



The Fixed-income markets

For the negotiation of fixed-income instruments Borsa Italiana organises and manages two markets: the Electronic Bond and Government Securities Market (MOT) and the electronic market for eurobonds, bonds of foreign issuers and Asset-Backed Securities (EuroMOT).

The MOT market was set up in 1994 for Government securities and bonds. However, financial innovation has led to the creation of new financial instruments, calling for further efforts to define market structures suited to their specific characteristics. The introduction of Asset-Backed Securities (ABS) to the Italian regulatory framework and the diffusion of eurobonds have led Borsa Italiana to create the EuroMOT, a separate market specifically designed for these instrument.

The EuroMOT comprises three segments of financial instruments: eurobonds, ABS and the bonds of foreign issuers. As confirmation of the growing interest in the euromarket, admissions to listing in 2000 concerned only eurobonds.

With a view to enhancing its presence in the fixed-income market, on 17 January 2000 Borsa Italiana launched the EuroMOT

2000 was not a good year for bond markets: both the MOT and the EuroMOT were affected, with special reference to the trend in turnover.

MOT: THE TREND OF TRADES

In the course of 2000 the market showed a limited interest in fixed-income securities - both public and private sector - and all the main liquidity indicators came to a standstill.

- Overall trades carried out on the MOT amounted to 153,974 million euro, down by 7.2% compared to 1999. The drop particularly concerned corporate bonds which, after years of continuous growth in volumes traded, from 1999 started a downward trend: the 12,089 million euro negotiated in 2000 were 12.8% less than the previous year. As regards Government securities, the negative trading performance began in 1998, but the trend was more contained, closing the year 2000 at 141,885 million euro (-6.7% compared to 1999).

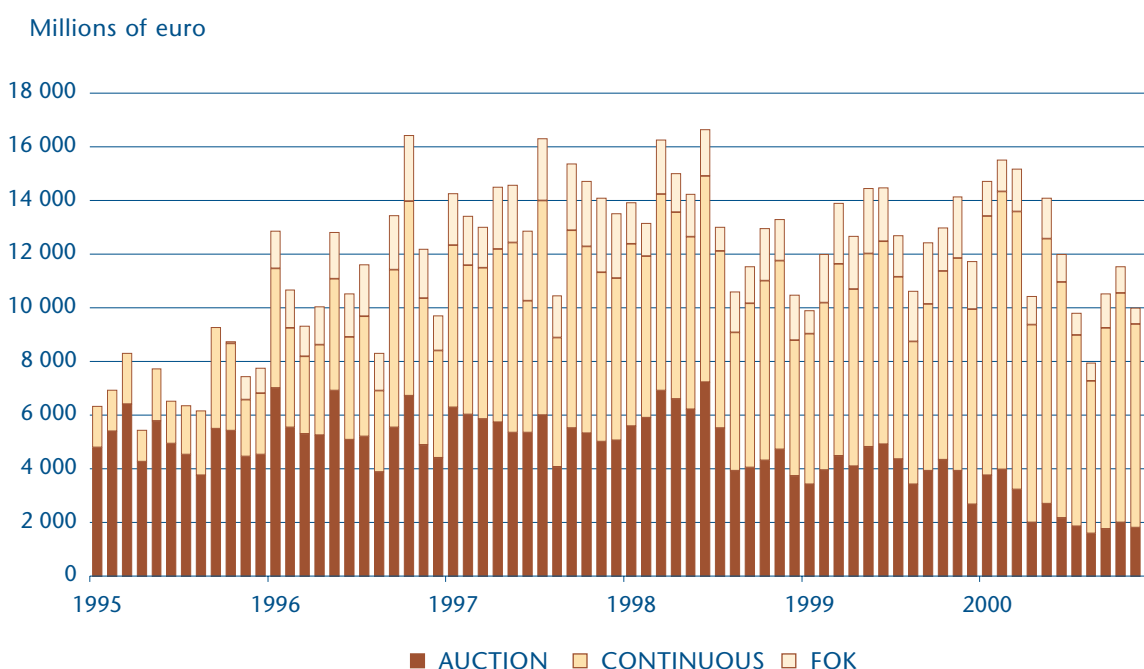
On the other hand, the percentage of Government securities on total MOT was basically stable, at 92.1% in 2000 and 91.6% in 1999.

- Results were similar as regards the daily average turnover, which fell from 653 million euro in 1999 to 606 in 2000. For private bonds the drop was 12.8% (from 55 million euro in 1999 to 48 million in 2000), while for Government securities the decrease stopped at 6.7% (from 599 to 559 million euro).

The negative performance of the fixed-income market had a notable impact on the turnover of private bonds, where turnover was down by 12.8% compared to 1999

- As regards corporate bonds, liquidity was concentrated with the top securities of the official list and, in particular, the Tecnost bond, listed in 1999, which represented 20.1% of turnover (13.5% in 1999). The top three securities in terms of turnover represented 22.8% of total trades (19.0% in 1999), the top five 25.2% (23.5%) and the top ten 30.6% (31.4%). For Government securities, on the other hand, liquidity was more uniformly distributed and the level of concentration indicated a turnabout on the previous year: the top three securities represented 12.7% of turnover (21.4% in 1999), the top five, 17.4% (26.5%) and the top ten, 25.8% (35.9%).
- Compared to previous years, in 2000 the market showed a higher preference for the conclusion of contracts during the continuous trading phase, with respect to the opening auction and the recourse to fill-or-kill (FOK) methods of execution (charts 5 and 6). As regards private bonds, trades concluded during the continuous trading phase equalled 67.3% of the total (49.1% in 1999), trades during the opening auction represented 23.1% (40.1% in 1999) and fill-or-kill orders were used for 9.6% of the total (10.8% in 1999). The distribution was similar for trading on Government securities between the three methods of trading: 70.7% of the turnover was negotiated in continuous trading (53.2% in 1999), 20.2% during the opening auction (31.8% in 1999) and 9.1% using the fill-or-kill method (15.0% in 1999).
- The average contract size showed an upward trend: excluding the fill-or-kill method designed for large-scale orders, the average contract on the MOT amounted to 38,536 euro for Government securities (+11.0% compared to 1999) and 18,462 euro for private bonds (+1.2% on 1999). As regards the FOK orders, if the number of contracts carried out

CHART 5 - MOT: MONTHLY TURNOVER OF TREASURY BONDS



has gone down, the average value per contract has increased: the average size of fill-or-kill contracts was 3.5 million euro for Government securities (+2.5% on 1999) and 2.1 million euro for private bonds (+10.7%).

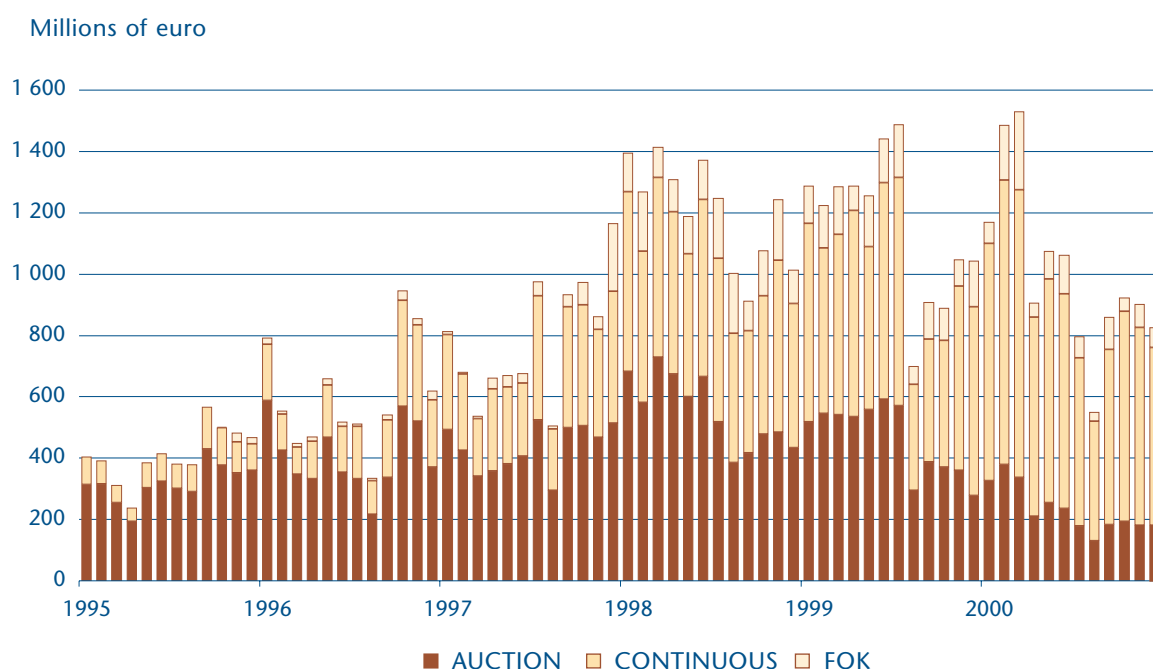
- In 2000, the typically banking nature of the market was confirmed when the market was open for trading on national holidays, which were therefore days on which the banks were closed. In these dates there was a drastic falloff in trading on the MOT: compared to the average for the respective months in question, trading was down by 71.5% on January 6th, 92.9% on April 25th, 93.0% on November 1st and 95.5% on December 8th.

MOT: COMPOSITION OF LISTING

In the course of 2000 there were no particularly significant changes in the composition of the bonds and Government securities market listing.

- At the end of 2000, listed Government securities were 128, down by 11 units with respect to the previous year (following 50 admissions and 61 delistings), whereas bonds listed were 466, compared to 469 in 1999 (as a result of 79 admissions and 82 delistings). New Italian Government securities admitted to listing in 2000 comprised 35 BOT, 8 BTP, 3 CCT and 4 CTZ, whereas the admission to listing of private bonds primarily concerned the banking sector (62 of the 65 bonds were issued by banks). The remaining admissions to listing comprised 8 foreign government securities and 6 bonds issued by international bodies.
- The slight falloff in the number of securities listed was accompanied by an increase in listed nominal capital, which reached, for Government securities, 976,169 million euro (+1.4% compared to 1999) and for bonds, 70,472 million euro (+6.7% on 1999). The ratio of composition between public and private sector securities remained essentially

CHART 6 - MOT: MONTHLY TURNOVER OF PRIVATE BONDS



unchanged: the nominal capital of the fixed-income securities listed on the MOT comprised 93.3% Government securities (93.6% in 1999) and 6.7% corporate bonds (6.4% in 1999).

- Considering the currency of denomination of private bonds (the entire stock of Italian Government securities was converted to euro at the beginning of 1999), at the end of 2000 the official list showed a numerical superiority of securities denominated in lire, which in terms of nominal capital however translates to predominance of securities in euro. More specifically, the 294 securities (63% of the official list) still denominated in lire represented 44% of total nominal capital, whereas the 154 securities (33% of the official list) denominated in euro represented 54% of the capital of the MOT. The residual part of the listing comprises securities denominated in Greek drachma (10), US dollars (5), German Deutschmarks (1) and Polish zloty (1), which together represent 2% of the listed nominal capital.

*During 2000 there was
a drop in the
total number of bonds
on the MOT,
but the listed nominal
capital showed an increase*

- From the point of view of outstanding nominal capital, the listing of corporate bonds appears heavily concentrated: one quarter of outstanding nominal value is made up of the first 13 securities. Weighing heavily on this result is the Tecnost loan which, by itself, represents 10.4% of the bond market. The size per issue appears more equally distributed over the other bonds, but the heavy concentration of the listing persists: excluding the Tecnost loan, one quarter of the nominal capital is made up of the first 24 securities which numerically represent 5.2% of the official list; to arrive at half of the overall nominal capital only takes the first 64 loans which numerically represent 13.7% of the official list.

As regards Government securities, the level of concentration is more contained: the first quarter of the listed nominal capital is made up of the first 15 securities (11.7% of the listed Government securities) and half comprises the first 40 securities (31.3% of the number of listed Government securities).

- At the end of 2000, the stock of bond loans other than Italian Government securities mainly comprised bank issuers, representing, with 401 issues, 86.0% of the listing. The remainder of the listing is distributed between international bodies (6.0% of the total), Italian private companies (5.0% of the total), foreign government issuers (2.8%) and issuers of the public administration (0.2%).

It should be remembered that 31 December 2001 will mark the end of the transitional period for the adoption of the euro as sole currency in the 12 countries participating in the third phase of the European Monetary Union. As a result, all bonds which as at such date are still denominated in the original currencies of the member states (as regards the MOT, Italian lire, German Deutschmarks and Greek drachma) will be considered to be denominated in euro. As regards the operational status of the trading system, there will be no changes with respect to the current way of operating: fixed-income securities will continue to be negotiated with prices expressed as a percentage of the nominal value and with quantities expressed in the currency of denomination; immediately after conclusion of a contract on the trading system, all currency references will continue to be automatically converted to euro.

THE EUROMOT

At the end of 2000, the stock of securities listed on the EuroMOT was made up of 13 eurobonds: 2 ENEL issues, 4 Fiat and 7 Republic of Italy.

During 2000, the EuroMOT traded 245 million euro overall, with a daily average of 1 million euro. Considering the total of 4,240 contracts, the average size of each contract was 57,691 euro.

Like the MOT, the EuroMOT is a multi-currency market, in the sense that it is possible to trade bonds denominated in different currencies. From a trading standpoint, the currency of denomination of the bond is considered only for the purpose of stating the order quantity which is to be input to the electronic order book. On the other hand, the prices are expressed as a percentage of the nominal value and are therefore without unit of measure, making loans expressed in different currencies immediately comparable.

At the end of 2000, 7 eurobonds were denominated in euro and represented, with 10,700 million euro of outstanding nominal value, 58.7% of the total listed nominal capital. The remaining 6 eurobonds were denominated in US dollars, for a nominal value equal to 7,523 million euro (41.3% of the total).