

<b>AVVISO n.7744</b>	<b>19 Maggio 2006</b>	<b>Idem</b>
----------------------	-----------------------	-------------

Mittente del comunicato : Borsa Italiana  
Societa' oggetto : --  
dell'Avviso  
Oggetto : IDEM – NEW FUNCTIONALITIES OF THE  
TRADING PLATFORM CLICK 18.2: "TMC"  
AND "B05"

***Testo del comunicato***

Si veda allegato.

***Disposizioni della Borsa***

# **IDEM**

## **ITALIAN DERIVATIVES MARKET**

“Tailor Made Combination” (TMC) functionality  
“BO5 - Firm Order Book” broadcast

The following Notice describes some new functionalities that will be introduced on May 22<sup>nd</sup>, 2006 with the release of the new software Click version 18.2 of the IDEM market trading platform<sup>1</sup>.

For more detailed technical references please refer to the functional specifications that will be soon available on BIt Systems’ website (private section “downloads”).

Please notice that all the examples listed below are structured using the new software Click Workstation 18.2 version.

### **1 – TAILOR MADE COMBINATIONS**

#### **1.1 Definition of Tailor Made Combination**

The Tailor Made Combination functionality, (here-after “TMC”) permits market participants to create non standard combinations along with their own trading book, within the limits described in paragraph 1.3.

Once the TMC has been created, it can be traded according to the conditions described in paragraph 1.4.

The execution of a TMC order entered on one’s own order book, generates the execution of contracts on the single series which are components of the combination (legs), in a way which is similar to the negotiation of standard combinations (e.g. time spread on index futures).

TMC orders, as is the case with standard combinations, do not have an ISIN code.

The TMC that are created during the day are cancelled at the close of the trading session.

#### **1.2 Creating a TMC**

TMCs are created using a specific function of the trading system, by entering the following information:

- a. the series that are part of the whole strategy (here-after “legs”) with the relative negotiation direction (buy or sell);
- b. the quantity to purchase/sell on the specified leg for every lot that one wishes to trade on the TMC; this quantity is called “ratio”;
- c. the price of the whole strategy;
- d. the quantity to purchase/sell regarding the whole strategy;
- e. the side of the order book on which to indicate the price written on point c.

---

<sup>1</sup> The Italian text shall prevail over the English version.

The system automatically attributes a standard name to the TMC created by market participants, using the following naming convention:

- generic prefix indicating the type of combination (TMC);
- alphanumeric code of the underlying with inferior Commodity code;
- progressive number creation of the TMC on the specific underlying.

Once a TMC has been created by a market participant, the market is informed through an automatic message displayed on the *market messages* window of the Click Trading Station.

With the same trading station one can retrieve all information concerning a specific TMC (the single legs of the whole strategy, bid/ask market prices and relative quantities) as is the case with the other series traded on the market.

*Example 1: name attributed to a new TMC*

Assuming one wishes to create a TMC for the purchase of a Fiat stock future (*Commodity Code* 19) expiry December 2006 (trading code “FL6”) and the sale of 1 Alleanza stock future (*Commodity Code* 11) of the same expiry (“ALL6”), the name which shall be attributed by the system is *TMC\_AL\_001*.

*Example 2: creating a new TMC*

Assuming one wishes to create a TMC combining the purchase of 1 STM call option expiry September 2006 strike 16 and the purchase of 1 STM call option expiry December 2006 strike 16.5 at a total price of Euro 0.9. In this case it shall be possible to send only a **BID** price for the new strategy from the TMC **creation** window:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_STM_001		(B1) I6CAL16.000 (B1) L6CAL16.500	1	0.9			(S1) I6CAL16.000 (S1) L6CAL16.500

Similarly, for strategies in which two financial instruments are sold, it shall be possible to send only one **ASK** price for the strategy from TMC **creation** window.

*Example 3: creation of a new TMC*

Assuming one wishes to create a TMC consisting in the purchase of 1 Fiat call option expiry March 2007, strike 9 and the simultaneous sale of 1 Fiat call option with the same expiry, strike 9.5; if this combination is the first one which has been created with a Fiat underlying, the name attributed to the whole combination shall be *TMC\_F\_001*. During the **creation** of the TMC it is necessary to specify if the order that has to be entered implies a premium payment (i.e. cash out), as detailed in the following cases.

**Case a)**

If a trader is willing to pay (i.e. cash out) a premium of Euro 0.10 for the strategy, from the specific TMC creation window a **BID** price will be sent. The result shall be the generation of a specific order book and the simultaneous entering of an order as detailed in the table below:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500

The order, if executed as a whole, will imply the purchase of 5 “FC7CAL9.000” options and the sale of 5 “FC7CAL9.500” options against the payment of a total premium of Euro 0.1 per share for every

combination traded. In that case, since the minimum lot of the combination is equal to 500, which is the minimum lot of Fiat stock options, the total premium paid will be 5 times Euro 0.1 x 500 shares, which is equal to Euro 250.

**Case b)**

If a trader is willing to cash in a premium of Euro 0.10 for the whole strategy, through the specific window an **ASK** price shall be sent. The result shall be the generation of a specific order book and the simultaneous entering of an order as detailed in the table below:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(S1) C7CAL9.000 (B1) C7CAL9.500			0.1	5	(B1) C7CAL9.000 (S1) C7CAL9.500

The order, if executed as a whole, shall generate the same position as in **Case a)**, that is, the purchase of 5 “FC7CAL9.000” options and the sale of 5 “FC7CAL9.500” options.

The only difference is that the opening of this position will generate a premium collection (not a premium payment) of Euro 0.10 per share for every combination traded.

*Example 4: entering an order on an existing TMC*

Once a TMC has been created as per the methods described in the previous examples, trading on that instrument is carried out using the regular “enter order” window.

Consider the following TMC order created by trader “A” as per Case b) of the example 3:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(S1) C7CAL9.000 (B1) C7CAL9.500			0.1	5	(B1) C7CAL9.000 (S1) C7CAL9.500

Trader “B” is willing to buy 1 “FC7CAL9.500” option and to sell 1 “FC7CAL9.000” option against a premium payment of Euro 0.08. He shall be allowed to enter an order for one lot at Euro 0.08 on the combination “TMC\_F\_001”.

The order entered by trader “B” is displayed in bold in the following table:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(S1) C7CAL9.000 (B1) C7CAL9.500	<b>1</b>	<b>0.08</b>	0.1	5	(B1) C7CAL9.000 (S1) C7CAL9.500

*Example 5: entering an order on an existing TMC*

Given the combination TMC\_STM\_001 as described in the example 2, trader “B” enters an order to sell 1 “FI6CAL16.000” option and to sell 1 “FL6CAL16.500” option against a premium cash in of Euro 1.1 per share:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_STM_001		(B1) I6CAL16.000 (B1) L6CAL16.500	1	0.9	<b>1.1</b>	<b>1</b>	(S1) I6CAL16.000 (S1) L6CAL16.500

### 1.3 Limits in creating a TMC

The creation of a TMC is subject to the following limitations:

- **the number of legs that can be associated to a TMC is 2;**
- **an index Future cannot be part of TMC;**
- to be eligible for inclusion in a TMC proposal, the series must have the same contract size (e.g. it is possible to create TMC with combinations of futures and options on the same underlying);
- to be eligible for inclusion in a TMC proposal, the series must belong to the same Market Place;<sup>2</sup>
- one cannot create a TMC equal to one that already exists or similar to a standard combination;
- the maximum ratio that can be associated to a single leg is 100.

### 1.4 Trading a TMC

The TMC remains available on the market until the end of the trading day and are automatically cancelled by the system afterwards.

#### 1.4.1 Types of orders allowed

It is possible to trade an existing TMC by simply entering an order on its specific order book.

TMC proposals can be entered with a price limit (limit orders) or without one (market orders) and the following methods of execution may be specified:

- “fill and kill”: the order book is filled, in whole or in part, for the quantities available on the opposite side of the book and any unfilled quantity is automatically cancelled;
- “fill or kill”: the order is either filled for the entire quantity or automatically cancelled.

It is not possible to trade long orders on TMCs (they are cancelled at the end of the trading session), or to enter stop orders.

The orders entered on the TMC book may cause, if the conditions apply, the creation of bait orders on single series.<sup>3</sup>

#### 1.4.2 Conclusion of contracts

Once a TMC proposal has been entered on the order book, it shall be concluded according to the following methods:

- matching between TMC orders and the single component series of the strategy (displayed on the order book at that specific moment): to increase the possibility to trade the whole combination, the system generates derived orders (“baits”) on the order book of the single legs (only if the ratio for the single leg is equal to 1);

---

<sup>2</sup> Please refer to the table in the appendix for a detailed list of the underlyings belonging to the same partition and their relative minimum lots.

<sup>3</sup> Similar to standard combos, any single orders deriving from TMC orders vary automatically with market conditions but shall maintain the time priority of the original order.

- matching between two TMC orders (here-after “TMC vs. TMC”) when the order cannot be executed versus the single legs at the same price or at a better price. In the event of conclusion of contracts, the system automatically attributes the prices to single legs making up the TMC, in order to respect the price of the whole strategy. In this case, the TMC order may be executed only if a bid or ask price on one of the legs exists on the order book, or a last price, or a closing price exists on both legs. If these conditions are not fulfilled, the order that hits the TMC proposal on the order book is rejected and an error message is sent to the trader. Similarly, the order is rejected even if these prices are available and if the algorithm which attributes prices to the single legs, does not converge to a solution. In order to give a complete information to the market concerning the origin of the concluded contracts through this method, the TMC contracts are assigned with a dedicated deal source, similar to the “combo vs. combo” method (please refer to paragraph “Market data dissemination”).

*Example 6: matching between a TMC and single legs*

Given the combination “TMC\_F\_001” described in **Case a)** of example 3, and the relative order to purchase five contracts at a price of Euro 0.1 per share entered by trader “A”, considering the orders entered by trader “B” on the order book of the single leg “FC7CAL9.000”.

Given the conditions displayed in the table below, the order entered on the TMC generates a bait order (highlighted in Bold):

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500
FC7CAL9.000	IT0008564103		1	2.7	3.2	1	
FC7CAL9.500	IT0008563998				<b>3.1</b>	<b>1</b>	

If trader “C” hits the bait order on the serie “FC7CAL9.500”, the following contracts are concluded:

ID	Quantity	Price	Buyer	Seller	Deal Source
FC7CAL9.000	1	3.2	Trader A	Trader B	TMC
FC7CAL9.500	1	3.1	Trader C	Trader A	EMP

The new situation on the order book is:

ID	ISIN	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_F_001		(B1) C7CAL9.000 (S1) C7CAL9.500	4	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500
FC7CAL9.000	IT0008564103		1	2.7			
FC7CAL9.500	IT0008563998						

*Example 7: conclusion of contracts through matching TMC vs. TMC*

Given the TMC of the previous example, consider the following cases:

**Case a)**

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK	Last	Close
TMC_F_001	(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500		
FC7CAL9.000								
FC7CAL9.500								

It is impossible to execute contracts by matching TMC vs. TMC because bid, ask, last and close prices are not available on the single legs.

**Case b)**

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK	Last	Close
TMC_F_001	(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500		
FC7CAL9.000		1	2.7					
FC7CAL9.500								

If trader “B” enters an order to sell 5 lots at Euro 0.1 per share, contracts on the order book are traded:

ID	Quantity	Price	Buyer	Seller	Deal Source
FC7CAL9.000	5	2.7005	Trader A	Trader B	TMC
FC7CAL9.500	5	2.6005	Trader B	Trader A	TMC

**Case c)**

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK	Last	Close
TMC_F_001	(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500		
FC7CAL9.000							3.0	
FC7CAL9.500							2.91	

If trader “B” enters an order to sell 5 lots for Euro 0.1 per share, contracts on the order book are traded:

ID	Quantity	Price	Buyer	Seller	Deal Source
FC7CAL9.000	5	2.9050	Trader A	Trader B	TMC
FC7CAL9.500	5	3.0050	Trader B	Trader A	TMC

**Case d)**

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK	Last	Close
TMC_F_001	(B1) C7CAL9.000 (S1) C7CAL9.500	5	0.1			(S1) C7CAL9.000 (B1) C7CAL9.500		
FC7CAL9.000							5.0	
FC7CAL9.500							2.0	

It is not possible to trade TMC by matching directly the order on the TMC's order book: in this case, even if last prices are available on the legs, spread between prices do not allow the algorithm convergence.

*Example 8: creating and trading a TMC with ratio which differs from 1*

Consider the order books for the following single series:

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
OSPMIBL6CAL36,000		20	2,900	3,000	20	
OSPMIBL6CAL36,500		20	2,500	2,600	20	

Trader "A" creates a TMC buying 2 call options (ratio=2) on the S&P/MIB index, strike 36,000 expiry December 2006, and selling 1 call option (ratio=1), strike 36,500 of the same expiry. Entering an order with price 3,500 for 1 lot, the combinations would be immediately executed:

ID	Quantity	Price	Buyer	Seller	Deal Source
OSPMIBL6CAL36,000	2	3,000	Trader A	Trader B	TMC
OSPMIBL6CAL36,500	1	2,500	Trader B	Trader A	TMC

ID	Combo BID	B Qty	Bid	Ask	A Qty	Combo ASK
TMC_SPMIB_001	(B 2) OSPMIBL6CAL36,000 (S 1) OSPMIBL6CAL36,500					(S 2) OSPMIBL6CAL36,000 (B 1) OSPMIBL6CAL36,500
OSPMIBL6CAL36,000		20	2,900	3,000	18	
OSPMIBL6CAL36,500		19	2,500	2,600	20	

Trader "C" now enters a market order with quantity 5 on "TMC\_SPMIB\_001". Here-after are displayed the contracts executed on the market:

ID	Quantity	Price	Buyer	Seller	Deal Source
OSPMIBL6CAL36,000	10	3,000	Trader C	Trader B	TMC
OSPMIBL6CAL36,500	5	2,500	Trader B	Trader C	TMC



### 1.4.3 Minimum trading tick values for TMC orders

The minimum trading tick values attributed to the single TMC proposals are the following:

- TMC on index option contracts: 1 index point
- TMC on stock option contracts: Euro 0.0001

Similar to combo vs. combo matching, the matching of TMC vs. TMC can cause the conclusion of contracts with prices which do not respect the minimum trading tick of the single leg.

Bait orders are always created with prices that are consistent with the minimum trading tick of the single leg on which they are entered.

#### Example 9: bait orders and minimum trading tick

Consider the following TMC and its relative sign. The bait order generated on the serie “STMC7” is consistent with the minimum trading tick as expected for stock future contracts, even if TMC order’s price is not consistent.

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK
TMC_STM_002	(B1) C7 (S1) C7CAL15,000	1	14.005			(S1) C7 (B1) C7CAL15,000
STMC7		1	15.1			
STMC7CAL15,000		1	1.1			

#### Example 10: minimum trading tick and conclusion of contracts

Consider the following TMC:

ID	Combo BID	BQty	Bid	Ask	AQty	Combo ASK	Last
TMC_STM_003	(B1) L6 (S1) C7			0.5001	1	(S1) L6 (B1) C7	
STML6							15
STMC7							14.5

Let’s assume that the trader B wants to hit the order on the book TMC\_STM\_002.

Now we have the following contracts:

ID	Quantity	Price	Buyer	Seller	Deal Source
STMC7	1	14.4999	Trader A	Trader B	TMC
STML6	1	15.0000	Trader B	Trader A	TMC

## 1.5 Price limits variation for proposals and contracts

TMC proposals are subject to the same price dynamic deviation control parameters of standard combos.

Please keep in mind the following price limit variations:<sup>4</sup>:

- maximum price variation between the price of an order and the control price (parameter X);
- maximum price variation between the price of a trade and the control price (parameter Y);
- maximum price variation between two consecutive trades (parameter Z).

Listed below are principal characteristics for controlling TMC proposals:

- TMC proposals are not subject to X parameter controls;
- bait orders are subject to the same controls of orders entered with normal functions;
- following the activation of a Circuit Breaker on one of the series which composes the TMC, baits orders active on the order book are automatically cancelled and re-entered once continuous trading begins;
- it is not allowed to fill or to change TMC proposals and to conclude contracts generated by TMC proposals previously entered if on at least one of the two legs a Circuit Breaker has triggered;
- contracts concluded through the matching TMC vs. TMC are not subject to price variations limits as per X, Y and Z parameters;
- prices of contracts concluded through the matching of TMC vs. TMC are not a valid reference for the following Z parameter controls.

## 1.6 Mistake procedure

If contracts are concluded at anomalous prices through the matching of TMC orders with other TMC orders or through the matching of TMC orders with single legs, the error handling provision in force will be applied, as for standard combinations orders and non-standard combinations orders.

Accordingly, the conditions for intervention by Borsa Italiana will be verified with reference to contracts concluded for individual financial instruments, even when such contracts are part of a TMC combination.

## 1.7 Market data dissemination

Contracts concluded through the matching of TMC orders vs. other TMC orders:

- Are disseminated on the “Ticker” window identified by TMC (deal source 36);
- Update the number of traded contracts but do not update last, minimum and maximum prices on the “Price Info” window;
- Are included on the official list only for what concerns total volume traded but not for minimum and maximum prices for every single financial instrument traded.

---

<sup>4</sup> For any further information please refer to Notice n. 11472 published on November 25th, 2003, concerning the “Circuit Breaker” functionality of the IDEM market.

## 1.8 Other information

- With the introduction of TMC orders, operational strategies that are part of standard combination orders (*price spread*, *time spread* and *straddle*) for option contracts on the S&P/MIB index and stock option contracts are deleted; these strategies can be now executed through the new functionality;
- It is not allowed to send request-for-quotes on TMC;
- There are no quotation obligations for market makers on TMC.

## 2 – BO5

The new broadcast “*BO5 - Firm Order Book*” allows, among others, to manage the update of the local order book. This broadcast enables you to receive messages concerning the deletion of orders (including orders valid “until date”, so-called “long orders”) for lack of compatibility with X parameter price limits of Price Deviation Dynamic Control functionality (please refer to paragraph 1.5).

For any further information concerning the Price Deviation Dynamic Control please refer to Notice n. 11472 published on November 25<sup>th</sup>, 2003).

For any further information please contact:

- Borsa Italiana, Derivatives Markets, telephone +39 02 72426 231
- Borsa Italiana, Markets Supervision Division, telephone +39 02 72426 327

## Appendix 1 – Minimum lots, spread tables, partition for mass quotation and stop loss

CLICK CODE	UNDERLYING	MINIMUM LOT (N. SHARES)	OPTION	FUTURE	OPTIONS SPREAD TABLE	PARTITION FOR MASS QUOTATION AND STOP LOSS
ACE	ACEA	1,000	X		B	4
AEM	AEM	2,500	X	X	A	4
AZA	ALITALIA	1,000	X		A	4
AL	ALLEANZA ASSICURAZIONI	500	X	X	C	3
AGL	AUTOGRILL	500	X	X	C	4
AUTO	AUTOSTRADE	500	X	X	C	4
BNL	BANCA NAZIONALE DEL LAVORO	5,000	X	X	A	4
BFI	BANCA FIDEURAM	1,000	X	X	A	3
BIN	BANCA INTESA	1,000	X	X	A	4
BINR	BANCA INTESA SAVING SHARES	1,000		X	-	4
BPVN	BANCA POPOLARE VERONA-NOVARA	500	X	X	C	3
BPU	BANCHE POPOLARI UNITE	500	X	X	C	4
BMPS	BANCA MONTE DEI PASCHI DI SIENA	1,000	X	X	A	4
BUL	BULGARI	1,000	X	X	B	4
CAP	CAPITALIA	5,000	X	X	A	4
ENEL	ENEL	500	X	X	B	4
ENI	ENI	500	X	X	C	3
FWB	FASTWEB	100	X	X	C	4
F	FIAT	500	X	X	B	3
FNC	FINMECCANICA	500	X	X	C	4
G	GENERALI ASSICURAZIONI	100	X	X	C	3
ES	GRUPPO EDITORIALE L'ESPRESSO	1,000	X	X	A	4
LUX	LUXOTTICA GROUP	500	X	X	C	3
MS	MEDIASET	1,000	X	X	B	3
MB	MEDIOBANCA	1,000	X	X	C	3
MED	MEDIOLANUM	500	X	X	B	4
MN	MONDADORI	1,000	X		B	3
PC	PIRELLI & C.	1,000	X	X	A	3
R	RAS	500	X	X	C	3
RCS	RCS MEDIAGROUP	1,000	X		A	3
SPI	SANPAOLO IMI	500	X	X	C	4
PG	SEAT PAGINE GIALLE	5,000	X		A	4
SRG	SNAM RETE GAS	1,000	X	X	A	4
STM	STMICROELECTRONICS	100	X	X	C	4
TIT	TELECOM ITALIA	1,000	X	X	A	4
TITR	TELECOM ITALIA SAVING SHARES	1,000	X	X	A	4
TRN	TERNA	5,000	X	X	A	4
TIS	TISCALI	1,000	X	X	A	4
UC	UNICREDITO ITALIANO	1,000	X	X	B	4