

MOT and ExtraMOT

**The MOT and ExtraMOT bond markets:
transparency and efficiency**



“MOT and ExtraMOT:
the fixed income
markets for retail and
professional investors.”

MOT and ExtraMOT

European leaders in terms of trades and turnover

Using the same platform, offering the same guarantees

The Borsa Italiana bond markets

To ensure that retail and professional investors enjoy easy access to the extensive domestic and international bond market, Borsa Italiana operates two markets for the electronic trading of bonds, debt and government securities:

- MOT, the only Italian regulated market dedicated (via its two segments, DomesticMOT and EuroMOT) to the trading of Italian and non-Italian government securities, domestic and international bank and corporate bonds, supranational securities and asset-backed securities
- ExtraMOT, the new multilateral trading facility regulated by Borsa Italiana for the trading of corporate bonds of Italian and non-Italian issuers already listed on other regulated markets of the European Union, as well as branded bank bonds and debt securities issued by Italian SMEs.

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markets for electronic trading of bonds

MOT and ExtraMOT: success factors

MOT

The MOT was created in 1994 to give private investors easier access to the bond market, and also to enhance the efficiency of professional investor operations by offering an electronic and completely automated trading system from the order entry phase up to the settlement of the executed trade. Partly due to the constantly increasing number of intermediaries connected (directly or via the interconnection system), the MOT market has posted steady growth and now occupies the top position in Europe in terms of trades and trading turnover.

ExtraMOT

ExtraMOT, the multilateral trading facility, was created during the second half of 2009 in response to a particular requirement of intermediaries and investors. They needed to be able to trade eurobonds within an electronic and automated market which (in contrast with the opacity that frequently characterises over-the-counter and non-regulated markets) used the same technological platform and controls as the MOT – and could therefore guarantee transparency and efficiency in the price formation mechanism.

Strengths

- 1 MOT: the only regulated market in Italy
- 2 Transparency of the price formation mechanism
- 3 Disclosure of pre and post-trading information
- 4 Real-time monitoring of correct course of trading
- 5 Speed of execution of transactions
- 6 Pricing policy with constant attention to the needs of the various market players.

Market functioning and microstructure

An order driven model designed for liquidity and transparency

Trading on the markets managed by Borsa Italiana takes place via the same technological infrastructure used by London Stock Exchange. The trading platform utilised, Millennium Exchange™, ensures a maximum level of efficiency, performance and reliability.

In order to guarantee liquidity and transparency in the price formation process for the bonds traded on its circuits, Borsa Italiana has set up an order driven market model with the optional presence of an operator to support trading. 'Order driven' signifies that all market participants (retail investors through their banks and professional operators) are able to enter their buy or sell orders. This ensures the continuous presence of a variety of buy and sell orders and, in tandem with constant trading control and supervision, generally guarantees the correctness of the price formation process for the securities in question via the containment of spreads.

Trading procedures

Trading initially takes place via an **auction** procedure and subsequently, throughout the day, in **continuous trading** mode. During the auction phase contracts are concluded at a theoretical price which maximises the quantity traded, whereas during continuous trading they are concluded via the automatic matching of orders placed according to a price/time criterion.

Trading hours



Orders can be entered with or without a price limit and either entirely or partially visible (the latter are known as 'iceberg orders'). They may be coupled with validity parameters based on time ('good till date', 'good till cancelled', 'opening auction only') or on the outcome of the order in question ('immediate or cancel' or 'fill or kill'). After the migration of cash markets onto the Millennium Exchange™ platform new **Cross Orders** and **BTF** functionalities, which identify a transaction that has been bilaterally arranged by the counterparties and then executed on the market, have been introduced. A brochure with more details about the new order types is available on Borsa Italiana's website.

The prices of the orders can be multiples of the following values ('ticks'):

Residual life class	Tick
Residual life ≤ 2 years	1 thousandth
Residual life > 2 years	1 hundredth

The **minimum trading lot** is established by Borsa Italiana normally in keeping with the minimum denomination laid down in the bond rules. It reconciles requirements as regards market functionality, ease of access for retail investors and cost effectiveness in order execution.

“Orders can be entered with or without a price limit.”

Trading methods

The instruments traded on MOT and ExtraMOT are quoted as a percentage of the bond face value set at 100. Quotes therefore range from 'below par' (if the price in percentage terms is less than 100) to 'at par' if it is equal to 100 and 'above par' if it is more than 100.

Bond prices can be 'clean' or 'dirty'. For each instrument traded Borsa Italiana disseminates, on a daily basis, an official price and a reference price.

Clean (ex-interest) price: the price of the security as formed on the secondary market reflects just the value of the bond with respect to its face value; this price does not, therefore, include the interest so far accrued on the bond. Consequently, in order to determine the value of a contract concluded on the security, it is necessary to add to the price of the contract the interest accrual up to the time of settlement of the transaction. Bonds for which the coupon is already known at the beginning of each interest period (usually the more straightforward securities such as, for example, fixed interest or floating rate securities) are traded in this way.

Dirty price (clean price + accrued interest): the price of the security as formed on the secondary market already reflects the value at which the traded contract would be settled (in other words, it includes an estimate of the value of the accruing coupon). For example, structured bonds (the remuneration of which is linked to the trend in, for example, shares, indices or currencies) are treated on a 'dirty' basis.

Reference price: this corresponds to the weighted average price of the trades concluded during the last 20 minutes of the continuous trading phase, which is also important for monitoring trading and for the order price control mechanisms.

Official price: this is determined based on the weighted average price of the entire quantity of the instrument in question traded on the market during the session.

MOT – new services

Distribution channel: After the great success of the BTP Italia placements, Borsa Italiana has now also made it possible for corporate issuers to distribute their instruments directly on our platform. This innovative process starts with a distribution period in which conditional contracts are concluded. Once this period is finished and the issuer and financial instruments admission requirements are satisfied, the admission becomes final and the date for the start of trading on the MOT market is established.

Takeover Bid: Borsa Italiana has made it possible to collect acceptances in the market in the case of an offer to buy back debt financial instruments.

MOT

Not only a secondary market

Market liquidity

The requirements and obligations in outline

Operators and specialists

Trading participants

The bond markets managed by Borsa Italiana have a high number of participants who are connected directly or via interconnection. These include representatives of the most important Italian banking groups, on-line banks and leading international banking institutions.

All MOT and ExtraMOT market participants are subject to participation requirements as regards the organisational and technological structure used. More specifically, Borsa Italiana verifies observance of the following requirements, which must be present on a continuing basis:

- 1 Adequacy of the technological systems used for trading purposes
- 2 Sufficient staff with suitable professional qualifications
- 3 Adequate internal procedures and controls for trading activity
- 4 Identification of a compliance officer, who must have a good knowledge of the rules governing the functioning of the markets and must provide adequate support to the intermediary's structures in their application
- 5 Adequate settlement procedures.

The specialists

The MOT and ExtraMOT markets provide for the presence of specialists who support the liquidity of the traded instruments.

Borsa Italiana assigns to the specialists:

Quantity obligations:

- the minimum quantity for each buy and sell order
- the minimum daily quantity to be guaranteed by the specialist.

Spread obligations:

- the maximum price differential, calculated as the difference between the sell price and the buy price.

Duration obligations:

- minimum duration of the commitment.

For the ExtraMOT market, only quantity obligations are envisaged, as well as the mandatory presence of the specialist for all financial instruments for which the same intermediary has requested admission to trading.

The obligations are determined considering, in particular, the face value of the issue, the level of dissemination, the maturity and all the mechanisms for interest calculation and reimbursement of principal. Until the minimum daily quantity is reached, the specialists are required to restore the orders within 5 minutes following partial or total execution of the quotes displayed.

Borsa Italiana monitors the fulfilment of commitments undertaken by the specialist via the calculation of an indicator.

Bid-specialists

The possibility of acting as 'buy-side intermediary' is also anticipated. Intermediaries participating in the MOT or ExtraMOT are given the opportunity to guarantee the liquidity of bond loans by continuously displaying buy orders. These orders only need to comply with the quantity obligations established by Borsa Italiana.

Bid-specialists, in addition to offering a value-added service for investors, enable issuers to comply with the requirements laid down for non-liquid instruments by the recent ABI (Italian Banking Association) document, endorsed by CONSOB. They thus have their own bonds considered liquid, with notable savings in terms of disclosure.

“Order driven markets with a large number of participants connected directly or via interconnection.”

MOT: listing of the bonds

A wide range of underlying assets for structured bonds

As a regulated market, the MOT is characterised by the presence of a precise set of rules approved by the supervisory authority as regards the instruments traded and listing requirements; the disclosure obligations to which participants are subject; the intermediaries admitted to trading on the market; the price definition mechanism; and the trading and settlement procedures. For listing purposes, the issuer must submit an appropriate application to Borsa Italiana. At the same time they must ask the competent authority (which in Italy is CONSOB) for authorisation to publish the listing prospectus, drawn up in accordance with the layout set forth by the relevant European regulations and containing information on the issuer and on the characteristics, risks and returns of the financial instruments.

Listing requirements

For issuers who have no other financial instruments listed, Borsa Italiana performs an admissibility analysis based on the last two audited annual reports.

With regard to bonds, these must be issued for an amount of no less than 15 million Euro. However, Borsa Italiana may accept a smaller amount in cases where it considers that an adequate market may potentially develop. As far as general requirements are concerned, the bond instruments must be issued in compliance with the laws, regulations and all other applicable provisions and must be freely tradable. The issuers of structured bonds must demonstrate the availability to the public of information, updated on a daily basis, on the prices recorded by the financial assets selected for indexation in the principal market in which they are listed.

The structured bonds can never be redeemed at a price below their face value. Moreover, adjustments must be provided for in the case of extraordinary events concerning the underlying assets. The adjustments must be based

on market standards and generally accepted methodologies and must serve to counteract as far as possible the distortive effects of the event. The structured bond issuer must give notice thereof to Borsa Italiana, for dissemination to the market, reasonably in advance of the date on which the adjustments will become effective.

Borsa Italiana also requires that the prices to be used for indexation purposes reflect, as a rule, a significant trading volume as regards the financial asset in question.

Underlying assets of structured bonds

- 1 Shares traded in regulated markets in Italy or in another country that satisfy high liquidity requirements
- 2 Government securities traded on regulated markets that satisfy high liquidity requirements
- 3 Official interest rates or those generally used on the capital market, which cannot be manipulated and are characterised by transparency as regards the methods used to record and disseminate them
- 4 Currencies for which exchange rate parity is recorded on a continuous basis by the authorities and competent bodies, and which are in any case convertible
- 5 Commodities for which there is a reference market characterised by an ongoing and updated availability of information on the prices of the traded assets
- 6 Quotas or shares of mutual funds and SICAVs
- 7 Indices or baskets relating to the above mentioned assets, as well as baskets of indices referring to such assets, provided that such baskets or indices are characterised by transparent methods of calculation and dissemination
- 8 Derivative contracts relating to the above mentioned assets for which a liquid market exists, characterised by availability of continuous and updated information on the prices of such contracts.

ExtraMOT: the corporate bonds market

Opening new doors to the corporate issuers

ExtraMOT is the new multilateral trading facility (MTF) dedicated to the corporate bonds normally issued on international markets. Usually this type of bond is listed on regulated markets of the European Union which do not have an efficient post-offering trading system, making access difficult for the majority of investors.

The requirement for bonds to have been previously admitted to trading in a regulated market guarantees the existence of an adequate information package and therefore allows non-professional investors as well to access instruments traded on the ExtraMOT market, in observance of domestic regulations concerning the circulation of financial products.

Created with a view to completing the range offered by Borsa Italiana and London Stock Exchange Group as regards the fixed income markets, in order to meet intermediaries' and investors' need for an expanded range of bond instruments to invest in by drawing from a transparent and automated market, the type of securities admissible on the market was then expanded to the branded bank bonds.

“MOT and ExtraMOT:
Borsa Italiana's
answer to the needs
of corporate funding.”

From their inception, the market regulations also provided for the admission to trading, on the initiative of Borsa Italiana or at the request of an intermediary, of bonds and other debt securities already admitted to trading in a regulated market of the European Union. The admission of foreign government securities is also envisaged, particularly bonds issued by:

- European member states or parties supported by an unconditional and irrevocable guarantee on their part
- Publicly-owned international organisations involving one or more European Union member states (supranational issuers such as the EIB, Council of Europe, EBRD)
- Organisation for Economic Cooperation and Development (OECD) member states with bank quality credit rating (investment grade).

When admission to trading is at the request of an intermediary, the latter is required to perform specialist activities in respect of the bonds concerned, subject to quotation obligations expressed in terms of quantity at least as regards the bid price.

February 2013 saw the launch of the new **Professional Segment** of ExtraMOT market dedicated to listing of bonds, commercial papers, local and project bonds. The new segment was born to offer to corporate entities, and in particular to SMEs, a flexible and cost effective national market in which to take opportunities and tax benefits arising from the new regulatory framework (Decree-Law no 83/2012).

Lastly, for each bond traded, the section of the Borsa Italiana website dedicated to the ExtraMOT market provides access to an information sheet summarising the security's main features.

Other market features

Post trade services

Automation of settlement procedures

The bond markets managed by Borsa Italiana provide for a completely automated settlement system by way of a special daily matching and routing service.

After calculation of the transaction's overall value inclusive of interest accrued, if any, the trades concluded on the market are valued as at the date of settlement and sent to the settlement systems. The settlement of contracts on the various instruments takes place via the Monte Titoli settlement system for the DomesticMOT segment of the MOT market, and through Euroclear and Clearstream Banking Luxembourg for instruments traded on the MOT market's EuroMOT segment. For the ExtraMOT market it takes place via both domestic and international CSDs.

Contracts in currencies other than the Euro traded on the DomesticMOT segment are settled in Euros based on the ECB fixing for the last day on which such a rate was fixed preceding the day of the transaction. The valuation of contracts traded in the EuroMOT segment and on the ExtraMOT market, on the other hand, is carried out based on the currency in which the financial instruments are expressed.

Sale and purchase contracts are settled:

- on the third day following the date of stipulation if they concern bonds and government securities other than Italian Treasury Bills (Buoni Ordinari del Tesoro – BOT)
- on the second day following the date of stipulation in the case of BOTs and all foreign government securities where the reference market provides for such settlement timing (for example, Bubills).

The settlement terms are calculated according to the calendar defined by Borsa Italiana if settled through Monte Titoli, and based on the Target calendar in all other cases.

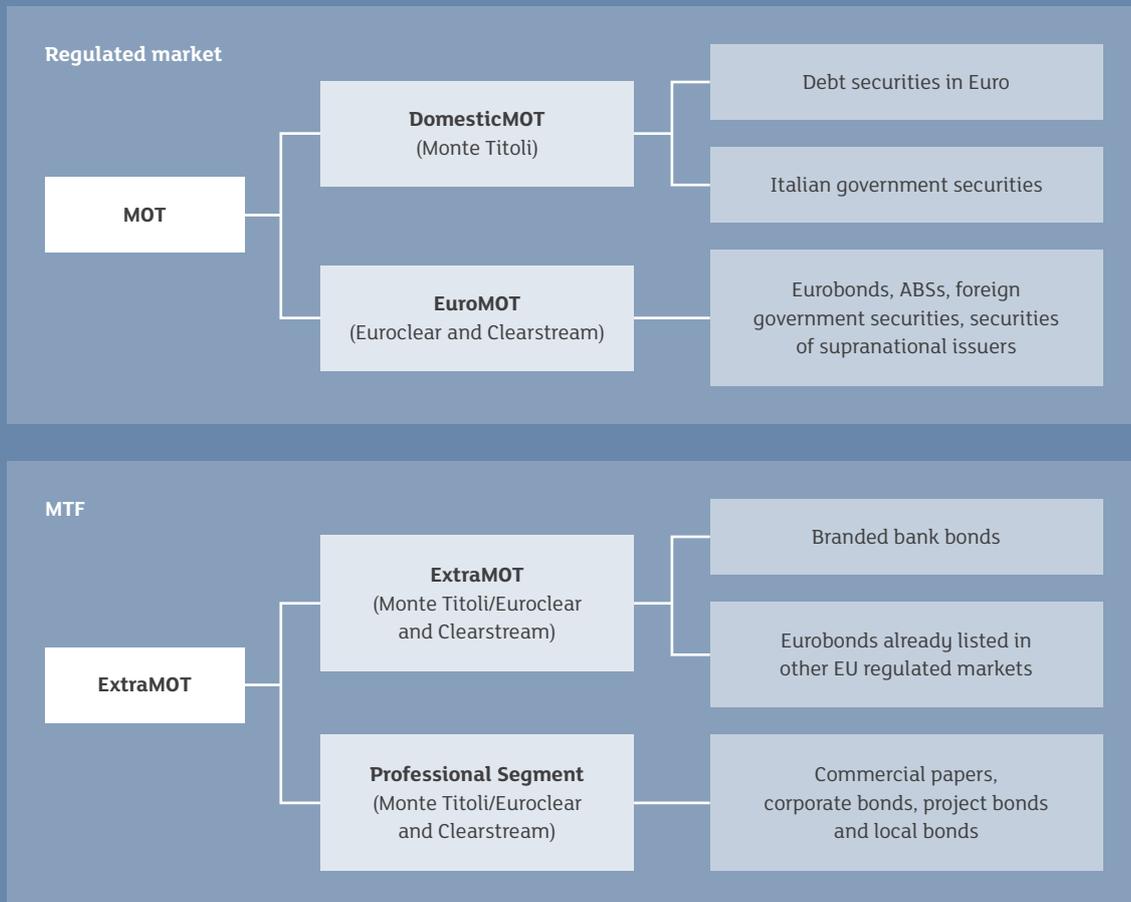
For instruments listed on the MOT market, DomesticMOT segment, the Central Counterparty system service is provided. The same service is also provided for instruments settled in euros on EuroMOT and ExtraMOT (ExtraMOT PRO excluded) markets.

Market transparency and supervision

Throughout the course of trading, all information pertaining to the trend in dealing is publicly available in real time. More specifically (and in full observance of the regulations concerning pre and post-trading transparency), prices and quantities are available for each instrument as regards the best bids and asks for the best price levels and the price of the last trade concluded, with an indication of the time and relative quantity traded.

Furthermore, information on prices and other data, listing prospectuses, product sheets, daily and monthly statistics is available in the section of Borsa Italiana's website dedicated to bonds.

Fixed income markets structure



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