

The Intermediation of financial instruments

The intermediaries authorised to operate on Borsa Italiana markets can be differentiated according to their legal status, the geographical location of their point of access to the market (Italy or abroad) and the type of activity performed on the market. On Borsa Italiana markets, which typically have an order-driven microstructure, authorised intermediaries can take an active part in the price formation process as regards both their own orders (operations for own account) and orders on behalf of their customers (operations for customer account).

In accordance with the rules of Borsa Italiana - and in observance of the requirements set forth in the Consolidated Law on Financial Intermediation (Legislative Decree 58/1998) regarding authorisation to perform trading services and recognition of foreign intermediaries - the following subjects may request authorisation to trade:

- individual stock-brokers (only operations for customer account); Italian, EU and non-EU banks; Italian investment firms (SIMs - *Società di Intermediazione Mobiliare*), EU and non-EU investment companies; financial intermediaries registered on the list provided in article 107 of the Consolidated Banking Law (Legislative Decree 385/1993) authorised to perform investment services;
- locals, with registered office in one of the Countries of the European Union, authorised to trade on a market of the member Countries, if - in the Country of origin - they are subject to supervision on the part of a Public Authority or recognised by a Public Authority with which Consob has set up specific agreements for the supervision of activities performed by same on Italian markets and are subject - again in the Country of origin - to requirements concerning capital, and the respectability and professionalism of the company representatives and share capital participants, equivalent to those provided in the EU regulations for the intermediaries of financial instruments and such as to ensure a similar operational reliability;
- non-EU banks and investment companies authorised to perform trading services for their own and customer account, only as regards the markets organised and managed by Borsa Italiana or individual segments for which authorisation has been granted by Consob and recognition given by the Authorities of the non-EU State pursuant to the Consolidated Law on Financial Intermediation.

THE TREND IN THE NUMBER OF INTERMEDIARIES

At the end of 2001, there were 157 intermediaries authorised to trade, broken down into 18 individual stock-brokers, 70 banks, 67 investment companies and 2 locals. The total number of intermediaries authorised to trade has been showing an upward trend since 1998, year of

the start of Borsa Italiana operations and its strategy for developing the markets. From 138 intermediaries at the end of 1998, the sell side of the market expanded to 142 in 1999, 152 in 2000, to reach 157 in 2001. The overall growth was lead by banks, while the number of investment companies was relatively stable. Stock-brokers appear as a depleting category as since 1991, in accordance with Law 1/1991 which initiated the process of profound change in the activity of intermediaries and markets that characterised the Nineties, it is no longer possible to acquire this status. Compared to the end of 1998, the number of stock-brokers has dropped by 12 (from 30 to 18), bank intermediaries have increased by 25 (from 45 to 70) and investment companies have risen from 63 to 67 (table 13).

At the end of 2001, of the total 157 intermediaries operating on the Borsa Italiana markets, 44.6% concerned banks, 42.7% investment companies, 11.5% stock-brokers and 1.3% locals

Owing to the flexibility of the Borsa Italiana regulatory framework, intermediaries may request admission to individual markets on which they are interested in trading. The markets where the greatest presence of intermediaries is found are the Stock Exchange - Mercato Telematico Azionario and Mercato Ristretto (130, 83% of total intermediaries authorised); the Nuovo Mercato (126, 80%); the Covered Warrants Market (109, 69%) and the IDEM (100, 64%). Participation in the After Hours Market (TAH and TAHnm) is also very intense, with over 80% of intermediaries authorised to operate on the corresponding daytime markets (MTA, MCW and Nuovo Mercato) also taking part in the evening session (table 14).

Regarding the geographical location of the point of access to the market, the Consolidated Law on Financial Intermediation, in accordance with the Investment Services Directive (EC Directive 93/22), recognises the possibility to admit to the domestic markets remote intermediaries, i.e. intermediaries that directly access from a foreign Country in which they are operationally based. The number of remote members admitted, which constitutes an indication of the level of internationalisation of the market, has risen from 6 (2 banks and 4 investment companies) in 1998 to 23 (12 banks, 9 investment companies and 2 locals) in 2001 (table 13).

TABLE 13 - TREND OF THE NUMBER OF AUTHORISED INTERMEDIARIES

	end 1998		end 1999		end 2000		end 2001	
	Number	% tot	Number	% tot	Number	% tot	Number	% tot
Individual stock-brokers	30	21.7%	28	19.7%	27	17.8%	18	11.5%
Banks	45	32.6%	47	33.1%	57	37.5%	70	44.6%
of which remote members	2	1.4%	3	2.1%	7	4.6%	12	7.6%
Investment companies	63	45.7%	67	47.2%	67	44.1%	67	42.7%
of which remote members	4	2.9%	9	6.3%	8	5.3%	9	5.7%
Locals⁽¹⁾	-	-	-	-	1	0.7%	2	1.3%
of which remote members	-	-	-	-	1	0.7%	2	1.3%
Total	138	100.0%	142	100.0%	152	100.0%	157	100.0%
of which remote members	6	4.3%	12	8.5%	16	9.9%	23	13.4%

(1) Locals may be admitted on Borsa Italiana Markets since 2000.

Note: figures do not include intermediaries admitted only on interest rate derivatives market (MIF).

ACTIVITIES TO SUPPORT LIQUIDITY

On some markets and for some financial instruments Borsa Italiana provides for the presence of intermediaries that undertake to perform a role supporting liquidity by displaying orders on the market in observance of the obligations set forth in the market rules. More particularly, specialists are required for shares of the Nuovo Mercato, the STAR segment and the EuroMOT and market makers for the covered warrants, the miniFIB, the options on MIB30 and the options on individual shares. Over time, with the growth in the number of financial instruments listed and in the opportunities offered by the performance of this role, the number of intermediaries interested in operating as specialists or market makers has increased. The specialists in the Nuovo Mercato have gone from 5 in 1999 (for 6 companies listed) to 16 in 2000 (40 companies) and to 17 in 2001 (45 companies). For the 37 companies in the STAR segment, in operation since 2 April, 2001, there were 14 specialists at year-end. On the EuroMOT, the 4 specialists operating in 2000 and 2001 increased the number of bond issues, taking the listed instruments from 13 to 21. The Covered Warrants Market, alongside the rise in the number of instruments listed, experienced the highest growth rate in market makers: from 3 at the end of 1998 to 23 in 2001 (8 in 1999 and 15 in 2000). The derivatives market makers will experience important changes with the introduction of the new trading platform scheduled for the early months of 2002. For options on MIB30, the number of market makers has gone from 10 in 1999, to 11 in 2000, to reach 13 in 2001, while for options

TABLE 14 - NUMBER OF INTERMEDIARIES ADMITTED BY SINGLE MARKET

	end 1998		end 1999		end 2000		end 2001	
	Number	% tot	Number	% tot	Number	% tot	Number	% tot
Total number of intermediaries ⁽¹⁾ admitted		138		142		152		157
Stock exchange								
MTA	106	76.8%	118	83.1%	123	80.9%	130	82.8%
MCW ⁽²⁾	-	-	-	-	107	70.4%	109	69.4%
TAH ⁽³⁾	-	-	-	-	100	65.8%	109	69.4%
MOT	94	68.1%	92	64.8%	98	64.5%	94	59.9%
EuroMOT ⁽⁴⁾	-	-	-	-	30	19.7%	34	21.7%
Nuovo Mercato								
Nuovo Mercato	-	-	103	72.5%	119	78.3%	126	80.3%
TAHnm ⁽³⁾	-	-	-	-	96	63.2%	103	65.6%
Mercato Ristretto								
	106	76.8%	118	83.1%	123	80.9%	130	82.8%
IDEM								
	90	65.2%	88	62.0%	98	64.5%	100	63.7%

(1) Figures do not include intermediaries admitted only on interest rates derivatives market (MIF).

(2) Covered warrants market (MCW) was set up on February 28th, 2000. Up to this date, covered warrants were included within the MTA regulatory framework.

(3) After Hours Market, including both Trading After Hours (TAH) and Trading After Hours Nuovo Mercato (TAHnm), has operated since May 15th, 2000.

(4) EuroMOT is active since January 17th, 2000.

Note: The picture of intermediaries admitted on Borsa Italiana Markets is completed with the electronic traditional options market (MPR), which at the end of 2001 presented 72 authorised intermediaries: 10 stock brokers, 24 banks and 38 investment companies.

on shares, the number has remained stable at 13. On the miniFIB, 3 market makers have been operating since this futures contract on MIB30 was launched on 3 July 2000.

THE OPERATIONS OF INTERMEDIARIES

The analysis of the trend in market shares and the level of concentration of the different markets is able to provide interesting elements regarding the structure of the Italian securities industry. Table 15 shows, divided by year, markets and category of financial instrument, the market shares of the top three, five, ten and twenty intermediaries, as well as an index of concentration that can vary between the extremes of 0% (equal distribution over a very high number of subjects) and 100% (presence of just one monopolist intermediary). The data has been elaborated in reference to the value of turnover; an analysis of trades gives a similar picture, with limited exceptions mostly concerning the segment of options on the IDEM.

**TABLE 15 - CONCENTRATION OF TRADING ACTIVITY ON
BORSA ITALIANA MARKETS**

	SE(*) SHARES			NM SHARES			COVERED WARRANTS			TAH	
	1999	2000	2001	1999	2000	2001	1999	2000	2001	2000	2001
first 3	19.7%	19.1%	16.2%	20.3%	20.0%	20.3%	57.9%	39.7%	38.5%	38.9%	26.9%
first 5	28.4%	28.5%	24.8%	29.5%	30.5%	30.3%	65.3%	51.8%	53.0%	50.5%	36.5%
first 10	44.3%	44.0%	41.4%	49.2%	47.0%	47.8%	77.6%	67.4%	71.9%	64.8%	56.1%
first 20	67.0%	67.0%	66.8%	74.1%	69.1%	67.4%	90.1%	83.2%	86.9%	81.9%	76.8%
concentration	3.1%	3.0%	2.7%	3.6%	3.2%	3.2%	13.2%	7.8%	7.3%	7.0%	4.6%

	GOVERNMENT BONDS			PRIVATE BONDS			MOT TOTAL		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
first 3	29.2%	34.4%	41.1%	32.0%	30.4%	29.5%	28.9%	34.0%	39.3%
first 5	42.7%	45.0%	49.3%	44.9%	44.2%	40.6%	41.9%	44.5%	47.9%
first 10	62.9%	63.9%	64.8%	66.1%	64.6%	60.6%	62.6%	64.5%	63.4%
first 20	83.8%	85.3%	83.1%	85.1%	84.5%	82.1%	85.4%	88.0%	82.6%
concentration	5.6%	6.7%	8.3%	5.8%	5.6%	5.4%	5.5%	6.6%	7.6%

	MIB30 FUTURES			miniFIB		MIB30 OPTION			STOCK OPTIONS		
	1999	2000	2001	2000	2001	1999	2000	2001	1999	2000	2001
first 3	34.7%	28.9%	29.0%	....	58.6%	29.2%	25.5%	30.2%	29.4%	31.8%	31.0%
first 5	44.5%	38.2%	38.6%	....	67.3%	43.1%	40.8%	41.2%	45.5%	48.2%	47.2%
first 10	60.9%	55.6%	52.4%	....	79.8%	61.2%	61.8%	61.0%	69.9%	72.9%	69.8%
first 20	78.5%	76.9%	71.1%	....	91.9%	79.8%	80.1%	80.8%	88.7%	90.3%	87.9%
concentration	5.8%	5.6%	4.4%	....	13.3%	5.6%	6.7%	5.1%	5.5%	6.6%	6.1%

	IDEM TOTAL			Bit MARKET TOTAL		
	1999	2000	2001	1999	2000	2001
first 3	22.8%	22.6%	25.2%	19.7%	19.3%	18.8%
first 5	32.2%	33.1%	34.4%	27.6%	30.0%	26.6%
first 10	53.8%	53.1%	50.3%	44.1%	46.4%	42.5%
first 20	76.7%	76.1%	70.2%	66.5%	66.1%	60.2%
concentration	5.7%	4.7%	3.8%	3.1%	3.1%	2.7%

(*) SE: Stock Exchange.

The analysis of the distribution of market shares shows that:

- in 2001 there was a lower concentration on the main intermediaries: in reference to the total Borsa Italiana markets, the shares of the top 3, 5, 10 and 20 intermediaries account for 19%, 27%, 43% and 60% of the total;
- the level of concentration is more contained in the traditional financial instruments, such as shares and MIB30 futures, while it is higher for covered warrants, After Hours, MOT, MiniFIB and options;
- the top three intermediaries in each segment (not always coinciding) cover a market share that varies between 16% (Stock Exchange shares) and 59% (miniFIB); by focusing the analysis on the distribution of the number of trades, the variation is between 18% and 57%;
- the twenty largest intermediaries for each segment cover a share that varies between 67% (Stock Exchange shares, 64% based on the number of trades) and 92% (miniFIB, 91% based on the number of trades);
- the situations where intermediaries are expected to play a part in supporting liquidity with roles as specialist or market maker show a higher concentration, albeit with a downward trend (except for options on index) compared to previous years.

Comparison with data for prior years and with similar analysis carried out in the past shows how the reduction in the level of concentration that had characterised the growth in trading volumes continued again in 2001, with a different trend as regards the level of overall turnover. More in detail, concentration is down for shares, covered warrants and derivatives, while the growth continues for fixed income securities.

By analysing the different rankings it is possible to calculate the rank correlation between the positions covered by the intermediaries in reference to different markets or instruments. The result is a notable homogeneity as to the ranking for the shares traded on the Stock Exchange and the Nuovo Mercato (rank correlation index equal to 0.92), still significant between Stock Exchange shares and covered warrants (0.80), while it appears less strong in reference to Stock Exchange shares and MOT (0.65), Stock Exchange shares and IDEM (0.65) and MOT and IDEM (0.66).

The relative weight of the remote members in terms of turnover is 12% (which drops to 6% if the analysis is focused on the number of trades). Their operations vary considerably according to markets and financial instruments, moving from levels of around 30% for options to situations of extremely low incidence such as the Nuovo Mercato and the MOT. With reference to the larger aggregate of foreign intermediaries (hence also including the Italian operational branches) we observe that their incidence is equal to 31% (20% in reference to the number of trades), with notable fluctuations according to markets and instruments. The situations where the foreign intermediaries are most active are options on index (52%), options on shares (44%), Stock Exchange shares (37%), futures on the MIB30 (27%) and covered warrants (24%); those in which they are less present, bonds (2%), Government securities (3%) and miniFIB (3%). Analysed from a complementary standpoint, these data show how the foreign intermediaries operate mostly on behalf of a professional clientele, and therefore the strong expansion in retail is for the time being almost entirely

attributable to the activity of the domestic intermediaries, facilitated by the proximity to the channels of contact with the customer.

In the more recent period market shares have been affected by a considerable degree of mobility reflecting the changes underway in the Italian securities industry. The general trend towards a lower concentration has been accompanied by clear signs of a tendency to specialise - seen also from the fact that the indicator of concentration on the markets overall is limited (2.7%) and lower than that of the individual segments - as regards both the various market segments and the performance of services in favour of the different categories of end investors. The level of concentration in effect tends to be higher in situations where specific roles to support liquidity are envisaged and where there is a predominant participation of retail investors (After Hours Market, miniFIB). Moreover, on the MOT a clear tendency appears to be emerging on the part of some intermediaries to specialise by sector.
