# 2013

# Guidelines for public debt management

Dipartimento del Tesoro

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## *Foreword*

The Treasury Department presents the Public Debt Management Guidelines for 2013, with the aim of outlining the Government bond issuance strategy that will be pursued. Even though the choices to be made during the upcoming 12 months will obviously pursued according to market conditions, the present document aims to provide Italian debt investors – in the Government bond segment – with all the most important information on the procedures and criteria with which the issuer intends to offer its products during the upcoming year.

# *The 2013 Issuance Programme*

## INTRODUCTION

The Italian public debt market in 2012 was characterised by very different phases that depended upon the developments of the economic and political scenes in Italy and in Europe, in which the euro area sovereign debt crisis witnessed a series of events that were highly significant also for Italian Government bonds.

If at a national level the effort continued in an even more decisive manner, on the one hand, to improve public finance balances for the present year and the ones that follow, and on the other hand, to set up reforms aimed at re-launching the competitiveness of the economic system, at the European level significant objectives were achieved both in matters of reinforcement and improvement of the operational mechanisms of the newly created European financial support vehicles and in terms of launching further processes of integration, in particular in banking supervision. Other factors that contributed substantially to define the performance of Italian Government bonds during the year were the measures adopted by the ECB, in particular the three-year refinancing auctions for the banking sector, the last of which was held at the end of February, and the new system – announced at the end of July and then defined in detail at the beginning of September – of possible purchases on the secondary market of Government bonds with maturities of up to three years, issued by countries that are already within the assistance programme of the European Stability Mechanism (ESM), based on specific conditions regarding the improvement of the main public finance indicators. In both cases, in a direct and/or indirect manner, the public debt market benefitted greatly, both in terms of bond performance and of trading efficiency on the secondary market, denoting in a rather decisive way the various phases that characterised the year that is coming to a close.

The progress made during the year both at a national and at a European level can in fact be seen in the evolution of rates and liquidity of all the instruments offered by the Treasury: at the onset of 2012 the Italian debt yield curve was fundamentally flat and at historically very high rates (in the area of 7%), while this latter has now settled to a more natural shape level, with short term maturities having yields well below those of longer term maturities. However, the comparison of the conditions at the beginning and the end of the year does not allow to appreciate the complexity of the various phases that distinguished it, some of which witnessed the manifestation of events of substantial instability, even if not of the same intensity as in the second half of 2011.

If one focuses mainly on the period between the second half of March and the end of July, marked by not few difficulties in European level negotiations on the solutions to adopt to face the sovereign debt crisis, and in which the effects of a series of important decisions by the main rating agencies on the credit quality of Italian public debt gradually accumulated, one sees a new considerable increase in the interest rates on Italian debt, with a pronounced worsening of liquidity on the secondary market in its various components, both the electronic trading platforms and the more typical over-the-counter trading. Also in this case, market tensions inevitably influenced the outcome of the debt placements, which experienced growing issuance rates, making the placement of debt to foreign institutional investors ever more difficult, worried by the extreme volatility of bond quotations.

On the other hand, in the months of August and September, and from the second half of October, many of these tensions were released, favouring a substantial reduction of rates on all maturities, and a progressive improvement of liquidity in all segments, also those that traditionally are more sensitive to crisis phases, such as floating rate nominal bonds or those linked to inflation. A proof of the changed conditions comes from the data on the share of foreign investment in Italian debt, that, even though in a very small measure, from May 2012 inverted the progressive downward trend that had begun in the second half of 2011.

More than in 2011, however, in 2012 the Italian market showed signs of considerable hold both on the level of trading depth and on the significance of quotations on the secondary market, factors that partially failed only in a few days of very acute tensions for the entire euro area. The issuance policy contributed to this result: it was carried out according to the usual principles of regularity and predictability, also making full use of the innovations introduced in 2012, such as the issuance procedures and the rescheduling of the calendar, or in previous years, the recourse to off-the-run bonds or bond exchanges. The main aim in all the choices made has always been to limit as much as possible the impact coming from the most acute market instability phases on the outstanding debt and the new issues, striving in this way to protect the interests of both Government bond holders and the issuer.

In 2013 the Treasury will continue in the wake of the changes introduced in 2012, so as to accommodate demand, manage the phases of potential instability and at the same time achieve satisfactory results as regards the management of exposure to the main market risks. In reference to the refinancing risk, the issuance strategy will take into account the need to contribute to the increase of the average life of debt in the light of the modest reduction that took place between 2011 and 2012.

In the following pages all features of the issuance policy for 2013 will be detailed, continuing in the wake of the innovations introduced in 2012. The issuance methods and the corresponding announcements will not change substantially and will always be directed to balance the aims in terms of cost and risk of funding for the issuer, with the conditions that will prevail on the market.

In particular, the Treasury will continue to make use of issues of off-the-run bonds without excluding the possibility of placing them, in a combined issue, together with on-the-run bonds, especially when market conditions are particularly volatile.

There will be no changes in the frequency with which medium/long-term nominal instruments will be offered to investors, with the exception of CCT*eu*s, that will be offered at mid-month and no longer at end-month. In this segment, acting on the experience gained in 2012, the Treasury will return to a normally monthly issuance frequency, but with the possibility of having some months without issues in case this may help the performance of outstanding bonds and the efficiency of trading. As for BTP€is, if the issue of off-the-run CCT*eu*s is decided, these will be announced in a single range on offer together with the on-the-run bonds.

In 2013, the Treasury expects to continue to be active on money market instruments, even if with a view to guarantee, to the extent possible, an increase in the average life of public debt, according to the approach outlined above.

Having considered the ample and positive feedback coming from the BTP Italia, the new instrument specifically dedicated to retail investors, the Treasury will propose it to the market in 2013 too. It will improve, where necessary, the issuance procedure, which will continue to be carried out directly through the electronic platform dedicated to retail trading in Government bonds.

In 2013, the Treasury will continue to be highly flexible in considering different opportunities of "non domestic" issues, in the two standard formats, *Global Program* and *Medium Term Note Program*.

One must also bear in mind that from 1 January 2013 all new Government bonds with maturities exceeding one year will be issued with Collective Action Clauses (CACs), as foreseen by the European Treaty that set up the European Stability Mechanism. In 2013 it will also be possible to strip Government bonds according to the new model introduced on 17 December 2012 that, for fixed rate nominal bonds, allows for complete fungibility also between the last coupon and the principal of the same bond, and between these and the strips originating from different bonds, so long as they have the same maturity.

# 1. ISSUANCE PROGRAMME FOR BONDS PLACED THROUGH AUCTION

### THE ANNUAL CALENDAR, THE PERIODICITY OF AUCTIONS AND THE QUARTERLY ISSUANCE PROGRAMMES

In 2013 the Annual Calendar of Government bond auctions, published on the Public Debt website (www.debitopubblico.it), the innovations of 2012 have been largely confirmed, except for some minor changes, with the aim of making the placement process even more efficient.

Therefore, the changes regarding the announcements for nominal medium/long-term bonds at mid- and end-month are confirmed: a single announcement, three days before the auction, which states both the bonds on offer and their quantities.

As for mid- and end-month BOT auctions, conducted the working day before the auction for medium/long-term bonds, the announcement will be three working days before the auction (as it was in the past).

As opposed to last year, instead, the announcement for the end-month auction of 24-month CTZs and BTP€is will be brought forward one day and will thus precede the relative auctions by three working days, as is the case for the issuance announcements of all the other Government bonds. This small change introduced in the calendar for auctions of 24-month CTZs and BTP€is renders announcements consistent for all Government bonds from the point of view of the time interval between the information for the auction and the auction itself.

The auction sequence for end-month appointments does not foresee changes. The three days in which auctions are held will continue to be organised as follows: on the first day auctions for BTP€is and 24-month CTZs will be held, with the settlement date set at three working days after the auction; on the second day the BOT auction will be held, with settlement two working days after the auction; on the third day, as usual, auctions for medium/long-term nominal bonds will be held, to be settled two working days after the auction.

The following Table 1 summarises the changes introduced for the auction announcement dates:

***Table 1: Auction announcement calendar, settlement date, and secondary market trading date***

| Bond type | 2012 Auction announcement date | 2013 Auction announcement date | Auction | Auction settlement date | Secondary market |
|---|---|---|---|---|---|
| BOT | T-3 | T-3 | T | T+2 | T+2 |
| CTZ | T-2 | T-3 | T | T+3 | T+3 |
| BTP€i | T-2 | T-3 | T | T+3 | T+3 |
| BTP/CCT/CCTeu | T-3 | T-3 | T | T+2 | T+3 |

As for the periodicity of issues made every month, 3- and 12-month BOTs will continue to be offered at mid-month, with the former being linked to cash requirements, typical also for the issuance choice of flexible BOTs (which will be offered indifferently in mid- and end-month auctions), while the 6-month BOTs maintain their placement at end-month auctions.

Medium/long-term on-the-run bonds will continue to be offered with the current schedule: 5- and 10-year BTPs at the end-month auction, and 3-year BTPs at mid-month; 15- and 30-year BTPs will still be offered, conditions permitting, at mid-month auctions.

Auctions for off-the-run bonds will follow a flexible schedule that takes account of this kind of placement, whose objective is to improve the functioning of the secondary market, by meeting specific demand needs. However, in 2013, the Treasury, in order to provide itself with maximum flexibility and speed in its issuance decisions, also following on the changes introduced in the CCT*eu* segment (which will be dealt with shortly), reserves itself the right to issue these bonds no longer only at mid-month but also at end-month. Moreover, in particular market conditions and in very exceptional cases, off-the-run bonds may be offered in a single range of issues together with on-the-run benchmark BTPs.

As anticipated, the most important change is for CCT*eu*s. From January 2013 CCT*eu*s will be offered, normally, on a monthly basis, paying particular attention to determine the volumes offered according to demand and market depth. The experience of 2012 has, in fact, permitted the appreciation of the importance of continuative issues as a means to favour secondary market liquidity and, as a consequence, the efficiency of placements in terms of execution. Moreover, the issues of CCT*eu*s, which would normally be with 5-year maturities, will be during mid-month auctions and no longer at end-month, also to avoid overlapping with 5-year BTPs. Finally, should the Treasury choose to offer off-the-run CCT*eu*s, they will be in the same range as on-the-run CCT*eu*s, as also the BTP€is.

BTP€i and 24-month CTZ auctions will be held monthly on the same day, at the end-month appointments as per the dates in the Annual Calendar.

All the medium/long-term auctions have the possibility for participants to make up to five bids, as is the case for BOT auctions.

In 2013, the Treasury will continue to use the possibility of re-opening outstanding bonds (both short- and long-term) outside the Annual Calendar in very exceptional cases, driven by liquidity needs and market demand. These placements will be announced with the usual means of communication, following widespread consultation with market participants.

Table 2, which follows, summarises 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 (usually, on a monthly basis) | |
| BTP€i | | X |

** Please not that off-the-run bonds marked with an asterisk that fall within the same category based on residual maturity at issuance can also be offered in medium/long-term auctions that are not listed in the table.*

In full continuity with past years, the Quarterly Issuance Programmes, apart from including the information on bonds to be issued, will also include the new medium/long-term bonds to be issued in the following quarter, together with the minimum outstanding volumes for each that the Treasury commits itself to reach.

**CACs**

Following the entry into force of the Treaty that determined the European Stability Mechanism, which foresaw the inclusion of CACs for all new Government bonds of the euro zone with maturities in excess of one year, the Treasury will albeit continue to issue, with its usual regularity, bonds without the above clauses, these being outstanding bonds at 01/01/2013 and off-the-run bonds, so as to guarantee the necessary liquidity. This is in full accord with European agreements, which allow the possibility of making recourse to these bonds up to a maximum total volume equal to 45% of the overall gross issuance for 2013, a limit that will easily allow the Treasury to pursue the above mentioned[1] strategy.

[1] For further information please see the documentation at the following link: http://europa.eu/efc/sub_committee/pdf/supplemental_explanatory_note_on_the_model_cac_-_26_march_2012.pdf

**NOMINAL BONDS**

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

As is the norm, issues of BOTs (Treasury Bills) will be conducted with the traditional 3, 6 and 12 month maturities, which might be accompanied by flexible maturities due to liquidity management needs.

In the light of lower cash requirements expected for 2013 and of the Treasury's strategy to lengthen the average life of debt, overall BOT issues may be less than those of 2012.

6- and 12-month BOTs will however be offered regularly, respectively at end- and mid-month, with amounts being dictated according to the above mentioned goals, as well as according to demand and market conditions. In reference to 6-month BOTs, the Treasury will continue to place special attention in setting the quantities of issuances that determine the indexation of coupon of outstanding traditional CCTs, to ensure the efficiency of the relative market.

For both maturities, 6- and 12-months, during 2013 the Treasury will continue to offer bonds through ordinary auctions and re-openings reserved to Government bond Specialists. The amount offered in the re-opening will usually be 15% of the nominal amount offered in the ordinary auction, on the basis of the innovation introduced in May 2012 – described in detail in one of the following paragraphs – which determined the increase of this share (respect to the previous 10%). For each auction, this percentage may be modified by the Treasury according to market conditions and demand expressed by dealers, but also for debt management purposes to endow itself with an additional instrument of control of the overall volumes issued on the BOT segment. This could take place especially in the second half of the year, when monitoring the evolution and the composition of debt becomes more urgent in terms of achieving public finance and budget objectives. The Treasury however, will implement this measure only occasionally, taking into account the demand needs.

3-month BOTs, like BOTs issued with non-standard maturities (flexible BOTs), will be offered making full use of the elasticity of the instrument with respect to cash requirements. The Treasury envisages making limited recourse to such instruments in 2013.

As for the functioning of the primary market, the competitive auction will continue as the placement system for the entire BOT segment. Issues will thus continue to be conducted with the methods begun in 2009, which require the presentation of bids in yield terms (instead of price), confirming moreover the possibility for dealers to place up to five bids for each BOT offered, as has been the case since 2010.

Commercial Paper (CP) will continue to be an instrument used by the Treasury in 2013 mainly according to cash requirements that will be determined in the course of the year, without however losing sight of the needs of specific investors, with the intent of diversifying their base. This programme, thanks to its being extremely flexible in terms of quantity and maturities, has in fact proven to be ever more a useful liquidity management instrument.

During 2013, finally, the Treasury will maintain its constant presence on the money market with short- and very-short-term maturities, through financial transactions carried out using the Treasury's availability account (OPTES). These transactions, following on the reform of the Treasury's liquidity management introduced at the end of 2011, provide for daily activity and operations that mostly invest liquidity, for which the number of counterparties admitted notably increased in the course of 2012. These transactions will continue to be conducted via auction or bilateral deals with overnight or longer maturities, in relation to cash requirements and market conditions. Finally, these transactions provide the Treasury with the option of investing its own liquidity in time-deposits with predetermined maturities at the Bank of Italy.

### *b. 24-month CTZs*

The 24-month CTZ segment in 2013 will not present particular changes as regards issuance methods and will continue to be placed with the same procedure introduced in 2012, that is with a marginal auction and discretionary price determination by the Treasury within a minimum and maximum quantity offered. The Treasury, as opposed to 2012, will anticipate the issuance announcement by one day respect to the auction date and thus the announcement of the bond and of the quantity on offer in 2013 will be three days before the auction. This change was introduced for all bond segments so as to align the interval of time between the announcement of the bonds on offer with their relative quantities, with the auction date of the bonds mentioned in the announcement. Moreover, this change guarantees a longer period during which final investors are able to place their orders, in particular the retail ones.

2013 will see a sharp drop in the volumes maturing in the CTZ segment, equal to around 23 billion euros, about 50% less than in 2012. The Treasury, also having considered the positive trend in demand observed in the last months, which followed extremely volatile phases that however conditioned issuance policies in 2012, will be present on the market regularly with overall amounts that, having taken account of the reduction of redemptions, will witness an increase in the outstanding stock of CTZs at the year's end. This increase will not however be such as to significantly influence the composition of debt.

### *c. CCTeus / CCTs*

The segment of bonds with floating coupons (CCTs and CCT*eu*s) in 2012 lived through, as was also the case in 2011, periods of particularly intense turbulence, during which bond quotations showed levels of extreme volatility, with quite unsatisfying performances that returned to adequate levels only after September, when this segment began a path of realignment with respect to BTPs with the same maturity.

Having taken account of the return to normality of the segment, the Treasury will begin once again to issue CCT*eu*s with a frequency that will normally be monthly to guarantee the continuity of issuance needed to supply the liquidity requested by the market. Should the market return to situations of extreme volatility, with this new set-up the Treasury will be able to assess if it should not make use of this instrument in a certain month, in order to contribute to alleviate possible tensions in that segment.

In 2013 the amount of CCTs maturing will be slightly more than 14 billion euros, a further fall with respect to past years and in particular about 11 billion euros less than 2012.

The choice of issuing if possible every month and the reduced redemptions will determine in 2013 an increase of the stock of CCT/CCT*eu*s as a part of overall debt, even if for small percentages. In fact, when deciding the amounts to be issued each time, apart from assessing the market's absorption capacity, the marginal impact of these issues on the exposure of overall debt to the interest rate risk will be accurately monitored.

The auction placement mechanism used for CCT*eu*s, as for the other medium/long-term bonds, will be the marginal one, with the price set at the discretion of the Treasury on the basis of the secondary market situation, within a previously announced range of quantity on offer. Should there be an offer of off-the-run CCT*eu*s, these will be offered together with on-the-run bonds in a single range, as is the case for BTP€is.

In 2013, continuing the issuance policy begun in 2012, the Treasury will tend to privilege 5-year maturities for the launch of new bonds.

Finally, apart from modifying the auction frequency, also the placement schedule will be changed, from end-month to mid-month auctions to avoid the combined issuance at end-month of BTPs and CCTs both with a 5-year maturity.

If the need to improve the functional efficiency of the secondary market or particular situations of demand request it, the Treasury will not hesitate to re-open CCTs with the old indexation to the rates of 6-month BOT auctions, in order to contribute to the resolution of these critical situations.

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

The Treasury's issuance policy for 3, 5 and 10 year maturities will be based on regularity and continuity, and will make up the largest part of nominal BTP issues, as well as of all medium/long-term issues. The launch of new bonds, announced periodically in the Quarterly Programmes, will be decided in order to take into account the Treasury's borrowing needs and the performance on the secondary market of bonds with the same residual maturity. At the same time the Treasury will try to guarantee that the amount of final outstanding of on-the-run bonds is such as to allow the possibility that the same can be re-opened at later dates as off-the-run or in bond exchange operations.

During 2013, considering the return to normality taking place also for longer maturities, there will be an overall decrease of gross issues for these three maturities, which will be more in line with the amounts maturing.

Placement of 5 and 10 year bonds will take place, as already tried in 2012, in the end-month auctions, while those of mid-month will offer 3 year bonds, which will usually be placed together with a long-term bond of a maturity above 10 years.

Placement of bonds in this segment will be via marginal auction with discretionary setting of prices. Every auction will usually offer on-the-run bonds, each with its own range of offer, while off-the-run bonds, should they be present, will be offered announcing a range of volumes that includes all of them. Should particular market conditions request it, all bonds can be offered in a single range, if they are on-the-run bonds or together with off-the-run bonds.

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

The nominal BTP segment with maturities above 10 years, as was the case in the last months of 2011, also in 2012 continued to present a highly volatile curve, which was marked by a thinner secondary market with respect to the other segments. This fact, together with the increased caution on behalf of international investors, reduced demand for bonds of this segment thus inducing the Treasury to reformulate the volumes offered and present itself to the market after profound analysis of demand conditions. The clear stabilisation seen in the last months of 2012 also involved the long-term segment, which indeed saw the return of a multitude of investors and allowed the Treasury to begin to issue more regularly once again.

The issuance policy in 2013 will not be different from that adopted in these last months and, therefore, the strategy will be centred on balancing the effort towards a gradual return to regular issues with the aim of guaranteeing efficient placements, also through a careful choice of bonds to be issued.

As regards the calendar appointments and the frequency of the auctions, it will be in the mid-month auctions that the Treasury will decide whether to be present on the market and, in that case, how much to issue of 15 or 30 year on-the-run bonds or whether to integrate or otherwise re-open off-the-run long-term bonds (which could however be offered also in end-month auctions). In making these choices, each time the Treasury will confront itself extensively with market participants, to put in place a strategy that is in line with the needs of numerous domestic and international institutional investors (especially pension funds and insurances) with an investment profile oriented to the long-term. In the choice of bonds to offer the market, apart from the cost and the cash price, market volatility conditions will be examined, inasmuch as these conditions influence the conclusion of the placement and the performance of bonds present in market participants' portfolios. The way in which auctions will be conducted will be the same as for the other nominal BTPs, both for on-the-run and off-the-run bonds.

As for the introduction of new bonds, when market conditions are favourable, the Treasury will use the syndication issuance procedure, given the characteristics of flexibility that this issuance procedure permits.

## BONDS LINKED TO EUROPEAN INFLATION (BTP€is)

During 2012, BTP€is were removed from some important European bond indexes, as an effect of a reduced sovereign rating for the Republic of Italy. This had a non secondary impact on the segment's trend, even if the event was already partially a given for the market. The highly volatile quotations of the bonds to some extent reduced liquidity and thus made issuance more costly. However, in the second half of the year, especially from September 2012 onward, there was a very marked recovery and the market seems to have appreciated the Treasury's effort to be present every month with these bonds, even when necessity pushed for a substantial reduction of the volumes offered.

Following on the experience of 2012, also in 2013 the Treasury will guarantee its presence on the market with the monthly frequency foreseen by the Calendar, except when new bonds should be launched through syndication. In the same auction different bonds will be able to be offered together, both on-the-run and off-the-run bonds, within a single range of volumes, within which the quantity issued for each bond will be placed. The possibility of introducing new bonds will be evaluated in light of the conditions of the single outstanding bonds, above all in terms of the outstanding amount reached by each one, and of the evolution of demand, whose composition in the 2011-12 period changed by no small degree as an effect of the developments of the crisis of euro area sovereign debt.

As for the other market segments, much effort will be placed in the interaction with investors, particularly those specialised in this segment, so that all debt management choices of the segment are as in line as possible with what is expected of them, within the Treasury's general issuance strategy. From 2013, in fact, BTP€i issuance choices will have to take into account the overall exposure to the inflation risk which is influenced by the introduction in 2012 of the linker bond dedicated to retail investors, the BTP Italia. Considering that in 2013 there are no bonds linked to European inflation maturing, it is likely that the year-end stock will increase slightly, but this will be so that the overall exposure to the inflation risk, calculated in terms of the share of real bonds on overall debt, remains substantially unchanged with respect to 2012.

**THE NEW STRIPPING MODEL**

On Monday 17 December 2012 the new method of separating and reconstituting Government bonds- so called *stripping*- became operative. As foreseen by Ministerial Decree (MD) no. 96718 of 07/12/2012, with the new model the fungibility between separated coupons (*strips)* with the same maturity – but coming from different fixed rate nominal bonds – is extended also to the principal coming from the same or other bonds, provided that, obviously, they have the same maturity. In this way there will be a decisive increase of the possibilities for dealers to separate and reconstitute bonds, with a sensible increase of trading possibilities and thus of the liquidity of each new separated component. Since these instruments will be more liquid, dealers will have more incentives to perform new stripping activities to address market participants' requests, with the effect of a greater offer of separated components, which are to all effects zero coupon Government bonds. This process should thus make the underlying bonds more attractive to the market, sustaining demand in particular for longer term bonds.

The above mentioned decree introduces, among other innovations, a reformulation of the fiscal aspects related to investing in strips, with the aim of supplying further clarity on the matter and guaranteeing an efficient management of the portfolio for those who operate with these instruments.

Thanks to the new model of fungibility, which has overcome the distinction between coupon and principal, the MD cancelled different minimum denominations for coupons and principal, uniforming the minimum denomination of all components resulting from stripping to one euro cent.

Finally, the new MD also clarifies the consequences for the strip market of the introduction of CACs from 1/1/2013, specifying that the separated components coming from bonds without such clauses will not be fungible with those coming from bonds that instead foresee them. This provision is clearly motivated by the impossibility of bonds with different contractual arrangements to be fungible.

### RE-OPENINGS RESERVED FOR SPECIALISTS IN GOVERNMENT BONDS

Following the positive feedback received for the changes introduced in 2012 regarding re-openings for Specialists in Government bonds, during 2013 the new rules will continue to be applied. For all medium/long-term bonds and for 6- and 12-month BOTs, the placement reserved for Specialists in Government bonds is organized on the day following the auction, at a set price equal to the marginal price (or average weighted price for BOTs) of the main auction held the day before. In particular, the amount available will be 15% of the amount offered in the main auction, with the exception of the first tranche of medium/long-term bonds, for which 30% will be offered. The share available will be divided as follows: each Specialist has the right to access this option up to 10% (or up to 25% if it is the first tranche) for a share calculated according to how much they were awarded in the three preceding auctions of the same maturity segment. The remaining share of 5% is reserved for Specialists that will have demonstrated a particularly positive performance on the reference electronic wholesale secondary market. Moreover, this share reserved by right, set for all the auctions of a given quarter, will be proportional to the activity carried out on the secondary market in the preceding quarter. This measure was set up to award those dealers that make greater contributions towards the liquidity of bonds and, finally, to increase the functional efficiency of the secondary market.

## 2. ISSUANCE PROGRAMME DEDICATED TO RETAIL INVESTORS: BTP ITALIA

In 2012, the Treasury introduced a new Government bond on the market: the BTP Italia. It is a completely new bond, with a fixed annual real coupon rate, linked to the domestic inflation rate, with principal revaluation payments every six months, four year maturity and a final bonus for investors that buy the bond at issuance and keep it until maturity. The issuance method was innovative too: each bond is proposed directly on the MOT platform, the Italian Stock Exchange's regulated electronic market dedicated to retail trading, which collects orders during four placement days on the platform's circuit, and through the support of bank dealers, chosen directly by the Treasury among the Specialists in Government bonds.

In this way, a further issuance channel, specifically addressed to individual investors, has been added that is different from the traditional one.

Even though the first two issues that took place in March and June 2012 produced good results, the issue of October was beyond all hopes, bringing the overall issuance for the year to above 27 billion euros.

In order to tailor the instrument even more to retail investors and maintain a control of the total volume issued during the placement period, during 2013 the Treasury reserves itself the possibility to introduce some marginal changes to the placement procedure, after having consulted with the operators specialized on the segment.

Two issues are foreseen for 2013, with the characteristics of the instrument mostly unchanged both in terms of maturity and of the indexation mechanism, as well as the inflation index used.

## 3. ISSUES ON INTERNATIONAL MARKETS

2012 did not present favourable financial and demand conditions in order to make significant recourse to international markets. However, on the part of global investors some signs of increased interest recently emerged at more convenient financing conditions for the issuer, that set the scene for a possible return of the Treasury on those markets, rebuilding the premises for a more regular presence, such as to favour a broader investor base.

Therefore, as regards the Global Bond programme in USD, the Treasury will continue to monitor the market to find renewed signs of interest for new issues, also considering the long absence from the segment and the redemption of two bonds in the course of the year, in particular in June and September, for a total amount of 4 billion USD.

The Medium Term Note programme allows, instead, the public or private issue, in euros or in other currencies, with connotations of extreme flexibility that permit the perfect alignment of specific requests on behalf of one or more investors, in terms of amounts, maturities and structure, with the issuer's needs. In particular, private placement bids that meet the following specific criteria will be considered:

- maturity no less than three years,
- amount usually not below 200 million euros and with a minimum negotiable amount equal to at least 500,000 euros.

These requests will be considered if and only if the funding cost not be above the corresponding "domestic" bond and avoiding every possible negative repercussion on the normal public issues.

To satisfy the needs of not only one single investor but of a group of institutional investors, the opportunity of issuing public bonds in the MTN format also in currencies other than the euro, such as the Swiss franc or the UK sterling - markets to which recourse was often made in the past but not recently - will be evaluated.

## 4. OTHER OPERATIONAL ASPECTS OF DEBT MANAGEMENT

### EXCHANGE AND BUYBACK OPERATIONS

In 2013, as in previous years, the Treasury will be able to make use of bond exchange and buyback operations to manage the refinancing risk, remodelling the redemptions'profile and favouring at the same time liquidity and the efficiency on the Government bond secondary market.

On the basis of the expected cash availability on the Treasury account and, more importantly on the Government bond Sinking Fund, the Treasury envisages to be able to conduct buyback operations more frequently than the previous years. These operations will also depend on prevailing market conditions and, as usual, may take place via the auction system managed by the Bank of Italy or via bilateral negotiation.

Exchange operations will take into account the above mentioned goals, as well as demand and market conditions. For each one of these transactions an evaluation will be made as whether to use the electronic wholesale trading system or the Bank of Italy's auction procedure.