

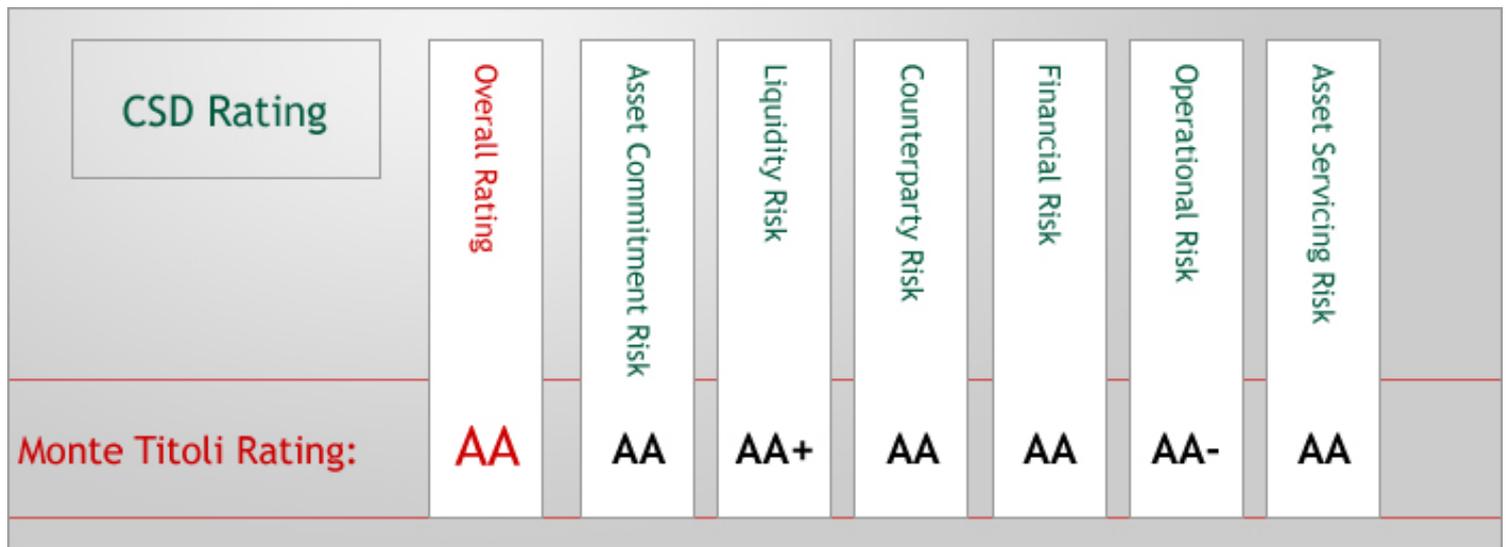


Thomas Murray Issues a Central Securities Depository Rating of AA for Italy's Monte Titoli S.p.A. with Stable Outlook

Monday 24th September, 2012

PRESS ANNOUNCEMENT

LONDON - Thomas Murray, the specialist custody rating, risk management and research firm, has issued a CSD rating for Italy's Monte Titoli S.p.A. of AA, which translates as 'very low' Overall Risk. The rating is made up of the following components:



The overall rating of 'AA' reflects a weighted average of the six risk factors and relates to a very low risk exposure profile with 'Stable' outlook. The outlook indicates there are no significant developments in the marketplace that may alter the Overall Risk in the next 6 to 12 months. However, in the longer term, the introduction of Target 2 Securities (T2S) in 2015/16 will significantly impact the operations of Monte Titoli and prior to this Monte Titoli will be developing new business opportunities which will have their own risks that will need to be assessed.

Monte Titoli is the sole depository for all eligible securities in Italy. It is 98.77% owned by Borsa Italiana S.p.A. which is owned by London Stock Exchange Group (LSEG). It has operated since 1981 and is regulated by Banca d'Italia, CONSOB and the Italian Treasury. Monte Titoli receives cleared trades from various CCPs, the main ones being CC&G which is also part of LSEG; and LCH.Clearnet S.A. which is an optional CCP for fixed income securities. Monte Titoli has cash accounts at Banca d'Italia to facilitate trade settlement using the TARGET 2 payment system.

Some key features of Monte Titoli's operations as they impact the specific risk factors are as follows:

Monte Titoli operates a very efficient batch settlement model for on-exchange transactions. This model requires low liquidity, supports post-trade access to liquidity by repo; and as a result fail rates are relatively low. Batch settlement is a model which requires the pre-positioning of cash and securities for both buyers and sellers, for relatively short durations - the overnight batch process involving the longest asset commitment period of up to 3 hours. For off-exchange and OTC trades, real time gross settlement takes place as soon as both securities and cash are available for settlement so normally it takes about 50 seconds for transfers to be effected.

Liquidity and Counterparty Risks for securities traded on-exchange are mitigated by clearing exchange trades using a CCP and adopting DVP settlement.

Asset Servicing Risk exposure is low. Monte Titoli has a high degree of automation for capturing and distributing all related corporate event information to participants, and capturing and processing all corporate event instructions. However, at this stage there is no complete range of SWIFT message types used for asset servicing.

Financial Risk exposure has been assessed as AA. Monte Titoli's capital appears to be adequate especially as it does not act as principal for any of its activities. Monte Titoli benefits from the group-wide insurance coverage. The company has been continuously profitable over the past few years and achieved a net profit of EUR 24 million in the year to 31 March 2012.

Monte Titoli mitigates Operational Risk by maintaining a control system that incorporates a number of key features. It identifies risk for all areas of operations through a risk register that is actively maintained through the risk manager and reviewed by internal audit, senior management and the group risk committee. High risk operational areas are typically audited every 18 months and other operations less frequently depending on the risk assessment of their impact. Inspections are undertaken by the regulators periodically and there is oversight by the statutory auditors, Collegio Sindacale. These arrangements provide a reasonably comprehensive control environment although they don't yet include an external audit along the lines of SSAE16.

Monte Titoli operates modern system technology and there is high operational resilience in both the primary and secondary sites. Although the systems are of a high standard, the production, DRP and BCP sites are at risk of simultaneously being impacted by an earthquake as they are within the same proximity of each other.

Governance arrangements are reasonable although they heavily depend on the LSEG structure and there are no substantive local committees operating. Whilst Monte Titoli provides a good level of public corporate information it is not as forthcoming in the provision of statistical information.

Simon Thomas, CEO and Chief Ratings Officer of Thomas Murray said: "Thomas Murray was pleased to have again undertaken an independent CSD rating of Monte Titoli's operations. Despite the significant pending changes to Monte Titoli's business, it has maintained a sound risk management framework with annual review from the parent. However, the introduction of T2S in 2015/16 will force Monte Titoli to develop new business lines. Such moves will likely challenge the existing stable and low risk environment that currently operates".

Paolo Cittadini CEO of Monte Titoli, said "Monte Titoli is delighted to have maintained its 'AA' rating in such a demanding environment. Risk management is a fundamental part of Monte Titoli's business and the Thomas Murray rating assessment that we have received reaffirms the fact that the measures and controls we have in place help mitigate any risk and provide a robust and safe depository."

The CSD rating assesses the risk exposures for investors associated with the processes the CSD has in place to facilitate the safekeeping and the clearing and settlement of securities, where applicable. It assesses six key risks. The methodology considers the capabilities of the depository and the quality and effectiveness of its operational infrastructure. It also assesses the depository's willingness and ability to protect its participants or clients from losses. As part of the rating, the scope and quality of the depository's services is assessed. The ratings are on a consistent global scale, using the familiar AAA to C ratings scale. Once the rating is assigned there is an ongoing surveillance process to monitor the depository.

Separately, Thomas Murray maintains proprietary assessments of over 130 CSDs globally as part of the Thomas Murray Depository Risk Assessment services. These reports are available via Thomas Murray at www.thomasmurray.com.



Download the PDF report

Monte Titoli S.p.A., Italy (Updated Sept 2012)

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About Thomas Murray

Thomas Murray is a specialist custody rating, risk management and research firm specialising in the global securities services industry. Thomas Murray was established in 1994. The company tracks and analyses over 250 custodians globally and monitors the risk of over 100 capital market infrastructures. The company has a strong position as a provider of public and private ratings and risk assessments on global custodians, domestic custodian banks and capital market infrastructures.

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Thomas Murray Affirms the Central Securities Depository Rating for the Central Securities Clearing System PLC (CSCS PLC) at A- with Stable Outlook