

# CC&G *and the central counterparty function*

Cassa di Compensazione & Garanzia (CC&G) performs the role of central counterparty (CCP) both for the cash equity (MTA, Nuovo Mercato and the respective after hours trading sessions) and IDEM derivatives markets managed by Borsa Italiana, and for MTS and EuroMTS managed by MTS Spa, for the Italian Government bonds traded on same.

During the course of 2004 the central counterparty for the markets came into full operation, also as a result of being coupled with the new Express II settlement system managed by Monte Titoli. The post-trading flows were radically modified: from the time of the trade's entry to the Daily Trade-Checking (RRG) system, the bilateral balances are shown in exchange with CC&G and appear as anonymous. Other changes involving the post-trading flows concerned:

*CC&G constantly guarantees fluidity as regards the settlement of fails and manages the buy-in and sell-out procedure on behalf of the solvent counterparty*

- net settlement of contracts guaranteed by CC&G;
- adoption of an Express II calculation algorithm which privileges the settlement of net balances through a central counterparty over transactions not guaranteed by a central counterparty;
- possibility, during the two net settlement cycles, to “partialise” the net balances through central counterparty in order to maximise the settlement rate (partial delivery);
- splitting into smaller lots (shaping) of the balances not settled during the “net cycles” (two million euro for securities traded on the cash equity markets and five for securities traded on the

MTS and EuroMTS markets) before being sent to the gross settlement cycle.

2004 was characterised by the testing and management activity associated with the presence of a CCP in the new Express II settlement system and, alongside the necessary regulatory and operational fine tuning, new interventions were defined, in collaboration with Monte Titoli, with a view to optimising the financial management during the gross settlement cycle. Against this background, CC&G acquired the necessary technical tools in order to optimise the management of its liquidity in BIREL environment, the Italian gross settlement system representing the Italian component of the European payment system Target.

As further confirmation of the synergetic action performed by the BI Group companies, CC&G assisted with projects to develop the Borsa Italiana markets. As regards the IDEM, CC&G supported the introduction of a new role of specialist, which came into operation in November 2004, by making available functions for recording positions in an appropriate “specialist subaccount” on a net basis and separate calculation of initial margins with respect

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to that used for the contractual positions recorded in the relevant third party account. During the latter half of 2004, there was a significant spread in participation on the part of the main intermediaries in the CCP system on MTS, managed by CC&G in partnership with LCH.Clearnet. At such time steps were taken to fine-tune the guarantee system by setting up a specific default fund dedicated to the MTS bond section, separate from the one already in operation for the derivatives and equity sections.

The introduction of a CCP system in the cash markets, offering intermediaries a secure and stable trading environment, helped to enhance the markets' level of liquidity and attract a greater number of participants, particularly from abroad, the number of which rose by 27% during 2004, as confirmation of a growing trend in recent years.

*The guarantee provided by a CCP system helps to enhance the liquidity of the markets*

Participants in the clearing and guarantee system, at 31 December 2004, totalled 129, comprising: 72 banks (of which 14 EU and 6 Italian branches of foreign banks), 53 investment firms (of which 27 EU investment firms), 2 stock-brokers and 2 locals.

To summarise, the benefits deriving from the adoption of a central counterparty model for the cash markets are as follows:

- elimination of the counterparty risk from the time of executing the transaction on the market;
- trading anonymity;
- optimal use of credit lines assigned to the counterparties which, being no longer required for trading on the guaranteed market, can be utilised for other lines of business;
- significant decrease in the number of transactions for settlement in Express II, as a result of multilateral netting with interposition of the CCP (netting rate 95%), with consequent reduction in settlement instructions and relevant commissions;
- streamlining of post-trading processes with significant reduction in operational and system risks.