



Ministry of Economy and Finance

**Decree no. 96718 of 7.12.2012, published in the Official Gazette – General Series
No. 293 of December the 17th 2012**

Dispositions for operations of stripping, trading and reconstitution of coupons, inflation linked components and the nominal redemption value of Government bonds

CONSIDERED the President of the Republic's decree no. 398 of 30 December 2003 on the Consolidated Act of legislative dispositions and regulations concerning public debt, as amended, (hereinafter "Consolidated Act") and, in particular articles 3 and 31 respectively on the authorisation given to the Minister of Economy and Finance to issue decrees that allow borrowing operations defining, among other things, characteristics and procedures, and on the organisation and management of Government bonds wholesale markets;

CONSIDERED the legislative decree no. 58 of 24 February 1998, on the consolidated act of dispositions on matters of financial intermediation and, in particular, article 61, paragraph 10, which provides that the Ministry of Economy and Finance, having consulted the Bank of Italy and CONSOB, identifies the characteristics of wholesale trading of financial instruments;

CONSIDERED the ministerial decree no. 216 of 22 December 2009, "*Regulations on identifying the characteristics of wholesale trading of financial instruments and on the discipline of wholesale trading of Government bonds*", and in particular article 3, which disciplines the identification of the characteristics of wholesale trading of financial instruments;

CONSIDERED also the articles 11, 24, 25, 26, 27, and 80 of the cited Consolidated Act on the discipline of the central depository system of Government bonds;

CONSIDERED the Decree of the Public Debt General Director of 23 August 2000, published in the Official Gazette no. 204 of 1 September 2000, which mandates Monte Titoli S.p.A. the service of central depository system of Government bonds;

CONSIDERED also, the articles 53 and 54 of cited Consolidated Act, concerning aspects connected to the procedures for the redenomination of Government bonds in euros;

CONSIDERED the law no. 116 of 23 July 2012, on "Ratification and execution of the Treaty that establishes the European Stability Mechanism ("ESM Treaty"), with attachments, done in Brussels on 2 February 2012" as amended;

CONSIDERED the paragraph 3 of article 12 of the ESM Treaty, which provides that, from 1 January 2013, all new issues of Government bonds of the euro-zone, with maturity above one year, shall include collective action clauses that guarantee an identical legal impact;

CONSIDERED the opportunity, in order to develop the Government bonds market, to encourage the government bond strip market;

D E C R E E S :

Article 1

Definitions

1. For the purposes of applying the present decree:

"**stripping**" is the operation that separates from the principal the coupons and, in the case of inflation linked bonds, the inflation linked component;

"**principal**" is the value of the bond's redemption without the coupon components; for inflation linked bonds the "principal" is the value of the bond's redemption without the coupon components and net of the inflation linked component;

a "**coupon**" represents the interest payable for the bond;

"**inflation linked component**" is the part of the redemption value of inflation linked bonds due from inflation accrued from the accrual date to its maturity; in the case of deflation its value is null;

"**reconstitution of the bond**" is the operation that reconstitute the principal with the separated coupons, even if they originated from different bonds, in order to obtain new bonds; for inflation linked bonds reconstitution also entails re-uniting the inflation linked component.

In the case of inflation linked bonds:

"**reference inflation**" is the level of the reference consumer price index for a certain date, calculated as per the issuance decrees of the inflation linked Government bonds;

"**adjustment coefficient**" is the ratio between 100 and the reference inflation at the original accrual date of the bond;

"**real annual rate**" is the base annual coupon rate, defined as per the issuance decrees of the inflation linked Government bonds.

Article 2
Bonds eligible for the stripping operations

1. The stripping operations mentioned in the present decree can be conducted on fixed rate or inflation linked Government bonds, not redeemable in advance, deposited to the central depository system of Government bonds.
2. The reconstitution operations mentioned in the present decree can be performed on Government bonds that were object of the stripping operations mentioned in paragraph 1.
3. The operations mentioned in paragraphs 1 and 2 are conducted by subjects to whom substitute tax, mentioned in article 2, paragraph 1, of legislative decree no. 239 of 1 April 1996, does not apply
4. The individual Government bond issuance decrees authorise the stripping operations mentioned in the present decree and, for each one, any minimum amount of outstanding nominal capital above which the operation is able to be conducted as well as the overall amount of outstanding nominal capital that can be subject to the operation.

Article 3

Operating procedures

1. Stripping and reconstitution operations mentioned in the present decree are represented by book entries upon request of the subjects that adhere to the central depository system of Government bonds.
2. Stripping and reconstitution operations mentioned in the present decree are allowed for a nominal amount equal to or multiple of 1,000,000 euros.

Article 4

Securities' characteristics

1. Each bond resulting from the operations mentioned in the present decree is an autonomous Government bond, qualified as zero-coupon, and can circulate only within the central depository system of Government bonds.
2. The issue price of all securities mentioned in the preceding paragraph is equal to the purchase price, while the issue date is the purchase date. In case more than one purchase of the same security is made by the same subject the purchase date is the weighted mean date and the purchase price is the weighted mean purchase price. Interest on these securities is given by the difference between the redemption value and the purchase price. Interest is accrued on a compound basis.
3. In the case of fixed rate Government bonds, both coupons and the principal that originate from the same stripped bond or different bonds with the same maturity, are fungible. For the inflation

linked bonds the fungibility is admitted only for the coupons, which is obtained by dividing the real annual rate of the originating bond by two, and multiplying the result by the product of the adjustment coefficient and the nominal minimum amount mentioned in article 3, paragraph 2; the resulting amount is rounded to 10 decimal places and is the coupon's "adjusted value". For a given nominal amount subject to stripping, the coupon's adjusted value is determined by rounding to 2 decimal places the product of the "adjusted value" mentioned above and the nominal stripped amount divided by 1,000,000.

4. Coupons of inflation linked bonds are not fungible with coupons and the principal of fixed rate bonds.

5. Coupons and the principal of bonds issued with collective action clauses mentioned in the ESM Treaty, cited in the preamble, are not fungible with coupons and the principal of bonds not issued with the cited clauses.

6. Payment at maturity of inflation linked bonds is determined:

(i) in the case of coupons, by multiplying the nominal amount (value) of the coupons by the reference inflation at maturity and dividing the result by 100;

(ii) in the case of inflation linked components, by subtracting 1 from the indexation coefficient at maturity and multiplying the result by the nominal amount of the linked component. Should the value of the indexation coefficient at maturity be less than 1 the payment will be null.

7. The minimum denomination of bonds resulting from the stripping operation is one euro cent.

8. The basis used to calculate interest payments for bonds originating from stripping operations mentioned in the present decree is actual /actual .

Article 5

Minimum tradable lots

1. As per article 3, paragraph 3, of ministerial decree 216/2009, wholesale trading venues require minimum trading lots suitable to the characteristics of this type of bonds.

Article 6

Final and transitional provisions

1. With the entry into force of the present decree the Minister of Economy and Finance's decree no. 127167 of 28 December 2007, "Dispositions for operations of stripping, trading and reconstitution of coupons, inflation linked components and the nominal redemption value of Government bonds", is repealed. The operational and accounting procedures concerning the innovations introduced with the present decree, in particular that mentioned in article 4, paragraph 3, introducing the fungibility between coupons and principal of fixed rate bonds, are entrusted to the society in charge of the central depository system of Government bonds, to whom also the management of the transition for

the outstanding separated components (coupons and principal) at the moment of entry into force of the present decree, is transferred.

2. The present decree applies to all nominal BTPs that can be subject to stripping and reconstitution mentioned in article 2 of the present decree and to BTPs linked to euro-area inflation excluding tobacco products (BTP€is). When not expressly provided for in the issuance decrees of outstanding BTP€is at the time of entry into force of the present decree, the principal, the coupons, and the inflation linked components are subject to stripping operations, and for each bond the maximum amount that can be subject to coupon stripping cannot exceed 50% of the outstanding nominal capital. Finally, the dispositions mentioned in article 3, paragraph 2, of the present decree, as regards the minimum nominal amount of requests for stripping and reconstitution operations, and mentioned in article 4, paragraph 7, of the present decree, as regards the minimum denomination of single components, apply to all outstanding BTP€is and nominal BTPs that can be subject to coupon stripping, also in breach of their respective issuance decrees.

3. The present decree will be published in the Official Gazette of the Italian Republic.

Rome,

THE MINISTER OF ECONOMY AND FINANCE