

New MIC **a new collateralised** **money market**

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COGESI Meeting – ECB
Frankfurt, 22nd November 2010

Mercato

Interbancario

Collateralizzato

Liquidity delivered
under all conditions



The Old MIC Market: Main Characteristics

The **MIC**, established as a contingency measure during the financial crisis, was **aimed at revitalizing interbank money market flows on longer than 1 week maturities**.

The Bank of Italy set the expiration of the scheme on 31st Dec 2010.

MIC main characteristics:

- Based on a Guarantee Scheme managed by the Bank of Italy
- Completely anonymous, traded on the e-MID platform as a segment of the e-MID market
- Simple trading and settlement environment based on a “depo-like” model
- Maturities between 1W and 12M

MIC design in terms of:

- COLLATERAL
- TRADING
- SETTLEMENT
- GUARANTEE AND REGULATORY FRAMEWORK

- **COLLATERAL**

- Pledge in FOP of a wide variety of securities with minimum 30% of ECB eligible assets
- Assignment of a correspondent trading limit to each participant
- Concentration limits applied on each quote and order for pre-trade check on necessary collateral to cover nominal quantity plus interests
- Borrower collateral blocked from trading date to maturity date till settlement time (credit risk)
- Lender collateral blocked from trading date to value date till settlement time (delivery risk)
- Roll overs do not require any additional collateral on nominal quantity

The Old MIC Market: Main Characteristics

- **TRADING**

- Depo-like trading style
- Real time trading limit checks
- Access of non-Italian banks subject to agreements between National Central Banks

- **SETTLEMENT**

- Gross settlement in Target2 at 9 am
- Settlement instructions sent by e-MID

- **GUARANTEE AND REGULATORY FRAMEWORK**

- Mutual guarantee up to 10% of the collateral pledged by each participant
- Zero capital absorption on exposure towards CCP
- Zero capital absorption on 90% of collateral pledged, 100% absorption on the residual 10%

The scheme was pretty successful in Italy, with a daily average of 270 mio euro traded and an average duration of 32 days, with the only limit that we had no international banks in the system.

The New MIC Market: Main Characteristics

On October 11th 2010 the **New MIC** started as the continuation of MIC. It is a **permanent market fully based on private infrastructures**.

With regard to the "old MIC", the New MIC had been modified in the following aspects:

- **CCP**

- The Central Counterpart of the New MIC is the Cassa di Compensazione e Garanzia (CC&G) LSE Group

- **COLLATERAL**

- Only ECB eligible securities are admitted
- Accepted securities are divided in two categories:
 1. Qualified Financial Instruments (minimum 5% of pledged amount)
 - *Government Bonds with rating at least A- (Fitch e S&P) or A3 (Moody's)*
 2. Ordinary Financial Instruments (minimum 2 instruments pledged)
 - *Government Bonds with rating BBB- or higher and less than A- (Fitch and S&P) or A3 (Moody's)*
 - *Corporate Securities*
 - *ABS (only class A)*
- Daily evaluation and substitution possibility of collateral

The New MIC Market: Main Characteristics

- **TRADING**

- Maturities between **TN and 12M** including broken dates
- Extended trading hours: 10 am – 6 pm (before it was till 4 pm)
- Real time trading limit checks
- **Open to international participants**

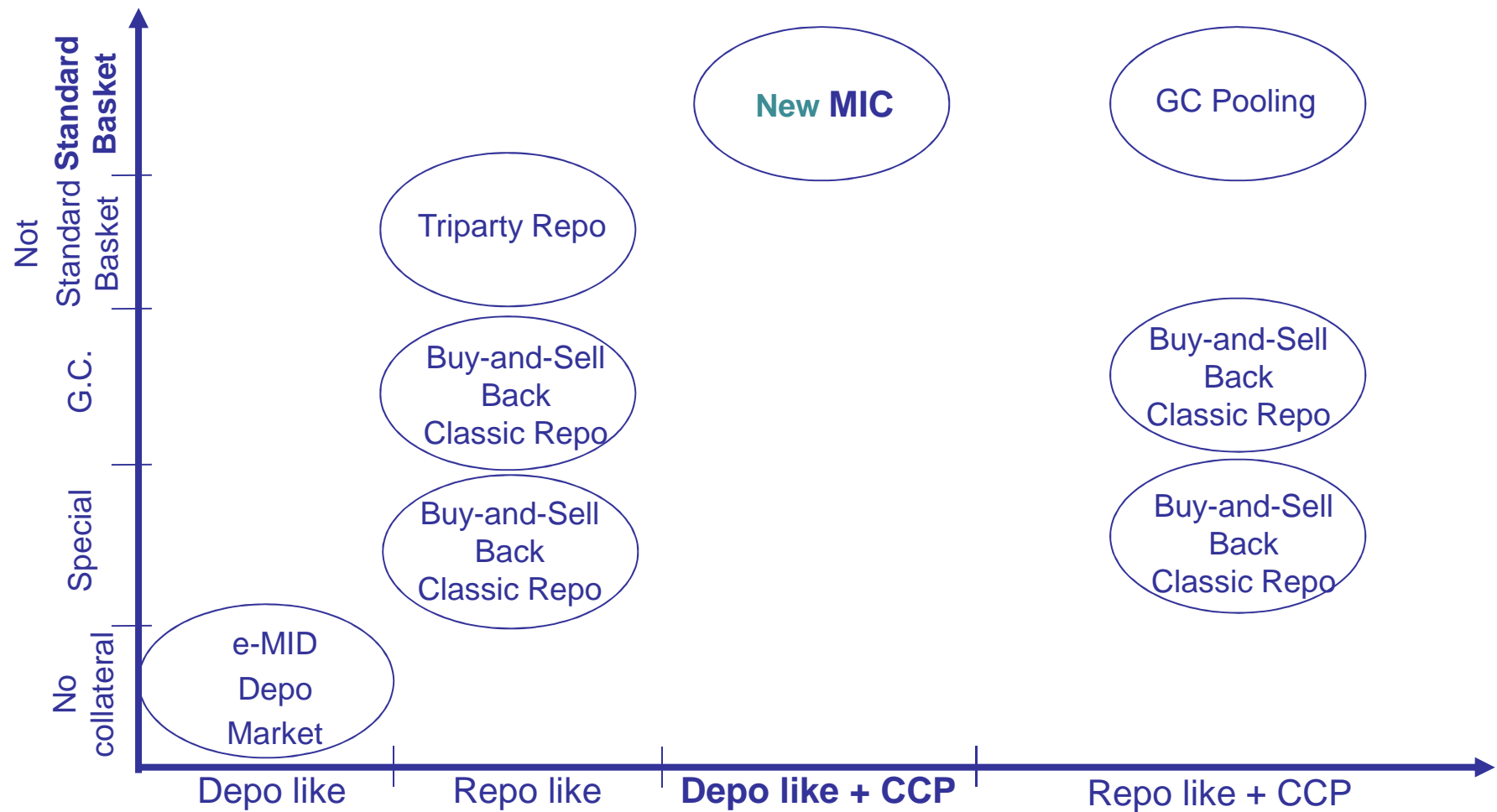
- **SETTLEMENT**

- Net bilateral settlement of each participant flow in Target 2 at 9 am
- Settlement instructions sent by CC&G

- **GUARANTEE SCHEME AND REGULATORY FRAMEWORK**

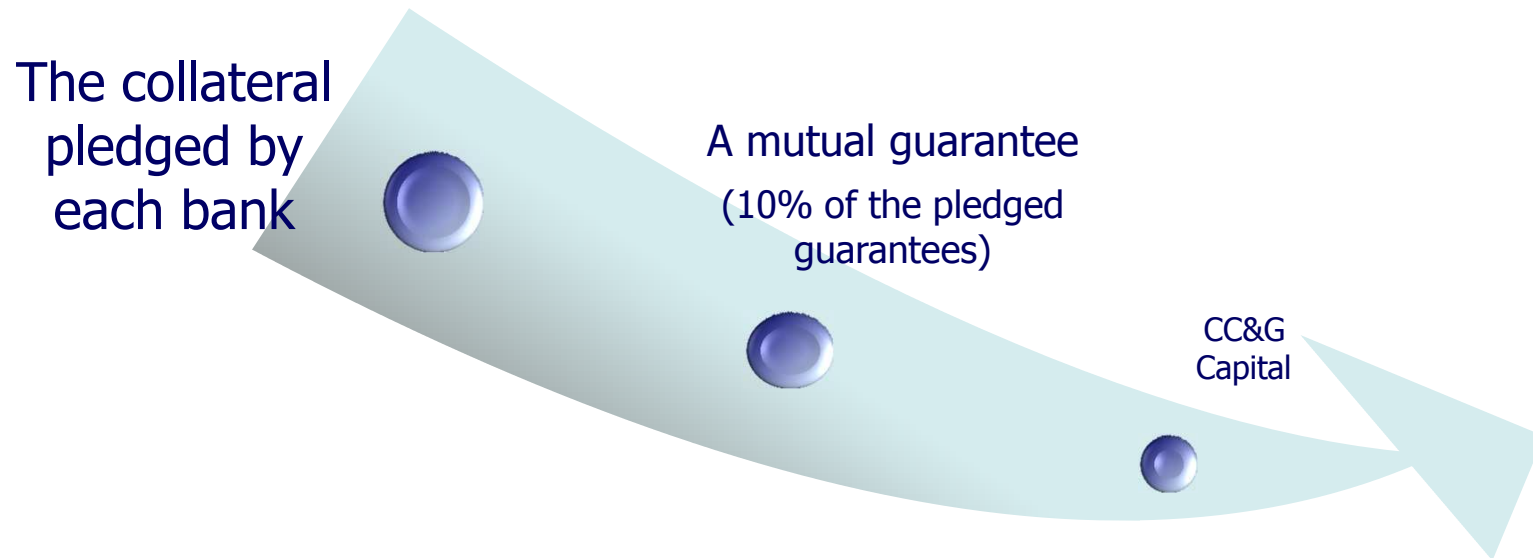
- Appropriate basket concentration limits assure mitigation of overall risk carried by the CC&G
- Capital absorption confirmed in Italy by Regulators
- Capital absorption in other countries is currently under scrutiny with clients and their Regulators

New MIC Compared to Other Collateralised Markets



Risk Mitigation

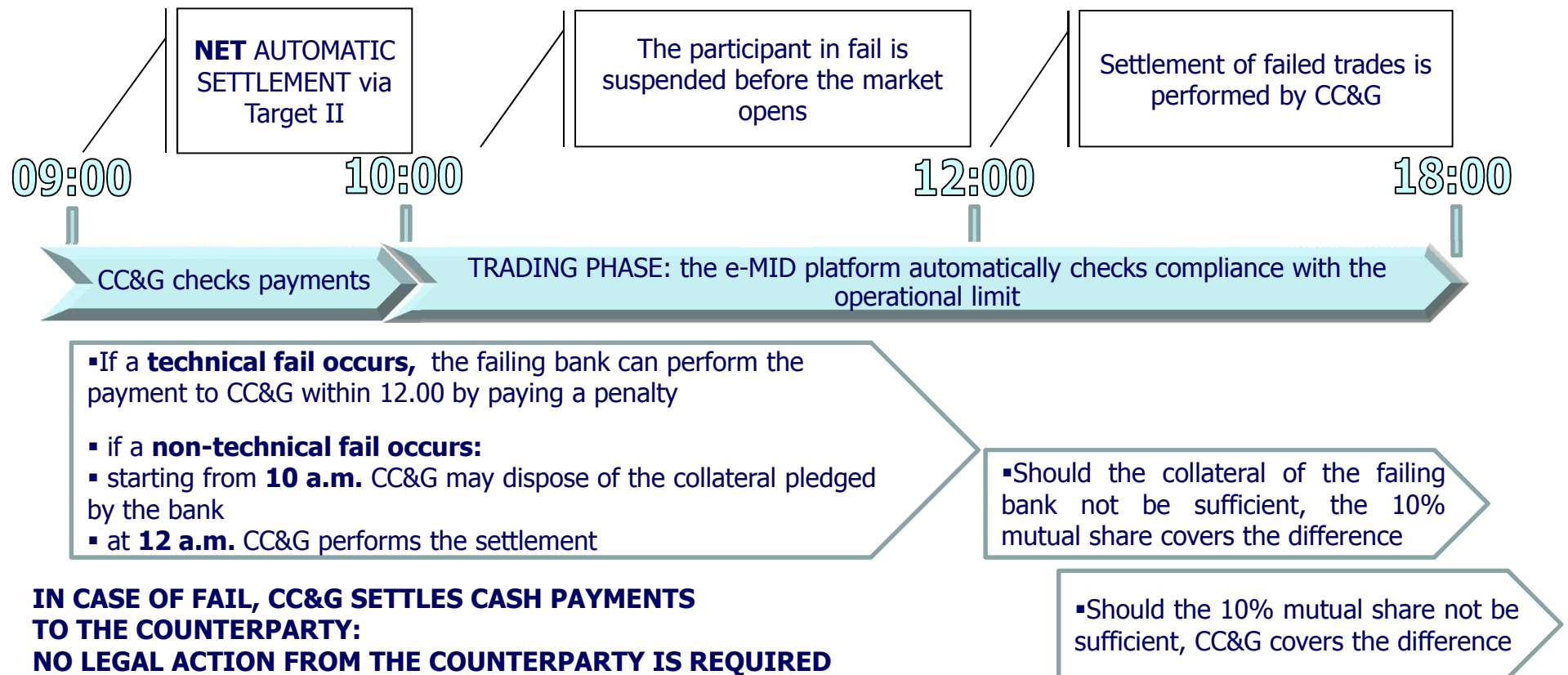
Three layers of protection...



...to mitigate credit risk and settlement risk

All collateral can be used to take exposure in the market including the mutual guarantee.

A Trading Day in Brief



New MIC: Participation Conditions

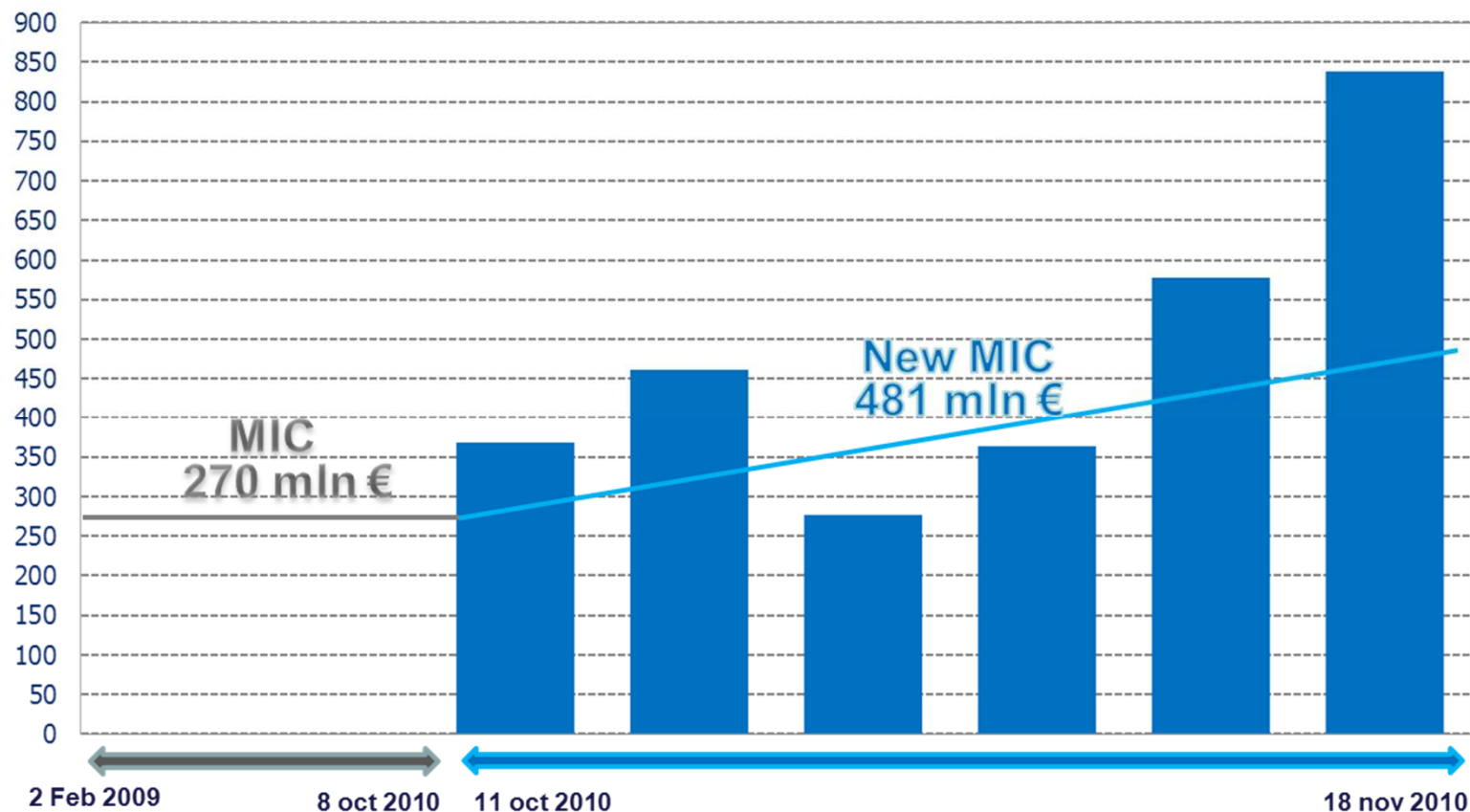
How to participate in the New MIC

- Be or become an e-MID market member
- Become a direct member in CC&G for the New MIC Guarantee System
- Subscribe the New MIC participation conditions e-MID and CC&G
- Route collateral to CC&G either through an agent bank or directly to Monte Titoli
- Have access to direct or indirect payments on Target 2
- Trade on the basis of variable volume fees

New MIC Growing Volumes

ABSOLUTE DAILY VOLUME ON A WEEKLY BASIS (Mln €)

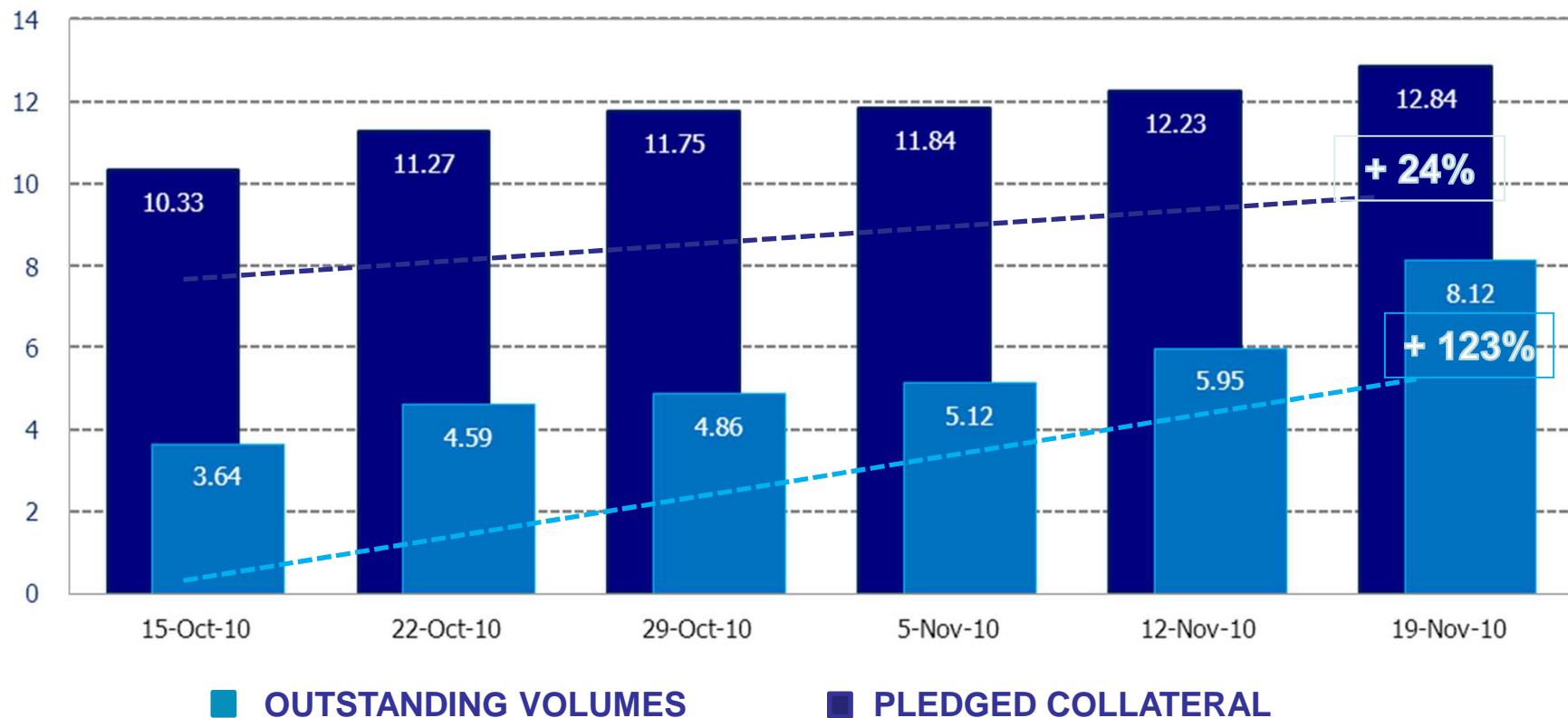
New MIC WEIGHTED AVERAGE
DURATION OF TRADES: 23 DAYS



New MIC Outstanding Volumes and Collateral

OUTSTANDING AND PLEDGED COLLATERAL (Bln €)

New MIC WEIGHTED AVERAGE
DURATION OF OUTSTANDING: 38 DAYS



A Money Market Hub Perspective

The mix of accepted securities and basket composition rules make the New MIC a valuable complement to money markets.

*The New MIC is the first e-MID collateralised market open to pan-European participants within its establishing **MONEY MARKET HUB**. Other collateral based products will follow in 2011.*

Thank you for your attention.

For further information, please contact

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