THOMAS MURRAY

PUBLIC CSD RATING REPORT

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Monte Titoli S.p.A.

Thomas Murray CSD Public Rating for : Monte Titoli S.p.A. is AA

Public CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
Monte Titoli Rating:	AA	AA-	AA+	AA	AA	AA-	AA

The outlook for the rating is: Stable

Overall Risk Summary

Monte Titoli operates a 'very low risk' settlement and custody environment which provides an optimised solution for the Italian market. The design of Express II (the depository's settlement system) facilitates a very high settlement rate (averaging 94% in 2007 by value) with very high netting efficiency (95% by value in the overnight cycle) which, coupled with substantial, automated self-collateralisation mechanisms, significantly minimises the settlement liquidity demands on participants. Investors who wish to minimise the asset commitment period for their transactions may use the real-time gross settlement model on SD, but the corollary of utilising RTGS settlement would be to considerably reduce the liquidity efficiencies available in the overnight net settlement batch.

Fails management mechanisms are consistent with European norms in terms of buy-in timeframes. Monte Titoli employs shaping, recycling of settlements and a settlement discipline that includes penalties for late cash settlements and on fail trades while the CCP levies penalties on late equities settlements to reduce fails. All on-exchange equity transactions and a reasonable proportion of debt transactions are covered by one or more CCPs, although around 62% (average by value) of government debt transactions are not covered. However, since it is optional to utilise the CCPs for these transactions, related risk exposures are being voluntarily assumed by the settlement participants if they choose not to use the CCP service.

Monte Titoli provides highly automated asset servicing to participants, sourcing corporate action information directly from issuers and processing events in an automated environment. The Corporate Actions Re-engineering project, implemented in December 2006, removed virtually all manual processing of information feeds, while the depository's multi-channel communication model (SWIFT, RNI or MTX) provides flexible interfaces between the depository, participants and issuers. Monte Titoli has not suffered a claim against it in relation to corporate actions servicing for 10 years.

The dematerialisation of virtually all securities has removed much of the operational risk exposure from Monte Titoli's depository services. All its operations are highly automated with almost total straight-through-processing (STP) from direct participants. Good operational controls are in place which are reviewed by internal auditors on a rolling basis. All new systems and services are audited for operational exposures prior to implementation. Monte Titoli is managed by an experienced professional management team, and is regulated by both CONSOB and Banca d'Italia.

Outlook Summary
The overall outlook for the Monte Titoli rating is 'Stable'. There are some current constraints on Monte Titoli's ability to improve its CSD Rating which predominantly arise from external sources as indicated below:

The adoption of best practice in funds settlement though the Banca d'Italia's BI-REL system (i.e. central bank funds) limits the timing of final securities and funds transfers. Since BI-REL's opening hours must be aligned with TARGET, final funds settlement in the overnight cycle is delayed until the opening of BI-REL at 7.00am. Consequently, to achieve simultaneous DVP, final securities transfers are effected at the same time. It is expected that upon the introduction of TARGET 2 (beginning May 2008), which will allow for an overnight cash settlement window, Monte Titoli and Banca d'Italia will be able to complete final settlement sooner.

It is optional for government debt transactions executed on MTS, EuroMTS and BrokerTec to be covered by a CCP (CC&G or LCH.Clearnet S.A.) and OTC equity and debt transactions are not covered. The CCPs have indicated their willingness to extend CCP coverage, especially since with the introduction of MIFID, the distinction between on-exchange and OTC transactions will become blurred.

Monte Titoli has committed to extending the scope and frequency of operational audits conducted by their internal auditors.

The decision of Monte Titoli to offer direct remote access for international investors together with the provision of credit and stock lending facilities as a Principal, will place additional demands on existing resources and require careful risk management.

Role of the Depository
Monte Titoli S.p.A. is the sole central securities depository in Italy, after having taken over government securities from Banca d'Italia, the central bank, in December 2000. Monte Titoli provides settlement, custody and depository services for equities, Government bonds, corporate bonds, other debt securities tradable in the capital market, UCITS, and money market instruments. Monte Titoli was granted the ability to provide these services through art. 69 of Legislative Decree No. 58 of 24th February 1998 and the Italian Ministry of Economy and Finance Decree dated 23 August 2000.

Monte Titoli is a for-profit limited company, 98.77% owned by Borsa Italiana S.p.A. The company was set up in 1978 and since 1986 has been the national central securities depository under Law No289 of 19 June 1986. Government debt was centralised under Monte Titoli administration in December 2000. Securities deposited at Monte Titoli are mainly held in dematerialised form, although there is still a small percentage of physical holdings within the systems and a few held outside of the depository, but this is rare. Custody of foreign securities is offered through links with the ICSDs and other national CSDs. Moreover there is the possibility that foreign securities are directly admitted to Monte Titoli.

There are two central counterparties (CCPs) in the market - Cassa di Compensazione e Garanzia (CC&G) and LCH.Clearnet S.A. They are optional for fixed income securities dealt on MTS markets while CC&G is the mandatory CCP for equities dealt on Borsa Italiana markets. Monte Titoli's settlement system is called EXPRESS II which is a combination of two net settlement cycles and an RTGS intra-day settlement process. Monte Titoli also operates the matching and routing systems for domestic transactions via X-TRM. Cash settlement is via the Banca d'Italia's BI-REL RTGS payment system.

Risk Summary	Risk
Overall Risk	**AA**
Asset Commitment Risk Although investors have a degree of choice over which settlement route to employ, the majority of transactions settle via the EXPRESS II overnight cycle (84.6% by value in 2005) in order to take advantage of the liquidity efficiencies from the multilateral netting process. The deadline in X-TRM for matching of transactions with next day value is 5.30pm SD-1, at which time the settlement becomes irrevocable. Securities are not blocked prior to the settlement run at 12.45am SD, but are transferred into a technical account and achieve finality in the buyer's account at 7.00am SD. It should be noted that in operating a multilateral net processing solution, the use of assets receivable can be achieved by positioning all related transactions into the overnight cycle. However, any other use of receivables outside of the Monte Titoli system must await operational finality at 7.00am SD. Transactions settling via EXPRESS II gross settlement (RTGS) either settle immediately upon matched instruction where the countervalue is available, or (if not available) are recycled throughout the day. However, since the assets are not blocked and are available until settlement the only asset commitment period is between exchange of securities and cash which is on	**AA-**

average around 50secs. The cash component of the liquidity reserve for net buyers is part of the general cash reserve Italian banks hold at Banca d'Italia, so no additional pre-funding is required. Firm and self-collateral use of securities as part of the liquidity reserve must be designated/profiled by 7.30am SD-1.	
Liquidity Risk Net settlements in EXPRESS II settle on a BIS model 3 basis. EXPRESS II has a number of liquidity enhancing measures that help keep the fail rates very low (average 1.1%). Although, liquidity risk for gross settlements within the RTGS system is higher caused by the sequential delivery of funds and securities on a gross basis, the number and value of transactions processed in this flow is comparatively low (0.7% of volume). Additionally, settlement participants may actively manage their settlement queue to optimise liquidity. Mini-netting for CCP transactions in the RTGS mode was introduced as of 18 December 2006, significantly reducing the liquidity demands for CCPs settling failing trades in the gross system. The use of firm and self-collateralisation arrangements within the overnight cycle and the use of caps, reduces the liquidity demands substantially. Notably, the sophisticated self-collateralisation model is extremely effective at reducing the funding requirements at Banca d'Italia. Effective fails management procedures, including penalties, recycling of trades and buy-ins, are enforced on all CCP guaranteed transactions or bond transactions with the Banca d'Italia. There are no buy-in arrangements for off-exchange transactions. The unrestricted availability of credit facilities from commercial banks and centralised stock lending facilities from Monte Titoli on an agency basis, further mitigate the risk of fails due to short positions.	**AA+**
Counterparty Risk Counterparty risk exposure for all on-exchange equities transactions on MTA/ MTAX, and around 60% of MTS/EuroMTS and BrokerTec debt transactions (around 38% of overall total debt trading value in Italy) is centralised and controlled by LCH.Clearnet S.A. or CC&G acting as central counterparties. Extensive clearing member criteria, continuous risk exposure monitoring, and risk containment resources including margining and substantial default funds, sufficiently mitigate clearing member counterparty risk exposure (would cover the default of at least the two largest clearing members). All other on-exchange trades and OTC transactions (constituting ~58% of trading value) settle on a simultaneous DVP basis without a CCP. However, these trades do not benefit from any settlement guarantee measures or resources, potentially exposing counterparties to opportunity costs if the transactions with a defaulted counterparty are not completed.	**AA**
Asset Servicing Risk Monte Titoli provides investors with all information from issuers who are contractually obligated to provide Monte Titoli with event notices. The level of liability it assumes is established by terms of the Testa Unico Finanza (TUF) securities market law, and is backed by the special guarantee reserve of EUR 8m and Monte Titoli's insurance policies. Monte Titoli has not been subject to a claim against them in relation to their corporate actions servicing for 10 years. The asset servicing operations of Monte Titoli are largely automated but some information from issuers is provided manually and must be re-keyed into the anagraphica databases (e.g. bond static data). This, however, is a small proportion of total information processing. The Corporate Actions Re-engineering (CAR) project implemented on 4 December 2006 successfully automated the remaining manual messaging on corporate actions (mainly from issuers). Income payments are executed in central bank funds with same day value on an actual basis (i.e. Monte Titoli does not provide a contractual income service).	**AA**
Financial Risk Financial risk exposure on Monte Titoli is moderated by its majority ownership by Borsa Italiana Group which can bring substantial financial resources (Net Capital and Reserves were EUR 268 million at year-end 2005) to support Monte Titoli operations. Monte Titoli has maintained increasing profits over the last 5 years. Net operating profits are stabilised by adjustments to fee income charges, with income split equitably between custody and settlement related income streams.	**AA**

A special guarantee of EUR 8 million is maintained against participant's successful claims for losses triggered by Monte Titoli's negligence or error, but no claims have ever been made against this fund. Insurance policies are also maintained against losses triggered by operational breakdowns but the scope and value of these policies can not be disclosed for confidentiality reasons. Monte Titoli is not subject to credit risk exposure nor does it engage in principal activity. Financial claims against it may result only from operational breakdowns which are covered as above.	
Operational Risk Sound operational controls appear to be in place and they are performed in accordance with the existing framework of supervision established by the Banca d'Italia and CONSOB. Monte Titoli operations are highly automated, reflected in the relatively small staff complement of 127 people (as at 30 September 2006). The responsibility to identify and manage the operational risks of Monte Titoli is assumed by the companies' senior management, taking into account the recommendations of the internal auditors and members of the Statutory Board (Collegio Sindacale). Risk management policies are then established and periodically reviewed but there is no risk management committee consisting of senior management. Monte Titoli annually formulates a Risk Map which identifies all the risks relating to its activities as well as the accountability for managing and monitoring risks, and every operating area has operating manuals and checklists which are thoroughly followed. There is an independent internal audit function performing audits on all key processes, including IT and operations. When new services are launched, operational risks are identified by the internal audit department, which indicates the monitoring and mitigation instruments. However, internal audits are completed on a periodic basis according to an Internal Audit plan, and there is no complete annual internal audit conducted on all operational procedures and controls. While the internal audit department can draw upon resources from Ernst & Young, no external auditor carries out a complete annual audit of operations and procedures. Monte Titoli has a formal disaster recovery plan which is tested every 6 to 8 months. The last test was performed on 25 November 2006 and it included all interested participants. The switch from the primary site to the disaster recovery site and back did not impact on the participants' activities. Monte Titoli deemed the activity a success and made the results public.	**AA-**
CSD on CSD Credit Risk Since Monte Titoli offers settlement according to the EMI standards, it is commonly used to settle ECB monetary transactions. Its links are frequently used. The X-TRM service allows clients to route stock exchange instructions from Borsa Italiana's EuroMOT market as well as OTC transactions to the ICSDs.	**Links Exist**

Asset Commitment Risk

Summary

Although investors have a degree of choice over which settlement route to employ, the majority of transactions settle via the EXPRESS II overnight cycle (84.6% by value in 2005) in order to take advantage of the liquidity efficiencies from the multilateral netting process. The deadline in X-TRM for matching of transactions with next day value is 5.30pm SD-1, at which time the settlement becomes irrevocable. Securities are not blocked prior to the settlement run at 12.45am SD, but are transferred into a technical account and achieve finality in the buyer's account at 7.00am SD.

It should be noted that in operating a multilateral net processing solution, the use of assets receivable can be achieved by positioning all related transactions into the overnight cycle. However, any other use of receivables outside of the Monte Titoli system must await operational finality at 7.00am SD.

Transactions settling via EXPRESS II gross settlement (RTGS) either settle immediately upon matched instruction where the countervalue is available, or (if not available) are recycled throughout the day. However, since the assets are not blocked and are available until settlement the only asset commitment period is between exchange of securities and cash which is on average around 50secs.

The cash component of the liquidity reserve for net buyers is part of the general cash reserve Italian banks hold at Banca d'Italia, so no additional pre-funding is required. Firm and self-collateral use of securities as part of the liquidity reserve must be designated/profiled by 7.30am SD-1.

Processing Cycles

The components of the Italian settlement infrastructure are as follows:

(a) Matching: X-TRM operated by Monte Titoli, merged the separate matching processes of RRG-NET and RRG-REL from 2nd October 2006. All regulated and unregulated market transactions are matched and routed through X-TRM.
(b) CCP Netting and Guarantee: CC&G and LCH.Clearnet (only for government bonds traded on MTS) for fixed income products. CC&G for equities dealt on Borsa Italiana markets and convertible bonds.
(c) Settlement: DVP settlement between Monte Titoli and Banca d'Italia for on-exchange traded and OTC transactions.

Matching

Telephone manual pre-matching is market practise for institutional trade matching, but X-TRM services provided by Monte Titoli support official exchanges (Borsa Italiana, MTS and TLX) as well as alternative trading systems (BrokerTec Europe Ltd and CABOTO SIM SPA).

On-exchange transactions are automatically routed to X-TRM and are considered as matched on arrival. Any corrections between client and house accounts for cash contracts executed on Borsa Italiana Markets in X-TRM must be before 8.00pm on T+1. OTC transactions have to be input and matched in X-TRM prior to processing.

Trades can be entered into the X-TRM matching system any time between trade date and 5.30pm SD-1 (for next day value DVP transactions) or 8.00pm SD-1 (for FoP transactions), with trades matching in a real-time environment. X-TRM forwards matched transactions to Express II every 15mins. The system is available between 7.00am and 10.30pm every day. X-TRM also holds the Standard Settlement Instructions (SSI) database.

Express II receives the matched instructions that require settlement in the net cycles in two steps:
- Batch process: all trades matched by SD-2 are sent to Express II after the closure of the post-trading platform at SD-2.
- On-line process: all trades matched at SD-1 are sent in real-time to Express II until the cut-off provided for the input of the transaction into the X-TRM platform.

All trades for settlement with next day value must be matched and locked-in by 5.30pm on SD-1, in order for settlement to proceed in the overnight batch. The only exceptions are for next day repo contracts traded on MTS that can be processed until 6.45pm on SD-1 - the first leg settles on T+1, while the second leg settles on T+2.

Same day or late trades can be matched in X-TRM until 6.00pm on SD for settlement in the RTGS settlement system. The Express II RTGS system acquires these immediately upon a successful match.

Monte Titoli's New Functionalities working group has convened to analyse potential interventions with regards to adjusting the X-TRM matching platform to the new ESF International Standards. The following are being considered with the aim of improving the efficiency of the matching process in the X-TRM matching engine:

1. Hold and Release Function

This will permit the unilateral checking of the release of a transaction into the settlement process in which the transaction retains the original matching status (matched/not matched). The Hold and Release function will be possible only for non-CCP guaranteed OTC transactions, which are not yet submitted to the net or gross settlement processes (i.e. failed transactions are excluded from this functionality). Monte Titoli will set a market deadline until which instructions can be held before release. Intermediaries are also considering the possibility of introducing the linking facility applied to OTC and on-market trades.

2. Cancellation of Matched Transactions

This will allow for the irrevocable cancellation of transactions upon bilateral agreement. The transaction can settle until both parties request the cancellation. However, the cancellation is irrevocable once agreed upon by both parties. This will also apply only to non-CCP guaranteed OTC transactions not submitted to the net or gross settlement processes, and will not apply to failed transactions. Monte Titoli will set a deadline by which mutually agreed cancellations can be made.

3. Revised Tolerance Levels

• In case of countervalue discrepancy, adjustments will be made according to the counter value. If it is equal to or less than EUR 100,000.00, the tolerance level is EUR 2.00, otherwise the tolerance level is EUR 25. The determinant leading countervalue will be that of the seller and not the lower amount as was the case previously.

• Second Layer Participant and Trade Date will be new mandatory matching fields. The former will identify the participant's client through the client's BIC code or free-format text, and will allow for the automatic issuance of MT578 messages (alleged trades). The trade date information will be particularly useful during the dividend period.

The working group is set to reconvene several more times before the final adoption of changes, with the next meeting scheduled for the end of March in London. The above developments will be included in Phase 1 of the project to be implemented in early 2008, with Phase 2 implementing any additional enhancements in 2009

CCP Netting

X-TRM also handles some functionality on behalf of the CCPs (for MTS there are two CCPs – CC&G and LCH.Clearnet S.A., while for equities it is just CC&G). X-TRM splits the contracts to be novated into their constituent parts, calculates the bilateral net balances and passes these to the relevant CCPs and to Express II on SD-2 (T+1).

Settlement

EXPRESS II combines two main settlement mechanisms, the Net Settlement system (EXPRESS II - net settlement) and the Gross Settlement system (EXPRESS II - RTGS). Around 94% by value (98% by volume) of total settlements are processed through the net cycles (overnight and daytime combined), while 6% by value (2% by volume) is processed through the gross system.

All trades matched by SD-1 are first submitted to the overnight net batch, which settles with simultaneous finality at 7.00 am SD. If the trade fails, it is submitted to the subsequent net daytime batch, and if it continues to fail is further submitted into the RTGS process.

EXPRESS II - net settlement

The overnight cycle in EXPRESS II provides securities lending and automatic collateralisation, combined with a netting algorithm that minimises the impact of any shortfall in either securities or cash. Partial settlements are allowed for trades involving the CCP.

For transactions to be settled in the Express II net settlement cycle, after the deadline for matching of next-day settleemnts in X-TRM at 5.30pm, there is a period of pre-settlement during which participants can: 1) notify the dedicated liquidity reserve for securities settlement to Banca d'Italia; 2) select securities for use in the firm collateralisation process (against which the Banca d'Italia offers intra-day credit) in line with 4 collateral profiles, thereby increasing the total purchasing power. The deadline for the selection of securities for firm collateralisation is 7.45pm on SD-1; 3) as an additional source of liquidity, besides income payment, self-collateralisation (using securities from the settlement process itself) is also available. Participants can view their positions online throughout SD-1, and can actively choose the mix of firm and self-collateralisation to be adopted. The value of self-collateralisation far outweighs the liquidity reserve value funded by firm collateralisation.

The pre-settlement check and netting process runs at 8.00 pm SD-1. The overnight batch starts at 8.30pm SD-1 and completes processing around 1.00am SD. By 1.00am SD, securities are transferred from the sellers' accounts to a provisional technical account. If the automatic collateralisation mechanisms have been activated, the securities identified for this purpose are transferred from the participants' ownership accounts and/or from the provisional technical account to the guarantee account of Banca d'Italia, in time to assure the granting of financing. The net clearing procedure activates cash settlement via on-line transmission to the BI-REL system with a specific request for transfer of cash from the debtor participants' accounts to a technical account registered in the name of Clearing and Settlement Services.

After receipt of confirmation from the BI-REL system of successful completion of cash debiting operations, the net clearing and settlement system completes the settlement process. Monte Titoli transmits to the BI-REL system a specific on-line request to credit cash to the creditor participants' accounts, debiting the Settlement Services technical account and simultaneously settles multilateral balances of securities receivable by debiting the provisional technical account to which the securities were previously transferred, net of any securities transferred to Banca d'Italia to guarantee intra-day financing. Over 2005, the daily average of transactions (by value) settled in the first batch run was 84.6% (98.2% by volume).

Any failing trades identified by the algorithm are automatically routed to the daytime net settlement cycle that is devoted exclusively to failing trades and runs from 9.30am until 1.00pm SD (from 9.30am to 11.30am for the caps and securities coverage, then for the cash coverage). All assets that do not settle in the overnight cycle are released and are available to participants, before being recommitted for the intraday net cycle. The process re-calculates multilateral net balances, checks availability of securities and liquidity reserve (although not simultaneously), and settles the available balances.

The results achieved after the two net cycles represent the performance of the overall net settlement process in Express II. Over 2005, the daily average of transactions (by value) settled in the second batch run was 9.8% (1.1% by volume). At the end of the second batch cycle the settlement percentage was, on average, 94.4% (99.3% by volume).

Any trades still failing after the daytime cycle are automatically forwarded to the RTGS (gross settlement - see below) settlement mechanism at 1.15pm SD. Over 2005 the daily average of transactions (by value) settled in RTGS was 4.5% (0.5% by volume), giving an overall daily average settlement rate of 98.9% (99.8% by volume).

The implementation of TARGET 2 in Europe may include a night-time central bank processing window. Should this be available, transaction finality in the overnight cycle would be brought forward to intra-night.

EXPRESS II - gross settlement

Same day and late trades together with failing on-exchange, OTC trades and the initial leg of overnight repos can settle on an RTGS basis, with simultaneous DVP, during the daytime gross processing period. Trades guaranteed by the CCP, failing at the end of the daytime cycle, are submitted to the RTGS mechanism, shaped (if applicable) into smaller lots (see Fails Management for further details). Monetary policy transactions carried out by the ECB also settle in the RTGS mechanism.

Participants who wish to use the RTGS mechanism send electronic instructions to Monte Titoli for inclusion in X-TRM. For transactions to be settled on a real-time basis, matched instructions are sent by X-TRM to the gross settlement process, on an irrevocable basis, which then immediately blocks the underlying securities in the deliverer's account and instructs BI-REL to transfer the funds from the buyer to the seller. On completion of the cash transfer, Monte Titoli transfers the blocked securities from the selling participant's account into the receiver's account and the transfers are then final and irrevocable.

If both securities and cash are available, the settlement of matched instructions is completed in less than 1 minute, which is the time needed for the exchange of the information between Monte Titoli and Banca d'Italia. If either securities or cash are not immediately available the system continues to regularly check for availability until either the deadline for queued trades at 4.00pm, upon agreement of the clients, in the extended cut-off time between 4.00pm and 6.00pm.

Participants have the ability to manage their settlement queue and can nominate transactions for automatic resubmission for next day settlement.

The RTGS system is open from 7.00am to 6.00pm, although between 7.00am and 8.00am only instructions input during the previous days are processed (i.e. instructions to be settled on a deferred basis).

Settlement of failing trades is attempted between 1.15pm and 4.00pm during separate RTGS routines. There is a 10-minute window to settle queued transactions using available securities and cash from settled trades. Any DVP transaction input between 4pm and 4.10 pm will only be processed after the closing of the new window at 4.10pm to facilitate better management of queued DVP transactions. According to specific requests from participants, the cut-off time has been extended (from 4.00pm to 6.00pm) four times in the last 18 months.

Monte Titoli introduced a mini-netting procedure to the RTGS component on 18 December 2006, applicable only to failed transactions guaranteed by the central counterparty from the daytime cycle. The mini-netting mechanism combines two or three instructions relating to the same ISIN code with the same quantity (opposing transaction types), with the securities balance equating to zero. Monte Titoli will then calculate and process the net cash balances of the central counterparties.

The cash balances of intermediaries will be processed gross as usual. Only the settlement system procedures for central counterparties have been modified.

Non-DVP transactions

Monte Titoli's participants can also settle off-exchange transactions on a non-DVP basis with securities moving in Monte Titoli on an FOP basis in real-time (or on a different date decided by participants) with a subsequent transfer of funds carried out by the participants themselves. Over 2005, the percentage of daily transactions (by value) settled FOP was 10% (7% by volume).

The process consists of two separate instructions. The first is sent by the participant delivering the securities in Monte Titoli, instructing the delivery of the securities to a buyer's account (it is market practise that securities move first). The receiving participant then instructs Banca d'Italia to pay cash to the deliverer's account at the bank. Instructions sent to Monte Titoli are processed in realtime if received on settlement date and there are securities available. These transactions can be processed up to 6.30 pm.

Cash

Settlement at the Banca d'Italia is via BI-REL, the Italian RTGS system with links to TARGET. Express II users must appoint an 'agent bank' (clearing bank) who has a BI-REL account with the Banca d'Italia, or be eligible as an agent bank themselves. Participants must only appoint one agent bank for both net and gross settlement.

Payment obligations are carried out in the accounts participants held in Banca d'Italia. The overnight net settlement procedure takes advantage of cash that participants have already reserved for Express II and that Banca d'Italia has made unavailable for participants. The daylight cycle and the RTGS process work on the cash account already held in the accounts of Banca d'Italia. Cash is not reserved on the participant's Banca d'Italia account since the balances are fungible with those required to fulfil gross payments in the real-time environment.

Future developments may make settlement in currencies other than EUR possible in the participants' or agent banks' accounts, opened at Monte Titoli or at banks authorised in Italy or EU banks and with which Monte Titoli has stipulated specific agreements.

Asset Commitment Periods

EXPRESS II - net settlement

The X-TRM system requires net settlement instructions for next day value settlements to be matched by 5.30pm on SD-1, and immediately after this matched instructions are submitted for settlement. This is considered the beginning of the asset commitment period for calculation purposes in this report, since it is deadline by which participants make an irrevocable commitment to deliver that balance of securities for settlement in the overnight cycle. Monte Titoli transfers seller's securities to the technical account for by 7.00am SD and almost simultaneously cash proceeds are credited at the Banca'd'Italia. This creates an overnight asset commitment period. Securities or cash positions that failed to be transferred in the net overnight cycle are not blocked, but are recycled into the net day cycle.

The deadline by which the buyer has to communicate to Banca d'Italia/Monte Titoli the amount of liquidity reserve positioned in its Banca d'Italia account that it makes available for settling net purchases in the EXPRESS II overnight cycle is 6.25pm SD-1. However, the composition of the liquidity reserve in terms of firm and self collateralisation and funds at Banca d'Italia only has to be fixed by 7.30pm SD-1. A net buyer receives securities by 7.00am on SD, generating an asset commitment period of 11.5 hours for he collateralised settlement portion. However, the cash component of the liquidity reserve is funded out of the general cash reserve each Italian bank maintains at the Banca d'Italia. Hence, this cash is retained in fully accessible form with negligible asset commitment period involved.

Express II - gross settlement

Both EXPRESS II RTGS and BI-REL are RTGS systems normally giving a very low asset commitment period of around 50secs, the time it takes for messages to pass between the two systems. Matched instructions between participants in the system are immediately forwarded for settlement. This period could be extended up to 10hrs if the buyer (or its agent in BI-REL) does not have adequate credit lines/cash available, or the seller does not have securities available for delivery and has not set a deadline or timeout by which a transaction is cancelled. However, this scenario would be extremely rare.

The standard cut-off for RTGS trades is 4.00pm (attributed by default by the system). Participants potentially apply a time out between 4.00pm and 6.00pm, but they will not be allowed to enter a time out prior to 4.00pm.

Irrevocability

Currently, transactions become irrevocable as soon as they have been matched within the X-TRM system and have received the matching time-stamp from X-TRM. The matching of transactions to be settled net must be achieved by 5.30 pm on SD-1. The only exceptions to this are tom-next repos in MTS, which can be sent to X-TRM until 6.45pm on SD-1.

All transactions that settle through EXPRESS II become irrevocable as soon as they are matched into X-TRM according to the principles described in the 'Operating rules for settlement systems (Express II) and related activities' published on Monte Titoli's web site.

Monte Titoli is planning to postpone the irrevocability of OTC transactions closer to the starting of the settlement procedure to allow participants to modify the elements of the transactions until that moment. To this end it is consulting with participants within the Express User Group (a specific user group, composed of representatives from Monte Titoli, the authorities, trade association, leading Italian banks and regulated markets, established to serve as a forum as regards Express II) and with the EuroMTS Settlement Working Group.

Finality

Securities transfer finality occurs as soon as the securities are moved out of the temporary holding account and into the buyer's account, normally by 7.00am on SD. Similarly, cash transfer finality occurs at the instant the cash is moved between the BI-REL accounts at the Banca d'Italia.

However, legally market operations (transfer orders) become final at the start of the net settlement batch to protect participants from unwind risk which could be triggered if a participant was declared insolvent between the start of the settlement batch and final credits/debits on the morning of SD.

As from June 2001, the finality of both payments and securities transfers performed through designated systems was ensured by the law implemented in Italy under the EC Settlement Finality Directive on 12 April 2001. This is enshrined in the Express II operating rules from 7th November 2006. Settlements in Express II cannot be unwound.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

	Transaction Type	*Start*	*Finish*
Securities	EXPRESS II Net Overnight cycle	5.30pm SD-1	By 7.00am SD
	EXPRESS II Net Daytime cycle	9.30am SD - 11.30am SD (securities/caps coverage)	1.00 pm SD
	EXPRESS II Gross	Immediate between 7.00am SD and 6.00pm SD	Immediate between 7.00am SD and 6.00pm SD
Cash	EXPRESS II – Net Overnight cycle	6.45pm SD-1	By 7.00am SD
	EXPRESS II – Net daytime cycle	12.45pm SD	1.00pm SD
	EXPRESS II Gross	Immediate between 7.00am SD and 6.00pm SD	Immediate between 7.00am SD and 6.00pm SD

Comments (i.e., on pre-funding and irrevocability)

Sellers need to position their securities for the EXPRESS II overnight net cycle, while buyers dedicate liquidity into BI-REL to the settlement process of Express II (without affecting the minimum reserve obligation with the Banca d'Italia). In addition, firm and self collateralisation services contribute to minimise the need of the dedicated liquidity. For the overnight cycle the positions in securities and cash taken into consideration are those present in the accounts at 8.00 pm of SD-1.

Securities processing cycle outlined

The majority of trades settle firstly via matching in X-TRM, followed for on-exchange guaranteed trades by novation to CCG or LCH.Clearnet (for some fixed income securities) with multilateral netting of securities and cash in EXPRESS II. Settlement instructions for next day settlement in the overnight cycle become irrevocable at 5.30pm on SD-1 and settlement is final at 7.00am on SD.

Same day and late trades settle in RTGS between 7.00am and 6.00pm. 4.00pm is the cut off time of the unsettled positions, coming from the net settlement cycles.

Cash processing cycle outlined

Participants must ensure that they have sufficient dedicated liquidity in their Banca l'Italia accounts and "purchasing power" to cover cash amounts due. Cash amounts move on a real-time basis with immediate finality in central bank funds according to the interfaced model.

Liquidity Risk

Summary

Net settlements in EXPRESS II settle on a BIS model 3 basis. EXPRESS II has a number of liquidity enhancing measures that help keep the fail rates very low (average 1.1%). Although, liquidity risk for gross settlements within the RTGS system is higher caused by the sequential delivery of funds and securities on a gross basis, the number and value of transactions processed in this flow is comparatively low (0.7% of volume). Additionally, settlement participants may actively manage their settlement queue to optimise liquidity. Mini-netting for CCP transactions in the RTGS mode was introduced as of 18 December 2006, significantly reducing the liquidity demands for CCPs settling failing trades in the gross system.

The use of firm and self-collateralisation arrangements within the overnight cycle and the use of caps, reduces the liquidity demands substantially. Notably, the sophisticated self-collateralisation model is extremely effective at reducing the funding requirements at Banca d'Italia.

Effective fails management procedures, including penalties, recycling of trades and buy-ins, are enforced on all CCP guaranteed transactions or bond transactions with the Banca d'Italia. There are no buy-in arrangements for off-exchange transactions.

The unrestricted availability of credit facilities from commercial banks and centralised stock lending facilities from Monte Titoli on an agency basis, further mitigate the risk of fails due to short positions.

Processing Model

On-exchange transactions settle on a T+3 basis (T+2 for T-Bills) while repos can settle T+0 to T+12 months.

In X-TRM, the matching runs automatically without any manual intervention by the parties. All OTC trades are automatically matched in X-TRM. X-TRM is the only matching platform that routes trades to Express II and foreign settlement systems. At present, there are no third party matching and routing systems that feed trades into X-TRM. X-TRM online will allow foreign clients direct access to input trades.

X-TRM bilaterally nets trade positions between clearing members of each CCP and between CCPs for debt transactions. CC&G and LCH.Clearnet continuously multilaterally net Clearing Members' positions from trade execution onwards to calculate margin requirements (netting efficiency ranges from 90-95%).

Transactions settle in the net component of EXPRESS II under BIS model 3, multilateral net settlement of funds in the Banca d'Italia against multilateral net settlement of securities in Monte Titoli with an average of 95% efficiency. Non-CCP guaranteed OTC transactions are bilaterally netted in Monte Titoli. Same day and late trades settle in the gross component of Express II under BIS model 1, gross settlement of funds followed by gross settlement of securities, although mini-netting for CCP transactions in the RTGS mode was implemented on 18 December 2006. Liquidity is further enhanced by linking EXPRESS II net settlement and EXPRESS II gross settlement; failing trades in the overnight cycle are recycled in the daytime net cycle and EXPRESS II gross settlement on SD at 1.15pm.

Transactions identified as failing will be subject to a 'roll-back' out of the net settlement position. Express II identifies and subtracts the minimum subset of transactions to minimise the value and volume of fails, minimise systemic risk (i.e. that the interdependence of transactions may trigger a 'domino effect' of fails) and protect IUA's (participant's clients) transactions as a priority. In order to further minimise the value of subtracted transactions, the roll-back procedure can determine partial settlement of netted balances (splits the trade into settling and non-settling portions) where the trade is guaranteed by a CCP. Gross settlement does not allow for partials. Transactions failing at the end of the gross settlement process are cancelled at the end of the days settlement window and resubmitted the next day.

Additional liquidity management techniques include the netting algorithm (which optimises net settlement), queue management in the RTGS process, cap management at Monte Titoli via the use of (firm and self) collateralisation, integrated stock lending within EXPRESS II plus a time-out mechanism in the gross settlement process allowing an extended settlement agreement to be made between the settlement parties (although practically participants tie-in these transactions to fails settling in the real-time mode which can't be timed-out until 4pm).

Firm collateralisation is on a voluntary basis initiated by the participant. Self-collateralisation is on an automated basis in the Express II system. Self-collateralisation is only available on own and segregated client accounts (with the client's permission) using Italian government debt transactions and other foreign debt trades, where the issue is recognised as Tier 1 collateral under European Central Bank (ECB) regulations. The proportion of cash, firm and self-collateralisation used to fund the participant's Liquidity Reserve is at the discretion of the participant. There are plans to allow for bank loans to be eligible as collateral.

A shaping functionality is also available. For Italian fixed income transactions, shaping is applicable to any balance guaranteed by the central counterparty that is still failing at the end of the Express II day. Monte Titoli automatically splits the failed transactions into a number of smaller trades before being submitted to the daylight RTGS settlement cycle.

Monte Titoli extended the same shaping process to MTS non-guaranteed trades as well as to OTC fixed income transactions. Shaping is based on nominal amount, not on cash countervalue. Shaping thresholds are as follows:

Shaping Threshold/Market Source/Shaping Criteria
EUR 25m/MTS and BrokerTec non CCP-guaranteed trades/Nominal Amount
EUR 25m/OTC trades (Government Bonds)/Nominal Amount
EUR 5m/MTS CCP-guaranteed trades/Nominal Amount
EUR 2m/MTA trades (all trades are CCP guaranteed)/Cash countervalue

Shaping functionality is also available for BrokerTec Europe Ltd trades with a threshold of Euro 25m.

Monte Titoli extended the shaping functionality to listed equity OTC transactions on guaranteed markets on 4 September 2006. The procedure on OTC transactions is in line with the existing on-exchange set up which is EUR 2m based on the counter- value.

Queue management in the RTGS system gives settlement priority in the following order:
- Monetary Policy Operations and transfers in favour of Banca d'Italia.
- Transactions executed on regulated markets
- Failing trades from the daytime cycle.
- OTC trades on a FIFO basis.

Monte Titoli has proposed introducing an automatic pre-matching system and to make automated adjustments to off exchange trades that fail over an ex date. An automatic pre-matching system will allow a more efficient way of identifying discrepancies and therefore reduce the potential for failed trades. The BFM Service is available for the disclosure of OTC transactions in listed securities.

Fails Management

Over 2005, the daily fail rate was 0.2% in terms of number of instructions and 1.1% in terms of counter-value. Fails of on-exchange trades (guaranteed and non-guaranteed) represent 81% in terms of number of instructions and 70% in terms of counter-value of the above mentioned daily fail rates.

The fails management mechanisms combine:

- Penalties (imposed by CC&G on failing equities transactions)
- Mandatory buy-ins by the CCPs for all guaranteed transactions
- Enforced buy-ins for all transactions with the Banca d'Italia
- Optional buy-ins for on-exchange trades not guaranteed by a CCP

Failed trades are resubmitted to the gross component of EXPRESS II system for a number of days established by the market itself (validity date: SD+10 for MTS CCP guarantee and non-CCP guarantee trades, although the average recycling period is only 2 days); SD+7 for Italian Stock Exchange guaranteed trades; SD+30 for Italian Stock Exchange non-CCP guaranteed trades (Domestic MOT; Sedex) except for rules introduced to cover auctions and repo transactions with the Banca d'Italia (see below); SD+10 for BrokerTec Europe Ltd trades.

Penalties (imposed by Monte Titoli):

Post EXPRESS II implementation, it was decided that penalties were not required for intra-day fails. However, changes to Express II operating rules that came into force from 7 November, gave Monte Titoli the right to levy fines if a participant fails to fund the net intraday batch or real-time processing sufficiently. Fines are to be introduced for persistent poor settlement performance (as defined below) after the daytime net settlement batch from 12 February 2007, For end of day penalties, the calculation of fines will apply from 12 February 2007, with a grace period of one month, within which Monte Titoli will only calculate the fines but not charge the participant. Proper penalisation has applied from 12 March 2007.

Monte Titoli will only apply penalties if 95% of the instruction numbers and 90% of countervalue are not reached. Monte Titoli may or may not apply penalties if only one of the thresholds is reached. These thresholds will be reviewed once a year.

The penalty will be composed of a fixed fee (taking into account the frequency and length of the delay, which will be from

EUR 500 - EUR 16,000) and a variable fee (10 bp, based on the total cash amount to be funded).

It should be noted that penalties will not be applied to participants that entered (either on an automatic or voluntary basis) a borrowing request in the lending service handled by Monte Titoli.

CC&G Penalties:
A fee based on the following staggered scale is applied to each failed CCP equity transaction present in the clearing system and in the gross settlement cycle at the beginning of each day:

Countervalue of the failed transactions /Penalty
0.01 up to EUR 100,000 / EUR 50
EUR 100,001 – EUR 1,000,000 / EUR 150
EUR 1,000,001 – EUR 2,000,000 / EUR 200

(EUR 2,000,000 being the maximum shape size for equities)

No penalties are levied by either CC&G or LCH.Clearnet S.A. on failing MTS transactions.

Buy-ins and Sell-outs:
Different arrangements apply in the different markets as follows:
(1) Borsa Italiana markets with a CCP: e.g. MTA, MTAX (mandatory buy-ins).
(2) Borsa Italiana markets without a CCP: e.g. MOT, Mercato Expandi (optional buy-ins).
(3) Other markets with CC&G and LCH.Clearnet S.A. as CCPs for Italian government bonds: MTS/EuroMTS (mandatory buy-ins).
(4) Enforced buy-ins for all transactions with Banca d'Italia.

Buy-ins settle on a T+3 basis. There are no buy-in arrangements for off-exchange transactions.

On the equity market 165 buy-ins have been executed since the launch of Express II (in 2004), whereas on the Government bonds markets the buy-in has never been executed.

(1) Borsa Italiana markets with CC&G as CCP

Buy-ins:
The buy-in procedure is activated automatically. Failing positions are dealt with separately and the buy-ins settled via RTGS. EXPRESS II sends a report of unsettled transactions to CC&G, which acts as CCP for such trades.

The buy-in procedure is initiated by CC&G for unsettled transactions at the end of SD+3. CC&G sends a buy-in notice to the seller on the morning of SD+4. The date on which the buy-in notice is sent marks the start of an additional three day period for the settlement of the failed transaction in RTGS, to allow the seller to fulfil the original obligation. The compulsory buy-in is executed on SD+8. On the buy-in date (SD+8), before trading starts, CC&G sends the buyer and the seller a clearing report showing the securities subject to the buy-in and a buy-in agent appointed by CC&G performs the buy-in on the market. If the buy-in cannot be executed on the buy-in date, additional attempts may be made over the next two days. CC&G levies margins from the defaulter on failing trades separately from the contractual settlement date under the fail is resolved. (Please note that buy-ins are executed based on CC&G open-days, not Borsa Italiana trading days.)

Upon execution of the buy-in, the buy-in agent notifies CC&G of the details. CC&G transfers the securities, at the trading price, from the buy-in agent's third-party account to a special account of CC&G. Settlement of the buy-in trades between the buy-in agent and the original buyer is entered in the X-TRM system by CC&G and settled in EXPRESS II NET.

Differences of price between the buy-in execution and the original transaction are borne by the seller and are settled in the CCP's daily settlement system the day after the buy-in execution.

If a buy-in execution is impossible, CC&G notifies the participants with a special report and performs, on SD+11, a cash settlement of the failed positions in the CCP's daily settlement system. The amount required is to be covered by the seller.

Of the 48 million transactions processed by CC&G in 2005, only 76 were subject to a buy-in on SD+7. Of all failed transactions that CC&G guarantee, around 99% are due to shortage of securities.

Sell-outs:
EXPRESS II reports to CC&G the unsettled transactions where CC&G is acting as counterparty. If, at the end of the gross settlement cycle on the original settlement date, the failed transaction remains unsettled due to a shortage of cash, CC&G may initiate the sell-out procedure by sending a sellout notice to the buyer on SD following the closure of the gross

settlement cycle. The sell-out notice, reporting failed positions, informs the recipient that, for transactions still remaining unsettled at 4.00pm on SD, the sell-out is executed at 10.00am the following day if cash is still unavailable. CC&G may postpone the initiation of the sell out procedure at their discretion. The sell-out is performed by a sell-out agent appointed by CC&G.

On execution of the sell-out, the sell-out agent notifies CC&G of the trade details and CC&G transfers the sell-out proceeds from the sell-out agent's third-party account to itself via X-TRM. If the price achieved by the sell-out execution is lower than agreed in the original transaction, the difference is to be covered by the buyer.

If the sell-out cannot be executed on the activation date, the sell-out agent has until 3.00pm on the following day to carry out the trade. If by then the sell-out is still not executed, CC&G orders the buyer to pay the equivalent value of the securities by the same day to CC&G and, on receipt of payment, the securities are delivered by CC&G to the buyer.

(2) Borsa Italiana markets without a CCP

The time scales involved in the compulsory execution procedure for unsettled transactions in these markets is the same as in markets with a CCP (see above), but the procedure can be initiated by different parties.

If the buy-in is not executed or the procedure is not activated by the end-of-validity date of the original contract, then cash settlement of the contract will be made by the non-performing seller on SD+30. This ensures that parties defaulted against would receive compensation even in the most extreme cases.

Borsa Italiana plans to amend the buy-in procedures for the MOT market. Under the amendments, the buy-in notice will be sent by the buyer on SD+3 at 10.00am and the buy-in will be executed on SD+6 instead of the current SD+8. The possible changes to the buy-in procedures may lower liquidity risk, as buy-ins will be initiated on SD+6 instead of SD+8, therefore reducing the time that trades remain open in the system.

(3) Other markets with CC&G and LCH.Clearnet S.A. as CCPs

Buy-in:
If the interests of the CCP system and it's members are threatened, the CCP can activate the buy-in automatically, even if the time limits have not been reached.

To activate the buy-in procedure, the CCP sends a notification to the failing counterparty. A warning is sent by the CCP at the beginning of SD+7 for transactions dealt on MTS, and at the beginning of SD+4 for transactions dealt on Borsa Italiana. The buy-in notice is sent on SD+7, with settlement of the buy-in on SD+10.

Unsettled transactions are resubmitted to the gross settlement system until the validity date established by the markets as indicated above. Transactions that are still unsettled at the end of the validity date are removed from the settlement system and the buy-in is executed by a buy-in agent in the market on the following day. The buy-in agent has three days to execute the purchase of the bonds. The CCP informs the counterparties of successful execution. The failing counterparty is to bear any price difference.

Sell-out:
The sell-out may be activated on SD following the closure of the RTGS settlement cycle. On execution date of the sell-out, the system manager cancels the original settlement instruction in EXPRESS II and the sell-out agent has two days (SD+1/2) to sell the securities in the market. On execution of the sell-out, the CCP advises the failing counterparty of the trade details. The failing party has to bear any price difference.

OTC trades:

There is a time out for the settlement of OTC trades input in the RTGS system, which aims to ensure that transactions remain available for settlement until 4.00pm and after agreement between both parties, until 6.00pm.

Transactions with the Banca d'Italia:
Transactions with Banca d'Italia (including exchanges, repos and Monetary Policy transactions) constitute around 2.25% of total market transactions. For fails on these trades, the Banca d'Italia will impose penalties prior to instigating a buy-in. Where a counterparty fails to settle an agreed exchange or repurchase operation in central government bonds with the Banca d'Italia due to a short securities position, then the Banca d'Italia will apply a fixed penalty of EUR 500 per day to the failing counterparty. If the counterparty fails to settle due to a shortage of cash then the penalty will be made up of a fixed and variable fee as follows:

- A fixed fee of EUR 500 for every day that the trade fails.
- A variable fee based on the European Central Bank's refinancing rate + 5% on the first day and + 10% from the second

until the fifth day.

Trades that fail on SD will automatically be resubmitted to the following day's RTGS cycle for 5 consecutive working days. If the trade still remains unsettled after this point, Monte Titoli will automatically delete the instruction. In cases where the trade continues to fail after 6 working days, the Ministry of Economy and Finance will instigate a buy-in or sell-out, in which the failing counterparty is substituted by a buy-in or sell-out broker. Any additional costs or losses associated with the buy-in/sell-out procedure must be paid by the failing counterparty.

If a counterparty fails to settle a trade with the Banca d'Italia, whether an auction, repurchase or exchange operation, three times during six calendar months, the counterparty will not be able to participate in any Banca d'Italia auctions, repurchase or exchange operations for 30 days from the first day of the third fail.

The introduction of penalties and buy-ins for non-CCP transactions introduces some fails management disciplines to these transactions, but on an unequal basis - only if the counterparty is the Banca d'Italia.

Credit Facilities

Banks and investment firms must be direct participants in BI-REL at Banca d'Italia or use an agent that is. The BI-REL system provides credit facilities to resident banks (not to investment firms) through real-time collateral transfers using the direct link between BI-REL and Monte Titoli. In order to improve liquidity, banks are able to use these intra-day credit facilities offered by Banca d'Italia. This latter facility is not available to brokers and investment firms who usually rely on credit facilities from their respective banks. Both CC&G and LCH.Clearnet S.A. acting as central counterparties for the market, have access to credit lines from a pool of banks, in an event where they were required to inject further liquidity into the market to finance the settlement of any open positions. CC&Gs credit lines are EUR 1bn secured (by government bonds) and EUR 300m unsecured, arranged with a pool of 6 Italian banks. LCH.Clearnet has deemed details of its credit lines confidential.

EXPRESS II operates a sophisticated collateralisation procedure including firm collateral whereby own account securities can be nominated during the pre-settlement phase as collateral, combined with a self-collateralisation procedure for securities receivable in the clearing cycle (which includes own securities and those of IUA's subject to agreement between the IUA and the participant). Collateral is segregated by Monte Titoli from the accounts of participants and transferred to an account held in Monte Titoli opened in the name of Banca d'ltalia.

This measure, together with the liquidity reserve and any cash receipts from government securities (interest receipts or redemptions), make up the participants total purchasing power. Over 2006 (first eight months), on a daily average, self-collateralisation was activated to the value of EUR 4.7 billion on a total debt cash balance of EUR 8.0 billion (i.e. around 58.75% coverage on funding shortfall).

Payment orders submitted to BI-REL are irrevocable but are only executed if there is sufficient balance available in the participant's account at Banca d'Italia which operates a queuing system whereby, in accordance to an agreed set of criteria, it prioritises outstanding payments for failing participants.

According to art. 10 of the Provision dated September 8, 2000 issued by the Banca d'Italia, in agreement with Consob, Monte Titoli is allowed to perform accessory activities to settlement services. Among these there is the granting of loans, including intraday credit in euros or foreign currency and loans of financial instruments, to participants in the settlement services on the basis of adequate guarantees and for the purpose of enabling such participants to settle their respective positions. However, the implementation of this service, requires a change of the 'Operational rules', and these changes were approved by the Banca d'Italia and Consob in May 2007.

This will allow Monte Titoli to provide credit facilities, including intraday credit in euros or foreign currencies, on the basis of adequate guarantees and for the purpose of enabling such participants to settle their respective positions. These services will be provided according to Article 10 of Bank of Italy Rules of September 8th, 2000. The service is primarily designed to facilitate both inbound and outbound cross-border settlement.

Securities Lending

Stock lending is permitted in Italy and Monte Titoli launched an agency-based centralised lending service in January 2002. Stock lending also takes place between commercial banks and by direct agreement between lenders and brokers. Lending transactions settle through the net cycles of the EXPRESS II system. This service is only available for failing settlements but due to the high settlement rate, it is rarely used. Monte Titoli intends to provide securities loans (as principal) to participants in the settlement services on the basis of adequate guarantees and for the purpose of enabling such participants to settle their respective positions.

Within Monte Titoli's securities lending service, participants can operate as lenders and/or automatic (in both net cycles) or voluntary borrowers. The securities and cash collateral are transferred simultaneously on a DVP basis in the relevant net settlement cycle.

Automatic borrowers will be assigned a securities loan if a settlement fails in the overnight cycle due to a shortage of securities. The SBL service is activated during the overnight and the daytime cycle. In the overnight phase it is activated between 8.00pm and 9.00pm and in the daytime phase between 9.40am and 11.30am. Voluntary loan requests may be entered into the system up to the closing of matching at 3.00pm. Lenders have the ability to approve counterparties and margins posted on cash collateral.

All the financial instruments centralised with Monte Titoli are admitted to the service, with the exclusion of:
• financial instruments for which it is not possible to obtain an evaluation price in Euro;
• pre-emption rights;
• bonds subject to drawing;
• bonds involving total redemption with a maturity date before or coinciding with that of the loan closure;
• financial instruments for which corporate events, coupon or dividend payments are underway with a maturity date coinciding with that of the loan closure;
• financial instruments for which conversion transactions are underway with a maturity date coinciding with that of the loan closure.

Collateral in the securities lending transaction is represented only by cash that is delivered to the lender when the open leg is settled. For rolled-over loans, there will be no adjustment to the loan guarantee.

For each loan, Monte Titoli creates two return transactions, the first allowing for the same-day return of securities (intraday loans), and the second allowing for the next-day return of loans (overnight loans, which can be extended for up to 30 business days). Partial returns or shaping is not allowed for intraday returns. If the borrower has sufficient securities and settles intraday, the second return transaction is cancelled. Otherwise, when the first return expires at 4.00pm, the second return remains valid for overnight loans and the succeeding automatic rollover extensions. Partial settlement and shaping is applicable for the overnight and succeeding cycles.

The lender has the right to request Monte Titoli not to further extend the validity of the loan within 3.30pm of the second business day from the loan opening date. This will trigger a close-out netting process. The securities will not be returned to the lender and all reciprocal obligations will be netted out between the concerned parties on a cash basis.

For intraday lending, Monte Titoli will charge the borrower EUR 110, and pay the lender EUR 100 for every single lending contract. Otherwise, the lending fee will be based the European Central Bank rate (split into the lending fee rate and the borrower rebate rate according to a table provided by Monte Titoli). Monte Titoli has updated the contractual documentation for participation and the MT 850 Form 3.

The collateral haircut values are as follows (Instrument: Haircut):

• Government bonds: 2.00%
• Shares (S&P/MIB): 5.00%
• Shares (MIBTEL), bonds and convertible bonds: 10.00%
• Other shares, warrants and derivatives: 20.00%

Participants of the SBL service (whether automatic or voluntary) will not be subject to settlement fail penalties, even if the lendable assets are unavailable/insufficient to meet borrowing requests

Credit Facilities for Planned Cross-border DVP Settlement

CONSOB, the Bank of Italy and Infrastructure Supervisory Authority have approved the amendments to the Operating Rules for Clearing and Settlement Services, allowing Monte Titoli to provide cross-border DVP functionalities for Monte Titoli participants and other counterparties participating in foreign settlement systems. Within this, Monte Titoli may establish credit facilities in cash and securities to aid settlement. The new services will be launched in November 2007 to allow affected participants to benefit from the implementation of the MiFID Directive.

Registration Model

Italian Government bonds are in bearer form while equities and corporate bonds are in a bearer and registered form, and are maintained by Monte Titoli in accounts opened in the name of its clients (proprietary and third parties accounts) who can have an unlimited number of segregated accounts for custody and settlement purposes. Participants are required to maintain records of the underlying shareholders.

Registration is on a books close basis. When entitlements are required for corporate actions or income, the custodian bank will send a breakdown of beneficial owners to the issuer for updating of the register.

Dividend and interest distributions are made by Monte Titoli to the participants holding accounts in its system, while for voting purposes the participants certify holder details to the issuer.

Deposited securities

Around 98.9% of issued securities held in Monte Titoli have been dematerialised, although some physical securities (mainly corporate debt issues) are held in Monte Titoli as global or jumbo certificates. Specific regulations provide for eligibility criteria of securities for custody and settlement in Monte Titoli. It is mandatory to dematerialise government debt and all securities traded on regulated markets in Monte Titoli.

Of all securities held in Monte Titoli by value, equities represent 29%, bonds 64%, Money Market instruments 4% and others 3%.

Physical issues may be held outside of Monte Titoli, but it is not market practice.

Deposit and Withdrawal of securities

Being mostly a dematerialised market it is not possible to withdraw securities from Monte Titoli unless requirements for dematerialisation are no longer met. For physical securities withdrawal from the system is still possible. Withdrawal requests are sent to Monte Titoli by means of a specific instruction (MT30) which is subject to the standard identification processes. In the highly unlikely event of a physical withdrawal, Monte Titoli releases securities only to authorised messengers or, if required, sends them directly to the intermediaries. In the latter case, risks and costs for the withdrawal rest with the requesting intermediary.

Liquidity Risk - Key Indicators

Settlement Models

EXPRESS II net settlement: BIS Model 3 - Net transfer of funds against multilaterally netted securities.

EXPRESS II gross settlement: BIS Model 1- Near-simultaneous gross transfer of securities and funds.

Processing Periods

Overnight (by batch)	Yes
End of day	No
Batch daylight processing	Yes
Real-time and on-line	Yes
Other	No

Credit Facilities

Central bank money used to settle cash elements of trades	Yes
Credit facilities provided by the CSD	No
Credit facilities provided by commercial banks	Yes

Comments

Banks are eligible for credit facilities from Banca d'Italia and Monte Titoli is permitted to provide intraday credit facilities to support settlement (see Credit Facilities). Express II offers participants who haven't opened an account in the Central Bank or do not want to use it, the possibility to appoint agent banks for cash settlement purposes. Caps can be set by the agent banks.

Stock Lending

Is stock lending permitted in the market

Yes

Are stock lending facilities provided by the CSD?
Yes

Are stock lending facilities provided by commercial banks/brokers?
Yes

Comments
Monte Titoli only provides securities lending, on an agency basis, supporting settlement.

Transfer of Securities

Are securities deliveries achieved by book-entry?
Yes

Registration of Securities

Period of time required to register a holding?
N/A

Counterparty Risk

Summary

Counterparty risk exposure for all on-exchange equities transactions on MTA/ MTAX, and around 60% of MTS/EuroMTS and BrokerTec debt transactions (around 38% of total debt trading value in Italy) is centralised and controlled by LCH.Clearnet S.A. or CC&G acting as central counterparties. Substantial clearing member criteria, continuous risk exposure monitoring, and risk containment resources including margining and substantial default funds, sufficiently mitigate clearing member counterparty risk exposure (would cover the default of at least the two largest clearing members on the same day).

All other on-exchange trades and OTC transactions (constituting ~58% of trading value) settle on a simultaneous DVP basis without a CCP. However, these trades do not benefit from any settlement guarantee measures or resources, potentially exposing counterparties to opportunity costs if the transactions with a defaulted counterparty are not completed.

Participant Counterparty Risk

Inter-participant Counterparty risk is largely intermediated by the use of CCPs in the market place which become the counterparty to the transaction upon novation. Novation is conducted immediately the transaction is received with matched status from X-TRM (real-time matching from trade execution).

Off-exchange settlements including custodian to broker or custodian to custodian settlements do not have the benefit of a CCP and maybe exposed to counterparty risk especially if on an FOP basis. However, transactions can benefit from DVP settlement in EXPRESS II overnight net settlement if input into X-TRM before 5.30pm on SD-1, and in RTGS for same day transactions and recycled fails.

Risk Containment Model

There are two CCPs for fixed income products - CC&G and LCH.Clearnet (the French CCP) with CC&G the sole CCP for equities. Use of the CCP is mandatory for the MTA market managed by Borsa Italiana. However, for other markets (MTS, EuroMTS) the use of the CCP is optional, while there is no CCP for the OTC markets (though this is being considered). The risk containment models of both CC&G and LCH.Clearnet S.A. is designed to cover the default of at least the two largest clearing participants. Regular stress tests are carried out to monitor the effectiveness of the model.

While the CCPs guarantee settlement, this guarantee is only between the clearing members and does not extend to the settlement between the broker and its clients. Neither will the CCP guarantee a transaction where a Clearing Member enters into a transaction with an MTS participant whose transactions are not cleared via a CCP.

CC&G only take an initial margin from Clearing members for equities transactions. CC&G and LCH.Clearnet take a variation margin for bonds. OTC transactions are not covered by the guarantee and rely on simultaneous DVP within EXPRESS II, although there have been discussions to extend the coverage to OTC traded equities in 4Q07, and ultimately to fixed income OTC. Borsa Italiana has announced that it is considering the possibility of extending the CCP functionality to cover the MOT market, but no effective date has yet been announced.

The CCPs set minimum capital requirements for clearing members (see Participation Criteria). For foreign participants of either CCP (but mainly LCH.Clearnet), CONSOB and Banca d'Italia liaise with the home regulator of the clearing member to set sufficient capital adequacy requirements.

CC&G calculate initial margin requirements using TIMS methodologies and systems adapted from those used historically for stock options. Clearing members of both CCPs are notified of their margin obligations by the evening of TD, and initial margins are collected by CC&G at 9.30am T+1 and LCH.Clearnet at 10.00am.

CC&G accept cash collateral and some governments' debt (French, Italian and German only). Cash collateral is paid in central bank money while government debt collateral is held in a segregated account in the name of CC&G (to the order of the Clearing Member). Debt collateral is marked to market on a fortnightly basis (though can be done more frequently in the event of major price fluctuations) and a 15% haircut applied.

LCH.Clearnet accept cash and a wider range of securities as collateral including government debt from Euronext countries, the UK, Germany and the US, as well as blue-chip equities from Euronext markets. Cash collateral is paid in central bank funds. LCH.Clearnet applies between 1-6% haircut to debt collateral depending on Class (Euro or non-Euro denominated) and maturity, and a 35% haircut on equities. Both debt and equities collateral is marked to market on a daily basis on market price. Securities collateral must be deposited in a designated LCH.Clearnet account at the relevant depository.

Regardless of the method of settlement, the cash portion of all securities transactions is settled at the central bank. In cases where participants do not hold an account at the central bank, but appoint a settlement bank to act on their behalf (so-called

'Intermediaries Using Agent Banks' or 'IUAs'), Monte Titoli offers a cash cap management facility for EXPRESS II settlement, so that the settlement banks can monitor and control their exposure.

Under Article 77 of TUF, Banca d'Italia has the ability to substitute itself into the settlement process to provide additional liquidity to the market. Although this option was entertained during the settlement problems of 31 January where the overnight settlement rate dropped to ~60%, Banca d'Italia did not exercise this option. Instead, CC&G was asked to introduce additional liquidity reserves into the settlement process.

Delivery Versus Payment

Monte Titoli maintains a real-time connection to the Banca d'Italia's BI-REL system allowing for simultaneous DVP.

For net settlement, multilateral balances of securities payable are settled on the participants' accounts, transferring the securities to a technical securities account for clearing. From a legal point of view, however, the ownership of the securities remains with the seller. The net settlement process activates cash settlement via electronic transmission to the BI-REL system of a specific request to transfer cash from the participants' accounts with debit positions to a technical cash account registered in the name of the settlement system. After confirmation from the BI-REL system that cash debiting transactions have been successfully carried out, net settlement completes the settlement process by:

a) transmitting to the BI-REL system a specific electronic request to credit cash to the participants' accounts with credit positions, debiting the settlement system's technical cash account;
b) simultaneously settling the multilateral balances of securities receivable, debiting the technical securities account for clearing to which the securities were previously transferred.

For gross settlement, the Express II gross system checks availability of securities for settlement, and if sufficient, transfers the position to a transitional account. It then activates the cash settlement process via electronic request to the BI-REL system. Immediately after receipt of the positive outcome of cash settlement, Express II transfers the securities to the buyer.

Cross-border DVP Settlement

CONSOB, the Bank of Italy and the Infrastructure Supervisory Authority have approved amendments to the Operating Rules for Clearing and Settlement Services, allowing Monte Titoli to provide cross-border DVP functionalities for Monte Titoli participants and other counterparties participating in foreign settlement systems. Within this, Monte Titoli may establish credit facilities in cash and securities to aid settlement. The new services will be launched in November 2007 to allow affected participants to benefit from the implementation of the MiFID Directive.

Role of Central Counterparty (CCP)

Currently, the CCP service is only available for trades booked on regulated markets and ATSs. Transactions carried out on the equity market of the Italian Stock Exchange are mandatorily guaranteed by CC&G and settled in Monte Titoli.

CCP coverage of fixed income transactions executed on the MTS, EuroMTS and BrokerTec have optional CCP coverage (i.e. CC&G. LCH.Clearnet S.A. or none). Around 60% by value of Italian fixed income transactions traded on MTS and BrokerTec are covered by a CCP with LCH.Clearnet guaranteeing a majority of these trades. Italian government debt transactions, which constitute around 94.5% by value of all fixed income trades (up to September 2006), are mainly traded on MTS and BrokerTec (63% by value), and are settled in Monte Titoli. With around 60% by value of these guaranteed by a CCP, overall around 38% by value of all fixed income trading is guaranteed by a CCP.

CC&G and LCH.Clearnet S.A. interpose themselves between the buyer and the seller (open offer) through the process of central novation. The two CCPs for the fixed income market (CC&G or LCH.Clearnet) have arrangements to settle between themselves where necessary.

CC&G also acts as the Italian derivatives CCP, while LCH.Clearnet S.A. is also the CCP for all Euronext markets. CC&G act as a recognised clearing house under Art. 70 of the Italian TUF legislation (consolidated securities market law), while LCH.Clearnet S.A. acting as a bank, has 'passported' its activities under EU rules governing freedom to provide services.

There are plans to extend the CC&G's equities market guarantee to encompass OTC traded equities (post-MIFID implementation) as early as the end of 2007.

Participant Criteria

Monte Titoli offers its post-trading services in an equitable, transparent and non-discriminatory manner and on the basis of criteria and procedures aimed at assuring interoperability, security and equal treatment among market infrastructures, to all subjects who so request and are qualified in accordance with national and community legislation, applicable rules and decisions of the competent authorities. Participants must be able to use both the net and gross settlement services.

The criteria for participation is set and monitored by the Italian regulator, CONSOB, in agreement with the Banca d'Italia. According to CONSOB Regulations 11768 of 23 December 1998, the following intermediaries are eligible for participation in the Monte Titoli system:

Domestic eligible participants:

- Italian banks, investment firms, asset management companies (exclusively for the activity of management on a client-by-client basis of investment portfolios), stockbrokers included in registers provided by law;
- Banca d'Italia;
- The clearing and guarantee systems of derivatives and non-derivatives regulated markets;
- Issuer companies (exclusively for financial instruments issued by them or by companies in which they hold a controlling interest);
- The Ministero del Tesoro; (Treasury)
- The Cassa Depositi e Prestiti. (a Government agency)

Foreign eligible participants:

- EU banks and investment firms;
- Non-EU banks and investment firms;
- EU and non-EU CSDs;
- The managers of foreign clearing, settlement and guarantee systems for financial instruments, provided they are subject to supervision equivalent to that provided for by Italian law.

No minimum net capital requirements are set for Monte Titoli participation. However, Banca d'Italia does set minimum capital requirements for banks and brokers as part of their authorisation to operate in Italy (see below).

Furthermore, the European Commission has published in the Official Journal of the European Union on 30 June 2006 the Capital Requirements Directive for credit institutions and investment firms. The Directive introduces an updated supervisory framework in the EU which reflects the Basel II rules on capital standards agreed at G-10 level. Member States are required to transpose and implement the Directive by the end of 2006. The Directive introduces a flexible process based on detailed variable principles depending on area of business and risk-weighted exposures to third parties to determine the minimal capital requirement to operate inside EU.

From 4Q2006/1Q2007, Anti-Money Laundering responsibilities will be extended to Monte Titoli, so at this time Monte Titoli will begin introducing Know Your Client (KYC) measures.

CCP Clearing Membership Requirements

CC&G membership is structured into General (GCMs), Direct (DCMs) and Non-Clearing Members (NCMs). GCM's are required to have between EUR 25m - 40m minimum net capital (depending on the number of NCMs they provide services for). DCMs are required to have minimum net capital of EUR 10m if clearing derivatives or bonds, and EUR 3m if clearing equities. As of September 2006, CC&G had 8 GCMs, 3 DCMs and 4 NCMs for MTA equity clearing, and 20 GCMs, 38 ICMs and 54 NCMs eligible for MTS fixed income clearing.

LCH.Clearnet S.A. membership is structured into General Clearing Members (GCMs) and Individual Clearing Members (ICMs). ICMs must have a minimum net capital of EUR 10m, and GCM's must have a net capital of between EUR 25m - 37.5m depending on the number of Trading Members they provide services for. If a Clearing Member is not able to fulfil these requirements, a Letter of Credit may be accepted under certain conditions to cover the shortfall.

There is a fairly stable Clearing Member base between both CC&G and LCH.Clearnet S.A. with Clearing Members rarely switching between the two.

BI-REL Participation

Participation in BI-REL is wide with banks, investment firms and other organisations eligible, although intraday credit provision is restricted to banks. At the end of 2005 there were 118 direct participants, and 644 indirect participants in BI-REL. Under Italian Banking Law, all authorised banks must have a minimum capital of EUR 6.3m, while SIMs must have between EUR 385,000 and EUR 1m depending on their scope and level of business.

Participant Concentration

There appears to be some concentration of transaction flows through the Express II system. The largest participant has a market share in terms of value of 25% (daily average in 2005), the three largest participants represent more than 50% by value, and the ten largest participants represent 83%. However, these large (bank) participants are General Clearing

Members of CC&G and/or LCH.Clearnet S.A. and as such their default on their open positions would be covered by posted margins and the respective Clearing fund.

Both Monte Titoli and CC&G have conducted stress tests modelling the impact of the default of the largest clearing and settlement participants, as well as various late settlement scenarios. The results show that settlement rates could be recovered to within acceptable limits.

Financial Compliance/Surveillance

According to Italian law, the Commissione Nazionale per le Società e la Borsa (CONSOB) is responsible for the surveillance of intermediaries to ensure their compliance with conduct of business and market rules, while Banca d'Italia is responsible for prudential supervision. Although a joint supervision system is in place, the CONSOB is accountable for custody activities, while Banca d'Italia has a primary role in regulating and supervising the settlement process. For investor protection purposes, the CONSOB, in agreement with Banca d'Italia, can suspend or exclude the intermediaries from Monte Titoli's system, through an act that has to be immediately notified to Monte Titoli.

All clearing members of LCH.Clearnet S.A. and CC&G must have a minimum supervisory capital, of which the CCP must be advised periodically.

Guarantee Funds

Guarantee funds are now operated by the CCPs in the market. Borsa Italiana is the majority shareholder in CC&G (86.4%), the remaining 13.6% is held by Capitale Group. (For details about LCH.Clearnet S.A. please see the Euroclear France risk assessment).

CC&G

The financial safeguards at CC&G are based on three levels of protection: membership requirements (see Participation Critieria), the margins system plus assets and financial resources:

Margins system: Clearing members must deposit sufficient guarantees to cover the theoretical costs of liquidation which CC&G would incur in the event of a member's default, in order to close the member's positions in the most unfavourable market scenario reasonably possible. Cover is provided by both initial and intraday margins (calculated for derivatives and cash transactions jointly) paid either in cash or via government securities. After CC&G calculates a member's margin requirement at the end of TD, clearing members have until 9.30am T+1 to fund these.

Assets and financial resources: In the case a counterparty default, CC&G covers the losses by using, in order:

1). the initial margins of the insolvent party
2). the Default Fund of the insolvent party
3). CC&G shareholders' equity (up to EUR 5 million)
4). the remaining Default Fund
5). the remaining CC&G shareholders' equity.

The CC&G Default Fund covers cash equities and derivatives transactions together. Each CC&G clearing member must contribute to the Default Fund either in the form of a cash (Euro) deposit to CC&G or by bank guarantee. The amount of each clearing member's contribution is pro-rata based on their clearing volumes of MTA/NM, TAH/TAHNM and IDEM markets and is calculated on a monthly basis, with a minimum contribution of EUR 50,000. The Default Fund value is around Euro 300 million as at 1 June 2006.

In 2004 CC&G introduced a default fund for MTS contracts. This fund is completely independent from the default fund for the cash equity and derivatives segments; it is designed to cover losses caused by the default of a direct CC&G participant active on the MTS segment. All direct CC&G participants on the MTS segment are obliged to individually contribute EUR 2 million to this default fund (since 6 June 2005). The size of this fund is currently around EUR 100 million.

LCH.Clearnet S.A.

Margins System: LCH.Clearnet collects margins on a daily basis that are marked-to-market (daily), which constitutes the first line of defence against a default.

Assets and Financial Resources: The following financial resources would be used according to priority rules:

1). Individual collateral margin of the defaulter
2). Individual contribution of the defaulter to the clearing funds

3). Remaining clearing funds amounts upon effective losses on each kind of activity (Regulated markets/Bonds & Repos)
4). LCH.Clearnet SA's equity capital (EUR 120 million)

LCH.Clearnet SA has implemented mutual clearing funds for the regulated markets and for the Bonds & Repos activity traded OTC and through the MTS Italy platform. The mutual clearing fund covering the default of members active on Bonds & Repos activity amounts to a minimum EUR 150 million, and up to a maximum EUR 240 million. It should be noted that this fund covers all LCH.Clearnet serviced bond and repo markets.

Neither CC&G nor LCH.Clearnet have insurance coverage against settlement defaults.

Counterparty Risk - Key indicators

Capacity of CSD Agent
Surveillance of participants by CSD No
Settlement assurance Provided by CCPs.
Participation criteria Participation criteria is defined in the Consob Regulation 11768/98 that was issued by the Consob, in agreement with Banca d'Italia. Main categories admitted to participate are: banks, investment firms, authorised individual brokers, CSDs, clearing houses, Banca d'Italia, Poste Italiane S.p.A., Cassa Depositi e Prestiti, Ministero del Tesoro
Minimum Capital (local currency) No capital requirement for admission to Monte Titoli's system; Capital requirements for CCP membership apply; there is additionally a minimum capital requirement for the company authorised to perform the CSD activity (Monte Titoli).
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) CC&G Default Fund: 1st June 2006 – EUR 300 million - Cash Equity & Derivatives 1st June 2006 – EUR 100 million - Bonds LCH.Clearnet S.A. Bond Fund Between EUR 150m - EUR 240m shared between all LCH.Clearnet bond markets.
Does the CSD act as a central counterparty No
Comments The central counterparty function is undertaken by CC&G and LCH.Clearnet. Monte Titoli does not monitor the risk of a participant failing, as Monte Titoli's intermediaries are supervised by Banca d'Italia and Consob.

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants N/A
Volume of transactions by top 10% of participants N/A
Volume of largest individual participant N/A

Asset Servicing Risk

Summary

Monte Titoli provides investors with all information from issuers who are contractually obligated to provide Monte Titoli with event notices. The level of liability it assumes is established by terms of the Testa Unico Finanza (TUF) securities market law, and is backed by the special guarantee reserve of EUR 8m and Monte Titoli's insurance policies. Monte Titoli has not been subject to a claim against them in relation to their corporate actions servicing for 10 years.

The asset servicing operations of Monte Titoli are largely automated but some information from issuers is provided manually and must be re-keyed into the anagraphica databases (e.g. bond static data). This, however, is a small proportion of total information processing. The Corporate Actions Re-engineering (CAR) project implemented on 4 December 2006 successfully automated the remaining manual messaging on corporate actions (mainly from issuers). Income payments are executed in central bank funds with same day value on an actual basis (i.e. Monte Titoli does not provide a contractual income service).

Information processing

Issuers represent the official sources of information. The national law provides for different communication methods the issuers have to use to inform the market. Issuers who adhere to the Italian custody platform are contractually obliged to notify the CSD of corporate action information, and 100% of information for domestic securities corporate events are received from issuers (mainly by electronic real-time communication). Once received from the issuers, Monte Titoli passes this information for both mandatory and elective events to intermediaries by means of on-line electronic channels. Monte Titoli transmits the information as soon as possible after its receipt. For foreign securities held through links with other CSDs, the latter represent the only source of information.

Issuers must provide Monte Titoli with information in good time, but there is no legal or contractual standard for timeliness of information. Monte Titoli's legal department is attempting to introduce such a provision. The Corporate Action Re-engineering project implemented on 4 December 2006 successfully automated issuer information which had previously been received manually.

Participants are able to communicate with Monte Titoli by either SWIFT (ISO 15022, SWIFTNet FileAct), RNI (the domestic interbank network), or MTX (a web based interface). In turn Monte Titoli provides reports to its participants of both provisional and pending corporate actions using these channels. Information can be provided in English for foreign participants, and Monte Titoli accepts liability for the accuracy of the translation in line with its standard liability position.

Monte Titoli provides participants with provisional payment details for dividends 30 days before Pay Date, and interest 2 days before Pay Date. With a direct link to its parent, the Borsa Italiana, Monte Titoli also provides details of government and corporate debt that has been drawn for premiums or redemptions, via its ATIE service. In addition, Monte Titoli offers a service whereby issuers can advise of corporate actions via the web site. Further facilities will be implemented in the future including the ability to receive information on events where the participant has a position.

Generally speaking, the responsibility to inform the market relating to corporate actions relies on issuers. Monte Titoli does not accept responsibility for collecting all corporate action data, which is available in the market, irrespective of whether this data is supplied to it by the issuer. Monte Titoli is responsible only for damages due to negligence or errors in carrying out its duties. Monte Titoli does not answer for any other damage. In particular, it is not responsible for the delayed provision of information from the issuers or for mistakes in the original information provided by the issuers. Monte Titoli does not have a contractual standard for timeliness of information provision to its participants. However, almost without exception, corporate event notifications are sent out on the same day of receipt from issuers. In the event that a participant suffered losses due to incomplete, inaccurate or untimely information which Monte Titoli could not or would not compensate for, the participant could make a claim against the issuer.

Instruction processing

Monte Titoli provides a full range of services covering all events in the securities life cycle.

For securities issued under Italian law, Monte Titoli has a direct relationship with the issuing company and is therefore able to co-ordinate the issuing and exercising of rights issues. It collects proceeds from issuers either in central bank funds for Euros or in its participants' commercial bank account for foreign currencies. On announcement of an event, Custody department staff ensure that the instructed operation is possible and the securities involved are valid.

Monte Titoli receives instructions from the intermediaries via SWIFT or RNI proprietary network. The Corporate Actions Re-engineering Project successfully automated the limited amount of instructions received by fax from 4 December 2006. Different instructions coming from the same intermediary for positions held by different clients are supported.

Pending corporate events are monitored and, if the participant has not provided instructions, Monte Titoli prompts them to do so on the morning before the relevant day. A new facility to be implemented in 2007 will provide alerts some days before the relevant day. Additionally, Monte Titoli always alerts participants if instructions are incorrect or incomplete. In particular, the proprietary electronic channel implemented by Monte Titoli (MT-X) automatically verifies if instructions are correct and provides participants with automatic alerts. Nevertheless, Monte Titoli does not take any responsibility for incorrect or incomplete information provided by participants.

Most corporate actions events are processed wholly automatically with only specific event types requiring manual intervention. Corporate actions cash settlement takes place in Central Bank money (mainly via the net overnight cycle) through either BI-REL, where Monte Titoli's participants are required to maintain either a direct or an indirect cash account, or through BI-COMP which is the retail payment system. Issuing companies appoint a paying agent, which is one of Banca d'Italia's participants.

On the due payment date, Monte Titoli sends payment information to either the issuer, its paying agent and all intermediaries affected by the payment. In the meantime, a payment instruction is sent to the Banca d'Italia via a real-time online link. The payment instruction activates a payment mechanism within the Banca d'Italia. The paying agent appointed by the issuer is debited of the global amount, while intermediaries affected by the corporate action are credited accordingly. Monte Titoli pays income on an actual payment basis.

Cash distributions (including bonds income - interest and redemption - and dividend) follow these deadlines:
- the payment date follows 3 days after the ex date;
- registers are struck (RD) at the close of business on ex date + 2.

Cash transfers related to corporate actions are settled only when the correspondent amount of cash is available on the accounts of the paying agent. Monte Titoli relies on paying agents to comply with their obligations. In order to indemnify participants for any damage which they may suffer due to the above (taking into account Monte Titoli's liability standard of negligence or errors in carrying out its duties), there are:
a) appropriate insurance policies
b) a special guarantee reserve of Euro 8 million

Monte Tioli provide confirmation to intermediaries of the execution of corporate actions on a same day basis, and at the end of the day provides a complete statement of the outcome of corporate events.

Market Claims

Monte Titoli provides participants with corporate action entitlements based upon settled position and handles claims only for failed transactions and only if required by the trading platform and in compliance with the regulation of that trading platform. Monte Titoli plans to introduce systems to track claims on late settlements.

Monte Titoli accepts liability for direct losses from late or unexecuted corporate actions in the event of its negligence or error (and excluding force majeure events). There have been no claims against Monte Titoli for failure to execute an instruction in the last 10 years.

The X-TRM system automatically makes adjustments to on-exchange transactions involving securities subject to corporate actions that are late settling, as follows:

Interest payments/bond redemptions
- in case of failed trades involving a corporate action, the transaction countervalue is adjusted to include 100% of the interest payment/redemption proceeds.

- an automated management of failing trades was introduced from November 2004. Failing transactions with coupon payments or full/partial redemptions are processed in Express II using the automated procedure according to the current Market Rules applied to on-exchange trades.

- For failed trades executed on MTS (both guaranteed and non-guaranteed) on the date of expiry of the relevant security (redemption) and coupon payment, the failed instruction is cancelled and Express II will replace it with a pure cash movement which is calculated as follows: (redeemed amount + coupon) – original counter value.

Cash dividends:
- in case of failed trades involving a corporate action, the transaction countervalue is adjusted to include 159.27% of the dividend.

Price adjusted compensation for pre-emption rights that fail to settle in EXPRESS II have also been introduced as follows:

- If on the third day after the contractual settlement date, contracts on pre-emption rights have not been settled, the seller has to settle an amount equal to 170% of the higher of the original contractual countervalue and the pre-emption right value, determined on the basis of the official price of the day before, taking into account any other objective elements that may be available.

- If, on the third day after the contractual settlement date, contracts on pre-emption rights are not traded anymore, at the last subscription date, the seller has to settle an amount equal to 170% of the higher of the original contractual countervalue and the difference between the value of the financial instruments deriving from the exercise at the last subscription date and the subscription price.

- Failed transactions that involve shares/convertible bonds of companies carrying out a capital increase with the detachment of pre-emption rights, should also be adjusted by 170% of the official market price of the pre-emption rights.

Proxy Voting

Monte Titoli does not offer proxy voting services. According to the law, currently CSDs in Italy have a role only in the proxies solicitation procedure. They have to inform intermediaries joining the system that the proxy statement and the proxy form are available. However on the basis of its relationship with the issuers, Monte Titoli provides the necessary reports to enable participants to vote at annual meetings. Through a web based platform (MT-X) managed by Monte Titoli, intermediaries can send to issuers the names of the shareholders who will attend a general meeting or who have exercised property rights related to registered shares. At present, Monte Titoli provides its participants with all relevant information contained in the prospectus, but the provision of the full prospectus is a facility that Monte Titoli will launch in the near future.

Following the introduction of the new Italian company law (i.e. legislative decree no. 6/2003 and no. 37/2004), the blocking of shares to allow the shareholder to vote is not mandatory. However, if the issuing company's by-laws specify a deposit requirement then blocking of the shares until the scheduled meeting will be necessary. In cases where this provision has not been inserted in the issuing company's by-laws, it will still be possible to attend the shareholders' meeting without a requirement that the shares be deposited and/or blocked. According to the Italian legal framework, intermediaries are required to freeze positions of their clients around voting dates. This facility cannot be carried out by Monte Titoli because it does not know the final investors of securities.

Most Italian companies have formalised the blocking requirement in their by-laws during the current round of annual general meetings. In addition, resolution number 14,955 confirms that a shareholder will be allowed to vote, provided that the intermediary with whom the shares are deposited communicates the shareholder's details to the Issuing Company prior to the meeting. Art.34 also provides that such notifications will occur in accordance with the provisions of the Issuing Company By Laws and that a copy will be made available to the shareholder. As of 1 January 2006 such notifications are being sent to issuers using electronic links.

Other services

Monte Titoli provides a tax reclaim service for foreign securities held in the depository.

Monte Titoli is a withholding qualified intermediary, as regards the administration of financial instruments issued under United States law, with direct assumption of tax responsibility relating to resident and non-resident United States beneficiaries;.

Monte Titoli has also been included by Italian law in the list of those institutions able to act as a tax agent for payments connected to Italian securities in favour of beneficiaries that are resident in countries that allow for an adequate exchange of information (for bonds) and in favour of all non-residents whose countries have agreed on double tax treaties with Italy.

Asset Servicing Risk - Key indicators

Information processing

Securities covered All securities managed in Monte Titoli's system.
Information sources used Financial press, Borsa Italiana notifications, Monte Titoli operational notifications, companies' websites
Information provided in English Yes

Number of Events during last full year

Dividends	4,795 dividends Value: EUR 23,986 million
Interest & Redemptions	Value: EUR 89,270 million
Corporate actions	EUR 113,339 million (total value of corporate actions during 2004)
Notification via	SWIFT
SWIFT message types	MT564 - MT566
Notification within	24h from the official announcement, on ex-date and on control date

Instruction processing

Use of depository	Yes
Settlement on due date	Yes
Optional corporate actions supported	Yes
Cash account credited	Yes
Central paying agent	No
Entitlements based on	ex date or record date depending on the event type

Proxy voting services

On-line	No
Outsourced	No
Announcement of meetings	Yes
Elections (Voting)	Yes
Results reporting	Yes
Proxy voting services comments	Monte Titoli provides participants with the necessary report to enable voting at annual meetings.

Financial Risk

Summary

Financial risk exposure on Monte Titoli is moderated by its majority (99%) ownership by Borsa Italiana Group which can bring substantial financial resources (Net Capital and Reserves were EUR 268 million at year-end 2005) to support Monte Titoli operations. Monte Titoli's annual accounts are prepared separately from Borsa Italiana's in compliance with Banca d'Italia's guidelines.

Monte Titoli has maintained increasing profits over the last 5 years. Net operating profits are stabilised by adjustments to fee income charges, with income split equitably between custody and settlement related income streams.

A special guarantee of EUR 8 million is maintained against participant's successful claims for losses triggered by Monte Titoli's negligence or error, but no claims have ever been made against this fund. Insurance policies are also maintained against losses triggered by operational breakdowns and the scope and value of these policies appear sufficient for the current size of Monte Titoli's operations.

Monte Titoli is not subject to credit risk exposure nor does it engage in principal activity. Financial claims against it may result only from operational breakdowns which are covered as above. Monte Titoli's bankruptcy is not permitted under the Italian Securities law, although it can be placed under administrative liquidation.

Financial and other Resources

Capital Structure

Borsa Italiana is the major shareholder of Monte Titoli and currently owns 98.77% of the capital, though does not explicity provide a financial guarantee for Monte Titoli. Borsa Italiana itself is owned predominantly by the Italian banks with the largest shareholder the combined Sao Paulo IMI - Intesa (merger approved 1 December 2006) with an 18.3% shareholding. Shareholder capital, reserves and earnings of the Borsa Italiana Group were EUR 268 million (USD 317m) in 2005, up 12% from the EUR 239 million (USD 283 million) in 2004.

Shareholder capital, reserves and earnings of Monte Titoli were EUR 51.3 million (USD 60.7 million) in 2005, up marginally (5%) from EUR 48.8 million at year-end 2004. This increase was primarily down to a 100%+ increase in retained profit for the year (see below). There is no official dividend policy. Under CONSOB and Banca d'Italia regulations on minimum capital to provide centralised custody and settlement services, Monte Titoli must always have net capital of at least EUR 12.5 million.

Under Italian Legislative Decree 58 of 24 February 1998 ('TUF'), Art. 83 (2), Monte Titoli cannot become bankrupt, but may be put under administrative liquidation.

Borsa Italiana – LSE Potential Merger

The Boards of the London Stock Exchange and Borsa Italiana S.p.A. have announced that they have entered into an agreement on the terms of the offer made by the LSE to the shareholders of Borsa Italiana. Borsa Italiana shareholders will be offered 4.90 LSE Group plc ordinary shares per Borsa Italiana ordinary share. The merger offer values Borsa Italiana at GBP 1,103 million (EUR 1,634 million). Pre-tax synergies and other transaction-related cost savings have been identified at an annual level of GBP 20 million (EUR 29 million), with the full run rate achievable in financial year 2010. It is forecast that the combination will be earnings neutral/positive for FY 2008 and earnings accretive by at least 10% in FY 2009. The merger will be decided on the companies' respective EGMs to be held around 13 August 2007.

Earnings Performance

During 2005, consolidated revenues of the Borsa Italiana Group amounted to EUR 228.3 million, a 17% increase compared to EUR 195.2 million recorded in 2004, while net profits equalled EUR 50.3 million (EUR 34.9 million in 2004, +44%). Borsa Italiana Group made a dividend distribution of EUR 2.00 for the 2005 result, up 21% from the previous year dividend (EUR 1.65 per share).

Monte Titoli total revenues rose 8.25% in 2005 compared to 2004 (EUR 66.8m compared to EUR 61.7m) generating an increased profit (by 15.6%) of EUR 17.51m (EUR 15.13m in 2004), of which EUR 35.5m (31.5m in 2004) related to custody and EUR 31.3m (EUR 30.2m in 2004) to clearing and settlement.

Under participants' standard agreements with the depository, Monte Titoli has direct access to participant's bank accounts for the debiting of invoiced fees.

In accordance with the EU's voluntary code of conduct for clearing and settlement systems and ECSDA's recommendations, Monte Titoli has published unbundled pricing since 1987, and its services are fully unbundled with no cross-subsidisation between different entities in the Borsa Italiana Group. Under Italian Law and CONSOB regulations, cross-subsidisation is prohibited. CONSOB must be apprised of any fee changes.

Borsa Italiana's Board of Directors have approved a proposal to commence a feasibility study for the possible listing of the Company. The initial public offering was expected to take place by June 2006, but was postponed during the merger negotiations with Euronext and/or Deutsche Borse. Folllowing the breakdown of this merger, Borsa Italiana will change their operating rules in line with CONSOB's framework for their listing and evaluate the market conditions for an IPO in 2007.

TARGET2 Securities

The ECB's project to implement TARGET2 Securities (T2S), a single platform for securities settlement in the Eurozone, would considerably change the clearing and settlement landscape in the Eurozone if it is implemented. Although CSDs opting to link into the system are likely to remain in place following any implementation of T2S, the scope of their activities will be considerably reduced and limited to asset servicing, maintaining the relationships with issuers/investors and other ancillary services. It is entirely unclear whether a CSD can be self-sustaining on the basis of asset servicing and issuer services alone. Pressure would also be increased as the ECB has stated that T2S will encourage CSDs to offer services for securities issued in other CSDs/jurisdictions, promoting competition between CSDs and removing their natural monopoly in their own market.

CSDs choosing to opt out of the system will not be able to access central bank funds for settlement, forcing them to compete on an unequal basis with not only other CSDs who do have access to central bank funds, but possibly also against custodians who would be equally able to offer investors settlement in commercial bank money, as well as providing often superior asset servicing products and ancillary services.

Guarantee Funds (Central Counterparty Funds Only)

A special guarantee reserve of more than EUR 8 million was set up in order to indemnify participants for any damage which they may suffer due to Monte Titoli's negligence or error in carrying out its duties. This reserve is included in the EUR 17 million of reserves and retained earnings. No claim has ever been made on this fund. CONSOB regulations prohibit the use of this fund for anything other than fulfilling claims made against Monte Titoli.

Access to Credit

Presently no credit lines or letters of credit have been issued in favour of Monte Titoli, and none have been agreed in principle.

Insurance

A Professional Indemnity insurance policy covers Monte Titoli's liability to third parties including its customers for any third party claim. Any third party claim must be for financial losses caused by a negligent act, negligent error or negligent omission on the part of an officer or employee of the assured.

Another policy concerns Monte Titoli's losses caused by employee wilful or gross negligent act and Monte Titoli damages caused by theft, robbery, fire, loss, etc.

A third policy concerns Monte Titoli's liability to third parties including its customers due to management of its directors, general managers, heads of department and board of auditors.

A fourth insurance policy covers the depository's building and contents.

The insurance providers are: Lloyd's and Toro Assicurazioni. No claims have ever been made under any of these insurance policies. The value of coverage, limits on claims or amounts of excess on the three policies has been provided but is confidential information. However, the scope and coverage of the insurance policies appear sufficient to cover Monte Titol's operations.

Potential Claims on Financial Resources

Credit Loss

There is no credit exposure for Monte Titoli to its participants since it does not provide credit facilities nor engage in principal activity. Monte Titoli has the ability to grant intraday credit lines to its participants to facilitate settlement, though has never utilised this capability. Monte Titoli's provision of credit facilities would require participant's to post adequate guarantees, although the risk modelling for such activities has not yet been calculated.

The centralised securities lending service Monte Titoli launched in 2002 is on an agency basis, therefore Monte Titoli does not take any credit risk in this service.

An inter-company loan from Monte Titoli to Borsa Italiana Group to the value of EUR 18.3 million was made upon creation of the Borsa Italiana Group in 2002. EUR 15 million of this is still outstanding from Borsa Italiana, with the remainder owed by Piazza Affari Gestione & Servizi S.p.A. (another Group company), but under the loan agreement these entities are only required to pay the interest accrued. However, Piazza Affari Gestione & Servizi S.p.A has paid off around EUR 500,000 over the last two years. Interest is paid to Monte Titoli at the rate of EURIBOR +0.2%. The loans are governed by standard financing contracts which include the imposition of fines on late payments.

Central Counterparty Exposure

Monte Titoli does not act as central counterparty, so there is no direct financial exposure to Monte Titoli from these kinds of activities. LCH.Clearnet S.A. and CC&G act as CCPs.

CC&G is a sister company to Monte Titoli and another subsidiary of the Borsa Italiana Group. There is very limited risk of financial contamination from potential losses at CC&G affecting Monte Titoli indirectly, although the holding company Borsa Italiana could be affected.

LCH.Clearnet accepts liability for direct losses triggered by their negligence, or wilful act or omission (excludes force majeure events). LCH.Clearnet S.A. has an implicit financial guarantee from LCH.Clearnet Group.

Liability for Operational Losses

Where securities are not dematerialised, the contract signed with Monte Titoli states that for issues of securities in global certificate form held in its custody that may be lost, stolen, or otherwise go missing must be promptly replaced.

Monte Titoli's liability to its participants is regulated by the general principles of the Italian law. By law, in the execution of its SSS duties Monte Titoli is responsible for any direct loss or damage resulting from fraud, error or wilful misconduct and excludes force majeure events. No value cap can be assigned to compensation. The intermediaries are jointly responsible with Monte Titoli to the customers even if they have the right to act for recovery towards Monte Titoli.

Borsa Italiana has an indirect liability with respect to Monte Titoli according to Italian Civil Law. In particular, art. 2497 c.c. establishes a responsibility of the holding company deriving from an incorrect management of the subsidiary company when this management produces losses to third parties and to other shareholders. The parties who suffered losses can act against the subsidiary company firstly and then, in case of unsuccessful action, against the holding company.

Investment in Infrastructure

Strategic developments are planned on a 3 year rolling programme. Planned developments are discussed with the EUG and through Monte Titoli's Customer Management department. Several strategic initiatives are currently being considered including:

1. RTGS Shaping

Currently shaping only applies to fixed income transactions failing after the Day Cycle. Thus, extending shaping to transactions entered directly into the same day RTGS is to be considered. A further study to determine whether shaping should occur at a batch time in the afternoon or real time has been recommended.

2. Review of shaping size of CCP and non-CCP trades

The group has recommended reviewing the shaping size. This would show if there is an opportunity to harmonise shaping between CCP trades, and those executed outside a CCP. This issue is to be studied internally by participants and CCP's by the next meeting.

The Structural and Operational Working Group of the Express Users Group (EUG) has made the following proposals to improve the settlement performance in the market:

- The introduction of an additional daily net cycle, an extension of the current cycle or closing the settlement date with a net cycle. As a result, failed trades from the daylight net cycles would no longer be rolled into the RTGS cycle. Additionally, the existing RTGS cycle would be dedicated to OTC and the repo overnight settlement only.

- The introduction of mini-netting modules for CCP transactions (already introduced on 18th December 2006) within the RTGS process and the extension of the current daily net cycle. If successful, this could be implemented for non-guaranteed trades.

- The introduction of self-collateralisation and partials in the fast algorithm and the extension of self-collateralisation to indirect participants to the BIREL payment system for the net cycles.

TARGET2-Securities (T2S)

Any CSDs joining T2S will need to write off any systems capitalised in their balance sheet by 2013, and current work in progress (with the already incurred costs) may be jeopardised by T2S.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	98.77
Participant banks	0	0	0
Broker/dealers	0	0	0
Mutual funds	0	0	0
Private clients	0	0	0
Others	0	1	1.23

Comments

Others: one foreign CSD, some brokers and investment firms.

Statistics

	Capital structure Local Currency
Issued capital	16,000,000
Surplus	22,054,014
Reserves	18,024,829
Total	56,078,843

Comments

Figures in EUR as at 31 December 2006.

Surplus is the profit for the period.
Reserves include the revaluation reserve.

Lines of stock

	2002	2003	2004	2005	2006
Lines of stock	N/A	N/A	N/A	41,888	44,415
% Stock Exchange transactions cleared and settled through CSD	100	100	100	100	100
Total value of securities under custody	1,930,000	2,043,000	2,215,000	2,468,000	2,700,600

Comments

Figures in EUR million. From 2005, the percentage of stock exchange transactions cleared and settled in Monte Titoli is no longer 100% as Borsa Italiana's EuroMOT settles directly in Euroclear Bank and Clearstream Luxemburg.

Equities

	2002	2003	2004	2005	2006
Market Value	486,000	531,647	583,000	724,030	865,213
% of issued securities in the CSD	100	100	100	100	100
% of market capitalisation in the CSD	100	100	100	100	100

Comments

Figures in EUR million.

Percentage of Issued Securities and Percentage of Market Capitalisation figures, relate to eligible, liquid securities.

Fixed Income

	2002	2003	2004	2005	2006
Market Value	1,444,000	1,511,353	1,632,000	1,638,991	1,657,926
% of issued securities in the CSD	100	100	100	100	100
% of market capitalisation in the CSD	100	100	100	100	100

Comments
Figures in EUR million

Percentage of Issued Securities and Percentage of Market Capitalisation figures, relate to eligible, liquid securities.

Money Markets

	2002	2003	2004	2005	2006
Market Value	N/A	N/A	N/A	105,495	109,502
% of issued securities in the CSD	N/A	N/A	N/A	100	100
% of market capitalisation in the CSD	N/A	N/A	N/A	100	100

Comments
Figures in EUR million

Percentage of Issued Securities and Percentage of Market Capitalisation figures, relate to eligible, liquid securities.

Expenses

	2002	2003	2004	2005	2006
Expenses as % total operating revenue	N/A	66	59	57	51.3

Operational Risk

Summary

Sound operational controls appear to be in place and they are performed in accordance with the existing framework of supervision established by the Banca d'Italia and CONSOB. Monte Titoli operations are highly automated, reflected in the relatively small staff complement of 127 people (as at 30 September 2006). The responsibility to identify and manage the operational risks of Monte Titoli is assumed by the companies' senior management, taking into account the recommendations of the internal auditors and members of the Statutory Board (Collegio Sindacale). Risk management policies are then established and periodically reviewed but there is no risk management committee consisting of senior management. Monte Titoli annually formulates a Risk Map which identifies all the risks relating to its activities as well as the accountability for managing and monitoring risks, and every operating area has operating manuals and checklists which are thoroughly followed.

There is an independent internal audit function performing audits on all key processes, including IT and operations. When new services are launched, operational risks are identified by the internal audit department, which indicates the monitoring and mitigation instruments. However, internal audits are completed on a periodic basis according to an Internal Audit plan, and there is no complete annual internal audit conducted on all operational procedures and controls. While the internal audit department can draw upon resources from Ernst & Young, no external auditor carries out a complete annual audit of operations and procedures.

Monte Titoli has a formal disaster recovery plan which is tested every 6 to 8 months. The last test was performed on 25 November 2006 and it included all interested participants. The switch from the primary site to the disaster recovery site and back did not impact on the participants' activities. Monte Titoli deemed the activity a success and made the results public.

Depository controls

Safekeeping

The majority of securities in Monte Titoli are dematerialised. The very few physical certificates (at the end of June 2006 they represented 1.1% of securities handled by Monte Titoli) are held in a safe and controlled vault in Monte Titoli, normally as jumbo certificates. The Legislative Decree 58 / 1998 provides that to be centralised, paper certificates have to contain the following annotation: "To Monte Titoli in compliance with Legislative Decree 58 / 1998'. This solution ensures against any possible theft or loss of the certificate.

Paper form securities are recorded in the book-entry system of Monte Titoli, and mainly constitute de-listed equities. Procedures, responsibilities and people involved in the physical custody are different from the ones involved in book-entry transfer activities. An annual inventory count is carried out under the supervision of the Internal Audit department. The vault is subject to electronic surveillance, fire and atmospheric control.

Reconciliation

At the end of each working day Monte Titoli, for each class of financial instrument handled by the system, performs a reconciliation between the sum of the balances of participants' own and customer accounts, the CSD's own account, and the balance of each issue.

According to the CONSOB Regulation No. 11768 (Art. 42 and 43), custodians have to reconcile their securities accounts on a daily basis by means of the relevant IT application. Moreover, on a daily basis, Monte Titoli sends intermediaries the opening and closing balance with an indication of any quantities of financial instruments that are not freely transferable and any transfers made during the day where these have not already been notified. Within one day of the date of registration, intermediaries must check for each type of financial instrument that the balance of their own account held at Monte Titoli coincides with the balance of the account they keep and that the balance of the account of their customers' holdings at Monte Titoli coincides with the sum of the balances of the customer accounts they keep. When completed, Monte Titoli sends a report to participants.

Risk Management

Risk management polices are defined by the management of the depository on the basis of recommendations from the internal audit function. In turn, management has delegated risk management functions to different internal departments. There is no Risk Management Committee at upper management level.

All manual and electronic procedures have specific checklists which are followed by operations staff. These checklists are authenticated and signed-off by department managers daily.

Audits

The Internal Audit department operates for the entire Borsa Italiana Group, and comprises 4 people (with a 5th to be added before the end of 2006). The department undertakes periodic reviews of all activities and processes that are carried out by Monte Titoli. This function is independent from line management and reports directly to Borsa Italiana Group's CEO, as well as Monte Titoli's General Manager. There is no specific Audit Committee comprised of senior management.

Internal Audit is required to evaluate the effectiveness of the internal controls and Monte Titoli's compliance with these controls and external and internal regulations, including how risks are assessed and managed. Internal audits are conducted on the basis of an annual plan which is approved by Monte Titoli's Board of Directors. A risk assessment is carried out to determine the frequency of audits on each operational area, but this risk map was last assessed only in 2004. The criteria used to evaluate the operational risk of a department are level of automation, likelihood of error/fraud, detectability of error/fraud, and systemic risk potential. All operations checklists are reviewed as part of this process on an annual basis. However, a full internal operational audit on all departments is only carried out once every 3 years, although an annual IT review is conducted (from 2006 this is being conducted by an external auditor, Ernst & Young Financial Business Advisors).

The Internal Audit department provides a full pre-implementation audit of all major projects (e.g. RRG/X-TRM consolidation), and for other smaller projects where it has the capacity. During the fourth quarter of 2006 the Internal Audit department will start the full audit (operations and IT) of the domestic Corporate Actions operations, to be completed by 1st quarter 2007.

Audit reports prepared by the internal audit function are for the use of Monte Titoli management only and are not made available for review by participants and others, but only to external auditors, the Collegio Sindicale, Banca d'Italia, and CONSOB upon request.

In order to conform with legal provisions, the internal audit function provides Banca d'Italia and CONSOB with a yearly audit report about the adequacy of the IT infrastructure supporting Monte Titoli's custody and settlement services.

Following the recommendation from the International Monetary Fund in March 2006, Monte Titoli commissioned Ernst & Young BFA to complete an independent audit of the IT facilities outsourced to SIA. The report published in June 2006, analysed the effectiveness and the risks involved in SIA's IT facility management and Disaster Recovery and Business Continuity Plans run on behalf of Monte Titoli. Banca d'Italia and CONSOB also recommended Monte Titoli to appoint an external audit firm (Ernst & Young were chosen) to provide additional resources for the internal audit scheme.

In addition to the internal auditors, in Italy there is a further audit function undertaken by the Collegio Sindicale (Statutory Auditors). This entity performs their audits on a periodic basis, as they deem necessary, and participate in meetings with the Board of Directors. Under Articles 148-154 of TUF, the Collegio Sindicale has to verify the adequacy of the structure of the organisation, the internal controls system, and the company's compliance with relevant laws. Reports produced by Collegio Sindicale are not made available to participants, but only to the external auditors, Banca d'Italia and CONSOB. Internal Audit representatives meet with members of the Collegio Sindicale three or four times a year, as necessary.

Physical Access

Physical access to the Monte Titoli office is fairly effectively controlled with secure access to operational areas. CCTV cameras view the perimeter and main areas of the offices, but the cameras simply record and are not actively monitored. Sensor alarms are fitted to all doors and windows. The entrance used to have a security gate but this was removed some time ago. The only security is an open reception desk with the onus on the receptionist to challenge visitors for ID and issue them with passes.

Physical access to the SIA site which hosts Monte Titoli's IT facilities is strictly controlled and is regulated by the outsourcing agreement in place between Monte Titoli and SIA. SIA have obtained both the qualify certification (IS09000) and a security certification (BS7799), issued by the British Standards Institute.

Clearing controls

Instruction Receipt and Processing

Monte Titoli reports that it has implemented a number of controls to ensure that it only acts on authentic settlement instructions from valid participants. It has:

- exchanged authentication keys and codes with participants for all inward and outward electronic messages. Instructions sent by telex, fax or letter are authorised by use of authentication codes and authorised signatures;
- control features to identify errors/unauthorised parties are built into its applications;

- a data security system based on passwords in place to guarantee only authorised access to the system. Passwords are used by participants to access their accounts. These passwords are changed regularly every six months. There is a user lock-out after a pre-set number of unsuccessful User ID attempts.

Express II participants have to specify the cash account in Banca d'Italia to be used for payments. Participants can directly have an account in Banca d'Italia or specify the account of the paying agent who supports their activity. In the latter case, the paying agent is required to provide Monte Titoli with an authorisation to credit and debit payments on its account.

Express II only allows transfer of securities upon receipt of matched instructions from authorised participants. Securities transfers between participants are performed in Monte Titoli through double book-entries (i.e., one debit is necessarily mirrored by one simultaneous credit of the same amount. The execution of securities transfers thus cannot modify the overall amount of securities handled by Monte Titoli, but only its distribution among participants. According to art. 42 of the CONSOB Regulation No. 11768, at the end of each processing day, Monte Titoli must reconcile the balances held by intermediaries and their clients with the total amount in issue of each security. Negative participant ledger positions are strictly forbidden by Italian law.

Monte Titoli staff monitor settlement processes from 7.00am to 12.50am, including the volumes and values of settlements going through each process, and the timing of settlements. Between 12.50am and 6.30am, the SIA Helpdesk assumes responsibility for dealing with queries. Monte Titoli's Helpdesk acts as the first line of enquiry for participants. Issues that cannot be resolved by Helpdesk staff are escalated to senior managers. Although there is no contractual or agreed timeframe for resolution of queries by the Helpdesk, most problems are resolved within 10mins.

Reporting

Participants are able to check in real-time the status of each trade they have input in the system. Moreover, the settlement of trades in the RTGS system is immediately and in real-time communicated to participants. Participants receive a batch report with detailed information at the end of each batch cycle and at the end of the business day. These reports detail their account movements, the list of settled, failed and partially settled transactions, details of loans, and details of collateral movements. However, there is little flexibility to tailor these reports (e.g. no exception based reporting, and participants need to request specific reports from the Helpdesk specially.

The balance of the securities accounts are subject to external audits (semi-annual). Moreover, on a sample basis, tracers are sent by the external auditors to issuers and intermediaries asking for their confirmation of the securities balances kept at Monte Titoli. Replies are received directly by the external auditors.

Data processing controls

The IT system implemented by Monte Titoli is based on technological archives (IBM mainframe) and contains applications developed with Coble CICS linked to a relational database (DB2).

Process Trail

X-TRM provides for a full electronic audit trail by digitally time-stamping transactions once they are matched within the system (Matching time-stamp), and again once they are submitted into the net or gross settlement system (Finality time stamp). The Express II net settlement service retains transaction information for a period of 10 years.

All system operations by Monte Titoli staff are logged, with every workstation having an individual I.D.

Data Security

Logistic security controls are applied by the Internal Security Department by adopting RACF (Resource Access Control Facilities) tools. Monte Titoli maintains a full audit trail of all activities. There are three different levels of activity:
a) Activities of clients are recorded by means of electronic processes based on the network, and are held in the archives of Monte Titoli for five years.
b) Activities of internal users are recorded by means of online functions, with the system recording access and the most important updating activities.
c) A complete trail of extraordinary activity carried out by internal personnel is recorded thanks to ad hoc tools.

In 2004, Monte Titoli commissioned a UK based IT consultant, DVS Systems Security to carry out an Ethical Hacking Test whereby Monte Titoli's systems linked to the internet were tested for configuration and security vulnerability. Although no breaches were found and all configurations were properly set up, a minor problem was found in terms of a certain command log file accessible through the general Monte Titoli internet site. Monte Titoli was advised to change the configuration of their server so that the log file was not accessible though their internet link, which has been enacted by the depository.

Communication

Monte Titoli provides its participants with access to its services through multiple communication channels:

- RNI (Rete Nazionale Interbancaria)
- SWIFT (ISO 15022 or SWIFTNet)
- MT-X - Monte Titoli Internet Communication System, the web-based platform of knowledge and document management.

Some bank participants also still communicate with Monte Titoli via LU602 (host-to-host) links. A few of the smaller participants still input instructions manually via this link.

Monte Titoli plans to introduce ToSettle, an interface between RNI/SWIFT communication channels and the X-TRM/Express II Services, with the aim of improving settlement efficiency. Testing will be conducted between May and July 2007. The official live date will be announced thereafter.

With the introduction of ToSettle, Monte Titoli will be able to:
- Improve the efficiency of its communication system with the market and intermediaries;
- Simplify the management of the different communication protocols (apart from LU 6.2);
- Reduce the change management cost of the communication protocol.

Participants can customise the activation of the communication channel with reference to the type of message and to the role held in the Monte Titoli system, and can request the concurrent receipt through multiple channels for the following messages:

- financial statements of movements made on its own accounts
- outcome of transactions instructed to Monte Titoli
- payment notifications in connection with the execution of corporate operations on centralised financial instruments.

RNI provides for participant access to Monte Titoli's services of centralised management, clearing & settlement, and allows participants:

- in the Centralised Administration Services to query their securities accounts at Monte Titoli to receive a report in real-time on any movement carried out in the accounts, and to give instructions for the transfer of financial instruments or connected with the execution of corporate actions, with processing in real-time;

- in the Clearing & Settlement Services to generate reports in real-time on the status of operations during the settlement process, and to manage the exposure limits when acting as an agent bank for cash settlement, and to query the exposure limit when making use of / acting as an agent bank;

- in X-TRM to send transactions to the matching service and to have a detailed report of the transactions carried out and of the bilateral balances relating to transactions guaranteed with the interposition of the central counterparty.

MT-X is a Web-based platform for knowledge and document management. It also allows intermediaries to send and receive all types of messages presently available through the other communication channels (RNI and SWIFT). MT-X can also be used by Monte Titoli and participants as a back-up channel in case of unavailability of either RNI or SWIFT.

LCH.Clearnet communicates with Monte Titoli via SWIFT MT 509 (Trade Status)messaging.

Level of Automation

There is a high degree of automation in all operational areas of Monte Titoli's services. Direct participants experience a 100% Straight-through-Processing (STP) rate for settlements, and corporate actions operations are highly automated once standing data for issues is captured. However, manual intervention is needed to update static and dynamic master files ('anagrafica') for financial instruments, participants and corporate events, mainly via RNI from issuers. In these cases, data need to be re-keyed by Monte Titoli operators. However, two projects, the BIt Club and enhancements in MT-X will address much of this manual processing. Some manual input is also required for contingency processes.

IT Facilities and Application Management

SIA provides Monte Titoli with full outsourcing facilities in all its main three application platforms (Express II, X-TRM and custody) which includes application development. SIA holds the following international security and quality standards: ISO 9001:2000 (Vision 2000); Tick it (specific to software development); BS 7799.

Changes in schedules of application systems are carried out by SIA according to the specific instructions provided by Monte Titoli. These changes are introduced only after a specific authorisation by Monte Titoli and upon appropriate electronic tools handled by the providers. All changes are recorded by means of the adopted electronic tools. Testing of all IT enhancements is done for between 1-3 months (depending on the size and complexity of the change) including live testing with participants. The contractual arrangements with SIA for facilities management expires in 2008, while for application development it expires at the end of 2006.

Monte Titoli has also outsourced the process of its web-based platform to BIt System, a company owned by Borsa Italiana S.p.A. SIA and any other third party service providers take liability in respect to Monte Titoli losses (including Monte Titoli customers indirectly) due to their wilful misconduct or negligence.

Monte Titoli carries out a sound and detailed control on the activity of its IT providers. In particular, each monthly meeting with the IT Providers is devoted to verifying that the development activities comply with the feasibility requirements and adhere to the agreed timetable. In the same meetings, Monte Titoli verifies the service levels of the facilities management. However, Monte Titoli's Internal Audit department does not enjoy full audit access to SIA's operations to carry out a detailed operational audit, instead relying on a letter of comfort from SIA which is part of their ISO certification. However, the Internal Audit performs periodic controls and reviews relating to the on-going monitoring of operations and the IT infrastructure, such as:

- Corrective Action Tracking: status report on the correction of the pending exceptions raised in the previous audits
- the review of the departmental check-lists
- the on-going monitoring and reviews connected with the preparation of the yearly report to the Bank of Italy and CONSOB on the IT infrastructure; these reviews include:
- the review of the IT provider SLA reports
- the review of the planning and results of the Disaster Recovery tests
- the review of the BCCP (business continuity) register kept by the Help Desk department)

Monte Titoli also has monitoring systems which automatically flag when the standard of processes outsourced to SIA fall below the negotiated levels in the Service Level Agreement (SLA). If the reported problem relates to a minor process, SIA will intervene to rectify it and sign-off to improve the process. If the problem relates to a major process and is not resolved within 20mins of occurrence, the resolution is escalated to Monte Titoli's Director of Operations for attention. Separate SLAs are operated for the Express II, X-TRM and custody systems. SIA's compliance rate to the SLAs in 2005 averaged over 98%.

On January 2nd 2006, a problem with changes in information in one of the 'anagraphica' databases at SIA was experienced. SIA staff did not follow established protocols to resolve the problem, which in turn exacerbated the problem. After the issue was resolved, Monte Titoli worked with SIA to address adherence to established procedures to mitigate any future issues.

Disaster Recovery/Business Continuity Procedures

Monte Titoli has a Business Continuity and Contingency Plan (BCCP), which is tested every 6 to 8 months and has been audited by external auditors, Ernst & Young. The plan:
- defines the timing and responsibilities for activating the disaster recovery procedures;
- establishes guidelines to be followed for the switch over of Monte Titoli's electronic procedures and data from the primary computer to the off-site computer;
- provides guidelines for the operational processing to be carried out on SIA's premises in case of a disaster at Monte Titoli's premises.

The BCCP is made available to all via the Monte Titoli website. The last scheduled disaster recovery test was conducted on 25 November 2006 involving all local participants with live data in the production environment. Participants and authorities are informed of the results of these tests.

Any changes in the BCCP are reviewed through four steps:
- Risk Evaluation
- Solution Identification
- Plan Development
- Testing and maintenance

Settlement data is mirrored in real-time in the secondary site (parallel processing model). Moreover, a daily copy of data is produced at the end of each day. A copy of the data is stored by SIA in its premises in electronic form. All procedures, databases and messages within the securities settlement process are duplicated and backed-up. In the case of failure of the primary system, the information duplicated in the secondary site can be used to ensure the smooth functioning of the system. In the case of a complete system failure an off-site disaster recovery procedure, operated by SIA, can be activated.

Special contingency arrangements are in place with Borsa Italiana as regards Express II. These arrangements cover transmission procedures and databases, such as the transmission of data via alternative solutions in case of breakdown of transmission lines between Borsa Italiana and Monte Titoli.

Monte Titoli aims to recover and restart operations within 40mins in case of temporary unavailability of the processing environment, and data handling processes would be restored within 4hrs. Monte Titoli is in discussion with SIA to reduce this time lapse to two hours.

Monte Titoli off-site processing system is housed 7 km away from the principal one. X-TRM and Express II share both primary (SIA's offices) and secondary (SIA's back-up site) processing sites. Monte Titoli is in discussion with SIA to implement a third site. The current contract with SIA provides six dedicated workstations, a telephone and a fax at its premises, but more workstations may be negotiated with the new contract. SIA has a total of 50 workstations it maintains for several Italian institutions, and there is the possibility that if needed by Monte Titoli in the event of a disaster, more workstations than the contractually obligated six could be made available. SIA has power generators at both its primary and secondary sites.

The new BCCP is identifying alternative solutions which involve not only the alternative operations site at SIA, but also rely heavily on remote processing being done by key staff from their homes. This solution is already available for certain key processes and will be extended to all core processes. Key personnel necessary for the ongoing operation of the system have been identified as part of the new Plan (4 operational teams numbering 20-25 people in total). Presently, no full Business Continuity plan tests are carried out, with only a couple of staff having tested the alternative workstations at SIA. A full Business Continuity test including the physical transfer of operations to alternative sites will be carried out in 2007, after the completion of the new BCCP.

The enhanced Bank of Italy guidelines related to the risks of disruption to the data systems and business functions and the possibility to enable the resumption of normal business/service at the earliest possible time (2hrs is the new target) in the most cost-effective manner has lead Monte Titoli to update their business continuity plan to enable those systems and functions to be resumed in the event of a disruption and to facilitate and expedite the resumption of business after a disruption of critical or impacting data systems and operations has occurred. Monte Titoli is updating the road map of predetermined actions that will reduce decision-making during recovery operations in order to be compliant to the updated Banca d'Italia guidelines.

The Bank of Italy, in cooperation with Monte Titoli, will conduct a disaster recovery simulation of the automatic procedures related to the payment system infrastructure on 23 June 2007. The simulation will use live production data and will cover the overnight net settlement cycle. The participation of local intermediaries is not required.

Depository Liability

Monte Titoli's liability is established by terms of law and the contractual relationship with its clients.

Monte Titoli's liability to its participants is regulated by the general principles of the Italian law. By law, in the execution of its SSS duties Monte Titoli is responsible for any loss or damage resulting from fraud, error or wilful misconduct and excludes force majeure events. The intermediaries are jointly responsible with Monte Titoli to the customers even if they have the right to act for recovery towards Monte Titoli.

Monte Titoli imposes operational standards on third parties through legal contracts and Service Level Agreements (SLAs).

Borsa Italiana has an indirect liability with respect to Monte Titoli according to Italian Civil Law. In particular, art. 2497 c.c. establishes a responsibility of the holding company deriving from an incorrect management of the subsidiary company when this management produces losses to third parties and to other shareholders. The parties who suffered losses can act against the subsidiary company firstly and then, in case of unsuccessful action, against the holding company.

Systems Performance

Monte Titoli has outsourced its electronic data processing to SIA, which is the Italian intra-bank network manager that also operates, the trade confirmation service X-TRM, now owned by Monte Titoli.

In order to ensure the orderly and continuous performance of settlement systems, Monte Titoli provides continuous monitoring of the data processing cycles as well as a dedicated support service for participants to meet any information requirements.

Express II Net and Gross is currently working at under 40% capacity (the SIA provided back-up processing systems guarantee at least 60% of full capacity for 10 working days, thereafter 100%). In the last full year the percentage uptime has been the following:

- 100% for X-TRM (99.8% is the percentage specified in the SLA)
- 99.91% for Express II (99.8 is the percentage specified in the SLA)

Up to now both X-TRM and Express II have not experienced system downtime at critical processing times.

Operational Risk - Key indicators
Control objectives identified by the CSD match standard objectives Yes
Key controls and procedures are identified by the CSD Yes
Independent evidence exists that key controls and procedures have operated effectively through the last year Yes
Material errors have been identified No
Comments The Depository has to provide on a yearly basis an independently produced risk assessment report to Banca d'Italia, CONSOB and the Italian Ministry of the Treasury.

CSD on CSD (Credit) Risk

Summary
Since Monte Titoli offers settlement according to the EMI standards, it is commonly used to settle ECB monetary transactions. Its links are frequently used. The recently introduced X-TRM service allows clients to route stock exchange instructions from Borsa Italiana's EuroMOT market as well as OTC transactions to the ICSDs.

CSD - CSD Links

Monte Titoli has two-way FOP links in place, covering equities and bonds, with the following:

- Austria: OeKB
- ICSD: Euroclear Bank
- France: Euroclear France
- Germany: Clearstream Banking Frankfurt AG
- ICSD: Clearstream Banking Luxembourg SA
- Netherlands: Euroclear Nederland
- Spain: Iberclear

The following links are inward FOP links:

- Switzerland: SIS
- USA: DTC (only equities)

The links are actively used to admit in Monte Titoli foreign securities that are held at CSDs abroad. They are also used to allow intermediaries to provide collateral (represented by foreign securities) to the Central Bank. By means of these links Monte Titoli's participants may deliver/receive securities to/from foreign counterparties participating to other systems. One of the most important links is that with Clearstream Banking Frankfurt due to the volume and value of transactions in dual-listed covered warrants.

Monte Titoli has undertaken a due diligence on these depositories based on information provided directly by the CSDs and supported by independent legal opinions.

All links between the CSDs in Euro participant countries have been assessed by the European Central Bank.

Processing Cycles

Before delivering any security, Monte Titoli debits the deliverer's account, therefore it is not taking any risk but has transferred the risk to the participant that requested the delivery.

The cross-border link with the DTC follows the same principles applied to the other links established by Monte Titoli and uses the model adopted in Europe for cross-border links that is assessed by the ECB. Moreover, as all the other links managed by the CSD, it is accompanied by a legal opinion. No operational problems have been experienced as regards the link with DTC.

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD
Austria: OeKB
ICSD: Euroclear Bank
France: Euroclear, France
Germany: Clearstream Banking Frankfurt AG
ICSD: Clearstream Banking Luxembourg SA
Netherlands: Euroclear Nederland
Spain: IBERCLEAR
Switzerland: SIS
USA: DTC
European Central Bank logo

ECB Monetary Operations

The following assessment results for Monte Titoli use by the Eurosystem in its monetary policy and intra-day credit operations have been produced:

Internal transfers

Monte Titoli meets the requirements laid down by the European Central Bank (ECB) for use in the settlement of collateral for Eurosystem credit operations with the following preconditions, as of 29 August 2002:

DVP or FOP real-time settlement (no pre-conditions)

These requirements apply to internal settlements within Monte Titoli as described in ‘Standards for the use of EU securities settlement systems in ESCB (European System of Central Banks) credit operations’, January 1998.

Cross-border transfers

The ECB has approved the following cross-border links for the transfer of foreign collateral in the Eurosystem’s monetary policy and intra-day credit operations (as of 20 May 1999).

Euroclear Bank (Belgium), Clearstream AG (Germany), Euroclear France, OeKB (Austria), SCLV (Spain), CADE (Spain), Euroclear Netherlands, Clearstream Banking SA, (Luxembourg).
These links are only eligible on an FOP basis.

Governance and Regulation

Management and governance of the depository

Monte Titoli is a private sector, for-profit, limited liability company. The company was set up in 1978, and since 1986 was the national central securities depository for all Italian securities excluding government debt. A decree from the Ministry of Treasury on 23 August 2000 gave Monte Titoli the mandate to safekeep Italian government debt, a function previously carried out by Banca d'Italia.

The board of directors comprises 9 to 15 members who are appointed by absolute majority at the shareholders meeting.

Human Resources management is mainly centred in Borsa Italiana for the whole group. Staff are allocated 50hrs training each year (which is a basis requirement by law and under the union contract for the specific categories involved) from both internal and external sources (includes 'on-the-job' training). The preliminary training is in the Italian Securities Law ('TUF'), CONSOB and Banca d'Italia regulations and technical manuals. No standard qualifications are required of staff members. Staff are rotated mandatorily between departments every 1-2yrs. Average staff turnover for the last few years has been around 7.5%.

Regulatory and independent examination of the depository

According to Decree No. 58/1998 Monte Titoli is subject to supervision by the Banca d'Italia and the CONSOB, which jointly issue general regulations on the services that can be provided by central securities depositories which are constituted under Italian law. CONSOB regulates Monte Titoli in terms of its custody activity, Banca d'Italia in terms of its settlement activity. Monte Titoli must perform its services in compliance with standards of stability and efficiency.

Monte Titoli operates under 3 levels of rules:

1) The Testa Unico di Finanza (TUF) Law No. 58 of 1998 governs Monte Titoli's operations, alongside Law No. 213 of 1998 which governs the dematerialisation of securities. Law 11768 updated in August 2006 also frames CONSOB's regulation of Monte Titoli's custody activity.

2) CONSOB and Banca d'Italia regulations manages Monte Titoli's activities, with CONSOB and Banca d'Italia sharing surveillance of the depository.

3) Monte Titoli's standard Terms and Conditions regulates the custody activity, while Operating Rules relate to settlement and other related activities. The conditions and rules (and any changes to these) must be approved by CONSOB and the Banca d'Italia. Rule changes also go through the Express User Group for consultation prior to enactment.

Monte Titoli's financial statements are subject to external audits by an independent accounting firm (Deloitte and Touche) and the Collegio Sindacale (Statutory Auditors' Committee). CONSOB and Banca d'Italia analyse all information provided to them by Monte Titoli (includes Annual Reports, the agenda and minutes of Board meetings, development plans, cooperative agreements, organisation and technical structures, reports from the Collegio Sindicale, internal audit reports, and information flows of the results of the settlement processes) and conduct on-site visits as necessary (generally 4-5 times a year). It is also subject to oversight by the Banca d'Italia in the framework of its general responsibilities for the Italian payment system and the stability of the Italian capital market.

External financial auditors are appointed for six year terms, although companies are able to change the auditors once within that term.

As part of Deloitte's financial audit, they test the internal controls surrounding the major items contributing to the financial accounts (e.g. invoicing procedures). By law, an Italian firm cannot use the same external auditor for financial and operational audits. Internal auditors only meet with Deloitte's once a year and there is very limited association between the two groups.

Internal controls and procedures for safeguarding investments

Within Monte Titoli the vast majority of securities issued under Italian law are dematerialised. Issuers keep records of the names of beneficial owners of registered shares, and they update these records at the time of shareholder meetings and dividend payments (i.e. books-close date registration).

The main legislative and regulatory controls relating to the segregation of assets are the Legislative Decrees No. 58 of 24 February 1998 (TUF), and No. 213 of 24 June 1998, Borsa Italiana regulation of July 1st 1998 and CONSOB Regulation No. 11768 of 8 September 2000, which have specific provisions to ensure protection of customers' securities.

Firstly, Monte Titoli is obliged to observe the principle of complete segregation between its proprietary account and the intermediaries' and issuers' accounts. Secondly, intermediaries are obliged to have separate omnibus accounts for their customers' assets. This provision applies to the whole chain of holding (i.e. from the CSD to intermediaries and to the final investors). Participants may also open additional securities accounts ('segregated settlement accounts'), if they wish to segregate the settlement activity carried out on behalf of intermediaries or certain customers.

In the event of the insolvency of an entity holding securities on behalf of its customers (custodian), Monte Titoli acts according to the provisions of the insolvency rules and according to the orders issued by a receiver/trustee that may request Monte Titoli to move customer's positions to a solvent intermediary. In the event of insolvency of a client holding securities in their agent's client omnibus account, the account would not be frozen and authorities would seek access to the books of the custodian to establish the proportion of affected securities.

Other legal protection mechanisms

European Directive 98/26/CE regarding settlement finality is implemented in Italian Law which states that transfer orders, netting, securities movements and subsequent payment orders are legally binding and enforceable once these transactions are entered into the settlement system.

About the Depository
Name and Address Monte Titoli S.p.A. Via Mantegna 6 Milano 20154 Italy
Website www.montetitoli.it
Date of establishment Feb 1978
Date commenced operations November 1981
Legal status Central Securities Depository management Company of the settlement services. Securities Settlement Company under the Italian Law
Type of legal entity For-profit private limited liability company
Regulated by CONSOB, Banca d'Italia, Italian Treasury
Is use of the CSD required?

	Settlement	Safekeeping
By Law	No	Yes
By Market Practice	Yes	Yes

How securities are held Both dematerialised and paper based
Domestic eligible participants 2,268 Total, consisting of: Agenti di Cambio (Individual Stockbrokers) 1, Banks 216, Investment Firms 23, CSDs 8, CCPs 2, Issuers 1,915, Others 103
Foreign eligible participants 5
Ownership Borsa Italiana 98.77%, others 1.23%.

Segregation of Assets at the Depository
Depository assets from participants Yes
Participant assets from clients Yes

Eligible Securities Depository under SEC Rule 17f-7
System of central handling of securities Yes
Regulated by a financial regulatory authority Yes
Holds assets of all participants on equivalent terms Yes
Identifies and segregates participant assets Yes
Periodic reports to participants Yes
Periodic examination by a regulator or independent accountant Yes
Comments Use of the CSD for safekeeping is mandatory by law for dematerialised securities only. The fact that securities are held in custody in a CSD does not imply that settlement in that CSD is mandatory. There are some regulated markets that have chosen other settlement systems different from Monte Titoli's one.

Internal Safety Measures	Services Provided

Participant Eligibility Criteria	
Minimum Capital Standards	No
Financial Aspects	
Ability to raise capital/borrow	Yes
Committed lines of credit in place	No
Publish audit financials	Yes
Take lien on stock held	No
Central Bank Guarantee	No
Other third party guarantee	No
Third party insurance	Yes
Safeguard Facilities	
Offsite Backup	Yes
Disaster Recovery	
Disaster Recovery Plan	Yes
Back-up power generator	Yes
UPS (Uninterruptible power supply)	Yes

Matching	
Pre-matching services	No
Matching services	Yes
Comments	Matching services are provided by RRG.
Clearing	
Clearing services	Yes
Comments	CC&G and LCH.Clearnet act as CCPs
Securities Settlement	
Book-entry settlement	Yes
Fails management	Yes
Cash Settlement	
Internal cash settlement	No
Stock Lending	
Securities lending for fails coverage	Yes
Asset Servicing	
Notifications	Yes
Securities processing	Yes
Paying agent	Yes
Central registrar	No
Proxy voting services	No
Communications	
Electronic communications	Yes
Reporting Services	
Electronic reporting	Yes
Reporting of every movement	Yes
Regular statement of securities deposited	Yes

Definition

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is June 2007. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newsflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

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