

March 6th 2008



Alessandro Rivera
Dirigente dell'Ufficio II della Direzione IV del Dipartimento del Tesoro
Ministero dell'Economia e delle Finanze
Italy

BY ELECTRONIC MAIL

Dear Mr Rivera

Re: Draft Regulation on Wholesale Trading Venues for Government Bonds

ICAP welcomes the opportunity to respond to the Tesoro's public consultation concerning the draft regulation regulating wholesale trading in government bonds (Decree of the Minister of the Economy and Finance which substitutes the Ministerial Decree N.219, of 13 May 1999, hereafter the "Decree").

ICAP operates the BrokerTec electronic trading platform, which provides a specialist broking service to trading professionals in the global wholesale financial markets. ICAP's European government bond customers are investment and commercial banks only. Additional information can be found on ICAP's website www.icap.com.

ICAP is a UK Financial Services Authority-authorized investment firm¹. As such, ICAP makes use of the MiFID² passporting provisions enabling it to operate Multilateral Trading Facilities (MTFs) throughout the EU. The scale of the ICAP trading platform delivers global connectivity to customers, providing unparalleled liquidity and flow in an orderly marketplace.

Alignment of draft Decree with MiFID legal framework

The main focus of ICAP's response to the Tesoro's consultation on the draft Decree concerns those provisions which affect the ability of MTFs to operate in a meaningful manner under MiFID's passporting arrangements.

Giving full effect to these provisions has the possibility of opening up a more competitive trading environment for Italian government bonds, and, in turn, lowering trading costs and funding costs through increased liquidity and market participation.

As currently drafted, Article 23.3 (a- of the proposed Decree appears to introduce additional host-state obligations for MTFs authorized outside Italy but within the EU – undermining the spirit and letter of MiFID's legal framework for passporting of investment services.

Article 23.3 of the Decree establishes the criteria for the identification of wholesale MTFs for the purposes of wholesale trading in Italian government bonds. Although the draft Decree does not explicitly require MTFs to fulfill all the criteria listed in the Article, it is evident that failure to comply will adversely affect an MTF's ability to operate within the Italian market. Within Article 23.3, the following criteria would appear to duplicate requirements already fulfilled in the MTF's home-Member State:

¹ ICAP Electronic Broking Limited (No: 191757)

² Markets in Financial Instruments Directive 2004/39/EC

Article 23.3

- a) capital adequacy of the companies managing the wholesale MTF;*
- b) guarantee of business continuity;*
- c) adequacy of the organizational structure;*
- d) adoption of appropriate measures for identifying, mitigating and managing the risks which may compromise the regular functioning of the trading venues;*
- e) capacity to manage the potential adverse consequences, for the operation of the trading venue or for its participants, of any conflict of interest;*
- f) adoption of effective arrangements to facilitate the efficient and timely finalization of the transactions executed under the systems managed and to guarantee the sound management of the technical operations;*

The passporting principle established under MiFID enables an MTF to operate throughout the EU on the basis of home-country authorization.

We would therefore urge the Tesoro to remove the legal uncertainty currently contained in these provisions of the draft Decree and explicitly align its wording with MiFID, placing full reliance on home country authorization in these respects.

Governance of Italian government bond market model

Article 23.3 of the draft Decree also raises the issue of the respective responsibilities of DMO, Primary Dealers and trading platforms within the future government bond market model.

Article 23.3

- g) adoption of regulations that, taking into account the structural characteristics of the market, the bonds traded, the size of the transactions and the type of dealers, provide for adequate pre- and post-trade transparency requirements and discipline the obligations of the dealers and the measures that can be adopted with respect to dealers not fulfilling their obligations;*
- h) willingness to supply, on a timely and continuous basis, data in relation to the quoting and trading activity in Italian government bonds with the frequency, format and level of detail indicated by the Ministry;*
- i) willingness to report promptly to the Ministry, the Bank of Italy and Consob on the decisions to admit, suspend and remove dealers in Italian government bonds from trading;*
- j) tradable bonds as well as the number of primary dealers and transaction volumes for each bond, so that sufficient coverage of the yield curve and the significance of trading prices are guaranteed.*

While this issue does not directly relate to MiFID implementation, it is of key importance in the transition to a competitive wholesale trading environment for government bonds.

ICAP strongly advocates that a competitive multi-venue trading environment, as introduced by MiFID, requires responsibility for the establishment of quoting obligations to lie with the market committee (DMO and Primary Dealers) and responsibility for monitoring these obligations in turn to lie with the DMO.

Under such a governance structure, the role of the trading venue remains strictly limited to providing a means to satisfy those obligations, through the most advanced electronic solution for price discovery and deal execution.

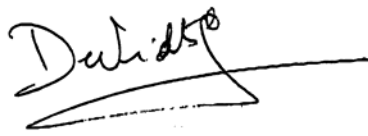
Conclusion

ICAP is grateful for this opportunity to respond to this important consultation.

Following the consultation, market participants would greatly appreciate, for planning purposes, provision of a forward timeline establishing milestones to implementation of the Decree, as well as details of the requirements to be applied to Primary Dealers in the Italian wholesale government bond market.

As the Tesoro is aware, ICAP already operates in Italy both in government bonds and the repo markets. We have valued our dialogue over the years and look forward to developing this further in the future.

Kind regards

A handwritten signature in black ink, appearing to read 'De Vidts', with a long horizontal line extending to the right from the end of the signature.

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