

BANCA D'ITALIA

Institutional Issues

**Guide to remote access
to Banca d'Italia cash and securities
settlement services**



April 1999

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Introduction

This publication summarizes the requirements and operating practices for remote access to the services provided by Banca d'Italia for settlement in cash and in securities and for centralized management of Italian government securities.

The purpose is to offer a guide to foreign operators, on their direct participation in Italian markets without in-country establishments. In particular, with the transition to Stage Three of EMU and the launch of the TARGET system many euro area intermediaries have expressed interest in remote access to the wholesale market in Italian government securities (MTS) and the screen-based interbank market (MID).

The information provided here reflects current Italian rules for remote access to direct settlement of market contracts and interbank transactions in the Italian payment system. For securities, the guide sets forth the rules on centralized securities accounts (CAT), which are necessary for direct settlement of trades of Italian government securities on MTS.

Some of these arrangements will change with the completion of European integration. In particular, public and private central securities management is being revised. Monte Titoli S.p.A., the central depository company for non-public securities, will become the sole depository of all Italian securities and the single Italian point of entry to the European network of central depositories now being formed.

The final part of the guide consists of summary tables and thematic appendices for quick and convenient consultation.

PART I

THE BI-REL REAL TIME GROSS SETTLEMENT SYSTEM

1. General characteristics

Banca d'Italia's BI-REL system, a real-time gross settlement system that is the Italian component of TARGET, enables participants to settle single payments directly through their euro-denominated settlement accounts with Banca d'Italia, making the funds transferred immediately available. The system settles, through the settlement account (*conto di gestione*):

- a) all of the following transactions:
 - those effected directly by participants through the National Interbank Network (Rete Nazionale Interbancaria, henceforth RNI);
 - those deriving from “automatic processing” by Banca d'Italia and the foreign exchange information system (Sistema informativo estero, SIE);
 - those originated by the branches of Banca d'Italia;
- b) the multilateral balances generated by the national clearing house for payment items;
- c) the multilateral balances from the service for clearing and settlement of transactions in financial instruments (securities settlement);
- d) transactions concluded through the screen-based interbank market (MID);
- e) transactions deriving from direct interbank external lira and euro payments and the lira or euro leg of foreign exchange transactions (GEC), large-value payment orders (BIR) and external payment orders (BOE);
- f) cross-border transactions via TARGET (BOE-TARGET and GEC-TARGET).

To increase system flexibility, each settlement account has an automatic queuing function for transactions temporarily lacking cover. The queues are worked down according to a set of priorities based on type of transaction. Within each priority class, the order is chronological (first in, first out). To ensure regular operation of the system, the Banca d'Italia may activate – ordinarily at set moments during the operating day – a process of optimization facilitating the settlement of the greatest possible number of queued payments.

The gross settlement system has a series of additional functions to facilitate the flow of participants' operations. One such is co-management of settlement accounts, whereby one account-holder authorizes another to operate on its account, provided that the latter can use the RNI-BI-REL

message system, and without prejudice to the liability of the co-managed account-holder for all obligations connected with holding the account.¹

In line with TARGET rules, participation in BI-REL is open to banks, non-bank credit institutions, investment firms, public sector bodies, and institutions providing clearing or settlement services established in the European Economic Area. Eligibility is subject to specific requirements as well as holding of a reserve account as an essential component of the settlement account, which is used for settling obligations on BI-REL.

1.1 *The operating day*

BI-REL operates every day of the year except Saturdays, Sundays, 1 January and 25 December, in line with the TARGET calendar. The operating day begins at 7:00 CET and closes ordinarily at 18:30. It is divided into successive phases, each of which has a cut-off time. The first two cut-offs require operators to settle their multilateral clearing and securities settlement balances. The subsequent cut-offs – which are common to all settlement systems forming part of or linked into TARGET – set the deadlines for executing customer and interbank transactions and for requesting margin refinancing or making overnight deposits.

Remote participants in BI-REL are not eligible for Banca d'Italia's intraday liquidity, nor do they have access in Italy to the operations of the ESCB at counterparties' initiative (the marginal lending facility and the deposits facility).

1.2 *How the accounts work*

Each institution may hold only one settlement account. The accounts are centralized, and operations on them are possible on any day in which BI-REL is operational. Operations on the account may be effected via RNI, through the RNI-BI-REL message system, and the account may be used to settle transactions originating in screen-based markets, in foreign exchange and funds transfer procedures, and in Banca d'Italia's clearing and settlement systems, in accordance with the Bank's instructions issued pursuant to Article 146 of the 1993 Banking Law (Legislative Decree 385/1993). All types of operations on the settlement accounts can be performed at the branches of Banca d'Italia.

¹ The co-management agreement can only be entered into if specific requirements are met; in particular, banks cannot designate non-banks as their co-management agents.

For participants in BI-REL on a remote basis, the settlement account consists of the reserve account alone (*conto di riserva*). This is a current account. A reserve account is required in order to make a current account deposit of monetary base in order to participate in the BI-REL and TARGET systems. No one may hold more than one reserve account. In order to distinguish, within the BI-REL procedure, the reserve accounts held by persons of different legal status, the accounts are designated as follows:

- *compulsory reserve accounts*, for banks and non-bank credit institutions;
- *free reserve accounts*, for public sector bodies;
- *non-interest-bearing reserve accounts*, for investment firms and institutions providing clearing and settlement services.

The free reserves deposited in the current account do not earn interest.

1.3 *Participants*

For foreign operators interested in joining BI-REL on a remote basis, stipulation of a contract for the centralized current account deposit (the “reserve account”) is conditional on meeting a set of requirements, which vary according to the applicant’s category (for simplicity, we omit the requirements for public sector bodies).

a) Banks

Banks operating in Italy under Article 16 of the 1993 Banking Law (freedom to provide services) may make such deposits if they are:

- subject to the supervision referred to in Title III, Chapter I, of the Banking Law and subject, under their home-country authorities, to at least one of the forms of supervision provided for by the harmonized supervisory rules within the European Union and the European Economic Area² or equivalent forms of supervision;
- established with its head office or at least a branch³ – duly authorized where required – in the territory of a state forming part of the European Economic Area other than Italy.

² Harmonized supervision on the basis of the Second Council Directive on Banking Supervision, 15 December 1989 (Directive 89/646/EEC, published in the Official Journal of the European Communities of 30 December 1989, No. L 386).

³ “Branch” means an office that forms part – without constituting a legal person – of the bank and that directly effects, in whole or in part, the activity of the bank. Home office and/or central administration is not considered to be a branch.

b) *Non-bank credit institutions*

The institutions included in the register referred to in Article 2, paragraph 2, of the First EC Council Directive of 12 December 1977 (Directive 77/780/EEC, published in the Official Journal of the European Communities of 17 December 1977, No. L 322) as subsequently amended may constitute such deposits, provided that these persons are:

- subject – under the relevant authorities of the state in which they have their legal home office – to at least one of the forms of supervision provided for by the harmonized supervisory rules within the European Union and the European Economic Area⁴ or equivalent forms of supervision;
- established with its head office or at least a branch⁵ – duly authorized where required – in the territory of a state other than Italy within the European Economic Area.

c) *Investment firms*

The requisite deposits may be constituted by EU and non-EU investment firms entered in the register referred to in Article 20 of the Consolidated Law on Financial Intermediation or in the list annexed to that Law, if the institution in question:

- operates in Italy pursuant to Articles 27 and 28 of the Consolidated Law on Financial Intermediation Act in the case of European Union and non-European-Union firms, respectively;
- is authorized to perform at least one of the investment services referred to in points 2, 3, and 5 of Section A of the Annex to the Consolidated Law on Financial Intermediation Act (execution for the account of third parties of orders relating to one or more of the instruments indicated in Section B of the Annex, trading on own account of all the instruments indicated in Section B, underwriting of issues of instruments indicated in Section B and placement of such issues);
- is subject – under the relevant authorities of the state in which it has its registered office – to the forms of supervision provided for by the

⁴ For the definition of harmonized supervision, see Footnote 2.

⁵ For the definition of branch, see Footnote 3.

harmonized supervisory rules specified in the EC Council Directive of 10 May 1993⁶ or equivalent forms of supervision;

- is established with its head office or at least a branch⁷ – duly authorized where required – in the territory of a state other than Italy within the European Economic Area.

d) Institution providing clearing and settlement services

An institution providing clearing or settlement services may make the requisite deposits only if:

- it is established with its head office or at least an operational structure – duly authorized where required – in the territory of a state other than Italy within the European Economic Area;
- provides the above-mentioned services by means of said head office or said operational structure;
- is subject to the oversight of clearing, settlement and guarantee systems referred to in Article 77 of the Consolidated Law on Financial Intermediation and/or to the supervision over payment systems referred to in Article 146 of the 1993 Banking Law and is subject, under the relevant authorities of its home country, to equivalent forms of supervision.

2. Procedure for remote participation

The relationship between participants in BI-REL on a remote basis and Banca d'Italia is established through the conclusion of special contracts drawn up in Italian. This is generally accomplished through an exchange of *contract-letters*. With a contract-letter delivered directly by hand or by courier or mailed to the Milan branch of Banca d'Italia, the applicant institution requests that the relationship be established, elects a special domicile⁸ and makes known the telex number, should the applicant have one, and the fax number to which communications from Banca d'Italia concerning the

⁶ Directive 93/22/EEC, published in Official Journal of the European Communities of 11 June 1993, No. L 141.

⁷ For the definition of branch, see Footnote 3.

⁸ Persons not established in Italy with their head office or at least a branch (e.g. settlement account holders that access BI-REL on a remote basis) may also elect a special domicile in the state where their head office is located. In no case is election of domicile at the Banca d'Italia permitted.

relationship being established are to be addressed. The agreement governing the relationship in course of establishment is to be attached to the application and constitutes an integral part of the contract-letter. After receiving the contract-letter, the Banca d'Italia notifies the applicant of the outcome of the application.

Contract letters may not be signed by third parties on behalf of the applicant. They must be duly signed by the applicant's legal representative.

Accordingly, applicants from EU countries must provide the Milan branch with an authentic copy of the act showing within the meaning of Articles 2(1d) and 3 of Directive 68/151/EEC of 9 March 1968 the persons who have the power to obligate the applicant vis-à-vis third parties. The copy, with the declaration that it is in conformity with the original, must be accompanied by a sworn translation in Italian issued by the relevant authority or by an official translator.⁹

The applicant must deposit the signature of the legal representative with the main branch in Milan. Alternatively, the applicant may send a public act containing a specimen signature of the legal representative and establishing pursuant to the legislation of the applicant's state that the specimen signature is that of the legal representative. Where the public act is drawn up in a foreign language, a sworn translation in Italian issued by the relevant authority or by an official translator must be attached.¹⁰

Opening a reserve account automatically activates a settlement account.

⁹ Applicants from EU states may, on the basis of their national law, propose a different procedure from that described in order to attest to the legal representative's powers of signature. Applicants from non-EU states should ask the Milan branch of the Banca d'Italia for the necessary instructions.

¹⁰ No legalization procedure is required for public acts drawn up in Belgium, Denmark or France, by virtue of Article 6(3) of the Brussels Convention of 25 May 1987, implemented in Italy with Law 106 of 24 April 1990. Where such Convention is invoked regarding public acts drawn up in other member states of the European Union, the Banca d'Italia will decide case by case.

Where the Brussels Convention may not be invoked and the public act containing the power of attorney was drawn up in a signatory state of the Hague Convention of 5 October 1961, implemented in Italy with Law 1253 of 20 December 1996, the public act in question is to be legalized by appending to the document the annotation provided for by the Hague Convention, bearing the heading (in French) "Apostille (Convention de La Haye du 5 octobre 1961)". The annotation, which attests to the authenticity of the signature and the qualification of the public officer who drew up the public act, must be issued by the relevant authority of the state of provenance of the document.

Where the act was not drawn up in a signatory state of the Hague Convention, the signature of the foreign authority must be legalized pursuant to Article 17 of Law 15 of 4 January 1968 by Italy's diplomatic or consular representative. Lastly, where there is a bilateral agreement between Italy and the remote participant's state (e.g., for Germany, the Rome Convention of 7 June 1969), the bilateral agreement applies.

3. Authorization to use the RNI-BI-REL message system

Settlement account holders participating in RNI may apply for *authorization* to use the RNI-BI-REL message system for the management of central accounts.¹¹ This involves a specific application, to be drawn up in Italian and sent to the Milan branch of Banca d'Italia, in which the applicant institution states the date from which it will be able to utilize the messages. Note that settlement account holders must have already exchanged authentication keys with Banca d'Italia. The application also contains a declaration whereby the applicant relieves Banca d'Italia of any liability connected with use of the RNI as a means of transmission. The application is deemed to refer to all messages, as the applicant is unable to exclude some.

Before receiving authorization the applicant must conduct a series of trials in a test environment, with positive outcome.

4. Information flows

The information structure of BI-REL allows participants authorized to use the RNI-BI-REL message system to obtain real-time reports on the situation of their accounts and related queues. In particular, settlement account holders authorized to use the RNI-BI-REL message system and co-managers can send or receive instantaneous messages concerning, inter alia:

- the queuing of debits arranged by Banca d'Italia or arising from the “automatic” processing by Banca d'Italia and of debtor balances from Securities Settlement;
- the entries in the settlement account and the account balance;
- the cancellation from the queue and the failure of interbank giro transfers;
- summary or analytical information on queued transactions.

Settlement account holders not authorised to use the RNI-BI-REL message system receive from Banca d'Italia the itemized list of transactions entered in their accounts during the working day.

All settlement account holders, whether or not authorized to use the RNI-BI-REL message system, also receive account statements and tables with the calculation of interest.

¹¹ Authorization is obligatory for direct settlement on settlement accounts of transactions originating in the exchange procedures, i.e. concluded on MID, and multilateral balances arising from the Securities Settlement procedure.

5. Fees and stamp duty

The BI-REL fee schedule is based on an annual participation fee and transaction fees for individual domestic and cross-border payments settled through TARGET. Provision is also made for percentage charges, to discourage delay in the settlement of cash balances arising from Securities Settlement. The Banca d'Italia notifies account holders of the entries relating to the fees and charges described in this chapter.

a) *Annual participation fee*

An annual participation fee of 1,500 euros is paid in advance when an account is opened and, subsequently, at the start of every year. There is no refund to account holders who close accounts during the year.

b) *Transaction fees*

Transaction fees are debited monthly for operations on reserve accounts. The fee is charged:

- to the sender in case of interbank transactions through electronic network (domestic and cross-border payments settled through TARGET) or through Banca d'Italia branches and of payments to the State Treasury;
- to the account holder for other operations (institutional, automatic and accessory to the current account service).

The fees for *domestic payments* are:

- 0.50 euros for interbank payments via electronic network, for automatic entries and for institutional operations;
- 12 euros for other operations entered by Banca d'Italia branches.

The fees for *cross-border payments settled via TARGET* are:

- 1.75 euros per transaction for the first 100 transactions settled in the month;
- 1 euro per transaction for the next 900 transactions;
- 0.80 euros per transaction after 1,000 transactions.

c) *Charges for Securities Settlement shortfalls*

The charges differ according to type of cover and settlement time. The charges may not be less than 500 or more than 25,000 euros, regardless of the operation effected to cover the shortfall.

TYPE OF COVER AND TIME FOLLOWING SETTLEMENT PHASE	PARAMETERS FOR CALCULATING CHARGES (ONE-DAY RATES)
Electronic network transactions – up to 30 minutes – over 30 minutes	Marginal refinancing rate Marginal refinancing rate + 6 percentage points
Paper-based transactions	Marginal refinancing rate + 6 percentage points

Settlement account statements are subject to stamp duty as provided by law.

PART II

**BANCA D'ITALIA'S CENTRAL GOVERNMENT SECURITIES SYSTEM
(CAT)**

1. General characteristics

With the launch of European monetary union, the CAT system for the management of government securities deposited with Banca d'Italia has been upgraded to offer highly efficient services to intermediaries participating in the *central government securities system*.

All government securities have been dematerialized and are denominated in euros.

It is necessary to open a securities account (central securities account) in order to participate in the securities settlement procedure and in auctions of Treasury bills and medium and long-term government securities.

1.1. *Relevant legislation*

The centralized management of government securities is governed by Legislative Decrees 58 of 24 February 1998 and 213 of 24 June 1998, by the related implementing decrees of the Minister of the Treasury, by Consob Regulation 23 December 1998 (henceforth "Consob Regulation"), and by the Services Regulation of Banca d'Italia ("Services Regulation").

1.2. *Operating day*

The central government securities system operates every day of the year except Saturdays, Sundays, 1 January and 25 December, in line with the calendar of the TARGET system. The operating day begins at 7:00 and normally ends at 18:30.

1.3. *Participants*

Article 24 of the Consob Regulation specifies the categories of intermediaries that may participate in the central government securities system and the related eligibility requirements: Italian banks, EU and non-EU banks, investment firms, asset management companies, stockbrokers, other issuing companies or bodies for the financial instruments issued by companies in which they hold a controlling interest, operators of clearing and settlement systems for transactions involving non-derivative financial instruments, and

operators of clearing and guarantee houses for transactions involving derivative financial instruments; financial intermediaries, the bodies of EU and non-EU countries responsible for their respective central securities systems, Poste Italiane SpA, the Deposits and Loans Fund, and Banca d'Italia.

Each participant has a central securities account for government securities held on behalf of customers and, if allowed under the Consob Regulation, a central securities account for securities owned by the participant itself.

1.4. *Transfers*

Non-resident participants may execute operations on their central securities account:

- *directly, using an international network connected with the Italian national interbank network (RNI)*. In order to obtain direct access the participant must complete the formalities described in Section 2 below. Written orders for transfers on the accounts from the representative of the remote participant will only be accepted in the event of an interruption of network service. Such orders are submitted to the relevant branch office of Banca d'Italia or the main branch in Milan on holidays falling during the business week;
- *via the RNI, through a representative in Italy (mandatary)*.¹² The participant must submit a request to the Banca d'Italia branch where its securities account is held;
- *channeling transfers through the securities settlement procedure.*

Two procedures are available for transfers of securities between securities accounts via the RNI:

a) ordinary transfers

- the transaction is executed in real time with the updating of the “account balance” and the “available balance” of the transferor and the transferee;

b) transfer with deferred availability (subject to final payment)

- the transaction is executed in real time. The transferred securities are credited to the account of the transferee with a delay of one or more working days depending on the instructions of the transferor;

¹² See Section 2 below.

- the CAT procedure shows two balances in each central securities account: the “account balance”, which is always updated immediately for both the transferor and transferee, and the “available balance”, which is updated for the transferee after the deferral period has passed;
- the transferor may revoke the transfer order during the deferral period;
- such revocation may only be ordered at Banca d’Italia branch where the central securities account is held. The branch will inform the transferee before correcting the accounts;
- securities maturing before the end of the deferral period or whose coupons come due during the period may not be transferred.

1.5 Coupon stripping and reconstitution of government securities

The central securities system allows for coupon stripping and reconstitution involving the government securities covered by Treasury Minister Decree 15 July 1998.

Coupon stripping consists in separating the elementary components of a security (the principal, represented by the corpus of the security, and the interest, represented by the coupons) for trading as independent securities. Reconstitution means the reunification of a previously separated corpus and coupons.

The nominal value of coupon stripping operations must be a multiple of 1,000 euros. Each financial instrument created in the operation becomes a separate government security. Stripped coupons with the same maturity are fungible, whereas the corpuses are not fungible either among themselves or with stripped coupons of the same maturity. The Treasury identifies the single issues for which coupon stripping is allowed and may establish the minimum amount of the nominal principal outstanding for each issue for any such operation as well as the maximum amount of securities that may be involved in the operation.

1.6 Repayment of securities and payment of interest

The redeemed principal and interest payments shall be recognized in the settlement account of the owner or, alternatively, in that of another participant appointed by the owner when opening the central securities account.

2. Procedures for remote participation in the CAT system

In order to join the system, a non-resident applicant must appoint a representative resident in Italy for the purposes indicated in section 1.4 and must present a request to open a central securities account at the branch office of Banca d'Italia where its representative is domiciled. Upon receipt of the request, Banca d'Italia branch will send the operator an Italian-language copy of the "Contract for participation in the central government securities system at Banca d'Italia" and the "Service Regulation".

The contract must be signed for acceptance by the legal representative of the applicant and returned to Banca d'Italia branch. Alternatively, the representative may confer the necessary powers to perform the contractual formalities on a third party resident in Italy (the elective representative).

Requests may also be submitted by residents of non-EU countries.

If the contract is signed by the legal representatives of the company (i.e., the persons authorized to commit the company vis-à-vis third parties), non-resident applicants from EU countries must provide a true copy of the act indicating said persons, pursuant to Articles 2(1d) and 3 of Directive 68/151/EEC of 9 March 1968. The copy must be accompanied by a sworn translation in Italian issued by the relevant authority or an official translator. The applicant may propose an alternative procedure on the basis of its domestic law but in any case shall provide a specimen signature of the company's representative. In the event the specimen signature is not provided in person at Banca d'Italia branch, a public act must be delivered to the branch containing the signature and indicating that, in conformity with the law of the home country, the signature is that of the legal representative of the company. Where the public act is drafted in a foreign language it must be accompanied by a sworn translation with the same formal characteristics as specified above.

If the contract is signed by an elective representative appointed by the legal representatives of the company, the representative must be granted, by public act, all the necessary powers to sign the documentation. An authentic copy of the act indicating the legal representatives must be provided and, where the act is drafted outside Italy in a foreign language, shall be accompanied by a sworn translation with the same characteristics indicated above.

Public acts drafted abroad must comply with the regulations in force governing legalization in international conventions and applicable domestic legislation.¹³

3. Access to the national interbank network (RNI)

Holders of central securities accounts may use the RNI (subject to authorization) to:

- make transfers between central accounts;
- conduct coupon stripping and reconstitution operations involving government securities;
- obtain account information on deposits.

The participant must submit a request to the relevant Banca d'Italia branch specifying the date from which it will be capable of using the RNI message procedures. The operator must have made arrangements for the exchange of authentication keys with the Banca d'Italia (EDP Department) and must issue a letter of indemnity to the Banca d'Italia relieving the Bank of liability for any damages connected with the use of the RNI as a means of transmission. Before beginning operational use of RNI messages, the applicant must perform appropriate testing of programs and transmission procedures with the applications centre of the Banca d'Italia. The technical specifications of the RNI will be made available to applicants for this purpose.

4. Information

The remote participant will receive real-time messages notifying all debit or credit operations on their accounts and a daily statement of the previous day's balances for each type of security. The participant may also transmit an inquiry message to obtain a real-time statement of the balance for a specific security.

The Banca d'Italia branches will send participants statements containing a description of the amounts recognized to their settlement accounts in relation to maturing securities and coupon payments and a monthly account statement with the updated balances for each type of security.

¹³ See Note 10.

5. Fees and stamp duties

The half-yearly fee for participation in the central securities system is 75,000 lire (38.73 euros), including VAT, for each account.

For each transfer operation between centralized accounts, the transferor will be charged a fee in respect of the expenses incurred by the Banca d'Italia of:

- 2,500 lire (1.29 euros) for each operation executed via RNI;
- 10,000 lire (5.16 euros) for each operation executed through a branch office.

The amounts due are payable at the end of each six-month period of the calendar year.

At the beginning of each month the Banca d'Italia will debit participants with the amount of the stamp duty due on the account statements for the previous month.

PART III

**CLEARING AND SETTLEMENT SERVICE
FOR FINANCIAL INSTRUMENTS (SECURITIES SETTLEMENT)**

1. General features

Transactions involving public and private securities concluded in both regulated markets and the over-the-counter market are settled via the clearing and settlement system run by Banca d'Italia (the "Securities Settlement" procedure). Settlement is on a daily basis; the settlement lag, the period between the conclusion of a contract and its settlement, is fixed irrevocably for transactions concluded in regulated markets.¹⁴ In the over-the-counter market the lag is established for each transaction by the counterparties, subject only to the condition that the settlement instruction has to be entered by 22:00 on the day preceding the settlement day.

The procedures subsequent to the conclusion of transactions and preliminary to settlement are carried out by the daily trade checking and correction (RRG) systems, which check the individual transactions and submit the squared bilateral balances for settlement. The RRG systems are the only channel by means of which bilateral balances can be entered in the "Securities Settlement" procedure. The RRG systems are run by:

- SIA S.p.A. for contracts concluded in the screen-based government securities market (MTS) and the Italian futures market (MIF);
- CED Borsa for contracts concluded in the share market, the Ristretto market, the screen-based bond market (MOT) and the over-the-counter market;
- the Banca d'Italia for the primary government securities market.

On settlement day the multilateral balances are calculated and notified to the participants; settlement in securities is made on accounts with central securities depositories. Specifically, the balances for government securities are settled via the central management system for government securities (CAT), which is the central securities depository for Italian government securities, while the balances for all other types of securities are settled via Monte Titoli, the central securities depository for all securities other than Italian government securities.¹⁵

¹⁴ The settlement interval is 3 days for coupon-bearing government securities and CTZs, 2 days for BOTs, and 5 days for shares, convertible bonds and warrants. Transactions concluded in the primary government securities market are settled 3 days after the auction for BOTs and CTZs, and 2 days after for coupon-bearing government securities.

¹⁵ The finality of the payment of transactions involving shares, convertible bonds and warrants listed on the stock exchange and concluded thereon (so-called "guaranteed rolling settlement") is ensured by the presence of a guarantee fund (the so-called "rolling settlement guarantee fund"), which can be activated in the event of failure to pay by a participant in the settlement system. The resources of the fund, which at present is managed by Cassa di compensazione e garanzia S.p.A., are provided by contributions paid by the participants in the guaranteed rolling settlement system.

Consequently, intermediaries that intend to participate in the “Securities Settlement” procedure with a view to settling transactions involving all kinds of securities must open a securities account with the central management system for government securities (the Banca d’Italia) and one with Monte Titoli. Intermediaries that intend to settle transactions involving government securities exclusively or securities other than government securities exclusively must open an account with the relevant central securities depository.

The operational structure of the settlement system means that intermediaries wishing to settle transactions must also join the relevant RRG systems run by the organizations referred to above. Since the RRG systems are the channels linking the market, where transactions are concluded, and the “Securities Settlement” procedure, intermediaries need join only the RRG systems of the markets in which they intend to do business.

Cash balances are settled, via the BI-REL gross settlement system, directly on intermediaries’ operating accounts with Banca d’Italia.

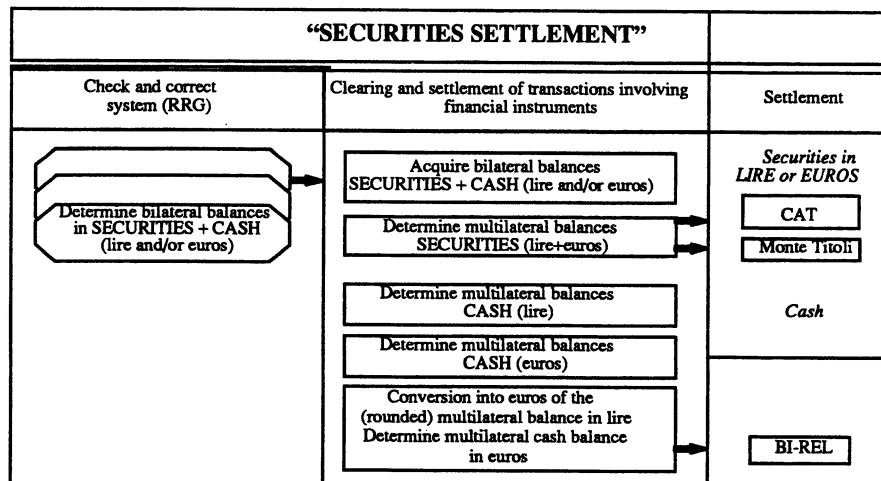
1.1 *Operating day*

The timetable of the “Securities Settlement” procedure is as follows:

- 08:00 of day t: determination of the multilateral balances in securities and cash and notification thereof to participants. Start of the settlement of securities debtor balances at the central securities depositories;¹⁶
- until 12:30 of day t: possibility of covering any uncovered securities balances by means of transfers between accounts at the central securities depositories. Within the same deadline it is also possible to reduce the multilateral securities balance by concluding “assignments”. Such transactions allow intermediaries with a securities shortfall to postpone delivery thanks to agreement not to take delivery by one or more persons with securities creditor balances. The conclusion of “assignments” requires the physical presence of the participant in the financial centre in which it settles its own balances;
- 12:30 of day t: time limit for settling securities debtor balances and for accepting the settlement of cash debtor balances on behalf of other participants; followed by the start of the settlement of multilateral cash debtor balances. Any delays that occur in settling cash debtor balances

¹⁶ Transactions involving securities other than Italian government securities must be entered in the CED Borsa RRG before 22:00 of the day before the settlement day (t-1).

are subject to penalties in the BI-REL system.¹⁷ Any delays that occur in settling securities debtor balances are subject to penalties in the Security Settlement System. Upon completion of this phase, multilateral securities and cash creditor balances are settled.



1.2 Participants

As provided for in the measure adopted by the Governor of the Banca d'Italia on 9 April 1997, the following persons may participate in the clearing and settlement system for transactions involving financial instruments: "banks, investment firms authorized to engage in the activities referred to in Legislative Decree 415 of 23 July 1996 and stockbrokers in office". There is no distinction between foreign and Italian intermediaries.

Intermediaries admitted to the system may settle transactions not only in their own name and on their own account but also in their own name and on account of other intermediaries authorized to provide investment services. It follows that intermediaries can choose between settling contracts concluded in the markets directly or using another intermediary that participates in the clearing and settlement system for this purpose. In the latter case *application*

¹⁷ See Part I, section 5.

should not be made to participate in the “Securities Settlement” procedure, since such intermediaries are not deemed to be part of the system.

Participants in the “Securities Settlement” procedure may opt to settle cash balances directly, in which case they must open an operating account at the Banca d’Italia and adopt the RNI-BI-REL package, or choose to use another operator that meets the foregoing requirements.

2. Joining the service on a remote basis

Intermediaries can join the “Securities Settlement” procedure on a remote basis by signing the following documents at Banca d’Italia’s main branch in Milan, where they are available:

- a) a contract (form 3 S.C.) governing the relationship with the Banca d’Italia, which runs the clearing and settlement service;
- b) a letter in which the intermediary indicates the Banca d’Italia’s main branch in Milan as the branch at which its securities and cash balances are to be settled; in the same letter the intermediary must also specify that it has opened securities accounts with the central securities depositories concerned;
- c) a letter in which the intermediary, in the event that it is not able or does not wish to settle directly debit amounts arising from the cash balance of the “Securities Settlement” procedure and/or any penalties or charges,¹⁸ specifies the person to be entrusted with such function. The specification of the person to be entrusted with the settlement function must be followed by the presentation to the main branch in Milan by such person of a letter accepting the engagement and simultaneously undertaking to give at least five trading days’ notice of withdrawal from the agreement;
- d) a letter of indemnity in which the intermediary relieves the Banca d’Italia of any liability in connection with the use of the means of transmission adopted for sending data (RRG, RNI, floppy disk or paper forms);

¹⁸ See section 3 below.

- e) a document indicating a participant in the clearing and settlement service located in Milan for the performance of any formalities that require the physical presence of the intermediary.¹⁹

If the intermediary that intends to join the clearing and settlement service on a remote basis is located in an EU country, the documents referred to above may be signed by:

- a) persons who are institutionally authorized to commit the company vis-à-vis third parties (so-called legal representatives); or
b) specially appointed representatives.

In case a), an authentic copy must be supplied of the act specifying, pursuant to Articles 2(1d) and 3 of Directive 68/151/EEC of 9 March 1968, the persons authorized to commit the company vis-à-vis third parties; the copy must be accompanied by a sworn translation in Italian issued by the relevant authority or an official translator.

The possibility for the intermediary to propose, on the basis of the law in its own country, a different procedure shall be unaffected.

In case b), the representative must have been granted, by means of a public act, all the powers needed to sign the documents required for participation in the service. If the public act is drawn up in a foreign language, it must be accompanied by a sworn translation in Italian issued by the relevant authority or an official translator. The public act must be accompanied by an authentic copy of the act showing that the person who granted the powers is authorized to commit the company vis-à-vis third parties.²⁰

3. Fees

Intermediaries participating in the “Securities Settlement” procedure must pay the following fees:

¹⁹ Where the intermediary also intends to settle contracts involving shares, convertible bonds and warrants listed on the stock exchange and concluded thereon (so-called “guaranteed rolling settlement”), it must also present:

- a declaration stating that the intermediary knows the provisions governing the establishment, organization and operation of Cassa di compensazione e garanzia S.p.A. In the same letter the intermediary must undertake to pay the margins provided for in the aforementioned rules. Two signed copies of this letter must be presented to the the Banca d’Italia’s main branch in Milan (Clearing House);
- a letter by which it undertakes to pay additional margins in the event of a shortfall in the settlement guarantee fund (only banks need submit this letter).

²⁰ For the form of legalization of the public acts mentioned, see footnote 10 in Part I.

- a) an annual fee of 2,500,000 lire (1,291.14 euros) for participation in the Clearing House indicated by the intermediary as the centre for centralized settlement;
- b) an annual fee of 500,000 lire (258.23 euros) to participate in each Clearing House in addition to that indicated for centralized settlement;
- c) 150 lire for every bilateral balance in securities or cash and for every electronic message sent (at the moment of settlement the total amount is converted into euros).

Payment may be made directly, or another intermediary may be entrusted with the task.

Participants with a securities debtor balance that invoke the assignment procedure are required to pay the following amounts for each type of security not delivered:

- 200 euros to defray expenses;
- a surety deposit equal to 20% of the value of the securities not delivered.

The surety deposit is redeemed in full upon extinction of the assignment within the time limits set (3 or 5 trading days depending on the type of security). Where the assignment is extinguished late, 10% of the surety deposit is subtracted therefrom for every trading day the time limit is exceeded.

Special types of assignment are exempt from the surety deposit requirement, including assignments of securities whose value does not exceed 5,000 euros and those which modify the final balances attributable to the same intermediary (for own account, for customer account, for other intermediaries).

Penalties are also applied to intermediaries participating in the “Securities Settlement” procedure in the event of:

- late satisfaction of the obligations to cover securities balances by means of transfers on securities accounts at central securities depositories or assignments;
- late notification to the Banca d’Italia of the acceptance to settle cash debtor balances on behalf of other intermediaries.

The amount of these penalties is equal to 100 euros if the balance is covered between 12:30 and 13:30 and 500 euros if covered subsequently.²¹

²¹ For assignments completed late, these penalties are in addition to the amounts referred to above for expenses and security deposits.

**SUMMARY TABLES FOR REMOTE PARTICIPATION IN ITALIAN
SETTLEMENT SYSTEMS AND SERVICES**

1) BI-REL GROSS SETTLEMENT SYSTEM

ELIGIBLE PARTICIPANTS	<ul style="list-style-type: none"> - Banks - Investment firms - Public sector bodies - Clearing companies and settlement service providers
LEGAL REQUIREMENTS	<ul style="list-style-type: none"> - Establishment in European Economic Area - Subject to harmonized supervision (home country control) - Authorization for banking and financial activity in Italy (see Second Banking Directive, 89/646/EEC of 15 December 1989 and the Investment Services Directive, 93/22/EEC of 10 May 1993)
ADMINISTRATIVE REQUIREMENTS	<p>Banca d'Italia:</p> <ul style="list-style-type: none"> - Deposit contract for central current account (settlement account) - Contract to use RNI-BI-REL message system (exchange of access keys) <p>SIA S.p.A.:</p> <ul style="list-style-type: none"> - application for authorization to use RNI
TECHNICAL REQUIREMENTS	<ul style="list-style-type: none"> - Settlement account with Banca d'Italia (Milan branch) - Membership of RNI via SIA S.p.A. - Authorization to participate in RNI-BI-REL message system (application to Banca d'Italia, Milan branch)
FACILITIES	<ul style="list-style-type: none"> - Queuing - Report of transactions effected <p>Message system</p> <ul style="list-style-type: none"> - Notification of transfers made - Notification of failed settlements - Notification of queued transactions entered by Banca d'Italia - Daily balance - Inquiry function for queued transactions (summary and detailed) - Information on balances - Inquiry function for transfers

2) CENTRAL GOVERNMENT SECURITIES MANAGEMENT SYSTEM

PARTICIPANTS	The eligible categories of participants and the requirements for admission to the central securities system (CAT) are set forth in Article 24 of the Consob Regulation of 23 December 1998. The list comprises the following categories: banks, investment firms, asset management companies, stockbrokers, other corporations or issuing bodies (only for their own issues and financial instruments issued by subsidiaries controlled through share holdings), operators of clearing and settlement systems for non-derivative financial instruments, operators of clearing and guarantee systems for transactions in financial derivatives, financial intermediaries, bodies of EU and non-EU countries responsible for their respective central securities systems, Poste Italiane S.p.A., Deposits and Loans Fund, and Banca d'Italia.
LEGAL REQUIREMENTS	For tax requirements, see Appendix 2.
ADMINISTRATIVE REQUIREMENTS	<ul style="list-style-type: none"> ● Appointment of a representative resident in Italy; ● Application to open a central securities account with the Banca d'Italia branch where the representative is domiciled; ● Signing of "Contract for participation in the central government securities system at the Banca d'Italia"; ● Request to use RNI.
TECHNICAL REQUIREMENTS	<ul style="list-style-type: none"> ● Membership of Rete Nazionale Interbancaria (RNI), operated by SIA S.P.A.; ● Exchange of secret application authentication keys with Banca d'Italia; ● Banca d'Italia authorization, issued at the conclusion of trials, to use RNI message system to communicate with CAT procedure.
OPERATING CONSTRAINTS	<p>Operation on central account via:</p> <ul style="list-style-type: none"> ● RNI messages; ● "Securities Settlement" procedure; ● representative in Italy (mandatary).

3) CLEARING AND SETTLEMENT SERVICE FOR FINANCIAL INSTRUMENTS – (SECURITIES SETTLEMENT)

INTERMEDIARIES	<ul style="list-style-type: none"> – Banks; – Investment firms authorized to engage in the activities referred to in Legislative Decree no. 415 of 23 July 1996; – Stockbrokers.
ADMINISTRATIVE REQUIREMENTS	<p>Banca d'Italia (main Milan branch):</p> <ul style="list-style-type: none"> – Signing of the contract (form 3 S.C.) and related documents; – Completion of the formalities to open a securities account (CAT); – Completion of the formalities to open an operating account at the Banca d'Italia and adoption of the RNI-BI-REL package (where the intermediary intends to settle its cash balances directly; otherwise, engagement of another intermediary satisfying the relevant requirements to settle its balances). <p>MONTE TITOLI S.p.A. (Milan):</p> <ul style="list-style-type: none"> – Opening of a securities account. <p>Cassa di Compensazione e Garanzia S.p.A. (Rome):</p> <ul style="list-style-type: none"> – Payment of guarantee margins (in the event of participation in "guaranteed rolling settlement").
TECHNICAL REQUIREMENTS	<ul style="list-style-type: none"> – Completion of the formalities for participation in the daily checking and correction (RRG) systems of Ced-Borsa, SIA S.P.A. and the Banca d'Italia.

APPENDIX

**PROVISION OF BANKING AND FINANCIAL SERVICES IN ITALY
WITH NO IN-COUNTRY ESTABLISHMENT**

Remote access to the Italian payment system is a natural corollary to the completion of the single European market and the introduction of the single currency, to the increasing internationalization of the money and financial markets, and to technological progress.

In this framework the gradual elimination of the restrictions on the freedom to provide services has accompanied European integration, and the principle has been enshrined in the Second Banking Directive (89/646/EEC) and the Investment Services Directive (93/22/EEC). This has been decisive in overcoming the obstacles that limited effective remote access to domestic markets.

The Community rules adopt the legal concept of provision of banking and financial services without an in-country establishment to distinguish temporary from permanent services, the latter being subject to the rules governing establishment. For this reason the provision of services without an in-country establishment has traditionally been conceived of as the performance of banking and financial transactions within the territory of a foreign state without branches but using a temporary organization.

The development of computer screen-based markets and the possibility of direct, permanent participation therein from abroad modifies the concept of freedom to provide services, given the importance of this business as regards supervision over the international activities of financial intermediaries and the consequent need for the relevant authorities of the home country and the host country to be informed of such business.

Remote access to screen-based financial markets is thus subject to the administrative procedural requirements for the provision of services, and in particular:

- for EU persons, a communication from the home country authorities to the relevant Italian authority (under the freedom to provide services);
- for non-EU persons, the authorization of the relevant Italian authority.

The communication or authorization must relate to the type of activity engaged in on the specific screen-based market (for MTS, securities trading on own account; for MID, deposit-taking and lending; and so on).

In view of the interlinkage between the payment system and the various market exchanges, the requirements for remote access to the domestic settlement systems have been defined as a function of the provision of services without an in-country establishment deriving from the remote business done by banks and investment firms in those markets.

Hence, the remote access of banks to the settlement systems continues to be subject to the communication of the home country authorities to the Banca d'Italia or authorization of the Banca d'Italia as the supervisory authority for any activity eligible for mutual recognition and for which remote access to the systems is or may be instrumental.

The same communication/authorization must be made/given to/by Banca d'Italia or Consob for investments firms. In case of remote access to BI-REL the communication/authorization must relate to at least one of the following activities: execution of orders on behalf of third parties relating to one or more of the instruments indicated in Section B of the Annex to the Consolidated Law on Financial Intermediation, trading on own account in all the instruments indicated in Section B, underwriting or placement of instruments indicated in Section B .

**TAX TREATMENT OF REMOTE PARTICIPATION
IN THE CENTRAL MANAGEMENT OF GOVERNMENT SECURITIES**

Non-residents participating in the Banca d'Italia's system of central management of Italian government securities via remote access are treated, for tax purposes, like Italian intermediaries, provided that they name a tax representative in Italy and comply with all the requirements laid down by Italian law (see box). As system manager Banca d'Italia makes no withholding or report to the tax authorities either as regards interest income or other income from securities or as regards capital gains (as is specified in Finance Ministry circular 165/E of 24 June 1998).

The tax representative must be a resident bank or securities firm or the permanent establishment in Italy of a foreign bank or securities firm. In performing their tax obligations, non-resident intermediaries and tax representatives must, like resident intermediaries, comply with the operational instructions issued by the tax authorities (in particular, Finance Ministry circulars 306/E of 23 December 1996 and 165/E of 24 June 1998).

TAX OBLIGATIONS OF PARTICIPATING INTERMEDIARIES

Under present rules non-resident intermediaries must comply, also by means of their tax representative, with the following obligations regarding the government securities, either their own or third parties', placed in the central deposit under their name:

- for interest income,
 - a) withholding and payment, where due, of the tax referred to in Legislative Decree 239 of 1 April 1996 and subsequent amendments;
 - b) electronic transmission to the tax authorities of the names of those recipients (resident businesses and non resident beneficial owners having right to exemption) receiving gross proceeds (i.e. without application of the withholding tax);
 - c) conservation of documents demonstrating fulfilment of the requirements for the exemption from the tax referred to in point a) in the case of non-resident recipients or international bodies (forms 116/IMP and 117/IMP);
 - d) release, at the request of the tax authorities, of all information and documentation useful for the identification of interest, premium and other income paid without application of the withholding tax and for the identification of the recipients of gross proceeds;
- for capital gains
 - e) withholding and payment, where due, of the tax referred to in Legislative Decree 461 of 21 November 1997, as amended by Legislative Decree 201 of 16 June 1998, in case the "administered savings" regime applies to the beneficial owner (article 6 of Decree 461/1997);
 - f) in case the "administered savings" regime is not applicable:
 - i) notification to the tax authorities of the beneficial owners who received taxable capital gains during the tax year under consideration;
 - ii) issue to the same beneficial owners of vouchers showing the amount of the transactions carried out by them.

Pursuant to Legislative Decree 461/1997, notification and issue of voucher are due only if the recipient is subject to taxation on capital gains by self-assessment in the annual income tax return, according to article 5 of the same Decree (e.g., resident individuals who didn't choose the "administrative savings" regime);

- g) in the case of capital gains that are not taxable in Italy (because, for example, they were made by non-residents meeting the requirements laid down in Article 5(5) of Legislative Decree 461/1997), check of the effective subsistence of the requirements for the exemption. In this case, the obligations referred to in points e) and f) do not apply.

For purposes of equal treatment with Italian intermediaries, non-residents participating in the Banca d'Italia's system of central management of government securities must submit to the Banca d'Italia branch the following documents:

- declaration stating the designation of a tax representative in Italy pursuant to Article 9 of Legislative Decree 239/1996 and the application for the starting up of the computer link with the Ministry of Finance (a facsimile of the declaration is available at the Banca d'Italia's branches);
- a copy, which the remote participant declares to be in conformity with the original, of the forms 118/IMP submitted to the Ministry of Finance by the remote participant and by its tax representative in order to obtain access to the electronic system of information transmission provided for by Legislative Decree 239/1996 (see Finance Ministry decree 632 of 4 December 1996, published in *Gazzetta Ufficiale* No. 294 of 16 December 1996).

Below is a summary table of the legislation and regulations governing the taxation of interest income and capital gains in force at the date of release of this Guide.

Legislation and regulations governing taxation of interest income on government securities

ACT	TITLE	GAZZETTA UFFICIALE
Legislative Decree 239 of 1 April 1996 and subsequent amendments	<i>Modifications to the tax treatment of interest, premiums and other income from government and private bonds and similar securities</i>	3 May 1996, No. 102
Decree of Minister of Finance of 4 Sept. 1996, supplemented by decrees of Minister of Finance of 25 March 1998 and 16 December 1998 ("white list")	<i>List of states with which information may be exchanged under double taxation treaties</i>	19 September 1996, No. 220; 16 April 1998, No. 88; 1 February 1999, No. 25
Decree of Minister of Finance 24 April 1992 ("black list")	<i>List of states and territories not members of the European Economic Community with privileged tax regimes</i>	6 May 1992, No. 104
Decree of Minister of Finance of 4 December 1996, No. 632	<i>Regulation for implementation of Article 11, para 4(a) and (b) of Legislative Decree 239 of 1 April 1996 on tax treatment of interest, premiums and other income from government and private bonds and similar securities</i>	16 December 1996, No. 294
Decree of Minister of Finance, 6 December 1996	<i>Procedures for payment of withholding tax on interest, premiums and other income from bonds and similar securities pursuant to Legislative Decree 239 of 1 April 1996 and modification and institution of a new tax number for investment income referred to in Article 7(5) of Decree Law 323 of 20 June 1996, ratified with amendments as Law 425 of 8 August 1996</i>	16 December 1996, No. 294

ACT	TITLE	GAZZETTA UFFICIALE
Director's decree of 11 December 1996 Director's decree of 28 January 1999	<i>Approval in bilingual version Italian-English of forms 116/IMP, 117/IMP, 118/IMP, approved by Decree 632 of Minister of Finance of 4 December 1996</i>	16 December 1996, No. 294 6 February 1999, No. 30
Decree of Minister of Finance, 4 April 1997	<i>Technical specifications and implementation procedures for electronic transmissions to the tax authorities regarding interest, premiums and other income from government and private bonds and similar securities</i>	22 April 1997, No. 93
Decree of the President of the Republic 341 of 18 May 1998	<i>Regulation modifying the period of validity of attestations for non-resident persons relating to withholding tax on interest, premiums and other income from government and private bonds and similar securities</i>	5 October 1998, No. 232
Director's Decree of 3 August 1998	<i>Procedures and schedule for reimbursement of tax credit on single tax account</i>	3 September 1998, No. 205
Circular of Ministry of Finance 306/E, 23 December 1996		<i>supplemento ordinario alla G.U. of 4 January 1997, No. 3</i>
Circular of Ministry of Finance 234/E, 7 August 1997		
Circular of Ministry of Finance 243/E, 22 October 1998		

Legislation and regulations governing taxation of capital gains

ACT	TITLE	GAZZETTA UFFICIALE
Legislative Decree 461 of 21 November 1997, amended by Legislative Decree 201 of 16 June 1998	<i>Reordering of provisions about taxation of investment income and other non-labour income, pursuant to Article 3 (160) of Law 662 of 23 December 1996</i>	<i>supplemento ordinario alla G.U. of 3 January 1998, No. 2;</i> 30 June 1998, No. 150
Decreets of Minister of Finance, 22 May 1998	<i>Procedures for exercise and revocation of option pursuant to Article 6 of Legislative Decree 461 of 21 November 1997;</i> <i>Procedures for exercise and revocation of option pursuant to Article 7 of Legislative Decree 461 of 21 November 1997;</i>	9 June 1998, No. 132
Decree of Minister of Treasury, 2 June 1998	<i>Identification of additional persons for purposes of application of withholding tax on capital gains and other incomes</i>	8 July 1998, No. 157
Decree of Minister of Finance, 9 June 1998	<i>Determination of the criteria for valuation of assets managed at the beginning and at the end of each tax period</i>	16 June 1998, No. 138
Decree of Minister of Finance, 30 June 1998	<i>Determination of the adjustment coefficient to apply to interest and other income from zero-coupon bonds and similar securities</i>	7 July 1998, No. 156
Decree of Minister of Finance, 23 July 1998	<i>Procedures for payment of withholding tax pursuant to Legislative Decree 461 of 21 November 1997</i>	28 July 1998, No. 174
Circular of Ministry of Finance No. 165/E, 24 June 1998		<i>supplemento ordinario alla G.U. of 20 July 1998, No. 167</i>
Circular of Ministry of Finance No. 188/E, 16 July 1998		

Useful Addresses

INSTITUTION	INDIRIZZO	TELEFONO	FAX
Banca d'Italia - Central Administration: – Payment System Department – Centralized securities accounts (CAT) – E-Mail (Payment System Department)	Rome Via Nazionale, 91 IDSASCA@TIN.IT	39-06-47921 39-06-47925131 39-06-47925137 39-06-47922033	39-06-47925148 39-06-47925148
Banca d'Italia - Milan Branch – Secretariat – Clearing House	Milan Via Cordusio, 5	39-02-724241	39-02-86450930 39-02-72424325
Società Interbancaria per l'Automazione (SIA) S.P.A.	Milan Viale Certosa, 218	39-02-30051	
Monte Titoli S.P.A.	Milan Via Mantegna, 6	39-02-336351	
Cassa di Compensazione e Garanzia (Clearing and Guarantee House)	Rome Piazza del Popolo, 18	39-06-323951	
Mercato Telematico dei Depositi Interbancari (MID) – Screen-based Interbank Deposit Market	Rome Piazza del Gesù, 49	39-06-67671	
Ced-Borsa	Milan Via Roncaglia, 8	39-02-48502529	
Mercato Telematico dei Titoli di Stato (MTS) – Screen-based government securities market	Rome Via Sallustiana, 26	39-06-42120220	39-06-42120200

ADDENDUM TO APPENDIX 2

“At present, the tax treatment of capital gains realised by non-residents is under revision. A proposal of legislative change extends – as from 1 January 1999 – the unconditional tax exemption for non-residents – now provided only for gains realised on quoted shares not being part of substantial shareholdings – to all capital gains realised on financial instruments traded on regulated markets, except for those arising from substantial shareholdings.

If the proposal is passed without changes, intermediaries should carry out the obligations indicated in points e) and f) of Appendix 2 only for Italian resident recipients. For non-resident, the above mentioned obligations will have to be carried out only in the case of capital gains taxable in Italy.”

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