

*2012*

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Guidelines  
for public debt management

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DIPARTIMENTO DEL  
**TESORO**



Ministero  
dell'Economia  
e delle Finanze



## *Foreword*

Also for the year 2012 the Treasury Department presents the Public Debt Management Guidelines to provide investors in Italian Government bonds with general indications on the strategy that will be followed in the next twelve months. Considering the relevant turbulence that is hitting the Government bond markets of a large part of the Euro area, debt issuance and management decisions will take into account this market context and thus, when needed, be revised, while remaining within the strategic outline of this document.

The detailed summary of debt management during 2011 will be included in an in-depth document to be published during next year.

## *The 2012 Issuance programme*

### ***INTRODUCTION***

During the second half of 2011 the Italian Government securities' market entered a highly volatile phase, an effect of the continuation of the euro area sovereign debt crisis that began last year, which, even if to differing degrees, hit the major part of euro sovereign debt issuers, notwithstanding the respective credit worthiness. The most evident effects of this growing difficulty, which are moreover closely intertwined, were on the one hand a progressive growth of the implicit yields (based on secondary market prices) of Italian Government securities and, on the other, the deterioration of liquidity on the secondary market, especially on the electronic trading platforms that are more transparent and offer the opportunity for immediate trades. At the origin of these events, together with political factors – both national and European, stands the strong increase in the volatility of bond prices: for banks and a large part of institutional investors, holding Government securities has become ever more costly due to the impact on the performance of their portfolios, forcing managers and treasurers to lighten their positions on these instruments and to reduce their propensity to trade, even in situations of clear arbitrage. In the first case, this gave rise to a considerable drop of bond prices with a resulting rise of interest rates, initially on the secondary market and subsequently with new debt issues; in the second case, aversion to trading worsened liquidity conditions on the secondary market, furthering the depreciation of bonds and the deterioration of issuing conditions for the sovereign issuer.

Notwithstanding this particularly difficult context, the Italian market was positively characterized by some indications of fundamental importance. If one excludes those days of particularly intense tension, on all segments of the Italian Government bond market dealers always had a clear picture of bond prices and could thus move to adjust their portfolios with sustainable transaction costs. Debt issuance activity has been regular and predictable, allowing investors to plan their activity and in this way sustain the efficiency of trading on the secondary market. All public debt management tools were used to full capacity to limit possible market dysfunctions, trying to protect both the interests of Government bond holders and those of the issuer, having considered the substantial funding needs of the latter.

In 2012 the Treasury, in managing the government marketable debt, will make use of some technical adjustments that, in addition to those already introduced in the last four years, will

contribute to guarantee the sound functioning of the secondary market and obtain, through the management of the composition of debt, an adequate exposure to the main market risks. The Treasury will be present on the market so as to maximize the yield of the flexibility tools, those already in use or new ones, with the aim of obtaining favourable cost and risk conditions according to markets' trends. This, however, will come about in concert with an approach that, in the choice of instruments and quantities to propose to the market, will continue to be based on principles of regularity, transparency and predictability, factors that also in highly volatile periods were very much appreciated by market participants, inasmuch as they are sources of stability and of reduction of uncertainty.

Fully in keeping with the past, debt issuance activity in 2012 will primarily follow the *Annual Auction Calendar* which, compared to 2011, includes some noteworthy changes. The Calendar will be accompanied, as always, by the *Quarterly Issuance Programmes*, that will give detailed information on the bonds to be placed on auction, regarding either the new ones or the tranches subsequent to the first<sup>1</sup>. Within this programming, the Treasury will continue to use re-openings of *off-the-run* bonds, with the well-known aim of improving trading conditions on the secondary market – for both cash and repo transactions – for specific bonds and/or segments of the yield curve, and of achieving the goals of debt management as regards the cost and risk profiles. Where market conditions permit, in exceptional situations, auctions not included in the *Calendar* that respond to the two objectives of satisfying specific needs brought up by investors, on the one hand, and that are coherent with the issuer's debt management needs, on the other, may be carried out. The schedule with which medium- and long-term nominal instruments will be offered – which has changed compared to previous years, for example with the inversion of 5-year BTPs issued at end month and 3-year BTPs at mid-month – might be revised in case of particularly turbulent market conditions.

As regards the auctions, even if there will be some operational changes regarding their execution – such as the possibility for participants to make up to five bids for all bonds and no longer only for BOTs – in 2012 too they will be the main issuance method, considering the advantages they give the Treasury of accessing the market in a regular, continuative and highly transparent manner, benefiting all participants to the Italian public debt market.

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<sup>1</sup> Both these documents are to be found on the public debt website ([www.publicdebt.it](http://www.publicdebt.it)).

Beginning with the last auction of 2011 (with settlement in January 2012) and for all of 2012, CTZ auctions will conform to the model of the discretionary fixing by the Treasury of the amount placed within a range previously communicated in the announcement, as already takes place for all the other medium/long-term bonds. For these last, *on-the-run* issues will take place for amounts defined within a pre-announced range on offer for each single bond; these issues may be accompanied by the offer of *off-the-run* bonds, which will instead be proposed with a single range of amounts, which will include all the bonds proposed in the same auction session. As always, euro area inflation linked BTPs are exceptions: they will be announced in a single range on offer for each auction, including both *on-the-run* and *off-the-run* bonds.

For the launching of new long-term inflation linked or nominal bonds with durations longer than 10 years, the chosen issuance method will be the one that best guarantees a satisfactory placement as regards the distribution among investors and as regards its execution in the given market situation.

On the floating rate nominal bond segment, having considered the effects that the debt crisis produced on trading on the secondary market and on investors' choices, CCTeus will continue to be issued regularly through auctions within the normal issuance programme, but with a three-month frequency, in order to encourage the demand formation process and guarantee liquidity standards that are adequate for the secondary market. Moreover, the new bonds will usually be issued with a five year maturity, considering the stronger consensus that this maturity has obtained on the market since its introduction.

2012 will see the Treasury very active with money market instruments, such as three-month or non-standard maturity ("flexible") BOTs, Commercial Papers and Treasury Operations (OPTES) in order to offset temporary cash imbalances. The OPTES segment will see the strengthening of the activity that began in the last month of 2011, where the Treasury is active not only for raising funds but especially for investing them. BOTs with longer maturities – 6 and 12-months – will be issued regularly and the relative quantities on offer will take into account the trend of the Government's cash requirements, of the market's absorption capacity and of the cost of financing.

Another innovation that will be introduced in 2012, presumably with the second quarter, is the extension of re-openings reserved for Government bond Specialists, which will go from 10 percent (or 25 percent for the first tranches of medium/long-term bonds) of the amount offered in the previous day's ordinary auction to 15 percent (or 30 percent), an extension to which Specialists with the best performance on the Government bond secondary market will have access.

The Treasury will continue to constantly monitor the opportunities of issues in foreign currencies, both in Global format in dollars and through the E-MTN programme, with the goal of diversifying the offer and maintaining a signalling presence which is considered fundamental, even in a market context of these instruments that has considerably changed. As in the past and maybe even more, placements will be executed with maximum flexibility as regards timing and issuance methods.

## **1. THE ISSUANCE PROGRAMME OF SECURITIES PLACED THROUGH AUCTION**

*The Annual Calendar, the frequency of auctions and the Quarterly Issuance Programmes*

In 2012 the *Government bonds Annual Auction Calendar*, published in the Public Debt section of the Treasury Department's website ([www.publicdebt.it](http://www.publicdebt.it)), presents some important changes with respect to previous years, aimed at making the bond placement process more efficient.

The changes regard first of all the announcements for auctions of medium/long-term nominal bonds at mid and end month: as is the present case for BOTs, CTZs and BTP€is, there will be only one announcement, three days before the auction, in which the bonds on offer and their quantities will be communicated. Therefore, the calendar will not distinguish between a first and second medium/ long-term bond announcement, as opposed to previous years.

Announcements for all other bonds will be as follows: for mid-month BOT auctions, the working day before the single medium/long-term auction announcement there will be a single one three working days before the auction (as usual); instead for end-month auctions, there will be two announcements on the same day, one relative to BTP€is and CTZs and the other for BOTs. Having taken into consideration the days in which the auctions for these bonds will take place, the announcement for BTP€is and 24-month CTZs is two working days before the relative auctions, while that for BOTs is three days before.

The new timing of announcements is clearly determined by the need to move the announcement as close as possible to the auction itself, so as to better manage the extreme volatility that is characteristic of Italian Government bond markets in this phase.

The sequence of auctions in the end-month session also presents some important revisions. The three days in which auctions are carried out will be organized in the following manner: on the first day there will be the auctions for BTP€is and 24-month CTZs, whose settlement date will be set three working days after the auction (which entails a variation for BTP€is, that before were settled two days after the auction); on the second day the BOT auction will take place, its settlement will be two working days after the auction, a difference from the past when BOTs were settled three days after the auction; on the third day, as usual, auctions for medium/long-term nominal bonds will be performed, with settlement two working days after the auction, like always. This revision brings

about first of all that on each day auctions of the same type take place: on the first and third days in fact the Treasury will issue bonds with a marginal (uniform price) auction and discretionary pricing within a previously announced range offer, while on the second day only BOT auctions, of the competitive (multi-price) kind, will be carried out, with fixed quantities on offer. Moreover, the outcome is also that BOTs and BTP€is are fully in line with respect to the interval between the auction and settlement dates on the primary and secondary markets: in other words, from 2012 on a BOT or BTP€i auction settles on the same day in which trades on the secondary market are settled.

Table 1, below, summarizes the changes concerning auction settlement dates:

**Table 1: Interval between date of auction/trading on the secondary market and settlement date**

Bond type	2011 auction settlement date	2012 auction settlement date	Secondary Market
BOT	T+3	T+2	T+2
CTZ	T+3	T+3	T+3
BTP€i	T+2	T+3	T+3
BTP/CCT/CCTeu	T+2	T+2	T+3

The monthly issuance timetable will also be subject to some variations. 3- and 12-month BOTs will still be offered at mid month, with the former tailored to temporary cash needs, which is also typical of issuance decisions of so-called flexible BOTs (which will be offered either at mid or end month auctions), while 6-month BOTs maintain their placement at end-month auctions.

*On-the-run* medium/long-term bonds will instead be offered according to a new scheme: 5 and 10 year BTPs in the end-month auctions while 3-year BTPs will be moved to the mid month auction; 15 and 30 year BTPs will still be offered, market conditions permitting, in mid-month auctions.

The approach to *off-the-run* bonds auctions will not change; they will follow a more flexible schedule taking into account the nature of these placements that are intended to guarantee better functioning of the secondary market, by meeting specific needs of demand. However, also in 2012 these issues will preferably be at mid-month auctions.

A substantial novelty is that CCTeus will be issued once every quarter, in one of the end month appointments together with 5 and 10 year BTPs.

As stated above, BTP€i and 24-month CTZ auctions will be held monthly on the same day, at the end month appointments according to the dates in the *Annual Calendar*.

Moreover, for all medium/long-term auctions, beginning with that of the 24-month CTZs of 28 December 2011, participants will be able to make five bids, something that up till now was only possible for the BOT segment.

In 2012 the Treasury will continue to make use of the possibility, only in exceptional cases, of re-opening outstanding bonds (both short- and medium/long-term) not scheduled in the *Annual Calendar*, announcing these placements through the usual channels: these decisions may be justified by specific liquidity needs and market demand, supported by wide ranging consultation among market participants.

Table 2, below, summarizes the auction frequency for each instrument:

**Table 2: Auction frequency**

Bond type	Mid month auction	End month auction
Flexible BOT	Issued according to cash requirements	
3-month BOT	Issued according to cash requirements	
6-month BOT		X
12-month BOT	X	
24-month CTZ		X
3 year BTP*	X	
5 year BTP*		X
10 year BTP*		X
15 and 30 year BTP*	The two bonds will be offered according to market demand	
CCTeu		X (on a quarterly basis)
BTP€i		X

\* Please note that off-the-run bonds of the kinds marked with an asterisk, irrespective of maturity at issue, may be offered in medium/long-term auctions other than those in the table.

Continuing as in previous years, information on bonds to be issued in each quarter will be published in the *Quarterly Issuance Programmes*, indicating the new bonds being issued in the next quarter, together with the minimum outstanding volumes that for each bond the Treasury commits itself to reach.



## ***NOMINAL BONDS***

### ***a. BOTs and liquidity management***

Issuance activity of BOTs will continue to be with the traditional 3, 6 and 12-month maturities, but these may be supported by flexible maturities for liquidity management purposes.

12 and 6-month BOTs will be offered regularly, at mid and end-month respectively, and the amounts will be set according to demand and market conditions. As regards 6-month BOTs, the Treasury will pay particular attention to setting the amounts of the auctions that determine the indexation of outstanding traditional (old type) CCT coupons, to ensure the efficiency of that market.

The Treasury will offer both 6 and 12-month maturities in 2012 through ordinary auctions and re-openings reserved for Specialists in Government bonds. The amount offered in re-openings will usually be 10% of the nominal amount offered in the normal auction; this percentage may be modified, in relation to market conditions and demand expressed by operators.

3-month securities, as well as BOTs issued with non-standard maturities (the so-called flexible BOTs), will be offered taking full advantage of the instrument's flexibility in relation to cash requirements. The Treasury foresees extensive use of such instruments in 2012.

As for the functioning of the primary market, the competitive (multi-price) auction will continue to be the placement system for the entire BOT segment. Issues will thus continue to be carried out with the auction method introduced in 2009, whereby bids are made in yield terms (instead of price), confirming moreover the possibility for operators to make up to five bids for each BOT offered, as has been the case since 2010.

The Treasury will also continue to make use of Commercial Paper (CP), also in currencies other than the euro, to obtain maximum flexibility in terms of amounts and maturities, essential elements for accurate liquidity management. The Treasury foresees much activity on this segment in 2012, thanks also to the updated programme that redefined the maximum quantity of outstanding CP, bringing it to 15 billion euros (compared to the previous 10 billion limit). Recourse to CP will also be finalized at increasing the diversification of investors operating on short- and very-short-term instruments offered by the Treasury.

Finally, during 2012, the Treasury will keep its presence on the money market on short- and very-short-term maturities, through financial transactions using the so-called *availability account* for treasury services (OPTES). From 30 November 2011, these operations have fully implemented an

important provisional reform (introduced with article 47 of Law no. 196/2009), that entails daily activity and the carrying out of operations mainly of investment of liquidity, other than funding. These transactions will be auctions or bilateral deals with overnight or longer maturities, in relation to cash requirements and market conditions. Within the cited reform, the Treasury is selecting numerous candidate counterparties that have expressed interest in adhering to OPTES operations. This entails, finally, the possibility for the Treasury to invest its liquidity in time-deposits with pre-determined maturities at the Bank of Italy.

#### ***b. 24-month CTZs***

The main innovation on the 24-month CTZ segment concerns the auction procedure, which is now aligned with that in force for the other medium/long-term bonds. If the type of auction does not change, that is the uniform-price (marginal) auction with a single final price for all participants, the new procedure requires that the Treasury announces no longer a fixed amount on offer, but a quantitative range within which it will choose how much to issue, based on the bids coming from the auction and the underlying market conditions of the bond being placed.

In 2012 46.2 billion euros CTZs will redeem, around 9 billion euros more than in 2011. The Treasury will address the market with total amounts that will not be substantially different from those offered in 2011 (circa 35 billion euros), but according to issuance criteria set to enhance efficiency on the secondary market, also paying heed to the uneasy phase that the segment is now going through.

#### ***c. CCTeUs and CCTs***

Also in 2012 the volume of CCT coming due will be less than the previous year's. In detail, 25.7 billion euros will mature, over 4 billion euros less than in 2011. During 2011 the segment underwent many critical moments, with bond prices falling well below par, especially when turmoil on European markets was particularly intense. Notwithstanding, during less tense phases, demand for this instrument was not lacking, also from many foreign institutional entities that made use of this instrument for the first time, since CCTs and CCTeUs are among the few floaters, at the European level, that are regularly issued within a programme.

Having considered these aspects, the Treasury will continue to guarantee the offer of this instrument to the market, even if with a different timing and a new maturity at issuance. As for timing, auctions will be once per quarter and, during the quarter, the month with the most favourable situation of both demand and liquidity on the secondary market will be chosen. For the maturity, the standard for new bonds will be five years, taking into account the experience gained since the product's launch, which saw the use of maturities of five and seven years, with an overall more stable performance for the prior.

The new placement timetable may affect the total CCTeu issuance volume to be completed during the year, which will probably be kept down with respect to 2011, even if not significantly. Issuance decisions in terms of quantities during the year should bring about a further reduction of the share of floating rate nominal bonds of overall debt, contributing to the improvement of exposure to the interest rate risk.

At the quarterly appointments, the auction mechanism used for CCTeus, as for the other medium/long-term bonds, will be marginal one with discretionary pricing by the Treasury based on the situation of the secondary market, within a previously announced range of quantities on offer. CCTs old-style, linked to the auction rates of 6-month BOTs, will normally not be offered, although, where the need to make the functioning of the secondary market more efficient or where particular demand conditions request it, the Treasury will not hesitate to re-open bonds on this segment so as to resolve such critical situations.

Considering the fact that investors present on this segment did not express a strong preference for exchange operations to sell old CCTs to the Treasury in exchange for new ones, the Treasury does not foresee a defined programme of this kind of transaction. This does not mean that, should there be the conditions, the Treasury will not be ready to organize specific exchange operations to ease these trades within the normal activity of this debt management instrument. As in the past years, both in choosing what to issue and to exchange, the Treasury will prefer balance and diversification of the coupon cycles, both for CCTeus and for old CCTs.

***d. Medium term nominal BTPs (3, 5 and 10 years)***

In 2012 issuance activity on the 3, 5 and 10-year maturities will be as always regular and continuous, also considering the fact that the larger portion of nominal BTPs' issuance will be on these maturities. The number of new bonds offered will take account of the Treasury's financing

needs, of their performance on the secondary market and of the need to facilitate the use of *off-the-run* bonds, where there are particular market requests, and that of exchange operations, with the aim of reducing existing dysfunctions on the secondary market. In other words, re-openings of new *on-the-run bonds* will be such that, for amount and number, the final outstanding amount reached will tend to be smaller, leaving thus the possibility that the same bonds be re-opened later as *off-the-run* or in exchange operations.

As anticipated, 5 and 10 year bonds will be offered in end-month auctions while the placement of 3 year bonds at mid-month might be accompanied by a long-term bond, with a maturity beyond 10 years. The closing and opening of new lines will follow the above mentioned criteria, even if in the decisions that will be taken the possible impacts on *future* contracts, which now cover all the maturities considered, will not be neglected.

For all maturities of this segment the auction will be marginal with discretionary pricing and, for each auction session, *on-the-run* bonds will be proposed each with its own interval of offer, while for *off-the-run* bonds, should more than one be offered, an announcement will be made stating a range of volumes that includes them all. In this way the Treasury, on the one hand, intends to signal the significance of *on-the-run* bond placements, that allow funding at coupon rates in line with market levels and a distribution of redemptions as much uniform as possible over time, on the other hand it aims at better complying with the demand of *off-the-run* instruments, having maximum flexibility up until the conclusion of the auction to be able to choose how much to place among the different lines.

***e. Long-term nominal BTPs (15 and 30 years)***

In 2011 the nominal BTP segment with maturities of more than 10 years, especially in the second half of the year, recorded phases of significant volatility, decidedly above that of BTPs with shorter maturities. This brought about the emergence of different displacements along the long-term Government bond yield curve that could be ascribed to events of reduced liquidity of various bonds on the secondary market. Even though in the last weeks the situation steadied to a certain extent, the long-term BTP bond segment will thus be the focus of careful evaluation by the Treasury as regards issuance choices.

From the calendar and auction frequency viewpoint, it will as always be in mid-month auctions that the Treasury will decide whether to be present on the market and, in that case, how much to issue

on the 15 or 30 year *on-the-run* maturities or if to make use of the integration or alternatively of the re-opening of *off-the-run* long-term bonds. In making these decisions, the Treasury will proceed each time with extensive consultations with market dealers in order to set up a strategy in line with the needs of numerous domestic and foreign institutional investors (in particular pension funds and insurance companies) with an long term investment profile. In selecting the bonds to offer the market, apart from cost and price, market volatility conditions will be examined, inso-much as these influence execution of placements and performance of bonds in the portfolios of market participants. The auction mechanisms will not change, remaining thus analogous to those of the other nominal BTPs, both for *on-the-run* and *off-the-run* bonds.

With regard to the introduction of new bonds, where market conditions are favourable, the Treasury intends to make use of syndication, thanks to the characteristics of flexibility and effectiveness granted by this issuance procedure for bonds of this segment. The possibility of recourse to auctions is, however, not excluded, where difficulties on the market are such as to make less easy smooth access to investors, which is guaranteed by syndication. In these circumstances, however, the Treasury will adopt maximum caution both for the amounts and the maturities to offer.

#### ***EURO AREA INFLATION LINKED BONDS (BTP€is)***

On this segment in 2011 the Treasury set up a sensible issuance policy, where the continuity of the monthly presence on the market via auctions or syndications was flanked by a gradual reduction of the quantities offered; moreover, several exchanges were organized, often with BTP€is on the buy-back side, also as a way to convey the market the strategic interest for this segment and for investors holding this instrument in their portfolios. These interventions, together with the interest shown by investors and the Government bond Specialists' commitment to maintain an adequate level of liquidity<sup>2</sup>, permitted that the secondary market, even in a very difficult situation, could continue to maintain a level of efficiency apt to guarantee functional continuity.

In 2012 the strategic choices made in 2011 will not change: placements will normally be monthly and may be either through auction or syndication; in those months in which syndication should take place, the auction, even if present in the *Annual Calendar*, will be cancelled. As was the case in 2011 the same auction session might have several bonds on offer together, both *on-the-run* and *off-the-run*, with a single range of volumes on offer, within which the marginal price will be set

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<sup>2</sup> All the information regarding Government bond Specialists is available on the Public Debt website following this link: [http://www.dt.tesoro.it/en/debito\\_pubblico/specialisti\\_titoli\\_stato/](http://www.dt.tesoro.it/en/debito_pubblico/specialisti_titoli_stato/)

discretionarily and the resulting quantity placed for each title. The introduction of new bonds will be carefully assessed, reserving itself the possibility of choosing the most effective issuance procedure.

As for the other segments, great care will be taken in interacting with investors; in particular those specialized in this segment with significant exposure, so that all the debt management decisions on the segment will be as much as possible in line with their expectations, remaining within the Treasury's general strategy.

In 2012 an inflation linked bond matures, the BTP€i of 15 September 2012, and it is therefore highly probable that the end-of-year stock level, as a percentage of debt, will be slightly reduced.

#### ***MODIFICATIONS TO RE-OPENINGS RESERVED FOR SPECIALISTS IN GOVERNMENT BONDS***

At present, for all medium/long-term bonds and for 6- and 12-month BOTs, on the day after the auction, there is a placement reserved for Government bond Specialists, at a fixed price equal to the marginal price (or average weighted price for BOTs) of the main auction held the day before. The amount on offer usually is 10 percent of the amount offered at the main auction, except for the first tranche of medium/long-term bonds, where it is 25 percent. Each Specialist has the right to access this option for a portion calculated according to how much it was awarded in the previous three bond auctions of the same maturity segment.

In all probability, beginning with the second quarter, this portion of re-opening will be increased and brought to 15 percent (30 percent for the first tranches of medium/long-term bonds). This five percent increase, however, will only be for Specialists that have demonstrated a particularly positive performance on the reference wholesale electronic secondary market. In further detail, the right share of each Specialist of access this supplementary five per cent will be fixed for all the auctions of the quarter, on the basis of the activity carried out on the secondary market during the immediately preceding quarter.

This measure is clearly aimed at rewarding those dealers that in a particularly difficult market context give a larger contribution to providing liquidity to the Government securities and, in the end, to making the debt market function more efficiently.

## **2. THE FOREIGN CURRENCY ISSUANCE PROGRAMME**

During next year two issuance programmes on international markets will continue to be used with extreme flexibility: the Global Bond Programme for issues in US dollars and the Medium Term Note programme for foreign issues in euros or in other currencies.

With the Global Programme in US dollars, in 2012, particularly in the months of March, June, October and December, two Eurobonds and two Global bonds will come due, for a total of 8.5 billion USD. Therefore, the Treasury might return to the US market, should market conditions permit.

The Medium Term Note programme will continue to be used during 2012, both in public and private format, in an extremely flexible way, thus allowing the satisfaction of specific demands coming from institutional investors. The proposals of private placements that satisfy the prerequisites (in particular, a maturity not inferior to three years and an amount normally no less than 200 million euros) will be assessed ensuring that the financing cost is not more than similar instruments on the domestic market and avoiding overlapping ordinary public debt issues.

## **3. OTHER OPERATIONAL ASPECTS OF DEBT MANAGEMENT**

### ***EXCHANGE AND BUY-BACK OPERATIONS***

In 2012, as in the past years, the Treasury will be able to make use of exchange and buy-back operations to manage the refinancing risk, smoothing out the profile of redemptions and benefitting at the same time liquidity and efficiency on the Government bond secondary market.

On the basis of prevailing market conditions, the Treasury foresees making substantial use of exchange operations, as has already happened in 2011, assessing each time whether to carry out such activity through the auction procedure managed by the Bank of Italy or through the electronic trading system.

Should there be buy-back operations, they may be performed with the auction procedure managed by the Bank of Italy or through bilateral negotiations.

#### **4. OTHER CHANGES IN DEBT MANAGEMENT FOR 2012**

##### ***THE NEW RETAIL PRODUCT***

As announced at the end of October 2011, in the first months of 2012 the Treasury will inaugurate a new placement mechanism for public debt securities: the electronic market dedicated to retail investors. As is known, there are some electronic platforms dedicated to small size trades of Government bonds and other securities - mostly issued by banks, which have been operating in Italy for a long time, with very high levels of activity also during these years of financial crisis. Individual investors do not participate directly to these markets, but they can, through the banks where they hold their security account, place purchase and sale orders on these markets for all the main categories of tradable Government bonds that are presently outstanding. Bonds traded are those already issued through traditional channels (auctions and syndications), contributing in a very significant manner to the penetration of these bonds in the security account that retail investors hold at commercial banks.

The innovation that the Treasury intends to introduce is that of issuing Government bonds directly on one of these platforms, the MOT, the regulated electronic retail market, collecting purchase orders through the circuit of the same platform. Therefore a new issuance channel, different from the traditional one will be activated, entirely dedicated to individual investors, who will be able to adhere to the Treasury's offer in the same way that they already use when they issue government bond purchase orders at the bank where they have their securities account.

During the initial phase, the product offered by the Treasury through this innovative channel will be brand new, with features that distinguish it from the other tradable Government bonds. The issuance frequency and the bonds that will be able to be proposed in the subsequent phases will be set according to the outcome of the first placements. In this sense it is not excluded that in the future existing bonds, that are already a part of ordinary issuance programmes, may be proposed.

For all the project's phases, some of which are still being examined, the Treasury, together with the MOT, will provide wide ranging notification using all the main means of communication, in order to reach the broadest possible audience of retail domestic investors.



### ***CHANGES REGARDING COUPON STRIPPING***

Thanks to the in-depth analysis performed during 2011, the Treasury confirms the opportunity of making also BTPs with 5-year initial maturity subject to coupon stripping<sup>3</sup>, with the aim of providing a service requested by market participants, but also of encouraging the liquidity of outstanding already separated components coming from longer term bonds. This innovation will be introduced with the first new 5- year BTP issued in 2012.

With the same view of facilitating the liquidity of these instruments, in 2012 the Treasury, in proposing new strippable bonds (that is bonds with a maturity of five or more years), will take account of the need to diversify coupon cycles, choosing each time between those of May/November, February/August and March/September.

Moreover, with regards once more to coupon stripping and, as always, after extensive consultation with the dealers operating on this market, beginning with the second half of 2012 the separated coupon strips and principal, with the same maturity, will be fungible. This will be for all the components resulting from stripping operations made after the introduction of this facility, while the mechanism to permit dealers interested in converting existing stripped coupons and principal into fungible zero coupon instruments is being analyzed, so that they too will have the same status as those coming from new stripping operations.

In this way Italy too will use a kind of coupon stripping already used in other euro area countries with mature markets in this segment, which have benefited not only in terms of increased liquidity of the stripped components, but also in terms of the performance of the originating bonds.

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<sup>3</sup>All the information regarding the legal and organizational aspects of coupon stripping of Government bonds is available following this link [http://www.dt.tesoro.it/en/debito\\_pubblico/titoli\\_di\\_stato/coupon\\_stripping/](http://www.dt.tesoro.it/en/debito_pubblico/titoli_di_stato/coupon_stripping/)