

The Bank of Italy's investment master agreements and counterparties

Frequently Asked Questions

1. In which markets and financial instruments does the Bank of Italy invest?

The Bank of Italy invests mainly in government bonds issued by Italy and by the major euro-area countries. The Bank also invests in non-euro area government bonds denominated in the foreign currencies in which its official reserves are denominated*. Trading is executed on trading platforms where multiple participants place their quotes simultaneously.

As regards foreign reserves, money market instruments are also traded for liquidity investment purposes.

Finally, the Bank of Italy invests in the stock markets of the euro area and in the main international stock markets*.

2. With which counterparties and brokers does the Bank of Italy work?

Eligible counterparties. When the Bank of Italy trades over the counter, it carries out its investment activity with a broad and well-diversified set of carefully selected counterparties and brokers. When the Bank of Italy trades on regulated markets, multilateral trading facilities and other trading venues, the rules of the relevant venue apply.

The selection of eligible counterparties takes into account the operational needs and specific features of the relevant markets, as well as an assessment of a given counterparty's risk profile, which includes verifying its compliance with stringent economic and financial parameters. The selection of an eligible counterparty for a given operation is based on operational needs.

Eligible counterparties are selected taking into account the following criteria.

Bond market. The counterparties for the purchase and sale of bonds are leading Italian and foreign institutions who trade on their own account (as market makers) in wholesale financial markets.

Money market instruments. As for the operations relating to money market instruments, having considered the specific risk profiles, a subset of potential counterparties is identified with which master agreements are signed (see below). Depending on the specific market and types of operations, requirements are envisaged concerning, in particular, creditworthiness and financial soundness. The risk profiles are monitored on a daily basis; trading is suspended for those counterparties not complying with the pre-set parameters.

* For further details see <https://www.bancaditalia.it/compiti/riserve-portafoglio-rischi/index.html?com.dotmarketing.htmlpage.language=1>

Stock market. As for stock market operations, the Bank of Italy selects brokers, according to a procedure that assesses whether they meet qualitative and quantitative requirements – such as, for example, in terms of market share and of the quality of the financial research services provided to customers – as well as operational requirements, including the trade settlement.

3. Is it necessary to sign a master agreement to carry out investment operations with the Bank of Italy?

Yes, except for outright transactions (see the following answer) and for operations executed on regulated markets, multilateral trading facilities and other trading venues, which are already governed by the rules of the relevant venue.

Master agreements are based on the standards commonly used in the financial industry, with some amendments reflecting specific needs related to central bank status.

In general, the master agreements used by the Bank of Italy are the European Master Agreement for Financial Transactions (EMA, FBE, Edition 2004) with counterparties based in Europe, and the Global Master Repurchase Agreement (GMRA, TBMA-ISMA, Edition 2000), the Master Agreement of the International Swaps and Derivatives Association (ISDA) and/or the Master Repurchase Agreement (MRA, TBMA-SIFMA, Edition 1996) with counterparties based elsewhere.

Master agreements consist of a general part (General Provisions) supplemented by provisions that take into account the specific needs of the parties (Schedule or Special Provisions). Based on the type of transactions to be set up, the master agreement is supplemented by specific Annexes.

Master agreements identify the framework for the investment transactions that may subsequently be concluded between the Bank of Italy and the counterparties, taking into account the specific operational needs that may arise in the future.

4. Is it necessary to sign a master agreement for outright transactions?

No, counterparties eligible only for outright purchase/sale transactions – with simultaneous settlement occurring between the delivery of the securities and the payment of the equivalent value (delivery versus payment) – do not have to sign any master agreement, regardless of whether they trade as brokers or on their own account. The counterparties that, in addition to the purchase and sale of securities, are authorized to carry out more complex operations, are requested to sign master agreements in accordance with the criteria adopted by the Bank of Italy and described in the previous answer.

5. How are counterparties provided with compliance information connected to the business relationship with the Bank of Italy (for example information relating to the MiFID Directive and the MiFIR Regulation)?

Once the master agreement has been signed (where applicable), the Bank of Italy sends its counterparties the relevant notices in order to fulfill obligations relating to client categorisation,

reporting to market authorities and disclosure requirements for operations conducted in trading venues.

6. In its investment operations, is the Bank of Italy subject to Regulation (EU) No 2015/2365 (Securities Financing Transaction Regulation – SFTR), which introduced reporting and transparency obligations?

No. Members of the European System of Central Banks (ESCB) are exempt from these obligations, without prejudice to the application of the relevant provisions to eligible counterparties of the Bank of Italy.

7. Does the Bank of Italy amend its contracts with US counterparties to comply with the provisions for the cross-border resolution of systemically relevant financial institutions, known as the US Resolution Stay Rules?

Yes, usually through a bilateral agreement with the counterparty, which is attached to the master agreement, or by adding specific clauses to the master agreement itself.

8. Is the Bank of Italy subject to Regulation (EU) No 648/2012 (European Market Infrastructure Regulation – EMIR)?

No. Members of the ESCB are exempt, without prejudice to the application of the relevant provisions to eligible counterparties of the Bank of Italy.

9. Does the Bank of Italy amend its contracts to comply with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act?

Yes. To this end, the Bank of Italy adopts a specific bilateral agreement with its US counterparties.

10. In addition to the signature of the master agreement, what else may be required by the Bank of Italy to complete the onboarding of the counterparty and start doing business?

Depending on the type of transactions to be carried out with the counterparty, the Bank of Italy requests the relevant tax certifications, also with reference to foreign provisions such as the US Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standards (CRS). It may also require the exchange of the lists of persons involved in the trading activity (both at the Bank of Italy and at the counterparty) who are authorized to carry out individual financial transactions by sending trade orders and quote requests and acceptances on transactions, etc.

11. **What steps should a financial market player take to become a counterparty of the Bank of Italy?**

Please find below the competent units that can be contacted for trading issues and for clarification on the documentation relating to investment activity.

For **front office issues**: Market Operations Directorate, Investment Division
OPM.DOI@bancaditalia.it

For **contractual and regulatory compliance issues**: Financial Risk Management Directorate, Equity and Corporate Risk Division GER.prs@bancaditalia.it

For **back office and post trading**: Operations and Payments Settlement Directorate, in particular:

- Market Operations Settlement Division RFP.BOINV@bancaditalia.it,
RFP.EUROBOINV@bancaditalia.it
- Post Trading Management Division RFP_GestionePT@bancaditalia.it