

**Procedures for the liquidity operations held on the Treasury Account held at Bank of Italy for treasury purposes and similar accounts.**



*The Ministry of Economy and Finance*

**THE DIRECTOR GENERAL OF THE TREASURY**

**GIVEN** the agreement (hereinafter “Agreement”) between the Ministry of Economy and Finance (hereinafter “Ministry”) and the Bank of Italy (hereinafter “Bank”) of 22 March 2011, regarding the management of the Treasury Account held at Bank of Italy for treasury purposes and similar accounts (hereinafter “Account”) approved by the Decrees of the Minister of Economy and Finance no. 19080 of 29 July 2011 and no. 76796 of 29 September 2011;

**GIVEN** the Decree of the Minister of Economy and Finance no. 25391 of 25 October 2011 (hereinafter “Decree”) concerning “Regulations for the management of the liquidity available on the Treasury Account held at Bank of Italy for treasury purposes and similar accounts and for the selection of the counterparties participating in the operations”;

**GIVEN** the Decree of the Minister of Economy and Finance no. 113599 of 11 November 2011 (hereinafter “Accounting Decree”) concerning “Procedures and criteria for accounting the funding and investment liquidity operations, as per article 47, paragraph 5, of Law no. 196 of 31 December 2009”;

**HAVING CONSIDERED** that, article 2, paragraph 4, of the Decree establishes that the Ministry and the Bank define the technical details of the liquidity management operations in special technical protocols;

**HAVING CONSIDERED** that article 4 of the Decree identifies the counterparties admitted to the operations, specifying general criteria for their selection;

**HAVING RECOGNIZED** the need to adopt directives to implement the aforementioned decree;

**DECREES**

**Article 1**

*Scope*

1. The present decree defines the technical details regarding the procedures for the management of and participation of the counterparties in the liquidity operations held on the Account, as per article 6, paragraph 2, of the Decree.

**Article 2**

*Liquidity management transactions*

1. As per article 2 of the Decree, the Account is managed through funding and investment liquidity operations on the money market or other transactions in use in financial markets, as well as through tied deposits of the Ministry with the Bank.
2. The establishment and management of the tied deposits is performed according to the conditions set by article 6 of the Agreement. The pertinent technical details are defined in the special protocol between the Bank and the Ministry, mentioned in article 5, paragraph 5, of the Agreement.
3. The operations mentioned in paragraph 1 can be carried out via auction or bilateral trade and are usually held by the Bank and determined by the Ministry, which can also hold transactions on its own via bilateral negotiations, informing the Bank beforehand.

### **Article 3**

#### ***Characteristics of auction transactions***

1. The transactions mentioned in the present decree carried out via auction are held by the Bank and determined by the Ministry, Department of the Treasury, Directorate II (hereinafter “Treasury”). The amount and type of operation (funding or investment) is based on the Account’s balance and on the money market conditions. The operational details concerning the exchange of information between the Ministry and the Bank and the decision on the amount of the transactions are defined in the protocols mentioned in article 4, paragraph 4, and in article 5, paragraph 5, of the Agreement.
2. The Bank announces to the market the characteristics of the operations and their results according to the systems in use in financial markets.
3. The counterparties selected as per article 4, paragraphs 1 and 2, of the Decree are admitted to participate in the auctions.
4. For the admission of counterparties to the operations as per article 4, paragraph 2, of the Decree, the Treasury will also take into consideration:
  - a) the credit standing assigned to each counterparty by the main rating agencies, among those that make credit rating evaluations as per Regulation (EC) no. 1060/2009 of 16 September 2009 as amended;
  - b) the main solvency indicators, such as guarantee capital and the solvency ratio referred to the banking group to which they belong.
5. The Treasury reserves the right to suspend the participation of one or more counterparties, on the basis of its own discretionary evaluations.

### **Article 4**

#### ***Procedures for the participation of counterparties to the auctions***

1. Bids of counterparties, up to a maximum of three, transmitted electronically to the Bank via National Interbank Network using the technical procedures established in the special technical agreements mentioned in article 4, paragraph 3, of the Decree, must include the amount of the participation and the relative interest rate.
2. Each bid cannot be less than 10 million euros. Bids of lesser amounts are not considered.
3. The amount of each bid, in excess of that indicated in the preceding paragraph, must be a multiple of 1 million euros. Bids that are not multiples of 1 million euros are rounded downward to the nearest million.
4. The bids of each counterparty that exceed as a total the amount on auction, are considered, except for what is stipulated in article 6 of the present decree, as follows:

- a) in the case of investment transactions, beginning with the bids with the highest interest rate up to covering the overall amount offered by the Treasury;
- b) in the case of funding transactions, beginning with the bids with the lowest interest rate up to covering the overall amount requested by the Treasury.

5. The interest rate indicated by the counterparties, expressed as a percentage, may vary by one thousandth of a percentage point. Any variations of a different amount are rounded upward in the case of investment transactions or downward in the case of funding transactions. The Treasury reserves the right to modify the number of decimal places used to express the interest rate offered by the counterparties. In this case, the Bank informs the market according to the systems in use in financial markets.

## **Article 5**

### ***Presentation of auction bids***

1. The deadline for the presentation of bids in the auction is usually set at 10.30 am of the auction day, for those that are held in the morning, and at 4 pm of the auction day, for those in the afternoon. Bids that arrive after the above deadline are refused.
2. Any bids presented in substitution of those already submitted are considered only if they arrive within the deadlines mentioned in paragraph 1 of the present article. Bids cannot be withdrawn after the above deadlines.
3. The data transmitted via National Interbank Network are subject to procedures of authentication and cryptography, in order to guarantee their integrity and confidentiality. To this end, bilateral keys of authentication and cryptography are exchanged between the counterparties and the Bank.
4. In the case of an impossibility of transmitting messages on the Network, due to technical reasons ascribable to the counterparties, and in the case of persistent interruption in the connection of the Network itself, the specific recovery procedures set by the agreements mentioned in article 4, paragraph 3, of the Decree apply.
5. The auction operations are carried out, after the deadline for presenting bids, on the premises of the Bank. An officer of the Ministry, with the power of notary, drafts a specific report in which the allocation yields and the relative amount of interest must be indicated.
6. The functions of notary may also be performed via videoconference or other long distance communication systems. The service levels regarding the use of such a system are agreed in the technical protocol mentioned in article 5, paragraph 5, of the Agreement.
7. The Treasury can change the timetable mentioned in paragraph 1 of the present article, informing beforehand the Bank, which will inform the market via systems in use in financial markets.

## **Article 6**

### ***Auction allotment***

1. In the event of investment transactions on the money market carried out by the Treasury, the rate of the bids cannot be less than the Eurosystem deposit facility rate of the day of the transaction (hereinafter “minimum acceptable rate”). The Treasury may also set a minimum acceptable rate above this limit. Bids are excluded from the auction if made at rates lower than the minimum acceptable rate, while bids are excluded from allotment if their rate is 15 basis points lower than the weighted average rate of those bids that, ranked from the highest rate, make up half of the overall amount of the bids received (“exclusion rate”). If that amount is greater than the amount of the transaction, the weighted average rate is calculated on the basis of the bids that, ranked in a rate

decreasing order, make up half of the amount of the transaction. The Treasury may set a number of basis points different from that previously indicated. Auction allotment is carried out by following the decreasing order of interest rates bid by the counterparties, up to the amount of the transaction.

2. In the event of funding transactions on the money market carried out by the Treasury, the rate of the bids cannot be above the Eurosystem marginal lending facility rate of the day of the transaction (hereinafter “maximum acceptable rate”). The Treasury may set a maximum acceptable rate below this limit. Bids are excluded from the auction if made at rates higher than the maximum acceptable rate, while bids are excluded from allotment if their rate is 15 basis points higher than the weighted average rate of those bids that, ranked from the lowest rate, make up half the overall amount of the bids received (“exclusion rate”). If that amount is greater than the amount of the transaction, the weighted average rate is calculated on the basis of the bids that, ranked in a rate increasing order, make up half of the amount of the transaction. The Treasury may set a number of basis points different from that previously indicated. Auction allotment is carried out by following the increasing order of interest rates bid by the counterparties, up to the amount of the transaction.

3. The minimum and maximum acceptable rates mentioned in paragraphs 1 and 2 of the present article, if different from those established, respectively, for the Eurosystem deposit facility rate and marginal lending facility rate, as well as the number of basis points needed to calculate the exclusion rate, if different from 15 basis points, are communicated immediately by the Treasury to the Bank, which informs the market of the above parameters according to the systems in use in financial markets.

4. A pro quota distribution is made for those bids at the minimum or maximum allotment rate that cannot be entirely satisfied.

5. The accepted bids are settled at the respective interest rates indicated by the allotted counterparties.

6. The overall amount allotted at auction is rounded to the nearest euro and, in those cases in which there are no financial instruments as a guarantee of the investment transactions (so-called “collateral”), it takes into account the application of credit limits as per article 5 of the Decree.

## **Article 7**

### ***Bilateral negotiations***

1. The bilateral negotiations carried out by the Bank are held according to the procedures defined in the special protocol between the Bank and the Ministry, as per article 5, paragraph 5, of the Agreement.

2. The counterparties admitted to participate in the transactions described in the preceding paragraph are selected from among those indicated in the list as per article 4, paragraph 5, of the Decree, following the procedures defined in the mentioned protocol.

## **Article 8**

### ***Settlement of the operations***

1. Transactions are settled by the Bank, through the gross settlement system TARGET2.

2. The counterparties participating in the auctions or the bilateral negotiations described in the present decree can make use of an intermediary for the settlement, informing the Bank as per the rules and procedures established by the same Bank.

## **Article 9**

### ***Remedies in case of fail***

1. If counterparties do not fulfil the settlement obligation mentioned in article 8 of the present decree, the Bank applies a penalty calculated according to the following procedures:

a) In the case of funding transactions, the penalty is applied if the counterparties do not fulfil their settlement obligation on the starting date by 12 am for those operations negotiated by 10.30 am and by 5 pm for the operations negotiated by 4 pm; these deadlines do not apply to bilateral transactions, for which payment is allowed up until the end of the TARGET2 business day. The penalty is determined multiplying the value of the amount subject to fail by a percentage equal to the rate of the marginal lending transactions indicated by the European Central Bank; the amount obtained is divided by 360. In case the payment is not made within the TARGET2 closing time, the rate on the marginal lending transactions is increased by 3.5 percentage points; the amount obtained is divided by 360. Payments are not accepted in the days following that in which the failed settlement occurs. The Treasury, with a specific decree, may determine a number of percentage points different from that previously indicated.

b) In the case of investment transactions, the penalty is applied if the counterparties do not fulfil their settlement obligation at maturity by 12 am of the day agreed for the settlement. The penalty is determined multiplying the value of the amount subject to fail by a percentage equal to the rate on the marginal lending transactions indicated by the European Central Bank. In case the fulfilment does not occur within the TARGET2 closing time, the rate on the marginal lending transactions is increased by 5 percentage points; the amount obtained is divided by 360 and multiplied by the effective number of days of delay. Apart from the said penalty, the counterparty must pay the interest for each day of delay too, calculated by applying the same rate of the transaction. If, after 3 days following the settlement fail, the counterparty has not paid the amount due, it will be considered defaulting by law. The Treasury, with a specific decree, may determine a number of percentage points different from that previously indicated.

2. The Ministry reserves the right to exclude the defaulting or delaying counterparties from the list of counterparties admitted to the operations, mentioned in article 4, paragraph 5, of the Decree.

3. If the penalties described in the preceding paragraph 1 are applied, to a counterparty, three times in a six month period, that counterparty will not be able to participate in the transactions for a period of thirty days starting from the first day of fail on the last delayed payment.

4. If the settlement of the operations mentioned in the present decree is carried out by an intermediary different from the one participating in the transactions themselves, the penalties described in paragraph 1 will be charged to the intermediary entrusted with the settlement.

5. The Treasury can change the timetable defined in paragraph 1 of the present article, informing the Bank beforehand, which will inform the market via systems in use in financial markets.

## **Article 10**

### ***Allocation to the State budget of the amounts collected in case of fail***

1. The Bank takes care of the collection of the amounts mentioned in the preceding article 9, charging the TARGET2 accounts of the failing counterparties or of the entrusted intermediaries, for the amounts corresponding to the penalties and the interest during the day:

a) in which the default occurs, in the case of funding transactions;

b) in which the amount due is paid, in the case of investment transactions.

2. The Bank itself deposits the amounts collected, the same day it receives them, at the Section of Rome of the Provincial State Treasury, with allocation at budget line item 3248 (voting unit 2.1.5) of the revenue forecast for the State Budget.
3. The Section of Rome of the Provincial State Treasury, with regard to these payments, releases proper State Budget revenue receipts.
4. The Bank informs the Treasury of the activation and results of the procedure described in articles 9 and 10 of the present decree.

## **Article 11**

### ***Accounting, reporting and determination***

1. The operations mentioned in article 2 of the present decree are accounted and reported as per articles 3 and 4 of the Accounting Decree, cited in the preamble.
2. The terms and conditions of each transaction are determined by the Treasury every month, with the issue of a specific decree.
3. The Treasury regularly informs the Minister of Economy and Finance on the decrees mentioned in the preceding paragraph.

## **Article 12**

### ***Final provisions***

1. The present decree is effective for all purposes from the date of entry into force of the Decree. From that date, the decree of the Ministry of Economy and Finance no. 64302 of 16 June 2006, as amended, concerning “Directives for the financial transactions to bear on the Treasury availability account for treasury purposes” is abrogated.
2. The present decree will be published in the Official Gazette of the Italian Republic.

Roma, 28 November 2011

THE DIRECTOR GENERAL OF THE TREASURY

*This translation into English is intended solely as a convenience to the English-reading public. The only official version is the Italian one, as published in the Official Gazette of the Italian Republic.*