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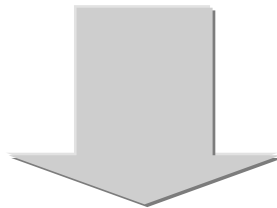
The approach to IT convergence in the post-trading industry

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Rationalisation of the European post-trading industry: The final objective

Ensuring the “efficient cross-border clearing and settlement processes [...] to allow market participants to operate effectively in an integrated EU financial market” (*source: European Commission – DG Internal Market*)



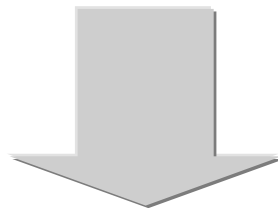
This achievement should consider the following and other elements highlighted by the actors of the market:

- Introduction of measures which guarantee a level-playing field among all entities involved in the post-trading process (Giovannini Group)
- Effective implementation of competition law (EU Commission)
- Provision of tools for the optimal management of collateral (EPDA)

Ongoing initiatives: Corporate consolidation

A sample

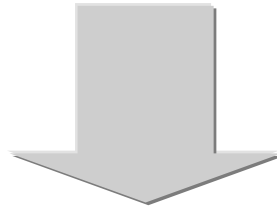
- **NYSE – Euronext:** Expense synergies for \$ 275 million (of which \$ 250 million in IT) (*source: NYSE Euronext, "Creating the Global Exchange", June 2, 2006*)
- **ESES - Euroclear Group:** "there is no short cut, no magic wand that can bring about these benefits other than through the hard work of harmonising practices and consolidating technology" (*Source: The View from the CEO of Euroclear - April 2006*)
- **LCH – Clearnet:** no IT duplication costs of € 23 million and annual cost savings of € 35 million (*source: LCH.Clearnet Announcement, June 25, 2003*)
- **Euroclear Bank – Sicovam:** € 300 million of cost savings through the sharing of expertise, knowledge and technology (*Source: Euroclear, media release, January 11, 2001*)



Major savings come from consolidation of platforms

Ongoing initiatives: standardisation and interoperability

- Boosted by different entities to overcome barriers identified by the Giovannini Group
- Developed by ECSDA and FESE to standardise market practices and ensure the efficient interaction of platforms
- Already adopted by the ECB in the construction of Target



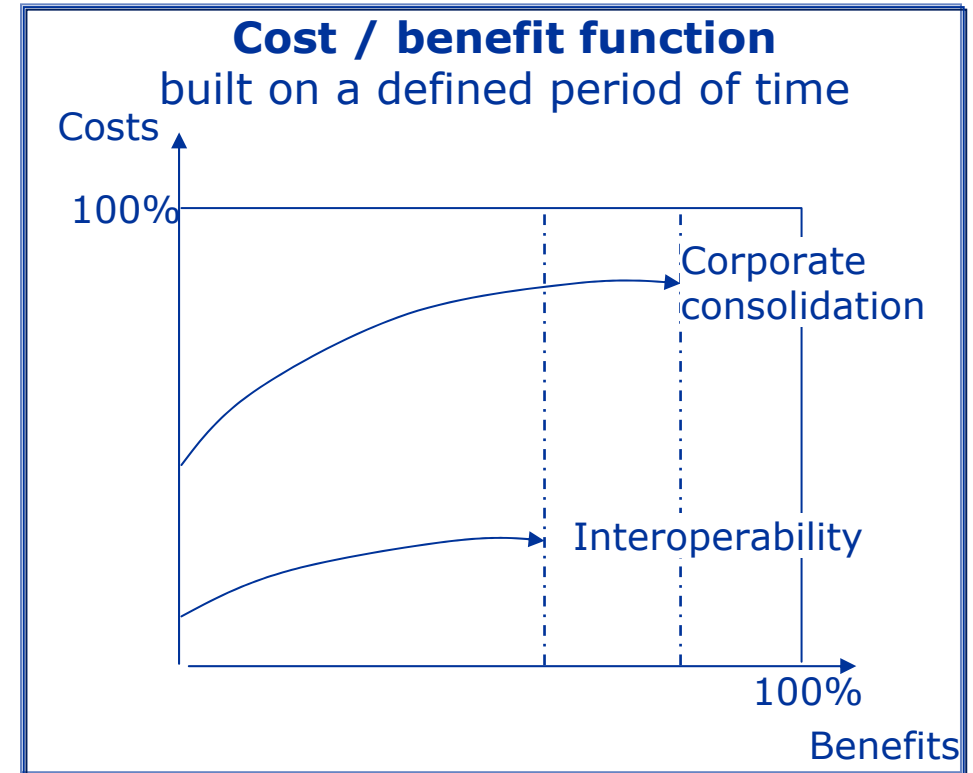
Major benefits come from savings in time and investment costs

BUT

The value created for the market could be in principle not as high as consolidation

Cost / benefit analysis of each alternative FOR DISCUSSION

	Economic benefits	Operating risks	Investment costs	Time to delivery
Corporate Consolidation	Medium to high	Medium to high	High	High
Standardisation / interoperability	Low to medium	Low	Low to medium	Low to medium



Limits of these approaches

FOR DISCUSSION

1. Corporate consolidation:

- Sunk costs: it would need domestic participants to adapt their infrastructure
- Market structure: possible lessening of competition
- Waste of investments: some providers could lose investments already done
- No neutral solution: solution could impact against trading level
- Risk concentration: operating and credit risks would concentrate on few or one entity
- Time-consuming to reach legal and governance arrangements

2. Interoperability

- Legal / fiscal barriers: some obstacles could still remain
- Larger consensus is required
- Potential benefits remain low

Consolidation versus interoperability

- At first sight and according to a cost / benefit analysis, it could seem that a trade-off exists between consolidation and interoperability

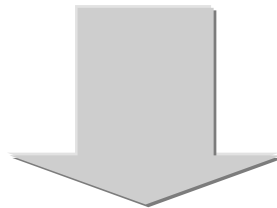
But

- If we investigate more deeply the concept of “consolidation”, we can find at least three main meanings:
 - Corporate: progressive merging of companies within single entities
 - Business: ongoing concentration of business in only one provider
 - IT: gradual integration / substitution of existing platforms into / by a single infrastructure

Consolidation versus interoperability: the lesson learnt

Whichever solution has to take into account the following issues:

- Major savings come from IT consolidation
- Delivering brand new platforms needs time and significant investments
- Industry and authorities require concrete and quick answers to achieve the above-mentioned final objective

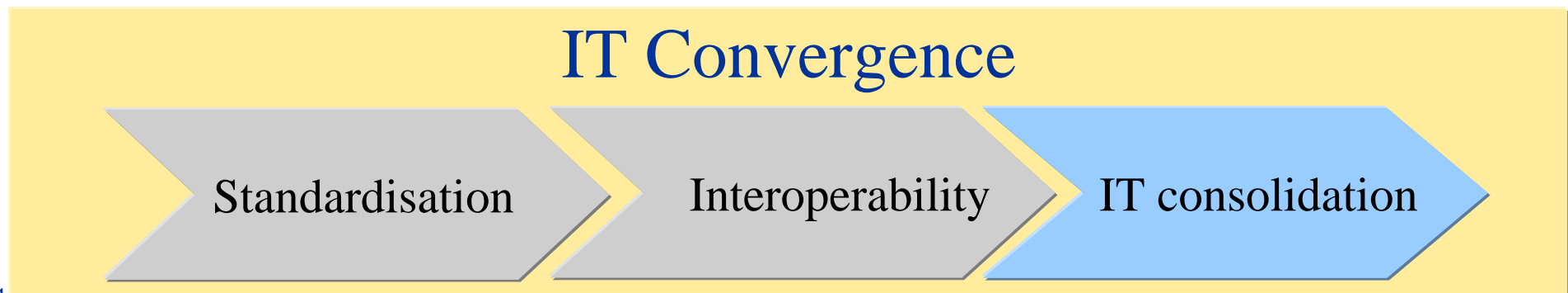


Any alternative?

The approach to the IT Convergence: a pragmatic alternative

The IT Convergence would:

- Combine standardisation, interoperability and IT consolidation along the whole value chain according to the maturity of each component (pre-trade, post-trade / pre-settlement, clearing, CCP-clearing, settlement)
- Be compliant with the federal principles and criteria
- Aim at developing a single shared platform not from scratch but mixing already available technological solutions and expertise
- Be based on a “hub & spokes” model (where the creation of the hub would be promoted / governed by the spokes)
- Ensure that the relation between the hub and the spokes be ruled by the “subsidiarity principle” provided by the Maastricht Treaty



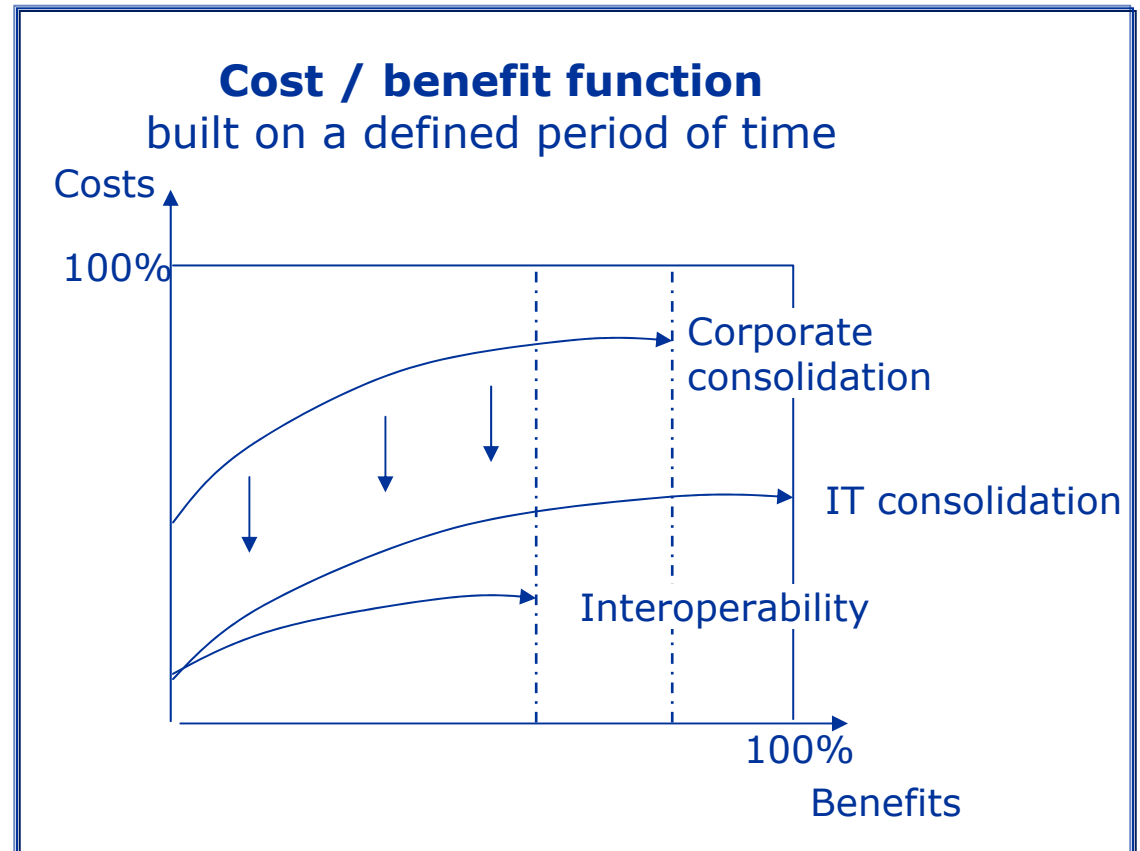
Re-inventing the wheel

- This approach was the one already adopted by the European System of Central Banks in developing Target 2
- Three main European central banks have offered their state-of-the-art technology and experience to develop Target 2

Main features of IT consolidation

FOR DISCUSSION

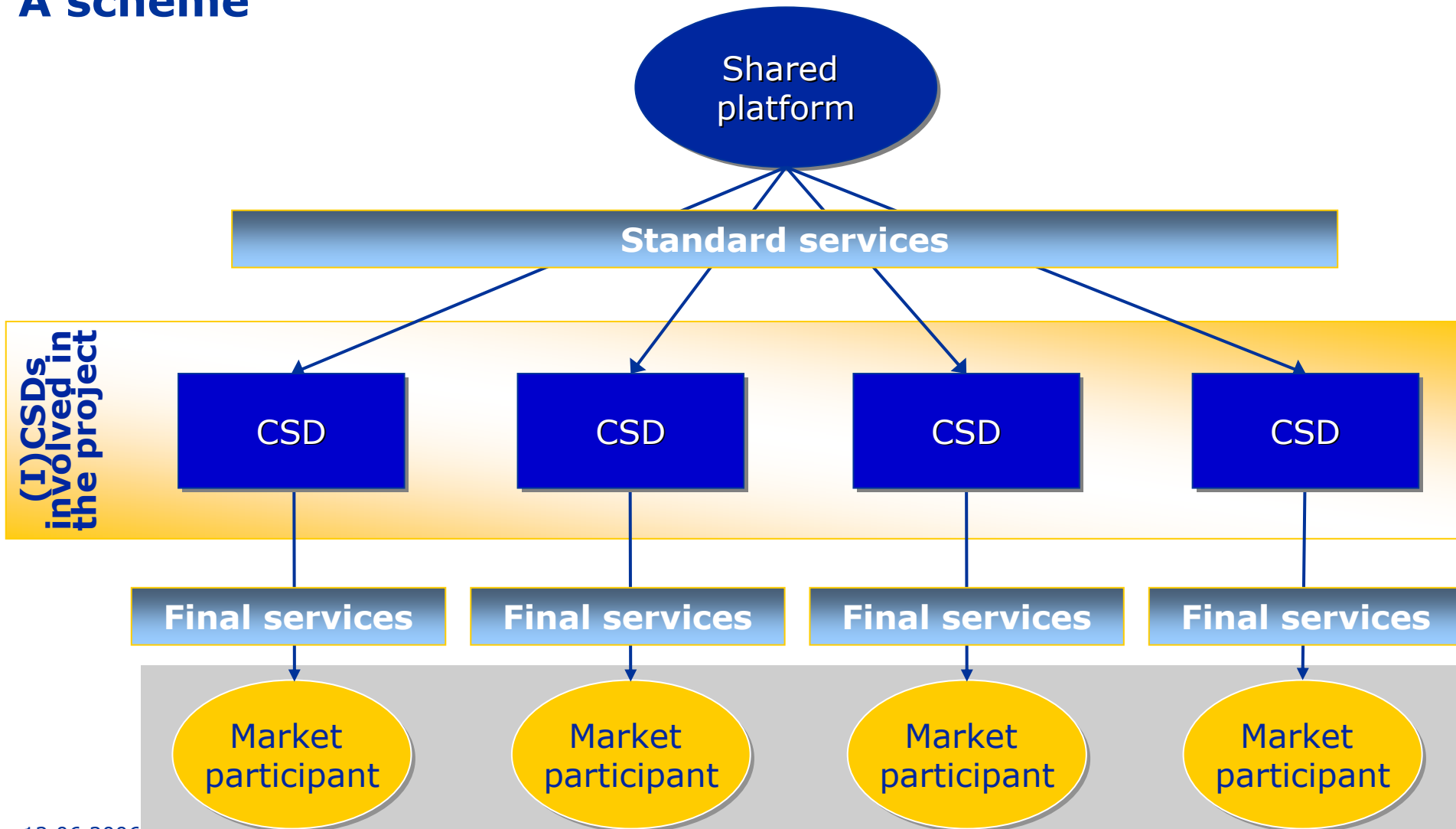
1. Combination of interoperability, standardisation and IT consolidation
- +
2. Development of a single shared platform not from scratch
- +
3. Subsidiarity in the allocation of functionalities among the hub and the spokes
- =
Shift down of the cost/benefit function



Advantages of the IT Consolidation

- Limited sunk costs: Market participants would go on using the same procedures and interfaces
- Preserve competition: Providers would continue to compete on value-added services, price and ability to fit needs of clients
- Cost saving: No more duplication of investments in technology
- Time-to-market solution: shared platform should be made up by using existing technology, expertise and know-how
- Neutrality: the shared platform would ensure the same service levels to whichever trading platform
- Keep pace with technological progress: post-trading providers would join human and financial efforts to meet market participants' needs
- Tailor-made solutions: post-trading providers would customise standard-based services supplied by the shared platform to specific needs of local market (e.g. to overcome still existing legal and fiscal differences)

Building up a single shared platform for SSSs A scheme



From “Big bang” to “Waves” approach

- The post-trading value chain is complex
- A “big bang” approach for all stages of the chain could suffer from the same cons of the Corporate consolidation



Minimum priority criteria to choose areas where investing:

- Dimension of efficiency gains from consolidation
- Harmonisation level
- Size of investments done (by providers and market participants)

A hypothetical roadmap

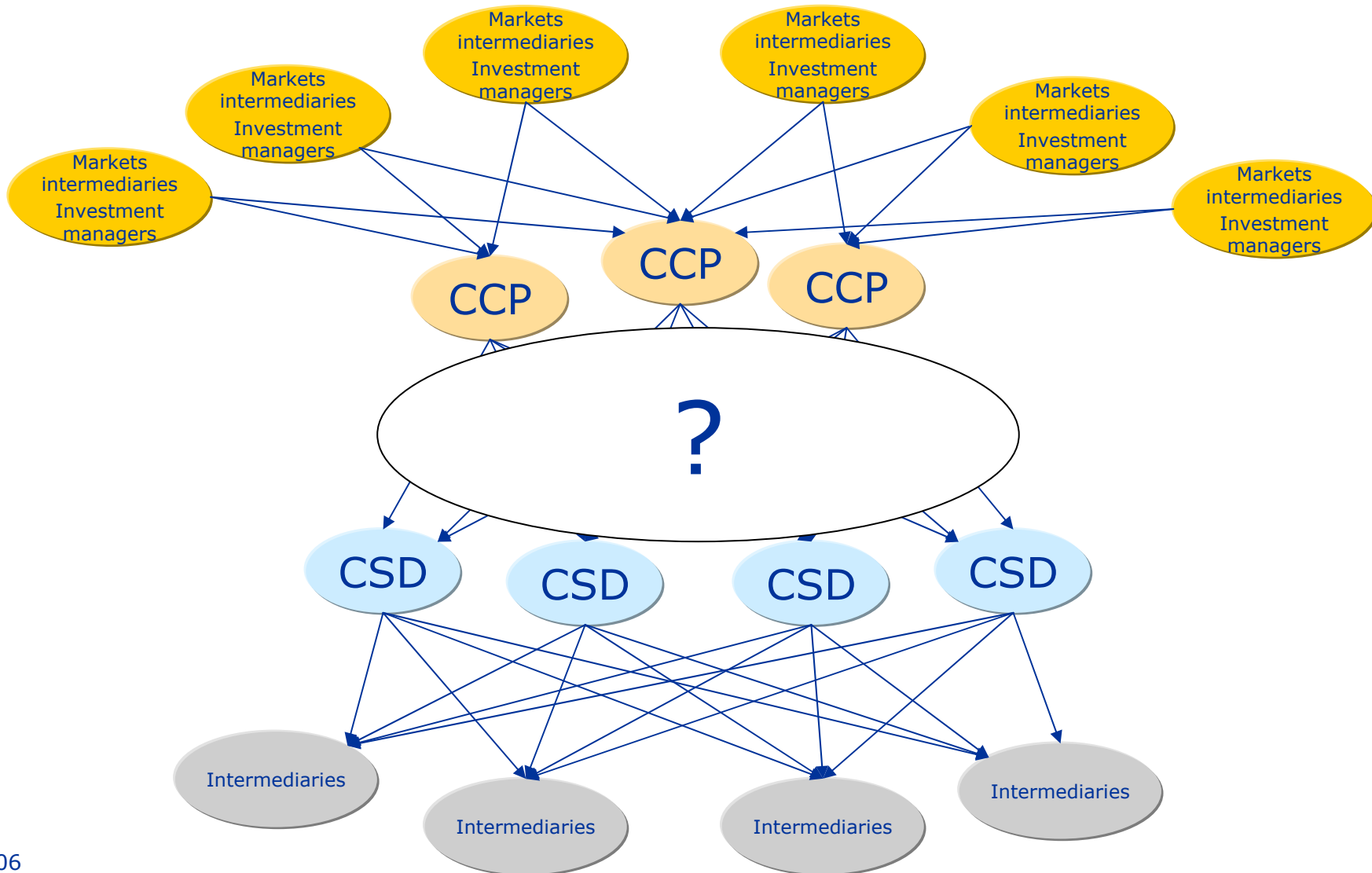
FOR DISCUSSION

	Critical issue	Time to delivery
Pre-trade, Post-trade / pre-settlement, Value added services, Funds	A) Consensus on sharing / building on existing infrastructures	Short to medium (end of 2007)
Book-entry settlement	A) + B) Big investments already done	Medium to long (2012) (?)
Establishing securities in book entry form	A) + B) + C) Area closely related to the domestic legal and fiscal framework	Long 2015 (?)

Pre-trade, Post-trade / pre-settlement: possible areas for IT consolidation (1)

- Areas where the hub & spokes model could be more easily applicable
- They represent two of the stages of the securities value chain where major benefits can be achieved from a consolidation process
- No significant involvement of legal or fiscal issues
- Potentially neutral against whichever solution to be adopted in more critical areas

Pre-trade, Post-trade / pre-settlement: possible areas for IT consolidation (2)



Single shared platform or single CCP?

A technical solution through the implementation of a single shared platform would:

- Preserve competition among CCPs
- Avoid concentration of credit risk within a single entity
- Provide market participants with a more flexible solution (no obligation to use a CCP for whichever trade)

Building the hub: Monte Titoli experience

- Post-trade / pre-settlement was an area where the Italian market had strongly invested because of historical reasons (high fragmentation of the post-trading system)
- The Italian pre-settlement platform has been developed as a unembedded facility (independent from trading and clearing & settlement procedures) to allow different platforms to dialogue one another
- In compliance with the IT Convergence Approach, Monte Titoli is exploring the possibility to adopt technological solutions and expertise already developed by other significant infrastructure providers in contiguous areas of post-trade / pre-settlement

The proposal of Monte Titoli

Since time Monte Titoli has expressed
its intention to mutually share
experience and technology

Slides of back up

X-TRM - A concrete application of the IT Convergence (1)

- X-TRM (Cross-border Transaction Manager) is modular platform
- It offers: matching, routing, facilities which supports the interoperability of CCPs.
- X-TRM is the solution which supports the interoperability between CC&G and LCH.Clearnet. Its facilities make possible for the two CCPs to be both eligible for MTS Italy and BrokerTec markets
- The European Commission has recognised that “the current example of two infrastructures providing CCP services to MTS is an interesting example [of interoperability], especially since it appears that this has been developed at quite a low cost to users and infrastructure” (DG Competition, “Competition in EU securities trading and post-trading – Issues Paper, 24 May 2006, page 21)

X-TRM - A concrete application of the IT Convergence (2)

Main achievements

- Free choice of settlement location

market participants have the opportunity to adopt the settlement system of their choice (in compliance with art. 34.2 of MiFID)

- Free choice of CCP (with not hierarchical structure between the involved CCPs)

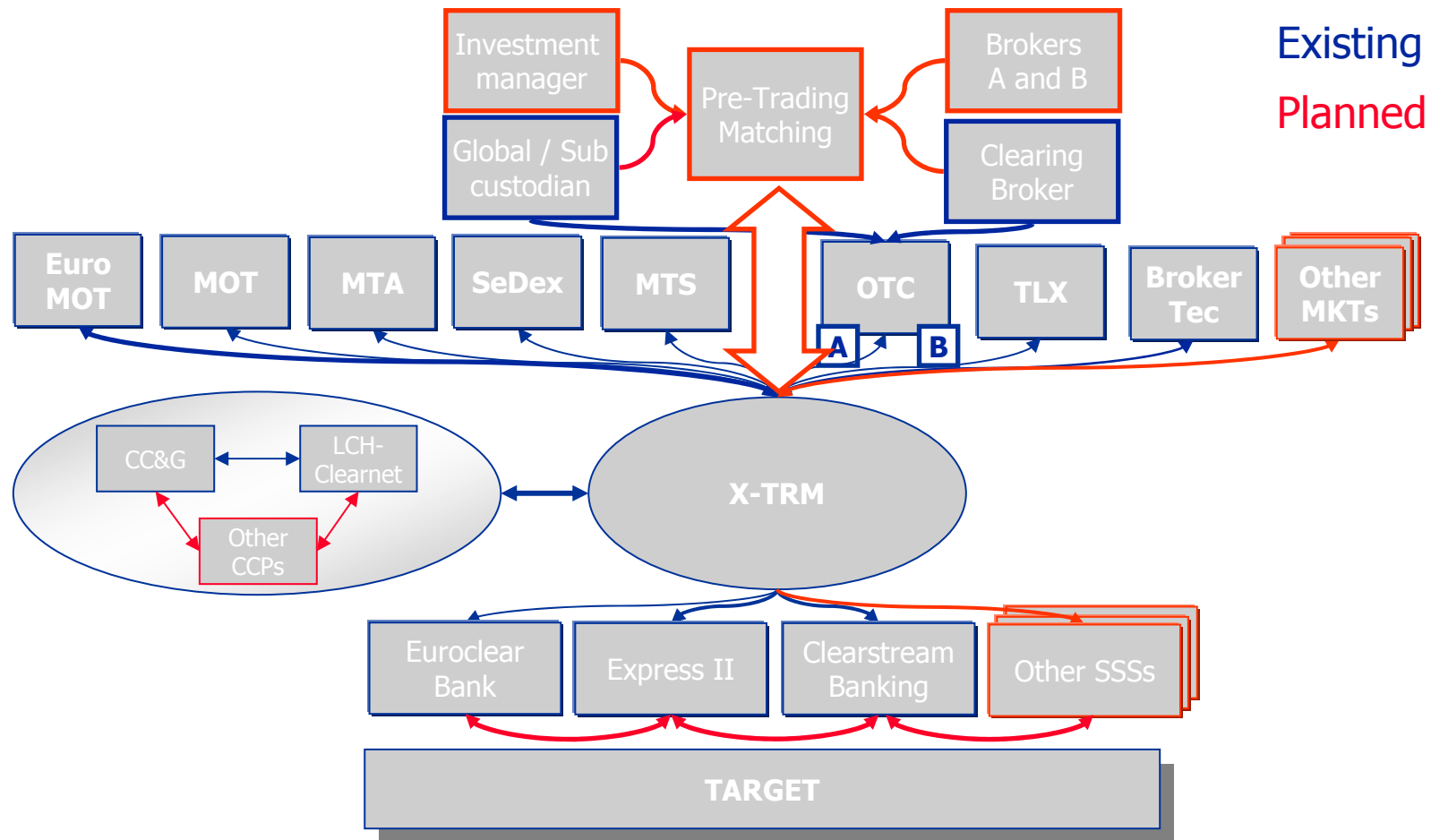
intermediaries dealing on different markets can concentrate their collateral within a single CCP. X-TRM guarantees the proper advantages of a single EU-wide CCP while preventing from the emergence of a monopolistic equilibrium

- Open access

X-TRM is able to: be fed by whichever trading or pre-matching platform; support the interaction of further CCPs and; to route settlement flows to whichever else CSD

- No hierarchical level between the involved CCPs

An overall view





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