



The Intermediation *of financial instruments*

On the basis of objective and non discriminatory criteria, Borsa Italiana admits to trading intermediaries who comply with certain professional, organisational and technological requirements defined with a view to ensuring the best conditions for the regular operation of the market.

In accordance with the Rules of Borsa Italiana markets and the provisions set forth in the Consolidated Law on Financial Intermediation (Legislative Decree 58/98) the following may request admission:

- stock-brokers (only as regards operations for customer account);
- Italian, EU and non-EU banks;
- Italian, EU and non-EU investment firms;
- financial intermediaries registered on the list provided in article 107 of the Consolidated Banking Law (only as regards trading for own account of financial derivatives);
- locals having their registered office in one of the Countries of the European Union (only as regards operations for own account),
- Poste Italiane Spa (by Decree of the President of the Republic no.144/2001, the company has been authorised to perform trading services for customer account, and to operate on the Italian regulated markets in accordance with article 25 of the Consolidated Law on Financial Intermediation),

Authorised intermediaries can be classified according to their geographical location and the type of activity performed on the market.

- In addition to the more general distinction between domestic and foreign intermediaries based on where their office is based, if the trading activity is performed directly from a foreign Country, the operator is qualified as a foreign international client. The number of foreign international clients participating in the market is an indication of the level of internationalisation achieved by the Borsa Italiana markets.
- As regards trading activities, all intermediaries acquiring authorisation to operate on the Borsa Italiana markets take an active part in the price formation process by way of their own orders (operations for own account) and/or orders on behalf of their customers (operations for customer account). Impartial treatment in the market is guaranteed by the presence of order-driven markets which have precise rules of priority in order execution, primary as regards price and secondary as regards time.

For some markets and instruments, Borsa Italiana also provides for the presence of operators who undertake to support the liquidity of the securities for which they perform the role of specialists.

THE TREND IN THE NUMBER OF INTERMEDIARIES

Since the year of its privatisation, the total number of intermediaries authorised to operate on the Borsa Italiana markets has known two different trends, which appear to have stabilised during the course of 2004 (table 15):

- from 1998 to 2001 there was a growth in members, up from 138 in 1998 to 157 in 2001, mainly due to the rise in the number of bank intermediaries;
- from 2001 to 2003, the gradual decrease in stock-brokers, in addition to a process of rationalisation as regards the sell side, which led, on the one hand, to the creation of corporate groups, with the consequent reduction in the number of bank participants (above all in 2002) and investment companies (mainly in 2003) and, on the other, to the reorganisation of trading activities on the part of the international intermediaries centralising at a single location their point of access to the market.
- 2004, with 13 new market participants, closed with a total of 128 intermediaries, unchanged with respect to 2003.

At the end of 2004, the total of 128 intermediaries authorised to operate on the Borsa Italiana markets comprised 4 stock-brokers, 66 banks, 56 investment firms and 2 locals

The breakdown of intermediaries by type is very similar to that of 2003. The banks are still the most represented category, increasing from 65 in 2003 (equal to 50,8% of total participants) to 66 in 2004 (equal to 51,6% of total participants). The number of investment firms has dropped from 57 in 2003 (equal to 44.5% total participants) to 56 in 2004 (equal to 43.8% of total participants). The locals participating in the markets have increased by one, returning to the number as at 2002 year-end. Stock-brokers have dropped from five to four.

Owing to the operational and regulatory flexibility of the Borsa Italiana markets, intermediaries may request admission to individual markets on which they are interested in trading (table 16). The process of rationalisation as regards the sell side can be seen also from

TABLE 15 - TREND OF THE NUMBER OF AUTHORISED INTERMEDIARIES

	end 2000		end 2001		end 2002		end 2003		end 2004	
	Number	% tot	Number	% tot	Number	% tot	Number	% tot	Number	% tot
Individual stock-brokers	27	17.8%	18	11.5%	9	6.4%	5	3.9%	4	3.1%
Banks	57	37.5%	70	44.6%	66	46.8%	65	50.8%	66	51.6%
<i>of wich foreign international clients⁽¹⁾</i>	7	4.6%	12	7.6%	14	9.9%	17	13.3%	17	13.3%
Investment companies	67	44.1%	67	42.7%	64	45.4%	57	44.5%	56	43.8%
<i>of wich foreign international clients⁽¹⁾</i>	8	5.3%	9	5.7%	14	9.9%	17	13.3%	21	16.4%
Locals⁽²⁾	1	0.7%	2	1.3%	2	1.4%	1	0.8%	2	1.6%
<i>of wich foreign international clients⁽¹⁾</i>	1	0.7%	2	1.3%	2	1.4%	1	0.8%	2	1.6%
Total	152	100.0%	157	100.0%	141	100.0%	128	100.0%	128	100.0%
<i>of wich foreign international clients⁽¹⁾</i>	16	10.5%	23	14.6%	30	21.3%	35	27.3%	40	31.3%

(1) Foreign international clients are foreign intermediaries admitted to trading on Italian markets and operating directly from a foreign Country.

(2) Locals may be admitted on Borsa Italiana markets since 2000.

the selective approach to individual trading situations which has developed over the years. This trend did not involve the EuroMOT, where the number of participants increased by six between 2000 (year of its creation) and 2004, to reach a level of 36 which confirmed the number for 2003.

At the end of 2004, the markets where the greatest presence of intermediaries is found are: Stock Exchange-MTA and Mercato Expandi (100, equal to 78.1% of the total intermediaries authorised); Nuovo Mercato (94, equal to 73.4% of the total); IDEM (75, equal to 58.6% of the total) and SeDeX (66, equal to 51.6% of the total). Participation in the After Hours Market increased: 82.0% of MTA intermediaries (80.8% in 2003) and 90.9% of SeDeX intermediaries (89.3% in 2003) also operated on the TAH, while participation of the Nuovo Mercato intermediaries in the evening segment TAHnm dropped from 79.8% in 2003 to 78.7% in 2004.

Regarding the geographical location of the point of access to the market, Italian legislation, in line with the European directives, recognises the possibility to admit to the domestic markets international clients, i.e. intermediaries who directly access from a foreign Country in which they are operationally based.

The constant rise in the number of international clients continued again in 2004. In fact, whilst at the end of 1998 the number of international clients was limited to 6 (2 banks and 4 investment firms), by the end of 2004 their number had risen to 40 (17 banks, 21 investment firms and 2 locals), with an increase of 566% compared to 1988 and of 14% with respect to 2003. This trend confirms the international standing of the Borsa Italiana markets and the strong interest on the part of foreign intermediaries and investors for Italian financial instruments.

At the end of 2004, there were 40 international clients authorised to trade on the Borsa Italiana markets, equal to 31.3% of the total intermediaries participating in the markets

TABLE 16 - NUMBER OF INTERMEDIARIES ADMITTED BY SINGLE MARKET

	end 2000		end 2001		end 2002		end 2003		end 2004	
	Number	% tot	Number	% tot	Number	% tot	Number	% tot	Number	% tot
Total number of authorised intermediaries	152		157		141		128		128	
Stock Exchange										
MTA	123	80.9%	130	82.8%	120	85.1%	104	81.3%	100	78.1%
SeDeX ⁽¹⁾	107	70.4%	109	69.4%	96	68.1%	75	58.6%	66	51.6%
TAH ⁽²⁾	100	65.8%	109	69.4%	98	69.5%	84	65.6%	82	64.1%
MOT	98	64.5%	94	59.9%	77	54.6%	64	50.0%	61	47.7%
EuroMOT ⁽³⁾	30	19.7%	34	21.7%	33	23.4%	36	28.1%	36	28.1%
Nuovo Mercato										
Nuovo Mercato	119	78.3%	126	80.3%	117	83.0%	99	77.3%	94	73.4%
TAHnm ⁽²⁾	96	63.2%	103	65.6%	93	66.0%	79	61.7%	74	57.8%
Mercato Expandi										
MTA	123	80.9%	130	82.8%	120	85.1%	104	81.3%	100	78.1%
IDEM										
SeDeX	98	64.5%	100	63.7%	93	66.0%	82	64.1%	75	58.6%

(1) From 29 April 2004 Sedex, the Securitised Derivatives Market, is the new name that identifies the market previously known as Electronic Covered Warrants Market (MCW). The trading of securitised derivatives (covered warrants and certificates) acquired a dedicated regulatory framework from 28 February 2004. Up to this date, the regulatory framework was that of the MTA.

(2) After Hours Market has been operating since 15 May 2000.

(3) EuroMOT has been operating since 17 January 2000.

The overall growth in the number of foreign intermediaries is also confirmed at individual market level. More specifically, 2004 year-end data indicate an increasing participation on the part of international clients:

- as regards the equity markets: 28 international clients on the MTA, equal to 28% of the total intermediaries on such market (24 participants equal to 23% in 2003); 24 on the TAH, equal to 29% of the total (20 participants equal to 24% in 2003), 23 on the NM, representing 24% of the total (20 participants equal to 20% in 2003) and 19 on the TAHnm, corresponding to 26% of the total intermediaries on the TAHnm (16 participants equal to 20% in 2003);
- as regards the IDEM: 22 international clients, representing 29% of the total (20 participants equal to 24% in 2003);
- as regards SeDeX: 11 international clients, corresponding to 17% of the total (10 participants equal to 13% in 2003).

ACTIVITIES TO SUPPORT LIQUIDITY

The activity of supporting liquidity refers to an undertaking to display bids and asks on the market, in observance of the obligations set forth in the market rules. More particularly, the presence of specialists is required for the shares of the Nuovo Mercato, the STAR segment, the MTF segment, the EuroMOT and SeDeX. On the Mercato Expandi and the MTA the presence of specialists is provided for on a voluntary basis and by request of the issuers. As regards Expandi, by appointing a specialist it is possible to gain admission to class 1 of the market. As regards the MTA, the instruments for which the presence of specialists is voluntary are the equities of the blue-chips segment (excluding the S&P/MIB index constituent shares) and classes 1 and 2 of the ordinary segment. Similar to Expandi, if supported by the presence of a specialist, a class 2 share can be admitted to class 1. Particular specialist roles also exist for the IDEM: Primary Market Makers (PMMs), Market Makers (MMs), Primary Specialists (S-PMMs) and Specialists (S-MMs); Specialists differ from market makers because they enter orders originated by another intermediary belonging to the same group.

However, the relationship between issuer and specialist differs according to the category of financial instrument. More specifically, while for shares the specialist does not need to have ties of a corporate nature with the issuer, for the other instruments, such as above all securitised derivatives and Exchange Traded Funds, issuer and specialist must coincide, or be closely associated, in order to have available all the information and tools necessary for the liquidity support role to be effectively performed.

Over the years many intermediaries have diversified their business opening up to the opportunities offered by performance of the role supporting the liquidity of financial instruments. The progressive expertise acquired on the part of some intermediaries has led to a specialisation in the performance of this activity, with a consequent concentration as regards the intermediaries who have chosen to integrate their product range with this service.

- On the equity markets the number of specialist intermediaries at the end of 2004 remained substantially at the levels of the previous year. The Nuovo Mercato confirmed the number of 11 specialists and the intermediaries following the highest number of

shares were Twice Sim (8) and Banca Caboto (7). The STAR segment, on a total of 46 listed companies, had 13 specialists at 2004 year-end, one less than in 2003 (40 companies); the intermediaries following the highest number of shares were UBM (10) and Banca Akros (6). The Mercato Expandi also began to acknowledge the usefulness of a specialist and, from November 5th, 2004, the first class 2 company was transferred to class 1 of the Mercato Expandi as a result of the appointment of UBM as specialist on the part of the issuer Innotech.

- On SeDeX at the end of 2004 there were 14 specialists, for 3,021 issues referring to 15 issuers. In December of the previous year, 16 specialists were in operation for a total of 2,594 issues and 17 issuers.
- During 2004, the number of specialists present on the EuroMOT rose by one, from four to five. Nuovi Investimenti Sim was added to the other specialists already present (Banca Caboto, Banca IMI, Mediobanca and UBM).
- On the Electronic Funds Market the growth in the number of specialists is closely tied to the expansion of the listing. As regards ETFs, the number rose from 4 on 13 instruments in 2003 to 5 on 20 instruments in 2004 (3 on 8 instruments in 2002); the intermediaries following the highest number of ETFs were Société Générale (8) and Merrill Lynch (7). As regards closed-end funds, the number of specialists increased from 10 on 14 instruments in 2003 to 11 on 18 instruments in 2004 (9 on 11 instruments in 2002); the intermediaries following the highest number of closed-end funds were Banca Caboto (5) and Banca Aletti (4).
- Regarding equity derivatives, the market makers are differentiated between Primary Market Makers (PMMs), who undertake to support the liquidity of the instruments by continuously displaying orders during the trading session, and Market Makers (MMs), who undertake to supply additional liquidity to the market in response to requests for quotes coming from other intermediaries; a similar classification applies for the new category of specialists differentiated between S-PMMs and S-MMs. While for the S&P/MIB futures and mini-futures and the single stock futures only the presence of primary market makers is provided, for the option on S&P/MIB and for the other single stock options both types of intermediary may be present. More specifically, the comparison between 2003 and 2004 in terms of presence of these intermediaries on the various IDEM contracts shows the following:
 - ◆ single stock options: the overall number of primary market makers went up from 2 in 2003 to 5 in 2004 (4 PMMs and one S-PMM), while MMs dropped from 12 to 7;
 - ◆ S&P/MIB index option: the overall number of intermediaries supporting liquidity changed from 13 to 12 (2 MMs, 9 PMMs and 1 S-PMM);
 - ◆ stock futures: the number of PMMs increased by one and each of the three intermediaries present (Banca Aletti, Banca Caboto and BNL) supported 26 of the 27 stock futures present at the end of December 2004 (a PMM cannot perform this role on futures having as underlying the shares of its own company or shares of group companies). With the new futures contracts admitted in February and April 2005, the total number of single stock futures rose to 35 and Banca Aletti and Banca Caboto extended their role to all contracts, with the sole exception of those constructed on the shares of their parent group (respectively, Banca Popolare di Verona and Banca Intesa), while BNL extended its role to 31 instruments;

- ◆ S&P/MIB index mini-futures: the number of PMMs increased from 3 to 5;
- ◆ S&P/MIB index futures: just one PMM.

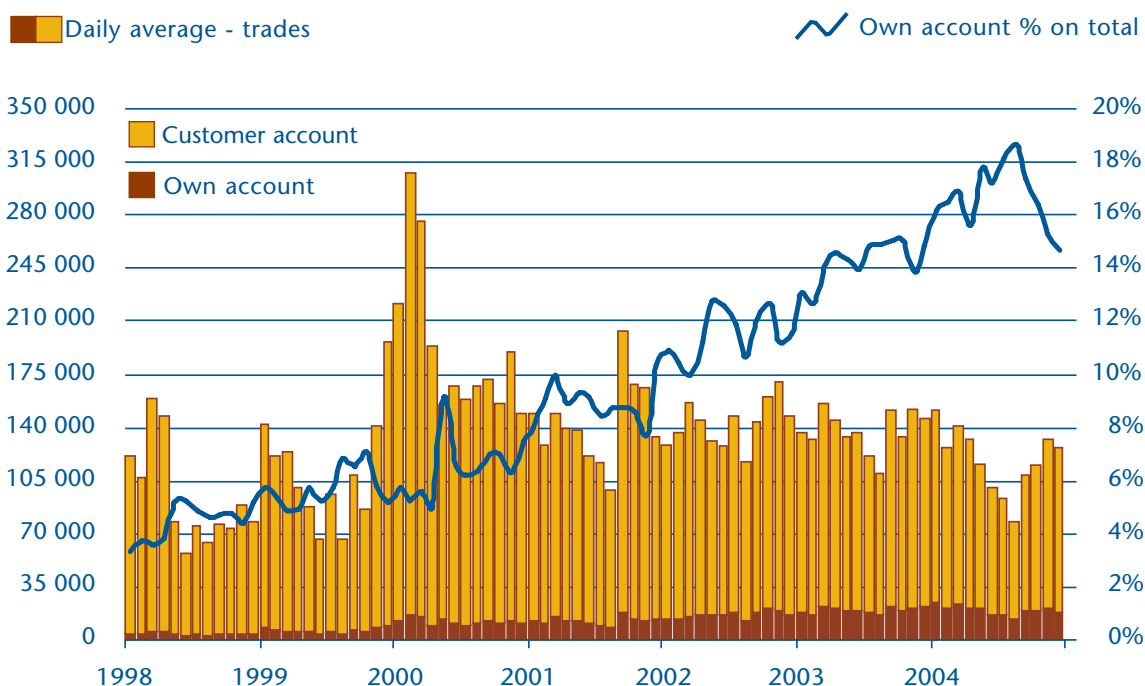
THE OPERATIONS OF INTERMEDIARIES

As far as the composition of trading activity according to the operations of intermediaries is concerned, 2004 saw a further rise in the percentage relating to trading for own account even outside the segments characterised by the presence of specialists or market makers.

Charts 21 and 22, relating to the Stock Exchange-MTA share volume daytime phase, show the continuous growth of this phenomenon since 1998 and how during the middle part of 2004 it was seen to rapidly accelerate, taking the annual figure in terms of trades from 14.3% to 16.6% and in terms of turnover from 24.0% to 26.6%. The notable difference between the two dimensions also indicates how the operations for own account - of a strictly professional nature - are characterised by a distinctly higher trade size per unit compared to operations for customer account. A parallel phenomenon, albeit at lower levels, characterised the trading activity of the Nuovo Mercato (from 4.3% to 5.5% in terms of trades; from 6.0% to 9.3% in terms of turnover) and that of the after hours session. Compared to the past, 2004 was distinguished by a strong growth during the summer months (leading to the 30% threshold being exceeded in terms of turnover) and a subsequent fall-off taking the indicators back to beginning-of-year levels.

Three main tendencies can be identified to explain the progressive growth in operations for own account:

CHART 21 - SHARE VOLUME - TRADES (STOCK EXCHANGE, DAYTIME PHASE)



- the indirect effect of the decline in participation on the part of institutional and, above all, retail clients;
- the progressive development of the operational techniques of Italian intermediaries, in the past predominantly concentrated on pure broker activity;
- the growing participation in trading on the part of foreign intermediaries, traditionally characterised by notable expertise in operations for own account.

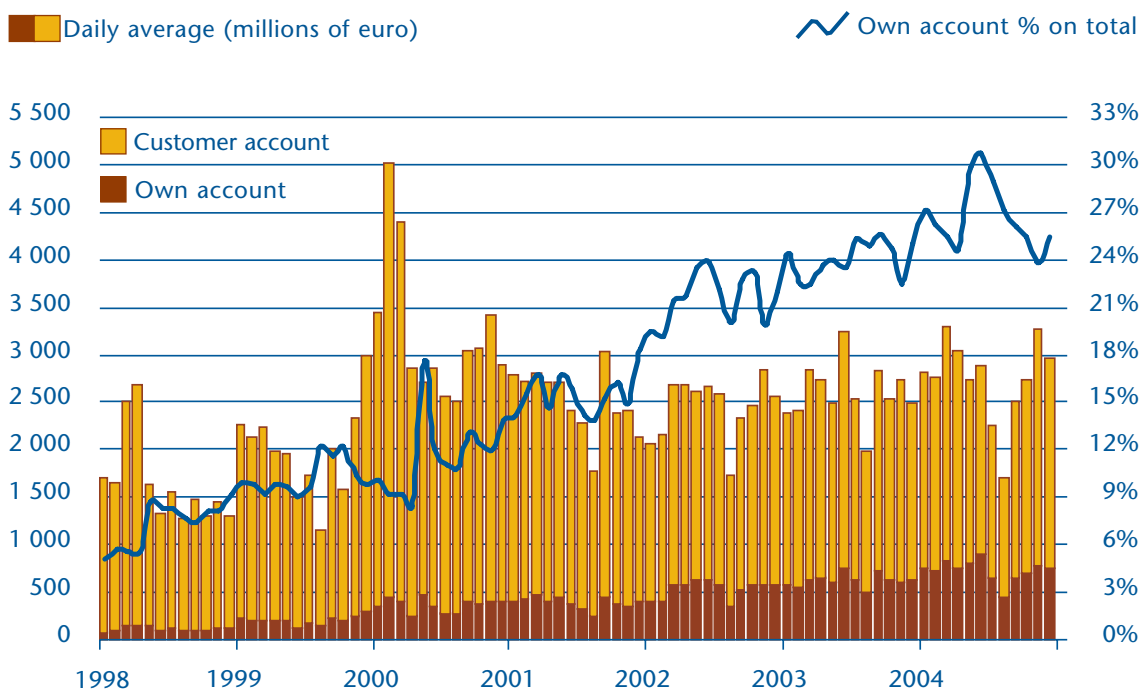
The analysis of the trend in market shares and the level of concentration of the different markets is able to provide interesting elements regarding the structure of the Italian securities industry and the growing level of internationalisation of the stock market.

Table 17 shows, divided by year, markets and category of financial instrument, the shares of the top three, five, ten and twenty intermediaries based on turnover, 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 parallel analysis focused on the number of trades - with exceptions, albeit of limited amount, relating to the IDEM - gives a similar picture.

Analysis of the distribution of market shares shows that:

- in 2004 the concentration on the main intermediaries increased, accelerating the trend seen the previous year after the decline that had characterised the 1999-2001 period: in reference to turnover on the Borsa Italiana markets overall, the shares of the top 3, 5, 10 and 20 intermediaries account for 19.0%, 29.4%, 46.3% and 67.8% of the total;
- the level of concentration is more contained as regards trading in the traditional financial

CHART 22 - SHARE VOLUME - TURNOVER (STOCK EXCHANGE, DAYTIME PHASE)



instruments negotiated on heavily order-driven markets, such as shares and index futures, while it is higher for securitised derivatives, EuroMOT bonds, mini-futures, stock options and equity derivatives (instruments where the market maker role is important); a partial exception to this logic is the behaviour of the MOT Government securities, characterised by a high level of concentration;

- the top 3 intermediaries, based on turnover, in each segment (not always coinciding) cover a market share that varies between 21% (Stock Exchange shares) and 53% (securitised derivatives and index mini-futures); the picture is similar, if the analysis is focused on the distribution of the number of trades, in which case the figures vary between 19% and 55%;
- the 20 largest intermediaries, based on turnover, for each segment cover a share that varies between 71% (Stock Exchange shares, same level for the number of trades) and 96% (mini-futures and stock futures, same levels 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 which, with the exception of stock futures and options, has notably increased compared to previous years.

Comparison with data for prior years and with similar analyses carried out in the past shows how the reduction in the level of concentration that had characterised the growth in trading volumes, continuing up until 2001, has been replaced by a phase of consolidation of the levels achieved or reversal of trend. More specifically, concentration is slightly up or stable for almost all instruments, with the exception of index mini-futures, stock futures and stock options (however, in the first two cases, the levels are still high).

The relative weight of the international clients shows a distinct upward trend, confirming the progressive internationalisation of the Italian stock market. Their market share is also significantly higher if considered in terms of turnover, showing an above average per unit size of operations, typical of their characteristically professional nature. Their operations vary considerably according to markets and financial instruments, moving from levels of around 41% for turnover on index options to situations of almost zero incidence such as in the case of the MOT. More specifically, the international clients reached a share of 19.5% as regards equity turnover (14.7% in terms of trades, compared to figures of 19.1% and 13.2% in 2003), 17.1% for SeDeX (20.1% in terms of trades, showing a recomposition compared to the levels of 20.2% and 16.5% for the previous year) and 28.0% for derivatives on the IDEM (20.6% in terms of number of trades, compared to figures of 24.6% and 17.1% in 2003). The presence of data showing an upward trend and positioned at higher levels in the analyses relating just to trading for own account (where international clients account for 46.7% of equity turnover and 41.8% of IDEM turnover) is a further confirmation of the extensive level of internationalisation achieved by Borsa Italiana markets.

Considered from a complementary perspective, this analysis shows how the foreign intermediaries operate mostly on behalf of a professional clientele, and therefore the strong expansion in retail achieved in recent years is still almost entirely attributable to the activity of the domestic intermediaries, facilitated by the proximity to the customer contact channels.

**TABLE 17 - CONCENTRATION OF TRADING ACTIVITY ON
BORSA ITALIANA MARKETS**

	STOCK EXCHANGE SHARES					NUOVO MERCATO SHARES				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	19.1%	16.2%	15.6%	16.2%	20.9%	20.0%	20.3%	21.2%	24.1%	25.6%
first 5	28.5%	24.8%	23.6%	25.8%	30.2%	30.5%	30.3%	31.1%	33.9%	36.4%
first 10	44.0%	41.4%	41.3%	44.0%	48.1%	47.0%	47.8%	52.4%	54.4%	57.4%
first 20	67.0%	66.8%	67.3%	67.1%	71.4%	69.1%	67.4%	75.2%	78.2%	80.3%
concentration	3.0%	2.7%	2.7%	2.9%	3.4%	3.2%	3.2%	3.7%	4.2%	4.6%
	SECURITISED DERIVATIVES					AFTER HOURS				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	39.7%	38.5%	44.0%	49.9%	52.7%	38.9%	26.9%	25.5%	30.8%	39.2%
first 5	51.8%	53.0%	55.2%	60.7%	63.7%	50.5%	36.5%	36.9%	41.5%	50.4%
first 10	67.4%	71.9%	72.3%	79.6%	78.8%	64.8%	56.1%	58.2%	63.1%	65.5%
first 20	83.2%	86.9%	87.4%	93.3%	95.1%	81.9%	76.8%	79.7%	85.5%	84.2%
concentration	7.8%	7.3%	9.3%	10.7%	11.8%	7.0%	4.6%	4.4%	5.6%	7.2%
	GOVERNMENT BONDS					MOT BONDS				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	34.4%	41.1%	43.2%	43.2%	43.3%	30.4%	29.5%	32.9%	32.5%	32.2%
first 5	45.0%	49.3%	52.2%	53.1%	55.0%	44.2%	40.6%	44.6%	45.3%	45.9%
first 10	63.9%	64.8%	70.1%	72.3%	71.7%	64.6%	60.6%	62.3%	64.7%	66.5%
first 20	85.3%	83.1%	86.4%	89.0%	88.3%	84.5%	82.1%	80.3%	83.8%	86.5%
concentration	6.7%	8.3%	9.1%	9.1%	9.7%	5.6%	5.4%	5.7%	5.9%	6.2%
	EUROMOT BONDS					INDEX FUTURES				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	....	....	47.5%	40.2%	39.6%	28.9%	29.0%	28.1%	24.9%	29.8%
first 5	....	....	63.7%	58.6%	62.2%	38.2%	38.6%	38.5%	37.5%	42.0%
first 10	....	....	85.5%	79.6%	81.5%	55.6%	52.4%	57.9%	59.4%	61.7%
first 20	....	....	97.8%	95.3%	95.9%	76.9%	71.1%	76.7%	81.5%	84.6%
concentration	....	....	10.2%	8.6%	8.9%	5.6%	4.4%	4.6%	4.5%	5.2%
	INDEX MINI-FUTURES					INDEX OPTION				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	....	58.6%	55.9%	55.6%	53.2%	25.5%	30.2%	29.9%	34.0%	40.3%
first 5	....	67.3%	73.7%	72.4%	68.4%	40.8%	41.2%	41.2%	46.2%	51.2%
first 10	....	79.8%	87.5%	88.9%	85.9%	61.8%	61.0%	62.5%	68.4%	69.1%
first 20	....	91.9%	94.4%	95.9%	95.7%	80.1%	80.8%	82.1%	87.4%	88.4%
concentration	....	13.3%	13.2%	13.7%	12.7%	6.7%	5.1%	5.2%	6.4%	7.6%
	STOCK FUTURES					STOCK OPTION				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
first 3	....	....	....	45.8%	38.2%	31.8%	31.0%	27.4%	31.4%	28.5%
first 5	....	....	....	63.1%	55.9%	48.2%	47.2%	40.8%	45.1%	40.3%
first 10	....	....	....	82.7%	80.8%	72.9%	69.8%	67.6%	67.1%	61.8%
first 20	....	....	....	96.1%	95.5%	90.3%	87.9%	86.2%	86.2%	83.6%
concentration	....	....	....	10.7%	8.2%	6.6%	6.1%	5.5%	5.8%	5.0%
	IDEM TOTAL									
	2000	2001	2002	2003	2004					
first 3	22.6%	25.2%	24.3%	20.6%	22.4%					
first 5	33.1%	34.4%	33.0%	31.3%	34.2%					
first 10	53.1%	50.3%	52.6%	53.2%	55.5%					
first 20	76.1%	70.2%	73.5%	80.6%	80.2%					
concentration	4.7%	3.8%	3.8%	3.9%	4.1%					