

# Monte Titoli: Express II and the other innovations

**D**uring 2004, Monte Titoli continued its commitment to ensure maximum efficiency of operating conditions for all its participants.

Express II - the new Italian clearing and settlement system that replaced the “Liquidazione dei titoli (LdT)” procedure managed by the Bank of Italy - following the launch of its first phase in December 2003, became fully operative in 2004. The new platform was created in order to meet the needs of a now global financial market and ensure operating procedures of excellence, among the most advanced in the world, aligned to international best practice.

Extremely significant results have been achieved in terms of both operating efficiency and system stability (chart 2). In the course of 2004, during the pre-settlement phase, Monte Titoli handled a total of almost 50 million contracts, for a value of approximately 40,000 billion euro. Due to the introduction of the central counterparty managed by CC&G, approximately 20 million transactions were entered to Express II. On 27 October 2004 the all-time high was achieved as regards instructions managed by the clearing and settlement system: more than 440,000, almost five times the daily average value recorded during the year, equal to 87,000 instructions. As further confirmation of the level of stability and efficiency achieved by the system, on such occasion, the percentage of transactions settled at the end of the daytime cycle out of the total entered came to 99.88%.

*Transactions settled at the end of the business day are on a level of 99.7%*

The Express II project did not end with its implementation. Adopting an evolutionary approach, defined in accordance with the needs of market participants and the instructions of the supervisory authorities, Monte Titoli has already developed new functions to further enhance the service offered by the new platform, including:

- automated management of corporate actions on transactions not settled (also known as fails);
- the possibility to split failed transactions at the end of the daytime net settlement cycle, in order to facilitate their rollover to the gross settlement procedure;
- the structures required to support the introduction of a dual CCP on the MTS markets (August 2004), allowing participating intermediaries the possibility to choose which central counterparty (CC&G or Clearnet) to use from those authorised to operate on MTS.

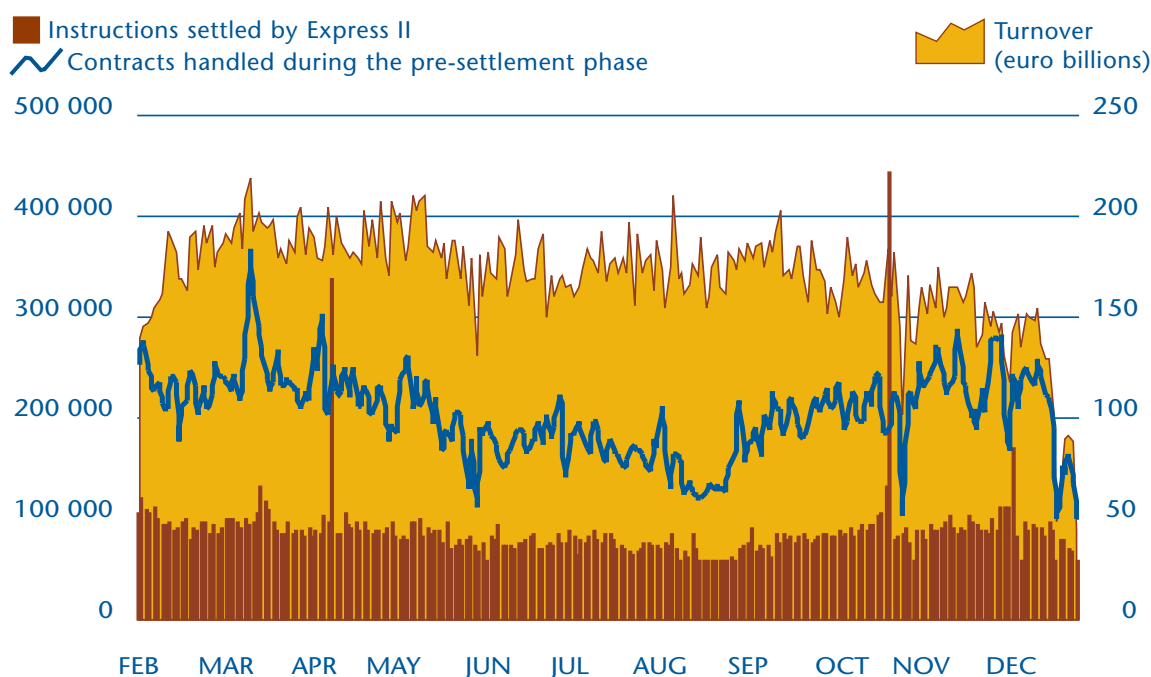
The improvements introduced to Express II have enabled the overnight cycle to settle cash via BI-REL (the payment system managed by the Bank of Italy and Italian component of Target) normally between midnight and 1.00 a.m., and no longer at six o'clock on the day of settlement, as initially provided. The consequent possibility to introduce additional overnight settlement cycles may, in anticipation, facilitate the interaction of Express II with corresponding foreign systems.

## OTHER INNOVATIONS REGARDING THE SECURITIES CENTRALISED ADMINISTRATION AND SETTLEMENT SYSTEMS

Throughout 2004 and during the early months of 2005, Monte Titoli was engaged in other projects aimed at achieving, on the one hand, constantly higher levels of efficiency and rationalisation of its operating procedures and, on the other, greater interoperability of the settlement systems. Among the former, we should mention:

- the release of MT-X (Monte Titoli Internet Communication System), the web-based knowledge and document management platform, via which it is possible to transmit and receive all the custody messages currently available on the other electronic communications networks used to access the Monte Titoli system (RNI e SWIFT). The MT-X platform is destined to become a primary channel of communication and message exchange with Monte Titoli for all centralised management functions, making it possible to eliminate the use of paper aids;
- full automation of the management of corporate actions on foreign financial instruments denominated in euro and held through other centralised management systems; this

**CHART 2: VOLUMES HANDLED BY PRE-SETTLEMENT SERVICES AND NUMBER OF INSTRUCTIONS SETTLED BY EXPRESS II - YEAR 2004**



innovation will permit:

- ◆ automated management of the various dividend cycles for financial instruments traded on more than one market,
- ◆ the payment of dividends, interest and reimbursements of principal in relation to such financial instruments via the BIREL payment system;
- the preparation of a series of interventions designed to ensure the operational structures are upgraded in anticipation of the launch of the new Target 2 payment system and the introduction of solutions to improve the custody platform.

In order to ensure a higher level of interoperability of the settlement procedures, in April 2005 the function was completed whereby settlement instructions can be sent also to foreign securities clearing systems. EuroMOT is the first market to benefit from this new opportunity. From the second half of 2005, this facility will also be extended to instructions relating to transactions carried out off-market.

Lastly, with the objective of making the Italian market more easily accessible and more attractive to foreign institutional investors, a new function is being set up addressed to foreign intermediaries who are unable to access intraday credit in BI-REL. This project aims to allow such parties to use the self collateralisation mechanisms made available by Express II, thereby increasing the amount of cash available to them during the settlement process.