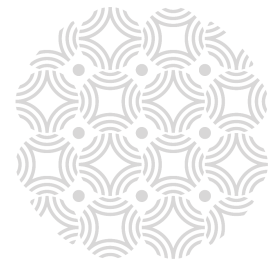
31 Liability

1. The Company reserves the right to terminate the System at any time.
2. The Company shall have no liability (save for a refund of the pro-rata part of any pre-paid fees) to any Participant in respect of any suspension or termination of the System.
3. In the absence of wilful misconduct and/or gross negligence on its part, the Company shall have no liability to any Participant or any other person with respect to any action taken or omitted to be taken in connection with providing the services contemplated by these Market Rules. Further, the Company shall have no liability to any Participant or any other person for consequential, indirect or unforeseeable loss or damage.

32 Disputes

Upon applying to participate in the System, each Participant shall agree that all disputes or issues that may arise between the Participant and the Company in relation to its participation and the acts consequent thereto, including those concerning the application and the interpretation of the Rules, shall be exclusively subject to arbitration under the Rules of the London Court of International Arbitration.





33 Annex A - Eligibility and Minimum Quantities

1. Eligibility Criteria

- (a) Fixed coupon-bearing Eligible Securities
- (b) Principal amount outstanding of not less than euro 3 billion

2. Minimum Quantities for Quotes and Orders

The System will reject Quotes and Orders entered for amounts lower than UK Pounds 1 million

34 Annex B - Contracts

Spot buy or spot sell contracts.

35 Annex C - Trading hours (London Time)

7.30 a.m. – 8.00 a.m.: "Pre-Market phase", during which all Participants can insert and change their Quotes; each Participant can view only its own Quotes. During this time period the automatic matching of Quotes is not active.

8.00 a.m. – 5.00 p.m.: "Open Market phase", the automatic matching of Quotes is active until the market closes.

5.00 p.m. – 7.30 a.m.: "Closed Market phase", during which the market is completely inoperative. During this period Participants can only send and receive messages, examine statistics concerning the day's negotiations, receive reports, lists and indices.

36 Annex D - Central Counterparty and Settlement

- Central Counterparty is LCH Clearnet Ltd.
- Settlement can be offered via LCH Clearnet Ltd.





37 Annex E - Clearing and settlement procedure

The System is connected to the Central Counterparty via the SWIFT network. On a real time basis, the System sends instructions to these institutions on behalf of Participants.

38 Annex F - Settlement cycle

Settlement follows the TARGET calendar: all TARGET opening days are settlement days.

- The settlement cycle is T+1.
- Grey market

39 Annex G - Daily statistics

The publicly available report shall be compiled at the end of each Trading Day and made available on request.

For cash trades the list shall indicate, for each type of Tradable Security:

- (a) identification code of the type of Tradable Security;
- (b) description of the type of Tradable Security;
- (c) the minimum Price;
- (d) the maximum Price;
- (e) the average weighted Price; and
- (f) the volume traded.

The Company may specify cases in which, for purposes of the calculation, transactions considered anomalous are not taken into account.

40 Annex H - Trade Cancellation Procedures

1. Bilateral cancellation request

Cancellation of trades shall be performed by the Company upon request of both counterparties communicated to the Company by email provided that such communication is received prior to the closing of the Market or immediately afterwards.





2. Unilateral cancellation request

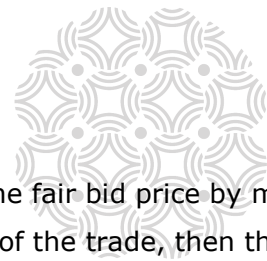
If the trade cancellation is requested by only one counterparty to a trade, the following procedure shall apply:

- a) The cancellation request shall be notified by one of the parties to the Company and the other party by telephone or email within 15 minutes of the execution of the trade. In any case it must be confirmed by email. Upon the receipt of the notification, the Company shall immediately contact the trade counterparty with respect to such cancellation.
- b) If the counterparty confirms its agreement to such cancellation request within 15 minutes of receipt, the request shall be treated as a bilateral cancellation request and shall be executed by the Company.
- c) In the event that the other counterparty does not respond within such time or does not agree with the trade cancellation request, in order to proceed with the cancellation the Company will ascertain whether a unilateral cancellation can be performed.
- d) In order to qualify for unilateral cancellation a trade must be proved beyond doubt to deviate considerably from the Fair Market Value of the security in question at the time of execution. To be "inconsistent" with the market value, the trade must have been executed at a price that deviated by more than 50% of the average bid/offer spread from the Fair Market Value of the bid or offer on a specific instrument at the time of its execution.
- e) Ascertaining Fair Market Value
 - i. The Company shall ascertain the Fair Market Value of the security in question by immediately requesting five (5) firm two-way inter-dealer electronic quotes for that instrument at the time of execution of the trade
 - ii. The five banks consulted are appointed by the Market Committee and exclude either party of the disputed transaction (the "Selected Participants").
 - iii. The Selected Participants shall respond to a request in relation to Fair Market Value within 15 minutes by return email.
 - iv. The Company will discard the bid/offer couple containing the highest bid and the bid/offer couple containing the lowest offer and calculate, truncating the result to the third decimal and then rounding to the second one, the average of the remaining bid prices and the average of the remaining offer price, which will determine the Fair Market Values.
 - v. Starting from the Fair Market Values, the Company will then calculate the relevant spread (average bid offer spread).
- f) Once Fair Market Value is ascertained, the trade price in question will be considered to be inconsistent with the Fair Market Value if it deviates by more than 50% (of the average bid offer spread) from the Fair Market Value of the bid or offer – whichever is relevant.

More in details:

- Error sale** (i.e. cancellation request is made by the seller):





Should the price at which the trade was made be lower than the fair bid price by more than 50% of the above defined spread at the time of the execution of the trade, then the transaction will be cancelled.

□ **Error purchase** (i.e. cancellation request is made by the buyer):

Should the price at which the trade was made be higher than the fair ask price by more than 50% of the above defined spread at the time of the execution of the trade, then the transaction will be cancelled.

Example:

Italian BTP 4.750 1 February 2013

The following Best bid-offer prices were on the best page – 107.15/110.25

Seller aggresses bid at 107.15 and then reports it as an error trade (being an error sale).

Following a poll of five market participants, the five quotes are as follows:

- 108.60/109.60
- 108.50/109.65
- 107.90/109.50
- 108.25/109.30
- 108.30/109.20

The couple with the highest bid and the couple with the lowest offer are thrown out which leaves the following:

- 108.50/109.65
- 107.90/109.50
- 108.25/109.30

Then, starting from the remaining bid and offer prices, the average bid and the average offer prices are calculated, truncating the result to the third decimal and then rounding to the second one,

- **Avg Bid** = $(108.50 + 107.90 + 108.25) / 3 \Rightarrow 108.22$ truncated to the 3rd and rounded to the 2nd which determines the Fair Bid Market Value
- **Avg Offer** = $(109.65 + 109.50 + 109.30) / 3 \Rightarrow 109.48$ truncated to the 3rd and rounded to the 2nd which determines the Fair Offer Market Value

Therefore the remaining values are 108.22/109.48 that bring to an **average bid/offer spread** of 126 cts.

Applying the 50% deviation margin to the average bid/offer spread (126 cts) the following bid and offer limits are obtained.:

107.59/110.11

The sale executed at 107.15 will be cancelled as the low parameter is 107.59 i.e. all sales < 107.59 may be cancelled should that be requested by the seller in the present example.

- g) If after following the above procedure, the reported trade in question is proven to be off the Fair Market Value based on the criteria listed above, the Company perform the unilateral





cancellation of the trade in question in order to maintain a fair and orderly market and avoid the unfair penalisation of members for genuine errors.

The Company will inform the interested parties via telephone (with confirmation via e-mail) of its decision regarding the cancellation request within 45 minutes from the notification of the error trade.

In the event of transactions carried out on an anonymous basis between two counterparties which use the Central Counterparty service, the Company is entitled to reveal the identities in order to resolve the trade dispute, if deemed useful to resolve the trade dispute.

3. Major Market Incidents

"MMI" means such circumstance relating to the technical functioning of the System as the Board (or a nominated substitute, to whom the Board may delegate), in their sole discretion, shall determine to be a major market incident.

Without prejudice to such discretion, regard may be had to such factors as whether:

- (a) the System is inaccessible (or 'down') during scheduled Trading Hours;
- (b) market-making is restricted because, for example, a network trunk is "down" resulting in a material number of Market Makers being unable to access the System;
- (c) the technical service level on the System is such that a material number of Participants cannot safely trade without their being exposed to significant market risks (for example, being unsure of their position, being unable to quote, being unable to see the Best Price or seeing erroneous Prices in the best); or
- (d) the security or integrity of the System is compromised, or at imminent risk, or the Company is unable to see or control the System using standard tools.

The period of an MMI shall be from such time as the Board (or the nominated substitute) in their sole discretion, shall determine as the time of the first impact on the System of the MMI in question until such time as the Board (or nominated substitute), in their sole discretion, shall determine as the time when the System has been restored to its normal state. Without prejudice to such discretion, it will normally be the policy to take the start time of an MMI as the time of receipt of the initial fault report notification.

If it shall be determined that an MMI has occurred, the Company shall perform cancellation of such trades as the Board (or nominated substitute) shall, in their sole discretion, determine are affected by the MMI. Without prejudice to such discretion, it may be determined that (a) affected trades include trades executed outside the period of the MMI, and (b) trades executed during the period of the MMI are not affected by the MMI. The Company may, but is not obliged to, consult with Participants, whose trades are or may be affected by the MMI.

The Company will, if practicable, inform all Participants as soon as possible of the occurrence of an MMI. The Company will inform the relevant counterparties, so far as practicable by not later than 17:30 GMT on the Trading Day in question, of the trades that are subject to cancellation. The Company will promptly notify Participants of the end of the period of an MMI.





41 Annex L - Penalty for Late Payment

In the event that payment of an invoice for membership, connection or transaction fees remains outstanding for over 30 days, the Company will charge a flat interest rate of 15%, annualised on a pro rata basis.

In addition to the interest rate charge, the Company reserves the right to bring such breach of the undertakings in these Market Rules to the attention of the Committee.

