

IDEM: *the Italian equity derivatives market*

On March 22nd, 2004, Borsa Italiana introduced derivatives on the new S&P/MIB index (futures, mini-futures and option contracts); the first tradable maturity for the new instruments was September 2004 and coincided with the last one for the derivatives on the MIB30 index. From September 20th, 2004, futures, mini-futures and options on MIB30 are no longer traded.

Coinciding with the September 2004 rollover, Eurex, the German/Swiss-based derivatives market, offered options and futures constructed on the Dow Jones Italy Titans 30, an alternative underlying to the S&P/MIB index, placing itself in direct competition with the Italian market. However, the performance of the IDEM demonstrated that domestic and international investors and intermediaries were not attracted by the alternative instruments and confirmed their interest in trading the options and futures on the S&P/MIB index. In particular:

- the option on the S&P/MIB index held onto its total market share and no options were traded on the Dow Jones Italy Titans 30;
- the market share of the futures on the S&P/MIB index remained at levels close to 100%: from July 19th, 2004 (launch date of the futures on Dow Jones Italy Titans 30) until December 30th, notional turnover represented 99.1% and standard contracts 96.6% of the total. During the early months of 2005, IDEM has been recovering even the few trades carried out on Eurex: notional turnover has almost reached total market share and standard contracts have also exceeded 99%.

At the end of 2004, the open interest reached a level of 1,647,126 standard contracts, the highest end-of-year figure on record

2004 was a record year for single stock futures and options, which also proved to be the instruments with the highest growth rates. The interest for these instruments can also be seen from the progressive rise in the number of underlyings which, at 2004 year-end, took the number of stock futures contracts to 22 and that of single stock options to 40.

INDEX FUTURES

Trades carried out on the index futures (chart 18) - considering for 2004 both the S&P/MIB and the MIB30 underlyings - amounted to 3,331,843 standard contracts (-21.9% compared to 2003) and 467 billion euro in terms of notional turnover (-11.4%). The corresponding daily averages were 12,964 standard contracts (16,900 in 2003) and 1.8 billion euro as regards notional turnover (2.1 in 2003). Notional turnover represented 66% of the activity on the underlying equity market (79% in 2003).

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The month of March, the year's first quarterly maturity, was the most liquid, with a daily average of 18,025 standard contracts and 2.4 billion euro of notional turnover.

On December 14th, 2004, there were 45,899 standard contracts traded, the fourth best day since 1994 when IDEM was created.

The open interest (number of contracts outstanding) at the end of 2004 was higher than in 2003, up from 14,687 to 21,066 standard contracts (+43.4%).

Trading was mostly concentrated on the first maturity, representing 92.7% in terms of notional turnover and 96.5% in terms of standard contracts.

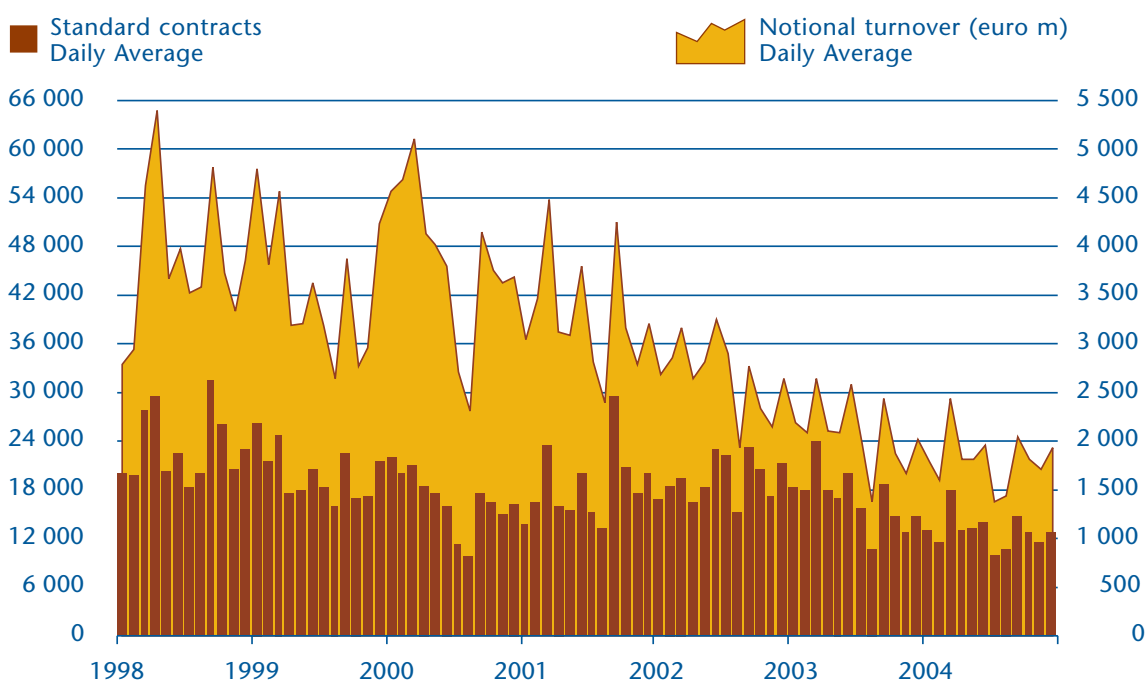
INDEX MINI-FUTURES

Overall mini-futures trading (jointly considering S&P/MIB and MIB30) amounted to 1.5 million standard contracts (5,779 standard contracts per day) and 41.5 billion euro of notional turnover (161 million per day).

March was the most liquid month, with a daily average of 8,454 standard contracts and 230 million euro in daily average notional value.

The open interest at the end of 2004 amounted to 3,069 (6,176 at 2003 year-end).

CHART 18 - IDEM: INDEX FUTURES



INDEX OPTION

During 2004, there were 2,220,807 standard contracts traded for a notional turnover of 152.8 billion, with a daily average of 8,641 standard contracts (-13.1% compared to 2003) and 594.7 million euro in notional turnover (-2.7%).

The most liquid month was March, with a daily average of 11,432 standard contracts and 774.1 million euro of notional turnover.

2004 open interest was up by 41.4% compared to 2003

The ratio between the notional value and the value of trades carried out on the underlying market was substantially stable, down from 23.2% in 2003 to 21.4% in 2004.

There was a significant growth in open interest which, at the end of 2004, exceeded the standard contracts at 2003 year-end by 41.4% to reach 132,234.

The distribution of trades between call and put contracts was substantially uniform in terms of both notional turnover and the number of standard contracts. For the first time, however, put exceeded call contracts, representing 53.8% of notional turnover and 55.6% of the standard contracts.

Trading was mostly concentrated on the first two of the four maturities traded, the first representing 44.9% and the second 28.9%.

STOCK FUTURES

The year 2004 was extremely positive for stock futures which continued the growth trend seen since 2002, the year of their launch.

With triple figure increases, these instruments were also the product with highest growth of the entire derivatives market (chart 19). Daily average standard contracts numbered 6,748, up by 263% compared to the 1,857 average standard contracts executed per day in 2003. Daily average notional turnover increased from 8.1 million euro in 2003 to 30.4 in 2004 (+274%).

The success of the product can also be seen from the progressive expansion in the number of underlyings involved. Another 10 were added in 2004:

- on February 23rd, 2004, on Bnl, Ras, and Snam Rete Gas;
- on March 22nd, 2004, on Banche Popolari Unite, Banco Popolare di Verona e Novara, Fastweb (formerly e.Biscom) and Tiscali;
- on September 20th, 2004, on Mediolanum, Telecom Italia savings shares and Terna.

Again in 2005 an expansion programme is underway and, already in the first four months of the year, another 12 underlyings have been introduced:

- on February 21st, on Autostrade, Banca Fideuram, Banca Monte dei Paschi di Siena, Mediobanca and Pirelli;
- on April 18th, on Aem, Alleanza Assicurazioni, Autogrill, Bulgari, Gruppo Editoriale L'Espresso, Finmeccanica and Luxottica Group.

Overall, the number of stock futures contracts traded has risen to 34.

The most liquid month in the history of stock futures was November 2004, with a daily average of 24,082 standard contracts and a daily average notional turnover of 86.2 million euro.

On December 16th, 2004, trading reached its all-time high, with 86,063 standard contracts, exceeding the previous two records of November 24th, 2004 (66,760 standard contracts) and November 10th, 2004 (58,077).

Record year for single stock futures, with a growth of 263% for standard contracts and 274% for notional turnover

The most traded futures contract was on the Enel shares, with a daily average of 3,238 standard contracts, followed by Eni (1,144), Tim (539) and Unicredito Italiano (401).

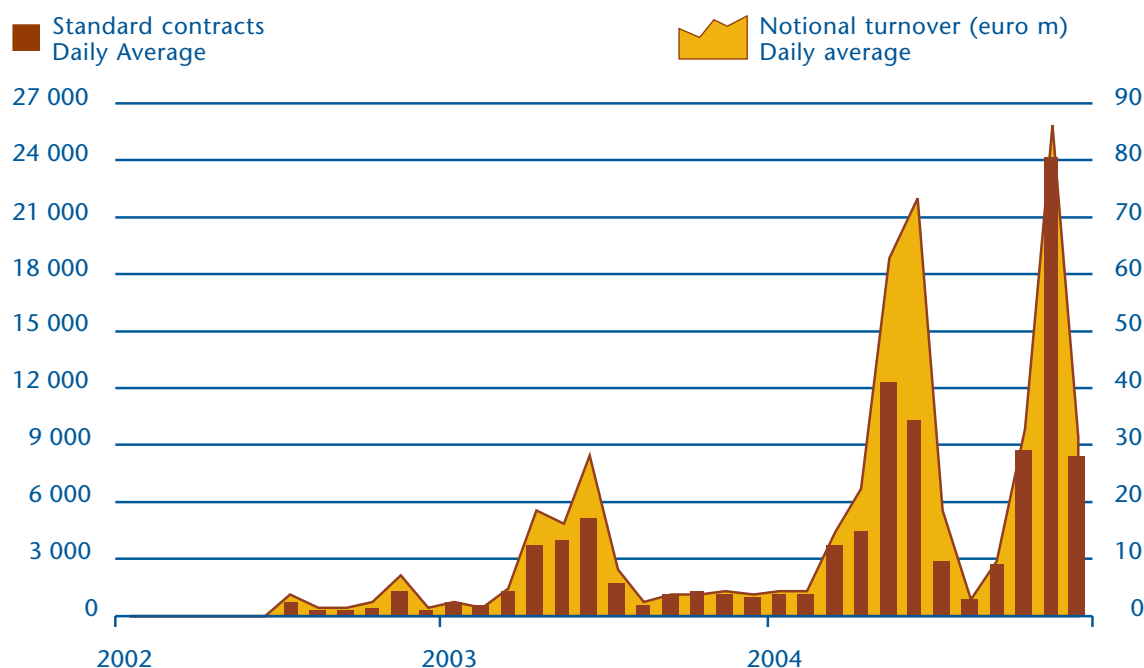
The open interest increased by 217% compared to 2003, from 15,701 standard contracts in 2003 to 49,754 in 2004.

STOCK OPTIONS

During the course of 2004 stock options again proved to be the most traded derivative instrument on the IDEM (chart 20). Standard contracts amounted to 9,500,498 (daily average of 36,967), up by 17.6% with respect to the figure for 2003; following the same trend, notional turnover reached 36.7 billion euro (daily average of 142.9 million euro), with a growth of 16.4% compared to 2003.

The most liquid month in terms of standard contracts was March, with a daily average of 46,607, whereas it was December in terms of notional turnover, with a daily average of 201.4 million euro.

CHART 19 - IDEM: STOCK FUTURES



The distribution of trades between call and put contracts showed a predominance of call for both standard contracts and notional turnover: the call contracts accounted for 55.6% in terms of notional turnover and 52.4% in terms of standard contracts.

During 2004 there were 7 new underlyings introduced: Autogrill, Banche Popolari Unite, Banco Popolare Verona-Novara, Bulgari, Luxottica, Mondadori, Terna. At year-end there were options being traded on 40 shares, including two on shares of the Nuovo Mercato (Fastweb and Tiscali).

The open interest increased by 52.6% compared to 2003, from 944,484 standard contracts in 2003 to 1,441,003 in 2004.

CHART 20 - IDEM: STOCK OPTIONS

