

Annex to the Public Director Decree no. 74997 of December the 23<sup>rd</sup> 2008

Ministry of Economy and Finance

Department of the Treasury - Direction II



# **ITALIAN GOVERNMENT BOND SPECIALISTS**

**EVALUATION CRITERIA FOR THE PERIOD**

**YEAR 2009**

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# Evaluation criteria of the Italian Government Bond Specialists' activity

## 1. Introduction

*Italian Government Bond Specialists* are Primary Dealers active on the Italian Regulated Government Bond Wholesale Markets<sup>1</sup> selected by the Department of the Treasury – Direction II, in accordance with Ministerial Decree no. 219 of 13 May 1999, in order to guarantee a high level of efficiency and transparency to the Italian Government securities market.

The present document illustrates the criteria used for the evaluation of the Specialists' activity for the year 2009, on the basis of the legislative framework currently in effect.

The Treasury expects each Specialist to:

1. participate with continuity and efficiency to the Government securities auctions;
2. contribute to the efficiency of the secondary market and not to compromise the orderly process of market trading;
3. possess an organizational structure suitable for the status of Government Bond Specialist;
4. contribute to the management of public debt and to the debt issuance policy choices, also through advisory and research activities;
5. respect the confidentiality of information to which Specialists have access.

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<sup>1</sup> According to the definition stated in art. 66 of the legislative decree no. 58 of February 24, 1998.

## 2. General Requirements

The Treasury, accordingly to public debt management needs, registers the Primary Dealers of Italian Regulated Government Bond Wholesale Markets who have submitted the specific application in a list denominated *List of Government Bond Specialists*<sup>2</sup>.

The status of Specialist is subject to the achievement and the maintaining of market and organizational requirements as specified below.

### ***Market requirements are:***

- a. a quota of the primary market of government securities equal to at least 3% of the total annual issuance through auctions<sup>3</sup> (paragraph 3.2);
- b. an efficient participation in the secondary market (paragraph 3.3).

### ***Organizational requirements are:***

- c. capital requirement for supervisory purposes equal to at least 38,734,267<sup>4</sup> euros;
- d. the qualification of Primary Dealer on the Regulated Wholesale Markets for Italian Government bonds;
- e. an organizational structure suitable to effectively perform the function of Government bond Specialist (paragraph 3.4).

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<sup>2</sup> Art. 3 of the quoted Decree 13 May 1999, no. 219 – “Regulation on the wholesale government bond markets”.

<sup>3</sup> All the information concerning Government securities auctions can be found on the Website of the Public Debt Directorate at the following link:

[http://www.dt.tesoro.it/ENGLISH-VE/Public-Deb/Treasury-S/Government/Descriptio/Gover\\_bond\\_auction.pdf](http://www.dt.tesoro.it/ENGLISH-VE/Public-Deb/Treasury-S/Government/Descriptio/Gover_bond_auction.pdf)

<sup>4</sup> Capital requirements for supervisory purposes are determined according to the criteria stipulated in the regulations of the competent supervisory authority.

### 3. Evaluation of Specialists

#### 3.1. Guidelines for the activity of Specialists.

The Specialists operational activity is evaluated by the Treasury, according to the criteria outlined in the following paragraphs. For a description of the parameters used and the methodology implemented for the attribution of the score, see the Technical Appendix.

At the end of the year, on the basis of the overall performance evaluation, the Treasury will elaborate a final ranking of Specialists and it will publish the names of the top five Specialists on its Internet site <http://www.dt.mef.gov.it/ENGLISH-VE/Public-Deb/index.htm>.

The Treasury reserves the right, should exceptional circumstances occur during the evaluation period, to modify the criteria contained in the present document. In that case the final ranking will be revised to take into account the evaluation obtained on the basis of those criteria in effect during the different periods of observation.

#### 3.2. Primary Market

A necessary condition to maintain the qualification of Specialist is the allocation at auction, on an annual basis, of a primary market quota not less than **3%** of the volume issued by the Treasury.

This quota is calculated with a weighting that takes into account the different financial characteristics of the various securities issued as well as their status when auctioned (on the run versus off the run)<sup>5</sup>.

The performance of Specialists in the primary market is evaluated on the basis of a quantitative criterion and a qualitative criterion.

1. Primary quantitative index: each Specialist is assigned a score between **0** and **33**, in proportion to the allotted quota obtained during the evaluation period. The score is assigned for quotas spanning from 3%, the minimum required to maintain the qualification of Specialist, up to a maximum of 6%.

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<sup>5</sup> Details concerning the calculation criteria are shown in the Technical Appendix at par. 1.1

2. Primary qualitative index: the qualitative evaluation of primary market<sup>6</sup> participation is made on the basis of an indicator called the *Auction Aggressivity Index* (AAI). This indicator measures the contribution of the auction strategy of each Specialist in determining the difference between the auction price and the *fair value* of the bond (values close to zero in the AAI indicate a strategy that is not very or not at all aggressive). For this parameter a score between **0** and **14** is assigned, a higher score corresponds to low AAI, that is for very low or not aggressive strategies.

The AAI indicator is adopted for the placement of BTP, BTP€I and CTZ on the run. Aggressivity is also measured for the multi-price auctions (currently adopted for the placement of BOTs, the Italian Treasury Bills) and for *off-the-run* bonds and it is taken into account in the evaluation of the Organisational Structure by the Italian Treasury (see paragraph 3.4)

### **3.3. *Secondary Market and Distributional Capacity***

The Specialists activity on the secondary market must ensure an efficient functioning of wholesale markets through a trading activity that is constant and distributed across the various sectors of the Italian yield curve. . On the regulated wholesale markets the contribution provided to trading volumes as well as to the continuity and depth of quotations is taken into account. Outside regulated markets trading volumes on electronic trading systems are evaluated as well as the capacity of providing a broad distribution of Government securities, both in terms of geographical location and typology of investors.

Accordingly, the Specialists activity is evaluated on the basis of the following parameters<sup>7</sup>:

- **WHOLESALE REGULATED MARKETS**

1. Quotation Quality Index (QQI) – a score between **0** and **8** is assigned;
2. Depth Contribution Index (DCI) – a score between **0** and **8** is assigned;

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<sup>6</sup> Only for uniform-price auctions.

<sup>7</sup> For calculation methods of the indicators used and the relative assignment of points, see the Technical Appendix.

3. cash trading activity – a score between **0** and **4** is assigned based on the market share of each Specialist compared to that of the non-Specialist Primary Dealers or Candidate Specialists<sup>8</sup>;
4. repo trading activity in – a score between **0** and **4** is assigned based on the market share of each Specialist both in the *Special Repo* segment and the *General Collateral* segment, compared to that of the non-Specialist Dealers or Candidate Specialists; the score of 2 is the maximum that could be assigned in each segment;
5. Efficiency Index established by the Bank of Italy – a score between **0** and **6** is assigned;

- NON REGULATED MARKETS

6. cash trading activity on electronic trading systems – a score between **0** and **2** is assigned based on each Specialist's market share
- 7.
8. Distributional capacity in the cash market<sup>9</sup>: a score between **0** and **2** is assigned;
9. Distributional capacity in the Repo market: a score between **0** and **3** is assigned.

### **3.4. Organizational Structure**

The quality of the organizational structure is evaluated annually, as indicated below:

1. Evaluation of the Organizational Structure by the Italian Treasury – a score of up to **12** points is assigned.

The Treasury will perform a comprehensive evaluation of the Specialist's activity based on the trustworthiness of the organizational structure and on advisory and research capabilities on public debt management issues.

The score includes the assessment related to the activity carried out by the Specialist on the new cash management facility OPTES, both from a quantitative and a qualitative point of view.

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<sup>9</sup> On the basis of communication of market trading conducted using the European Harmonized Reporting Format.

Moreover, in assigning the score, the Treasury will also take into account the contribution to the efficient functioning of both the primary and secondary markets, which is not directly measurable by the indicators mentioned above. Specifically, the following issues will be considered:

- Participation in Government bond auctions. Specialists will be evaluated in terms of qualitative aspects such as, for example, the use at each auction of all three available bids and their relative distribution, the inserting of prices that do not activate the safeguard mechanism or the exclusion price, a recourse to the *recovery* procedure (through fax sending) for inserting bids at auction that is limited to exceptional cases;
- performance on the CCTs secondary market. This evaluation, for a score up of 4 points, is obtained through a specific parameter “Quotation Quality Index (QQI)“ and “Depth Contribution Index (DCI)” calculated exclusively on the CCTs market. Moreover the Treasury will take into account marketing and distribution activity on CCTs, as proven by ad hoc research and analysis carried out for clients and the trading activity with institutional and retail investors;
- participation strategy in *off the run* bond auctions different from CCTs.. The Treasury will negatively evaluate , from time to time, in each auction, eventual bidding behaviours that may squeeze the bond in the auction process;
- participation strategy in BOT (Treasury Bills) auctions. The degree of aggressivity of the strategy displayed at BOT auctions is monitored through a specific indicator (distinguished from the AAI index used for auctions of both nominal and inflation-linked medium-long term bonds). Behaviors that result to be distorsive of auction outcomes may lower down to zero the score assigned to the parameter *Evaluation of the organizational structure by the Italian Treasury*;
- behavior during syndicated transactions. The Treasury will evaluate the behavior demonstrated by all Specialists during these transactions, independently from the specific role played by each of them, whether it is of direct involvement or not.

- e contribution to the efficiency on the secondary market. Treasury will reward those Specialists who support the liquidity of government bonds on the secondary market during trading days characterized by extreme high volatility conditions

2. Use of the Central Counterparty in the regulated wholesale cash markets – a score of up to 1 points is assigned.

In the regulated wholesale Repo markets, however, the use of the Central Counterparty is considered a minimum general requirement for maintaining the Specialist status.

### **3.5. *Buy-back and Exchange Transactions***

Buy-back and exchange transactions are a strategic instrument for the management of public debt. Given the importance of these transactions and the technical means used, the Treasury allows Specialists exclusively as counterparties.

A score up to 3 points is assigned to the participation of each Specialist in buy-back and exchange transactions. The maximum score, at least equal to 1.5 points, will be set by the Treasury on the basis of the number and the overall volume of the operations held during the year. The score awarded to each Specialist is assigned proportionally with respect to the best dealer's performance.

## **4. Reasons for exclusion**

The Treasury will check, at the end of the evaluation period, that all requirements for the maintenance of the Specialist status, as set out in the preceding paragraphs, are being met. In particular, a Specialist may be excluded for:

- participation in auctions that compromises a normal and orderly outcome, including errors caused by technological deficiencies such as, for example, the inserting of prices that lead to the activation of the safeguard mechanism and/or repeated recourse to the use of the *recovery* procedure (through fax sending);

- trading in the regulated wholesale Government bond markets that is deemed to be without any economic significance and/or inconsistent with normal trading activities;
- trading in the regulated wholesale Government bond markets carried out on behalf of third parties;
- failed delivery of bonds or failed payment on the settlement date for transactions with the Treasury as a counterparty and, should they be of significant measure, for trades in the regulated wholesale Government bond markets;
- non adherence to the Central Counterparty in the regulated wholesale Repo markets;
- activity with Italian local authorities inconsistent with the relevant regulations;
- activity that does not conform to the expectations of the Treasury, as indicated in the introduction;
- failure to maintain a level of activity and efficiency in the regulated secondary markets as a rule superior to that held on average by non-Specialist Primary Dealers or Candidate Specialists.

Exclusion from the list of Specialists can also occur in the event of any behavior deemed to jeopardize the efficiency of the secondary market and the orderly conducting of trading, also on the basis of analysis carried out by the Bank of Italy – Market Supervision Office.

The Treasury will inform the Specialist of any behavior that requires correction; exclusion from the List will take place should the incorrect behavior persist.

During the evaluation period, exclusion from the List will occur **automatically** should one of the requirements of paragraph 21, letters **a)**, **c)** and **d)** not be met, or in the case of failed adhesion to the Central Counterparty for trading activities in the regulated wholesale Repo markets.

Specialists excluded from the List may not submit an application for reinstatement until one year passes from the date of exclusion.

## 5. Privileges for Specialists

Specialists benefit from the following unique privileges:

1. exclusive access to reopenings following auctions of medium-long-term bonds and 6-month BOTs, for an amount as a rule equal to 10% (25% in the case of a first tranche for medium-

long-term bonds) of the amount offered. The deadline for participation in these reopenings is normally set at **15:30** of the day after the ordinary auction;

2. exclusive access for selection:
  - f. as lead managers of syndicated issuances in euros,
  - g. as dealers for the US dollar *benchmark* program,
  - h. as counterparties for bilateral buy-back transactions;
3. preference for selection as a counterparty in other issuances in foreign currency and for derivatives transactions;
4. Candidate Specialists considered capable of significantly improving distribution may be called to participate in syndicated transactions. It is, however, necessary that the performance of these same Candidate Specialists be in line with the expectations of the Treasury.

A satisfactory and consistent operational performance by the Specialist is a necessary but not sufficient condition for being selected to participate in the transactions described in point 2. The Treasury, indeed, chooses the operators on the basis of their performances as Specialists, but takes into account: a) their advisory activity related to the specific transaction; b) the possession of an adequate distributional structure with respect to the operation; c) the ability to achieve the targets set by the issuer.

## **6. How to become a Specialist**

A Primary Dealer active in regulated wholesale Government bond markets could candidate to become a Specialist if said Primary Dealer:

1. shows to fully satisfy the obligations required to hold the Primary Dealer status;
2. gives evidence of possessing a suitable organizational structure and a satisfactory knowledge of the legal, technical, and structural functioning of the Italian Government securities market to be verified also through *ad hoc* meetings with the Treasury.

The Primary Dealers who, from January to September of every year, have shown to the Treasury the intention to apply as Candidate Specialist, must submit a formal application<sup>10</sup> by the end of September of every year, provided that at the moment of the application submission they have fully satisfied the obligations related to the maintenance of the Primary Dealer's status for the previous 12 months.

The Treasury, within 90 days from the date the application is submitted, will verify compliance with the organizational requirements set out in paragraph 1. In case of compliance, the Treasury will authorize the dealer to assume the status of Candidate Specialist and to begin the 12-month observation period as of January 1<sup>st</sup> of the year following submission of the application.

During the period of observation the Candidate Specialist must:

- subscribe a primary market quota, on an annual basis, not less than 3% (paragraph 3.2); this annual quota must be obtained with auction allocations not concentrated in a restricted number of auctions and/or instruments and with a participation that does not jeopardize their orderly functioning;
- attain a satisfactory evaluation in the activity carried out on the secondary market (paragraph 3.3);
- contribute substantially to the improvement of the overall efficiency of debt management, also by demonstrating continuity of performance in the Primary and Secondary Markets and by making useful proposals for issuance decisions and debt management;
- fulfill the obligation of confidentiality about the information to which the status of Candidate Specialist grants access.

The period of observation can be extended should critical operative circumstances arise during the period itself.

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<sup>10</sup> The Department of the Treasury, Directorate II – Division II (Dipartimento del Tesoro, Direzione II – Ufficio II) must be contacted in due course by the Primary Dealer interested in presenting its candidature, in order to receive all the needed assistance to submit the formal application.

## **7. Transfer of the qualification of Specialist (switch)**

The Treasury can authorize, upon warranted request, the transfer of the qualification of Government bond Specialist from one Dealer to another, provide that both belong to the same group. The request will be accepted if the incoming party produces the documentation aimed at proving:

1. that it belongs to the same group of the Dealer to be substituted;
2. the decision to change the entity designed to get the Specialist qualification, attested by any official document;
3. the fulfillment of the capital requirement for supervisory purposes, that has to be equal to at least 38,734,267 euros;
4. that it has been authorized to operate on the regulated wholesale markets for Government Bonds as a Primary Dealer;
5. that it has signed the protocol Agreement with the Bank of Italy (Monetary Policy and Foreign Exchange Bureau – via Nazionale, 91 – 00184 Roma) to participate in issuance reverse and exchange auctions of Italian Government Securities.

Regarding the position in the ranking elaborated by the Treasury, the incoming Dealer will take over the same position as the outgoing dealer, while for the reopenings reserved to Specialists of the medium and long-term bond auctions and the 6-month BOT auctions, the participation quota right will be set to zero if, in the passage from the outgoing Specialist to the incoming Specialist, the ABI code of the outgoing bank is not maintained.

In the aforementioned circumstance, the Treasury will conduct the necessary review and it will communicate the result of that review in the shortest time possible, and in any event in no more than 60 days.

# Technical Appendix

## Methodology for the calculation of parameters to evaluate the Government Bonds Specialists' activity

### Year 2009

The present document describes the methodology for calculating the parameters used to monitor and evaluate the performance, in the primary and secondary markets, of Specialists in Government Bonds for the year 2009.

The value of each parameter included in the *Primary Market, Secondary Market and Distributional Capacity* (only for the parameters related to the Regulated Wholesale market and excluding the Efficiency Index established by the Bank of Italy) and in *Buy-Back and Exchange Auctions* sections will be communicated on a monthly basis.

Scores for parameters included in the *Primary Market, Secondary Market and Distributional Capacity* sections are assigned at the end of every quarter, on the basis of the average performance observed since the beginning of the annual evaluation period (January the 1st). The *Buy-Back and Exchange Auctions* and the *Organizational Structure* parameters, on the other hand, are translated into scores at the end of the year.

# I Primary Market (cfr. par. 3.2.)

## I.1 Quantitative index: primary market share

The primary market share used to evaluate Specialists is calculated by weighting the allotted amounts, taking into account, for each type of security, not only its specific financial characteristics, but also its status when auctioned (on the run versus off the run).

For the calculation of the auction quota in a specific time period, the date considered is the auction settlement date.

**Table 1: Weights used in the calculation of the volumes of allocation at auction in the Primary Market of Government Securities**

<b>BONDS</b>	BOT 3 mths	BOT 6 mths	BOT 12 mths	CTZ 24 mths	BTP/BTP€i 3 yrs	BTP/BTP€i 5 yrs	BTP/BTP€i 10 yrs	BTP/BTP€i 15 yrs	BTP/BTP€i 30 yrs	CCT
<b>On the run</b>	0.25	0.5	1	2	2.5	4	7	9.5	13	2
<b>Off the run</b>					1,25	2	3,5	4,75	6,5	4

**Note:** For the attribution of weights to calculate the market share, BTP and BTP€i off-the-run will be considered according to their the residual maturity.

Each Specialist is assigned a score between **0** and **33**, in proportion to the auction share obtained during the evaluation period. Points are assigned for a quota greater than the minimum required to maintain the status of Specialist (3%) up to a maximum threshold of 6%. Beyond this threshold no points are assigned.

The score for the quantitative parameter is assigned according to the following formula:

$$P_S = \frac{Q_S - Q_{\min}}{Q_{MAX} - Q_{\min}} P_{MAX}$$

where:

$P_S$  is the score assigned to the Specialist and it cannot exceed **33** points;

$P_{MAX}$  is the maximum score assigned for the quantitative parameter of the primary market (33 points)

$Q_s$  is the primary market quota obtained during the evaluation period by the Specialist whose performance is being evaluated. For values greater than 6%,  $Q_s = 6\%$ ;

$Q_{min}$  is the minimum required primary market quota (3%);

$Q_{MAX}$  is the maximum primary market quota that allows for a score (6%).

## ***1.2 Qualitative index: Auction Aggressivity Index (AAI)***

The qualitative evaluation of participation in the primary market<sup>11</sup> is carried out on the basis of an indicator called the *Auction Aggressivity Index (AAI)*, which measures the contribution of the auction strategy of each Specialist in determining the difference between the auction price and the *fair value* of the bond. The indicator measures the degree of aggressivity of the strategy, that is, the combined effect of the difference between bid prices and market prices (*overbidding*) associated with bid quantities that ration the supply available to the rest of auction participants (*overdemanding*).

The AAI delivers non-negative values; an AAI figure equal or close to zero indicates a strategy that is not very or not at all aggressive.

Points are assigned as follows:

$0\% < AAI < 0.2\%$	<b>14 points</b>
$0.2\% < AAI < 1.2\%$	<b>0 - 14 points, in proportion to the AAI value</b>
$AAI > 1.2\%$	<b>0 points</b>

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<sup>11</sup> This evaluation is limited to uniform price auctions currently used for the issuance of fixed rate medium-long-term bonds (CTZ, BTP and BTP€i). For Treasury Bills (BOT), issued through a multi-price auction method, a specific aggressivity index is adopted. The aggressivity of a strategy in this case is linked to the contribution to the average weighted price and, therefore, takes into account the combined effect of the spread between the bid prices (when higher)

## **II Secondary Market and Distributional Capacity (cfr. par. 3.3)**

### ***II.1. Quotation Quality index – QQI***

The index is based on high frequency snapshots (that represent a proxy for a continuous time monitoring process) of the order book of proposals for each bond taken during an open market day.

For each snapshot the position (ranking) of each Specialist's quote versus the best price (both for the bid and the ask sides) in the order book of proposals is recorded. For each bond and for each market day the simple average of those positions is calculated

The daily average ranking of a Specialist is calculated as a simple average of each bond daily positions. The average ranking is negatively affected thereby worsening the QQI in case the Specialist is off the order book of proposals (i.e. it is not present in the snapshot)<sup>12</sup>.

The QQI for a given period of time represented by a number of open market days (for example a month), is calculated as a simple average of the above mentioned daily indexes.

Lower QQI values, which represent an overall average positioning close to best prices, denote a better performance.

The Specialist is assigned a score, up to **8** points, proportionally to the value of its own QQI for a given evaluation period.

### ***II.2. Depth Contribution Index - DCI***

As for the QQI, the DCI is based on high frequency snapshots of the order book of proposals for each bond taken during an open market day.

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and secondary market level and the related bid quantities. The level of aggressivity resulting from this measure is taken into account within the Organization Structure evaluation given by the Treasury.

<sup>12</sup> The indicator mechanism is provided with a control tool that prevent the system to consider absent a dealer who is only technically "suspended" because it has just closed a trade .

For each snapshot the quantity quoted by each Specialist, both on the bid and the ask sides, is recorded. For each bond and for each market day the weighted average of quoted quantities is calculated, weighting these quantities with coefficients that are increasing in the position of the attached quotes in the order book with respect to the best price. The higher is the position of a quote, the higher is the weight applied to the attached quantity.

The daily DCI of each Specialist is calculated as a simple average of each bond daily quoted quantity weighted average.

The DCI for a given period of time represented by a number of open market days (for example a month) is calculated as a simple average of the above mentioned daily indexes.

Higher DCI values, which represent an overall higher average quoted quantity, denote a better performance.

The Specialist is assigned a score, up to **8** points, proportionally to the value of its own DCI for a given evaluation period.

### ***II.3. Cash trading activity on the regulated wholesale markets***

Given the number of open market days within the evaluation period, this parameter is calculated as a percentage of the volumes traded by the Specialist over the total cash trading activity of the market (market share).

The Specialist with the highest share is assigned a score equal to 4. All the other Specialists having a market share above that of neither Specialists nor Candidate Specialists are assigned a score included between 4 and 0 on a proportional basis. Those Specialists with a market share below that of neither Specialists nor Candidate Specialists are assigned a score equal to 0.

### ***II.4. Repo trading activity on the regulated wholesale markets***

Given the number of open market days within the evaluation period, this parameter is calculated, both for the *General Collateral* segment and the *Special Repo* segment, as a percentage of the

volumes traded by the Specialist, on a term adjusted basis, over the total Repo trading activity of the market (market share)<sup>13</sup>. The Specialist with the highest share in each of the two segment is assigned a score equal to 2. All the other Specialists having a market share above that of neither Specialists nor Candidate Specialists are assigned a score included between 2 and 0 for each segment on a proportional basis. Those Specialists with a market share below that of neither Specialists nor Candidate Specialists for each segment are assigned a score equal to 0.

## ***II.5. Cash Trading Activity on Electronic Systems***

The parameter measures the cash trading activity of each Specialist on electronic systems. This indicator, based on information gauged from the data included in the European Harmonized Reports<sup>14</sup> is calculated as a percentage of the volumes traded by the Specialist over the total cash trading activity throughout electronic trading systems (market share).

The Specialist with the highest market share is assigned a score equal to 2. A score from to 2 to 0 is assigned proportionally to the other Specialists.

## ***II.6. Bank of Italy Efficiency Index***

For every open market day, bonds quoted are divided into 7 classes according to sector and degree of liquidity. For each class the following parameters are taken into account, indicating the contribution to overall efficiency of the market by each Primary Dealer:

- average spread weighted for the exposition time;
- volume of applications received;
- number of bonds quoted;
- number of traded bonds;
- sum of the quoted quantities weighted for the exposition time.

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<sup>13</sup> Term adjusted volumes adjusted are obtained by multiplying the nominal volume traded by the number of days in which the transaction remains effective (number of days between the spot leg and the forward leg).

<sup>14</sup> *Harmonized Reporting Format*. Detailed information is available at the following website [http://ec.europa.eu/economy\\_finance/efc/efc\\_reports\\_en.htm](http://ec.europa.eu/economy_finance/efc/efc_reports_en.htm).

To allow for the comparison of non-homogeneous quantities, in so far as they refer to bonds with different financial characteristics and different degrees of liquidity, processes of standardization of data used for analysis will be carried out. The daily parameters, calculated for each Dealer within the context of each class of liquidity, are subsequently aggregated on a period basis in order to complete a comparative evaluation of the behavior of all the Primary Dealers in the market. Then, a comprehensive ranking is constructed, which constitutes the basis for the assigning of points by the Treasury.

At the end of every quarter, **6** points are assigned to the best Specialist. A score between **6** and **0** is assigned to the other Specialists proportionally.

### ***II.7. Distributional capacity in the cash market***

The parameter evaluates the overall quality of the Specialist in distributing the complete range of Italian Government bonds.

The index is calculated quarterly on the basis of data included in the European Harmonized Reports. Those Reports are filled with data on the Specialists' trading activity classified by bond type, residual maturity, type of counterparty and their geographical area of residence and by trading system.

At the end of every quarter, **2** points are assigned to the Specialist with the best performance. A score between **2** and **0** is assigned proportionally to the other Specialists.

### ***II.8. Distributional capacity in the Repo market***

This is a synthetic indicator that measures the quality of overall Repo bond trading activity, executed outside the regulated wholesale market, with regard to diversification of bond type, type of counterparty and system used.

The parameter is calculated every quarter on the basis of data communicated by Specialists using the format defined by the Treasury together with the Bank of Italy.

At the end of every quarter, **3** points are assigned to the Specialist with the best performance. A score between **3** and **0** is assigned proportionally to the other Specialists.