

# *The Regulatory and Operational framework of Borsa Italiana*

**B**orsa Italiana Spa organises and manages the Italian regulated markets for equities, bonds and derivatives. The company, following the privatisation of the markets implemented during the latter half of 1997, from 2 January 1998 began operating within a regulatory framework primarily defined by the Consolidated Law on Financial Intermediation (Legislative Degree no. 58 dated 24 February 1998) and by the consequent CONSOB implementing resolutions on the subject of issuers, intermediaries and markets.

The management autonomy of Borsa Italiana is expressed above all through the self definition of the regulatory environment of the markets and establishing the operational framework for issuers and intermediaries. The functions performed by Borsa Italiana may be extended thanks to the possibility to carry out activities related and instrumental to the management of the markets as well as by virtue of powers delegated by CONSOB.

## **THE STRUCTURE OF MARKETS**

Through its regulatory structure, Borsa Italiana defines the operational framework for trading all the financial instruments that occupy an important position in the investment strategies of the financial market participants. Table 1 summarises the structure of the markets which can be grouped, based on the type of instruments traded, as follows:

- equities markets: Electronic Share Market (MTA, commonly referred to as Stock Exchange), Nuovo Mercato, Mercato Ristretto, Electronic Covered Warrants Market (MCW), After Hours Market (TAH and TAHNM), Traditional Options Market (MPR);
- fixed-income markets: Electronic Bond and Government Securities Market (MOT), electronic eurobond, foreign bond and Asset-Backed Securities market (EuroMOT);
- derivatives markets: equity derivatives market (IDEM) and interest rate derivatives market (MIF).

With specific reference to the markets, the new elements introduced in 2000 that made it possible to further enhance the range of products and services offered were the setting-up of the EuroMOT and the creation of the After Hours Market. The latter is divided, from a regulatory standpoint, into two parts: TAH (Trading After Hours), for shares included in the MIB30 and MIB30 indices and for the covered warrants on request of issuers and TAHNM (Trading After Hours Nuovo Mercato), for the shares of the Nuovo Mercato which, also as regards the evening market, are supported by a specialist.

## BORSA ITALIANA RELATED AND INSTRUMENTAL ACTIVITIES

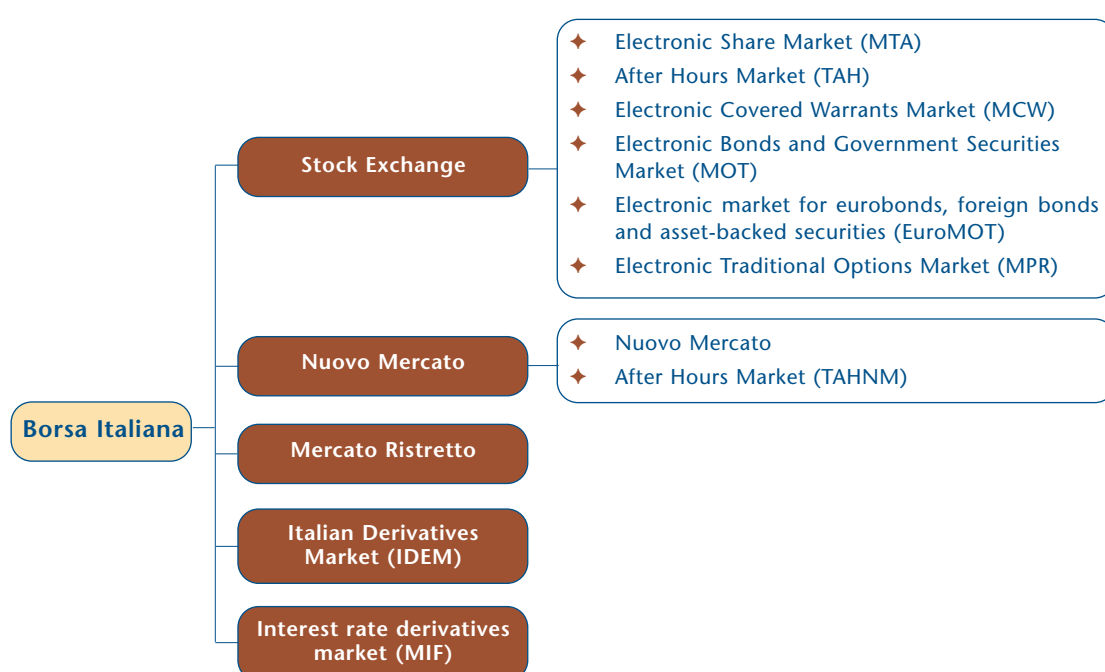
Borsa Italiana's sphere of action is completed by the performance of functions that are instrumental to the management and development of the markets. These functions, which are defined in CONSOB resolution 11768/1998 (and subsequent amendments), can be distinguished between activities that facilitate the ordinary management of regulated markets and those which complete Borsa Italiana's operational framework (table 2).

At the present time, with the sole exception of setting up and managing alternative trading systems, Borsa Italiana performs all the activities it is able to carry out directly to support the management and complete the operational context of its markets.

It is possible to complete the value chain typically characterising the management of the regulated markets for financial instruments through the acquisition of shareholdings in companies performing activities for the centralised management of financial instruments and in companies that provide services for the clearing and settlement of operations on cash financial instruments and/or clearing and guarantee services relating to operations on derivatives instruments.

In the course of 2000, with the acquisition of a majority shareholding in the Cassa di Compensazione e Garanzia, Borsa Italiana's presence in financial market related activities was extended to include the phase of guaranteeing trades on cash and derivatives instruments executed on regulated markets. Included in this context is the project to set up during 2001

**TABLE 1 - THE REGULATORY STRUCTURE OF BORSA ITALIANA MARKETS**



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a central counterparty system to guarantee trades carried out on cash markets, in addition to the one already operational for derivatives.

In January 2001 the process of completing Borsa Italiana's operational framework continued with the acquisition of a 4.1% shareholding in the capital of Monte Titoli Spa, implemented within the framework of the sale of the Bank of Italy's entire majority shareholding. Monte Titoli, since 1986, has been performing centralised depositary services for financial instruments (significantly enhanced in August 2000 with the acquisition of the centralised depositary service for Government securities, previously managed by the Bank of Italy) and, on 31 October 2000, was authorised by the Bank of Italy to manage the service of settlement on gross basis (EXPRESS) of operations on cash financial instruments.

## THE OPERATIONAL FRAMEWORK OF ISSUERS AND INTERMEDIARIES

Since 2 January 1998, the date on which the first Rules of the markets organised and managed by Borsa Italiana came into effect, the activity of issuers, intermediaries and investors has seen a continuous evolution which has led the company to update its regulatory framework,

**TABLE 2 - RELATED AND INSTRUMENTAL ACTIVITIES OF BORSA ITALIANA**

RELATED AND INSTRUMENTAL ACTIVITIES*	STATE OF EXECUTION
<b>Activities to support the management of markets</b>	
<i>Exercisable directly or through equity interests in other companies</i>	
✦ Preparation, operation, maintenance and marketing of software, hardware and electronic networks for trading, order transmission and data transmission systems	Yes
✦ Processing, distribution and marketing of data concerning financial instruments traded in the markets managed and data relating to the markets	Yes
✦ Promotion of the market's image, <i>inter alia</i> by disseminating information on the market and issuers and engaging in any other activity aimed at the development of the market	Yes
<b>Activities to complete the operational framework</b>	
<i>Exercisable directly or through equity interests in other companies</i>	
✦ Creation and operation of systems for the checking and correction of trades involving financial instruments for transmission of the related balances to the clearing and settlement service	Yes
✦ Creation and operation of systems to guarantee transactions carried out in markets, <i>inter alia</i> by establishing guarantee funds	Yes
✦ Creation and operation of organised trading systems for financial instruments	No
✦ Creation and operation of organised trading systems for interbank funds	No
<i>Exercisable through equity interests in other companies</i>	
✦ Central administration of financial instruments	Yes
✦ Clearing and settlement for transactions on cash financial instruments	No
✦ Clearing and guarantee for transactions on derivatives instruments	Yes
✦ Management of markets both for those referred to in articles 63.2 and 67.1 of the Consolidated Law and others	No

\* Related and instrumental activities exercisable by market management companies are contained in article 5 of CONSOB Resolution no. 11768/1998.

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with a view to ensuring an operational context that is always in line with the developments in the competitive scenario.

During 2000, important changes were introduced to the operational environment of issuers and intermediaries intended to encourage the qualitative growth of the corporate structure of issuers, improve the services offered to market participants and expand access to the Italian markets.

*The operational framework of issuers*

In a situation of increasing competitiveness, the Italian companies listed on the Italian markets, in order to consolidate the role and the importance they have acquired over time, must constantly measure themselves against the corporate organisational models developed in the economic systems of their main partners in the OECD area. In order to assure the investor

*In March 2000, Borsa Italiana included in its regulatory framework references to the corporate governance Code of conduct for listed companies*

community of the existence, in Italian listed companies, of a clear and well defined model of corporate governance, with appropriate distribution of responsibilities and powers and a correct balance between management and control, at the end of 1998 a steering committee was set up, with the objective of preparing a report on the corporate governance of listed companies and drawing up a self-discipline code in connection with same.

In order to ensure the widest possible representation of the needs of the various market participants, included on the Committee were the Chairman and the President and CEO of Borsa Italiana, the Associations (ABI, ANIA, Assirevi, Assogestioni, Assolombarda, Assonime and Confindustria), the representatives of institutional investors, the top managements of some of the main listed companies and academics and experts on the subject.

The analysis phase was completed in the second half of 1999, with the publication of the corporate governance Code of conduct. Borsa Italiana, certain of how important the disclosure on the adoption of the Code's principles is to the regular operation of the market, but aware of how it cannot by itself be considered a source of legal obligations, decided to include a reference to its contents in its own regulatory framework. In particular, information requirements have been requested for the corporate organisational structure and the correspondence of same to the Code's recommendations. Adoption of the requisites of the Code is voluntary and it is possible to adopt even only part of the suggested measures, however the directors of the listed companies are required to justify, on an annual basis, the reasons for failure to adopt (totally or partially) and any failure to observe certain recommendations. Newly-listed companies are also required to compare their own model of corporate governance with that suggested by the Code and to include in the application for admission a report on the outcome of such comparison.

The obligations will become applicable for the first time in 2001, at the shareholders' meeting to approve the annual balance sheet. For newly-listed companies, they will be applicable at the meeting to approve the financial statements for the period during which the company was listed. Information requirements will be deemed to have been met when

communicated to shareholders together with the documentation required for the balance sheet meeting and at the same time to Borsa Italiana which, in turn, will arrange for the information gathered to be publicised.

In the course of 2000, the operational framework for issuers was completed with the conclusion of a project to improve the system for the communication of corporate information on the part of the issuers of listed financial instruments to CONSOB, Borsa Italiana and the press agencies.

CONSOB grants the market management company the possibility to arrange facilitated procedures for fulfilling the disclosure obligations set forth in its resolution 11971/1999. To this effect, Borsa Italiana has set up an electronic system for transmitting the information, the Network Information System (NIS), thus simplifying compliance on the part of the issuers:

- from the technology point of view, since electronic tools replace the paper form;
- from the operational point of view, since the issuer is committed to sending just one communication electronically to Borsa Italiana which, in turn, undertakes to guarantee CONSOB automatic access to same.

The NIS also ensures that notices regarding important events which require immediate disclosure to the public are transmitted to the press agencies connected to the circuit at the time of receipt of the communication from the issuer, i.e., if the communication is sent during trading hours, within the next fifteen minutes. Utilisation of the NIS replaces the anachronistic and scarcely efficient multiple fax transmission to the different addressees of company information.

All notices received through the NIS are automatically filed, converted to Borsa Italiana announcements and published each day on the Borsa Italiana website. The archive function offers an additional important service to the market in that it enables the historical consultation of all the notices published.

The NIS will become mandatory for all the issuers incorporated under Italian law with shares listed on the Borsa Italiana markets. In any case, even issuers without these characteristics will be able to request connection, thereby replacing the use of faxed communications. From the latter half of 2000 a transitional period has been underway during which issuers may connect to the NIS, using it as a means for transmitting and circulating information.

The centralisation of information, together with the availability of same on computer aids, helps to improve the transparency of the markets. In fact, the NIS, besides representing a safer and more efficient procedure for issuer-market-authority dialogue, enables a far-reaching and rapid form of information transmission.

*The Network Information System (NIS) is an electronic system for the transmission of corporate information, intended to simplify compliance on the part of issuers*

*The NIS is used by issuers to meet the communication requirements established by CONSOB in resolution 11971/1999 and those requested by Borsa Italiana based on its regulatory provisions*

*The operational framework of intermediaries*

The growing interest as regards market trading and the technological innovation facilitating the direct and immediate access of intermediaries and, through same, of institutional and private investors, have led on the one hand to the expansion of the categories of parties admitted to operate on the markets organised and managed by Borsa Italiana and on the other to the revision of the rules governing the intermediaries' participation in the markets, with special reference to the use of interconnection systems.

- As regards intermediaries authorised to operate on the markets, Borsa Italiana has extended the participation to trading to include also parties within the European Union who do not have the European passport, but who are authorised to trade on a European community market. In the case in hand, these are known as locals, parties trading on the financial instruments markets exclusively for own account.
- As regards the amendments brought about by the new procedures for market participation, the need to ensure that all market participants are able to efficiently utilise the technical structures organised by Borsa Italiana has made it necessary to improve the regulation controlling access via interconnection systems. In particular, intermediaries have been requested to set up and maintain appropriate automatic systems for controlling prices, quantities and frequency of orders input via interconnections. In order to protect the integrity of the markets, Borsa Italiana has the option to request intermediaries to prevent the access of orders input by customers via interconnection, in the event these have given rise to situations of trading irregularities.



During 2000, Borsa Italiana has enhanced its presence on the market with the creation of new markets (EuroMOT and After Hours Market) and new products (miniFIB) and has made changes to the operational environment of issuers and intermediaries with interventions designed to benefit all market participants.