



## CCT-*eu*: the issuance strategy of the new instrument

- In June 2010, the Ministry of Economy and Finance (henceforth "MEF") introduced a new floating rate nominal bond class (so-called CCTs-*eu*), with semi-annual coupons indexed to 6-month euribor. The new instrument will gradually replace current CCTs.
- Two bonds belonging to the new asset class were offered to the market: the CCT-*eu* 2015 and the CCT-*eu* 2017. Both were launched using the syndication issuance method. The subsequent re-openings were carried out at regular auctions held at the end of the month.
- In April 2011, MEF launched the new CCT-*eu* 2018 directly via auction, with the aim to steadily rely on the auction system to carry out the issuance program of this new class of securities.
- From June 2010 onwards MEF offered investors the possibility to exchange current CCTs with new CCTs-*eu*, both during the syndicated deals and standard exchange transactions reserved to the Specialists in Government Bonds. Further opportunities will be provided over time through regular exchange transactions reserved to the Specialists in Government Bonds to be held with a frequency consistent with the market needs and conditions.
- To safeguard old CCTs holders, MEF is committed to keep the secondary market for current CCTs liquid and efficient using all available debt management instruments. In any case a minimum outstanding volume of each current CCT line will be guaranteed in order to ease the quoting and trading activities carried out by market makers.

**CCT-*eu*: a new type of nominal floating rate bonds, indexed to Euribor, replacing CCT**

## THE LAUNCH STRATEGY OF THE NEW BOND CLASS

After a thorough analysis of the CCT market, also supported by specific market appraisal enquiries, MEF introduced a new class of nominal floating rate bonds indexed to 6 month Euribor (so called CCTs-eu), replacing current Treasury Certificates (CCTs) indexed to 6 month BOT (Treasury Bill) auction rates. The structure of the new instrument is very similar to that of ordinary floating rate securities issued in the euro area (both by sovereigns and corporate): interest is paid with semi-annual coupons in arrears indexed to the 6-month Euribor rate of the second working day before the coupon first accrual date and the final maturity is, normally, 7 years. Moreover, MEF will can consider other maturities based on the preferences expressed by the market.

The choice of the new indexation mechanism is related to the need to enlarge the investors base in floater instruments issued by the MEF as well as to improve the efficiency and liquidity of the secondary market of such instruments. In the last few years, current CCTs, with coupons indexed to

6 month BOT auction rates, have shown in some occasions a suboptimal performance on the secondary market, with levels of price volatility somehow inconsistent with the nature of such instruments related to the profile mainly domestic of participants in CCTs market, differently from the other Italian government securities.

Conversely the new index is one of the most important indicator of the Euro Area money market and it is well known by fixed income investors and dealers. As such this index shows all features to assure that the new floater will appeal a greater number of national and international investors who will be keener to have it in their portfolios. Moreover, the new instrument offers a suitable protection or hedge to those investors, corporate as well as retail, whose liabilities are euriborlinked (as for example those with a floating real estate mortgage loan, usually linked to euribor).

In keeping its policy of gradual and progressive reduction of floating rate bonds' share over the Italian Government debt, MEF aims at having the new instrument as a gradually substitute of CCTs, which are not issued anymore on a regular basis. The process of replacement with the new CCTs-eu, also through several subsequent exchange transactions, as what already happened since the introduction of

the new instrument, is carried out with timing and modality meant to guarantee efficiency and liquidity of both CCTs-*eu* and CCTs on the secondary markets, in the manner described below.

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In 2010, the CCT-*eu* 2015 and the CCT-*eu* 2017 were launched on the market through syndication with a group of selected Specialists in Government Bonds. The subsequent re-openings of such securities were made at regular auctions held at the end of the month. The choice to use syndication as the issuance method for the first tranches was justified by the need to facilitate the rapid distribution of the new instrument. Moreover, institutional investors had the chance to exchange current CCTs with new CCTs-*eu*, for a limited and predetermined share of each transaction.

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With the development of the market for the new bond, in April 2011 MEF was able to launch the new CCT-*eu* 2018 directly through auction, marking the final transition to this issuance method that will be regularly adopted in the end of the month auctions. The closing of outstanding bonds and the launch of new ones will be subject to market conditions, in order to guarantee a satisfying level of liquidity to all securities issued.

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Current CCTs investors, who are interested to exchange them with CCTs-*eu*, in addition to the possibility to do that during the first syndications and some exchange transactions, will have the opportunity to make use of the latter, that MEF carries out by auction or on the electronic secondary market with Specialists in Government bonds. The exchange transactions will be carried out with a frequency consistent with the market needs and conditions.

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Nevertheless, MEF commits itself, also in the future, to guaranteeing liquidity and efficiency in the CCTs secondary market through all available debt management instruments, such as the appropriate calibration of the amount of 6 month BOTs offered to the market, a prudent selection of the securities to be included in exchange transactions and, if needed, the possibility of one-off CCTs reopenings. Moreover, exchange transactions will never reduce the outstanding of each CCTs below a threshold in order to avoid impairing the secondary market liquidity or the market makers trading and quoting activity. The commitment to support the CCTs market will be maintained until the natural maturity of the last CCT, in order to protect current CCTs investors.

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