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PREFACE

PURPOSE

This document provides Euronext customers with functional and technical details regarding the IPO Direct Distribution trading model (hereinafter the “IPO Service”) available to clients on the Optiq® trading system, which enables issuers to:

- leverage on the client network connected to the Optiq trading system, in order to maximise the number of target clients for an Initial Public Offer from an issuer;
- make use of the Euronext post-trading infrastructure, used by member firms to carry out regular trading activities, to handle the end-to-end IPO subscription process;
- automatically manage the process of allocating shares in the case of oversubscription.

Participants should note that this service does not support the price discovery process, which is part of the bookbuilding process (which, for this reason, must be managed outside the Optiq system). The purpose of the IPO Service is simply to collect subscription orders at the Public Offer price. In this regard, the IPO Service must be considered as complementary to the standard IPO process that is operated by the issuer, its advisors and IPO consortium.

TARGET AUDIENCE

This document is relevant for business teams and technical staff within Euronext member firms, information vendors and other market participants interested in using the Optiq trading system to support a Public Offer.

WHAT'S NEW?

The following lists only the most recent modifications made to this version. For the Document History table, see the Appendix.

VERSION NO.	DATE	AUTHOR	CHANGE DESCRIPTION
1.1	07 Feb 2023	Euronext	First version
1.1	21 Mar 2023	Euronext	Sentence “Trade messages will be disseminated in market data at execution.” removed from Guide.

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 existing Euronext clients: your **Euronext Relationship Manager** or the **Global Sales** team at: GlobalSales@euronext.com
- For existing Italian markets clients: Patrizia Celia, Equity Primary Markets Italy, for details of **how IPO Direct Distribution will be integrated into the traditional IPO process** for Equity Capital Markets, at: pcelia@euronext.com
- For **access to the service**, the Euronext Membership team at: EuronextMembership@euronext.com
- For any **functional queries related to the service or for testing assistance**, the Optiq Migration Desk (optiqmigration@euronext.com) team on:
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 - The Netherlands: +31 20 721 9585
 - Italy: +39 02 45411399
 - UK: +44 20 7660 8585
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1. OVERVIEW

During an Initial Public Offering (IPO), the Issuer or the Sponsor of the Public Offer must provide all relevant information to Euronext (e.g. the size of the Public Offer, the proposed offer period etc.)¹, in order to verify and confirm the possibility to manage the Public Offer using the Optiq trading system.

A member firm (the "Assigned Broker" hereinafter) is then designated by the Issuer to collect requests to subscribe to the shares offered to the public.

This member firm will be configured by Euronext as the only authorised intermediary to submit sell orders on the book.

The IPO Direct Distribution Service is based on the following assumptions:

- Each investor, through their intermediary, will have the possibility to enter buy IPO orders in the Optiq trading system during the **Call Phase** of the distribution, at a pre-defined Reference Price which is equal to the maximum offer price.
- Following the Call Phase, there will be a **Quoting Period Phase** reserved only for the Assigned Broker which will submit sell IPO orders; please note that during this period the Assigned Broker may modify the **final IPO price** (e.g., either equal to or lower than the maximum price of the IPO price range) and the **final Lot size** (e.g., either equal to or a divisor of the initial lot size).
- At the end of the Quoting Period Phase there will be an **Uncrossing Phase** with execution of trades. Please note that in the case of oversubscription (e.g., quantity of buy orders greater than quantity of sell orders) there will be partial executions of submitted buy orders with final allocated quantities determined by an iterative allocation algorithm with random starting point (see Chapter 3).
- During the distribution, the order book will not be visible through **market data**; only the Assigned Broker will receive messages about the incoming buy IPO orders.
- In the case of an IPO with multiple public offers reserved for different categories of investors, each tranche will be handled using a **dedicated ISIN code**.

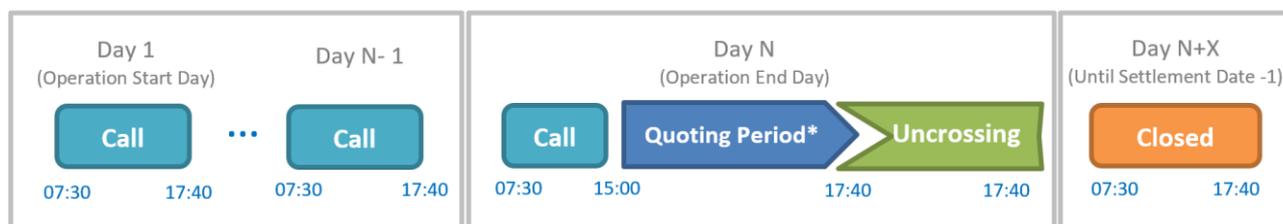
¹ An estimate of the expected maximum number of subscription requests will also be required.

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 any trading participant which can submit good till cancel (GTC) buy orders with **no limit price** (e.g. market orders);
- **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. 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 final lot size, the Assigned Broker is required to contact Borsa Italiana Markets Supervision to accommodate the new Reference Price at which the trades will be executed and the correct minimum lot to be used in the algo allocation.
- **Uncrossing Phase:** buy orders will be executed against available sell orders, using an iterative 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.

3. ITERATIVE ALLOCATION ALGORITHM

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:** an order is **randomly** selected as the starting point of the algo allocation;
- **Step 2:** the iterative algo 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 3:** at the end of the allocation, final trades are executed for the quantity allocated to each order.

EXAMPLE 1

Let us assume:

- 5 investors participating in the IPO Equity Issuance with different buy order quantities;
- Reference Price (max of IPO price range): 5 EUR; [4 – 5 EUR]
- Initial Minimum Lot Size: 2,000 shs.

1a. **Book composition during Call Phase:** buy orders submitted by trading 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	200,000 @Mkt Price	---			

1b. **Book composition during Quoting Period Phase:** assuming that the final IPO price is fixed by the Issuer at 4.9 EUR with total offering size of 30,000 shs, the Assigned Broker submits a sell order of 30,000 shs @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_777005	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_77703 will receive the minimum lot (2,000shs) 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	<u>Order fully executed</u>	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	<u>All shares allocated</u>	6,000 @4.9 EUR
TP_777005	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 #5, which submitted an order with a larger quantity (200k shs) receives only 6,000 shs, less than Investor #3 which had submitted only 60k shs but receives 8,000 shs.

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_777005	200,000 @Mkt Price	6,000 @4.9 EUR			

4. ASSIGNED BROKER FIRMS

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

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

More than one firm can be configured as Assigned Broker for the same instrument.