

SEDEX

THE CERTIFICATES AND COVERED WARRANTS MARKET







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FOREWORD

SEDEX is the Borsa Italiana electronic regulated market where, through the authorised intermediaries, it is possible to trade securitised derivatives, in other words derivatives whose contractual characteristics are embodied in a transferable security normally issued by a financial institution. The term derivatives is used to indicate those financial instruments the price of which depends on the performance of another asset (shares, indices, exchange rates, interest rates, commodities) referred to as the underlying.

During the course of recent years there has been a growing interest in securitised derivatives on the part of retail customers and institutional investors, leading to a rise in volumes in terms of both turnover and trades executed on the market. This rise has been accompanied by increasingly frequent product innovation on the part of issuers in order to cater for the diverse investment needs of customers.

The keys to the success of securitised derivatives can essentially be summarised in three points:

- a) wide range of products and underlyings which easily adapt to the different risk profiles of investors and the growing need to expand the level of differentiation of investment portfolios;
- b) possibility for investors to diversify based on different risk-yield criteria even in the case of fairly small portfolios through the use of securitised derivatives without margining requirements;
- c) possibility to implement a variety of investment strategies: for example directional, volatility-related or exploiting lateral movements in the market

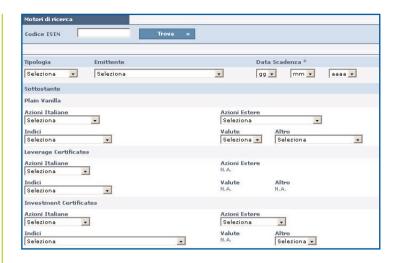
1. MARKET SEGMENTATION

Leverage and Investment Securitised Derivatives SEDEX offers trading in both securitised derivatives characterised by the presence of the so-called leverage effect (leverage securitised derivatives) and securitised derivatives that respond to medium-long term investment logics (investment securitised derivatives).

The former allow the holder, with a relatively low investment of capital, to participate more than proportionally in the price fluctuations of the underlying asset; in other words, the performance of the underlying is amplified, either upside (allowing the investor to achieve even very high yields), or downside (exposing the investor even to the risk of losing his entire capital).

On the other hand, the latter, in terms of both invested capital and risk, represent a direct alternative to investment in the underlying: this category therefore includes not only securitised derivatives that replicate the performance of the underlying (advantageous in the case of underlyings that are otherwise not easily accessible to private investors, for example indices or oil futures, gold or silver) but also those that enable more complex investment strategies (for example strategies with partial or total protection of invested capital or directed towards achieving an improved performance of the underlying given certain market conditions).

While the leverage securitised derivatives are more suitable for investors with a sound technical-financial preparation who tend to have a more speculative investment strategy and usually short-term temporal horizon, investment securitised derivatives respond to more conservative investment logics oriented towards the medium-long term.



The four SEDEX segments

In order to enhance the transparency of information available to investors on the characteristics of the financial instruments traded on SEDEX, Borsa Italiana has introduced a market segmentation which, whilst there is no difference in the trading methods between the various segments, divides the securitised derivatives into homogeneous classes according to product type and investment objective.

The following segments are provided:

a) SEGMENT FOR PLAIN-VANILLA CW

covered warrants based on a call or put securitised option that gives the right to buy and/or sell, on or before the expiry date, a certain quantity of the underlying asset at a predetermined price or, in the case of contracts providing for a cash settlement, to collect a sum of money calculated as the difference between the settlement price of the underlying asset and the exercise price for the calls, or the difference between the exercise price and the settlement price of the underlying asset for the puts.

b) SEGMENT FOR STRUCTURED EXOTIC CW

covered warrants whose main feature is a combination of call and/or put options (Call Spread, Straddle) and/or one or more exotic options (Digital, Down&Out, Outperformance).

The term exotic options is used in reference to highly heterogeneous derivative financial instruments, with more complex payoffs compared to standard options intended to cater for specific investor needs.

c) SEGMENT FOR LEVERAGE CERTIFICATES

certificates that replicate and allow participation in the performance of the underlying asset, with leverage effect (Stop Loss - Bull and Bear - in certain cases providing for periodic adjustment of both the strike price and the stop-loss level).

d) SEGMENT FOR INVESTMENT CERTIFICATES

two classes are provided:

- certificates that replicate the performance of the underlying asset without incorporating any leverage effect (Benchmark and Quanto);
- II. certificates that replicate the performance of the underlying asset incorporating one or more options of an accessory nature (Discount Certificates, Capital Protected, Structured Instruments).

2. THE PRODUCTS: UNDERLYING ASSETS AND MAIN CHARACTERISTICS

The classes of underlyings

SEDEX offers trading on securitised derivatives with a wide range of underlying assets:

- Italian and foreign shares (European, United States and Japanese);
- indices representing the most important European and non-European stock exchanges (S&P/MIB, DAX, NASDAQ100, S&P 500, NIKKEI 225, HANG SENG, DOW JONES EURO STOXX 50, FTSE 100, CAC 40),
- leading world currencies (Euro/USD and Euro/Yen exchange rate);
- raw materials such as oil, gold, silver, platinum and palladium;
- Government securities, futures on Government securities and official interest rates;
- baskets of shares, indices or any other underlying financial asset referred to in the previous points.

Provision for automatic exercise at maturity

Exercise of the securitised derivatives may take place either by physical delivery of the underlying asset or via cash settlement in cases where the underlying asset is made up of shares or Government securities traded on the markets organised and managed by Borsa Italiana, while for all other categories of underlying assets only the cash settlement procedure is allowed.

Exercise at maturity is automatic in cases where the securitised derivatives expire with an intrinsic residual value.

The rules for product standardisation

Borsa Italiana provides for standardisation of certain characteristics of the securitised derivatives in order to render them more comparable:

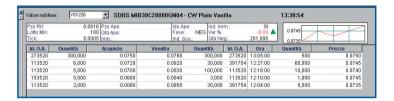
- for the plain-vanilla covered warrants, leverage certificates and class I) investment certificates, the parity ratio/multiple must be equal to 0.1, if the underlying asset is made up of Italian shares traded on the markets organised and managed by Borsa Italiana and 0.0001, if the underlying is represented by MIB30 and S&P/MIB;

- for Italian shares traded on Borsa Italiana markets, the settlement price must be equal to the reference price recorded on the day prior to expiry in the case of exercise at maturity, or recorded on the exercise date in the case of early exercise; for the MIB30 and S&P/MIB indices, it must be equal to the opening price recorded on the expiry date in the case of exercise at maturity, or recorded on the day following the exercise date in the case of early exercise.

Sedex Microstructure

Liquidity guaranteed by the presence of specialists SEDEX presents a mixed-type microstructure in which both brokers (operating on behalf of third parties) and dealers (operating for both customer and own account) operate. Private investors have the possibility to place their orders, through authorised intermediaries, also within the bid/offer spread entered by the specialists.

In order to guarantee the liquidity of the market, in other words the continuity of trading and the presence of definite price references for each financial instrument, Borsa Italiana on SEDEX provides for a commitment on the part of the issuer to continuously display, for all series listed, bid and offer prices that do not differ by more than the maximum spread (spread obligation) and for a quantity at least equal to the minimum trading lot (quantity obligation). Should the displayed quotations be traded on, the specialists undertake to restore same within 5 minutes.



Trading hours

SEDEX provides for continuous trading from 9.10 a.m. to 5.25 p.m., with an After Hours session from 6.00 p.m. until 8.30 p.m. Trades are executed by automatically matching buy and sell orders, which are ranked according to price/time priority criteria. During continuous trading hours, orders may be entered with or without price limits and may specify, inter alia, "good till cancelled" and "good till date" instructions.

Price fluctuation limits

As with other listed financial instruments, maximum price fluctuation limits are also set for covered warrants and certificates. There is a maximum variation of the price of orders with respect to the previous day's reference price, a maximum variation of the price of trades with respect to the reference price and lastly a maximum variation between the prices of two consecutive trades. During temporary suspensions of trading no placement, modification or cancellation of orders is allowed.

Settlement of trades

The system allows real-time operations, with immediate confirmation of concluded trades and automatic settlement of executed transactions provided by the Daily Trade Checking and Correction system (RRG), enabling a reduction in transaction costs. The settlement of trades executed on SEDEX takes place through the clearing system managed by Monte Titoli.

4. SEDEX PARTICIPANTS

All intermediaries duly authorised to carry out trading activities, who submit an application to such effect and meet the requirements set by the Rules and Instructions of the markets organised and managed by Borsa Italiana, are admitted to trading on the SEDEX.

SEDEX participants can be Italian, EC or non-EC banks, investment firms or on-line brokers.

Intermediaries wishing to join the market must prove that they meet the relevant requirements in accordance with the following criteria:

- a) organisational: an appropriate number of employees must be assigned to the front office and to the relevant supervisory positions;
- b) professional: staff must hold suitable professional qualifications, at least as regards the organisation's key positions;
- c) technological: information technology systems that are compatible with the markets' information platforms and are able to operate efficiently and securely must have been installed.

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