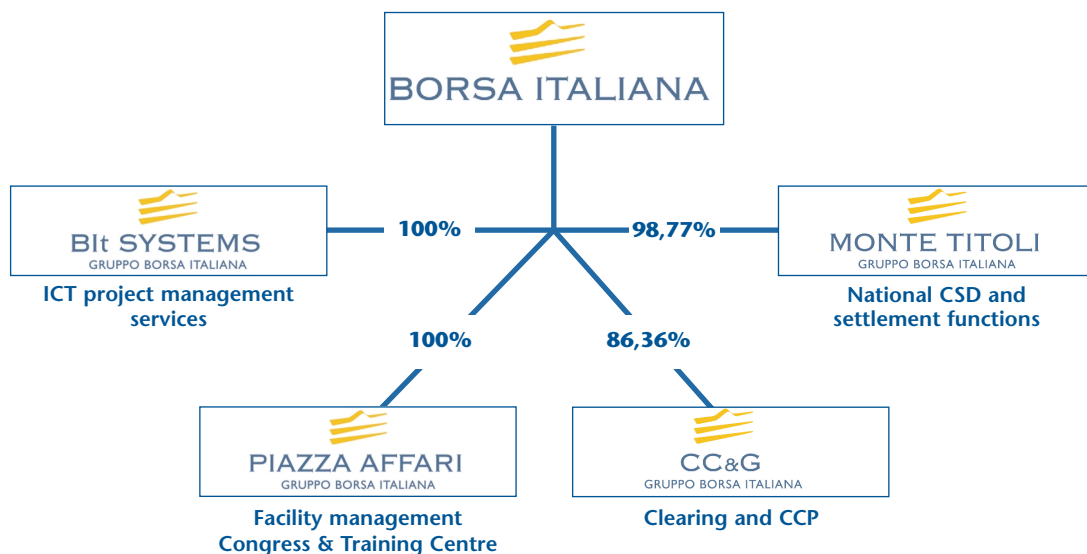


News on the operational framework of Borsa Italiana

Since its business started in 1998, Borsa Italiana has concentrated its operational and organisational resources both on the management of the markets, and on the related and instrumental activities the purpose of which is to ensure the Italian stock market's full development. Its sphere of action has developed within the ambit of the regulatory framework, with the objective of identifying and valorising all the opportunities that could, and can, derive from same. Alongside the growth process of Borsa Italiana, its corporate model has also been changing, to the point of forming a group, which currently comprises Borsa Italiana, BIt Systems, Cassa di Compensazione & Garanzia (CC&G), Monte Titoli and Piazza Affari Gestione e Servizi (table 1). The Borsa Italiana Group (BIt Group) is in a position to offer a full and diversified set of products and services covering the entire business system typical for an Exchange, from listing, to trading, to the various post-trading components, also including guarantee and custody operations.

Between the end of 2003 and the beginning of 2004, Borsa Italiana was engaged in a process of streamlining the BIt Group with a view to optimising its operational structure and its ability

TABLE 1 - CORPORATE STRUCTURE OF BORSA ITALIANA GROUP



Update: March 2005

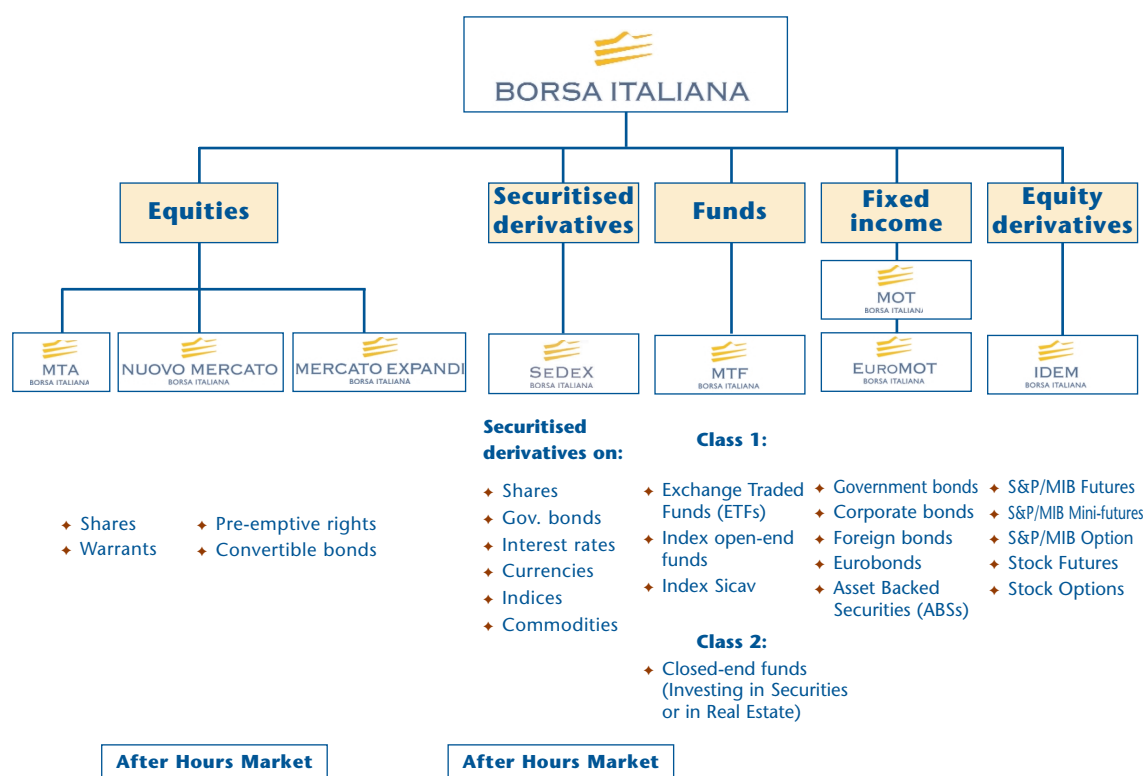
to draw value from the synergies developed in all sectors in which the Group companies have achieved distinctive skills. More particularly:

- the shareholding in CC&G increased from 59% to 72.7% at the end of 2003, reaching 86.4% during the early months of 2004;
- Borsa Italiana acquired full ownership of BI Systems, a company created in July 2001 as a joint venture between Borsa Italiana (65%) and Sia (35%).

The “open” style of the functional model adopted by the Borsa Italiana Group allows each company to offer its services not only to captive customers (the other companies within the Group), but also to non-captive customers. Two important examples recently implemented are: the central counterparty service, set up by CC&G in partnership with Clearnet, for Government bonds traded on the Government securities market managed by MTS, and BI Systems’ ASP (Application Services Providing) services, offering customers solutions for access to domestic and international markets based on technological infrastructures able to guarantee qualitative standards of excellence.

With specific reference to the Borsa Italiana markets (table 2), during the course of 2004 significant changes were introduced and projects launched for the purpose of maximising the quality of the markets in terms of both information transparency and working model. The set of financial instruments was also further enhanced, with a view to offering investors all products useful for formulating their investment decisions within a secure and diversified environment.

TABLE 2 - THE ORGANISATIONAL STRUCTURE OF BORSA ITALIANA MARKETS



INFORMATION TRANSPARENCY AND THE QUALITY OF THE MARKET

Borsa Italiana, working on the assumption that a market's quality is closely related to the dissemination of information on the instruments traded, has always devoted much attention to ensuring the best conditions for a wide availability of the announcements provided by the issuers of financial instruments or in any way connected with such instruments. To this end, the interventions set up during 2004 expanded information requirements, simplified compliance with same and promoted the disclosure of information to the market.

CORPORATE GOVERNANCE STANDARDS AND CLOSED-END FUNDS

Borsa Italiana has extended to the management companies of closed-end funds traded on the Electronic Funds Market (MTF) both the reference to the recommendations of the code of conduct adopted by the industry association on the subject of corporate governance, and the obligation to set up an internal dealing code for the disclosure of trading carried out by significant persons. Following these interventions, the information quality of the closed-end fund units is now aligned to that of the shares.

According to the “comply or explain” principle the fund management companies are required, on a yearly basis, to provide the market with information regarding their corporate governance system and the level of compliance with the provisions of the code of conduct. For asset management companies with funds listed prior to the entry into force of this new requirement, the obligation to furnish information on the system of corporate governance will be effective starting from the 2004 annual statements of account.

Effective from 30 June 2004 the obligation to disclose to the market relevant transactions carried out based on the indications set out in the internal dealing code

The objective of the internal dealing code, which must be set up by the fund management company, is to govern the disclosure obligations and limitations, if any, pertaining to the transactions performed by relevant persons. It also sets out the thresholds of relevance which, if exceeded, give rise to the need for disclosure of information to the market.

DISCLOSURE OF RATINGS ASSIGNED TO ISSUERS AND INSTRUMENTS

A rating is a synthetic valuation formulated by specialised companies according to the creditworthiness of the debtor. The valuation is normally requested by the issuer and becomes public if communicated to persons not subject to confidentiality obligations. More particularly, it is possible to identify two types of rating:

- issuer rating, if the valuation refers to the risk of default being declared by the debtor;
- issue rating, if the valuation refers to the risk of the issuer being unable to repay all or part of a contracted debt.

Considering the importance of this information in any decisions that may be taken by intermediaries and/or investors, Borsa Italiana has made it compulsory to disclose public

ratings and relative changes. The disclosure must be made by the issuer to Borsa Italiana at the time of listing and following each subsequent variation of same. This rule thus allows concentration with Borsa Italiana of all information relating to public ratings, which is then distributed to the market by way of Borsa Italiana Announcements.

MODEL FOR PRICE-SENSITIVE PRESS RELEASES

Price sensitive information is information relating to events connected with the activity of listed issuers and their subsidiaries, which is not publicly available and is likely, if generally known, to notably influence the price of the financial instruments.

Considering the importance for the market, Borsa Italiana decided to maximise the effectiveness of price sensitive press releases by defining models capable of presenting the information in a standardised manner. The objective is to enhance the usability and comparability of the information, at the same time endeavouring to support the issuers in their compliance with disclosure obligations.

From 1 February 2005, price sensitive press releases will adopt the following model:

- title: objective and brief description of the fact; in case the press release concerns more than one significant fact, the title must make reference to each one of these;
- summary: table or list of the factors characterising the fact; the summary may be omitted in cases where the title contains an exhaustive description of the main elements of the fact;
- text: information content, set out in an articulated manner according to an index chosen by the company such as to ensure logical consistency of the presentation;
- company contacts: names of contact persons and/or units to contact for information, with corresponding telephone numbers and e-mail addresses, as well as the company's website address, if available.

Borsa Italiana has also defined the minimum information content of the most common categories of press releases in reference to the following facts:

- approval of periodic financial reports and, on the part of listed collective investment undertakings, statements of operations and half-yearly reports;
- issuance of auditing firm opinions;
- disclosure of forecasts or quantitative objectives;
- resignation and appointment of members of the administrative and supervisory bodies and other persons in key positions;
- acquisition or disposal, merger or split-up operations and transactions involving own shares;
- capital increases and/or convertible bond issues and bond issues.

All press releases are easily transmittable and usable via the Network Information System (NIS). More particularly, announcements of price sensitive corporate events, entered by issuers, are transmitted to the press agencies:

- at the time of receipt by Borsa Italiana if the announcement is entered while the markets are closed;
- within 15 minutes if the announcement is entered during trading hours.

THE EQUITY MARKETS

Throughout 2004 Borsa Italiana continued its analysis of the operational framework of the markets with a view to ensuring the constant satisfaction of issuer, intermediary and investor needs, in accordance with the evolving economic and financial situation.

The main innovations that came into operation during 2004 concerned both changes to microstructure and the definition of new market segments.

- **Extension of the order book anonymity to the Electronic Share Market (MTA)** - Since 21 January 2004, orders entered to the trading book do not show the identification code of the intermediary placing them. The innovation is intended to further enhance the quality of the market: the absence of indications in real time as regards the origin of the orders limits the possibility to utilise the informative content of the intermediary's code; the objective is to favour the efficiency of the price formation process and the intermediaries who enter orders on a timely basis and actively contribute to the liquidity of the market.

The intervention, which took place during the introduction of the new Express II settlement system, also allowed harmonisation of the MTA operating procedures with those of the Nuovo Mercato (anonymous since its creation in 1999), as well as with the functioning of the main international markets.

- **Introduction of the specialist role on the Electronic Share Market (MTA)** - The regulatory framework of the MTA provides for a new role of specialist which, unlike the specialists required for the STAR segment and on the Nuovo Mercato, can be appointed on a voluntary basis by the issuers of instruments traded in the blue-chips (provided they are not included in the S&P/MIB index) and ordinary segments.

An MTA specialist is required to support the liquidity of the instrument for which he is appointed, by undertaking to display bids and offers within a maximum price differential (spread) and for a minimum quantity per order. Moreover, a daily turnover is defined which, if executed during a trading session, can allow the specialist to interrupt, for that specific session, his display undertaking. The quantification of obligations is parametered to the instrument's liquidity and is updated every six months.

The appointment of a specialist by a company whose instruments are traded in the class 2 of the ordinary segment opens up access for these instruments to class 1 of such segment. As was established for the Mercato Expandi, the transition from class 2 to class 1, via the appointment of a specialist, allows the instruments to access the continuous trading phase, not provided for class 2, whose trading session is organised based on just two daily auctions. The ordinary segment (and Expandi) class 1 is structured as follows: opening auction from 8:00 a.m. to 11:00 a.m., continuous trading from 11:00 a.m. to 4:25 p.m., closing auction from 4:25 p.m. to 4:40 p.m..

- **Launch of the techSTAR sector** - The techSTAR sector, which provides for the admission of companies upon their request, has been operating on the Nuovo Mercato since 18 March 2004. Access to techSTAR is subject to compliance with qualitative and economic-financial requirements, with additional special criteria for investment and biotechnology companies (table 3).

The sector was launched with the objective of providing the market with a new instrument for getting to know the companies listed on the Nuovo Mercato. The sector composition is revised every six months, except for the legal aspects, which are monitored on a continuous basis, with immediate exclusion of companies from the sector in case of violation.

TABLE 3 - TECHSTAR: CRITERIA FOR PARTICIPATION IN THE SECTOR

TYPE OF CRITERIA	DESCRIPTION
Qualitative criteria	<p>Issuers are required:</p> <ul style="list-style-type: none"> ◆ to have the latest annual financial statements, even consolidated, with positive opinion of the auditing firm; ◆ not to have been admitted to bankruptcy proceedings, nor to have important subsidiaries that have been admitted to bankruptcy proceedings; ◆ not to have its shares suspended from trading for an indefinite period; ◆ not to incur in any of the situations set forth in articles 2446 and/or 2447 of the Italian civil code (reduction of capital due to losses); ◆ during the previous 18 months, not to have incurred in any formally ascertained breach of disclosure obligations, or of other obligations set forth by the Nuovo Mercato rules; ◆ in the latest consolidated annual financial statements and, where available, in the subsequent consolidated half-yearly report, not to have a net financial position exceeding 75% of the market capitalisation of the ordinary shares comprising the listed share capital, calculated as the average of the last 6 months prior to the date of closing the annual/half-yearly report.
Economic-financial criteria	<p>The construction of the sector is based on the sustainable growth criterion and, for such purpose, issuers must meet at least one of the conditions listed below:</p> <ul style="list-style-type: none"> ◆ the gross operating margin must be positive and must show an increase of at least one million euro, calculated in reference to the year or two years preceding the last accounts approved by the relative boards of directors; ◆ the ratio of consolidated net financial debt, in absolute terms, to consolidated gross operating margin, though positive, must be less than 6. <p>Companies whose consolidated net financial position is positive can be included in the sector when their gross operating margin is positive.</p> <p>The consolidated net financial position is calculated as the average of the last three recorded accounts (financial statements and half-yearly report).</p>
Special criteria	<p>Special economic-financial criteria take into account the specific nature of some sectors represented on the Nuovo Mercato, such as the biotech sector and that of investment companies.</p>

Many projects launched during the course of 2004 are scheduled for implementation in 2005. More particularly, in 2005 the modifications regarding the trading ticks came into operation and new stock indices were launched.

- **Remodulation of trading ticks** - The new ticks, or minimum differences between the prices of orders, came into effect on 31 January 2005 (table 4). The change introduced enables a reduction of the minimum bid-offer price differentials (spreads) and helps to improve the link between equity and derivatives markets. In order to facilitate arbitrage transactions, the ticks applied to single stock futures to which, from 31 January 2005, the tick structure of the equity markets has been extended, have also been changed (table 5).
- **Innovations in stock indices** - Indices assume an important role as instruments representing a certain market, segment or sector and as promoters of the visibility of their constituent companies. Following the launch of the S&P/MIB index (table 6), real-time dissemination of which started on 2 June 2003, Borsa Italiana launched a new initiative to create indices intended to maximise the visibility of the small and medium sized companies of the STAR segment and techSTAR sector.

Disseminated in real time as from 31 January 2005 are the STAR and techSTAR indices, which comprise the shares of the segment and sector that they respectively represent, and the All STARS index, which includes all the STAR and techSTAR shares.

TABLE 4 - TICK SIZES FOR EQUITY MARKETS

Ticks in force until January 28th, 2005			Ticks in force as of January 31st, 2005		
Reference price (euro)		tick	Reference price (euro)		tick
From	To		From	To	
Less than 0.0030		0.0001	Less than 0.2500		0.0001
0.0031	0.3000	0.0005	0.2501	1.0000	0.0005
0.3001	1.5000	0.0010	1.0001	2.0000	0.0010
1.5001	3.0000	0.0050	2.0001	5.0000	0.0025
More than 3.0000		0.0100	5.0001	10.0000	0.0050
			More than 10.0000		0.0100

Convertible bonds: for each reference price, the tick is equal to 0.01

TABLE 5 - TICK SIZES FOR STOCK FUTURES

Ticks in force until January 28th, 2005			Ticks in force as of January 31st, 2005		
Order price (euro)		tick	Order price (euro)		tick
From	To		From	To	
Less than 1.5	0.0001		Less than 0.2500		0.0001
More than 1.5	0.0100		0.2501	1.0000	0.0005
			1.0001	2.0000	0.0010
			2.0001	5.0000	0.0025
			5.0001	10.0000	0.0050
			More than 10.0000		0,0100

The new indices adopt the same calculation methodology:

- ◆ weight of the shares included in the basket: defined based on free-float capitalisation (the free-float is calculated net of all stakes, held directly or through syndicated agreements, in excess of 5%, with the exception of those pertaining to mutual funds and retirement funds);
- ◆ maximum limit of representation: a cap of 10% is set, based on which the weight of each share may not exceed this threshold;
- ◆ revision of the basket: weights are revised on a quarterly basis while the composition varies according to entries / exits to and from STAR and techSTAR;
- ◆ base date and value: base value of 10,000 index points at 28 December 2001;
- ◆ dissemination: continuous indices updated based on the price of the last trade executed on each share included in the index; at the end of each trading session the STAR - VWAP, techSTAR - VWAP and All STARS - VWAP indices are calculated using the official prices of constituent shares.



TABLE 6 - COMPARISON BETWEEN THE S&P/MIB AND THE MIB30 INDICES

Characteristics	MIB30	S&P/MIB
Basket	30 securities	40 securities, with the option to expand/reduce the basket
Constituents	Companies listed on MTA, including companies incorporated under foreign law	Companies listed on MTA and Nuovo Mercato, including companies incorporated under foreign law
Selection and weighting criteria	<ul style="list-style-type: none">◆ Capitalisation◆ Liquidity	<ul style="list-style-type: none">◆ Sector classification (sectors are defined according to GICS standards and S&P/MIB sector weights are in line with the market)◆ Free float capitalisation◆ Liquidity
Ordinary revisions	2 annual revisions for weights and constituents (March and September)	<ul style="list-style-type: none">◆ 2 annual revision for constituents (March and September)◆ 4 weight revisions (March, June, September and December)
Extraordinary revisions	due to corporate events	<ul style="list-style-type: none">◆ weight changes following increases in the number of shares greater than 5% or changes in the free float greater than 5%◆ change in constituents and weights following spin-off, mergers, delistings and new listings (when the market capitalisation of a newly listed company is equal to or more than 3% of the entire market)
Calculation	Frequency: once 60 seconds	Frequency: once 30 seconds
Index management	Borsa Italiana	Index Committee (3 members from S&P and 2 members from Borsa Italiana)

In addition to these interventions, intended to rationalise the set of indices representing the Italian equity markets, Borsa Italiana decided to extend access as regards the general indices MIB (discrete index) and MIBTEL (continuous index) to the Nuovo Mercato shares. As a result, the previous Nuovo Mercato indices, NUMEX and NUMTEL, are no longer calculated. The presence of cross-indices in the Italian equity markets has already been experimented with the S&P/MIB index which allows among its constituents the companies of the Nuovo Mercato eligible for inclusion.

2005 is going to be an important year for the Borsa Italiana equity markets. The operation to restyle and rationalise the structure of the markets, which started with the launch of the Mercato Espandi on 1 December 2003, will proceed at a much faster pace in keeping with the development pattern of the Italian entrepreneurial situation. The markets most affected will be the Electronic Share Market (MTA) and the Nuovo Mercato and the interventions will bring about innovations that will transversely involve the segments making up the two markets. The objective remains to create appropriate listing and trading environments for homogeneous groups of instruments in order to meet the needs of all parties concerned with the quality of the markets, issuers, intermediaries and investors.

THE FIXED-INCOME MARKETS

As regards the Electronic Bond and Government Securities Market (MOT), 2004 saw the implementation of the changes, planned since the end of the previous year, associated with the migration of the market onto the trading platform used for the equity markets. The transition of trading to the new platform implied major advantages from a technological rationalisation perspective, benefiting both Borsa Italiana and the intermediaries participating in the markets. With a view to guaranteeing maximum flexibility, the sharing of the platforms, which allows the intermediaries to operate on the markets using the same interface, is structured in such a way as to enable the presence of separate access logins and independent authorisations.

The adoption of the new platform enabled Borsa Italiana to harmonise the MOT market model with that of the MTA (table 7), introducing new functions and at the same time

TABLE 7 - MOT TRADING PLATFORM CHANGEOVER: SUMMARY OF MODIFICATIONS TO MICROSTRUCTURE

MARKET MODEL	SUMMARY OF MODIFICATIONS TO MICROSTRUCTURE
Trading procedures	<ul style="list-style-type: none"> ◆ Elimination of the preliminary and definitive auction procedures and adoption of a single opening auction divided into the phases of pre-auction, validation and closing ◆ Possibility to adopt differentiated trading procedures (auction only, continuous trading only, combination of auctions and continuous trading) according to the characteristics of the instruments
Type of orders	<ul style="list-style-type: none"> ◆ Handling of orders according to rules similar to those used for the equity markets and extension to the MOT of the type of orders currently available on the equity markets; in particular: limit and market orders; "execute minimum quantity" orders; "Fill and kill"; "Fill or Kill"; "Execute anyway" and orders with an hidden quantity (also known as iceberg orders or hidden orders) ◆ Introduction of the cross-order function during continuous trading (possibility to execute trades by matching two orders of opposite signs for equal quantities reflecting third-party orders at an execution price included between the best bid price and the best ask price present on the book at the time of entry, extremes excluded)
Market surveillance	<ul style="list-style-type: none"> ◆ Adoption of automatic rules similar to those of the equity market for controlling the regularity of the price formation process, during both the auction phase and continuous trading. In particular, the automatic controls provide for the definition of maximum price fluctuation ranges: <ul style="list-style-type: none"> ■ for the entering of orders; ■ during the auction phase, for the validation of the theoretical auction price; ■ during continuous trading, in order to avoid the execution of trades in conditions of excessive and unjustified volatility: <ul style="list-style-type: none"> ▲ static range: maximum variation of the price of a trade with respect to the control price ▲ dynamic range: maximum variation between the prices of two consecutive trades ▲ Adoption of a concept of control price similar to that of the equity markets, defining a price as reference value for the automatic control of trading which updates during the formation of the opening auction price and, subsequently, at the close of the market with the calculation of the reference price
Summary prices	<ul style="list-style-type: none"> ◆ Introduction of the reference price: weighted average of the last 10% of the total volume traded excluding quantities traded using the cross-order function ◆ Use of the equity market definition of official price: weighted average of the entire volume traded in the session excluding quantities traded using the cross-order function



eliminating market aspects that have now become obsolete due to the evolution of investor and intermediary needs.

The process of streamlining the trading system has continued during 2005 with the migration of the EuroMOT onto the same platform currently shared by the MOT and the equity markets. The migration followed a similar course to that of the MOT and, from 11 April 2005, the EuroMOT acquired the same access login as the MOT, although the trading authorisations remain independent. From a market model perspective, trading on the EuroMOT still takes place via continuous trading procedure, albeit enhanced with the functions common to MOT and MTA.

On 11 April 2005 the EuroMOT migrated onto the trading platform shared by the MOT and the equity markets

As regards the instruments admitted to listing and traded on Borsa Italiana fixed income markets, 2004 saw an enlargement of the product range making it possible to expand investment and diversification opportunities.

- The option to admit financial instruments to trading in the absence of an application by the issuer was extended to the MOT. By way of this opportunity, in November 2003, 26 German, French and Spanish Government bonds, Euro zone benchmarks, had been admitted to trading on the EuroMOT. With the acquisition of this possibility also on the part of the MOT, during 2004 securities issued by major supranational issuers, such as in particular the European Investment Bank (EIB), were admitted to trading.
- On 30 September 2004, the first Asset Backed Securities (ABSs), series 5, 6 and 7 of the ABSs issued by “Società di cartolarizzazione dei crediti INPS – S.C.C.I. S.p.A.”, started trading on the EuroMOT. The admission of ABSs onto a regulated market such as the EuroMOT is intended to enhance the liquidity and trading efficiency of this particular category of instrument.

THE MARKET FOR SECURITISED DERIVATIVES

SeDeX, the Electronic Securitised Derivatives Market, during the early months of 2004 underwent major changes with regard to which the new name represents only the starting point. The previous name, Covered Warrants Market (MCW), risked not giving the right visibility to the instruments which, over the past few years, have been meeting with ever wider consensus on the part of investors and issuers. The concept of securitised derivatives reflects the entire category of securitised derivative instruments, without just stopping at covered warrants.

In order to help investors identify the particular characteristics of the instruments, from 19 April 2004 a new market segmentation was introduced

SeDeX also responded to the financial innovation that led to the creation of new securitised derivatives with a segmentation suited to the particular characteristics of each instrument.

The new segmentation of the market divides the securitised derivatives into homogeneous categories according to product type and investment objective:

- plain vanilla covered warrants, including covered warrants consisting in a call or put option;
- structured/exotic covered warrants, including covered warrants which are combinations of call and/or put options and/or which incorporate exotic options;
- leverage certificates, dedicated to the certificates which replicate the trend of the underlying enabling participation, with leverage effect, in its performance;
- investment certificates, in turn divided into:
 - ◆ class A, certificates that replicate, without a leverage effect, the performance of the underlying;
 - ◆ class B, certificates that replicate the performance of the underlying and incorporate one or more options of an accessory nature.

Compared to the previous structure, the first two segments have been maintained, whereas the one dedicated to the certificates has been subdivided into leverage and investment certificates. Moreover, some securitised derivatives present in the structured/exotic covered warrants segment have been assigned to class B of the investment certificates, in view of the mainly accessory nature of the option component (in fact, in many cases, options of an accessory nature have a role of protection against the losses caused by the negative performance of the underlying asset).

All the market segments share the same microstructure characterised by an order-driven electronic market with the presence of intermediaries, the specialists, undertaking to support the instrument's liquidity.

Further innovations were introduced as regards requirements for admission to listing of the securitised derivatives.

- Departure from the rule establishing a maximum maturity of 5 years for covered warrants: upon reasoned request by the issuer a covered warrant may be admitted with longer maturities provided that sufficient information is available for determining the price of such instrument. This departure allows issuers to extend their offer to products having as their underlying instruments that are liquid and transparent in their methods of calculation and dissemination, but have maturities spread over a wide timing horizon, such as long-term Government securities and the medium-long term interest rate curve.
- Structured/exotic covered warrants and class B investment certificates have been exempted from the definition of multiples (or parity). In fact, the multiples are useful for the purpose of comparability among securitised derivatives constructed on the same underlyings, particularly in the case of simple structures and linear pricing functions with respect to the trend in the price of the underlying.

THE EQUITY DERIVATIVES MARKET (IDEM)

2004 saw the implementation of numerous projects launched during the course of the previous year. The innovations concerned both the financial instruments traded and the market model.



In 2004 the trading of derivative instruments on the S&P/MIB index came into operation. The interest raised by the new index, in relation to its high capacity for representing the market based on procedures recognised at international level, led Borsa Italiana to decide to replace the MIB30 with the S&P/MIB index as underlying for futures and options. Already in 2003, the derivatives contracts had been preceded by the launch of the Exchange Traded Fund S&P Master Unit and by the securitised derivatives constructed on the new index.

From 22 March 2004 derivatives on the S&P/MIB index are traded: futures, mini-futures and option contracts

The transition was defined with a view to minimising operational changes and facilitating intermediaries and investors.

- **Gradual transition** - The futures contracts on the new index began trading from Monday 22 March on the September 2004 maturity. For a temporary period it was possible to trade both contracts on the MIB30 and contracts on the new index but, in order to limit the period of overlapping between the MIB30 and S&P/MIB maturities, the only maturity introduced in dual listing was that of September 2004. There were no maturities outstanding on the MIB30 beyond that of September 2004.
- **Standardisation of the size of derivatives contracts** - The base value of the index, set at the date of 31 December 1997, has been changed from 10,000 to 24,402 index points, so as to align the current values of the S&P/MIB index to those of the MIB30.
- **Contractual characteristics** - The contractual specifications for the new products (table 8) have been defined in line with those valid for the derivatives constructed on the MIB30.
- **Operational continuity** - The provisions governing the contracts based on the S&P/MIB index are the same as those governing the corresponding contracts on the MIB30 with regard to: constraints on the handling of orders on the maturity date of the derivatives; regulation of block trades; automatic control of trading; trading hours; operational strategies for standard combination orders; market makers' obligations.
- **Operational strategies** - During the period of dual listing, the possibility was provided to trade special combinations of the futures contract on the MIB30 or the miniFIB and the futures contract or the mini futures contract on the new index. This permitted the quotation on the market of the spread between the futures contracts based on the MIB30 index and those based on the S&P/MIB index, thereby facilitating the process of rollover between the two contracts.
- **Supporting liquidity** - To support the liquidity of the new derivatives Borsa Italiana provided for the presence of market makers supporting the liquidity of futures, mini-futures and options contracts based on the S&P/MIB index; in particular the following roles were introduced: primary market makers for the S&P/MIB index futures contracts; primary market makers for the S&P/MIB index mini-futures contracts, having the same obligations previously provided for the mini-futures contracts on the MIB30 index; primary market makers and market makers for the S&P/MIB index options contracts, who continue to operate maintaining the same obligations previously provided for the options contracts on the MIB30 index.

During the course of 2004, the S&P/MIB index derivatives obtained the authorisations required for the purpose of their offer and sale in the United States market.

TABLE 8 - CONTRACT SPECIFICATIONS OF S&P/MIB INDEX DERIVATIVES

Contract Specification	S&P/MIB Futures	S&P/MIB mini futures	S&P/MIB Options
Trading hours	9:00 am - 5:40 pm	9:00 am - 5:40 pm	9:00 am - 5:40 pm
Multiplier	5 euro	1 euro	2.5 euro
Size	Product of the futures prices and the value of the multiplier	Product of the futures prices and the value of the multiplier	Product of the option strike price and the value of the multiplier
Expirations	4 quarterly	2 quarterly	4 quarterly + the 2 closest monthly
Last day of trading	9:10 of the expiration day	9:10 of the expiration day	9:10 of the expiration day
Settlement	S&P/MIB index based on opening prices	S&P/MIB index based on opening prices	S&P/MIB index based on opening prices

- On 31 August 2004, the U.S. Commodities Futures Trading Commission (CFTC) published a no-action letter permitting the offer and sale in the United States market of futures and mini-futures contracts based on the S&P/MIB index;
- In October 2004, the Securities and Exchange Commission (SEC) published a no-action letter authorising the offer and sale in the United States market of options contracts on the S&P/MIB index.

From June 2004 the Block Trade Facility function is available permitting the execution on the market of large trades at prices not strictly within the best bid and ask prices

With the introduction of the Block Trade Facility (BTF) Borsa Italiana has set itself the dual objective of attracting over-the-counter business and supporting the intermediaries in their execution of larger trades. The BTF is a cross-trade type of function; prior to its introduction, the only available functions of this type were the following:

- interbank: conclusion of trades with a known counterparty at prices included between the best bid and the best ask, extremes excluded;
- internal: conclusion of trades where the counterparty is the same intermediary who entered the order at prices included between the best bid and the best ask, extremes excluded.

For particularly large trades, the BTF function extends the operations of the interbank or internal orders to prices that are not strictly within the best bid and best ask present on the order book (table 9). In particular:

- for futures contracts the possibility is provided to conclude trades with known counterparties at prices between the best bid and the best ask prices, extremes included;
- for options contracts the possibility is provided to conclude trades with known counterparties at prices included within a maximum spread of 5% with respect to the best bid and the best ask.



The Block Trade Facility is not available for S&P/MIB mini-futures contracts. During 2004 Borsa Italiana extended the possibility to operate on the IDEM as liquidity provider to intermediaries undertaking to perform such function also for customer account. Previously, this activity of supporting market liquidity could only be performed for own account.

This modification introduced the role of IDEM specialist, a market member intermediary who, as opposed to the operators defined as market makers, enters orders originated by another intermediary belonging to the same group and authorised to trade in his home country. As a result of this opportunity, IDEM was able to benefit from the liquidity contributed by the most important domestic and international liquidity providers, operating on the derivatives markets. The liquidity support obligations are the same as provided for market makers.

TABLE 9 - MAIN CHARACTERISTICS OF THE BLOCK TRADE FACILITY

Contract	Minimum number of trades	Price deviation
S&P/MIB futures	25	Best bid and best ask included
Stock futures	1 000	Best bid and best ask included
S&P/MIB option	100	Best bid -5% and best ask +5%
Stock options	1 000	Best bid -5% and best ask +5%

The block trade facility is not available for S&P/MIB mini-futures.
