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OPTIQ - DIRECT DISTRIBUTION OF EQUITY INSTRUMENTS ON THE OCCASION OF AN INITIAL PUBLIC OFFER

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HOW THE SERVICE WORKS

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PREFACE

PURPOSE

This document provides Euronext customers with functional and technical details regarding the direct distribution of equity instruments on the occasion of an Initial Public Offer¹ (hereinafter the “**IPO Service**”) available on the Optiq[®] trading system, with reference to the Equity segment (Euronext Milan, Euronext MIV Milan, Euronext Growth Milan).²

The purpose of the IPO Service is to provide Issuers and Global Coordinators with an on-demand and complementary service that will support Issuers and the Global Coordinators in improving the access to the retail target market by:

- leveraging on the client network connected to the Optiq[®] trading system, in order to maximise the number of intermediaries and their in-target clients for the Public Offer;
- benefiting from the Euronext trading and post-trading infrastructure, already used by member firms for trading activities, to handle the end-to-end retail subscription process;
- automatically managing the allocation in case of oversubscription;
- providing also with the possibility to manage individual tranches reserved to a pre-identified list of eligible retail investors (i.e. eligible family & friends, employees, customers, etc.).

This service does not support the price discovery process, which remains part of the bookbuilding process managed by the Issuers, the Global Coordinators and the other intermediaries and advisors involved outside the Optiq[®] trading system, as usual. In this regard, the IPO Service must be considered as complementary to the standard process managed by the Issuer, its Advisors and the consortium, just to leverage on more efficient access to the in-target retail market.

TARGET AUDIENCE

This document is relevant for ECM, trading, back office, middle office, technology and IT professionals within Euronext member firms, information vendors and other market participants interested in using the Optiq[®] trading system to support an Initial Public Offer.

¹ The IPO Service is also available for second or subsequent tranches regarding an already listed companies.

² The implementation of the direct distribution model for the EGM market is subject to the introduction of a specific provision in the EGM Rules (approval process ongoing as of today). The version with allocation by Tax IDs only will be available.

WHAT'S NEW?

The following table lists the most recent modifications made to this version.

VERSION NO.	DATE	AUTHOR	CHANGE DESCRIPTION
1.1	07 Feb 2023	Euronext	First version
1.2	3 Apr 2024	Euronext	New functionalities based on Tax ID information
1.3	12 Apr 2024	Euronext	Details on how the Appointed Intermediary can receive information on incoming buy orders
1.4	26 Sept 2024	Euronext	Details on rejection of orders having a Tax ID not included in the list

ASSOCIATED DOCUMENTS

The following lists the associated documents that either should be read in conjunction with this document or which provide other relevant information for the user:

- Euronext Cash and Derivatives Markets - Optiq OEG SBE Messages - Interface Specification - External
- Euronext Cash and Derivatives Markets - Optiq OEG FIX 5.0 Messages - Interface Specification - External
- Euronext Cash Markets - Optiq OEG MDG - Kinematics Specification - External
- Euronext Cash and Derivatives Markets - Optiq Drop Copy Service - Interface Specification - External

CONTACTS

For further information about this document or about the IPO Service, please contact:

- For issuers and ECM community: Patrizia Celia (pcelia@euronext.com), Equity Primary Markets Italy
- For Euronext trading members: Massimo Giorgini (mgiorgini@euronext.com) and Elide May Gravina (emgravina@euronext.com), Equity Sales Italy
- For any technical, functional and operational queries related to the service, the Technical Account Management team (Clients-Services@euronext.com)
- For a new access to the service, the Euronext Membership team at: EuronextMembership@euronext.com
- For testing, assistance or support, the Operational Client Support Desk by email at clientsupport@euronext.com and by phone at:

Belgium	+32 2620 0585
France	+33 1 8514 8585
Ireland	+353 1 6174 289
Italy	+39 02 7242 6080
Netherlands	+31 20 721 9585
Norway	+31 20 721 9585
Portugal	+351 2 1060 8585
UK	+44 207 660 8585

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1. OVERVIEW

On the occasion of the pre-filing meeting the Issuer and the Listing Agent are requested to inform Euronext about the will to activate the IPO Service. During the due diligence process and before the start of the Public Offer³, the Issuer or, on its behalf, the Listing Agent, the Global Coordinator or the Coordinator of the Retail Consortium must provide all relevant information to Euronext in order to assess the possibility to manage the Public Offer using the Optiq® trading system.

The details regarding each direct distribution shall be communicated by Borsa Italiana via Notice. To this end the issuer shall inform Borsa Italiana of:

- The name of the intermediary or intermediaries appointed (the "Assigned Broker" hereafter) to display quotes for the sale of the financial instruments that are to be issued to be configured by Euronext as the only authorised intermediary (or intermediaries) to submit sell orders for the IPO Service;
- The distribution period, the price, the day on which the company will decide whether to proceed with the issue, and the single date set for the settlement of the contracts concluded, which normally coincides with the date set for the issue and payment of the financial instruments;
- The estimated size of the offer;
- The features of the reserved tranches;
- The allocation criteria to be applied in case of over-subscription;
- If the IPO Service is open to all the intermediaries that are market participants for the specific market (Euronext Milan, Euronext MIV Milan or Euronext Growth Milan) or needs to be restricted to a limited number of member firms.⁴

The IPO Service is based on the following assumptions:

- Investors, through an authorized intermediary⁵, will have the possibility to enter **buy IPO orders** in the Optiq® trading system during the **Call Phase** of the distribution.
- Following the Call Phase, there will be a **Quoting Period Phase** reserved to the Assigned Broker only, which will submit the **sell order**. In this phase, the Assigned Broker, in coordination with the Global Coordinator, based on the results of the book-building process, may ask Euronext to modify the Reference Price to be set equal to the **Final IPO Price** (e.g., either equal to or lower than the maximum price of the IPO price range) and to set the **Final Lot Size** (e.g., either equal to or a divisor of the initial lot size).

³ The process for an IPO on the EGM market will apply mutatis mutandis according to the specific rules of the market.

⁴ Subject to the introduction of a specific provision in the market rules (approval process ongoing as of today).

⁵ The authorized intermediary is an Exchange member firm authorized to send buy orders on the IPO instrument (all the member firms or a restricted list of intermediaries as indicated by the issuers).

- Trades will be executed at the end of the Quoting Period Phase, during the **Uncrossing Phase**. In case of over-subscription there might be partial executions of submitted buy orders with final allocated quantities determined by the allocation algorithm or even no executions as described in the Prospectus.
- For each order the related execution report will be disseminated.
- In the current market practice the iterative **allocation algorithm**, with a random starting point, will be used (see Chapter 3), however other allocation algorithms are configurable.
- During the distribution, the order book will not be visible through **market data**; only the Assigned Broker will receive messages about the incoming buy orders. In particular:
 - each change of orderbook will be notified to the Assigned Broker via a *RFQMatchingStatus* message (on both FIX and SBE protocols) that contains the cumulative quantity available on the buy side of the order book
 - **to note** that the *RFQMatchingStatus* is sent to **all** the Logical Accesses (Trading Sessions) associated to the Firm ID used by the Assigned Broker for selling the instrument subject to IPO; Assigned Brokers that need guidance on how to manage the *RFQMatchingStatus* message can ask directly to the technical Account Management team (Clients-Services@euronext.com)
- In case of a Public Offer with tranches reserved to different categories of investors, each tranche will be handled using a **dedicated ISIN code**. The list of eligible Tax IDs allowed to participate to each specific tranche shall be confidentially provided by the Issuer to Euronext. At the level of each dedicated ISIN's order book, a check will be performed at order entry level on the Tax ID. Any order having a Tax ID⁶ not included in the list provided by the issuer will be rejected with a dedicated error code/message.
- If requested, orders will be aggregated by Tax IDs with the allocation algorithm to be performed on the resulting aggregated orders list, accordingly with the terms indicated in the Prospectus. In case of oversubscription, quantity allocated on the aggregated orders shall be split among the original orders with a pro-rata criteria, even if coming from different member firms.

⁶ The field to be used to provide the Tax ID information is the '**Long Client ID**', FIX LongClientID (21804). This field becomes **mandatory** when an order is placed in an instrument for which the Tax ID screening features has been enabled. Member firms are required to develop the needed controls in order to properly fill this field.

2. PATTERNS AND ORDER TYPES

The IPO trading model is made up of the following phases and relevant order entry logic:

- **Call Phase:** the auction phase accessible by authorized trading participants which can submit only **good till cancel (GTC)** buy orders with **no limit price (e.g. market orders)**; in case of tranches reserved to specific categories of investors, buy orders having a Tax ID not included in this list will be rejected with a dedicated error code/message.
- **Quoting Period Phase:** only the Assigned Broker can inject **good till cancel (GTC)** sell orders **with limit price** (equal to the **Final IPO Price**) before the end of the quoting period. During this period, the injection of buy orders is forbidden as well as any amendment/cancellation of previously submitted buy orders. In the case that the Issuer needs to reduce the Final IPO price and the Lot Size, the Assigned Broker in coordination with the Global Coordinator, is required to contact Borsa Italiana Markets Supervision to accommodate the new Reference Price at which the trades will be executed and the minimum lot to be used in the algo allocation.
- **Uncrossing Phase:** buy orders will be executed against the sell order, based on the allocation algorithm.

The standard IPO service workflow can be represented as follows:



* Note that the timing of the Quoting Period may be tailored to Issuer requirements.

The timing of all the above phases may be anticipated or postponed by Euronext according to Issuer request, in coordination with the Assigned Broker and the Global Coordinator.

3. ALLOCATION ALGORITHM

In the current market practice the iterative **allocation algorithm**, with a random starting point, will be used, however other allocation algorithms are configurable.

In order to define the effective quantity allocated to each buy order matched during the distribution, the following process will be applied using an iterative allocation algorithm:

- **Step 1:** If requested, aggregation of orders having the same Tax IDs into new one;
- **Step 2:** an order is **randomly** selected as the starting point of the allocation;
- **Step 3:** the iterative algorithm is run against each **single order** by allocating a quantity equal to the final minimum lot size until all offered shares are fully distributed;
- **Step 4:** at the end of the allocation, trades are executed for the quantity allocated to each order.

EXAMPLE: ITERATIVE ALLOCATION IN CASE OF TRANCHE RESERVED TO A LIST OF ELIGIBLE TAX IDs.

Let us assume:

- 8 investors participating in the Public Offer with different buy order quantities;
- 1 investor (order ID = TP_777007) having a not eligible Tax ID
- 2 orders (order ID = TP_777005 and TP_777006) having the same Tax ID
- Reference Price, max of price range: 5 EUR; [4 – 5 EUR]
- Initial Minimum Lot Size: 2,000 shares.

1a. Book composition during Call Phase: buy orders submitted by market participants with no limit price during the distribution period

BUY			SELL		
OrderID	Submitted Order	Executed Trade	Executed Trade	Submitted Order	OrderID
TP_777001	4,000 @Mkt Price	---	---	---	---
TP_777002	8,000 @Mkt Price	---			
TP_777003	60,000 @Mkt Price	---			
TP_777004	8,000 @Mkt Price	---			
TP_777005	100,000 @Mkt Price	---			
TP_777006	100,000 @Mkt Price	---			
TP_777007	10,000 @Mkt Price	---			

1a. Book composition during **Call Phase** after eligible Tax IDs screening

BUY			SELL		
OrderID	Submitted Order	Executed Trade	Executed Trade	Submitted Order	OrderID
TP_777001	4,000 @Mkt Price	---	---	---	---
TP_777002	8,000 @Mkt Price	---			
TP_777003	60,000 @Mkt Price	---			
TP_777004	8,000 @Mkt Price	---			
TP_777005	100,000 @Mkt Price	---			
TP_777006	100,000 @Mkt Price	---			

1a. Book composition during **Call Phase** after Tax IDs aggregation

BUY			SELL		
OrderID	Submitted Order	Executed Trade	Executed Trade	Submitted Order	OrderID
TP_777001	4,000 @Mkt Price	---	---	---	---
TP_777002	8,000 @Mkt Price	---			
TP_777003	60,000 @Mkt Price	---			
TP_777004	8,000 @Mkt Price	---			
TP_777008	200,000 @Mkt Price	---			

1b. Book composition during Quoting Period Phase: assuming that the final price is fixed by the Issuer at 4.9 EUR with total offering size of 30,000 shares, the Assigned Broker submits a sell order of 30,000 shares at 4.9 EUR. As the offer quantity is lower than the total quantity of buy orders (e.g., oversubscription scenario), the algorithm will calculate the executed size for each order.

BUY			SELL		
OrderID	Submitted Order	Executed Trade	Executed Trade	Submitted Order	OrderID
TP_777001	4,000 @Mkt Price	---	---	30,000 @4.9 EUR	AB_000AAA
TP_777002	8,000 @Mkt Price	---			
TP_777003	60,000 @Mkt Price	---			
TP_777004	8,000 @Mkt Price	---			
TP_777008	200,000 @Mkt Price	---			

1c. During Uncrossing Phase, the algorithm proceeds with the iterative allocation.

Let us assume that the algo randomly picks OrderID TP_777003 as starting point (**START**) of the allocation.

Investor #3 with OrderID TP_777003 will receive the minimum lot (2,000 shares) at the first run of the algo, and the same quantity will be allocated to other investors at each run of the algo until the full amount of offered shares is distributed.

OrderID	Submitted Order QTY	1 st Run	2 nd Run	3 rd Run	4 th Run	Final
TP_777001	4,000 @Mkt Price	-	2,000	2,000	<i>Order fully executed</i>	4,000 @4.9 EUR
TP_777002	8,000 @Mkt Price	-	2,000	2,000	2,000	6,000 @4.9 EUR
TP_777003 ◀	60,000 @Mkt Price	2,000	2,000	2,000	2,000	8,000 @4.9 EUR
TP_777004	8,000 @Mkt Price	2,000	2,000	2,000	<i>All shares allocated</i>	6,000 @4.9 EUR
TP_777008	200,000 @Mkt Price	2,000	2,000	2,000	-	6,000 @4.9 EUR
<i>Total</i>		6,000	10,000	10,000	4,000	30,000

Due to random allocation, in this specific example Investor which submitted the larger quantity request of subscription (200k shares) receives only 6,000 shares, less than Investor #3 which had submitted only 60k shares but receives 8,000 shares.

BUY			SELL		
OrderID	Submitted Order	Executed Trade	Executed Trade	Submitted Order	OrderID
TP_777001	4,000 @Mkt Price	4,000 @4.9 EUR	30,000 @4.9 EUR	30,000 @4.9 EUR	AB_000AAA
TP_777002	8,000 @Mkt Price	6,000 @4.9 EUR			
TP_777003	60,000 @Mkt Price	8,000 @4.9 EUR			
TP_777004	8,000 @Mkt Price	6,000 @4.9 EUR			
TP_777008	200,000 @Mkt Price	3,000 @4.9 EUR at TP_777005 3,000 @4.9 EUR at TP_777006			

4. ASSIGNED BROKER FIRMS

To manage the injection of sell orders, the Assigned Broker designated by the Issuer must contact Euronext Membership in advance to complete the relevant configuration of the Account Type named "Assigned Broker".

The Assigned Broker will be also allowed to inject buy orders as non-Assigned Broker firm with account type different from Assigned Broker, acting as a normal firm.

5. POST TRADE AND REPORTS

Following the Uncrossing phase, the Assigned Broker will receive in real time the execution of all orders with the related intermediaries. For each ISIN, Euronext Securities Milan will process the trades in T2S⁷ and will manage as usual the ISIN transformation process, if needed.

⁷ Aggregation of trades by intermediary, as recently launched for the BTP Italia, is currently in a testing phase.