

# IDEM

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**The Italian Equity Derivatives Market:  
high potential, real opportunity**



**London**  
Stock Exchange Group

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# IDEM

Thanks to the listing of several equity-linked products, the IDEM market provides members with the best product offering on Italian and pan-European equity derivatives, appealing to both institutional and retail investors.

**€3<sup>bn</sup>**  
daily value

IDEM, launched in 1994, is the derivatives market of Borsa Italiana, which is part of London Stock Exchange Group. It is cleared by Cassa di Compensazione e Garanzia (CC&G), another London Stock Exchange Group company.

IDEM is among the top European derivatives exchanges, trading around 150,000 contracts daily with a value equivalent to €3bn. It is based on one of the most liquid equity markets in Europe, with €350bn of market capitalisation and 150% turnover velocity.

IDEM is a hybrid market in which members are allowed to enter orders and submit RFQs, while Market Makers play a constructive role in improving market liquidity and the efficiency of the price discovery process through their intense quoting activity. More than 20 market making firms are active on the IDEM market, displaying bids and offers on a continuous basis or responding to requests for quotes.

Thanks to CC&G, members of the IDEM market can benefit from a full range of CCP value-added services:

- **Cross-margining:** members of both the equity and derivatives markets of Borsa Italiana benefit from a significant decrease in the initial margin requirement thanks to the application of cross-margining to the integrated portfolio, with either the same underlying asset or ones that are closely correlated
- **Integrated guarantees:** cash and collateral cover obligations arising from activity on all products cleared by the participant
- **Full-STP:** the clearing application allows for the complete automation of the international give-up procedure.

**150<sup>k</sup>**

contracts traded daily

# FTSE MIB index

80%

domestic  
market share

**The FTSE MIB is the primary benchmark index for the Italian equity market. Capturing approximately 80% of domestic market capitalisation, the index includes prominent and highly liquid companies across the Industry Classification Benchmark (ICB) sectors in Italy.**

The FTSE MIB index measures the performance of 40 Italian equities and seeks to replicate the broad sector weights of the Italian stock market. Each stock is analysed for size and liquidity, and the overall index has appropriate sector representation.

The FTSE MIB index is market cap-weighted after adjusting constituents for float. It has been designed based on industry best practice and on FTSE's experience of design characteristics which are attractive to a broad range of investors and intermediaries seeking to develop structured products based on indices. As such the series provides a standard, transparent basis for investors to assess, measure and gain access to the Italian equity market.

## Components

40 stocks listed on the Italian equity market. The number of constituents is not fixed and could be reviewed in the event of significant changes occurring to the underlying stocks, in order to ensure that the most representative securities listed on the Italian equity market are included in the basket.

## Eligible securities and sector representation

The index is derived from the universe of stocks trading on the Borsa Italiana (BIT) MTA and MIV markets. Savings or preferred shares, however, may be eligible if the ordinary shares of a company are not listed or have consistently less liquidity than those savings or preferred shares. Foreign listed companies can be included only if they have complied with BIT requirements in terms of dissemination of information.

With respect to newly listed stocks, the FTSE Italia Index Policy Committee generally observes a prospective constituent's liquidity over a period of at least 3 months before considering it for index inclusion. There may be situations where constituents are added in less than 3 months at the discretion of the FTSE Italia Index Policy Committee, when consolidated size and liquidity argue for inclusion. Newly listed shares whose capitalisation is greater than or equal to 3% of the current market capitalisation of the FTSE Italia All-Share index will enter the index at the start of trading.

## Weighting and capping methodology

The float-adjusted market capitalisation is determined through an Investable Weight Factor (IWF), which equals 100% minus the sum of the % of shareholdings held by major shareholders. The Investable Weight Factor is calculated excluding the stakes belonging to the following categories of shareholdings, based on the nature of the ultimate shareholder:

- Investments in an index constituent by another index constituent (i.e. cross-holdings)
- Holdings by directors, their families and director controlled companies
- Holdings by founders and former directors (where the holding is greater than 10%)
- Employee share schemes
- Private holdings (greater than 10%)
- Strategic holdings (including legally binding control blocks such as "patti di sindacato")
- Government holdings
- Sovereign wealth funds (where the holding is greater than 10%)
- Foreign ownership limits
- Holdings subject to a lock-in clause, for the duration of that clause.

The following stakes are not considered as restricted free float:

- Investment funds
- Nominee holdings (unless they represent restricted free float)
- Investment trusts
- Pension funds.

The constituents of the FTSE MIB index are capped at 15% at the time of the quarterly reviews, according to the following process. Any constituents whose weights exceed 15% are capped at this level, while the weights of all lower ranking constituents are increased correspondingly. The weights of the lower ranking constituents are then checked, and if they now exceed 15% they are also capped at this level. This process is repeated until no constituent weight exceeds 15%.



# 40

highly liquid companies

## Reshuffle and rebalancing

Index constituents are formally reviewed every three months to analyse if they best represent the Italian market. Changes are made to the index constituents if the FTSE Italia Index Policy Committee perceives that the index is not representative of the Italian market. All share and IWF changes are updated on a quarterly basis using the closing prices on the evening of the third Friday of March, June, September and December, to coincide with the expiry of derivatives of IDEM contracts.

## Share and IWF updates

The index will be disseminated beginning with the continuous trading session. The number of shares in issue used is that shown in the Official List (net of treasury shares) three trading days before the rebalancing. Where constituents have a merger or a capital increase under way, the shares are the number of shares following the operation (adjusted with the adjustment coefficient in case of capital increases, as explained subsequently), unless the FTSE Italia Index Policy Committee decides otherwise.

The 15% capping adjustment factors are adjusted at each quarterly rebalancing. The capping numbers are calculated based on the closing prices three trading days before the rebalancing, using the latest share and IWF numbers. The announcement of the Capping Adjustments to the new IWFs is made alongside the announcement for the new number of shares in issue at the close of trading, no later than the third business day before the effective date, by way of a technical notice.

- a Following corporate actions (for example, mergers and capital increases) which result in a change in the number of outstanding shares greater than 10%, the number of outstanding shares will be adjusted in the index at the end of the corporate action period. All other changes to shares outstanding will occur at the quarterly share update.
- b When there is a change in the number of shares or IWF in a constituent, it will be adjusted to reflect the new market capitalisation; therefore the weighting structure of the index will be changed. This change will be performed at the end of the day and will trigger a divisor update.
- c In cases where the shares in issue or IWF change is a result of what can be described as a 'market-wide event' such as an institutional placement, sell-down via a book-build or partial takeover offer, the FTSE Italia Index Policy Committee may decide to implement changes in IWF that are less than 10% but greater than 5%.

- d All announcements regarding ongoing changes to shares and IWFs will be done on a 'best efforts' basis. Whilst the primary source for IWF changes is CONSOB, public announcements of sell downs and Patti di Sindacato changes by the companies themselves will be sourced where appropriate. Similarly, the Bit Official List is the primary source for share changes. However, a public announcement of an institutional placement by a company or of the results of a capital increase may call for FTSE to announce a change to shares outstanding prior to the Official List being updated.

## FTSE Italia Index Policy Committee

FTSE is responsible for the operation of the FTSE MIB index. FTSE makes changes to the constituents and their weightings in accordance with the Ground Rules. FTSE carries out reviews and implements the resulting constituent changes. The FTSE Italia Index Policy Committee is responsible for the set-up of FTSE MIB index ground rules and the periodical choice of FTSE-MIB constituents.

## Calculation and dissemination

The FTSE MIB index is calculated on a real-time basis in EUR. It uses prices from actual trades on the MTA and MIV electronic share trading platforms of Borsa Italiana during Official Market Hours. The last index value is calculated using Closing Auction prices or, if there is no Closing Auction price for a particular constituent, the last price traded as at the end of the continuous trading phase. The FTSE MIB index is calculated using a base-weighted aggregate methodology. This means that the level of an index reflects the total float-adjusted market value of all of the constituent stocks relative to a particular base period.

## Further information

For further information regarding the FTSE MIB index, such as the index composition and methodology, please visit the FTSE Italia Indices' website at [www.ftse.com/Indices/FTSE\\_Italia\\_Index\\_Series/Downloads/FTSE\\_MIB\\_Index\\_Rules\\_ENG.pdf](http://www.ftse.com/Indices/FTSE_Italia_Index_Series/Downloads/FTSE_MIB_Index_Rules_ENG.pdf)

# Product offering

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Market Makers  
active on IDEM

## The product range of the equity derivatives market include:

- FTSE MIB index futures and mini-futures
- FTSE MIB dividend index futures
- FTSE MIB index options and weekly options
- FTSE MIB 100 mini-futures
- Italian single stock options
- Italian and pan-European stock futures
- Italian and pan-European single stock dividend futures

FTSE MIB index futures	
Underlying	FTSE MIB index
Trading hours	9:00am–5:40pm CET
Multiplier	€5
Contract size	Futures price × multiplier
Price quotation	Index point
Minimum price change	5 index points (€25)
Contract months	4 nearest quarterly months of the Mar-Jun-Sep-Dec cycle
Expiry day	The third Friday of the expiry month at 9:05am CET (trading on the expiring contracts ceases at that time). If the Exchange is closed on that day, the contract expires on the last trading day preceding it
Settlement	Cash
Daily settlement price	The daily settlement price is determined by CC&G according to the quantity-weighted average of the last 10% of contracts traded
Final settlement price	The value of the FTSE MIB index, calculated according to the opening prices of index components on the last trading day. If the opening price of any financial instrument on the index has not been established by the end of the trading session, Borsa Italiana fixes the price in order to establish the value of the index on the basis of the prices recorded in the last session. It also takes into account any other relevant objective elements available
Block trade facility	The order quantity is equal to or more than 5 contracts and the difference between the order price and the best prices on the trading book is not more than 1%
Strategies	Time spread

“Cross-margining for members of both equity and derivatives markets.”

FTSE MIB index mini-futures	
<b>Underlying</b>	FTSE MIB index
<b>Trading hours</b>	9:00am–5:40pm CET
<b>Multiplier</b>	€1
<b>Contract size</b>	Futures price × multiplier
<b>Price quotation</b>	Index point
<b>Minimum price change</b>	5 index points (€5)
<b>Contract months</b>	2 nearest quarterly months of the Mar-Jun-Sep-Dec cycle
<b>Expiry day</b>	The third Friday of the expiry month at 9:05am CET (trading on the expiring contracts ceases at that time). If the Exchange is closed on that day, the contract expires on the last trading day preceding that day
<b>Settlement</b>	Cash
<b>Daily settlement price</b>	The daily settlement price is determined by CC&G according to the quantity-weighted average of the last 10% of contracts traded
<b>Final settlement price</b>	The value of the FTSE MIB index, as described in the final settlement price of FTSE MIB index futures
<b>Block trade facility</b>	Not available
<b>Strategies</b>	Time spread

FTSE MIB dividend index futures	
<b>Underlying</b>	FTSE MIB dividend index
<b>Trading hours</b>	9:00am–5:40pm CET
<b>Multiplier</b>	€5
<b>Contract size</b>	Futures price × multiplier
<b>Price quotation</b>	Index point
<b>Minimum price change</b>	1 index point (€5)
<b>Contract months</b>	The month of December in each of the next 5 years
<b>Expiry day</b>	The third Friday of the expiry month at 9:05am CET (trading on the expiring contracts ceases at that time). If the Exchange is closed on that day, the contract expires on the last trading day preceding it
<b>Settlement</b>	Cash
<b>Daily settlement price</b>	Determined on the basis of the quantity-weighted-average contract prices or the best bid-ask quotations observed on the market during a significant trading period
<b>Final settlement price</b>	Cumulative total of the relevant gross dividends paid by the individual constituents of the underlying index, calculated in index points on the day of the maturity of the related contract
<b>Block trade facility</b>	The order quantity is equal to or more than 5 contracts and the difference between the order price and the best prices on the trading book is not more than 2%
<b>Strategies</b>	Time spread

FTSE 100 mini-futures	
Underlying	FTSE 100 index
Trading hours	9:00am–5:40pm CET
Multiplier	€2
Contract size	Futures price × multiplier
Price quotation	Index point
Minimum price change	0.5 index point (€1)
Contract months	2 nearest quarterly months of the Mar-Jun-Sep-Dec cycle
Expiry day	The third Friday of the expiry month at 11:20am (trading on the expiring contracts ceases at that time). If this is a non-trading day for Borsa Italiana or London Stock Exchange, the maturity day shall be the last calendar day before it for both the Exchanges
Settlement	Cash
Daily settlement price	The daily settlement price is determined on the basis of the quantity-weighted-average contract prices or the best bid-ask quotations observed on the market during a significant trading period
Final settlement price	Equal to the value of the FTSE 100 index calculated on the last day of trading on the basis of the prices of the financial instruments composing the index recorded in the reference market with the purpose of the settlement of derivatives contracts on the FTSE 100 index
Block trade facility	The order quantity is equal to or more than 10 contracts and the difference between the order price and the best prices on the trading book is no more than 1.5%
Strategies	Time spread

“IDEM is a very hybrid market in which members are allowed to enter orders and submit RFQs, while Market Makers’ quoting activity supports and improves liquidity.”

FTSE MIB index options		
Underlying	FTSE MIB index	
Trading hours	9:00am–5:40pm CET	
Style	European	
Multiplier	€2.5	
Contract size	Strike × multiplier	
Price quotation	Index point	
Option price	Premium × multiplier	
Premium settlement	Settled in cash on the first business day after the trading day by Cassa di Compensazione e Garanzia by 9:30am CET	
Minimum price change	Premium value	Tick (€)
	1–100	1
	102–500	2
	≥ 505	5
Strikes generation	< 12 months	> 12 months
	15 strikes with intervals of 250 index points for the nearest expiry and 500 index points for the following expiries	21 strikes with intervals of 1,000 index points
Expirations	< 12 months	> 12 months
	6 expiries, the 4 quarterly (Jan-Mar-Sep-Dec) plus the 2 nearest monthly	4 half-yearly (Jun-Dec cycle) plus the 2-yearly (Dec) up to 5 years
Expiry day	The third Friday of the expiry month at 9:05am CET. If the Exchange is closed on that day, the contract expires on the last trading day preceding it	
Settlement	Cash	
Daily settlement price	The clearing and settlement of contracts will take place according to the procedures and time limits established in the rules issued by the Cassa di Compensazione e Garanzia	
Final settlement price	The value of the FTSE MIB index, as described in the final settlement price of FTSE MIB index futures	
Exercise at maturity	The exercise is automatic if the option is ITM. Intermediaries can also exercise 'by exception' ATM and OTM options by 10:00am CET on the expiry day	
ATM definition	The system will update the ATM series with a frequency of twice a day. This updating will happen at 9:00am and 3:45pm CET	
Block trade facility	The order quantity is equal to or more than 100 contracts and the difference between the order price and the best prices on the trading book is no more than 20%	
Strategies	FLEXCO	

Weekly FTSE MIB index options	
<b>Underlying</b>	FTSE MIB index
<b>Trading hours</b>	9:00am–5:40pm CET
<b>Style</b>	European
<b>Multiplier</b>	€2.5
<b>Contract size</b>	Strike × multiplier
<b>Price quotation</b>	Index point
<b>Option price</b>	Premium × multiplier
<b>Premium settlement</b>	Settled in cash on the first business day after the trading day by Cassa di Compensazione e Garanzia by 9:30am CET
<b>Minimum price change</b>	€1
<b>Strikes generation</b>	21 strikes with intervals of 100 index points
<b>Expirations</b>	Contracts will be admitted to trading on the Thursdays of each month except the first and the corresponding maturity day will be the Friday of the second week following their admission to trading
<b>Expiry day</b>	The expiry day shall coincide with the Friday of the week subsequent to the listing of the contract; if the Friday is not a trading day, the maturity day shall be the last trading day before it. Trading shall end at 9:05am CET on the expiry day
<b>Settlement</b>	Cash
<b>Daily settlement price</b>	The clearing and settlement of contracts will take place according to the procedures and time limits established in the rules issued by the Cassa di Compensazione e Garanzia
<b>Final settlement price</b>	The value of the FTSE MIB index, as described in the final settlement price of FTSE MIB index futures
<b>Exercise at maturity</b>	The exercise is automatic if the option is ITM. Intermediaries can also exercise 'by exception' ATM and OTM options by 10:00am CET on the expiry day
<b>ATM definition</b>	The system will update the ATM series with a frequency of twice a day. This updating will happen at 9:00am and 3:45pm CET
<b>Block trade facility</b>	The order quantity is equal to or more than 100 contracts and the difference between the order price and the best prices on the trading book is no more than 20%
<b>Strategies</b>	FLEXCO

“Cost-effective opportunity for capitalising on market fluctuations and high volatility conditions.”

Single stock options		
<b>Underlying</b>	Stocks traded on Borsa Italiana's equity market	
<b>Trading hours</b>	9:00am–5:40pm CET	
<b>Style</b>	American	
<b>Multiplier</b>	100, 500, 1,000 or 5,000, depending on the underlying	
<b>Contract size</b>	Strike × multiplier	
<b>Price quotation</b>	Euro	
<b>Option price</b>	Premium × multiplier	
<b>Premium settlement</b>	Settled in cash the first business day after the trading day by Cassa di Compensazione e Garanzia by 9:30am CET	
<b>Minimum price change</b>	€0.0005	
<b>Strikes generation</b>	<b>&lt; 12 months</b>	<b>&gt; 12 months</b>
	15 strikes with intervals defined in the relevant table	21 strikes with intervals twice the size of the intervals for the corresponding series with expiries of less than 12 months
<b>Expirations</b>	6 expiries, the 4 quarterly plus the 2 nearest monthly. In some cases, specified in notices of Borsa Italiana, 4 half-yearly (Jun-Dec cycle) expiries up to 3 years are also quoted, adding up to a total of 10 expiries	
<b>Available long options</b>	For stocks belonging to the Focus Group of expiries up to 3 years (Assicurazioni Generali, Banca Monte dei Paschi di Siena, Enel, Eni, Fiat, Intesa Sanpaolo, STMicroelectronic, Telecom Italia, Unicredit)	
<b>Expiry day</b>	The third Friday of the expiry month at 8:15am CET. If the Exchange is closed on that day, the contract expires on the last trading day preceding it	
<b>Last trading day</b>	Trading in any contract ends on the day before expiry at 5:40pm CET	
<b>Settlement</b>	By physical delivery of the underlying stock	
<b>Daily settlement price</b>	The clearing and settlement of contracts will take place according to the procedures and time limits established in the rules issued by the Cassa di Compensazione e Garanzia	
<b>Final settlement price</b>	The settlement price is the closing auction price of the underlying share on the last trading day	
<b>Early exercise</b>	Every day before expiry by 6:30pm CET, excluding the session preceding the day for the distribution of dividends on the share underlying the contract and the session preceding the start of a corporate action involving the share underlying the contract	
<b>Exercise at maturity</b>	The exercise is automatic if the option is ITM. Intermediaries can also exercise 'by exception' ATM and OTM options by 8:15am CET on the expiry day	
<b>ATM definition</b>	The system will update the ATM series with a frequency of twice a day. This updating will happen at 9:00am and 3:45pm CET	
<b>International give-up</b>	Available	
<b>Block trade facility</b>	The order quantity is equal or more than 500 contracts and the difference between the order price and the best prices on the trading book is no more than 10%	
<b>Strategies</b>	FLEXCO	

	Single stock futures	Single stock dividend futures
<b>Underlying</b>	Individual shares listed on Borsa Italiana or major European markets	The annual gross dividend announced and paid by European companies
<b>Trading hours</b>	9:00am–5:40pm CET	9:00am–5:40pm CET
<b>Multiplier</b>	100, 500, 1,000, 2,500 or 5,000, depending on the underlying	1,000 shares
<b>Contract size</b>	Price × multiplier	Value of the futures price × multiplier
<b>Price quotation</b>	Euro	Futures price in € with 4 decimal places
<b>Minimum price change</b>	€0.0001	€0.0001
<b>Expirations</b>	The 4 nearest quarterly maturities and the 2 nearest monthly maturities giving a total of 6 maturities if the underlying consists of shares included in the FTSE MIB index or equivalent leading indices. Otherwise the nearest 3-month maturity and the 2 nearest monthly maturities, giving a total of 3 maturities.  For pan-European underlyings: the 4 nearest quarterly maturities and the 2 nearest monthly maturities giving a total of 6 maturities	The 5 nearest successive annual contracts of the December cycle (from the first exchange day after the last trading day of the calendar year up to the final settlement day of the following calendar year)
<b>Expiry day</b>	Italian underlying: the third Friday of the expiry month at 9:05am CET Pan-European underlying: the third Friday of the expiry month at 5:40am CET In both cases, if the Exchange is closed on that day, the contract expires on the last trading day preceding it	Third Friday of each December maturity at 9:05am
<b>Last trading day</b>	The third Friday in the nearest maturity month if this is an exchange day; otherwise the exchange day immediately preceding that day	The third Friday of each December maturity month if this is an exchange day; otherwise the exchange day immediately preceding that day
<b>Settlement</b>	Italian underlying: by both physical and cash delivery of the underlying stock Pan-European underlying: by cash delivery of the underlying stock	Cash
<b>Block trade facility</b>	The order quantity is equal to or more than 500 contracts and the difference between the order price and the best prices on the trading book is no more than 10%	No minimum size. No price validation band for orders above 25 lots
	<b>Daily settlement price</b> The daily settlement price is determined by CC&G according to the theoretical value taking the reference price of the underlying and other factors into account	<b>Expiration settlement date</b> First business day after the last trading day
	<b>Final settlement price</b> Italian underlying: price of the underlying at the opening auction on expiry Pan-European underlying: price of the underlying at the closing auction on expiry	<b>Corporate actions policy</b> Same adjustment applied to stock options and stock futures, aligned to best international practise
	<b>International give-up</b> Available	<b>Clearing and settlement</b> The clearing and settlement of contracts takes place using the method and timetable provided by the rules of the Cassa di Compensazione e Garanzia as regards cash settled futures contracts; the contract is included in the equity derivatives section
	<b>Strategies</b> FLEXCO	

# Trading phases and types of order

## Wide range of order types available

IDEM provides members with several types of order to enter, modify or cancel on the electronic order book. Every type of order can be sent out with specific features for execution criteria. Orders are always processed according to price/time-priority criteria. Both the original time-priority of the order and the order number stay unchanged if the following parameters are modified:

- The account type (House/Client)
- The Owner Data field
- The Open/Close position flag
- The time-validity
- The quantity (if reduced).

The original time-priority of the order and the order number change if the following parameters are modified:

- The quantity (if increased)
- The price.

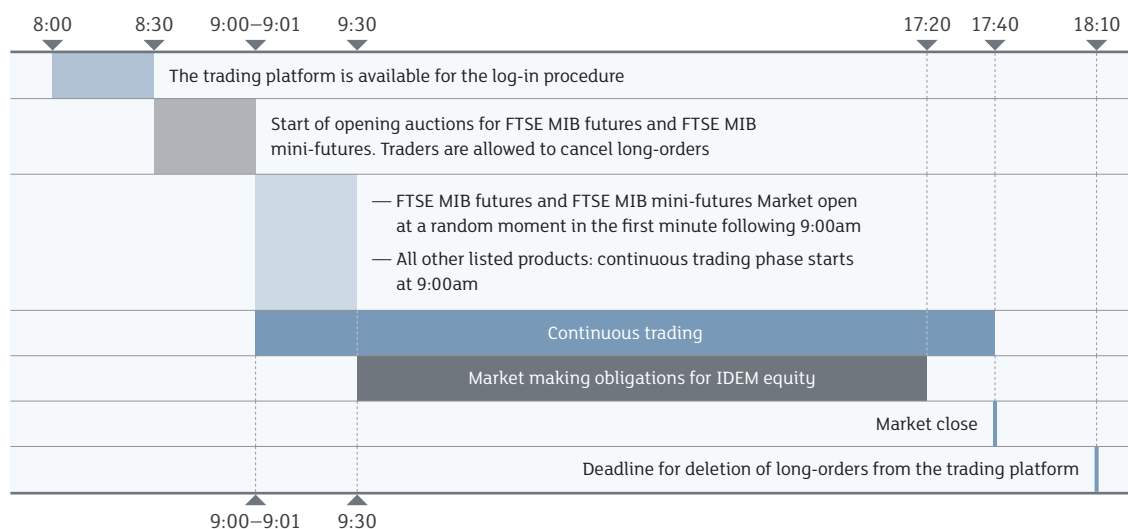
In this case the original order must be cancelled and a new order sent to the central system with the updated price and quantity. The order is entered in the electronic order book and assigned a new order number.

With regard to position and account-type management, traders define whether the execution needs to be carried in house account or in agency account. If the account type is not specified, the trading system automatically enters the order with the default account type. The Owner Data field can be used to register information useful to the trader. This information is always reported on the information flow of each order and trade concluded.

For orders entered in agency account on FTSE MIB index options and stock options, the opening or closing trading position needs to be specified. Unless otherwise indicated, or the order is in own account or entered on futures contracts, the electronic system always automatically specifies that the order entered opens a new position.

IDEM provides members with stop orders – event-driven orders that remain inactive until the price of the underlying contract reaches the ‘trigger price’.

## Time and trading phases (CET)



Equity segment	Order type	Daily	Good till maturity	Good till date	Fill and kill	Fill or kill
Single order	Limit	x	x	x	x	x
	Market				x	x
	Top	x	x			
Standard combo order	Limit	x	x	x	x	x
	Market				x	x
	Top	x	x			
FLEXCO	Limit	x				
	Market					
	Top					
Iceberg order	Limit	x				
	Market					
	Top					
Stop order	Limit	x				
	Market	x				
	Top					
Market Makers' quotations	Limit	x				
	Market					
	Top					
Cross order	Normal	x				
	BTF	x				
Committed order	Normal	x				
	BTF	x				

# 9:00–17:40

continuous trading

# Strategy trading

**Both standard and tailor-made strategies are available**

**IDEM provides members with specific types of order that allow them to trade standard or tailor-made strategies.**

## Standard combo orders

The standard combinations can be sent to the market as limit orders or market orders. Traders are not allowed to enter long-dated standard combinations since these are listed on a daily basis.

### Time spread

Time spreads are combinations of two orders of equal quantity at the same time, but of opposite sign and with different expirations. They consist of the simultaneous purchase (sale) of the futures contract on the back expiration and sale (purchase) of the futures contract on the front expiration. Time spreads are available for:

- FTSE MIB index futures
- FTSE MIB index mini-futures
- FTSE MIB dividend index futures
- Stock futures.

Example: Buying a FIB2CT with price 30 means buying a FTSE MIB index future with expiration March 2014 and simultaneously selling an FTSE MIB index future with expiration December 2013 – both with a maximum spread of 30.

## FLEXCO

*“Flexibility in creating your strategy.”*

The FLEXCOs are created and sent to the market through a dedicated function that provides the member with simultaneous execution. The FLEXCO functionality allows members to structure, list and trade self-defined non-standard combinations involving different series and/or different underlying (belonging to the same market segment) with different execution ratios. The functionality increases flexibility for traders in creating plain-vanilla (e.g. price spreads, time spreads and straddles) as well as more complex and customised strategies. It also fully removes execution-risk for brokers: market participants can always be confident of trading their combination at the desired price.

Since FLEXCO orders are listed on a specific order book but interact automatically with the individual legs of the strategy, they can be traded off in two different ways:

- Matching between the FLEXCO order and the single component series displayed on the order book at that specific moment
- Matching between two FLEXCO orders when the order cannot be executed against the single legs at the same price or at a better price.

The minimum tick values attributed to single FLEXCO orders are:

- 1 index point for FTSE MIB index options
- €0.0001 for stock options.

*“Simultaneous execution of non-standard combinations.”*

### Characteristics

- As with combo matching, FLEXCO vs. FLEXCO matching can result in the conclusion of contracts with prices which do not respect the minimum tick of the single leg. On the other hand, limit orders are always created according to prices consistent with the minimum tick of the single leg on which they are entered
- FLEXCO can have a maximum of two legs
- The maximum ratio associated with a single leg is 100
- The eligible series making the FLEXCO proposal must have the average contract size
- Filling or changing FLEXCO orders, and the execution of contracts generated by FLEXCO proposals previously entered, are prohibited if on at least one of the two legs a Circuit Breaker has been triggered
- Sending RFQs on FLEXCO is not permitted since there are no quotation obligations for Market Makers
- FLEXCO orders are not available for index future products, and it is not possible to create a strategy equal to one already existing as a standard combo order
- FLEXCO orders are always deleted from the central system at the end of the trading session.

# Block Trading allows for reporting of large-scale trades without market impact

**±1%**  
over best bid-ask  
on FTSE MIB  
index futures

## Wholesale facilities

Contract	Quantity threshold	Maximum price divergence allowed
FTSE MIB index futures	5	± 1% over the best bid-ask
FTSE MIB dividend futures	5	± 2% over the best bid-ask
FTSE MIB index options and weekly options	100	± 20% over the best bid-ask
FTSE 100 mini-futures	10	± 1.5% over the best bid-ask
Stock options	500	± 10% over the best bid-ask
Stock futures	500	± 10% over the best bid-ask
Stock dividend futures	25	None

IDEM provides members with a specific functionality for block trading, allowing for reporting of large trades without market impact.

Members are allowed to send Cross and Committed orders:

- **Committed (Interbank):** The counterparty is a specific and predetermined intermediary
- **Cross (Internal):** Both counterparties belong to the same member firm.

For Committed orders only, traders need to specify the code of their counterparty in order to match the trade. The central system keeps the trade report in a non-disclosed order book until the corresponding order with the opposite sign is entered by the counterparty specified.

Committed and Cross orders can be traded through Normal or Block Trade Facility (BTF) execution:

- **Normal:** The price needs to be within the best bid-ask spread at the time of the execution
- **BTF:** If the order quantity is equal to or higher than a minimum value defined by the Exchange, the execution price can be outside the best bid-ask spread. The quantity threshold and the maximum price divergence differ according to the product type.

Committed orders still not matched at the close of the trading session are automatically cancelled by the central system.

## Limits to orders

For the purposes of the automatic control of trading regularity, and in order to preserve market integrity, Borsa Italiana defines the maximum size for normal orders, strategies and block trades.

Contract	Normal order	Standard combo/FLEXCO	Committed/Cross
FTSE MIB index futures	500	2,500	5,000
FTSE MIB index mini-futures	500	2,500	5,000
FTSE MIB dividend futures	500	2,500	5,000
FTSE MIB index options and weekly options	5,000	5,000	30,000
FTSE 100 Mini-Future	500	2,500	5,000
Stock options	10,000	10,000	30,000
Stock futures	10,000	10,000	60,000
Stock dividend futures	500	500	None

These parameters are updated on a periodic basis and made available in the 'Guide to Parameters'.

# Markets Supervision rules

## Error-handling procedure

A member who makes a mistake in entering orders may request the activation of the error-handling procedure when:

- 1 The request is submitted to Markets Supervision of Borsa Italiana as promptly as possible by telephone or by sending a written request to the following email address: [ms@borsaitaliana.it](mailto:ms@borsaitaliana.it)
- 2 The mistake is evident. If there is no agreement between counterparties, Borsa Italiana may implement the 'extraordinary procedure' as long as conditions 3 and 4 are also met
- 3 The loss exceeds an amount of €5,000, €12,500 or €25,000 according to the instrument and the kind of mistake (see Table A)
- 4 The price is above (buyer mistake) or below (seller mistake) a level determined by (for a buyer mistake) adding the maximum divergence established in Table A to the theoretical reference price, or (for a seller mistake) subtracting that maximum divergence from the same price.

If a mistake occurs on options, the level price of condition 4 is determined on the basis of the expiry and the parameter M:

$$M_{\text{CALL}} = \text{SPOT} / \text{STRIKE} \quad M_{\text{PUT}} = \text{STRIKE} / \text{SPOT}$$

%

of maximum divergence defined

**Table A: Maximum price-divergence for IDEM equity listed products**

Product	Mistake deriving from the entry of a single order				Multiple mistakes	
	Stock futures	FTSE MIB index futures	FTSE MIB index options and stock options		Stock futures	FTSE MIB index options and stock options
Minimum loss amount	€12,500	€12,500	€5,000	€12,500	€25,000	€25,000
Maximum divergence threshold	5%	1.5%	Depending on M value and expiry (if the loss is > 5,000 and < 12,500 refer to Table B on page 16)	Depending on M value and expiry (if the loss is > 12,500 refer to Table C on page 16)	5%	Depending on M value and expiry (Table C on page 16)

Table B: Maximum price-divergence for options (€5,000 &lt; loss &lt; €12,500)

Values of M	Weekly MIBO options and first three listed maturities	From the fourth up to the sixth listed maturity	Over the sixth maturity
M < 0.925	40.0%	30.0%	25.0%
0.925 < M < 0.95	35.0%	27.5%	22.5%
0.95 < M < 0.975	32.5%	27.5%	22.5%
0.975 < M < 1.025	30.0%	25.0%	20.0%
1.025 < M < 1.05	27.5%	22.5%	15.0%
1.05 < M < 1.075	25.0%	20.0%	15.0%
M > 1.075	20.0%	15.0%	10.0%

Table C: Maximum price-divergence for options (loss &gt; €12,500 or multiple)

Values of M	Weekly MIBO options and first three listed maturities	From the fourth up to the sixth listed maturity	Over the sixth maturity
M < 0.925	30.0%	20.0%	15.0%
0.925 < M < 0.95	25.0%	17.5%	12.5%
0.95 < M < 0.975	22.5%	17.5%	12.5%
0.975 < M < 1.025	20.0%	15.0%	10.0%
1.025 < M < 1.05	17.5%	12.5%	7.5%
1.05 < M < 1.075	15.0%	10.0%	7.5%
M > 1.075	10.0%	7.5%	5.0%

“Trading regulatory and market integrity are our goals.”

The result of the extraordinary procedure may consist of one or more of the following actions:

- Cancellation of contracts
- Re-pricing of transactions
- Cash adjustment
- Transfer of positions
- Entry of transactions of the opposite sign offsetting the original transaction.

**Table D: Examples of handling of errors procedures**

Example	1	2	3	4	5
Product	Call stock option	Put stock option	MIBO call option	stock future	FTSE MIB index future
Strike	2.1	2.1	38,500	–	–
Expiry	Third	Sixth	First	First	Second
Quantity of the mistrade	100	200	30	10	8
Price of the mistrade	0.33	0.1	500	7	38,500
Spot price	2.2	2.2	38,500	–	–
Side of the mistrade	Buy	Sell	Buy	Buy	Sell
Contract size	1,000	1,000	2.5	500	5
Loss (Euro)	8,000	16,000	7,500	7,500	20,000
Parameter M	1.048	0.955	1,000	–	–
Theoretical price*	0.25	0.18	400	5.5	39,000
Maximum divergence allowed	27.5%	17.5%	30.0%	5.0%	1.5%
Condition 3 (minimum loss)	Yes	Yes	Yes	No	Yes
Contract 4 (price divergence)	Yes	Yes	No	Yes	No
Extraordinary procedure?	Yes	Yes	No	No	No

\* Determined as the average of prices supplied by at least two Market Makers selected from among those not directly or indirectly affected by the error, or estimated by Borsa Italiana on the basis of theoretical models.

### Circuit breaker: the automatic control

## Price divergence dynamic control (circuit breakers)

“Maximum variation price to ensure the regularity of the trading session.”

In order to automatically control the regularity of the trading session, Borsa Italiana shall apply the following parameters:

- X – maximum variation of the price of orders with respect to the control price
- Y – maximum variation of the price of contracts with respect to the control price
- Z – maximum price variation between two consecutive contracts.

Orders outside the limits defined by parameter X cannot be entered into the market. If either parameter Y or parameter Z is broken, the series on which the order is entered is sent into a new state called ‘circuit breaker’ (an automatic trading halt lasting 1 minute).

Borsa Italiana may dynamically change price variation limits or temporarily disable them in the following cases:

- When price variation limits are exceeded
- When anomalous trading conditions are observed for a financial instrument in terms of prices or volumes
- When it is necessary to obtain information on particular market situations concerning a financial instrument
- When there are technical reasons or other circumstances that put the regular operation of the market at risk
- When detailed complaints are submitted by approved intermediaries who consider they have been damaged by irregular behaviour on the part of other approved intermediaries
- When a reasoned request has been made by the management company of the clearing and guarantee system.

While circuit breaker status is activated, traders can cancel orders previously entered on the series but cannot modify orders or send new orders on the halted series. Trades cannot be concluded nor trade reports inserted during the trading halt. If the series is subject to market making obligations, no quote requests can be sent.

**Table E: Price variation limits**

Product	Parameter X maximum variation of the price of order with respect to the control price	Parameter Y maximum variation of the price of contract with respect to the control price	Parameter Z maximum price variation between two consecutive contracts
FTSE MIB index futures	7.5%	3.5%	0.5%
FTSE MIB index mini-futures	7.5%	3.5%	0.5%
FTSE MIB dividend index futures	25.0%	10.0%	5.0%
Stock futures	20.0%	7.5%	3.5%
FTSE MIB index options (including weekly options)	N.A.	According to strike and maturity (Table F)	
Stock options	N.A.	According to strike and maturity (Table G)	

Table F: Price variation limits for FTSE MIB index options

Moneyiness	Parameter Y		Parameter Z
	First month (% increase - % decrease)	All subsequent expiries (% increase - % decrease)	All expiries (% increase - % decrease)
Over 8th OTM	900% - 80%	890% - 70%	450% - 50%
7th OTM	700% - 80%	690% - 70%	350% - 50%
5th and 6th OTM	500% - 80%	490% - 70%	200% - 50%
3rd and 4th OTM	250% - 80%	240% - 70%	100% - 50%
2nd OTM	200% - 80%	190% - 70%	70% - 50%
1st OTM	150% - 80%	140% - 70%	50% - 50%
ATM	100% - 80%	90% - 70%	40% - 40%
1st ITM	80% - 80%	70% - 70%	30% - 30%
2nd ITM	70% - 70%	60% - 60%	30% - 30%
3rd and 4th ITM	60% - 60%	50% - 50%	25% - 25%
5th and 6th ITM	40% - 40%	30% - 30%	15% - 15%
From 7th to 11th ITM	35% - 35%	25% - 25%	10% - 10%
Over 12th ITM	25% - 25%	15% - 15%	5% - 5%

Table G: Price variation limits for stock options

Moneyiness	Parameter Y		Parameter Z
	First month (% increase - % decrease)	All subsequent expiries (% increase - % decrease)	All expiries (% increase - % decrease)
Over 8th OTM	900% - 80%	890% - 70%	450% - 50%
7th OTM	700% - 80%	690% - 70%	350% - 50%
5th and 6th OTM	500% - 80%	490% - 70%	200% - 50%
3rd and 4th OTM	400% - 80%	390% - 70%	100% - 50%
2nd OTM	350% - 80%	340% - 70%	70% - 50%
1st OTM	250% - 80%	240% - 70%	60% - 50%
ATM	150% - 80%	140% - 70%	50% - 50%
1st ITM	80% - 80%	70% - 70%	40% - 40%
2nd ITM	70% - 70%	60% - 60%	35% - 35%
3rd and 4th ITM	60% - 60%	50% - 50%	30% - 30%
5th and 6th ITM	50% - 50%	40% - 40%	20% - 20%
From 7th to 11th ITM	45% - 45%	35% - 35%	15% - 15%
Over 12th ITM	30% - 30%	20% - 20%	10% - 10%

On the expiry day of derivative contracts, members must enter their orders in the cash market for stocks constituting the FTSE MIB index, or underlying stock options or stock futures, at least 5 minutes before the end of the opening pre-auction phase (i.e. by 8:55am) for orders related to:

- The closing of arbitrage transactions on FTSE MIB index futures, FTSE MIB index mini-futures and stock futures
- Volatility trading or hedging transactions based on FTSE MIB index futures, FTSE MIB index mini-futures, stock futures, FTSE MIB index options and stock options.

Members may enter and modify the orders during the last 5 minutes of the opening pre-auction phase only if their characteristics with regard to price, quantity and execution type are such that they do not increase the absolute value of the difference between the theoretical opening price and the control price of the stocks.

## Trading in the USA

FTSE MIB index futures and FTSE MIB index mini-futures can be bought and sold in the USA in accordance with the terms of the no action letter from the CFTC:

**CFTC Letter No 04-24, 30/08/2004**

FTSE MIB index options can be bought and sold in the USA in accordance with the terms of the no action letter from the SEC:

**SEC Letter, 16/05/2012 Options Disclosure**  
**Document available on request and on**  
**[www.borsaitaliana.it/derivatives](http://www.borsaitaliana.it/derivatives)**

Stock options can be bought and sold in the USA in accordance with the terms of the no action letter from the SEC:

**SEC Letter, 16/05/2012 Options Disclosure**  
**Document available on request and on**  
**[www.borsaitaliana.it/derivatives](http://www.borsaitaliana.it/derivatives)**

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“IDEM is based on one of the most liquid equity markets in Europe, with €350bn of market capitalisation and 150% turnover velocity.”

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