

## Best exchange

### Borsa Italiana



**Pietro Poletto**, Borsa Italiana

**>** Borsa Italiana continues its drive to bring structured products to the masses in an environment where over-the-counter (OTC) distributors have tussled with regulators to get their products to the market. Last year, OTC dealers complained that the Bank of Italy, as a result of financial scandals such as the Parmalat fiasco, was taking an overly stringent line on which products could be presented to retail investors. This time, however, the Milan-based Borsa Italiana's securitised derivatives platform (SeDex) has gone from strength to strength, dramatically increasing volumes while adding more and more products.

"We are the only exchange in Europe – and probably the world – with a fully automatic platform created for the trading of securitised derivatives, and that is a strong point for us," says the exchange's director of fixed income and securitised derivatives markets, Pietro Poletto, adding that one SeDex's greatest achievements in the past year has been its dramatic increase in turnover, particularly for new products.

In July, for example, it recorded a 19% increase in the number of contracts traded compared to the same month the year before, representing an average daily turnover of 16,000 contracts. For the first seven months of the year, SeDex's average daily turnover of contracts was 16,300, up 4% from the same period in 2004, but representing a 159% increase in notional value. According to the European Federation of Securities Exchanges (FESE), in July the Swiss Exchange traded 95,984 contracts (€1.5 billion notional) and OMX traded 34,288 contracts (€121 million notional), while Borsa Italiana's SeDex traded 335,803 contracts (€4.2 billion).

SeDex was formally established in April 2004, when the exchange renamed its covered warrants division and set it up as a standalone unit.

The name change and restructuring reflected the exchange's focus on introducing more structured pay-offs as well as expanding its plain vanilla derivatives business. SeDex is now made up of four parts: plain vanilla covered warrants (simple call and put option products, structured/exotic covered warrants (covered warrants whose main feature is a combination of options), leverage certificates, and investment certificates (which includes products that track an underlying activity with one or more accessory options, and also unleveraged pay-offs).

The aim with the new segmentation was to increase the transparency and usability of derivatives-based investments. "The new market structure pushed up volumes because it made it simpler for the investors to identify the exact product they need," comments Alessia Baccalaro, the exchange's head of listing, fixed income and securitised derivatives products.

Coming at a time of great uncertainty in the OTC structured product market in Italy, Borsa Italiana's timing was perfect. In 2004, the Italian banking system was in the middle of a reform process, called 'Patti Chiari' – transparency pact, designed to improve banking transparency and communication.

Part of the initiative aimed to ensure that structured products could not be mis-sold to retail investors in future, through standardising the information on potential risks and returns that must come with a product. As commoditised products, exchange-based investments must necessarily come with the highest levels of transparency and credibility.

The credibility of SeDex products has obviously not been lost on investors. "Every product [on SeDex] comes with a prospectus, and the prices of the products are available continuously, so they are very transparent," says Baccalaro.

As far as the future is concerned, Poletto says expansion of SeDex, and in particular of more complex products, is the way forward.

"Innovation is pushing the market towards the listing of new instruments," he says. "Our covered warrant market is probably mature now, so we want to support issuer innovation."

#### Why Borsa Italiana won

In the wake of worries over mis-selling in Italy Borsa Italiana has stepped up. Its volumes look healthy and innovation is a key word when it comes to product development at the exchange.