

PRESS RELEASE

IDEM, THE ITALIAN DERIVATIVES MARKET, CELEBRATES 10 YEARS

**Daily average contracts are up from 4,600 in 1995 to over 70,000 in 2004
Record levels achieved for open interest, with 2,562,838 contracts open**

IDEM (the Derivatives Market of the Italian Stock Exchange) celebrates its first 10 years of activity. In fact, the beginning of this market dates back to 28 November 1994, when futures trading on the Mib30 first began. In addition to being its anniversary, this month signifies record levels for IDEM in terms of both average daily volumes as well as open interest: daily average trading during the month has reached 90,131 contracts and open interest is recording a series of peaks in these last few days, the last of which was on 26 November 2004, with 2,562,838 contracts opened.

The record during the last month has been mainly sustained by growth in stock options and futures. For stock options, average transactions since the beginning of the year, equal to 36,546, is already higher than any previous year (in 2003, it amounted to 31,445). For stock futures, the daily average has grown from 1,857 contracts in 2003 to 6,645 in 2004, with a peak of 26,342 during November 2004 (data at 26 November 2004). On 24 November 2004, stock futures achieved a new record of volumes traded in a single day, with 66,760 standard contracts. The previous record was last 10 November, with 58,077 contracts.

Over these 10 years, more than 111 million contracts have been traded on the IDEM. This consistently high growth started in 1998, after the privatisation of Borsa Italiana: average daily contracts of 4,600 in 1995 grew to 35,000 in 1998 and over 70,000 in 2004. Open positions amounted to approximately 108,000 contracts in 1998, 1,075,000 at the end of 2003 and 2,562,838 at 26 November 2004.

These extremely positive results, together with the growth in volumes traded and open positions on the Italian market, indicate the progressive participation of an increasingly diversified and dynamic clientele: individual investors, hedge funds and the many international and domestic proprietary traders.

The use of derivatives by individual investors through online trading platforms is also on the rise. These investors initially began trading futures with the miniFIB and are now becoming acquainted with stock and index options. The volume of online brokerage on the IDEM market is currently equal to 10%, but for certain products like the miniFIB, this figure exceeds 40%.

Institutional investors are progressively more active, also as a result of opportunities introduced by the new European directives, while hedge funds, commodity trading advisors (or CTAs) and companies specialised in proprietary trading are among the most innovative and dynamic users of listed derivatives, often as part of complex quantitative strategies. Among the major foreign CTAs, over 29 are already active in Italian products, and of IDEM's 10 new clients in 2004, 7 mainly carry out proprietary trading.

Continuous product innovation

1. FIB, MIBO, miniFIB

The first derivative product was the FIB, a futures product based on the Mib30 index, whose volumes grew rapidly, mostly as a result of its use during Italy's entrance into the Euro zone.

The range of index-based derivatives expanded on 15 November 1995 with the introduction of MIBO options: the 418 daily standard contracts and 3,432 open interest contracts of 1995 have grown to 8,744 daily standard contracts in 2004, with growth in open interest reaching 150,900 contracts on Friday 26 November.

On 3 July 2000, Borsa Italiana's attention to new market trends led to the introduction of the miniFIB futures contract, the first European contract created for the small investor. For the first time, Borsa Italiana also carried out an advertising campaign to promote the product, which in 2003 reached a maximum of 10,199 average daily contracts.

2. Transfer to the S&P/MIB index

On 2 June 2003, Borsa Italiana began circulation of the new S&P/MIB, an index of 40 stocks listed in the stock market and in the Nuovo Mercato, selected according to sector, liquidity and capitalisation of float, covering 80% of stock in the Italian market. The new index offers investors a more representative benchmark for monitoring market performance and, at the same time, represents a liquid trading instrument; in fact, the *free float* criterion, considering the true availability of each stock on the market, makes reproduction of the basket easier and faster for operators.

On 22 March 2004, Borsa Italiana launched futures and options on the S&P/MIB index, simultaneously with the MIB30 derivatives contracts negotiable until 17 September. Starting from 22 September 2004, derivatives based on the S&P/MIB index have become the only ones that can be traded on the IDEM market.

3. Stock derivatives

The first 6 stock options were launched on 19 February 1996. Since then, the market has grown rapidly: today, 40 stock options can be traded, with the underlying portion consisting of a majority of the S&P/MIB index stock.

With a daily average of 36,500 standard contracts trading is markedly up over previous years (31,445 in 2003) and open interest has achieved a new record of 1,935,037 contracts, +105% compared to 2003.

The interest in these products is also demonstrated by the increase in number of market makers, improvement in liquidity and progressive reduction in spreads.

The introduction of IDEM stock futures on 22 July 2002 further expanded the range of products, enhancing the array of strategies available to operators and facilitating portfolio balancing. Launched on 5 underlying assets, today there are 22 stock futures, supported in terms of liquidity by 3 market makers, confirming them as a successful product.

The 535 average daily contracts in 2002 grew to 1,857 in 2003 and, in 2004, to 6,645 contracts per day, with a record of 26,342 during the month of November 2004 (data at 26 November).

An increasingly international market

The increase in trading was particularly substantial starting from 1998 when, after privatisation of Borsa Italiana, the IDEM market attracted greater numbers of international brokers. The 3 international clients in 1998 have increased to 22 in 2004, currently accounting for a third of total market volume. Regarding clearing, the market is supported by 7 general clearing members, all of whom joined after 1999.

Interest by institutional investors from abroad has especially grown over the last few years; 67 hedge funds from London are active on the IDEM market, an increase of approximately 33% compared to 2003, 34 hedge funds from New York (+11% compared to 2003) and 18 hedge funds from Switzerland (stable with respect to 2003).

An increasingly liquid market

Since the beginning, IDEM has used the OM trading platform, by the Swedish company that is among global leaders in terms of market application technology. The original version was replaced in April 2002 and subsequently updated at the end of 2003. In addition to facilitating access to the derivatives market, its strengths include faster connection via high-speed lines, a six fold increase in the quantity of orders and listings handled during the trading session and new functions that improve market efficiency.

Several innovations have also been introduced in terms of clearing, to facilitate back office processes; among these is the Internet Clearing Workstation (ICWS) of the *Cassa di Compensazione e Garanzia* (CC&G, Central Counterparty), which enables clearing activities to be managed via internet and positions transfers according to international standards ("International Give Up Agreement").

Borsa Italiana has also innovated the rules and regulations for IDEM market makers, currently amounting to 20, by introducing two different categories: the Primary Market Makers, who quote options on a large number of contracts on a continuous basis, and the Market Makers, who instead respond to requests for quotations by investors.

In addition to attracting new market makers, the new microstructure of the IDEM market has led to a significant improvement in the order book, especially in the options segment, with a reduction in spreads, increase in volumes and greater coverage of underlying assets.

The new platform has also allowed the release of important functions for future development of the market.

Since migration to the new version, stop loss orders have been handled by the Borsa Italiana platform and no longer by individual brokers, allowing improved and more secure management of orders.

In December 2003, the circuit breaker function was introduced, allowing automatic control on the completion of trades and reducing the risk of contracts closed at irregular prices.

The latest news on the market functions front is the "Block Trade Facility", introduced last June. This new function gives brokers the possibility to conclude large transactions more efficiently and has, as a result, contributed to the recent growth in volumes in the stock options and futures segment.

Market promotion initiatives: the private investor and hedge funds

Since its inception in 1994, when the IDEM market had mostly institutional investors, Borsa Italiana has continuously promoted initiatives aimed at publicising the market and its instruments.

Of notable mention:

- numerous publications, dedicated to single products and to the market, and in particular IDEMagazine, the monthly newsletter providing information and education on derivatives which, at its 27th edition, is sent to over 31,000 contacts;
- Trading Online Expo, the first Italian expo dedicated to the world of trading and online investment, now at its second edition, which offers the individual investor the possibility of meeting online brokers and trading support companies, hearing about innovations in trading systems, platforms and data vending and learning about how markets work and online trading techniques, thanks to seminars organised by Borsa Italiana and its exhibitors;
- the Hedge Fund Conference, now at its fourth edition as a prestigious reference point for the Italian and international financial community, supported throughout the entire year by a dedicated team from Borsa Italiana whose objectives include promoting listed Italian companies and improving the quality of the domestic market. An activity that has thus far resulted in contacts with over 100 hedge funds in the US, over 90 in England, 20 in Switzerland, 8 in France and others in the rest of Europe;
- updating of the Derivatives section of the Borsa Italiana web site (www.borsaitaliana.it) constantly enhanced with new functions and content designed to make the search for information and data regarding the derivatives market easier and faster.

Milan, 30 November 2004