



## INTRODUCTION

# BOURSES BREAK ACROSS BORDERS

The future of European stock exchanges lies in consolidation and cooperation

**T**he European exchange industry is developing at breakneck speed. International orientation and transparency are the key drivers, as well as value added services for both domestic and international clients.

Exchanges in Germany, the UK, the Benelux countries and Italy, which once were seen as servicing a domestic marketplace, have moved successfully towards a more visible and international role.

The recent election of Massimo Capuano, president and CEO of Borsa Italiana, as president of the Federation of European Securities Exchanges is a case in point, reflecting the fact that many regional and national platforms are becoming increasingly known and appreciated across borders.

## »» BROADER VISION

While Mr Capuano clearly sees a bright future for the Borsa, he has a broader vision of how exchanges will develop in 2004. Two of the patterns he expects to influence the landscape are consolidation between the various continental European stock exchanges and a greater cooperation between the regulators and the exchanges themselves, who will be playing an increasingly propositional role.

Improving the transparency of the market will be central to this vision. Over the last few years, Borsa Italiana has promoted the code of conduct for listed companies, introduced the discipline on internal dealing in the Italian context, and helped draw up the "Guide for information to the market", which integrates the legal and regulatory provisions with codes of conduct for improving the information of listed companies.

The exchange is also holding conferences and seminars to promote its markets on an international playing field and provides an increasing level of services to its customers. These include seminars on tax reform and alternative investments.



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**Raffaele Jerusalem, Borsa Italiana**

Borsa Italiana is strongly committed to organising international events such as the annual Hedge Fund Conference, a key event for the European alternative investment community which will celebrate its fourth incarnation on May 20, 2004. The aim of the conference is to describe the most significant trends shaping this industry, while providing the audience with cutting-edge research and tools to help them "think out of the box".

It is important to demonstrate, through organising such events, that the exchange's functionality is integral to the

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wealth management industry. Domestic markets are not a back alley, but a highway towards growth and efficiency.

Nevertheless, the importance of sizeable markets should not be underestimated when all eyes are on the international, strategic roles played by exchanges. This is true especially with the increasing influence of wealthy individual investors in countries such as Italy, where high net worth individuals are trading on exchanges alongside the powerful institutions.

### » RETAIL INVESTOR

Borsa Italiana estimates that around 27 per cent of the Italian exchange market capitalisation (at end 2003) is held by retail investors. Retail clients are very active also on the derivatives market, focusing on products, such as the MiniFIB, the minifuture launched in July 2000.

Around 40 per cent of volumes traded on the MiniFIB come from retail investors, in particular those trading through online brokers. Commitment towards wealthy retail investors can be confirmed also by the initiatives which the exchange undertakes.

An example is Borsa Italiana's II Trading Online Expo, the national educational event targeted to retail clients, which will take place on May 7 and 8. Last year, the expo attracted over 2000 investors and 28 exhibitors, becoming the most important such stage in Italy.

The Italian market stands out in Europe for the high relative liquidity of its stocks. It is ranked first for turnover velocity, an indicator that compares trading turnover with capitalisation to show the annual rate of turnover of shares. In 2003, Italian turnover velocity was 143.7 per cent, compared with 109.7 per cent at Deutsche Börse, 103.6 per cent in Stockholm and 96.9 per cent in Madrid.

In a context of growing international competition, another key area for exchanges is the derivatives markets. The Italian equity derivatives market (IDEM) ranks fourth in Europe for notional turnover traded, thanks to innovation both in microstructure and technology and new products listed over the past years. Today the IDEM

market is able to offer one of the most technologically advanced trading platforms in the world.

In addition to creating easier access to the market, the main features of the new trading platform include high-speed-lines connection, new functionalities such as stop orders, mass quotations and dynamic price deviation control, which will not only help improve the regularity of trading but also prevent 'fat finger' mistakes.

International investors accessing the plethora of markets need to be able to assess the accessibility of markets, the range of products on offer and the support which they already attract. In this sense, it is the derivative markets in particular, which are achieving the highest growth.

Stock options have seen perhaps the most promising increase during the first quarter of 2004 in Italy. A 27 per cent rise in stock options trading was achieved with respect to the 2003 average, with growth fuelled by an increasing participation from both the institutional and retail client base.

### » PRODUCTS

To respond to the demand and interest for these products, Borsa Italiana has recently launched six new stock options (39 total) and four new stock futures (19 total), which will be supported by professional market-makers to ensure the necessary underlying liquidity is guaranteed.

In addition to the new stock options and stock futures listed, new products have been introduced on the S&P/MIB index. The new S&P/MIB index was created through a partnership with Standard & Poor's and launched in June 2003. Products currently listed on the new S&P/MIB index, include exchange traded funds (ETFs), covered warrants, futures and options.

With the creation of new products and initiatives, Europe's stock exchanges are paving the way towards greater internationalisation, while remaining pro-active in addressing clients' needs.

*Raffaele Jerusalem, executive director of markets,  
Borsa Italiana*

### » CORPORATE STATEMENT

Borsa Italiana organises and manages the Italian stock exchanges. Founded in 1997 following the privatisation of the exchange, Borsa Italiana has been in operation since 2 January, 1998 defining the functioning of the markets, deciding rules and procedures for admission and listing for issuing companies and brokers, overseeing the market and monitoring the listed companies' disclosure. Its primary objective is to ensure the development of the managed markets, maximising liquidity, transparency and competitiveness and, at the same time, pursuing high levels of efficiency and profitability.



#### Contact:

- Website: [www.borsaitaliana.it](http://www.borsaitaliana.it)