Ministry of the Economy and Finance

Treasury Department - Second Head Office

Decree No. 127167 of December 28th , 2007 published in the Official Journal of the Republic of Italy No. 6, January 8th 2008

Provisions for stripping, negotiating and re-constituting coupons, inflation-indexed and principal components of the Italian Government Bonds.

THE MINISTER

WHEREAS, the Decree of the President of the Republic of 30 December 2003, No. 398, containing the Consolidated Act of legislative and regulatory provisions on Public Debt, as later amended (hereinafter "Consolidated Act") and in particular Articles 3 and 31 concerning the authorisation for the Minister of the Economy and Finance to issue decrees allowing borrowing transactions, while defining their characteristics and the ways in which they can be made, as well as the organisation and management of wholesale markets of Government securities;

WHEREAS, the legislative decree of 24 February 1998, No. 58, containing the Consolidated Act on Financial Intermediation and in particular Article 61, paragraph 10, providing for the Ministry of the Economy and Finance, after consulting *Banca d'Italia* and CONSOB, to identify the characteristics of wholesale trading activity of financial instruments;

WHEREAS, Art. 3 of the Decree of the Treasury Department Director General of 26 February 2007 published in the Official Journal No. 57 of 9 March 2007, containing regulations on minimum trade sizes for wholesale trading activity;

WHEREAS, Articles 11, 24, 25, 26, 27 and 80 of the above-mentioned Consolidated Act, concerning the regulations on the centralised depository system of Government securities;

WHEREAS, the August 23rd 2000 Decree of the Director General of the Department of the Treasury published in the Official Journal No. 204 of 1st September 2000 which entrusted the centralised depository system of Government securities to *Monte Titoli S.p.A.* ;

WHEREAS, Articles 53 and 54 of the above Consolidated Text concerning the procedures for the implementation of the provisions for re-denominating Government securities into euros;

WHEREAS, in order to foster the market of Italian Government Bonds, it is necessary to develop trading activity on stripped components of public debt instruments;

HAVING CONSULTED Banca d'Italia and CONSOB about Art. 5 of this Decree;

Decrees:

ARTICLE 1
Definitions

1. For the purposes of this decree:

"**stripping**" shall mean the process of separating the coupon components from the principal of the security and, in the case of inflation-linked bonds, of the inflation-indexed component;

"**principal**" shall mean the redemption value of the security at maturity without its coupon component; in the case of inflation-linked bonds, "principal" shall mean the redemption value of the security without the coupon and net of the inflation-indexed component;

"**coupon component**" shall mean the coupons representing interest payable on the bond;

"**inflation-indexed component**" shall mean the part of the redemption value of inflation-linked bonds due to accrued inflation since the starting accrual date up to the maturity date of the security; in case of deflation its value is equal to 0;

"**reconstitution of securities**" shall mean the process of reuniting principal with previously stripped coupon components, even if the coupons originate from different bonds, for the purpose of obtaining new securities; for inflation-linked securities the reconstitution of a security also includes reuniting the inflation-indexed component;

In the case of inflation-linked securities:

"**reference inflation**" shall mean the level of the reference consumer-price index at a given date calculated as stated in the issuance decrees of inflation-linked Government securities;

"**adjustment coefficient**" shall mean the ratio between 100 and the reference inflation on the initial accrual date of the bond;

"**annual real rate**" shall mean the annual coupon rate, as defined in the issuance decrees of inflation-linked Government securities;

Article 2
Content of processes

1. The stripping processes under this decree may involve fixed-rate Government bonds as well as inflation-linked Government bonds, which cannot be redeemed in advance, deposited in the centralised depository system of Government securities.

2. The re-constitution process under this decree may be made on Government securities which have undergone the stripping processes under paragraph 1.

3. The processes under paragraphs 1 and 2 are made by entities and individuals on whom the lieu tax in Art. 2, paragraph 1 of the legislative decree of 1 April 1996, No. 239 is not levied.

4. For each Government bond, the issuance decree authorises the eligibility for the stripping process, in accordance with this decree, and defines the possible minimum nominal outstanding that the bond has to reach before being strippable as well as the maximum nominal outstanding which can be stripped.

Article 3
Process modalities

1. The stripping and reconstitution processes under this decree are made by means of accounting entries upon request of the participants to the centralized depository system of Government securities.

2. Any stripping and reconstitution process under this decree shall have a nominal amount of 1,000,000 euros or any multiple thereof.

Article 4
Characteristics of securities

1. Any security resulting from the processes under this decree shall be a new Government security and shall circulate only within the centralised depository system of Government securities.

2. The coupon components with the same maturity, originated by stripping a bond or different ones, are fungible. In the case of inflation-linked bonds the fungibility of coupon components, provided for in this paragraph, is obtained dividing the annual real rate of the bond by 2 and multiplying the result by the product obtained by multiplying the adjustment coefficient and the minimum nominal amount under Art. 3 paragraph 2; the amount obtained is rounded off to the tenth decimal and is referred to as the "adjusted value" of the coupon component. For any nominal amount that is stripped, the adjusted value of the coupon component is obtained by rounding off to the second decimal the product of the above-mentioned "adjusted value" and the stripped nominal amount, divided by 1.000.000.

3. The coupon components of the inflation-linked bonds are not fungible with the coupon components of nominal securities.

4. In the case of inflation-linked bonds, payment at redemption is obtained by:

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

(ii) in the case of an inflation-indexed component, by subtracting 1 from the indexation coefficient at the date of maturity and by multiplying the result by the nominal amount of the inflation-indexed component. If the value of the indexation coefficient at maturity is less than 1 the payment is equal to zero.

5. The minimum nominal capital size of securities resulting from the separation process is 1,000 euros for the principal and the inflation-indexed component and 1 euro cent for the coupon component.

6. The day-count convention to be used to calculate accrued interest on securities originated from the stripping operations under this decree is actual /actual.

Article 5
Minimum trading size

1. Minimum trade sizes in wholesale markets for securities originating from stripping processes under this decree are 500,000 euros for the principal and the inflation-indexed component and 100,000 euros for coupon components.

Article 6
Final provisions

1. The decree of the Ministry of the Treasury, the Budget and Economic Planning of 15 July 1998 "Provisions on the separate trading of coupon components and the redemption value of State securities" shall be repealed as from the date of entry into force of this decree.

2. This decree shall apply to all currently outstanding fixed-rate BTPs eligible for stripping and BTP€is indexed to the euro area inflation - excluding tobacco . Therefore, as of the date of the entry into force of this decree, for all currently outstanding BTP€is the stripping processes under Art. 6 paragraph 5 of the respective issuance decrees refer to the "**principal**", the "**coupon components"** and **"inflation-indexed component"** and, again with reference to currently outstanding BTP€is, for each security the maximum strippable amount cannot exceed 50% of the nominal outstanding volume. Finally, for currently outstanding BTP€is and fixed-rate BTPs eligible for stripping, notwithstanding the provisions of their respective issuance decrees, Art. 3 paragraph 2 of this decree shall apply for what concerns the minimum amounts of stripping and reconstitution requests and Art. 4 paragraph 5 of this decree shall apply for what concerns the minimum nominal capital size of stripped components.

3. This decree shall be published in the Official Journal of the Republic of Italy.

Rome, 28 December 2007

THE MINISTER OF THE ECONOMY AND FINANCE

Tommaso Padoa Schioppa