CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETA' E LA BORSA

ANNUAL REPORT
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COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

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ANNUAL REPORT 2002

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I. GOVERNANCE OF LISTED COMPANIES

The ownership structure and control of listed companies

The ownership structure of the companies listed on the Stock Exchange (MTA) at the end of 2002 continued to be characterized by a high concentration of ownership and a dearth of companies in which control was contestable. There was only a slight attenuation of these features in the last two years.

The share of total market value held by the market, i.e. not in the hands of shareholders with holdings of more than 2 per cent, rose above the 50 per cent threshold at the end of 2002, though remaining below the levels of 1997 and 1998 (Table aI.1). The share of total market value of companies with a controlling shareholder owning more than 50 per cent of the ordinary share capital fell from 49.7 to 46 per cent, but the number of these companies rose slightly (Table aI.4).

The limited mutability of ownership structures reflects structural and cultural factors common to most of the countries of continental Europe, rooted in the widespread reluctance of listed companies' controlling shareholders to accept dilutions of their holdings that might jeopardize the stability of control. In this context, it is necessary to emphasize the scant importance for Italian companies of two factors which in the other countries have favoured the diffusion of ownership: the entry into the market of new companies, which usually have greater recourse to equity issuance in order to finance accelerated growth; and the acquisition of listed companies by means of stock tender offers, which dilute the holdings of capital in the offeror when the transaction is successful.

With regard to the first factor, the number of newly-listed companies did increase in Italy especially in the second half of the 1990s, but except for those being privatized most of the newly-admitted companies were medium-sized and small and so did not have an appreciable impact on the overall concentration of ownership of the market. By contrast, the privatizations involved large companies and had an enormous impact on ownership concentration in 1997 and 1998; subsequently, however, the increase in the diffusion of ownership was reabsorbed, owing, on the one hand, to the partial nature of privatizations and, on the other, to the fact that most of the main privatized companies with widely distributed shareholding were subsequently the targets of acquisitions which in some cases led to delisting or the creation of a highly concentrated control structure.

Of the 231 companies listed on the Stock Exchange at the end of 2002, roughly half were already listed at the end of 1990, 10 per cent were listed between 1990 and 1996 and the remaining 40 per cent in the last six years. Similar proportions are found for the distribution of total market value at the end of 2002 according to the period of admission to listing. Privatized companies accounted for around two thirds of the market value of the companies listed after 1990 (Table I.1).

TABLE I.1

DISTRIBUTION OF COMPANIES LISTED ON THE STOCK EXCHANGE ACCORDING TO THE PERIOD OF ADMISSION TO LISTING
(AT 31 DECEMBER 2002)

ADMISSION TO LISTING	NUMBER OF COMPANIES		MARKET VALUE[1]	
	TOTAL	OF WHICH: PRIVATIZED	TOTAL	OF WHICH: PRIVATIZED
BEFORE 1991	110		48.7	
1991 - 1995	24	4	28.0	24.4
1996 - 2002	97	14	23.3	13.0
TOTAL	*231*	*25*	*100*	*37.4*

[1] Percentages.

Concerning the role of acquisitions by means of stock tender offers, a recent study reported that for British companies, for example, exchange offers constituted the principal vehicle for the transition from family-based control to widely distributed ownership. In Italy this mode of acquisition was rarely used. Even where the acquirer was a listed company, which was frequently the case, the generally preferred method was to finance the acquisition by other means, prevalently debt, rather than to offer stock, thereby avoiding the dilution of the controlling interest in the acquirer.

The concentration of ownership of Italian listed companies is less accentuated for large companies, but it nonetheless remains high both in absolute terms and by comparison with that of companies of similar size in the other countries of continental Europe.

At the end of 2002 the market's average holding was 54 and 44 per cent respectively for the companies included in the Mib30 and Midex indexes, compared with 35 per cent for other companies.

Comparison of the data for the companies included in the blue-chip indexes of the Italian, Spanish, German and French stock exchanges in mid-2002 shows that the concentration of ownership of blue chips was substantially higher in Italy than in Germany, France and, to a lesser extent, Spain. The market held an average of around 70 per cent of the capital in the German and French companies, compared with just over 50 per cent in the Spanish and Italian firms. Moreover, the concentration of ownership of the Italian companies was also greater among the major shareholders, as is shown by the higher percentage held by the largest shareholder (Table I.2).

TABLE I.2

CONCENTRATION OF OWNERSHIP OF BLUE CHIP COMPANIES IN THE LEADING CONTINENTAL EUROPEAN COUNTRIES[1]
(AT 30 JUNE 2002)

	NUMBER OF COMPANIES	SHARE OF TOTAL MARKET CAPITALIZATION[2]	HOLDING OF THE LARGEST SHAREHOLDER[3]	HOLDINGS OF OTHER MAJOR SHAREHOLDERS[3]	HELD BY THE MARKET[3]
FRANCE	39	71.1	24.8	7.2	68.0
GERMANY	30	58.9	21.4	7.2	71.4
ITALY	30	72.3	35.5	9.9	54.6
SPAIN	35	57.0	28.9	13.8	57.3
TOTAL	*134*	*65.5*	*27.5*	*9.5*	*63.0*

[1] Domestic companies whose shares are included in the blue chip indexes of the respective markets: Cac 40 (France), Dax (Germany), Mib30 (Italy), Ibex 35 (Spain). [2] Percentages. [3] Percentages. Arithmetic means.

The concentration of ownership is influenced by the sector as well as the size of listed companies. Its level is appreciably higher in services and lower in industry and, especially, the financial sector. However, the latter includes a number of companies formed as cooperatives, in which limits on shareholdings are established in order to prevent the acquisition of major holdings (Table I.3).

The sectoral distribution of listed companies also substantially affects the distribution of ownership by type of shareholder, shedding light on another distinctive characteristic of the ownership structure of Italian listed companies, namely the limited ownership role of financial institutions.

Banks and insurance companies hold a total of 4.5 per cent of the total market value of listed companies. However, their holdings are almost exclusively in the financial sector, often taking the form of controlling interests, and minimal in the other sectors. The equity interests of the foundations with major holdings, especially in listed banks, are also concentrated in the financial sector.

TABLE I.3

MAJOR HOLDINGS IN COMPANIES LISTED ON THE STOCK EXCHANGE[1]
(AT 31 DECEMBER 2002)

	SECTOR OF THE INVESTEE COMPANIES			TOTAL
	FINANCIAL	INDUSTRIAL	SERVICES	
DECLARANTS				
FOREIGN RESIDENTS	7.9	5.2	1.7	4.9
OF WHICH WITH MAINLY ITALIAN SHAREHOLDERS	*0.4*	*1.4*	--	*0.6*
INSURANCE COMPANIES	2.7	0.3	0.0	1.1
BANKS	9.1	0.5	0.0	3.4
FOUNDATIONS	12.4	0.0	0.0	4.5
INSTITUTIONAL INVESTORS	0.8	0.8	0.5	0.7
OTHER COMPANIES	5.5	9.8	32.7	16.8
OF WHICH:				
CONTROLLED BY FAMILY COALITIONS	*2.8*	*4.9*	*4.4*	*4.5*
CONTROLLED BY COALITIONS OF LISTED COMPANIES	*2.7*	*4.9*	*28.3*	*12.3*
STATE OR LOCAL AUTHORITIES	0.9	18.4	19.0	12.3
INDIVIDUALS	2.9	9.1	4.3	5.1
TOTAL	*42.2*	*44.1*	*58.2*	*48.8*
NUMBER OF COMPANIES	83	101	47	231
SHARE OF MARKET CAPITALIZATION[2]	38.9	25.4	35.7	100.0

Source: Consob transparency archive. See the Methodological Notes. [1] Holdings of more than 2 per cent of the voting capital. Percentage ratio of the market value of the ordinary share holdings controlled to the market value of the ordinary share capital of all the companies listed on the Stock Exchange. [2] Percentage ratio of the market value of the ordinary share capital of the companies in each sector to the total market value of the ordinary shares listed on the Stock Exchange.

The State and local authorities continue to play an important role as shareholders. The weight of the latter has increased in recent years following the listing of several local public utilities. The relative importance of the holdings of the State and local authorities also varies by sector, being virtually nil in the financial sector.

At the end of last year the largest portion of the total market value of listed companies was held by “other companies” (companies in which no single shareholder exercises control), which

held 16.5 per cent. Considering the ownership structure of "other companies" with major holdings, in nearly every case one finds a model of coalitional control based on the presence of a limited number of shareholders that together hold the majority of the capital and are linked by accords of a contractual nature (shareholders' agreements) or family ties.

Individuals also play a prominent role. Their major holdings account for around 5 per cent of the total market value of listed companies and almost twice that if the holdings of companies controlled by family coalitions are included. As to the presence of foreign residents among major shareholders, it is necessary to bear in mind that in several instances foreign companies are actually a vehicle for coalitions made up of Italians.

Of the 112 "other companies" with major holdings in listed companies, around 85 per cent are controlled by a family coalition. These account for 4.5 per cent of the total market value of listed companies, compared with the 12 per cent share attributable to companies controlled by coalitions formed by other listed companies. Among foreign residents with major holdings, in around 25 per cent of the cases their largest shareholders are Italian residents, none of them able to control the company (Table I.3).

The distribution of major holdings by type of shareholder has remained broadly stable over time. The main change has been the gradual reduction in the portion held by banks and insurance companies. The relative importance of State shareholdings, sharply reduced in 1997 and 1998, subsequently stabilized and has even recovered slightly.

With regard to the type of control, situations in which a single shareholder holds sufficient voting rights to exercise majority or working control continue to be prevalent among Italian listed companies. In around three quarters of listed companies, making up a similar share of total market value, a controlling shareholder is present (Table aI.3).

In 20 companies, making up 10 per cent of total market value, there is a shareholders' agreement covering the exercise of voting rights sufficient to give the participants joint control of the company (Table aI.4).

Shareholders' agreements cover an average of around 44 per cent of the voting rights in a company. In half of the cases the participants in controlling shareholders' agreements are individuals, generally belonging to the same family group. In the remaining cases, corresponding, however, to more than 80 per cent of the total market value of companies controlled by shareholders' agreements, the participants are "other companies", most of which are listed.

Shareholders' agreements are also found in companies where they are not essential for determining control. In companies in which a single shareholder is able to exercise majority or working control, they are formed to create links among major shareholders or strengthen the controlling shareholder's position.

Shareholders' agreements exist in 41 listed companies. Most of these agreements both impose restrictions on the transfer of shares and cover the exercise of voting rights (global agreements). The average

aggregate shareholding covered is larger for global agreements than for the other types of agreement (Table aI.5).

In some cases shareholders' agreements are in respect of unlisted companies that control listed companies. These agreements generally cover all the company's share capital (Table aI.6).

The companies controlled neither by a controlling shareholder nor by a shareholders' agreement number 32 and account for around 15 per cent of total market value. For these companies the capital held by the market, i.e. not by major shareholders, is nonetheless limited and in line with the average for all listed companies except for cooperatives, for which the ceiling on shareholdings is lower than the 2 per cent threshold at which ownership disclosure requirements are triggered.

There are 10 listed companies having the form of a cooperative and they constitute around 20 per cent of all companies subject to no control. The market holds an average of around 40 per cent of the latter companies and never more than 80 per cent. In around half of these cases the major shareholders are individuals; in the other half they are "other companies", which are generally listed.

The ownership structures of the companies listed on the Nuovo Mercato are different to some extent from those of the companies listed on the Stock Exchange. Their concentration of ownership is even higher and they have a different distribution of major holdings by type of shareholder, with a higher incidence of individuals and foreign residents and a lower one of "other companies", owing to the scant role played by pyramidal groups. In addition, the State is totally absent as a shareholder.

On the Nuovo Mercato the share of market value held by the market, i.e. by shareholders with holdings of less than 2 per cent, stood at approximately 39 per cent at the end of 2002, up by comparison with the two previous years. The increase was due above all to the expiration during the year of many lock-up agreements (whereby the controlling shareholders and the directors of newly-listed companies undertake at the time of listing not to sell shares for a given period) and the small number of newly-listed companies, which usually have a higher degree of ownership concentration.

For companies listed on the Nuovo Mercato the average holding of the largest shareholder is about 41 per cent, in line with that for companies listed on the Stock Exchange. By contrast, the proportion held by other major shareholders is much higher: 22 per cent for companies listed on the Nuovo Mercato, compared with 9 per cent for those listed on the Stock Exchange (Table I.4).

TABLE I.4

OWNERSHIP STRUCTURE OF COMPANIES LISTED ON THE NUOVO MERCATO
(AT 31 DECEMBER)

	2001		2002	
	NUMBER	% SHARE[1]	NUMBER	% SHARE[1]
TYPE OF CONTROL				
MAJORITY CONTROL	15	42.0	12	43.4
DE FACTO CONTROL	7	36.3	9	33.2
SHAREHOLDERS' AGREEMENT	9	12.7	10	13.3
NO CONTROL	13	9.0	12	10.1
TOTAL	*44*	*100.0*	*43*	*100.0*
CONCENTRATION				
LARGEST SHAREHOLDER		41.8		41.0
OTHER MAJOR SHAREHOLDERS		23.7		21.8
MARKET		34.5		38.2
TOTAL		*100.0*		*100.0*

Source: Consob transparency archive. See the Methodological Notes. [1] Of the total market value of the ordinary share capital of all the companies listed on the Nuovo Mercato.

Individuals are the leading category of shareholder, holding more than 43 per cent of total market value, followed by foreign residents, with 12.1 per cent (Table I.5).

Shareholders' agreements are common among companies listed on the Nuovo Mercato. Their function is often to ensure the exercise of joint control.

Shareholders' agreements exist in more than half the companies listed on the Nuovo Mercato and cover an average of just under 50 per cent of the share capital (Table aI.5). The 10 companies listed on the Nuovo Mercato that are controlled by shareholders' agreements represent around 13 per cent of the total market value.

TABLE I.5

MAJOR HOLDINGS IN COMPANIES LISTED ON THE NUOVO MERCATO[1]

DECLARANTS	2000	2001	2002
FOREIGN RESIDENTS	14.2	16.7	12.1
INSURANCE COMPANIES	0	0	0
BANKS	0.7	0.6	0.3
FOUNDATIONS	0	0.1	0.2
INSTITUTIONAL INVESTORS	1.1	0.5	0.8
OTHER COMPANIES	4.2	4.8	4.8
STATE AND LOCAL AUTHORITIES	0	0	0
INDIVIDUALS	50.4	42.7	43.6
TOTAL	*70.7*	*65.5*	*61.8*

Source: Consob transparency archive. See the Methodological Notes. [1] Holdings of more than 2 per cent of the voting capital. Percentage ratio of the market value of the ordinary share holdings controlled to the market value of the ordinary share capital of all the companies listed on the Stock Exchange.

The market for corporate control

Last year 7 transactions amounting to €800 million were carried out for the transfer of control of listed companies, compared with 9 transactions totaling €6 billion in 2001 (Table aI.8). These transactions only involved small companies and control was transferred in 3 cases by means of takeover bids (Ferretti, Freedomland and Onbanca) and in 4 as a result of mandatory bids (Cmi, IiI, Immsi and Borgosesia). The total value of the mandatory bids (€26 million) was considerably smaller than that of 2001 and the lowest in the last 8 years.

In contrast with the sharp curtailment of activity in the market for corporate control, due mainly to the stock market slump, there was an increase in the number of tender offers made for the purpose of consolidating the position of the controlling shareholder, often with a view to delisting the company. Voluntary offers doubled in number with respect to 2001 and accounted for 72.5 per cent of the total value of tender offers in 2002. The most important offers, all of them aimed at withdrawing the float from the market, were those made for share of Italgas by Eni, Rinascente by Eurofind, Banco di Napoli by Sanpaolo Imi and Snia by Biosdue.

Overall, offers for shares of listed companies remained basically unchanged in number from the previous year while declining in value from €6.7 billion to €5.3 billion. In 2002 the offers included the first ever tender offer for own shares pursuant to Article 132 of the Consolidated Law on Financial Intermediation (by Riunione Adriatica di Sicurtà for its ordinary and savings shares).

TABLE I.6

CONTROL PREMIUMS IN MANDATORY TENDER OFFERS
(2000 - 2002)

TARGET COMPANY	DATE OF OFFER	INITIAL HOLDING HELD BY THE OFFEROR BEFORE EXCEEDING THE 30% THRESHOLD[1]	CONTROLLING INTEREST ACQUIRED BY OFFEROR[1]	DIFFERENCE BETWEEN THE PRICE OF THE CONTROLLING INTEREST AND THE MARKET PRICE[2]	DIFFERENCE BETWEEN THE OFFER PRICE AND THE MARKET PRICE[2]
ELIOS HOLDING MILANO	07.02.2000	0.0	70.3	87.3	96.3
ACQUEDOTTO NICOLAY	26.04.2000	23.9	25.7	21.4	5.2
AEROPORTI DI ROMA	25.09.2000	0.0	51.2	20.5	1.8
FALCK	02.10.2000	0.0	30.3	0.0	0.0
BANCO DI NAPOLI	08.11.2000	0.0	56.1	17.1	2.9
BAYERISCHE VITA	09.01.2001	0.0	70.0	66.0	30.9
RISANAMENTO NAPOLI	21.02.2001	27.8	48.9	- 2.9	- 2.9
SAFILO	02.07.2001	10.3	69.9	- 5.4	0.2
BANCA DI LEGNANO	16.07.2001	0.0	55.0	56.6	1.5
MONTEDISON	26.07.2001	0.0	52.1	-3.9	- 5.7
IMMOBILIARE METANOPOLI	09.10.2001	0.0	90.2	- 7.7	13.6
CMI	18.04.2002	3.4	78.5	9.2	9.2
IIL	10.06.2002	19.9	30.2	14.9	0.7
IMMSI	16.12.2002	0.0	45.3	- 5.5	- 1.0
BORGOSESIA	27.12.2002	0.0	71.0	9.7	15.7
MEAN		5.7	56.3	18.5	11.2
MEDIAN		0.0	55.0	9.7	1.8

[1] As a percentage of the share capital. [2] Percentages. The market price is that of the day the controlling interest was acquired.

The method of calculating the price of mandatory bids under the Consolidated Law on Financial Intermediation and the continuing fall in share prices caused a significant reduction in the premiums paid to minority shareholders for sales of blocks leading the buyer's holding to exceed the threshold of 30 per cent of a company's ordinary share capital, particularly if compared with the values that would have resulted from applying the mechanism envisaged by the provisions on tender offers in force before the Consolidated Law. Analyzing the sales of controlling holdings that gave rise to mandatory bids (excluding so-called "cascade" offers for the sake of simplicity), shows that the average difference between the offer price and the market price on the date on which the controlling holding changed hands was about 11 per cent, while that between the price at which the controlling holding was sold and the market price on the same date was about 19 per cent (Table I.6). It can thus be estimated that in a period of falling equity prices, like the one in question, the mechanism establishing the offer price as the average of market prices and the price at which the holding was transferred caused the control premium paid to minority shareholders in mandatory bids to be around 8 percentage points smaller than it would have been under Law 149/1992.

Participation in the shareholders' meetings of listed companies

Examination of the minutes of the shareholders' meetings that approved annual accounts yields some indications regarding the participation of the various categories of shareholders.

The minutes examined were those of the shareholders' meetings of the companies listed on the Stock Exchange included in the Mib30 and Midex indexes, on the grounds that they were companies with the largest market value and the most liquid securities. Cooperative banks were excluded from this sample, as their governance systems are quite different from those of other listed companies. Consequently, the data of the minutes of 48 listed companies were analyzed.

The number of participants in the meetings was rather high on average (665) but in only one third of the sample companies did it exceed 500 (Table I.7). The latter number would appear to indicate direct participation especially by small shareholders, in view of the large capitalization of the companies considered and the fact that proxy voting is not that common in Italy. For around 21 per cent of the companies the participants numbered less than 50, showing that in these cases very few small shareholders turned out for the most important corporate event.

TABLE I.7

NUMBER OF PARTICIPANTS IN THE SHAREHOLDERS' MEETINGS OF LISTED COMPANIES (MIB30 AND MIDEX)

		NUMBER OF COMPANIES	SHARE OF TOTAL[1]
DISTRIBUTION BY NUMBER OF PARTICIPANTS			
LESS THAN 50		10	20.8
FROM 50 TO 100		4	8.4
FROM 100 TO 500		18	37.5
MORE THAN 500		16	33.3
TOTAL		*48*	*100.0*
NUMBER OF PARTICIPANTS[2]	655		

Source: Minutes of annual general meetings in 2002 for companies included in the Mib30 and Midex indexes. [1] Percentages. [2] Arithmetic mean.

There was significant participation, in terms of voting rights represented, by major shareholders, i.e. those holding more than 2 per cent of the voting rights and thus presumably investing out of a "strategic" interest and intervening in the management of the company. By contrast, non-major financial investors, i.e. institutional investors whose interest is essentially financial, rarely carried substantial weight in the balloting even though they were numerous in many cases.

The major shareholders participating in meetings were generally few in number (averaging 2.6 and never exceeding 8), held an average of about 50 per cent of the voting rights in the company and accounted for almost 80 per cent of the total voting rights represented at the meetings. It is also interesting to note that in every company considered they held more than 50 per cent of the total voting rights held by the participants in the meeting (Table I.8). These findings indicate that, as a rule, scant participation by small shareholders allows the major shareholders (who are not necessarily the same as the controlling shareholders) to control the majority of the voting rights in the meeting.

This analysis is confirmed by the data on participation by financial investors, i.e. Italian and foreign fund managers, banks and insurance companies holding less than 2 per cent of the voting rights in a company. Although such investors were very numerous, averaging 137 but rising to nearly 900 in some companies, they held on average a modest 3 per cent of the company's total ordinary share capital and 6 per cent of the ordinary capital represented at the meeting. What is

more, in no case did they hold more than 27 per cent of the voting capital represented at the meeting.

TABLE I.8

PARTICIPATION IN SHAREHOLDERS' MEETINGS OF LISTED COMPANIES (MIB30 AND MIDEX) OF MAJOR SHAREHOLDERS AND FINANCIAL INVESTORS[1]

	NUMBER OF SHAREHOLDERS	SHARE HELD	
		AS A PERCENTAGE OF TOTAL SHARE CAPITAL	AS A PERCENTAGE OF TOTAL PARTICIPANTS[2]
MAJOR SHAREHOLDERS[3]			
ARITHMETIC MEAN	2.6	49.7	89.2
STANDARD DEVIATION	2.0	13.1	11.9
MINIMUM	1	17.5	50.6
MAXIMUM	8	71.2	100.0
FINANCIAL INVESTORS (OTHER THAN MAJOR)[3]			
ARITHMETIC MEAN	137.1	2.9	6.0
STANDARD DEVIATION	192.9	2.6	6.2
MINIMUM	2	--	–
MAXIMUM	855	9.7	26.7

Source: Minutes of annual general meetings in 2002 for companies included in the Mib30 and Midex indexes.
[1] Arithmetic means. [2] The sum of the arithmetic means is not equal to 100 per cent because the non-major shareholders considered are only those of the nature of "financial" investors (banks, insurance companies and fund managers). [3] Major holdings means those of more than 2 per cent of the voting capital (Article 120 of Legislative Decree 58/1998).

A breakdown by type of financial investor shows that the largest portion of capital was held by foreign funds (pension and investment fund managers), which held an average of 1.5 per cent of the total voting rights and 3 per cent of those represented at the meeting. However, foreign funds were also the most numerous type of financial investor and their voting rights thus may have been spread thinner (Table I.9). By contrast, Italian funds, with roughly half the percentage held by foreign funds, were far less numerous as participants. Banks and insurance companies held far smaller percentages (and, in the case of the Italian institutions, probably held them with different aims in mind than the fund managers).

Overall, the figures appear to indicate that turnout by financial investors for shareholders' meetings of the companies with the largest market value does not allow them to make a significant impact on corporate decisions even on the basis of the voting rights they jointly bring to meetings.

TABLE I.9

PARTICIPATION IN THE SHAREHOLDERS' MEETINGS OF LISTED COMPANIES (MIB30 AND MIDEX) BY TYPE OF FINANCIAL INVESTOR[1]

	NUMBER	SHARE HELD	
		AS A PERCENTAGE OF THE SHARE CAPITAL	AS A PERCENTAGE OF TOTAL PARTICIPANTS
ITALIAN ASSET MANAGEMENT COMPANIES	8.2	0.5	1.0
ITALIAN PENSION FUNDS	0.8	0.3	0.7
ITALIAN BANKS AND INSURANCE COMPANIES	1.1	0.4	0.7
FOREIGN FUNDS	118.0	1.5	3.0
FOREIGN BANKS AND INSURANCE COMPANIES	9.0	0.1	0.4
TOTAL	*137.1*	*2.8*	*5.8*

Source: Minutes of annual general meetings in 2002 for companies included in the Mib30 and Midex indexes.
[1] Arithmetic means. Only non-major financial investors are considered. Major holdings means those of more than 2 per cent of the voting capital (Article 120 of Legislative Decree 58/1998).

Boards of directors of listed companies

The average number of members of boards of directors rose slightly in 2002, from 10.2 to 10.3, and the average number of non-executive directors increased from 6.6 to 6.8 (Table aI.11).

Board size is influenced by the sector companies belong to, their size in terms of market value and their type of control. Companies in the banking and insurance sectors, those with large market value and those controlled by a coalition of shareholders tend to have more directors.

The average number of directors of insurance companies is well above that of industrial or financial companies (around 16 as against 9). In the banking industry the average number of executive directors is higher than in the other sectors.

More than 55 per cent of insurance companies and 57 per cent of banks have boards composed of more than 15 members. The proportions rise to 89 and 88.5 per cent respectively for those with boards composed of more than 10 members. By contrast, in the financial, industrial and service sectors 50, 72.6 and 56.5 per cent of companies have no more than 10 directors (Table I.10). The data also show that the companies with more than 15 members are also the largest in terms of market value.

TABLE I.10

PERCENTAGE DISTRIBUTION OF COMPANIES LISTED ON THE STOCK EXCHANGE BY SECTOR AND NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS
(2002)

	NUMBER OF DIRECTORS[1]					TOTAL COMPANIES BY SECTOR	
	< 6	6 - 10	11 - 15	> 15	*TOTAL*	NUMBER	SHARE[1]
SECTORS							
INSURANCE	--	11.1	33.3	55.6	*100.0*	11	4.8
BANKING	--	11.4	31.4	57.1	*100.0*	36	15.6
FINANCIAL	5.4	48.6	40.5	5.4	*100.0*	36	15.6
INDUSTRIAL	2.0	70.6	21.6	5.9	*100.0*	101	43.7
SERVICES	2.2	54.3	26.1	17.4	*100.0*	47	20.3
NUMBER OF LISTED COMPANIES	5	121	64	41		231	100.0
SHARE OF TOTAL MARKET CAPITALIZATION[1]	0.1	32.1	22.7	45.2	*100.0*		

[1] Percentages.

The number of directors is inversely related to the degree of concentration of control. The average number rises from 9 for majority control to 11 for de facto control, 12 for control under a shareholders' agreement, and 13 in the absence of controlling shareholders. The correlation between the degree of concentration of control and the number of directors appears to reflect the need for the various components that participate in determining the control structure to be represented on the board (Table I.11). The phenomenon is even more accentuated than in the previous year, with the average number of directors up by one for every type of control.

TABLE I.11

AVERAGE NUMBER OF DIRECTORS BY TYPE OF CONTROL OF COMPANIES LISTED ON THE STOCK EXCHANGE
(2002)

TYPE OF CONTROL	EXECUTIVE	NON-EXECUTIVE	TOTAL
MAJORITY CONTROL	3.1	6.3	9.4
DE FACTO CONTROL	3.4	7.5	10.9
NO CONTROL	4.7	8.1	12.8
SHAREHOLDERS' AGREEMENT	4.5	7.1	11.6
TOTAL	*3.5*	*6.8*	*10.3*

As regards boards of auditors, the number of companies with a board of auditors with more than the legal minimum of three members prescribed by Article 148.1a) of the Consolidated Law on Financial Intermediation fell from 20 to 18 in 2002. Board size must be considered in the light of Article 148.2 of the Consolidated Law, which lays down that boards of auditors with more than 3 members must have at least 2 elected by the minority shareholders. This is particularly important, since only in these circumstances can the auditors elected by the minority shareholders autonomously exercise the powers granted by Article 151 of the Consolidated Law whereby at least 2 auditors can call the shareholders' meeting and meetings of the board of directors or the executive committee and use employees of the company in performing their duties.

Of the eighteen companies with boards of auditors with more than 3 members, half are banks and more than one third are not controlled by a single shareholder.

The number of companies with a board of auditors with more than three members has decreased since the entry into force of the Consolidated Law on Financial Intermediation. Between 1999 and the end of 2002, eleven companies, including one in 2001 and one in 2002, reduced the number of auditors from 5 to 3, while only 2 companies (one of which in 2002) increased the number above the legal minimum.

Interlocking directorships continue to be common among listed companies. The number of directors involved in the phenomenon in 2002 was similar to that of the previous year: 16 per cent sat on more than one board (Table aI.12). In particular, there was an increase in the number of directors holding 2 directorships and in that of directors holding more than 5. The latter rise was considerable and involved both intra-group and inter-group interlocking directorships. By contrast, in the case of directors holding 2 directorships (the number of whom rose from 196 to 210) the

number of directorships held within the same group fell from 142 to 128 while those held in other groups increased from 250 to 292.

In 2001 the 9 directors belonging to more than 5 boards held a total of 34 directorships in companies belonging to the same group and 29 in companies of other groups; in 2002 the 13 directors falling within this category held 41 positions in companies of the same group and no fewer than 48 in companies of other groups.

The phenomenon is partly due to the existence of pyramidal groups made up of listed companies, where the same persons are often on the boards of the different companies involved. Where the interlocking concerns companies not linked by control relationships, it often reflects "horizontal" links between listed companies and the presence of the same directors is a consequence of industrial and/or strategic agreements.

Non-group interlocking directorships were found in 170 companies and intra-group interlocking directorships in 71 (Table I.12). In several cases a company's board included some directors with intra-group interlocking positions and others with non-group interlocking positions.

TABLE I.12

INTERLOCKING DIRECTORSHIP
(2002)

PERCENTAGE OF DIRECTORS WITH MORE THAN ONE DIRECTORSHIP	NUMBER OF COMPANIES	
	INTERLOCKING OUTSIDE THE GROUP	INTERLOCKING WITHIN THE GROUP
LESS THAN 25 PER CENT	97	23
FROM 25 TO 50 PER CENT	53	32
BETWEEN 51TO 75 PER CENT	16	11
MORE THAN 75 PER CENT	4	5
TOTAL	*170*	*71*

In more than 50 per cent of the companies with non-group interlocking but only 32 per cent of those with intra-group interlocking, the directors involved make up less than a quarter of the board. By contrast, in only 2 per cent of the companies with non-group interlocking but 7 per cent of those with intra-group interlocking, the directors involved make up more than three quarters of the board.

II. MARKETS AND FIRMS

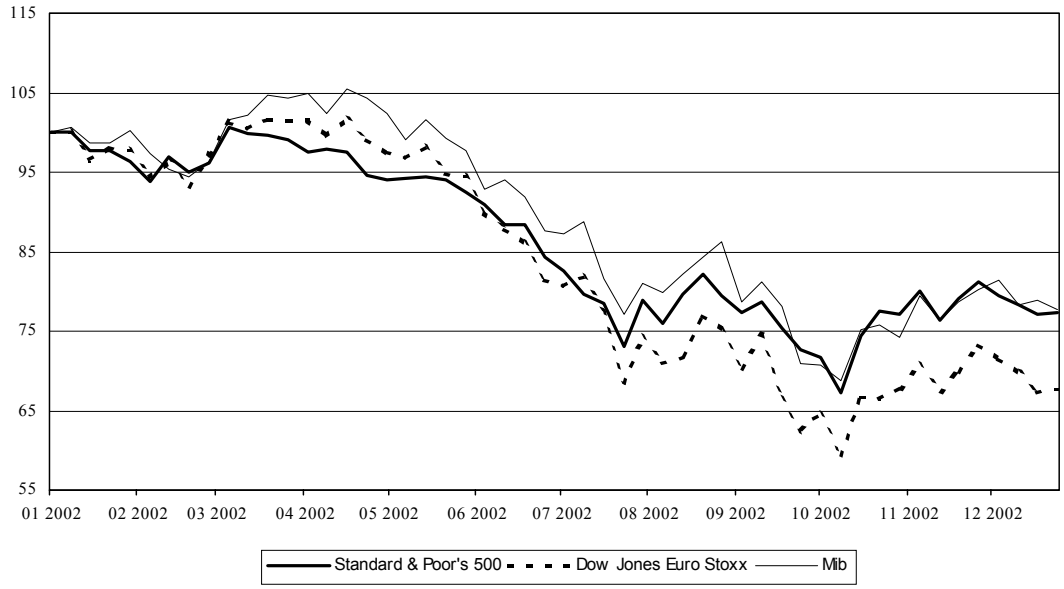
Equity and derivatives markets

Last year saw a continuation of the downward trend in the prices of listed Italian shares, under way since the second half of 2000. The fall in prices was similar to that of the previous year: the Mib historical index of the Stock Exchange (MTA) lost around 24 per cent, compared with 25 per cent in 2000, while the Nuovo Mercato index plunged by just over 50 per cent, compared with 46 per cent in 2000.

These developments were in line with those on the leading international markets, as shown by the performance of the Dow Jones Euro Stoxx index of the shares of the largest euro-area companies and the Standard & Poor's 500 index of the largest listed US companies (Figure II.1). In particular, the former lost 32 per cent in 2002, around 9 percentage points more than the latter.

FIGURE II.1

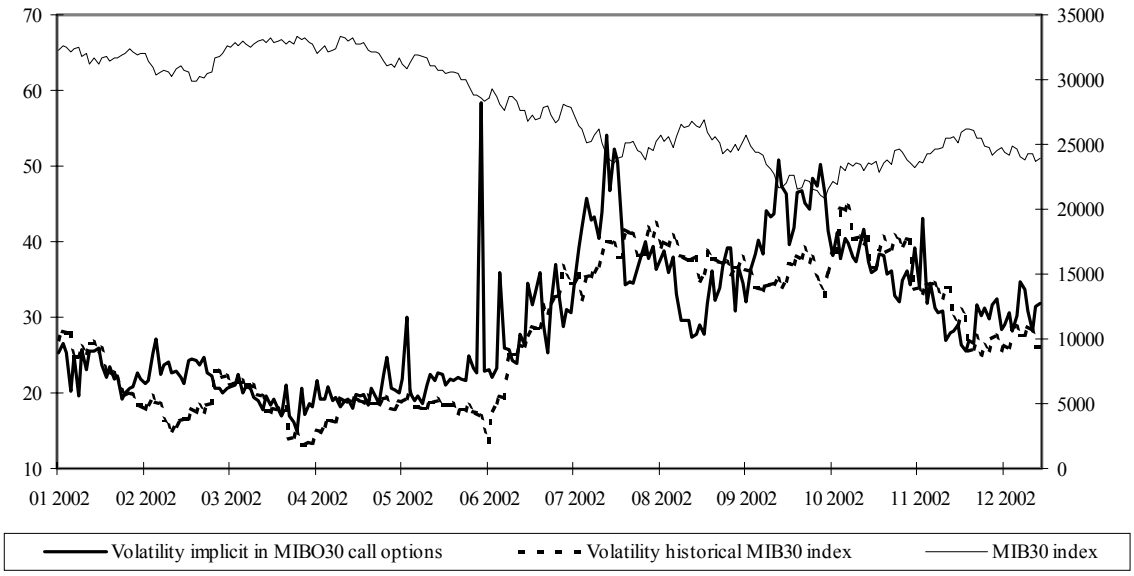
SHARE PRICES
(WEEKLY DATA; INDEXES: 1 JANUARY 2002 = 100)



The fall in share prices was accompanied by rising uncertainty, measured by both the implied and the historical volatility of prices. The volatility implied by the prices of Mibo30 options on Fib30 contracts, traded on IDEM, the derivatives market operated by Borsa Italiana, rose in the second half of 2002, in correspondence with the decline in the Mib30 index (Figure II.2). Although volatility subsided in the last two months of the year, its levels were appreciably higher at the end of December than at the beginning of the year.

FIGURE II.2

INDICATORS OF VOLATILITY AND THE MIB30 INDEX
(1/1/2002 - 31/12/2002)



LH scale: Volatility implicit in Mibo30 call options, volatility historical Mib30 index. RH scale: Mib30 index.

The fall in prices is at least partly a consequence of the increase in the premium for equity risk, i.e. the yield demanded by investors for holding shares, which in turn is connected with the growth in volatility. The reduction in prices has also caused the earnings-price and dividends-price ratios to rise since 2000 (Table aII.1).

The drop in the stock market indexes had a pronounced impact on the total capitalization of the share markets operated by Borsa Italiana, which fell from €592.4 billion at the end of 2001 to €458 billion at the end of 2002. The fall was larger for the Nuovo Mercato, which lost almost half of its capitalization (48.8 per cent) than for the Stock Exchange, which lost just over one fifth (22.2 per cent).

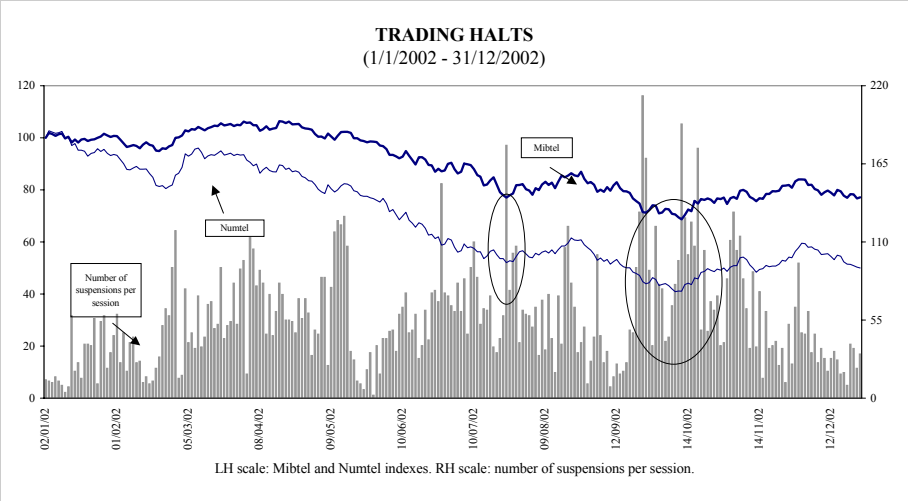
Total turnover in equities also declined more sharply on the Nuovo Mercato, where it fell by 49.5 per cent, compared with 44 per cent in 2001. On the Stock Exchange turnover was down by 12 per cent, compared with 24 per cent in 2001. On both markets the turnover ratio, i.e. the ratio of turnover to the market's average capitalization for the year, was above one.

The volatility of the stock market indexes was also reflected in the frequency of temporary suspensions of trading of shares listed on the markets operated by Borsa Italiana. Trading halts were more frequent during sessions marked by sizable price movements (Box 1).

Box 1

Share trading halts in 2002

During the 252 daily stock exchange sessions in 2002, there were 14,184 trading halts on the Stock Exchange, the Mercato Ristretto and the Nuovo Mercato involving 295 shares out of the total of 375 traded. The number of halts rises to 21,717 (involving 359 financial instruments) if convertible bonds, options and warrants are included.



Limited to shares, a joint analysis of the time series of trading halts, the Mibtel index and the Numtel index shows a degree of correlation between trading halts and the performance of the market indexes, with the greatest number of halts called during sessions that saw large movements in the indexes. Halts were more common on the larger market, with the majority involving shares listed on the Stock Exchange.

In absolute terms, the largest number of halts were attributable to shares belonging to the Ordinary segment, class 1 (33.9 per cent for ordinary shares and 15.4 per cent for savings and preference shares), shares traded on the Nuovo Mercato (18.2 per cent) and ordinary and savings shares belonging to the Blue-Chip segment (13.8 per cent). However, if trading halts are considered in relation to the number of contracts concluded in the subset of securities suspended, they were most frequent for savings and preference shares belonging to the Star segment and Ordinary segment, class 1 (respectively 28 and 23 halts for every 1,000 contracts). Given the lower liquidity of savings and preference shares, these data are evidence of an inverse relationship between the number of trading halts and the number of contracts in a share and its liquidity. Considering that the halts are largely called on account of "excessive" price changes, the analysis confirms the inverse relationship between the liquidity of shares and price volatility. For shares of the Ordinary segment, class 2, which are notoriously illiquid, and for those of the Mercato Ristretto, the ratio of halts to contracts, while significant, is not especially high (respectively 12 and 3 halts per 1,000 contracts). This is explained by the fact that these securities are not traded during continuous trading but only during the opening and closing auctions. In past years, when the shares now listed in the Ordinary segment, class 2, were also traded during the continuous trading phase, the number of trading halts was appreciably higher.

Halts are also divided by type: during trading, during the validation phase and technical suspensions. The first two are automatic interruptions of trading due to excessive price variability during the trading and auction phases respectively, while technical halts are called at the discretion of Borsa Italiana. Halts during the trading phase are the most frequent kind and account for roughly half of all suspensions; they can be triggered by excessive variability between the prices of two consecutive prices (33.9 per cent of the cases) or between the price of a contract and the control price (16.5 per cent). Halts during validation (29.2 per cent of the cases) can only be triggered by an excessive difference between the auction price and the control price. Compared with the past, the percentage of halts during validation rose last year in counterpoint to those during the continuous trading phase. This is explained by the increase in the importance of the auction phase relative to the continuous trading phase, a development due both to the new market model, which provides *inter alia* for a closing auction, and to the new segmentation of the market and the associated trading hours introduced in 2001.

In 2002 upward halts, i.e. suspensions caused by percentage price gains, outnumbered downward halts almost two to one. This proportion is due principally to the halts called during validation, which are overwhelmingly upward (84.2 per cent), while just over half of the suspensions during continuous trading are triggered by positive price variations. Although the market showed a clear downtrend, upward halts were more frequent than downward ones and occurred above all during the opening and closing auctions.

TEMPORARY SUSPENSIONS OF TRADING IN SHARES
(DAYTIME TRADING ON THE MARKETS MANAGED BY BORSA ITALIANA S.P.A., 2002)

SUSPENSIONS BY MARKET AND SEGMENT	SHARES SUSPENDED		SHARES SUSPENDED / SHARES LISTED[2]	SUSPENSIONS		NUMBER OF SUSPENSIONS/ NUMBER OF CONTRACTS[3]
	NUMBER	% OF TOTAL[1]		NUMBER	% OF TOTAL[1]	
MTA						
BLUE -CHIP (ORDINARY)	50	16.9	59.5	803	5.7	0.025
BLUE -CHIP (OTHER)	25	8.5	78.1	1,957	13.8	0.867
STAR (ORDINARY)	31	10.5	75.6	343	2.4	0.286
STAR (OTHER)	6	2.0	100.0	1,290	9.1	28.507
ORDINARY, CLASS 1 (ORDINARY)	102	34.6	91.9	4,808	33.9	1.336
ORDINARY, CLASS 1 (OTHER)	22	7.5	68.8	2,188	15.4	22.932
ORDINARY, CLASS 2 (ALL)	8	2.7	100.0	135	1.0	12.488
MERCATO RISTRETTO	6	2.0	37.5	80	0.6	3.014
NUOVO MERCATO	45	15.3	100.0	2,580	18.2	0.426
TOTAL	*295*	*100.0*	*78.7*	*14,184*	*100.0*	*0.312*

SUSPENSIONS BY TYPE	NUMBER	% OF TOTAL[1]
DURING TRADING	7,154	50.4
WITH RESPECT TO THE LAST PRICE	4,808	33.9
WITH RESPECT TO THE CONTROL PRICE	2,346	16.5
IN VALIDATION PHASE	4,138	29.2
TECHNICAL	2,892	20.4
TOTAL	*14,184*	*100.0*

PRICE VARIATION SUSPENSIONS	SUSPENSIONS DURING TRADING		SUSPENSIONS IN VALIDATION		TECHNICAL SUSPENSIONS[4]		TOTAL	
	NUMBER	% OF TOTAL[1]	NUMBER	% OF TOTAL[1]	NUMBER	% OF TOTAL[1]	NUMBER	% OF TOTAL[1]
UPWARD	3,904	54.6	3,483	84.2	—	—	7,387	52.1
DOWNWARD	3,250	45.4	655	15.8	—	—	3,905	27.5
DISCRETIONARY	--	--	--	--	2,892	100.0	2,892	20.4
TOTAL	*7,154*	*100.0*	*4,138*	*100.0*	*2,892*	*100.0*	*14,184*	*100.0*

[1] Percentages. [2] Percentage ratio of the number of securities suspended and the number of securities listed in each market/segment. [3] Ratio of the number of suspensions to the number of contracts concluded involving the subset of the securities suspended in each market/segment, multiplied by 1,000. [4] Technical suspensions are not caused by price variations but are at the discretion of Borsa Italiana S.p.A..

The performance of the share markets adversely affected the admission of new companies to listing on the regulated markets operated by Borsa Italiana. In 2002 new listings totaled 11 on the Stock Exchange and 2 on the Mercato Ristretto, compared with 13 in 2001 (Mercato Ristretto zero); however, last year there were no new listings on the Nuovo Mercato, against 5 in 2001. Offerings of newly-issued shares by listed companies, including capital increases, fell by almost half in 2002 on both the Stock Exchange and the Nuovo Mercato. Delistings involved 12 companies traded on the Stock Exchange following mergers or residual-acquisition tender offers following changes in the companies' ownership structure. Accordingly, the number of Italian companies listed on the Stock Exchange diminished from 232 at the end of 2001 to 231 at the end of 2002, while the number of companies listed on the Nuovo Mercato remained unchanged at 44.

The reduction in equity offerings is reflected in the figures on net purchases of listed Italian shares. In 2002 these amounted to around €4 billion thanks to net purchases made by Italian investors other than Italian investment funds, whose net disposals were substantial but nonetheless less than in 2001 (Table II.1). By contrast, net disposals by non-resident investors increased, accentuating a trend under way since 1999.

TABLE II.1

NET PURCHASES OF ITALIAN LISTED SHARES[1]

SUBSCRIBERS	2000	2001	2002
BANCA D'ITALIA - UIC	231	201	346
MUTUAL FUNDS[2]	49	-1,787	-1,133
BANKS	4,592	-8,270	....
INSURANCE COMPANIES	3,328	-594	....
SOCIAL SECURITY INSTITUTIONS	84	-10	....
OTHER INVESTORS[3]	2,579	17,163	....
FOREIGN RESIDENTS	-1,714	-532	-6.724
TOTAL	*9,148*	*6,171*	*3.867*

Source: Banca d'Italia. [1] In millions of euros. [2] The figures refer to mutual funds set up under Italian law. [3] Households, firms, central and local government entities, Cassa Depositi e Prestiti and Italian investment firms.

On the electronic market for covered warrants there was a contraction in both issues and turnover, confirming the performance of the previous year.

There were 3,571 covered warrants listed at the end of 2002, 39 per cent less than at the end of 2001 (Table II.2), The decline in new issues principally involved call and benchmark covered warrants (1,247 less than in 2001) and put covered warrants (down by 379). By contrast, issues of certificates rose by 68 and exotics by 47. The number of issuers, prevalently banks and other financial intermediaries, decreased from 23 to 18.

TABLE II.2

LISTED COVERED WARRANTS

	NUMBER OF ISSUES			TURNOVER[4]
	OUTSTANDING[1]	NEW[2]	EXPIRED[3]	
1998	122	122	--	2.5
1999	1,565	1,660	217	14.2
2000	3,107	3,343	1,801	31.0
2001	5,866	8,194	5,435	20.8
2002	3,571	6,668	8,963	18.3

Sources: Consob and Borsa Italiana S.p.A. [1] Year-end data. [2] Admitted to listing during the year. [3] The figure includes covered warrants revoked at the request of the issuer before their original maturity. [4] In billions of euros.

During the year turnover amounted to €18.3 billion, 12 per cent less than in 2001. The number of contracts concluded decreased in parallel by 10 per cent to just under 6 million.

Trading in covered warrants was concentrated with a handful of intermediaries, as in 2001. Four intermediaries were responsible for 50 per cent of the volume of both purchases and sales and the top two for 37 per cent. Trading mainly involved call and benchmark covered warrants (both American-style and European), which generated 66 per cent of total turnover, while put covered warrants accounted for around 29 per cent.

The average number of contracts concluded per day on the TAH after-hours market operated by Borsa Italiana fell from around 7,900 in 2001 to just over 7,100, in 2003, but average daily turnover rose from around €25 million to more than €28 million.

A total of more than 17 million contracts were concluded on IDEM, the derivatives market, with a marginal increase of 1 per cent on the previous year (Table II.3). However, there was a

change in the composition of trading by type of instrument. In terms of notional value, the contraction in trading in equity derivatives was sharper than in 2001 (20 against 14 per cent) and larger than that in the value of trading in shares on the regulated markets operated by Borsa Italiana (around 13 per cent).

TABLE II.3

DERIVATIVES TRADED ON THE IDEM MARKET[1]
(SUMMARY DATA FOR 2002)

	NUMBER OF CONTRACTS CONCLUDED[1]	DAILY AVERAGE[1]	PERCENTAGE CHANGE[2]
FIB30	4,877	19	5
MIBO30	2,588	10	-5
STOCK OPTIONS	7,587	30	-9
MIDEX FUTURE	0.774	..	4
MINI FIB	2,133	8	52
STOCK FUTURES[3]	60	0.5	—

Sources: Based on Borsa Italiana S.p.A. and Cassa di compensazione e garanzia S.p.A. data. [1] Thousands. [2] Compared with 2001. [3] Trading began on 22 July 2002.

In terms of the number of contracts concluded, there was a slight increase in trading in Mib30 and Midex index futures. Nevertheless, Midex futures continued to attract little interest on the part of investors and the number of contracts was very small. By contrast, trading in Mini Fib futures grew by 52 per cent, with 2.1 million contracts concluded. The volume of trading in Mib30 options (Mibo30 contracts) and individual stock options fell by 5 and 9 per cent respectively. Borsa Italiana inaugurated trading in individual stock futures in July 2002 and volume averaged around 500 contracts per day.

As in the previous year, trading was again nil on MIF. Given the absence of open interest, in October Borsa Italiana delisted the futures and options on government securities and interest rates traded on MIF and decided to close the market as of 31 December.

The markets for fixed-income securities and alternative trading systems

As regards the markets for fixed-income securities operated by Borsa Italiana, turnover in both government securities and bonds on MOT reversed the downward trend of the previous years and rose from €136 billion to €159 billion, or by 17 per cent, while EuroMOT recorded further rapid expansion in trading, which doubled with respect to 2001 (Table aII.2). Turnover on the MTS wholesale market for government securities operated by MTS S.p.A. contracted by 5 per cent.

The market for structured bank bonds also expanded in 2002. In particular, the amount of these financial instruments outstanding in September 2002 was €204.1 billion, €3.3 billion more than in December 2001 and €40 billion more than in December 1997 (Table II.4).

TABLE II.4

OUTSTANDING STRUCTURED BANK BONDS

	1997	1998	1999	2000	2001	2002[1]
PURE CALLS/PUTS	142.9	139.7	120.6	112.8	101.6	87.7
PURE STOCHASTIC INTEREST RATE	8.0	15.3	23.6	28.1	30.9	34.3
MIXED STOCHASTIC INTEREST RATE	7.1	12.0	12.5	17.1	21.4	22.9
PURE INDEXED	5.5	15.8	21.7	30.6	43.0	52.0
MIXED INDEXED	0.5	1.7	3.1	3.6	3.7	7.0
REVERSE CONVERTIBLES	—	0.3	3.4	2.5	0.2	0.2
TOTAL	*164.0*	*184.8*	*184.9*	*194.7*	*200.8*	*204.1*
AS A PERCENTAGE OF ALL BANK BONDS	84.1	82.1	68.1	64.4	60.0	56.2

Sources: Based on Kler's - Financial Data Service and Banca d'Italia data and information provided by intermediaries.
Billions of euros. [1]At 30 September.

Structured bonds' share in banks' total bond funding nevertheless fell to 56.2 per cent in September 2002, compared with 84.1 per cent at the end of 1997. Moreover, since 1997 there has been a continual shift in the composition of the supply of structured bonds, with the percentage of indexed and stochastic interest bonds increasing at the expense of callable and puttable issues and that of reverse convertibles holding more or less steady (Box 2).

BOX 2

The market in structured bank bonds

The growth of the market in structured bonds is set in a context characterized since 1995 by a gradual decline in interest rates and a reduction in their volatility. On the one hand this has prompted investors to turn to risky financial assets as an alternative to fixed interest debt securities, while on the other it has led banks to make less use of call clauses and allowed them to sterilize the risks on their proprietary portfolios by issuing indexed and stochastic interest bonds.

Indexed bonds, whose yield is linked to the performance of financial instruments and indexes of various kinds, and stochastic interest bonds, whose coupons are determined by an algorithm linked to the structure of interest rates, have become increasingly prominent in the portfolios of Italian investors since 1995 (the first issue dates back to 1991) and still constitute a novelty for the banking system and investors, given the continual redefinition of the pay-offs of the derivative components incorporated in the product's structure. By contrast, callable and puttable bonds, whose derivative component consists in a call (put) option purchased (sold) by the bank that determines the probability of the bond being called, are a long-standing feature of banks' fund-raising (the first issue of a callable bank bond dates back to 1922).

At the end of 1997 indexed and stochastic interest bonds together made up around 13 per cent of the total and callable/puttable bonds 87 per cent. In September 2002 the respective shares were 57 and 43 per cent.

In particular, between 1997 and September 2002 indexed bonds outstanding grew at an average rate of around 67 per cent, compared with 33 per cent for the stock of stochastic interest bonds. In the same period the stock of puttable and callable bonds contracted at an average rate of 9 per cent. Since callable bonds on average make up 97.7 per cent of these issues, it follows that investors have rarely had the chance to benefit from the right of early redemption under market conditions favourable to them.

If the flows and stocks of the market in question are aggregated differently, distinguishing this time between bonds with a pure structure and those with a mixed structure (i.e. incorporating different pure structures), one finds more moderate growth in mixed indexed bonds. This may be due both to greater uncertainty regarding the effective risk-return profile, which should translate into a larger risk premium being paid to investors, and to the difficulty intermediaries face in managing the hedging costs of very complex products.

Only a fraction of structured bonds are listed: 99 per cent of callable and puttable issues and 90 per cent of the category comprising indexed and stochastic interest bonds are unlisted; the corresponding proportions in terms of value are 90 and 62 per cent. The average issue is considerably larger for securities that are to be listed than for unlisted issues. In particular, issues to be listed average around €160 million for callable/puttable bonds and €122 million for indexed and stochastic interest bonds, compared with €18 million and €21 million, respectively, in the absence of listing. It is reasonable to assume that the larger average size of issues intended for listing serves to dilute the additional costs connected with listing procedures.

As regards the concentration of the market in structured bonds, the market share of the first five issuers was never less than 26 per cent during the period in question and reached a peak of 41 per cent in 2000. The number of issuers of indexed and stochastic interest bonds rose from 83 in 1997 to 126 in September 2002, while the market share of the first five issuers fell from 47 to 37 per cent. For callable/puttable bonds, the number of issuers decreased from 125 to 56 over the same period, while the market share of the first five issuers more than doubled, rising from 27 to 57 per cent.

Separate mention should be made of reverse convertibles, atypical securities treated during placement by intermediaries as structured bank bonds notwithstanding the uncertainty of redemption at maturity connected with the sale of a put by the investor. The stocks of reverse convertibles have always been marginal and never exceeded 2 per cent, and in September 2002 their lowest level ever. These instruments have been subjected to close supervisory scrutiny by Consob, which has also carried out specific investor education initiatives enabling investors to know the characteristics of the pay-off and compute its theoretical value using stochastic calculators posted on Consob's website.

As regards alternative markets, at the end of 2002 there were 301 alternative trading systems in operation: 298 bilateral systems, in which the operator sets the conditions and is the counterparty in all transactions (markets with a single market maker; Table II.5) and 3 multilateral systems open only to qualified investors, i.e. intermediaries and institutional investors. Almost all the bilateral systems (precisely 291) are used by banks at their branches for transactions with customers in own bonds and shares and foreign and Italian government securities. Turnover on the systems in question amounted to around €58 billion, or 74.6 per cent of the total turnover on alternative systems (excluding those dedicated to wholesale trades). For price formation, as a rule there is a central office that sets the prices of the securities dealt in daily on the basis of those of listed securities with similar characteristics. The remaining 7 bilateral systems only allow trading with qualified investors and handle structured and other bonds, government securities and various derivative instruments. Turnover on these systems amounts to around €9 billion, or 11.8 per cent of the total, and prices are set by the market maker on a continuous basis.

TABLE II.5

ITALIAN ALTERNATIVE TRADING SYSTEMS[1]
(2002)

	PERSONS ADMITTED					
	RETAIL INVESTORS		INTERMEDIARIES AND INSTITUTIONAL INVESTORS		*TOTAL*	
	NUMBER	TURNOVER[2]	NUMBER	TURNOVER[2]	NUMBER	TURNOVER[2]
BILATERAL	291	58.6	7	9.3	298	67.9
MULTILATERAL	..	..	3	10.6	3	10.6
TOTAL	*291*	*58.6*	*10*	*19.9*	*301*	*78.5*

[1] Excluding systems that engage exclusively in wholesale trading. [2] In billions of euros.

The multilateral systems are order-driven systems, in which eligible participants can enter orders and conclude trades without passing through a central counterparty. Transactions may be in listed and unlisted shares, both Italian and foreign, bonds of various kinds and countries, government securities and various derivative instruments. Turnover on these systems represents 13.5 per cent of the total. Prices are formed on the basis of the orders entered by participants, which are matched according to the provisions of the system's rules concerning minimum quantities, time priority, and so forth.

The functions performed by alternative trading systems and the number of transactions carried out in 2002 differ according to the type of customers admitted to the system. Transactions in own shares, various bonds and government securities accounted for 92 per cent of the number of trades concluded on alternative systems and 22.5 per cent of total turnover. Most of these transactions were carried out on the bilateral systems operated by banks and open to retail customers. Given the rule concerning on-exchange trading, trades in listed shares made up 6.3 per cent of the number of transactions and 0.2 per cent of total turnover (Table II.6). Trades in unlisted shares represented 1 per cent of the total number of contracts concluded but their share of total turnover was tiny (0.06 per cent). By contrast, a substantial portion of trades involved bonds, with turnover in listed bonds equal to just over 27 per cent of that on MOT. Lastly, transactions in derivatives based on interest rates generated 77.2 per cent of the total value of trading on alternative systems in 2002, despite the very small number of contracts (1,041).

TABLE II.6

FINANCIAL INSTRUMENTS TRADED VIA ALTERNATIVE TRADING SYSTEMS
(2002)

	TURNOVER[1]	NUMBER OF CONTRACTS
ITALIAN AND FOREIGN LISTED SHARES	747	162,010
UNLISTED SHARES	220	26,112
BONDS	40,753	1,661,842
- OF WHICH: STRUCTURED	3,080	147,126
GOVERNMENT SECURITIES	36,532	678,992
DERIVATIVES ON SHORT-TERM INTEREST RATES	266,099	1,041
COVERED WARRANT AND OTHER DERIVATIVES	212	45,935
OTHER	47	71

[1] In millions of euros.

As to the conditions for executing transactions on the alternative trading systems relative to those obtaining on the regulated markets, a comparison of the price of the trades in a benchmark Treasury bond (BTP 4.5 per cent 1/3/2007) carried out via two different systems with the orders existing on MOT sheds light on the actual operating procedures of the alternative trading systems vis-à-vis the regulated markets (Box 3).

BOX 3

Analysis of the transactions in the BTP 4,5% 1/3/2007 Treasury bond on two alternative trading systems

The transactions in the BTP 4,5% 1/3/2007 Treasury bond on two different alternative trading systems (A and B) were analyzed with the aim of comparing for each contract the conditions of the transactions carried out on behalf of third parties on the two systems with those obtaining on MOT at the same instant. MOT was taken as the yardstick since the organizers of the two systems considered are always able to know the conditions prevailing on it and to access it whereas they are unable to operate on the trading system of the other intermediary.

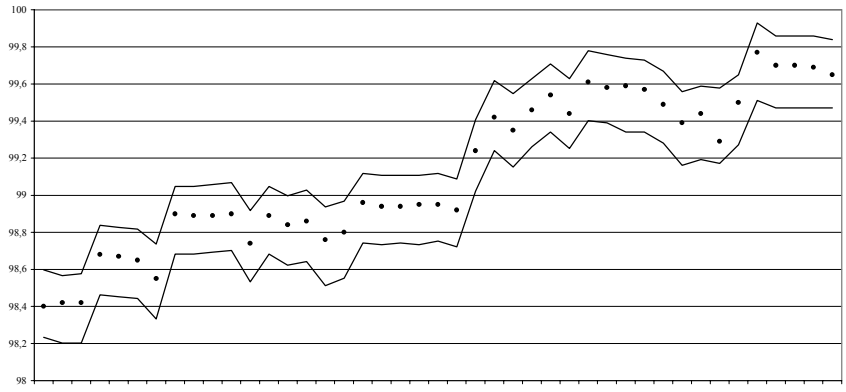
The intraday data, precise to the nearest second, permitted identification of the best price at which it was possible to sell (bid) or buy (ask) on MOT at the instant in which the transaction was concluded on the alternative trading system.

It should be noted that for the final customer whose order is carried out on MOT the actual spread is greater than that observed on the market as it includes the intermediary's fees, which involve an increase in ask prices and a reduction in bid prices. Another point to bear in mind for the purposes of the comparison concerns transaction size, since it is reasonable to expect different prices for transactions involving very dissimilar quantities.

After identifying the best bid and ask prices obtaining on the regulated market whenever a transaction was carried out on an alternative trading system, the quantities traded on the alternative systems were compared with those that could have been purchased at the ask price or sold at the bid price on MOT. This made it possible to eliminate trades involving quantities that could not have been concluded on MOT without moving down a level in the trading book.

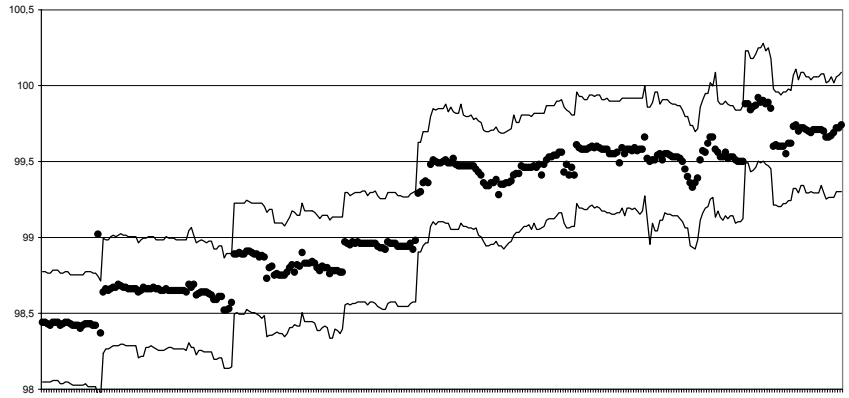
The results of the analysis, which was conducted for the month of June, show that all the transactions of compatible quantity in the security identified as BTP07MZ concluded on the alternative trading systems in question fell within the actual spread observed on MOT. This implies that the transactions were carried out at better conditions than those the customer would have obtained if his order had been executed in the regulated market. However, this result depends on the size of the fees charged to customers by the intermediary; if the fees were nil, the reference spread for the final customer would be that recorded on MOT and many transactions would lie outside that spread. A plausible conclusion is that the intermediary may use fees to make access to MOT arbitrarily more costly for the investor and, simultaneously, to render execution on the intermediary's own alternative trading system more favourable.

BID-ASK SPREADS ON MOT AND PRICES OF BTP 4,5% 1/3/2007 TRANSACTIONS ON THE "A" ALTERNATIVE TRADING SYSTEM IN JUNE 2002



N.B. The continuous line is the bid-ask spread observed on MOT (corrected for the average trading commissions charged by intermediary A), while the points are the prices (including commissions) of the transactions carried out for customers on the ATS operated by intermediary A.

BID-ASK SPREADS ON MOT AND PRICES OF BTP 4,5% 1/3/2007 TRANSACTIONS ON THE "B" ALTERNATIVE TRADING SYSTEM IN JUNE 2002



N.B. The continuous line is the bid-ask spread observed on MOT (corrected for the average trading commissions charged by intermediary B), while the points are the prices (including commissions) of the transactions carried out for customers on the ATS operated by intermediary B.

Public offerings for listing purposes and other public offerings: an overview

The slump in share prices in 2002 had a strong impact on the number and amount of public offerings made for listing purposes and other public offerings. During the year only 6 offerings totaling €1 billion were made to obtain listing on the Stock Exchange, the Mercato Ristretto and the Nuovo Mercato, compared with 18 amounting to almost €4 billion in 2001 (Table II.7). Compared with the previous year, the number of capital increases and convertible bond issues remained basically unchanged but their value was reduced by half, falling from €8.5 billion to €4.1 billion.

As regards other offerings for listing purposes, those of bonds rose slightly in number (from 21 to 24) and by 17 per cent in value to a total of €4.7 billion, while new listings of covered warrants diminished with respect to 2001. In addition, one offering worth €189 million was made for the purpose of listing units shares of a closed-end securities fund.

Other offerings included 2 of listed securities for a total of around €1.5 billion and 5 of unlisted securities for €1.3 billion; among the latter, the 2 largest involved bonds issued by companies with other securities listed on regulated markets and totaled €1.1 billion. Lastly, there were 13 offerings made by foreign issuers in Italy, leading to recognition of foreign prospectuses and totaling a rather modest €35 million.

TABLE II.7

PUBLIC OFFERINGS FOR LISTING ON REGULATED MARKETS AND OTHER PUBLIC OFFERINGS
(AMOUNTS IN MILLIONS OF EUROS)

	NUMBER			VALUE		
	2000	2001	2002	2000	2001	2002
OFFERINGS FOR LISTING PURPOSES[1]						
- SHARES	44	18	6	6,903	3,935	1,062
- BONDS	....	21	24	....	4,038	4,733
- COVERED WARRANTS[2]	3,343	8,194	6,668	—	—	—
- UNITS OF CLOSED-END FUNDS	--	--	1	--	--	189
CAPITAL INCREASES AND ISSUES OF CONVERTIBLE BONDS[3]	26	39	35	3,627	8,491	4,148
OTHER OFFERINGS OF LISTED SECURITIES[4]	2	1	2	6,613	2,721	1,464
OFFERINGS OF UNLISTED SECURITIES BY LISTED ITALIAN ISSUERS[5]	....	....	2	....	....	1,127
OFFERINGS OF UNLISTED SECURITIES BY UNLISTED ITALIAN ISSUERS[6]	3	2	3	97	31	138
OFFERINGS BY FOREIGN ISSUERS						
- RECOGNITION OF FOREIGN PROSPECTUSES	11	7	13	25	23	35
- PAN-EUROPEAN PUBLIC OFFERINGS	3	1	--	985[7]	63[7]	--

[1] The data refer to offerings for which the listing particulars were cleared during the year. The figures for shares and units of closed-end funds include only the admissions to listing by means of a public offering. [2] The figures refer to the number of new instruments admitted to listing during the year. No figure is given for their value since both the price and the number of securities included in the particulars are purely indicative. [3] Includes public offers for the subscription of securities other than IPOs, rights offerings, offers for the conversion of savings shares into ordinary shares with payment of a cash balance and offerings for employee stock option plans. [4] Public offers for the sale of securities and private placements other than for listing purposes. [5] The figures refer exclusively to offerings by companies having securities listed on regulated markets. [6] The figures refer to offerings by companies not having securities listed on regulated markets. [7] The figure refers to the Italian part of the offerings.

As in 2001, the fall in share prices therefore mainly affected initial public offerings, which are traditionally more sensitive to difficult conditions in the financial markets; however, in contrast with the previous year, the volume of funds raised with subsequent capital increases also diminished in Italy.

There was a similar decline in equity offerings in the main European and world stock markets. In Europe, in particular, initial public offerings were sharply curtailed in France and Germany. On Euronext Paris 8 IPOs were made for a total of €2.6 billion, compared with 20 totaling €13 billion in 2001. On the various segments of Deutsche Börse there were 5 operations amounting to only €20 million, compared with 21 totaling €3 billion in 2001 (Table II.8). On the London Stock Exchange the number of IPOs and their value diminished by around two thirds with respect to 2000.

TABLE II.8

ADMISSION TO LISTING ON THE MAIN EUROPEAN EQUITY MARKETS

	FRANCE (EURONEXT PARIS[1])		GERMANY (DEUTSCHE BÖRSE[2])		UNITED KINGDOM (LONDON STOCK EXHANGE[3])			
					NUMBER OF COMPANIES		FUNDS RAISED[4]	
	NUMBER OF COMPANIES	FUNDS RAISED[4]	NUMBER OF COMPANIES	FUNDS RAISED[4]	TOTAL	OF WHICH: INVESTMENT TRUSTS AND PREFERENCE SHARES	TOTAL	OF WHICH: INVESTMENT TRUSTS AND PREFERENCE SHARES
1996	54	1.0	20	10.4	....	....	14.2	....
1997	63	7.3	25	2.5	....	....	10.7	.....
1998	116	6.8	67	3.2	84	....	5.6	....
1999	66	6.9	134	12.9	74	42	8.5	2.5
2000	77	11.6	134	25.5	133	51	18.1	5.3
2001	20	12.8	21	2.9	85	69	11.3	4.7
2002	8	2.6	5	0.2	42	25	7.5	1.6

Sources: National stock exchanges. The figures refer exclusively to IPOs by domestic companies (excluding spin-offs, mergers and transfers from one segment to another). [1] Does not include the marché libre. [2] Does not include the Freiverkehr segment. [3] Does not include the AIM segment. [4] Billions of euros. For France and Germany the data in local currency prior to 1999 have been converted into euros using the fixed euro/franc and euro/DM exchange rates. For the United Kingdom the data have been converted using the year-end euro/sterling exchange rate and for the years prior to 1999 the euro/sterling exchange rate calculated by Thomson Financial Data.

Initial public offerings

Last year 5 companies made public offerings to gain listing on the Stock Exchange and one on the Mercato Ristretto, while there were no IPOs on the Nuovo Mercato (Table II.9). The amount of funds raised also fell sharply; in fact, the value of offerings on the Stock Exchange and the Mercato Ristretto was the lowest since 1997. The year saw a continuation of the downward trend that began in 2000 in the number and value of IPOs as a consequence of the fall in share prices, particularly those in technology and high-growth sectors.

TABLE II.9

INITIAL PUBLIC OFFERINGS
(AMOUNTS IN MILLIONS OF EUROS)

	NUMBER OF COMPANIES	MARKET VALUE[1]	OFFERINGS		TOTAL OFFERINGS[2]
			NEW SHARES	EXISTING SHARES	
STOCK EXCHANGE (MTA) AND MERCATO RISTRETTO					
1995	11	22,675	274	3,396	33.1
1996	12	5,550	721	945	26.6
1997	10	2,126	227	606	35.4
1998	16	3,844	614	1,231	41.7
1999	21	65,069	1,187	21,567	33.6
2000	13	14,296	1,130	1,379	16.3
2001	13	7,820	2,078	1,722	36.1
2002	6	2,504	638	424	33.8
NUOVO MERCATO					
1999	6	719	227	39	27.9
2000	31	14,012	3,840	554	24.6
2001	5	372	121	14	27.3
2002	--	--	--	--	--

See the Methodological Notes. [1] Market value of the companies admitted to listing, calculated on the basis of the offering price and the pre-offering quantity of shares. [2] As a percentage of the post-offering market value, calculated on the basis of the offering price and weighted by the size of offerings. The figures for the Stock Exchange do not include Eni in 1995, Enel in 1999 or Snam Rete Gas in 2001.

The fresh funds raised with issues of new securities in IPOs amounted to €638 million and represented around 60 per cent of the total value of offerings, while the ratio of total offerings to the post-offering market value of the newly-listed companies was equal to around 34 per cent, down slightly on the previous year.

The ownership structures of the companies admitted to listing on the Stock Exchange and the Mercato Ristretto in 2002 did not differ significantly from those of the companies admitted to listing in the preceding years: the controlling shareholders held an average of just over 83 per cent of the voting rights before listing and 58 per cent after listing, against 88 and 58 per cent respectively in 2001 (Table aII.3). If all the shareholders with more than 2 per cent are considered, the average share held before and after listing was 99 and 67 per cent, slightly higher than in 2001.

The results of the IPOs carried out last year were heavily affected by the equity market crisis: oversubscription (the ratio between demand and supply) was equal to little more than one for both public offerings and private placements, with a further decline from the previous year (at least for private placements), compared with values of around 10 in the years between 1997 and 1999 (Table aII.4).

Italian institutional investors took up the majority of shares (an average of 50.4 per cent weighted by the amount of the offers, appreciably more than in 2001); the portion taken up by the public remained basically unchanged at 28 per cent and that taken up by foreign institutional investors declined slightly to just over 20 per cent.

The data on bookbuilding for Italian institutional investors do not confirm the evidence found in 2000 and 2001 that the performance on the first day of trading is worse when the largest institutional investor belongs to the same group as the global coordinator or the lead manager. For both subsets of newly-listed companies in Table II.10 the market price on the first day of trading was higher than the offering price, net of changes in the index, but the increase was larger for the subset in which the largest investor belonged to the same group as the global coordinator or the lead manager. The data on the amounts requested and allocated also reveal some marginal differences between the two subsets: the firms for which the largest investor was related to the global coordinator or the lead manager were allocated a larger portion on average. However, in view of the small number of admissions to listing during the year, these figures should be treated with some caution as they are strongly influenced by the result of the individual operations.

TABLE II.10

BOOKBUILDING IN PLACEMENTS WITH ITALIAN INSTITUTIONAL INVESTORS FOR COMPANIES ADMITTED TO LISTING IN 2002[1]
(PERCENTAGES)

COMPANY	UNDER-PRICING[2]	PORTION REQUESTED BY LARGEST INVESTOR[3, 4]	PORTION ALLOTTED TO LARGEST INVESTOR[3, 4]	AVERAGE PORTION ALLOTTED TO INVESTORS[3]	EXCESS PORTION ALLOTTED TO THE PUBLIC[5]
FIRST GROUP[6]					
ASM BRESCIA	5.2	3.0	2.8	0.4	1.2
ASTALDI	4.6	3.3	2.5	0.6	1.0
SOCOTHERM	5.0	3.6	3.6	0.6	- 0.1
AVERAGE	*4.9*	*3.3*	*3.0*	*0.5*	*0.7*
SECOND GROUP					
CIT	6.5	2.0	2.0	0.7	0.1
FIERA MILANO	7.4	5.3	2.1	0.5	15.0
PIRELLI&C. REAL ESTATE	- 6.9	4.1	4.1	0.3	- 1.4
AVERAGE	*2.3*	*3.8*	*2.7*	*0.5*	*4.6*

See the Methodological Notes. [1] Stock Exchange (MTA) and Mercato Ristretto. [2] Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the Mib index. [3] In relation to the post-offering share capital. [4] The largest investor is the Italian institutional investor that requested the largest quantity of shares; where the largest quantity was requested by more than one institutional investor, the largest investor is the one that was allotted the largest quantity. [5] With respect to the minimum specified in the prospectus. [6] The first group shows the offerings in which the largest investor was controlled by one of the Italian intermediaries that acted as global coordinator or lead manager.

Comparison between the offering prices of IPOs and the prices recorded on the first day of trading, excluding privatized companies, shows an average underpricing of 2.3 per cent, greater than in the two previous years but significantly less than the figures observed between 1995 and 1999 (Table II.11).

TABLE II.11

UNDERPRICING IN IPOs

	NUMBER OF OFFERINGS[1]	AVERAGE UNDERPRICING[2]	MEDIAN UNDERPRICING[2]
STOCK EXCHANGE (MTA) AND MERCATO RISTRETTO			
1995	10	9.3	8.3
1996	11	8.9	8.7
1997	9	5.3	8.8
1998	15	5.7	2.7
1999	17	13.2	- 0.8
2000	9	0.9	4.9
2001	11	- 1.3	- 1.1
2002	4	2.3	4.8
NUOVO MERCATO			
1999	6	26.9	14.1
2000	31	15.6	8.8
2001	5	4.5	5.1
2002	--	--	--

Source: Based on Datastream data. See the Methodological Notes. [1] Does not include offerings of privatized companies or those of companies controlled by foundations or public entities. [2] Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the market index (Mib historical, Mercato Ristretto historical index and Nuovo Mercato index from 2000).

With regard to the role of intermediaries in IPOs, the declarations sent by sponsors to Borsa Italiana and the information contained in prospectuses concerning potential conflicts of interest for the intermediaries placing the shares provide a picture of the credit and equity relationships existing between these intermediaries (and the groups they belong to) and newly-listed companies.

Of the 6 companies admitted to listing last year, 3 had credit relationships with the sponsor, global coordinator, lead manager or companies related to them. Some 46 per cent of the total financial debt of the companies in question were towards these intermediaries (Table II.12). The latter indicator, though calculated on a small number of companies, was appreciably higher than in the previous two years. Furthermore, in only one case were the sponsor, the intermediaries placing

the shares or companies related to them shareholders of the newly-listed company, with a holding of 28 per cent.

TABLE II.12

CREDIT AND EQUITY RELATIONSHIPS BETWEEN NEWLY-LISTED COMPANIES AND THE MAIN FINANCIAL INTERMEDIARIES INVOLVED IN THE IPO[1]

	2000	2001	2002
COMPANIES WITH CREDIT RELATIONSHIPS WITH INTERMEDIARIES INVOLVED IN THE IPO			
- NUMBER OF COMPANIES	23	10	3
- PERCENTAGE OF NEWLY-LISTED COMPANIES[2]	52.3	55.6	50.0
- DEBT FINANCING PROVIDED BY INTERMEDIARIES INVOLVED IN THE IPO[3]	27.2	27.8	46.1
COMPANIES WITH EQUITY RELATIONSHIPS WITH INTERMEDIARIES INVOLVED IN THE IPO			
- NUMBER OF COMPANIES	11	2	1
- PERCENTAGE OF NEWLY-LISTED COMPANIES[2]	25.0	11.1	16.7
- EQUITY HELD BY INTERMEDIARIES INVOLVED IN THE IPO[4]	18.1	19.8	28.3

Sources: Consob and Borsa Italiana S.p.A. data. See the Methodological Notes. [1] Credit and equity relationships at the date of the offering between companies admitted to listing on the Stock Exchange (MTA), the Mercato Ristretto and the Nuovo Mercato and the sponsor, specialist, global coordinator or lead manager of the offering and other intermediaries belonging to the same group as the above. [2] Percentages. [3] As a percentage of total financial debt. [4] As a percentage of the pre-offering share capital.

There was an increase last year in the concentration of investment banking activity for the listing of companies, probably in part as a consequence of the small number of new listings. The market share of the first 5 intermediaries acting as the global coordinator of global offerings and the lead manager of Italian public offerings rose respectively from 63 to 83 per cent and from 84 to 100 per cent (Table aII.5); the market shares of the first and the first 3 intermediaries also increased. There was little change in the market share of foreign global coordinators or joint global coordinators of IPOs, which coordinated around 50 per cent of the offering. Three of the 6 offerings were coordinated by small/medium-sized intermediaries on a solo or joint basis.

TABLE II.13

INSTITUTIONAL INVESTORS EQUITY HOLDINGS IN NEWLY-LISTED COMPANIES[1]

	COMPANIES		NUMBER OF INSTITUTIONAL INVESTORS[4]	PRE-OFFERING EQUITY HOLDING[5]	POST-OFFERING EQUITY HOLDING[6]
	NUMBER[2]	% OF TOTAL[3]			
STOCK EXCHANGE (MTA) AND MERCATO RISTRETTO					
1995	6	54.5	2.3	27.7	8.5
1996	6	50.0	3.7	47.3	23.2
1997	2	20.0	1.5	40.9	7.1
1998	4	25.0	4.3	48.3	18.9
1999	6	28.6	1.7	20.1	5.4
2000	4	30.8	2.0	26.9	15.6
2001	5	38.5	1.6	32.6	15.0
2002	2	33.3	2.5	27.1	15.2
NUOVO MERCATO					
1999	3	50.0	2.7	42.3	19.9
2000	14	45.2	2.9	25.6	16.4
2001	1	20.0	1.0	5.0	3.6
2002	--	--	--	--	--

See the Methodological Notes. [1] Institutional investors comprise closed-end investment funds, venture capital companies and commercial and investment banks, excluding foundations and savings banks. The data refer only to companies in which such investors were present. [2] Number of companies listed during the year in which institutional investors held an interest at the offering date. [3] Percentage of all the companies listed during the year on the reference market. [4] Average number of institutional investors holding an equity interest at the offering date. [5] Average percentage of the share capital held by institutional investors at the offering date. [6] Average percentage of the share capital held by institutional investors immediately after the offering.

Institutional investors specialized in the acquisition of equity interests were shareholders of 2 of the 6 newly-listed companies, with the number of such investors averaging 2.5 and an average holding of 27 per cent before listing and 15 per cent immediately after listing (Table II.13).

New equity issues by listed companies, mergers and spin-offs

Offerings of shares and convertible bonds both for listing purposes and by previously-listed companies amounted to around €6.8 billion last year (Table II.14), the lowest figure since 1995. This result confirmed the adverse impact of the financial markets' negative performance not only on IPOs but on other types of offerings as well; it was also influenced by the limited number of offerings in connection with privatizations.

TABLE II.14

OFFERINGS OF SHARES AND CONVERTIBLE BONDS BY LISTED COMPANIES[1]
(MILLIONS OF EUROS)

	ISSUES OF NEW SECURITIES	OFFERINGS OF EXISTING SECURITIES	*TOTAL*
1995	4,377	3,396	*7,773*
1996	2,306	5,611	*7,917*
1997	5,624	18,427	*24,051*
1998	9,142	11,274	*20,416*
1999	23,172	25,795	*48,967*
2000	9,528	7,615	*17,143*
2001	10,690	4,457	*15,147*
2002[2]	4,786	2,046	*6,832*

Sources: Consob archive of prospectuses and Borsa Italiana S.p.A. notices. See the Methodological Notes. [1] The figures refer to companies listed on the Stock Exchange (MTA), the Mercato Ristretto and, from 1999 onwards, the Nuovo Mercato. [2] The figures include a public offering for listing purposes of units of a closed-end real-estate fund.

Issues of new securities totaled nearly €4.8 billion and accounted for 70 per cent of the total amount offered, while offerings of existing securities made up the rest. Existing shareholders were the leading category to which the offerings were addressed, as rights issues of shares and convertible bonds totaled around €3.3 billion, or 48 per cent of the overall amount offered (Table aII.6). This reflects the fact that the new issues were mainly made by listed companies, while the portion issued in IPOs was rather modest. Institutional investors constituted the second most important target of offerings, with €2.4 billion, or 34 per cent of the total, while around €0.7 billion, or 10 per cent, was allocated to the public.

The placements reserved to institutional investors included 2 sales of public shareholdings in listed companies (Fiera di Milano and Telecom Italia). The latter transaction involved the residual 3.5 per cent interest held by the Ministry for the Economy, which was sold for just over €1.4 billion (Table aII.7). In addition, the first half of 2002 saw the disposal of the Ministry for the Economy's residual holding in Assicurazioni Generali, as a consequence of the merger of Ina into the latter. This transaction was carried out directly on the market by means of a financial intermediary and was worth about €76 million (Table aII.8).

There were also 3 public offerings of bonds issued by companies with shares also listed on the Stock Market, including a rights issue of around 1.9 Alitalia convertible bonds made for listing purposes. The value of the three transactions amounted to €1.8 billion.

First mention among rights issues of shares in 2002 goes to that carried out by S.S. Lazio in July, whose results, together with other transactions, allowed the company to wipe out its excessive debt and comply with the revenues/debt ratio required by sectoral legislation for entry in the Football Championship.

Another important operation was the recapitalization of Alitalia, which was completed in August.

This capital increase, carried out with the placement of unlisted financial instruments (convertible bonds) along with the issue of shares, was approved by the company's board of directors on 19 June 2001 in support of the 2002-03 two-year plan drawn up in response to the crisis caused by the terrorist attacks of 11 September 2001, against the background of the sector's already adverse cyclical situation and the company's problems of internal growth. The funds raised totaled some €1.4 billion and were used to reduce debt and finance the investments to be made under the two-year plan. The structure of the offering gave existing shareholders the right to subscribe jointly 1 new share and 1 new convertible bond with a par value of €0.38 each for every share held.

In September Finpart approved a capital increase totaling €100 million, calling on its shareholders to purchase new shares at a premium to the market price. The operation's success was ensured by the intervention of the underwriting syndicate, which took up the shares for which the right of pre-emption had not been exercised and subsequently resold them to 2 institutional investors.

Capital increases and mergers last year involving 5 companies listed on the Stock Exchange also entailed the admission to listing of bonus warrants.

Mergers and acquisitions were also strongly affected by the negative performance of the equity markets, with an accentuation of the previous year's downturn in the number and value of transactions. Worldwide, transactions fell by 18 per cent in number to 1,617 and even more sharply in value, by almost 44 per cent, from €2,238 billion to €1,253 billion. The sharpest decline occurred in the United States, where the number of transactions fell by 22 per cent and their value by as much

as 54 per cent. M&A activity was more resilient in Europe, where the decrease in number was 4 per cent and that in value 13 per cent.

Against this backdrop, the Italian market also contracted. Between the first quarter of 2001 and the first quarter of 2002, the value of transactions fell from €96 million to around €69 million, or by 28 per cent, which was nonetheless smaller than the reduction recorded in Europe in the same period. The contraction of the Italian market basically came to a halt over the rest of 2002, thanks primarily to medium-sized operations and the dynamism of the banking and property sectors.

Among major corporate mergers and spin-offs, those involving Bonaparte S.p.A. and Risanamento Napoli, UniCredito and the various banks of its group, the Banca di Roma and Bipop-Carire groups and, lastly, Banca Popolare di Verona-Banco San Geminiano e San Prospero, Banca Popolare di Novara and Cmi deserve special mention.

In June 2002 Risanamento Napoli S.p.A. published the information document on the merger of Bonaparte S.p.A. The reasons given for the merger were the largely complementary activities of the two companies (both operate in the property sector) and the advantages arising from the stronger capital base of the company resulting from the merger, namely an increase in the float and, hopefully, greater interest on the part of the market.

A particularly significant operation, for the number of banks involved, was the merger into UniCredito italiano S.p.A., with effect from 1 July 2002, of Banca Cassa di Risparmio di Torino S.p.A., Cassa di Risparmio di Verona Vicenza Belluno e Ancona Banca S.p.A., Cassamarca Cassa di Risparmio della Marca Trivigiana S.p.A., Cassa di Risparmio di Trento e Rovereto, Cassa di Risparmio di Trieste Banca S.p.A., Rolo Banca 1473 S.p.A., and Credit Carimonte S.p.A. The transaction is part of a broader plan for the reorganization of the banks of the UniCredito Group into three banks operating nationwide and specializing, respectively, in corporate, private and retail banking.

The reorganization of the Bancaroma Group and its integration with the Bipop-Carire Group was also very complex. On 28 February 2002 Banca di Roma (BdR) contributed its interests in a number of operating companies to Tupini Finanziaria, a wholly-owned subsidiary, with the aim of concentrating in a single company its asset management, bancassurance and innovative network activities. In parallel, BdR's traditional banking assets, net of bad debts, were assigned to a wholly-owned subsidiary of BdR, Nuovo Banca di Roma (Nuova BdR). In this way BdR took over the functions of holding company of the Bancaroma Group. Subsequently, Banco di Sicilia was merged into BdR but its banking organization was spun off into a newly-formed company, Nuovo Banco di Sicilia, wholly owned by BdR. The integration of the two groups was achieved with Bipop contributing its branch network and traditional activities to Discorso S.p.A., a wholly-owned subsidiary of Bipop; the spinning-off to BdR of the 100 per cent holding in Discorso, with a consequent increase in the share capital of BdR and the assignment of newly-issued BdR shares to Bipop shareholders in exchange; and the merger of Tupini Finanziaria into Bipop, with a consequent increase in the latter's share capital and the assignment of newly-issued Bipop shares to BdR, Tupini Finanziaria's sole shareholder. Once these steps were completed, Banca di Roma adopted the name of Capitalia and post-spin-off Bipop was renamed Fineco S.p.A.

Finally, there was the amalgamation between Banca Popolare di Verona-Banco San Geminiano e San Prospero and Banca Popolare di Novara, with the partial, proportional spinning off of Cmi S.p.A. The two companies created as a result of these transactions, respectively Banco Popolare di Verona e Novara S.c.a.r.l. and Acetelios S.p.A., were listed on the Stock Exchange in the course of 2002.

Offerings by unlisted companies and by foreign issuers

Three offerings were made in 2002 by companies not having securities listed on regulated markets. All 3 operations involved newly-issued securities and they amounted to a total of around €138 million, a large increase on the previous year (Table II.15).

The three offerings were made by banks and involved ordinary shares in two cases and convertible bonds in one.

The first of the offerings was made by Cassa di Risparmio di Ravenna and involved 6 million ordinary shares at €16.70 per share. Its total value was around €100 million. The second offering, promoted by Farbanca, was for 4,745 bonds convertible into ordinary Farbanca shares, at a price of €2,400. The value of the offering was just above €11 million. The third offering was promoted by Cassa di Risparmio di Cento and involved some 1.3 million ordinary shares at a price of €20 each, for a total value of around €26 million.

TABLE II.15

PUBLIC OFFERINGS OF UNLISTED SECURITIES[1]

	NUMBER OF OFFERINGS					VALUE (MILLIONS OF EUROS)				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
EXISTING SHARES	2	--	--	1	--	90	--	--	4	--
NEW SHARES	4	4	3	1	3	19	62	97	28	138
TOTAL	*6*	*4*	*3*	*2*	*3*	*109*	*62*	*97*	*32*	*138*

[1] With reference to companies not having securities listed on regulated markets.

In 2002 offerings by foreign issuers only involved the recognition of foreign prospectuses by Consob. The offerings numbered 13 and were addressed to employees of Italian subsidiaries of the offerors; they amounted to around €35 million, which was more than in the previous year.

III. FINANCIAL INTERMEDIATION

Industry structure

During the first half of 2002 the total assets managed by investment funds and individual portfolio management services contracted by 4 per cent with respect to the end of 2001, mainly as a consequence of the persisting downtrend of the financial markets. However, the ratio of managed assets to households' total financial assets held steady at around 30 per cent (Table III.1).

TABLE III.1

INDIVIDUAL AND COLLECTIVE ASSET MANAGEMENT

	PERCENTAGE COMPOSITION					ASSETS UNDER MANAGEMENT		MEMORANDUM ITEM
	ITALIAN FUNDS	FOREIGN FUNDS[1]	OTHER FOREIGN COLLECTIVE INVESTMENT UNDER-TAKINGS	INDIVIDUAL PORTFOLIO MANAGEMENT SERVICES[2]	TOTAL	AMOUNT[3]	AS A PERCENTAGE OF HOUSEHOLDS' FINANCIAL ASSETS	TECHNICAL RESERVES OF INSURANCE COMPANIES[4]
1996	42.7	2.9	....	54.4	100.0	239.1	13.3	—
1997	52.6	3.5	....	43.9	100.0	361.9	18.6	2.5
1998	63.9	3.9	....	32.2	100.0	582.6	26.5	17.5
1999	65.1	8.5	....	26.4	100.0	730.0	30.5	34.0
2000	59.6	12.4	3.6	24.4	100.0	764.2	29.4	50.7
2001	54.0	13.7	3.7	28.6	100.0	765.0	29.7	68.7
2002[5]	51.8	14.0	3.2	31.0	100.0	736.1	29.5	76.0

Sources: Based on Assogestioni and Bank of Italy data. See the Methodological Notes. [1] Funds controlled by Italian groups. [2] Net of investments in mutual funds. [3] In billions of euros. [4] Amounts serving to cover the technical reserves in relation to unit and index-linked insurance contracts (under Article 30 of Legislative Decree 174/1995). [5] The figures refer to the end of June.

As a proportion of assets under management, the share entrusted to Italian mutual funds fell from 54 to around 52 per cent at mid-2002, while that entrusted to individual portfolio management services (net of holdings in collective investment undertakings) rose from 28.6 to 31 per cent. The share entrusted to foreign funds controlled by Italian groups also rose slightly. By contrast, that entrusted to funds marketed in Italy by foreign companies not controlled by resident intermediaries remained stable at around 3 per cent.

In contrast with the broadly negative performance of the asset management sector, especially as regards mutual funds, there was a continuation of the uptrend in insurance companies' sales of policies having a prevalently financial content (unit and index-linked policies). Insurance technical reserves in respect of contracts of this kind have been rising sharply since 1997 and at mid-2002 were equal to more than 10 per cent of the total assets of mutual funds and individual portfolio management services and more than 20 per cent of those of Italian mutual funds alone. The aggregate consisting of assets of mutual funds and individual portfolio management services plus technical reserves in respect of insurance policies having a primarily financial content made up around 33 per cent of households' financial assets at mid-2002.

The negative performance of the financial markets led to a marked contraction in banks' and investment firms' income from the provision of investment services, which was around 15 per cent lower in the first half of 2002 than in the same period of 2001 (Table III.2). For banks the fall in fee income from investment services was more pronounced than in the case of investment firms, and the ratio of such income to net interest income declined from 11.6 to 10 per cent between the first half of 2001 and the first half of last year. By contrast, asset management companies' fee income from individual portfolio management services remained broadly unchanged.

TABLE III.2

FEE INCOME FROM INVESTMENT SERVICES: BANKS, INVESTMENT FIRMS AND ASSET MANAGEMENT COMPANIES
(AMOUNTS IN BILLIONS OF EUROS)

	1996	1997	1998	1999	2000	2001	2001[1]	2002[1]
INVESTMENT FIRMS	1.2	1.6	2.4	2.5	3.0	1.7	0.9	0.8
ASSET MANAGEMENT COMPANIES[2]	—	—	....	....	0.5	0.5	0.3	0.3
BANKS	1.7	3.1	5.9	7.7	10.0	7.6	3.9	3.3
AS A PERCENTAGE OF GROSS INCOME	*3.7*	*6.7*	*10.6*	*13.3*	*15.0*	*10.9*	*11.6*	*10.0*
TOTAL	*2.9*	*4.7*	*8.3*	*10.2*	*13.5*	*9.8*	*5.0*	*4.3*

Source: Based on Bank of Italy data. [1] Figures for the first half of the year. Those for 2002 are provisional. [2] The figures refer only to commissions earned on individual portfolio management services.

Collective asset management

Last year saw a reduction in mutual funds' assets in the main world markets, after a slight increase in 2001 (Table aIII.1). The contraction of respectively 7 and 17 per cent in the assets of mutual funds in Europe and the United States was basically due to the slump in share prices during the year, since funds received a net inflow of resources totaling €71 billion in Europe and €77 billion in the United States.

TABLE III.3

PERCENTAGE COMPOSITION OF THE ASSETS OF MUTUAL FUNDS BY TYPE OF FUND IN EUROPE AND THE UNITED STATES
(END-OF-PERIOD DATA)

	1999	2000	2001	2002
EUROPE				
EQUITY	42.9	45.3	39.9	32.3
BALANCED	15.3	16.7	15.4	14.1
BOND	28.0	23.8	27.3	31.7
MONEY MARKET	11.9	11.9	15.4	19.9
OTHER	1.9	2.3	2.0	2.0
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*
UNITED STATES				
EQUITY	59.0	56.9	48.9	41.8
BALANCED	5.6	5.0	5.0	5.1
BOND	11.8	11.6	13.3	17.6
MONEY MARKET	23.6	26.5	32.8	35.5
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*

Sources: Fefsi and Ici.

In Europe, the leading country in the field of collective investment management is France, which has a 24 per cent market share in terms of assets under management and last year overtook Luxembourg (23 per cent of the European market at the end of 2002). Italy ranks third though at a considerable distance, with 11 per cent, followed by the United Kingdom, Ireland and Germany. Considering the composition of the assets under management by type of fund in Europe and the United States (Table III.3), some substantial differences emerge: in the United States the share of assets managed by equity funds is considerably higher, although the difference has been diminishing since the end of 1999, probably as a consequence of the fall in share prices beginning in the first half of 2000.

With reference to the Italian market, and particularly to Italian fund managers, in 2002 the number of asset management companies declined from 61 to 57 while the number of funds in operation rose slightly (Table aII.2). Meanwhile, the contraction in fund-raising that began in 2000 continued; redemptions exceeded subscriptions by nearly €13 billion (compared with around €21 billion in 2001) and liquidity funds were again the only category of fund to record a net inflow, as a "safe haven" in times of unfavourable financial market conditions. As a consequence of these developments, over the year Italian investment funds' assets fell from €404 billion to around €361 billion.

In addition, the number of foreign intermediaries operating in Italy continued to grow (Table aII.3). The number of companies offering units of collective investment undertakings to the public in Italy under the Community directives rose from 149 to 186, the bulk of which have their registered office in Luxembourg. However, this increase in the number of intermediaries was not accompanied, as noted above, by significant growth in assets under management. The number of funds and sub-funds they marketed in Italy rose from 2,132 to 2,730.

TABLE III.4

ASSET ALLOCATION OF ITALIAN MUTUAL FUNDS
(END-OF-PERIOD DATA)

	ASSETS (BILLIONS OF EUROS)	PERCENTAGE COMPOSITION						
		GOVERNMENT SECURITIES	ITALIAN BONDS	ITALIAN SHARES	FOREIGN BONDS[1]	FOREIGN SHARES	TOTAL FOREIGN	OTHER ASSETS
1990	24.5	49.3	7.9	22.8	3.3	8.2	11.5	8.5
1995	65.5	50.2	3.2	14.9	8.9	14.1	23.0	8.7
1996	101.7	62.2	2.4	10.4	7.4	8.0	15.4	9.6
1997	189.5	52.0	2.1	10.6	13.6	10.7	24.3	11.0
1998	372.3	51.9	1.4	10.6	17.2	11.7	28.9	7.2
1999	475.2	34.2	2.7	10.1	21.5	25.8	47.3	5.7
2000	449.9	28.1	2.3	10.7	22.6	29.1	51.7	7.2
2001	403.7	30.3	3.5	7.1	25.8	24.7	50.5	8.6
2002	360.7	36.0	3.8	5.3	24.9	17.4	42.3	12.6

Source: Based on Assogestioni data. See the Methodological Notes. [1] Includes government securities.

The composition of the portfolio held by Italian mutual funds has changed appreciably since the beginning of the 1990s. The portion consisting of foreign securities (shares, bonds and government securities) grew from 11.5 per cent in 1990 to 42.3 per cent at the end of 2002, after exceeding 50 per cent in 2000 and 2001 (Table III.4). Correspondingly, the portion consisting of Italian government securities and, even more markedly, that of Italian shares and bonds contracted from 30.7 per cent at the end of 1990 to 9.1 per cent at the end of 2002, indicating an increasing presence of foreign securities in Italian mutual funds' portfolios.

The ownership structures of asset management companies continued to be dominated by banking groups. The share of total assets that can be attributed to bank-controlled management companies stands at around 92 per cent. The market share attributable to insurance groups rose slightly last year, from 4.3 to 5.5 per cent; that attributable to asset management companies controlled by non-bank financial intermediaries and individuals remains marginal at just over 2 per cent (Table III.5).

TABLE III.5

OWNERSHIP STRUCTURE OF MUTUAL FUND MANAGEMENT COMPANIES[1]
(PERCENTAGES OF TOTAL FUNDS UNDER MANAGEMENT)

TYPE OF CONTROLLER	1997	1998	1999	2000	2001	2002
BANKING GROUP	83.9	93.9	94.0	91.6	93.9	92.0
INSURANCE GROUP	7.9	5.1	4.9	3.9	4.3	5.5
JOINT VENTURE	6.0	0.1	0.2	--	--	--
NON-BANK FINANCIAL INTERMEDIARY	1.2	0.2	0.2	4.3	1.1	1.7
INDIVIDUAL	1.0	0.7	0.7	0.2	0.7	0.8
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Sources: Consob archive of prospectuses and *Il Sole 24 Ore*. See the Methodological Notes. [1] At 31 December with reference to mutual funds established under Italian law.

Further ground was gained last year in the Italian market by financial instruments which are formally very different from typical asset management products but in fact have features and purposes similar to the latter, with which they often openly compete. The reference is essentially to several innovative types of covered warrants and linked insurance policies (Box 4).

BOX 4

Certificates and insurance products with a prevalently financial content

There are evident similarities between certificates and passively managed funds (index funds and, above all, ETFs). Although they are formally call covered warrants with a strike price of zero and delta of one, they actually replicate in linear fashion the performance of the underlying (which may be a market index — "benchmarks" — or constructed by the issuer — "certificates"), since their price is not influenced by the behaviour of other factors, such as term to maturity or volatility. What is more, in at least the simpler types there is no use of leverage.

This makes them more similar to indexed asset management products than to either traditional covered warrants — with which they share the same trading MCW trading platform, although certificates, like structured/exotic covered warrants are traded on a dedicated segment distinct from plain vanilla contracts — or to derivatives in general, compared with which they involve less risk.

These instruments thus behave and function very much like ETFs, with the only difference that the latter distribute dividends whereas certificates already incorporate dividends in the price.

However, certificates have not gained great popularity with savers. While total turnover on the market in covered warrants was €18,283 million, that in certificates (including benchmarks, which initially were traded on a different segment and have now been taken into the certificates segment) amounted to only €594 million. By contrast, in the three months following the launch of the electronic funds market with the listing of the first ETFs on 30 September 2002 turnover in ETFs already amounted to €205 million, i.e. more than a third of the annual turnover in certificates.

ETFs AND CERTIFICATES

	ETFs			CERTIFICATES		
	NUMBER OF FUNDS LISTED AT YEAR END.	NUMBER OF CONTRACTS CONCLUDED	TURNOVER	NUMBER OF CERTIFICATES LISTED AT YEAR END	NUMBER OF CONTRACTS CONCLUDED	TURNOVER
2002	10	5,124	205.7	185	109,023	594.8

Source: Borsa Italiana S.p.A. Amounts in millions of euros. [1] Start of trading: 30 September 2002.

Insurance products have also undergone significant innovation and are now in competition with traditional forms of medium and long-term investment such as mutual funds.

Linked products represent a transformation of so-called with-profits policies, which were born in a period of high monetary inflation, into products that beside the traditional insurance component (or even in its absence, as happens with capital redemption contracts) link the insured capital to the performance of stock markets (index-linked products) or investment funds (unit-linked products).

In practice, in the case of index-linked policies the insured's capital is revalued by a part of the appreciation of the reference parameter, according to the procedures and conditions established in the policy. In unit-linked policies, on the other hand, the value of the insured benefits is represented by the value of the units of the internally or externally managed fund held by the insured.

These differences with respect to traditional policies give the policies in question a distinctly financial nature. Their success, especially from the mid-1990s onwards, has been favoured by the possibility of combining some of the characteristics of traditional insurance products with the scope for benefiting from financial market upswings.

In fact, gross fund-raising from the sale of unit and index-linked policies has trended upwards and exceeded €13 billion in the first half of 2002, while gross fund-raising by Italian investment funds has contracted and totaled around €97 billion in the first half of last year.

MUTUAL FUNDS AND UNIT AND INDEX-LINKED POLICIES

	MUTUAL FUNDS		LINKED POLICIES	
	ASSETS UNDER MANAGEMENT AT YEAR END	GROSS INFLOWS	TECHNICAL RESERVES AT YEAR END	PREMIUMS
1999	475,301	362,927	34,016	15,545
2000	449,931	335,768	50,69	22,408
2001	403,689	218,576	68,745	24,281
2002[1]	376,395	97,172	76,030[2]	13,703

Sources: Assogestioni and Isvap. Amounts in millions of euros. [1] At 30 June 2002. [2] Estimated.

Investment services

Banks' and investment firms' revenues from investment services contracted considerably in the first half of 2002 compared with the same period of 2001. Fee income declined by around 13 per cent for investment firms and 18 per cent for banks (Table III.6). The share of revenues from investment services attributable to banks remained stable at around 75 per cent.

TABLE III.6

FEE INCOME FROM SECURITIES SERVICES
(MILLIONS OF EUROS)

	1996	1997	1998	1999	2000	2001	2001[1]	2002[1]
INVESTMENT FIRMS								
TRADING	283	407	654	581	925	551	332	318
PLACEMENT	107	86	149	229	409	258	98	92
PORTFOLIO MANAGEMENT	189	253	451	328	301	275	126	136
RECEPTION OF ORDERS	29	40	67	395	253	196	104	73
DOOR-TO-DOOR SELLING	582	804	1,113	980	1,133	460	201	133
TOTAL	*1,190*	*1,590*	*2,434*	*2,513*	*3,021*	*1,740*	*861*	*752*
BANKS								
TRADING	201	363	915	807	1,068	736	241	200
PLACEMENT	646	1,389	2,682	4,157	5,344	4,123	2,200	1,802
PORTFOLIO MANAGEMENT	358	559	851	1,236	1,189	1,093	557	493
RECEPTION OF ORDERS	314	510	967	948	1,563	809	376	351
DOOR-TO-DOOR SELLING	178	273	463	529	755	809	528	442
TOTAL	*1,697*	*3,094*	*5,878*	*7,677*	*9,919*	*7,570*	*3,902*	*3,288*
ASSET MANAGEMENT COMPANIES								
PORTFOLIO MANAGEMENT[2]	—	—	....	....	536	508	260	258
BANKS, INVESTMENT FIRMS AND ASSET MANAGEMENT COMPANIES								
TRADING	484	770	1,569	1,388	1,993	1,287	573	518
PLACEMENT	753	1,475	2,831	4,386	5,753	4,380	2,298	1,894
PORTFOLIO MANAGEMENT	547	812	1,302	1,564	2,026	1,876	943	887
RECEPTION OF ORDERS	343	550	1,034	1,343	1,816	1,005	480	424
DOOR-TO-DOOR SELLING	760	1,077	1,576	1,509	1,888	1,269	730	575
TOTAL	*2,887*	*4,684*	*8,312*	*10,190*	*13,476*	*9,816*	*5,024*	*4,298*

Source: Based on Bank of Italy data. [1] Figures for the first half of the year. Those for 2002 are provisional. [2] The figures refer only to commissions earned on individual portfolio management services.

For investment firms the fall in total fee income was primarily attributable to door-to-door selling and the reception of orders, while trading fees declined by 4 per cent in value and portfolio management fee income rose by around 8 per cent.

For banks, by contrast, the fall in fee income mainly involved the activities of placement, trading and door-to-door selling, while the decline was more moderate in revenues from portfolio management and the reception of orders. For asset management companies, finally, revenues from individual portfolio management were basically unchanged.

BOX 5

Trading in shares and intermediaries' proprietary trading

The portion of trades for own account in shares listed on the MTA electronic share market operated by Borsa Italiana rose last year by more than 6 percentage points to more than 21 per cent. In the second half of 2002 the growth in this proprietary trading more than offset the contraction in trading for customer account, and thus explains the modest increase in volume with respect to the same period of 2001.

The increase in the proportion of trading for own account mainly involved the most liquid securities, whose share in all proprietary trades rose from a little less than 20 per cent in 2001 to 27 per cent last year. The proportion of proprietary trades declines steadily with the diminishing liquidity of securities to a low of around 3 per cent, and for thinly-traded securities it remained unchanged with respect to 2001. This contributed to an increasing concentration of trades on a relatively small number of securities; at the end of last year 61.8 per cent of total turnover was in 7 shares, while the number of securities included in the residual class, with six-month turnover of less than €10 million, rose from 107 in the first half of 2001 to 161 in the second half of 2002.

The main characteristics of proprietary trading can be summarized as follows: 1) relatively low net balances between purchases and sales and comparatively small changes in portfolio composition; 2) a fairly short holding period, with a growing proportion of day trades involving the opening and closing of positions in the same session; 3) a high level of concentration both as regards both the securities traded (a limited number of the most liquid securities) and the number of intermediaries that regularly engage in substantial proprietary trading.

Some preliminary analyses of trading for customer account, performed with the support of data on the post-trading phase, show that in this case as well there is a steady reduction in the holding period and a simultaneous growth in trades dictated by short or very-short-term strategies, such as day trading or scalping on the part of the customer. This phenomenon appears to have been favoured in part by the spread of interconnections and on-line trading, which has created a niche market in which many smaller intermediaries have specialized.

TRADING FOR OWN ACCOUNT AND TURNOVER IN SHARES LISTED ON MTA

TURNOVER PER SECURITY	FIRST SEMESTER				SECOND SEMESTER			
	NUMBER OF SECURITIES	TOTAL VALUE[1]	TRANSACTIONS FOR OWN ACCOUNT[2]		NUMBER OF SECURITIES	TOTAL VALUE[1]	TRANSACTIONS FOR OWN ACCOUNT[2]	
			PURCHASES	SALES			PURCHASES	SALES
				2001				
MORE THAN €10 BN	11	222.8	19.3	18.2	8	179.2	19.7	20.2
€1 BN - €10 BN	26	94.3	10.0	9.6	25	96.5	9.0	9.0
€250 MN - €1 BN	38	18.8	4.7	3.9	38	18.4	4.4	4.2
€100 MN - €250 MN	38	5.8	3.6	3.0	26	3.9	2.4	2.5
€50 - €100 MN	47	3.5	3.2	2.7	43	2.9	4.7	3.8
€10 - €50 MN	98	2.5	2.9	1.9	93	2.3	3.7	2.9
LESS THAN €10 MN	107	0.4	4.8	2.5	131	0.4	2.8	4.3
TOTAL	*365*	*348.1*	*15.4*	*14.6*	*364*	*303.6*	*14.9*	*15.1*
				2002				
MORE THAN €10 BN	9	198.0	27.8	27.2	7	193.9	26.4	27.3
€1 BN - 10 BN	25	90.4	12.9	12.4	27	100.1	14.0	13.8
€250 MN - €1 BN	29	14.7	7.0	6.6	18	8.4	8.7	7.5
€100 MN - €250 MN	38	6.8	4.9	3.5	30	4.8	3.9	4.4
€50 MN - €100 MN	35	2.4	5.4	3.4	34	2.4	7.0	5.0
€10 MN - €50 MN	101	2.5	3.3	2.8	78	2.0	4.0	3.6
LESS THAN €10 MN	119	0.5	2.8	2.9	161	0.6	3.5	3.0
TOTAL	*356*	*315.3*	*21.7*	*21.1*	*355*	*312.2*	*21.3*	*21.7*

[1] In billions of euros. [2] As a percentage of total turnover.

Overall, the fall in the fee income of banks and investment firms depends both on the reduction in individual fees and the fall in the volume of trades in the markets for financial instruments. However, in the case of listed shares, although the decline in total turnover between the first half of 2001 and the same period of 2002 was limited, amounting to around 9 per cent, the share of trades connected with intermediaries' proprietary activity grew (Box 5). This helps to explain the reduction in trading fees insofar as transactions in equities are concerned.

The fall in banks' fee income from portfolio management is a consequence both of the downtrend of the markets and of the fact that this activity is increasingly being performed by asset management companies, often belonging to the same group as the bank. The assets of individual portfolios managed by asset management companies rose from 46 per cent of the total assets of individual portfolio management services at the end of June 2001 to around 48 per cent in June 2002 (Table III.7); over the same period the total assets of individually managed portfolios remained basically unchanged at around €410 billion.

TABLE III.7

INDIVIDUAL PORTFOLIO MANAGEMENT:
ASSETS UNDER MANAGEMENT BY TYPE OF MANAGER
(AT 31 DECEMBER - PERCENTAGES)

	1998	1999	2000	2001	2002[1]
BANKS	68.3	60.1	54.4	44.9	41.8
INVESTMENT FIRMS	31.7	13.2	10.0	9.6	10.2
ASSET MANAGEMENT COMPANIES	....	26.8	35.6	45.5	48.0
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
TOTAL ASSETS UNDER MANAGEMENT[2]	280.5	370.3	392.1	411.0	408.6

Source: Based on Bank of Italy data. See the Methodological Notes. [1] Figures refer to the end of June. [2] In billions of euros.

The negative performance of the financial markets led to a considerable shift in the asset allocation of individually managed portfolios. At the aggregate level, the share of bonds and government securities rose from 42.8 per cent at the end of 2001 to 46.1 per cent in June 2002 while that of equities fell from 7 to 6 per cent (Table III.8). The portion invested in collective investment undertakings also declined, but these instruments still make up the largest share (around 44 per cent) of individually managed portfolios, a position they have held since 1999.

TABLE III.8

ASSET ALLOCATION OF INDIVIDUAL PORTFOLIO MANAGEMENT BY BANKS, ASSET MANAGEMENT COMPANIES AND INVESTMENT FIRMS
(PERCENTAGES OF TOTAL ASSETS)

	1997	1998	1999	2000	2001	2002[1]
GOVERNMENT SECURITIES	55.1	42.5	30.2	25.0	30.2	32.4
ITALIAN BONDS	5.9	3.6	3.9	5.4	8.2	8.6
FOREIGN BONDS	7.2	6.8	5.9	4.8	4.4	5.1
ITALIAN SHARES	5.5	4.9	5.7	5.6	5.1	4.2
FOREIGN SHARES	1.6	1.6	2.7	2.5	1.9	1.8
INVESTMENT FUND SHARES/UNITS	17.9	35.3	46.8	52.4	46.6	44.1
LIQUIDITY AND OTHER SECURITIES	6.8	5.3	4.8	4.3	3.7	3.9
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Source: Based on Bank of Italy data. See the Methodological Notes. [1] Figures refer to the end of June.

However, data distinguishing by type of manager reveal substantial differences in investment choices. In particular, the individual portfolios managed by asset management companies have almost twice as large a percentage invested in bonds and government securities as those managed by banks and investment firms, while the percentage invested in collective investment undertakings is around half that of the portfolios managed by banks and investment firms (Table aIII.4).

There were 833 banks and investment firms authorized to provide investment services at the end of 2002, compared with 915 at the end of 2001 (Table III.9). The number of investment firms declined from 162 to 158 as a consequence of 15 deletions and 11 additions to the register. The most frequent causes of deletion were voluntary deletion and transformation of investment firms into banks (Table aIII.5)

TABLE III.9

FINANCIAL INTERMEDIARIES BY AUTHORIZED INVESTMENT SERVICES

	INVESTMENT FIRMS					BANKS				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
NUMBER OF AUTHORIZED INTERMEDIARIES	191	183	171	162	158	806	813	781	753	725
DEALING FOR OWN ACCOUNT	69	60	55	51	45	569	607	587	576	558
DEALING FOR CUSTOMER ACCOUNT	72	65	60	62	60	547	544	532	519	492
PLACEMENT WITH FIRM COMMITMENT UNDERWRITING[1]	38	37	36	34	32	240	276	276	276	266
PLACEMENT WITHOUT FIRM COMMITMENT UNDERWRITING[1]	106	111	109	109	112	585	737	726	712	691
INDIVIDUAL PORTFOLIO MANAGEMENT	102	99	91	85	80	220	256	253	250	240
RECEPTION/TRANSMISSION OF ORDERS AND BRINGING TOGETHER INVESTORS	80	75	79	93	89	805	798	766	738	710
AVERAGE NUMBER OF SERVICES PER INTERMEDIARY	2.4	2.3	2.5	2.7	2.6	3.7	4.0	4.0	4.1	4.1

Sources: Consob and Bank of Italy. [1] It Includes placement, with or without firm commitment underwriting or stand by commitments to issuers.

CONSOB ACTIVITIES

IV. SUPERVISION OF CORPORATE DISCLOSURE AND THE SOLICITATION OF INVESTORS

Disclosure of price-sensitive events and ownership structures

Articles 114 and 115 of the Consolidated Law on Financial Intermediation require issuers to inform the public and Consob of events occurring within their sphere of activity that are likely to influence the price of financial instruments (so-called price-sensitive events).

Last year, besides its daily informal requests for the public dissemination of data and information, Consob took formal steps under both Article 115 and Article 114 of the Consolidated Law requesting that information be disclosed to the public.

In particular, 36 requests for information were made to issuers under Article 115.1 of the Consolidated Law and sent to 38 different addressees. In one case the request was made in view of the anomalous behaviour of a security following a conference call of which Consob had not been notified in advance (Tables IV.1 and aIV.1).

Twenty-five requests were made under Article 114.3 for the publication of data and information. In 4 of these cases Consob's intervention was made necessary by a security's anomalous behaviour in the wake of the spread of price-sensitive rumours and/or information in the press without a communiqué having been published in advance pursuant to Article 66 of Consob Regulation 11971/1999.

The Commission received and granted five requests for waiver of the public information requirements under Article 114.4 of the Consolidated Law.

In particular, in one case the issuer's request regarded the publication of the economic content of a commercial agreement concluded with a foreign entity, on the grounds that divulgence of the information would have breached the terms of the agreement. Consob determined that non-dissemination of the information would not have undermined or hindered evaluation of the transaction by the market, which would be able to base its assessment on information regarding earlier agreements concluded by the same company and not subject to such clauses. On the other hand, finding that disclosure would have effectively caused a serious loss for the company by preventing the conclusion of the agreement, the Commission granted permission for partial publication of the information.

In 2002 Consob carried out the half-yearly updates of the list of financial instruments widely distributed among the public (Italian companies with shareholders' equity of at least €5 million and a number of shareholders or bondholders exceeding 200).

TABLE IV.1

SUPERVISION OF CORPORATE DISCLOSURE, OWNERSHIP STRUCTURES AND RESEARCH REPORTS IN 2002

	NO. OF CASES
REQUESTS FOR INFORMATION UNDER ARTICLES 115.1 AND 115.2 OF THE CONSOLIDATED LAW	
- INFORMATION ACQUIRED FROM DIRECTORS, MEMBERS OF THE BOARD OF AUDITORS, EXTERNAL AUDITORS, GENERAL MANAGERS, PARENT AND SUBSIDIARY COMPANIES	36
- REQUESTS FOR DATA AND INFORMATION	100
- REQUESTS FOR CONFIRMATION OF MAJOR HOLDINGS	23
- REQUESTS FOR INFORMATION TO IDENTIFY THE PERSON RESPONSIBLE FOR FULFILLING DISCLOSURE REQUIREMENTS IN THE EVENT OF CHARGES OF NON-COMPLIANCE	52[1]
TOTAL	*211*
REQUESTS FOR INFORMATION MADE TO SHAREHOLDERS UNDER ARTICLE 115.3 OF THE CONSOLIDATED LAW	31
INSPECTIONS	2
REQUESTS TO PUBLISH DATA AND INFORMATION UNDER ARTICLE 114.3 OF THE CONSOLIDATED LAW	
- SUPPLEMENTS TO INFORMATION TO BE PROVIDED IN SHAREHOLDERS' MEETINGS	69
- SUPPLEMENTS TO PERIODIC FINANCIAL REPORTS[2]	1
- INFORMATION TO BE PROVIDED TO THE MARKET (PRESS RELEASES)	25
- MONTHLY PERIODIC DISCLOSURES	9
- SUPPLEMENTS TO MERGER DOCUMENTS	2
- SUPPLEMENTS TO TENDER OFFER DOCUMENTS	3
TOTAL	*109*
WAIVERS OF DISCLOSURE OBLIGATIONS UNDER ARTICLE 114.4 OF THE CONSOLIDATED LAW	5
REQUESTS TO PUBLISH RESEARCH REPORTS IMMEDIATELY OWING TO RUMOURS	3
REPORTS TO THE COURTS UNDER ARTICLE 2409 OF THE CIVIL CODE	1
WRITTEN REPRIMANDS	3
CHALLENGES OF THE ANNUAL ACCOUNTS	--

[1] Of which 7 additions to earlier requests. [2] Half-yearly reports.

Such companies must provide information to the public and Consob on events that are significant or likely to influence the price of their securities appreciably and must make accounting documentation available (Article 116 of the Consolidated Law on Financial Intermediation, Articles 108-112 of Consob Regulation 11971/1999 and Consob Communication 99018236 of 16 March 1999), unless Consob grants

a waiver upon a reasoned request by the issuer where the information is not relevant for the protection of investors.

The last update of the list during 2002 was made with reference to the notifications received by 31 July 2002. Following the update the list comprised 165 issuers, of which 44 exempted from the disclosure requirements pursuant to Article 112.1 of Regulation 11971/1999.

In the light of their potential impact on investment decisions, ownership structures are subject to a continuing disclosure regime broadly similar to that governing price-sensitive events.

Disclosure of ownership structures is based on notification of shareholdings exceeding 2 per cent of the voting capital of listed companies and of shareholders' agreements regarding listed companies or the companies that control them. Consob informs the public of major shareholdings on its own website and through the market operating company, on the basis of the notifications received. Shareholders' agreements are disclosed to the public by the parties thereto with entry of the full text of the agreement in the Company Register and publication in a daily newspaper of an extract containing the key facts. These extracts are also made available on Consob's website.

In 2002 around 1,110 notifications of major holdings in listed companies were filed, in line with the average number for the last four years. The slight increase with respect to 2001 was partly due to the fact that a regulatory change introduced in June 2002 made notification mandatory even where the percentage held did not change significantly but a substantial change occurred in the way the interest was held.

TABLE IV.2

NOTIFICATIONS OF MAJOR HOLDINGS UNDER ARTICLE 120 OF THE CONSOLIDATED LAW

	1999	2000	2001	2002
EXCEEDING THE 2% THRESHOLD	397	398	337	303
CHANGE IN PREVIOUSLY HELD MAJOR HOLDING	353	404	403	502
FALLING BELOW THE 2% THRESHOLD	248	379	313	308
TOTAL	*998*	*1,181*	*1,053*	*1,113*

Of the transactions notified in 2002, around 28 per cent were for the exceeding of the threshold of 2 per cent of the voting capital, another 28 per cent for the reduction of holdings below that threshold, and 44 per cent for changes in major holdings already held (Table IV.2).

In 2002 the total number of notifications was more or less evenly divided between equity purchases and sales, apart from around 40 notifications of a change in the way a previously declared holding was held (Table IV.3).

TABLE IV.3

DISTRIBUTION OF NOTIFICATIONS OF MAJOR HOLDINGS IN 2002 BY TYPE OF INVESTOR AND TYPE OF TRANSACTION

TYPE OF INVESTOR	TYPE OF TRANSACTION			
	CHANGE IN THE WAY HOLDING WAS HELD	SALES	PURCHASES	OVERALL TOTAL
INSURANCE COMPANIES	1	32	12	45
BANKS	3	83	103	189
FOUNDATIONS	2	35	20	57
ITALIAN INSTITUTIONAL INVESTORS	--	53	37	90
FOREIGN INSTITUTIONAL INVESTORS	--	86	93	179
INDIVIDUALS	14	117	99	230
OTHER COMPANIES	20	129	169	318
STATE	1	2	2	5
TOTAL	*41*	*537*	*535*	*1,113*

Approximately a quarter of all the notifications were made by institutional investors, a majority of them foreign. For foreign institutional investors purchases slightly outnumbered sales, whereas for Italian institutional investors there was a prevalence of sales. Around 30 per cent of the notifications came from "other companies", with more purchases than sales, while around 20 per cent came from individuals, with sales outnumbering purchases.

Considering the size of the transactions notified in terms of portions of voting capital, more than four fifths of the notifications regarded holdings of less than 5 per cent of the capital and a tenth holdings of between 5 and 10 per cent. In 60 cases, or 5 per cent of the total, the transactions notified involved holdings of between 10 and 30 per cent of the capital while in 37 cases they were for holdings exceeding 30 per cent.

During the year Consob received 33 notifications of potential holdings (involving 7 listed companies); 2 of these holdings were in existence at 31 December 2002. Potential holdings are notified when, through ownership of convertible instruments or warrants or under contractual

agreements, an entity can, on its own initiative, buy or sell shares of a listed company in an amount such as to cross the relevant thresholds of voting capital (5, 10, 25, 50 and 75 per cent).

In supervising the transparency of major holdings Consob made 31 requests for information to companies with holdings of more than 2 per cent, pursuant to Article 115.3 of the Consolidated Law on Financial Intermediation. These requests, regarding the list of names of the company's shareholders and information as to the existence of a controlling shareholder, were made with a view to checking compliance with the notification requirements. In addition, Consob made 23 requests for confirmation of holdings that had been declared in 16 different listed companies for which market rumours or other elements gathered in the course of supervisory activity indicated that significant changes might have occurred which had not been notified (Table IV.1).

As regards shareholders' agreements, 137 notices of agreements regarding 60 listed companies were published last year. Thirty-five of these notices concerned variations in existing agreements; the remaining 102 announced new agreements, which were published in abridged form.

The cases governed by Article 114 of the Consolidated Law for the purpose of ensuring adequate and timely disclosure to the market include the research reports produced by financial analysts, which constitute flows of "derivative" information. Although most of these reports are not produced by issuers but by financial intermediaries, they are increasingly apt to influence the formation of the prices of the securities they cover. For these reasons Consob considered it appropriate to introduce a regulatory amendment, discussed in Chapter VIII, to make the disclosure regime to which these reports are subject similar to that applied to issuers of listed securities as regards price-sensitive information and rumors.

Following the amendments made to Article 69 of Consob Regulation 11971/1999 on issuers with Resolution 13086 of 18 April 2002, after an initial phase of application Consob monitored intermediaries' compliance with the new rules, particularly the provisions concerning disclosure of conflicts of interest.

The exercise found that, contrary to the rules, in many cases the disclaimers containing the warnings on conflicts of interest were generic.

To look more closely into this behaviour Consob sent a note to 30 intermediaries admitted to trading on Italian regulated markets that had produced reports asking why they had failed to comply promptly with the new rules introduced in Article 69.

An analysis of the intermediaries' responses to the above-mentioned notes shows that more than half of those involved (belonging to both foreign and Italian banking groups) have the research reports prepared through a foreign branch and drawn up (in English) for distribution not only in Italy but also in other countries, where regulations naturally differ.

These intermediaries affix to the reports they distribute the so-called standard disclaimer listing all the potential conflicts of interest. The standard disclaimer satisfies the requirements of most of the foreign supervisory authorities, compared with which the Italian rules were stricter at the time the survey was conducted.

The intermediaries in question declared they were studying organizational procedures to allow the standard disclaimer to be supplemented with the specific information required by Article 69. In any case, the latest legislative and regulatory initiatives under way in the principal countries abroad appear to go in the direction taken by Consob.

In addition to the above-mentioned investigation, in 2002 Consob checked compliance with Article 69 of Regulation 11971/1999 by report-writing intermediaries for which conflicts of interest not indicated in the disclaimers actually existed. In three cases the intermediaries notified of charges paid the fine provided for in Article 16 of Law 689 of 24 November 1981. The attention Consob paid to these aspects and its supervisory activity spurred intermediaries to accelerate the internal organizational measures needed to comply with the rules on conflicts of interest.

Last year Consob also intervened in three cases (regarding two companies listed on the Stock Exchange and one on the Nuovo Mercato) in which disorderly market conditions had been created as a consequence of rumours about the content of research reports produced by intermediaries. The Commission asked the intermediaries in question to disclose the reports involved in the rumours immediately to the market. In fact, Article 69.3 of Regulation 11971/1999 states that where rumours about the content of a research report yet to be published coincide with anomalous behaviour of the market price/and or trading volume of the financial instruments that are the subject of the report, Consob may request immediate publication of the report, so as to restore equality of information in the market, even before the 60 days normally envisaged for its dissemination to the public.

On the basis of the research reports that intermediaries are required to send to Consob, a study was made of analysts' coverage of the market and the distribution of their recommendations.

In particular, as regards coverage by financial analysts' research reports, the number of companies listed on the Stock Exchange that were the subject of reports diminished further last year, from 217 to 198 (Table aIV.2). The reports prepared by analysts employed by intermediaries concentrated on the securities with highest trading volumes on the Stock Exchange, neglecting high-cap companies that were less actively traded, and on those dealt in on the Nuovo Mercato. On the other hand, more attention was paid than in the past to companies with low market value but high trading volume.

As to recommendations, there was a slight reduction in recommendations to buy or to hold securities (Table aIV.3).

Disclosure in public offerings and corporate actions

In the course of supervising public offerings, Consob examined a total of 742 prospectuses last year (Table IV.4). One hundred and two of these were for the issue of covered warrants (normally each prospectus regards the issue of more than one "series" of covered warrants), while 37 were for the admission to listing of shares, bonds and warrants. The other offerings were not made for listing purposes and concerned unlisted bonds and shares, offerings of listed shares, offerings reserved to employees (including those connected with stock-option plans), rights offerings and the recognition of foreign prospectuses. In addition, 520 prospectuses concerned the placement or admission to listing of units or shares of collective investment undertakings and pension funds.

During the year Consob also received 254 reports by listed issuers on corporate actions, under the provisions of Consob Regulation 11971/1999 on issuers requiring listed companies to prepare such reports on the occasion of several types of corporate action. The most frequent of such actions were changes to company bylaws, the purchase or sale of own shares, capital increases and mergers.

As regards examinations of applications for admission to listing, the listing of Tenaris SA on the Stock Exchange deserves special mention both for the transaction's complexity and for its ensuing regulatory implications. In this connection on 23 November 2002 Consob cleared the listing prospectus and the exchange tender offer document for Dalmine ordinary shares.

The transaction was the first in which Consob authorized publication of a prospectus for admission to listing on an Italian regulated market of shares of a foreign company not having shares already listed on other EU and non-EU regulated markets. Consob had authorized publication of foreign companies' listing prospectuses in the past but the companies involved in those cases already had shares listed on markets outside Italy.

As provided for by Article 114 of the Regulation on issuers for such situations, in authorizing the prospectus Consob established the information and documents that the company was required to publish concerning periodic disclosure and corporate actions, the language to be used in the satisfaction of these requirements and the timetable.

This called for an examination of the company law in force in the company's home country. Tenaris is subject to the laws and regulations of the Grand Duchy of Luxembourg concerning commercial companies. Some provisions of the law in force in Luxembourg offer shareholders of corporations less protection than the corresponding provisions of Italian law. Moreover, some provisions of Italian law for the protection of the rights of minority shareholders in companies with listed shares lack exact correspondence in Luxembourg's law. A lengthy treatment of the questions connected with the legislation applicable to Tenaris, highlighting the main difference with respect to Italian legislation, was therefore included in the prospectus.

TABLE IV.4

CONSOB'S ENFORCEMENT ACTIVITY IN CONNECTION WITH OFFERINGS, ADMISSIONS TO LISTING AND CORPORATE ACTIONS IN 2002

	NUMBER
PROSPECTUSES IN RELATION TO:	
ADMISSIONS TO LISTING OF SHARES [1], OF WHICH:	14
- IPOS	6
BOND LOANS, OF WHICH:	21[2]
- ONLY ADMISSION TO LISTING	16[3]
ISSUES OF COVERED WARRANTS[4]	102
ADMISSIONS TO LISTING OF WARRANTS	6
OTHER OFFERINGS OF LISTED SECURITIES[5]	1
OFFERINGS OF UNLISTED SECURITIES OF ITALIAN ISSUERSI[6]	3
OFFERINGS RESERVED TO EMPLOYEES[7]	39
RIGHTS OFFERINGS[8]	23
OFFERINGS BY FOREIGN ISSUERS, OF WHICH:	13
- RECOGNITION OF FOREIGN PROSPECTUSES	13
- PAN-EUROPEAN PUBLIC OFFERINGS	--
COLLECTIVE INVESTMENT UNDERTAKINGS AND PENSION FUNDS[9]	520
TOTAL	*742*
REPORTS ON CORPORATE ACTIONS:	
MERGERS	43
SPIN-OFFS	6
INCREASES IN SHARE CAPITAL[10]	58
PURCHASES/SALES OF TREASURY STOCK	78
CHANGES TO BYLAWS	81
SHARE CONVERSIONS	1
BOND ISSUES	5
REDUCTIONS IN SHARE CAPITAL	8
TOTAL[11]	*254*

[1] The figures refer to transactions for which Consob cleared the listing prospectus during the year. [2] In one case the public offering was contemporaneous with admission to listing. [3] In addition to this figure there was a public offering with contemporaneous admission to listing of a bond loan. [4] The number of prospectuses cleared during the year, each of which normally referred to the issue of more than one series of covered warrants. [5] Public and private offerings not for listing purposes. In particular, the figure refers to the placement of convertible bonds issued by a company listed on the Mercato Ristretto. [6] Excludes offerings reserved to employees. [7] Includes stock option plans reserved to employees but excludes offerings that involved the recognition of foreign prospectuses. [8] Refers to companies that are liste or whose securities are widely distributed. [9] Includes public offerings of units of mutual funds and shares of Sicavs, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies and offerings of pension funds. [10] Includes increases in capital approved but not yet implemented (or implemented subsequently). [11] The total number of reports does not coincide with the sum of the different kinds since some reports had more than one subject.

Moreover, since the company had simultaneously applied for listing on the Argentine and Mexican markets and the U.S. market (in this case for American Depositary Shares) as well as in Italy, it undertook in general to provide the market and Consob with all the information it was required to disclose to the other markets on which listing was sought, in conformity with the principle, sanctioned by Article 88 of the Consob Regulation 11971/1999 on issuers, of broad equivalence of the information to be disclosed to the public in Italy with that provided in other markets.

Lastly, on the basis of a special attestation issued by the auditing firm engaged to audit Tenaris's accounts, Consob issued Borsa Italiana SpA its opinion regarding the equivalence of the auditing of Tenaris's accounts with the auditing required by Italian legislation, as provided for by Article 2.1.4, paragraph 3, of the Stock Exchange Rules.

As regards the solicitation of investors through cash and exchange tender offers, in 2002 Consob approved 31 information documents concerning tender offers. Twenty-four of these documents regarded offers for shares of listed companies, 2 regarded offers involving 95 bond issues (some listed), and 5 concerned offers for shares of unlisted companies. More than half of the tender offers were voluntary (Table IV.5). In 10 cases these offers were for listed companies; in general they were made with the aim of delisting the securities.

TABLE IV.5

OFFER DOCUMENTS FOR CASH AND/OR EXCHANGE TENDER OFFERS CLEARED BY CONSOB IN 2002

	LISTED SHARES	BONDS	UNLISTED SHARES	TOTAL
VOLUNTARY	10	2	5	17
TAKEOVER BIDS[1]	4	--	--	4
MANDATORY OFFERS	4	—	—	4
RESIDUAL-ACQUISITION	5	—	—	5
FOR TREASURY STOCK	1	—	--	1
TOTAL	*24*	*2*	*5*	*31*

Source: Consob archive of offer documents. [1] The number includes competing offers.

As regards takeover bids, 2 documents concerned a company for which two competing offers were made. It was the second instance of competing offers being made since the Consolidated Law on Financial Intermediation came into force (the first was the Gildemeister case in 1999) and the first subsequent to the entry into force of the amendment of Article 44 of Consob Regulation 11971/1999 on issuers that was approved in April 2001. The transaction showed that the new regulatory provisions were able to ensure that competing offers were made in orderly conditions.

It should be noted, however, that the new system for increased offers was not applied since the original bidder withdraw after the competing offer was made.

In July 2002 an offer was made by Interactive s.p.a. pursuant to Article 106.4 of the Consolidated Law for 100 per cent of the share capital of Freedomland, an Internet and interactive television company. Freedomland was majority controlled by Mr Virgilio Degiovanni (who held 58.174 per cent) and the success of the offer therefore depended on his acceptance.

While the offer was pending a competing and ultimately winning bid was made by Content s.r.l. at a price 3.17 per cent higher than that offered by Interactive

Last year Consob opened the procedure for clearance of the document for the tender offer by Newco28 SpA for the shares of Autostrade s.p.a. The offer, announced in November 2002 and subsequently carried out between 20 January and 21 February 2003, was distinguished by its particularly large value (around €8 billion), the second-largest ever made in Italy, ranking immediately after the Olivetti bid for Telecom Italia in 1999.

The transaction consisted in a complete-acquisition tender offer under Article 106.4 of the Consolidated Law on Financial Intermediation for Autostrade ordinary shares by Newco28, a company wholly owned by Schemaventotto s.p.a., which at the time had working control of Autostrade. Since Schemaventotto decided irrevocably not to tender the 354,924,870 shares it owned (corresponding to 29.989 per cent of the capital), the offer regarded the remaining part of the capital and was made with a view to strengthening Schemavenotto's controlling position so as to permit the start of a plan for restructuring the group headed by Autostrade.

The transaction was financed virtually entirely with debt, since the offeror put up only €5 million of own funds. The financing was granted by a pool of 6 banks on terms which the offer document described as "market conditions for transactions with similar characteristics".

The offeror has not ruled out the possibility of a merger with the acquired company, in which case the debt contracted for the offer will be consolidated de facto in the company resulting from the merger. Considering its economic and financial effects, such a merger would transfer the debt taken on by the offeror in order to make the offer to the company resulting from the merger (and thus to what is basically the only productive asset, the Autostrade group). The entity resulting from the merger would therefore be burdened with the obligation to repay the loan and the related financial charges, with a negative impact on its financial position and profits and losses, other conditions being equal.

Given the importance of the above-mentioned aspects for the evaluation of the offer by those to whom it was addressed, Consob requested that the offer document include a detailed description of both the offer and the issuer in terms of economic and financial aggregates, so as to permit of the effects of the transfer of the debt to the company resulting from the merger to be assessed.

Lastly, in examining the reports describing mergers, spin-offs and other corporate actions, Consob only checked the information contained in the reports for conformity with the models prescribed by Consob Regulation 11971/1999 on issuers and its ability to provide a complete

picture of the transactions in question; in around 20 per cent of the cases it requested explanations or supplementation of the data contained in the reports. Where the simultaneousness of public dissemination and transmission to Consob or the importance of the information gap so required, the Commission also requested information and documents to be provided to the public pursuant to Article 114.3 of the Consolidated Law on Financial Intermediation.

Disclosure to shareholders

In 2002 the Commission acted on several occasions to require listed companies to supplement the information disclosed to the shareholders in ordinary and extraordinary shareholders' meetings (Table IV.1).

In 5 cases requests were made for supplementation of the 2001 draft annual accounts of companies whose profitability and financial position were in critical condition.

In one such case the directors were requested to supplement their remarks concerning the uncertain situations that had led the auditing firm to issue a disclaimer in respect of the annual accounts of a company specialized in the production of industrial sewing machines. In particular, the directors were invited to provide information on the ability of the group to meet its financial commitments and on the operating difficulties of a subsidiary sub-holding company on whose consolidated accounts the auditing firm had issued a qualified opinion owing to the accounting treatment of some items.

In another case the request for supplementary information regarded the application of the going-concern principle to an electrical components manufacturer and its group and the revision of the group's business and debt restructuring plans. The lack of such information had, among other things, prevented the auditing firm from issuing an opinion on the annual accounts. After the shareholders' meeting to which the annual accounts were submitted following the approval of a new business plan and the conclusion of the negotiations for debt restructuring, the auditing firm reconsidered its opinion, inter alia for the purpose of Article 96 of the Consolidated Law on Financial Intermediation.

In a third case the auditing firm's report on the annual accounts pointed out that, in the face of the financial strains besetting a company operating in the video games and betting sector, the plans for financial debt consolidation and the acquisition of the new financial resources needed to carry out the business plan had not yet been approved by the banks, nor had the terms and means of the recapitalization of operating companies considered to be of strategic importance been determined. Moreover, in the auditing firm's opinion the lack of adequate information on the steps taken to obtain financial resources in the short term constituted a situation in which a reasonable, verifiable basis for the going-concern assumption was lacking. The company's board of auditors agreed with the auditing firm concerning the impossibility of expressing an opinion on the company and consolidated accounts and formulated additional remarks on the performance of the board of directors and the information disclosed by the directors in the accounts. The Commission accordingly considered it necessary for the directors to offer the shareholders' meeting their response to the observations formulated by the auditing firm and the board of auditors.

In another case, an auditing firm issued a disclaimer in respect of the annual accounts of a manufacturer of windows and accessories, owing to uncertainties attributable mainly to claims of doubtful recoverability in respect of the parent company and a related company. The directors offered the shareholders' meeting their explanation of the origins of these claims, their valuation in the accounts and the effective ability of the debtor companies to repay them.

In the fifth case the lack of reasonable grounds for the going-concern assumption was again responsible for the auditing firm's disclaimer in respect of the accounts of a frozen-foods company. In the context of restructuring operations that were considered urgent in the face of major operating and other losses, the directors prepared a financial debt consolidation plan that had not yet been accepted by the banks at the date of the audit report. Among other things, such acceptance had been made conditional upon a capital increase aimed at restoring an adequate capital base. In this case Consob asked the directors to discuss the observations of the auditing firm and the board of auditors concerning the absence of grounds for the going-concern assumption and to provide detailed information on the state of implementation of the steps taken with a view to achieving adequate profitability and capital. After the shareholders' meeting to which the annual accounts were submitted following the signing of the debt restructuring agreements with the banks, the auditing firm reconsidered its opinion, inter alia for the purpose of Article 96 of the Consolidated Law on Financial Intermediation.

Several particularly important steps were taken by the Commission to ensure complete and transparent disclosure to the shareholders and the market of the complex economic and financial situation of Cirio Finanziaria, a holding company with investments mainly in the processed foods, cleaning products and entertainment sectors.

For the shareholders' meeting called to approve the annual accounts, the Commission requested the directors to set forth their position regarding the auditing firm's qualified opinion on the accounting treatment of the forgoing of a claim and of foreign exchange losses, the large creditor exposure to controlling shareholders and associated companies, the trend of net financial debt and the announced plan for its reduction, and the measure issued by the Brazilian supervisory authority in respect of the company's chairman and chief executive officer.

Moreover, with specific regard to the overall position of amounts due from related parties, the Commission considered the disclosure made to the shareholders' meeting inadequate and requested the company to provide further clarification to the market.

In its supervision of the company, which also involved requesting figures and information on the company's management and control bodies, Consob subsequently requested the directors to issue a new press release providing information on the prospects for reducing the financial debt and the company's claims on related parties, and specifying the state of progress of disposals of non-strategic assets. This supervisory activity led in January 2003 to Consob's invoking its powers to challenge the company and consolidated accounts for the year ended 31 December 2001 pursuant to Article 157 of the Consolidated Law on Financial Intermediation.

Consob also intervened on the occasion of the shareholders' meetings called to approve the annual accounts of 3 listed football clubs, to obtain clearer and fuller disclosure by the directors on the application of tax rules to transfers of players.

Examining the draft annual accounts of the 3 clubs, Consob had found a discrepancy between the accounting treatment of the effects of the application of the regional tax on productive activities (Irap) to the transfers of players and the relevant information provided in the accounts. In the light of this discrepancy and of the uncertainty as to whether football clubs' gains on player transfers are subject to Irap and whether the related administrative sanctions apply to them, the Commission requested the directors of the 3 companies to provide clarifications concerning the criteria followed for stating the operations in question in the accounts.

In 3 cases the Commission censured the board of auditors of listed issuers for the informational shortcomings of the reports prepared for the shareholders' meeting under Article 153 of the Consolidated Law. In these cases the boards were directed to comply more closely with Consob's communications on corporate controls.

In another case the Commission called for supplementation of the information disclosed in a half-yearly report concerning disposals of a sub-group operating in the health-care sector. In particular, Consob requested that the market be provided with detailed information, in a special section of the report, on the structure of the transactions, the buyers and the overall effects on the credit institution's assets and liabilities, profits and losses and financial position.

During the year Consob also dealt with the question of the bylaws of companies with savings shares, particularly as regards their adaptation to the provisions of Article 145.2 of the Consolidated Law on Financial Intermediation.

Considering it necessary to ensure complete information on the decisions made regarding their respective bylaws, pursuant to Article 114.3 of the Consolidated Law Consob requested 28 companies to explain to the shareholders' meetings called to approve the annual accounts the reasons why they considered the amendments they had adopted to their respective bylaws to comply with Article 145.2 of the Consolidated Law (Box 6).

BOX 6

Protection of the rights of savings shareholders in the event of delisting

Article 145.2 of the Consolidated Law on Financial Intermediation leaves it to companies' bylaws to establish the rights of holders of savings shares in the event of the delisting of ordinary or savings shares.

The Commission has determined that it is mandatory, not optional, for listed companies that have issued savings shares to include such rights in their bylaws, as is

shown by the letter of the provision in question: "The bylaws shall specify the substance of such preferential rights and the conditions and time and other limits for their exercise; they shall also establish the rights of holders of savings shares where ordinary or savings shares are delisted."

An examination of the bylaws of companies with listed savings shares showed that not all of them had amended their bylaws to conform with Article 145.2 of the Consolidated Law.

In particular, while all of the companies with savings shares had introduced provisions concerning the substance of the preferential rights and the conditions and time and other limits for their exercise, basically reproducing the provisions established by Article 15 of Law 216/1974, several companies had either failed to establish the rights of holders in the event of delisting or introduced clauses that did not appear to comply with Article 145.2 of the Consolidated Law.

As is well known, this article was introduced to compensate the holders of savings shares for the loss of the advantages connected with the listing of ordinary or savings shares (in the first case, the existence of a parameter for determining the market price of the savings shares; in the second, the rapid liquidation of the security made possible by trading on regulated markets; moreover, in the event of both financial instruments being delisted, the disclosure requirements for listed companies would no longer apply) and for the fact that the Consolidated Law did not extend the residual-acquisition tender offer obligation to savings shares.

The Commission was of the view that the course chosen to protect the holders of such shares in the event of delisting of the ordinary and/or savings shares was to leave such protection up to the bylaws through the identification of specific "additional" rights (as "compensation" or "indemnification") over and above those already attributed before the delisting of the savings shares.

In 2001 Consob therefore asked 46 companies whether, in what terms and with what procedures they intended to adopt a clause that effectively attributed rights to the holders of savings shares in the event of the delisting of their ordinary and/or savings shares.

Following this action, some companies called shareholders' meetings to adapt to the orientation formulated by Consob, others approved or carried out one-for-one conversions of savings shares into ordinary shares.

By contrast, 28 companies responded that they were of the view that they did not have to amend their bylaws, deeming these to comply with Article 145.2 under an interpretation that considered the article did not require an ameliorative or compensatory solution for savings shareholders. According to this reading of the provision in question, the absence of criteria establishing the rights to be attributed to the shareholders suggests that it is left entirely to the discretion of the issuer to determine how to satisfy the savings shareholders' interests in the event of delisting. There is nothing to prevent an issuer from deeming the class and preferential rights already attributed to savings shareholders before delisting to be sufficient to satisfy such interests. It is up to the market to evaluate the effective ability of such rights to protect the possibly weakened position of savings shareholders in the event of delisting.

Financial reporting and auditing firms

The periodic checks performed in 2002 led Consob to intervene in the case of listed companies where a company's supervisory bodies had attested that the going-concern assumption was potentially at risk or in cases of evident capital shortfalls.

In particular, with a view to ensuring increasingly complete and precise disclosure of financial information to the market, the Commission required each of the such companies to issue a monthly press release, in accordance with Article 66 of Regulation 11971/1999, containing updated information on the critical variables regarding its situation.

Consob made requests to this effect to 9 listed companies (6 on the Stock Exchange and 3 on the Nuovo Mercato; Table IV.1). Such requests, formulated pursuant to Article 114.3 of the Consolidated Law on Financial Intermediation, are generally aimed at informing the market regarding significant aspects, such as the industrial strategy the issuer intends to pursue in the different geographical and operating segments, changes of strategy, the steps taken to obtain the resources needed to resolve acute crises of profitability and financial position, and factors having a major impact on the improvement or deterioration of the company's prospective profits and losses and balance-sheet situation. These elements are useful points of reference for a correct and complete valuation of the company on the part of investors.

During the year Consob also carried out a further intervention under Article 114 of the Consolidated Law. It was addressed to listed banks and followed the suspension of the tax reliefs introduced by Legislative Decree 153/1999 for bank restructurings. Consob asked the banks to provide the shareholders' meetings called to approve their 2001 annual accounts with information concerning the procedures they intended to follow in implementing the suspension.

In its checks on financial reporting Consob also detected critical factors in the annual and consolidated accounts for the financial year ended 31 August 2001 of a company listed on the Nuovo Mercato bearing on the valuation of an investment in a subsidiary.

Consob intervened by requesting the directors and supervisory bodies to provide specific information, with a view to evaluating the correctness of the periodic report produced by the issuer regarding the items in question (investments and receivables). Subsequently the company published a disclosure supplementing its half-yearly report at 28 February 2002 in which it clarified that the write-down of the investment in the subsidiary shown in the half-yearly report reflected the criticism formulated by the auditing firm and shared by the board of auditors and Consob.

Last year the auditing firms entered in the register established by Article 161 of the Consolidated Law examined 285 company accounts and 258 consolidated accounts of issuers listed on Italian regulated markets in the course of verifying that the accounts were kept regularly and that the financial statements corresponded with the accounting records and were in conformity with the relevant legislation.

The audit reports issued by registered auditors included 192 opinions with emphasis of matter paragraphs and 6 qualified opinions (Table aIV.4). In 5 cases the auditing firm issued a disclaimer owing to uncertainty. In no case did an auditing firm issue an adverse opinion.

The calls for more information mainly concerned the charging during the year (and in previous years) of accelerated depreciation within the limits allowed by tax law, the content of the report on operations, particularly as regards plans for restoring the company's profitability and financial position, changes in the structure of the group, and outstanding disputes.

One of the qualified opinions concerned the inclusion in extraordinary income of the amount of a claim forgone by the controlling shareholder. Under the applicable accounting standards, such amount should have been stated in the reserves included in shareholders' equity.

Another qualified opinion concerned the write-down of an investment on the basis of the investee company's losses during the previous year. According to the auditing firm, on the accrual basis the write-down should have been included in the accounts for the previous financial year, as the auditor had indicated in its previous audit report, and consequently involved an over-estimation of the loss for the financial year ended 31 August 2002.

In another case the auditing firm qualified its opinion because the company had increased rather than decreased the value of an investment in a subsidiary by the amounts the company had contributed towards covering the subsidiary's losses for the year. According to the auditor, such amounts do not increase the value of the investment but restore it to its original value and consequently should have been charged to income as a valuation loss on an investment.

Another qualification concerned the decision of the company's directors not to write down an investment in an investee company notwithstanding the large difference between the shareholders' equity and the carrying value of the same.

The auditor of another issuer criticized the company's lack of disclosure on situations of uncertainty that had occurred during the financial year. In 2001 the company sold part of a shareholding to a third party, granting the purchaser a long period of deferment for paying almost all of the purchase price. The auditing firm found inadequate disclosure in the company's annual accounts regarding both the risk connected with recovery of the credit granted to the purchaser of the equity interest, which at the time did not appear to have the necessary financial resources, and the value of the collateral consisting of the shares of the investee company, which was at risk owing to that company's economic and financial difficulties.

The company in which the equity interest had been sold was in a difficult economic and financial situation and had been subjected to a restructuring plan. The qualification of the audit opinion also regarded deficient disclosure of the similar risk of realization of several claims in respect of the same company.

In the last case, the auditing firm's qualification concerned the valuation of an equity interest recorded at cost under securities not held as financial fixed assets. In the case in question the annual accounts of the investee company were not available, nor was any other objective basis of evaluation, and the auditing firm thus found itself unable to verify the correct valuation of the securities at the lesser of cost and estimated realizable value.

The principal reason for the disclaimers issued by auditing firms was uncertainty concerning the going-concern assumption. The cases of uncertainty regarded: the ability of a company and its group to obtain adequate resources in the short term to ensure continuity of operations and finance the group's restructuring plans; the basis on which a plan had been agreed for the repayment of the amounts receivable by a company from its controlling shareholder; the outcome of a dispute pending between a company and one of its foreign subsidiaries for the recovery of a claim by the company in respect of the subsidiary, there being insufficient information concerning the approval of the debt consolidation plan by the banks and the further actions taken by the directors, after the annual accounts had been approved, to find new financial resources; non-acceptance by creditor banks of a financial debt restructuring plan prepared by the directors following major operating and other losses sustained by a company and its group.

In the course of its supervisory activity Consob decided to initiate inspections of 5 auditing firms, in order to acquire the documentation on the audits performed on 2 listed issuers, 2 stockbrokers and 1 investment firm. The inspections were in course at the end of 2002. Consob also ran a check on another auditing firm to verify its fulfillment of the requirements for entry in the register under Article 161 of the Consolidated Law on Financial Intermediation (Table aIV.5).

The Commission's examination of the documentation received during the year on audit engagements conferred pursuant to the Consolidated Law showed a further rise in the number of companies subject to statutory auditing, from 1,684 in 2000 to 1,725 in 2001 (Table aIV.6). The degree of concentration of the audit market also increased. The first six auditing firms accounted for 92.3 per cent of all statutory audit engagements, compared with 90.1 per cent the previous year (Table aIV.7). There was a substantial increase in the market share of the top firm (in terms of turnover), which grew by more than 4 percentage points, from 22 to 26.2 per cent.

At 31 December the auditing firms entered in the register numbered 24, unchanged from a year earlier. During the year the Commission amended the resolutions for the entry of 2 firms following changes in their legal form and corporate name.

V. MARKET SUPERVISION

Market abuses

In 2002 Consob transmitted 25 reports to the judicial authorities on investigations of possible market abuses that it had found in the course of its analysis of market anomalies (Table V.1). In 16 cases (18 in 2001 and 21 in 2000) the reports concluded that a crime might have been committed; 7 suspected crimes concerned insider training (one of which in the form of front running) and 9 market manipulation. The remaining 9 reports to the judicial authorities, 3 concerning insider trading and 6 market manipulation, excluded the perpetration of a crime.

TABLE V.1

OUTCOME OF INVESTIGATIONS

	1997	1998	1999	2000	2001	2002
REPORTS SUBMITTED INDICATING A SUSPECTED CRIME[1]	19	21	30	21	18	16
REPORTS SUBMITTED AT THE END OF AN INVESTIGATION WITHOUT INDICATING A SUSPECTED CRIME[2]	33	15[3]	8	5	10	9
TOTAL	*52*	*36*	*38*	*26*	*28*	*25*

[1] In 1997 and in 10 cases in 1998, the reports were transmitted under Article 8.3 of Law 157/1991, which was repealed by the Consolidated Law on Financial Intermediation. [2] The figures for 1997, 1998 and 1999 include the outcomes of respectively 18 investigations, 3 investigations and 1 investigation that were concluded without the transmission of a report to the judicial authorities. Following the entry into force of the Consolidated Law, under Article 186 Consob is required to transmit a report to the public prosecutor on every investigation it carries out. [3] Of which 9 cases in which the investigation was closed before the entry into force of the Consolidated Law.

In contrast with previous years, the reports on market manipulation outnumbered those on insider training.

As in the past, the reports were based on intensive investigative activity. Consob sent a total of 259 requests for data and information to market operators, listed companies and foreign supervisory authorities (Table aV.1). Compared with the previous years, the Commission had more frequent recourse to hearings (19 cases), which in some respects can make the investigation more onerous both for Consob and for the persons involved but are a very effective means of obtaining precise and complete information.

In contrast with the past, there was no prevalent type of inside information involved in suspected cases of insider trading (Table V.2).

TABLE V.2

TYPES OF INSIDE INFORMATION IN THE REPORTS TRANSMITTED TO THE JUDICIARY AUTHORITIES ON SUSPECTED CASES OF INSIDER TRADING

	1997	1998	1999	2000	2001	2002
CHANGE OF CONTROLLER - TENDER OFFER	7	13	13	6	9	1
PROFITABILITY - ASSETS AND LIABILITIES OR FINANCIAL POSITION	4	1	4	1	--	1
CORPORATE EVENTS - MERGERS - SPIN-OFFS	2	3	3	3	2	2
OTHER	3	--	2	7[1]	3[2]	3[1]
TOTAL	*16*	*17*	*22*	*17*	*14*	*7*

[1] Of which 1 suspected case of front running. [2] Of which 2 suspected cases of front running.

Specifically, the 7 cases of suspected insider trading involved: a mandatory conversion of savings shares into ordinary shares, a tender offer, a corporate amalgamation, an unexpectedly positive earnings announcement, a revision of a contractual agreement, a product innovation and a case of front running, after the two cases reported in 2001 and the one reported in 2000 (Box 7).

BOX 7

A type of insider trading: front running

Front running is a form of market abuse that occurs when inside information consists of advance knowledge of the imminent placing on the market of a buy or sell order that is likely to influence the price of a financial instrument. Consider, for instance, the case of an intermediary that has received a substantial customer order to buy a financial instrument that is likely to generate a significant rise in its price owing to the order's intrinsic features (size, price limit, etc.). The intermediary or, as happens more frequently, an employee of the intermediary commits the abuse of front running if he makes purchases for own account before executing the customer's order, with the intention of selling after the expected price increase takes place.

The gains to be made with this strategy at any one time are not particularly large, both because the price change generated by the order to be exploited rarely exceeds 1 or 2 per cent and because the quantities bought or sold must be well below the size of a price-sensitive order. Still, considerable gains can be made through systematic repetition of the scheme. In the case of front running reported to the judicial authorities last year, the trader made about €100,000 in less than a month.

Front running appears to be relatively widespread among traders, i.e. among the employees of intermediaries assigned to execute orders from institutional customers (insurance companies, investment funds, foreign institutional customers, etc.). It is often within the power of traders to execute the customer's order themselves, and in doing this they can suitably match the trading orders entered on behalf of the customer with the orders serving to close the position that they themselves have previously opened. Returning to the initial example, the trader, after making purchases for own account on the basis of his knowledge of the customer's order, can match the buy orders entered in the market on behalf of the customer with his own sell orders and, especially if the security is illiquid, can choose sufficiently high prices.

In the past the Commission has found cases of front running also committed by employees of listed companies or institutional investors entrusted with transmitting orders to trading intermediaries or with deciding portfolio investments.

The harm from front running to the market's credibility is evident and is detected principally through intraday examination of prices and volatility especially. Intermediaries are thus able to identify such practices and reconstruct them. The recent directive on market abuses explicitly prohibits front running, although such behaviour is considered to have been prohibited implicitly both by the previous directive on insider trading and by Article 180 of the Consolidated Law on Financial Intermediation.

Front running is also a violation of the rules of correct conduct by the intermediary towards the customer. Yet, it is somewhat restrictive to prohibit it only on grounds of conduct-of-business rules, as is the case under the British system, for example, since this does not allow prosecution of a trader who engages in front running by means of accounts held with intermediaries other than his employer or through trades in financial instruments other than the security involved in the customer's order but whose price depends on the price of that security (e.g. a derivative financial instrument).

For these reasons the Commission aims to investigate front running having regard both to the possible crime of market abuse and to possible administrative infractions of the rules of conduct of intermediaries. Investigations are carried out with a procedure designed to limit the costs for the intermediaries involved by avoiding duplicate requests.

Considering the potential damage to reputation, various intermediaries have organized themselves to prevent and detect cases of front running. Best practice requires employees of intermediaries to abstain from carrying out transactions on own account with other intermediaries or, where applicable, to report any such transaction to the intermediary's internal control structure. In addition, to prevent a trader from placing orders with other intermediaries while on the job or communicating inside information to third parties, only fixed-line telephones should be used in intermediaries' dealing rooms, permitting calls to be recorded and checked if necessary. The internal control structure thus enables the intermediary to detect cases of front running after the fact by examining the counterparties to each trader's transactions. A large number of transactions carried out from an employee's dealing station with another intermediary that is not very active in the market is a signal that checks should be made to ascertain whether the employee is not hiding behind the counterparty.

Nine cases of suspected market manipulation were reported to the judicial authorities last year. One concerned the spreading of false information about a plan, which was only announced, to acquire the majority interest in a listed company. The other 8 were cases of suspected operational manipulation.

In greater detail, in 3 cases the operational manipulation consisted in trades in equity securities carried out in order to influence the exercise of options linked to reverse convertible bonds. Two cases involved transactions for the exchange of shareholdings between investment funds managed by the same asset management company, with a considerable impact on the prices of various securities. In one case the operation was intended to depress the price of a derivative financial instrument on the last trading day of 2001. In another the strategy, designed to produce a large drop in the price of a financial instrument, developed over a period of several weeks, with transactions concentrated at the end of each trading day. Lastly, one case involved sham transactions that significantly altered the volume of trading in a number of securities listed on the Nuovo Mercato.

A total of 105 market participants were reported to the judicial authorities on suspicion of insider training (Table aV.2); around half of them were involved in two reports. As in the previous years the most numerous reports (69) concerned secondary insiders and tippees, i.e. persons who presumably traded on the basis of information transmitted by institutional insiders, followed by foreign residents (21), authorized intermediaries (14), and only one institutional insider.

Controls on market manipulation led to 24 persons being reported to the judicial authorities (4 in 2001). Those reported comprised 18 employees of authorized intermediaries, 2 shareholders or executives of listed companies and 4 foreign operators.

In 2002 investigating magistrates applied, upon completion of the preliminary investigations, for the dismissal of 10 reports of suspected insider trading submitted by Consob as the injured party (Table V.3).

Two cases were dismissed for limitation of actions, one because inside information was not found to be involved, two on grounds that a link had not been found between the inside information and the persons who operated on the stock exchange, and five because the evidence was not considered sufficient to sustain the charge.

During 2002 two important convictions were handed down for insider trading and market manipulation at the conclusion of two trials in which Consob had participated in 2001 as the representative of the injured parties.

The first sentence, issued by the Brescia Tribunal on 25 June 2002 arose from a report sent in 1999 to the public prosecutor at that Tribunal concerning suspected insider trading in purchases of shares of Cantieri Metallurgici Italiani (CMI) in the days preceding the publication of two pieces of inside information.

TABLE V.3

OUTCOME OF THE REPORTS SUBMITTED TO THE JUDICIAL AUTHORITIES

	1991-1998	1999	2000	2001	2002
DISMISSAL	11	10	6	12	10
PARTIAL DISMISSAL	--	1	4	1	--
INDICTMENT	6	2	2	3[1]	2
PLEA BARGAIN	3	1	3	2	--
CONVICTION	2	--	--	1[1]	2[2]
ACQUITTAL	--	1	--	--	--
SENTENCE OF NO GROUNDS	--	1	--	--	--
SENTENCE OF LIMITATION OF ACTIONS	--	--	1	--	2
TOTAL	*22*	*16*	*16*	*19*	*16*

[1] The sentence of the first-level court was appealed. [2] Some of the accused were acquitted.

In particular, the Tribunal convicted one of the defendants as a secondary insider for violation of Article 180.1a) of the Consolidated Law on Financial Intermediation for having purchased a large quantity of CMI shares when he was in possession of privileged information. That information had been obtained from another defendant, who was convicted as the primary insider for violation of Article 180.1b) of the Consolidated Law for having transmitted confidential information to the first defendant concerning his plans to purchase IIL (a spin-off from CMI) before the news had been announced to the market. The defendants were sentenced to respectively 8 and 6 months of imprisonment and a fine of €100,000 each, without conditional suspension of the penalty. Ancillary penalties were also imposed on both defendants, including interdiction from holding a public office or a managerial office in a legal entity or firm and from negotiating contracts with the public administration.

The second sentence, issued on 11 December 2002 by the Tribunal of Milan, is of special importance insofar as it was the first in which a court ruled in Italy on the possibility of classifying some stock market transactions as instances of the use of "other devices" to manipulate the prices of financial instruments, originally provided for by Article 5 of Law 157/1991, subsequently by Article 181 of the Consolidated Law and now, following Legislative Decree 61/2002, by Article 2637 of the Civil Code (market manipulation).

The ground-breaking quality of the sentence lies in its considering as market manipulation a coordinated series of transactions which, though licit in and of themselves, were of an artificial nature likely to alter the free and spontaneous formation of the prices of financial instruments owing to the manner and timing of their execution.

These manoeuvres, which are not inherently fraudulent but objectively likely to alter the correct functioning of the market, are commonly called trade-based manipulation. Unlike sham transactions, which are also provided for in the legislation against market manipulation, these are actual and not apparent transactions, carried out in a way designed to alter the price artificially and thus to distort the market's allocative and signaling function.

In accordance with Article 187 of the Consolidated Law, in criminal trials for suspected cases of insider trading and market manipulation involving financial instruments Consob exercises the rights and powers which the Code of Penal Procedure attributes to entities and associations representing the interests injured by the offence.

TABLE V.4

CONSOB INTERVENTION IN CRIMINAL TRIALS CONCERNING INSIDER TRADING AND MARKET MANIPULATION

	NUMBER OF CASES	OFFENCE[1]	OUTCOME AT 31 DECEMBER 2001[2]
1996	1	INSIDER TRADING	PLEA BARGAIN
1997	1	»	DISMISSAL FOR LIMITATION OF ACTIONS[3]
	1	»	ACQUITTAL
	1	»	PLEA BARGAIN
	1[2]	INSIDER TRADING AND MARKET MANIPULATION	PENDING; PLEA BARGAIN FOR 1 DEFENDANT
1998	1	»	PENDING
1999	1	»	PLEA BARGAIN FOR 4 DEFENDANTS; 2 CONVICTIONS
2000	1	»	PENDING[4]
	1	MARKET MANIPULATION	PENDING[5]
2001	3	»	1 CONVICTION; PLEA BARGAINS IN THE OTHER 2 CASES
	2	INSIDER TRADING	1 CONVICTION; 1 DISMISSAL FOR LIMITATION OF ACTIONS
2002	2	INSIDER TRADING	1 PENDING; 1 DISMISSAL FOR LIMITATION OF ACTIONS

[1] Insider trading: Article 2 of Law 157/1991, now Article 180 of Legislative Decree 58/1998; market manipulation: Article 5 of Law 157/1991, then Article 181 of Legislative Decree 58/1998, now Article 2637 of the Civil Code. [2] Proceedings were also initiated for the offence of obstructing Consob in the exercise of its supervisory function in matters concerning insider trading (Article 8.2 of Law 157/1991). [3] Proceedings are still pending for other suspected offences. [4] In one case the proceedings had already begun in 1999 but, following the re-opening of the preliminary investigation phase it was necessary to initiate them again in 2000. [5] In 2001 Consob applied to recover damages as an injured party.

In order to exercise the prerogatives attributed to Consob by law, its lawyers intervene, in the preliminary hearing or in the preliminary phase of the debate, by filing the documents provided for in Article 93 of the Code of Penal Procedure. The role of supplying the public prosecutor with technical support is performed as the trial proceeds by filing technical and legal briefs and by exercising the right referred to in Article 505 of the Code of Penal Procedure. This recognizes the right of entities representing the interests injured by the offence to prepare questions for the judge to put to witnesses, professional assessors, technical consultants and other parties who are examined and to request the admission of new evidence serving to ascertain the facts of the case.

In 2002 Consob intervened, as the representative of the interests injured, in two penal proceedings, of which one was still pending at the end of the year while the other was dismissed on 12 July 2002 for limitation of actions (Table V.4).

The last-mentioned trial originated in a report sent in 1996 to the public prosecutor at the Ravenna Tribunal concerning a suspected case of insider trading. The positions of several defendants were separated from the trial — which was instituted at the Ravenna Tribunal and concluded in 2002 — and transferred to the jurisdictionally competent public prosecutor at the Milan Tribunal.

Stock exchanges and alternative trading systems

March 2002 saw the entry into force of the new Supervisory Instructions contained in a joint measure issued by Consob and the Bank of Italy on 24 January 2002 for companies operating regulated markets, central depositories for financial instruments, clearing and guarantee systems and settlement services. The Instructions constitute an integrated body of rules for the above-mentioned companies to comply with according to the activity performed, in conformity with Part III of the Consolidated Law on Financial Intermediation.

The supervised entities satisfied the requirements within the established time limits by transmitting the required documentation. Most of the communications regarded information on meetings of boards of directors, the items discussed and the minutes of shareholders' meetings. All the supervised companies transmitted their annual accounts for the 2001 financial year on time and, where due, the changes in their shareholders.

The introduction of the Instructions and the correct and timely compliance with their requirements during the first year of application opened a flow of information serving not only for the exercise of supervision but also for closer, more regular contact with the supervised companies. This permitted an exchange of views between the authorities and the supervised companies on issues concerning the changing characteristics of the operating environment and the most suitable ways to safeguard the interests of the financial market.

To permit implementation of the plan to introduce central counterparty functions in the markets operated by MTS SpA, Consob amended Regulation 11768/1998 on markets and gave its agreement to the Bank of Italy with regard to the issue of the Regulation on Guarantee Systems, the

approval of the operating rules of Cassa di Compensazione e Garanzia (CC&G), the clearinghouse for the markets operated by MTS SpA, and the designation of CC&G as a system pursuant to Legislative Decree 210/2001. In addition, Consob, jointly with the Bank of Italy, signed a specific memorandum of understanding with the French authorities responsible for supervising Clearnet.

On 18 February 2002 MTS SpA, CC&G and Clearnet signed a letter of intent for the introduction of central counterparty services in the markets operated by MTS SpA. The central counterparty services are to be supplied by CC&G and by Clearnet; the two central counterparties began operating on 16 December 2002. The introduction of the role of central counterparty in the spot markets reflects an increasingly common approach in international practice (Box 8).

BOX 8

The introduction of central counterparties in the cash markets

The utilization of central counterparties with trade clearing and guarantee functions has traditionally been limited to the derivatives markets. In recent years many spot markets have opted for the introduction of a central counterparty. Recommendation 4 of the Report of the CPSS-IOSCO Joint Task Force on Securities Settlement Systems cautions that the introduction of a central counterparty must be preceded by a cost-benefit analysis.

In general, there are four main benefits to be gained from using central counterparties. The first is the elimination or at least minimization of counterparty risk. This is particularly important for electronic trading systems that do not permit selection of the counterparty with which to trade; it is also a key to attracting foreign participants, with evident gains in terms of the market's liquidity. Then there is transaction anonymity, which is especially appreciated in markets where the majority of participants deal for own account. Finally, there is the reduction of the number of trades to be settled through netting and the possibility that less of intermediaries' supervisory capital will be absorbed for trades guaranteed by central counterparties (where the supervisory rules so provide).

On the cost side, first of all there is the opportunity cost of the margins deposited by members with the central counterparty, for example as a consequence of remuneration at rates lower than market rates; such costs, which are directly proportional to the amount of margin deposited, are necessary in order to approach the elimination of counterparty risk as closely as possible, i.e. to avoid counterparty risk being simply transferred from the original counterparties to the central counterparty. Mention should also be made of the operating costs of the central counterparty, including those for the adaptation of intermediaries' internal procedures, and the related profits. In the latter case, inclusion of the central counterparties' profits among costs does not take into account the possibility of at least partial overlap between the central counterparty's shareholders and its members. Moreover, profits are defined as excluding net financial income, which is included, as a first approximation, in the financial costs of members' margin deposits.

As regards counterparty risk, it needs to be stressed that in settlement systems based on delivery versus payment this risk is limited to replacement cost risk; since in DVP systems, such as Italy's, the transfer of the securities depends on the transfer of cash and vice versa, principal risk is eliminated. The replacement cost is the cost connected with re-execution of the transaction. It therefore depends on the probability of default by market counterparties and on market risk, i.e. on the variability of the prices of the mix of financial instruments bought and sold. The probability of default is related in turn, *ceteris paribus* , to the length of the settlement cycle (because it is during that interval that the occurrence of a default can have effects on market counterparties); by contrast, the market risk depends on the type of financial instruments (government securities, shares, etc.) and the length of the settlement cycle, given that total variability depends on time.

A measure of the reduction of risk is the reduction of the settlement interval, seeing that replacement cost risk is a function not only of the intrinsic variability of the instruments traded but also of the length of the settlement interval, which influences both the probability of default and market risk.

The project envisages that the utilization of the central counterparty service will be voluntary at least for an initial period. Each market participant opting for membership is entitled to choose between the two central counterparties participating in the initiative. The choice cannot be made transaction by transaction and must be general. The guarantee provided by the central counterparty will be applicable only for contracts between participants that are both members of one or other of the central counterparties; otherwise the contract will continue to be non-guaranteed.

The introduction of the central counterparty function has not involved any change from the standpoint of trading. The trading system ensures anonymity and a single book for both guaranteed and non-guaranteed trades, without segmentation of liquidity. In the post-trading sphere, if the trade is between two participants that are both members of one or other of the two central counterparties, the system preserves anonymity even after the conclusion of the contract, whereas if one of the two counterparties is not a central counterparty member the contract is not guaranteed and the identity of the counterparties is recorded.

CC&G and Clearnet use a single margining system and a single pricing structure. Each central counterparty makes margin calls on its own members. In order to permit MTS participants to choose between the two central counterparties and thus to guarantee trades between two participants not belonging to the same central counterparty, each central counterparty is a "special member" of the other. Each central counterparty calculates and calls the margins of the other to cover the reciprocal risk.

As regards settlement instructions, the securities settlement procedure continues to receive the reciprocal bilateral balances between participants concluding transactions not guaranteed by one of the two central counterparties. For guaranteed transactions, since each central counterparty nets its purchases and sales with the same participant, the securities settlement procedure receives the bilateral balances between each of the central counterparties and the participants concluding guaranteed transactions. This means that

there are settlement instructions — those regarding guaranteed transactions — in which the central counterparties are in a debtor or creditor position. If all participants perform on their obligations, the central counterparty's overall debtor or creditor settlement balance is equal to zero.

During the year Consob approved some amendments to the rules of the individual markets operated by Borsa Italiana SpA.

For the covered warrants market the most important changes concerned: explicit differentiation of certificates from covered warrants; specification of the requirements for commodities as underlying assets; the settlement price in case of early exercise; periodic review of issuers' commitments to quote prices on their own covered warrants and certificates; the possibility of settling financial instruments through foreign settlement systems; reduction in the minimum duration requirement for covered warrants and the possibility of settling these products through foreign settlement systems.

The separate identification of certificates, i.e. instruments that linearly replicate the behaviour of an underlying asset, with respect to covered warrants, with which they were grouped in the past, reflects the growth in supply in the past few years. The differentiation was accompanied by the introduction of a specific segment in the market for covered warrants, alongside the existing ones for "plain vanilla", "structured/exotic" and "benchmark" covered warrants.

In addition, procedures were introduced for establishing the settlement price in case of early exercise of covered warrants or certificates based on Italian shares traded in the markets operated by Borsa Italiana, thereby limiting the discretion of issuers, who were previously required to follow a similar rule only for cases of settlement at expiration.

A procedure was also established for the delisting of covered warrants and certificates at the request of the issuer where the latter has all the securities issued in his possession and no trades have taken place since the start of trading.

Finally, the obligations for issuers-market makers to quote prices on their own covered warrants, established during the phase of admission to listing, are to be reviewed at least twice a year. These obligations, and particularly the minimum quantity of the offers to be displayed to the market, may therefore be adjusted to possible changes in market conditions during the life of the instrument.

For the IDEM derivatives market the Commission approved the introduction of new rules governing the obligations of market makers.

The launch in 2002 of a new trading platform for the IDEM market gave Borsa Italiana the opportunity to overhaul the rules governing the obligations of market makers. An important innovation was the introduction of two distinct categories of market maker with different quotation obligations: market makers with continuous obligations and those with obligations in respect of requests. The introduction of this distinction was accompanied by a reformulation of market makers' quotation obligations. The changes include new measures of the maximum permitted bid-ask spread, which are now distinguished separately for options contracts on the basis of the price levels of the underlying asset, and the intraday updating of the

series on which the obligation quotations are established, so as to take account of any substantial fluctuations in the underlying prices during the trading session.

The Commission also approved the amendments to the rules on the start-up of trading on IDEM of single-stock futures. This development comes in a competitive environment marked by an ample supply of such contracts by nearly all the leading international derivatives markets (Box 9).

Borsa Italiana inaugurated trading on IDEM of futures on Enel, Eni, Telecom Italia, TIM and Unicredito shares on 22 July 2002. Contracts on Assicurazioni Generali and STMicroelectronics shares were added on 20 January 2003. The features of the contract proposed by Borsa Italiana resemble those of the stock futures already offered abroad. In particular, the underlying assets are shares admitted to listing on the Stock Exchange or the Nuovo Mercato, in a number equal to that envisaged by the respective options contracts. The contracts provide for delivery of the underlying shares and the settlement price is equal to the share's opening price on the day the contract matures. There are four quarterly maturities (March, June, September and December) and two monthly maturities, with the expiration day set as the third Friday in the month and the last trading as the day preceding expiration. Market makers are required to quote prices on a continuous basis, with an obligation to fulfill a bid-ask spread requirement.

BOX 9

Single-stock futures

Futures on individual shares are a new type of equity derivative being offered by the major international regulated markets alongside index futures and options and individual stock options.

Unlike index futures, which only allow investors to pursue market-wide strategies, the new product makes it possible to pursue forward strategies on individual securities, such as hedges on individual shares. In addition, stock futures are an alternative to direct investment in the share market. For example, it is possible to pursue strategies of short-selling simply by opening a "short" position on the futures contract, without having to sell the share short and enter into complicated and costly securities lending transactions. The margining arrangement typical of futures and the leverage to which it gives rise constitute an incentive to pursue speculative investment strategies using these contracts instead of shares. Stock futures are an additional hedging instrument, alongside options that may be traded on the same securities. Lastly, where there are differences in tax treatment, there may be an advantage to operating in futures rather than in the cash market.

Among the first to offer these new products, in January 2001, the London International Financial Futures and Options Exchange (Liffe) launched trading in universal stock futures, contracts on a wide range of European and American as well as British shares. The other main derivatives markets in Europe (Spain, Portugal, the Netherlands) and the rest of the world (Hong Kong, Canada, Australia) followed suit.

A different course has been pursued by Eurex, the market born from an initiative of Deutsche Börse, which as an alternative to stock futures has launched low exercise price options (LEPOs). These products have a minimal strike (one euro) and basically replicate the functioning of a futures contract on the basis of the same mechanism utilized by benchmark covered warrants, in which the strike is equal to zero, however. If in an option's pricing formula the strike is zero (or a minimal amount), the value of a call is equal (or close) to the value of the underlying at expiration, i.e. the futures price of the underlying asset.

MAIN CHARACTERISTICS OF SINGLE-STOCK FUTURES

MARKET	SETTLEMENT	EXPIRY	UNDERLYINGS	NUMBER OF UNDERLYING SHARES
LIFFE (UNITED KINGDOM)	CASH DIFFERENTIAL	VARIES ACCORDING TO THE NATIONALITY OF THE SHARES	23 DOMESTIC SHARES 78 EUROPEAN SHARES 20 AMERICAN SHARES	100 SHARES (1000 FOR ITALIAN SHARES)
SFE (AUSTRALIA)	PHYSICAL DELIVERY	3RD FRIDAY OF EXPIRY MONTH	11 DOMESTIC SHARES	1000 SHARES (SALVO UN TITOLO 200)
SAFEX (SOUTH AFRICA)	PHYSICAL DELIVERY	3RD FRIDAY OF EXPIRY MONTH	60 DOMESTIC SHARES	100 SHARES
MEFF (SPAIN)	PHYSICAL DELIVERY (POSSIBLE TO OPT FOR CASH DIFFERENTIAL)	3RD FRIDAY OF EXPIRY MONTH	9 DOMESTIC SHARES	100 SHARES
OM (NORWAY)	PHYSICAL DELIVERY	3RD FRIDAY OF EXPIRY MONTH	40 DOMESTIC SHARES	100 SHARES
BVLP (PORTUGAL)	PHYSICAL DELIVERY	3RD FRIDAY OF EXPIRY MONTH	7 DOMESTIC SHARES	100 SHARES
AEX (NETHERLANDS)	PHYSICAL DELIVERY	3RD FRIDAY OF EXPIRY MONTH	10 DOMESTIC SHARES	100 SHARES
HKFE (HONG KONG)	CASH DIFFERENTIAL	LAST DAY OF EXPIRY MONTH	29 DOMESTIC SHARES	FROM 100 TO 2000 SHARES
MONTREAL EXCHANGE (CANADA)	PHYSICAL DELIVERY FOR FUTURES ON DOMESTIC SHARES AND CASH DIFFERENTIAL FOR FUTURES ON FOREIGN SHARES	3RD FRIDAY OF EXPIRY MONTH DOMESTIC SHARES AND EXPIRY DAY OF CORRESPONDING FUTURES CONTRACT ON THE NATIONAL INDEX FOR FOREIGN SHARES	1 DOMESTIC SHARE	100 SHARES

In the US markets trading in stock futures has been allowed since 1 April 2002, ending the long ban imposed for reasons of investor protection. In particular, on 14 December 2000 the US Congress passed the Commodity Futures Modernization Act

(CFMA), which allowed trading of so-called security futures products, a category which includes futures on both individual securities and narrow-based stock indices. A particular feature of the CFMA is the nature it attributes to security futures products, classifying them as both equity securities and derivative instruments. This legislative innovation has fueled considerable interest in the new products, as is testified to by the joint venture agreement for the launch of single-stock futures by Liffe and Nasdaq, with the creation of Nasdaq Liffe Markets (NQLX), and that among the three main US derivatives markets, the Chicago Mercantile Exchange, the Chicago Board Options Exchange and the Chicago Board of Trade, whose initiative is called OneChicago.

The contractual characteristics of the stock futures traded in the main international derivatives markets are similar. However, the various contracts differ in their settlement procedure (physical delivery at expiration of the underlying shares or settlement of the difference in cash). In general, there is a preference for physical delivery, while cash settlement is normally preferred for contracts on non-domestic shares, which are centralized and settled in foreign systems. Note, however, that Liffe has provided for cash settlement even for futures on British shares, while the MEFF market in Spain offers traders the option of requesting cash settlement in lieu of delivery for all securities.

In 2002 Consob approved some amendments to the rules of the market operated by MTS SpA in non-government bonds and securities issued by international organizations in which States are investors. The Commission also provided the opinions within its competence to the Ministry for the Economy concerning the amendments to the rules of the wholesale market in government securities operated by MTS SpA.

The year saw further growth of alternative trading systems, due both to the expanding presence of foreign as well as Italian financial intermediaries in the sector and the improvement in the quality of the services offered. Various operators embarked on programmes for IT platform transformation and customer service diversification, partly with a view to enhancing efficiency and the adequacy of the information provided on the characteristics of the financial instruments traded.

Bearing in mind the contribution that alternative trading systems can make to the transparency and liquidity of the market and to the quality of price formation, Consob requested the companies operating these systems to supply information on their methods of operation and organizational structures, the procedures for executing transactions, and the identity of the shareholders and governing bodies.

In the course of supervision Consob prohibited trading in financial instruments on an alternative system operated by a private limited company. The prohibition was imposed after

inspections found that, as set up, the system did not satisfy the minimum requirements for transparency and regularity of operation, and that it performed its activity through procedures different from those laid down in the rules of operation transmitted to Consob and disseminated to the public in compliance with the regulatory requirements. In 2001 Consob had imposed an indefinite suspension on the same company for trades carried out on the system in two shares, in light of the danger to investor protection that arises when an alternative trading system lacks adequate rules and procedures for the admission of financial instruments to trading and IT structures able to ensure orderly and transparent price formation at all times.

Companies operating central depositories for financial instruments

During 2002 Consob checked the amendments to the bylaws adopted by Borsa Italiana SpA following its acquisition of Monte Titoli SpA, in which it already held a 4.1 per cent interest. The transaction was finalized in the second half of the year. For the complete acquisition of Monte Titoli a mixed offer was made to the latter's shareholders, giving them the possibility to receive newly-issued Borsa Italiana shares for up to 65 per cent and to sell the rest for cash. The rationale of the acquisition is that it allows Borsa Italiana to concentrate trading and post-trading activities in a single entity, thereby strengthening its role in the consolidation of Europe's stock markets and fully exploiting the potential of the new Express II settlement system.

Following the valuations performed by the respective advisors, the price of Monte Titoli shares was set at 16.4 euros, with a share exchange ratio of 0.275, compared with the weighted average allotment price of 14.18 euros for Monte Titoli shares that was determined when the Bank of Italy sold its interest in December 2000. At 15 July 2002, the final date for accepting the offer, Monte Titoli shareholders had tendered a number of shares equal to 94.56 per cent of the company's capital; 50.6 per cent of the Monte Titoli shares were exchanged for shares of Borsa Italiana and 43.9 per cent were sold for cash. At the conclusion of the offer Borsa Italiana's holding in Monte Titoli amounted to 98.7 per cent.

In order to complete the transaction, in September the shareholders' meeting of Borsa Italiana SpA approved a capital increase of 1,158,179.36 euros by means of the issue of 2,227,268 new Borsa Italiana ordinary shares with a par value of 0.52 euros each and a premium of 58.3436 euros per share, to be paid for by the contribution in kind of Monte Titoli ordinary shares.

The amendment of some provisions of the bylaws, such as the increase (from 7.5 to 10 per cent) in the limit for the exercise of voting rights and the reduction (from 6.5 to 5 per cent) in the percentage of share ownership required for presenting slates for the election of the board of directors, complete the picture of the changes necessary to carry out the plan.

The acquisition of Monte Titoli broadened Borsa Italiana's shareholder base with the entry of new shareholders owning an overall 3 per cent interest. It also brought an increase in the equity interests of the four large banking groups that are shareholders of the two companies and a

simultaneous dilution in those of other shareholders. In December 2002 there were further purchases and sales of equity interests in Borsa Italiana SpA by some of its shareholders.

Specifically, in the week of 23-31 December a total of 2,574,394 shares were sold, equal to 15.86 of the company's share capital. The largest changes were in the interests held by IntesaBCI and Capitalia, which reduced their holdings from 15.85 to 4.94 per cent and from 8.02 to 5 per cent respectively. Among the purchasers, Banca Monte dei Paschi di Siena and Unicredito Italiano increased their holdings from 7.03 to 10.36 and from 7.79 to 11.11 per cent respectively and are today the company's two largest shareholders.

VI. SUPERVISION OF FINANCIAL INTERMEDIARIES

Banks, investment firms and stockbrokers

As in the past, the supervision of banks, investment firms and stockbrokers benefited on many occasions not only from the results of inspections but also from the complaints lodged by investors, which increased by about 23 per cent (Table VI.1).

Last year a total of 1,030 complaints were received, of which about 82 per cent referred to banks and the remainder to investment firms, stockbrokers and asset management companies. The breakdown of complaints by type of investment service shows that 63 per cent referred to trading and the reception of orders. About 50 per cent of these complaints concerned the information provided on financial instruments and about 30 per cent the execution of orders. The same problems were also to be found in about 75 per cent of the complaints about placement services. As in 2001, a high proportion of the complaints about portfolio management services concerned intermediaries' compliance with their management mandates. Lastly, 107 complaints - of which 75 referred to trading services, 20 to placement services and 12 to portfolio management services - concerned the failure to deliver documentation that was requested or to respond to complaints.

In 2002 the Commission approved the carrying out of inspections at 3 investment firms, 2 banks, 1 stockbroker and 3 asset management companies (Table aVI.1). A total of 11 inspections were started last year, including 2 that had been approved in 2001 at investment firms. A total of 12 inspections were concluded, involving 4 investment firms, 3 banks, 4 asset management companies and 1 stockbroker.

Most of the inspections started in 2002 focused on the organizational arrangements and procedures and the operations engaged in by the intermediaries in question. The remainder were broader in scope and designed to verify the intermediary's level of compliance with the rules and regulations governing its operations.

Last year the Commission devoted special attention to determining the frequency with which transaction-based fees were being charged in connection with individual asset management services after it had made it quite clear that a criterion for the remuneration of managers based on the number and/or the value of the transactions undertaken on behalf of investors was in breach of the rules and especially of intermediaries' duty to avoid conflicts of interest with customers as far as possible.

With the help of intermediaries' external auditors, Consob collected data on a total of 130 investment firms and banks providing individual portfolio management services. Where it appeared that intermediaries might have failed to comply with the rules, additional investigations were undertaken by applying directly to the interested parties for data and information.

TABLE VI.1

COMPLAINTS LODGED BY INVESTORS

SUBJECT OF THE COMPLAINT	BANKS		INVESTMENT FIRMS[1] AND STOCKBROKERS		ASSET MANAGEMENT COMPANIES		TOTAL	
	2001	2002	2001	2002	2001	2002	2001	2002
TRADING AND RECEPTION OF ORDERS								
FAILURE TO PROVIDE PRIOR INFORMATION ON FINANCIAL INSTRUMENTS	37	314	1	8	—	—	38	322
FEES	1	5	--	--	—	—	1	5
UNSUITABLE TRANSACTIONS WITHOUT CUSTOMERS' PRIOR CONSENT	52	44	13	9	—	—	65	53
EXECUTION OF ORDERS	94	173	15	21	—	—	109	194
OTHER	22	66	7	6	—	—	29	72
PORTFOLIO MANAGEMENT								
FAILURE TO PROVIDE PRIOR INFORMATION ON THE SERVICE	15	7	2	3	10	17	27	27
FAILURE TO COMPLY WITH THE CONTRACT/MANAGEMENT RULES	80	40	45	33	27	26	152	99
UNSATISFACTORY RATES OF RETURN	10	4	1	1	8	35	19	40
OTHER[2]	236	108	1	2	1	4	238	114
PLACEMENT/DOOR-TO-DOOR SELLING								
ALLOTMENT OF QUANTITY ORDERED	1	14	--	3	—	—	1	17
DESCRIPTION OF PRODUCTS/SERVICES	43	34	4	6	—	—	47	40
EXECUTION OF INSTRUCTIONS	28	28	10	11	—	—	38	39
SUSPECTED UNAUTHORIZED ACTIVITY	10	--	15	1	—	—	25	1
OTHER	21	7	7	--	—	—	28	7
TOTAL	*650*	*844*	*121*	*104*	*46*	*82*	*817*	*1,030*

[1] Includes trust companies. [2] Includes a large number of complaints regarding a single intermediary that cannot be classified elsewhere in the table.

In view of the information collected and taking account of the different degrees of seriousness of the violations, Consob issued 2 cease-and-desist orders, ordered the convocation of the board of directors in 11 cases (the meetings were called to approve the resolutions necessary to eliminate the transaction-based fees, at the latest by 31 December 2002) and requested confirmation of the elimination of such fees in 14 cases. All the intermediaries involved subsequently declared their compliance with the rules.

In the process of enforcing the rules, the Commission also had occasion to warn some intermediaries about proposed alternative operating models. Thus, although it was not forbidden for a manager to set up a parallel service for the reception and transmission of orders, to which the separate management structure would channel its orders (with clients being charged accordingly) for subsequent transmission to the broker, such a solution would only be justified if it resulted in an added value compared with what the manager was already required to do. In addition, the Commission pointed out that it was not sufficient to denote as "expenses" what were really "transaction-based fees" in order to comply with the rules in force and noted that strictly speaking "fees" were only such when they consisted of items arising outside the typical service of portfolio management, such as postal expenses and the fees paid to brokers for executing orders.

As regards suspected violations of the law on securities trading reported to the judicial authorities in 2002 under Article 166 of the Consolidated Law on Financial Intermediation, there were 17 cases of suspected unauthorized provision of investment services, all of which involved means of distance communication (the Internet). Once case of suspected breach of duty was reported under Article 167 of the Consolidated Law. Lastly, following supervisory investigations at two banks and a stockbroker, three cases of suspected commingling of assets were reported under Article 168 of the Consolidated Law.

TABLE VI.2

SUSPECTED VIOLATIONS OF THE LAW ON SECURITIES INTERMEDIATION REPORTED TO THE JUDICIAL AUTHORITIES[1]

TYPE OF VIOLATION	1997	1998	1999	2000	2001	2002
UNAUTHORIZED INVESTMENT SERVICES	28	6	10	7	11	17
BREACH OF TRUST	2	--	--	--	--	1
COMMINGLING OF ASSETS	2	5	1	6	1	3

[1] Does not include suspected violations by financial salesmen.

Italy's compensation system for claims arising from the provision of investment services and from the custody and administration of financial instruments is the National Investor Compensation Fund, which was first established by Article 15 of Law 1/1991, then legally recognized by Article 62 of Legislative Decree 415/1996 and subsequently by the Consolidated Law on Financial Intermediation. In 2002 the Fund continued the ordinary operations begun under Article 59 of the Consolidated Law for bankruptcy procedures whose statements of liabilities were deposited from 1 February 1998 onwards (Table VI.3).

TABLE VI.3

INTERVENTIONS BY THE NATIONAL INVESTOR COMPENSATION FUND
(SITUATION AT 31 DECEMBER 2002)

		INVESTMENT FIRMS	STOCKBROKERS	TOTAL
INSOLVENCIES[1]	1997	4	1	*5*
	1998	2	3	*5*
	1999	1	1	*2*
	2000	1	--	*1*
	2001	1	--	*1*
	2002	--	2	*2*
	TOTAL INSOLVENCIES	*9*	*7*	*16*
OF WHICH WITH STATEMENT OF LIABILITIES FILED		*9*	*7*	*16*
NUMBER OF CREDITORS ADMITTED		933	847	1,780
TOTAL VALUE OF CLAIMS ADMITTED[2]		21,744	26,077	47,821
INTERVENTIONS BY THE FUND[3]		*4,928*	*10,320*	*15,248*

Source: Based on National Investor Compensation Fund data. [1] For which the statement of liabilities was filed after 1 February 1998. [2] Thousands of euros, net of partial allotments made by the bodies responsible for the bankruptcy proceedings. [3] Interventions for claims entered in the statement of liabilities, of which around 147,000 euros set aside for claims that have been challenged. Thousands of euros.

The Compensation Fund has intervened in 16 insolvencies (9 investment firms and 7 stockbrokers). The 2 insolvencies declared in 2002 both concerned stockbrokers. In addition to ordinary operations, the Fund has carried out special operations, financed in part by the Ministry for the Economy and governed by the rules predating the Consolidated Law (Table aVI.2); these operations concerned 25 insolvencies in which the statement of liabilities was deposited before 1 February 1998.

In 2002 Consob sent the Ministry for the Economy its opinion for the matters falling within its sphere of competence on the proposal to amend the Statute of the National Investor Compensation Fund approved by the Management Committee on 18 June 2002. It also rendered opinions on the two half-yearly updates of the three-year plan for special operations. Again with reference to the Fund's special operations, Consob rendered a favourable opinion to the Ministry for the Economy with regard to their three-year extension (to 30 June 2005) and responded to a query from the Fund concerning the cases in which intermediaries were required to contribute to the Fund's special operations.

Consob keeps the register of investment firms and trust companies. As in the past several years the number of registrants decreased (falling from 162 in 2001 to 158 in 2002; Table aVI.3).

The main cause of the contraction is to be found in the poor performance of the financial markets; in fact the most frequent reasons for deletion from the register were voluntary liquidation (5 cases) and failure to provide authorized services. The transformation of registrants into banks or asset management companies also slowed down (4 in 2002 against 13 in 2001). The reduction in the number of intermediaries authorized to provide investment services continued to involve banks as well and their number fell from 753 to 725 in 2002.

Asset management companies

Last year Consob continued its supervisory action aimed at asset management companies with relatively small volumes of assets. Initiated in 2001, this action had revealed the need for such companies to strengthen the organizational and procedural aspects of their businesses, with special reference to decision-making and internal control mechanisms. The additional investigations carried out found that, in general, efforts had been made to adapt organizational structures and internal procedures to the requirements of the rules and regulations in force.

The persistence of problems with the organizational arrangements of some asset management companies made it necessary to activate supervisory instruments geared to the situations found. In particular, on-site controls were carried out at one company while in the majority of cases Consob used its powers of guidance under Articles 7.1a) and 7.1b) of the Consolidated Law on Financial Intermediation to make the companies' governing bodies address the problems and identify ways to overcome them.

Supervisory checks also found organizational weaknesses in the control of investment activity in companies managing large volumes of assets. In some cases the basically unstructured nature of investment decision-making and the inadequacy of the internal control mechanisms had facilitated behaviour aimed at exploiting information asymmetries and had an impact on the way in which the management service was provided with formal and substantial failures to comply with conduct-of-business requirements. In such cases Consob initiated sanction procedures that led to proposals for the imposition of fines.

In some banking groups it was found that decision-making with regard to the definition of the general investment strategies of all the asset management companies operating within the group had been centralized in a single person. This centralization was not accompanied by the creation of the necessary control mechanisms by the delegator, who often failed to use the legal forms prescribed by law.

Most of the asset management companies that were the subject of supervisory action made significant efforts at the organizational level to improve the effectiveness of their systems for monitoring the operational risks associated with their management activity.

Consob's supervisory action in 2002 also focused on the management of closed-end funds. In particular, the management of such funds by asset management companies belonging to a banking group is exposed to the risk of conflicts of interest owing to the possible existence of debt and/or equity relationships between the companies in which the fund invests (which by their nature are unlisted) and the bank controlling the asset management company. The Commission has made it clear that when a closed-end fund invests in an unlisted company the decision must be based on an adequate set of information that the manager has acquired on its own account.

Financial salesmen

Consob also carried out intense supervisory action with regard to financial salesmen in addition to keeping the relevant register. The number of registrants increased further in 2002, rising to 66,743 at the end of the year, compared with 59,610 at 31 December 2001 (Table VI.4). The number of deletions also increased (from 1,182 to 2,201) and comprised: 3 because the person ceased to satisfy the requirements, 958 for failure to pay the supervision fee, 1,088 at the registrant's request and 94 following the registrant's death.

TABLE VI.4

REGISTER OF FINANCIAL SALESMEN: ENTRIES AND EXITS

	REGISTERED FINANCIAL SALESMEN[1]	ENTRIES[2]	EXITS[2]	TURNOVER[3]
1995	25,902	4,512	1,344	14.8
1996	27,105	3,236	1,443	6.9
1997	27,994	2,922	1,961	3.5
1998	33,063	6,358	1,402	17.7
1999	42,810	10,383[4]	1,278	27.5
2000	49,856	8,774	1,085	18.0
2001	59,610	11,001[5]	1,182	19.7
2002	66,743	9,300	2,201	11.9

[1] At 31 December. [2] The figures do not include the measures revoking earlier entry or deletion resolutions. [3] Percentage ratio of entries net of exits to the total number of registered financial salesmen in the previous year. [4] Of which 1,800 entered *de jure* under Article 3 of Ministerial Decree 322/1997. [5] Of which 2,100 entered *de jure* under Article 3 of Ministerial Decree 472/1998.

As in past years, supervisory activity in respect of financial salesmen originated both from reports submitted by investors and intermediaries and from irregularities found during on-site controls at intermediaries; it led to the adoption of numerous preventive measures and sanctions.

VII. SANCTIONS AND PREVENTIVE MEASURES

Measures regarding intermediaries and financial salesmen

Last year the Commission concluded 27 proceedings under Articles 190 and 195 of Legislative Decree 58/1998 against persons working for financial intermediaries for violations of the law governing the sector (Table aVII.1). It submitted proposals for fines to be imposed on persons performing administrative, management and supervisory functions and employees at 12 investment firms, 5 banks, 5 asset management companies and 5 stockbrokers. In the case of asset management companies, it should be noted that the Commission intervened for the first time with regard to procedural and conduct of business rules and concluded some proceedings that had been initiated in 2001.

The Commission submitted proposals to the Ministry for the Economy for 318 persons to be fined a total of about €3.2 million, against €1.2 million in 2001.

Most of the violations were alleged to have been committed by persons performing administrative and control functions. In fact the most common irregularities concerned aspects for which the directors and members of the board of auditors were responsible since they concerned dysfunctions of a general nature. The alleged violations frequently involved procedural shortcomings with regard to institutional aspects or irregular conduct that was particularly widespread and persistent insofar as it was caused by anomalies in the overall management and control of the intermediary's activity.

To a large extent the accusations concerned the structure and control of the network for the distribution of investment products and services, compliance with the principle of the separation of assets, the provision of investment services over the Internet and clients' direct access to markets by means of interconnected workstations. As regards problems related to interconnection, it should be noted that Borsa Italiana also intervened during the year to ensure orderly trading on the markets it manages.

In the case of investment firms and asset management companies, the accusations that most frequently led to sanction proceedings concerned violations of a procedural nature, while for banks and stockbrokers they concerned violations of a behavioural nature (Table VII.1).

In addition to the proposals for the imposition of fines, the Commission adopted preventive measures against 3 stockbrokers (Table aVII.2). In 2 cases last year suspension was followed by the appointment of a special administrator and deletion from the register; in the third case deletion from the register followed the appointment of a special administrator in 2001.

TABLE VII.1

FINES PROPOSED AND IMPOSED ON PERSONS WORKING FOR INTERMEDIARIES
(2002)

	INVESTMENT FIRMS		BANKS		STOCKBROKERS		ASSET MANAGEMENT COMPANIES	
	NO.	AMOUNT[1]	NO.	AMOUNT[1]	NO.	AMOUNT[1]	NO.	AMOUNT[1]
EXECUTIVE DIRECTORS	34	404.3	18	108.3	4	106.5	12	382.6
NON-EXECUTIVE DIRECTORS	67	405.6	40	242.7	--	--	30	371.3
CHAIRMAN OF THE BOARD OF AUDITORS	11	120.6	4	27.6	--	--	4	71.6
OTHER AUDITORS	25	196.2	12	65.7	--	--	8	109.4
GENERAL MANAGER	7	86.2	3	25.1	--	--	3	34.0
CONTROLLER	12	87.6	4	42.8	1	21.5	--	--
EMPLOYEES	5	18.6	9	45.1	1	7.5	4	178.0
TOTAL	*161*	*1,319.1*	*90*	*557.3*	*6*	*135.5*	*61*	*1,146.9*
SANCTIONS PROPOSED AND IMPOSED IN 2002								
PROPOSED	81	523.8	56	137.9	5	108.3	52	913.9
IMPOSED	81	523.8	56	137.9	5	108.3	52	913.9
TYPE OF VIOLATION[2]								
PROCEDURAL	354	837.4	162	351.4	13	62.6	131	770.1
BEHAVIOURAL	205	551.8	187	336.0	23	80.7	49	572.6

[1] In thousands of euros. [2] The totals differ from those shown earlier owing to the application of legal cumulation and the number refers to the number of violations committed.

Turning to financial salesmen, the Commission adopted 134 disciplinary measures and 31 preventive suspensions; in another 110 cases the proceedings were dropped. In addition, Consob reported 72 suspected violations of the law on the activity of financial salesmen to the judicial authorities (Table VII.2).

TABLE VII.2

MEASURES CONCERNING FINANCIAL SALESMEN AND REPORTS TO THE JUDICIAL AUTHORITIES

TYPE OF MEASURE	1997	1998	1999	2000	2001	2002
DISCIPLINARY						
REPRIMAND	8	11	2	21	29	33
DELETION FROM THE REGISTER	39	86	70	49	36	58
SUSPENSION FROM THE REGISTER	5	73	51	73	48	37
FINE	--	--	4	26	15	6
PREVENTIVE MEASURES						
SUSPENSION FROM ACTIVITY	64[1]	76[1]	74	39	50	31
TOTAL	*116*	*246*	*201*	*208*	*178*	*165*
REPORTS TO THE JUDICIAL AUTHORITIES	*58*	*137*	*106*	*134*	*72*	*72*

[1] Includes measures adopted under Article 45.4 of Legislative Decree 415/1996 and, from 1 July 1998 onwards, under Article 55.2 of the Consolidated Law on Financial Intermediation.

The overall reduction in the number of disciplinary and preventive measures adopted against financial salesmen (from 178 in 2001 to 165 in 2002) is in line with the trend of the last few years and appears to reflect not only the decrease in financial intermediation that occurred last year but also the increased maturity of the sector, the greater effectiveness of the control mechanisms put in place by intermediaries themselves and, presumably, by the more widespread awareness of the sanctions imposed on financial salesmen by the Commission.

There was nonetheless an increase last year in the number of more serious disciplinary measures (the number of persons struck off the register increased by more than 61 per cent, rising from 36 in 2001 to 58 in 2002). This appears to have been mostly due to isolated cases of illicit behaviour in connection with a "parallel" activity organized by the financial salesman alongside that carried out under his or her official mandate, which had been initiated in the period of pronounced stock market euphoria and then came to light in the subsequent prolonged bear market. In the detection of these, albeit limited cases, it is worth noting the active role played by investors, who often reported the anomalous behaviour of financial salesmen to the firms they worked for and the regulatory authorities. On the other hand, there was a sizable reduction in preventive suspensions (from 50 in 2001 to 31 in 2002), disciplinary suspensions (from 48 to 37) and fines (from 15 to 6).

In order to ensure fair and consistent evaluations within individual sanction proceedings and across different proceedings and thus to ensure uniform enforcement activity over time, the Commission used a logical-mathematical model in 2002 to determine the sanctions to be imposed on intermediaries.

Measures regarding issuers and auditing firms

In 2002 the Commission intensified its activity with respect to the enforcement of the rules and regulations governing public offerings and corporate disclosure. It made 37 proposals to the Ministry for the Economy for the application of fines (36 in 2001) and the amount involved rose from €0.9 million to €2.1 million; the number of persons for whom fines were proposed rose from 44 to 85 (Table VII.3).

TABLE VII.3

ADMINISTRATIVE SANCTIONS PROPOSED BY CONSOB TO THE MINISTRY OF THE ECONOMY CONCERNING SOLICITATION OF INVESTORS, CORPORATE DISCLOSURE AND PROXIES

	2001	2002
NUMBER OF CASES		
PUBLIC OFFERINGS	27	14
TENDER OFFERS	--	--
CORPORATE DISCLOSURE	6	12
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	3	11
PROXIES	--	--
TOTAL	*36*	*37*
NUMBER OF PERSONS FINED		
PUBLIC OFFERINGS	35	24
TENDER OFFERS	--	--
CORPORATE DISCLOSURE	5	18
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	4	43
PROXIES	--	--
TOTAL	*44*	*85*
AMOUNT OF THE FINES[1]		
PUBLIC OFFERINGS	545	1,404
TENDER OFFERS	--	--
CORPORATE DISCLOSURE	160	400
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	238	300
PROXIES	--	--
TOTAL	*943*	*2,104*

[1] In thousands of euros.

The most important irregularities, in terms of both the number of cases and the total amount of the fines proposed, concerned the violation of the rules on the solicitation of investors. In some of these cases, in addition to proposing fines, the Commission imposed preventive suspensions or prohibited public offerings that violated the rules established by the Consolidated Law on Financial Intermediation. In one case the subject of the offering consisted of the shares of a foreign Sicav, while in another it consisted of financial products of a foreign investment firm. In another 8 cases the subject of the suspended or prohibited offering consisted of shares of an unlisted Italian or foreign company or atypical securities.

As regards corporate disclosure, 11 of the 12 cases involved omitted or late disclosure of price-sensitive information, while in the remaining case the Commission proposed the imposition of fines on the members of the board of auditors of a listed company for having failed to inform the Commission promptly of a series of irregularities uncovered by Consob's supervisory activity (Article 149.3 of the Consolidated Law on Financial Intermediation).

The reduced payments of fines proposed by the Commission for violations of the rules on public offerings and corporate disclosure numbered 91 (77 in 2001) and involved 90 persons (95 in 2001); the reduced payments totaled €1.5 million (€1.2 million in 2001) (Table VII.4).

Most of the cases in which reduced fines were paid concerned the omitted or late notification of major holdings. In view of the increase in the number of such violations, in December2002 the Commission posted a notice on its website calling on companies to observe the relevant rules laid down in the Consolidated Law on Financial Intermediation. As regards corporate disclosure, the reduced fines concerned cases of omitted or late transmission to the Commission of accounting documents or reports by the directors of listed companies in connection with extraordinary shareholders' meetings.

Last year the Commission issued some preventive measures requiring auditing firms not to avail themselves of the services of auditors. In 3 cases the persons involved were partners.

In the first case, involving a partner of PricewaterhouseCoopers spa, the suspension was imposed following on and off-site supervisory checks concerning the accounting treatment of the securities portfolio of a listed bank in the 1999 half-yearly report and annual accounts.

The controls carried out on the auditing procedures adopted revealed major shortcomings consisting in the failure to document the work of the auditors adequately, the failure to acquire important evidence in performing the planned tests, and the failure on the part of the partner responsible for the audit to exercise sufficient control. The irregularities found contributed to the dissemination of information that did not provide a true and fair view with regard to the classification and valuation of the bank's securities portfolio in the annual accounts for the year ended 31 December 1999. The behaviour of the auditors was deemed to be particularly serious in light of the importance for the bank's business of its securities operations and thus of the related information to be reported in its financial statements. For these reasons the Commission imposed the maximum sanction on the partner responsible for the audit.

TABLE VII.4

REDUCED PAYMENTS AS A CONSEQUENCE OF ACCUSATIONS OF VIOLATIONS OF THE RULES ON SOLICITATION OF INVESTORS, CORPORATE DISCLOSURE AND PROXIES

	2001	2002
NUMBER OF CASES		
PUBLIC OFFERINGS	13	6
TENDER OFFERS	2	1
CORPORATE DISCLOSURE	11	6
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	51	78
PROXIES	--	--
TOTAL	*77*	*91*
NUMBER OF PERSONS FINED		
PUBLIC OFFERINGS	19	6
TENDER OFFERS	3	1
CORPORATE DISCLOSURE	20	6
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	53	77
PROXIES	--	--
TOTAL	*95*	*90*
AMOUNT OF THE FINES[1]		
PUBLIC OFFERINGS	344	207
TENDER OFFERS	31	103
CORPORATE DISCLOSURE	258	392
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	537	845
PROXIES	--	--
TOTAL	*1,170*	*1,547*

[1] In thousands of euros.

In the second case a partner of Deloitte & Touche spa was suspended following the examination of the audit of the half-yearly report of a company listed on the Nuovo Mercato for the six months ended on 31 December 1999.

The supervisory controls revealed serious shortcomings in the planning of the audit procedures serving to evaluate the risks associated with the audited company. This prevented the auditor from correctly

determining the nature and scope of the procedures to be applied to the items "receivables from customers" and "revenues" and from correctly evaluating the results of the procedures performed.

Furthermore, the irregularities found were particularly serious because the opinion rendered by the auditor on the accounts included in the prospectus prepared by the company for its IPO and listing on the Nuovo Mercato was an especially important aspect of the listing procedure. The Commission accordingly imposed the maximum sanction on the partner responsible for the audit in this case as well.

In the third case a partner of Arthur Andersen was suspended in connection with the audit of the annual accounts of a bank for the year ended 31 December 1996.

The supervisory controls revealed major shortcomings in the planning of the audit with reference to part of the work performed on the bank's loan business, which adversely affected the nature and scope of the audit procedures to be performed and contributed to the incorrect classification of some loans as performing in the 1996 annual accounts. In view of the irregularities found, the Commission suspended the partner responsible for the audit for 6 months.

Internet enforcement

Starting in 2000, the Commission has enforced compliance with securities markets rules on the Internet by systematically controlling the information posted on financial websites. The activity carried out in the three years 2000-03 concerned 191 websites and led to 81 enforcement actions. These included preventive and disciplinary measures adopted or proposed directly by the Commission as well as suspected violations of the law reported to the judicial authorities (Table VII.5).

In particular the enforcement measures adopted directly by Consob consisted of suspensions and bans on public offerings of financial instruments and alternative trading systems. The illicit activities subject to these measures were carried out using the chain-letter mechanism and therefore involved large numbers of investors.

The reports to the judicial authorities, in addition to alleged cases of unauthorized provision of investment services (among which the most frequent were unauthorized asset management and placement of financial instruments), included suspected fraud, unauthorized activities punishable under the Consolidated Law on Banking, and alleged violations of the law on money laundering. The latter cases were also reported to the Bank of Italy, the Ufficio Italiano dei Cambi and the finance police for the matters falling within their sphere of competence. The reports to foreign regulatory authorities under the respective bilateral agreements on the exchange of information concerned illicit activities on the Internet found by Consob which were directed at investors resident in Italy and which potentially or actually also involved other investors.

TABLE VII.5

INTERNET ENFORCEMENT

	2000	2001	2002
NUMBER OF WEBSITES EXAMINED	107	35	49
OF WHICH AS A RESULT OF:			
WEB SPIDERING	105	32	21
PRESS CUTTINGS	1	0	2
REPORTS TO OPERATIONAL CONSOB OFFICES	1	3	26
ENFORCEMENT ACTIONS AND REPORTS TO OTHER AUTHORITIES			
CONSOB DISCIPLINARY AND PREVENTIVE MEASURES	9	4	4
REPORTS TO THE JUDICIAL AUTHORITIES	5	6	20
REPORTS TO THE FINANCE POLICE	1	2	2
REPORTS TO THE BANK OF ITALY	2	3	0
REPORTS TO THE UIC	1	3	10
REPORTS TO FOREIGN AUTHORITIES	4	4	2
TOTAL	*22*	*22*	*38*

The experience gained in Internet supervision in the three years 2000-02 has shown the multi-disciplinary nature of this activity with respect to the institutional tasks performed by Consob's various operational divisions. Moreover, the checks and means of investigation for this activity call for the development of solutions adapted to the specific features of the Internet as an instrument for the perpetration of crimes. In particular, Internet enforcement requires the identification of suspicious websites to be examined in more detail. This is done using three sources: periodic web spidering, the reports received from the External Relations Division, the International Relations Office and Consob's other Offices, and analysis of the leading daily newspapers and economic periodicals.

Web spidering consists in reiteratively searching the Internet for words and phrases by means of an intelligent (neural-network type) algorithm. The set of phrases is updated continuously to take account of the evolution of the initiatives carried out over the Internet that could hide some form of unauthorized activity. It has been found in fact that over time deviant behaviour tends to follow almost predefined formulas in order to reach the investing public effectively. For example, in the year 2000 the most common formula consisted in the setting up of phantom alternative trading systems with companies listed that promised rapid growth and high financial returns. By contrast, in 2001 the unauthorized provision of investment services

predominated, while in 2002 many sites adopted a formula that involved the apparent provision of advice, which masked the real aim of providing unauthorized asset management and/or placement of financial instruments and the solicitation of investors.

Lastly, it should be noted that since the second half of 2002 Consob has participated in a project financed by the European Union known as "FFPOIROT" (Financial Fraud Prevention - Oriented Information Resources using Ontology Technology), the ultimate aim of which is to improve the present web-spidering technique by applying artificial intelligence algorithms based on the notion of ontology (the passage from words to concepts) to the interpretation of the contents of websites.

VIII. REGULATORY AND INTERPRETATIVE ACTIVITY AND INTERNATIONAL DEVELOPMENTS

Regulation of the solicitation of investors

As part of the periodic revision of the regulations implementing the Consolidated Law on Financial Intermediation, some amendments were made in 2002 to Consob Regulation 11971/1999 on issuers with regard to the solicitation of investors.

In the first place changes were made to Article 33 concerning the cases in which the rules on the public offerings are not applicable.

In view of the difficulties reported by market participants in interpreting the content of the applicable obligations, the nature and scope of Consob's control of prospectuses, and the sanctions in the event of unauthorized public offerings, the Commission clarified that the inapplicable provisions did not include the obligation to prepare a prospectus but only the obligation to give Consob advance notice of the intention to make an offering (Article 94.1 of the Consolidated Law on Financial Intermediation). Moreover, Article 33 was not coordinated with the rules on the mutual recognition of prospectuses, with special reference to offerings directed at employees. In fact if an EU issuer made an offering of this type, it might or might not be subject to the obligation to submit the prospectus approved in its home country for Consob's prior control depending on whether it decided to invoke (naturally assuming it met all the conditions) the mutual recognition procedure referred to in Article 10 of Consob Regulation 11971/1998 or the exemption provided for in Article 33.2d). The regulatory amendment consisted in the elimination, in both cases, of the need for Consob's prior authorization and the related examination of the prospectus. This possibility is expressly restricted to cases in which, pursuant to Directive 2001/34 and Article 10.3 of Consob Regulation 11971/1998, mutual recognition is mandatory, i.e. when the prospectus has not only been approved by the competent authority, which attests to its conformity with the above-mentioned directive, but also does not benefit from any partial exemptions or derogations therefrom.

Other amendments were made to the disclosure obligations applying to increases in capital by means of contributions in kind.

Such increases fall within the scope of Article 71 of Consob Regulation 11971/1999 on issuers, which requires listed issuers, in the event of significant acquisitions or disposals, to make an information document prepared in conformity with the model provided by Consob available to the public within fifteen days of the conclusion of the transaction. In such cases, which are often particularly important and delicate, it nonetheless appeared necessary - without prejudice to the other disclosure requirements already in place - for the information document, contrary to what Article 71 provided for, to be prepared and made available to the public prior to the transaction, to enable shareholders to vote in the shareholders' meeting in an informed manner and in possession of all the necessary information and, more generally, to ensure the market is fully aware of the main features of the transaction and its effects on the issuer. The amendment made accordingly consisted in the explicit inclusion of the disclosure requirements for increases in capital

by means of contributions in kind in Articles 70 and 90 (mergers and spin-offs) and the consequent reformulation of Articles 72 and 92, which now no longer consider such cases. The amendment also entailed marginal changes to the provisions that refer to the articles in question (Articles 75, 105, 135 and 136).

As regards the revision of the regulations on tender offers, Article 50 of Consob Regulation 11971/1999 was amended in 2002. In this respect it should be noted that Article 108 of the Consolidated Law on Financial Intermediation entrusted Consob with the task of determining the price of residual-acquisition tender offers. Accordingly, Article 50 of Consob Regulation 11971/1999 indicates some, but not necessarily all, of the elements to be considered to that end: the price of any preceding tender offer; the weighted average market price of the issuer's shares in the last six months; its adjusted shareholders' equity at current values; and its performance and earnings prospects.

The amendment to Article 50 of the above-mentioned regulation consisted in the introduction of a provision that expressly grants Consob the power to determine the price of a residual-acquisition tender offer exclusively on the basis of the price offered in the tender offer that triggered the requirement to make the residual-acquisition tender offer, considering this to be a sort of "continuation" of the earlier offer. The condition for this provision to apply is that at least 70% of the shares that were the subject of the earlier offer were tendered, a limit that is considered indicative of the favourable reception on the part of the market of the price offered.

The provision in question nonetheless allows Consob to take account of particular situations that might justify determining a price for a residual-acquisition tender offer different from that of the earlier offer. This could be the case, for example, where it is evident that the success of the earlier offer occurred in a context of market failure, or where events occurred in the period between the earlier offer and the residual-acquisition tender offer that significantly altered the value of the shares (e.g. the distribution of a maxi-dividend or the loss of a valuable asset).

Again with regard to residual-acquisition tender offers, in the exercise of the powers provided for in Article 112 of the Consolidated Law on Financial Intermediation permitting changes to the free float triggering the residual-acquisition tender offer requirement, the Commission announced the general criteria it would follow and fixed a series of increasing "market value brackets" corresponding to different triggers in the form of percentage holdings, such that the value of the remaining free float also increased.

On the basis of these criteria, the market management company will notify Consob of cases where it appears possible to set a higher limit for the percentage holding than that established by Article 108 of the Consolidated Law for listed companies for which, in connection with a complete-acquisition tender offer or as a consequence of purchases on or off market by third parties, a single person (or several persons acting in concert within the meaning of Article 109 of the Consolidated Law) may acquire or already has (have) acquired a holding of more than 90 per cent. This was the

case of Montedison (Edison spa as of 1 May 2002), for which the limit was raised to 95 per cent on the occasion of the residual-acquisition tender offer made by Edison.

In particular, where the above-mentioned condition may occur upon completion of a tender offer, the new limit will be fixed in advance, while in all other cases it will be fixed on Consob's initiative or on the basis of notifications from the interested party. Following the adoption of this procedure, in 2002 the Commission resolved to raise the limit to 90.5% in one case, that of Italgas.

As regards interpretations, the Commission intervened on several occasions in 2002 on the application of the rules on tender offers, sometimes, but not always, in connection with specific transactions.

In April 2002, taking into account the possible tender offer requirements consequent on mergers and spin-offs, the Commission deemed it desirable to amend the provisions regarding the exemption referred to in Article 49.f) of Consob Regulation 11971/1999 on issuers so as to increase the certainty of the identification of the conditions for the applicability of the exemption and to link this to parameters that were as objective and immediately verifiable as possible. To this end it introduced, as a decisive factor for the purpose of deciding on the applicability of the exemption, the existence of a resolution approved by the shareholders' meeting of the potential listed target company on the basis of "effective and reasoned industrial needs". Following this change, the Commission clarified in 2002 that, in the event of the application of the above-mentioned provisions, Consob's verification did not involve a thorough examination of the merits of the merger plan, but only a check on the absence of an evident intention to elude the rules on the part of the parties involved in the merger, a circumstance that could be deemed to have been proved only if the examination of the transaction suggested prima facie *the absence of any industrial needs and, on the contrary, the evident intention to use the merger/spin-off exclusively to acquire control of the listed company while eluding the rules on mandatory tender offers.*

Turning to the applicability of the provisions on consolidation tender offers referred to in Article 106.3b) of the Consolidated Law on Financial Intermediation and Article 46 of Consob Regulation 11971/1999, the Commission clarified that once purchases made in compliance with Article 46 (3 per cent of the capital in the preceding 12 months) resulted in the purchaser's holding exceeding 50 per cent, the shareholder was free to make additional purchases even if this led to the total purchases in the same 12 months exceeding the 3 per cent limit.

In other words, once a holding reaches 47 per cent (and no other purchases having been made in the preceding 12 months), the shareholder can purchase shares amounting to 3 per cent of the capital under Article 46, which gives majority control of the target company. Subsequent increases in the holding do not trigger the obligation to make a tender offer.

Lastly, the Commission provided additional clarifications regarding the applicability of the rules on tender offers by issuing an interpretative communication of a general nature.

The Communication (DEM/2050754 of 22 July 2002) concerned the applicability of the exemption from the obligation to make a tender offer to transactions that required the conclusion,

as an integral part of a merger, of shareholders' agreements falling within the scope of Article 122 of the Consolidated Law on Financial Intermediation.

More specifically, on the basis of the experienced gained in applying the exemption and in the light of the amendments made to the regulation in question, the Commission supplemented its earlier guidance on this matter by stating that if the shareholders' agreements were found to be necessary for the completion of a merge and to have been concluded at the same time as those regarding the merger, they could be deemed to be an integral part of the merger, so that Article 49 of Consob Regulation 11971/1999 would apply and there would not be an obligation to make a tender offer. The Commission noted, however, that it would be necessary to take account of the special features of each case and to verify whether the shareholders' agreements were effectively necessary in order to implement the merger or unrelated thereto or an indication of the elusive nature of the whole operation.

In relation to the regulation of the solicitation of investors it is worth noting the activity at Community level in connection with the directive on the prospectus to be published when securities are offered to the public or admitted to listing on an EU regulated market, the adoption of which will lead to important changes in the Italian legislation in this field (see Box 10).

BOX 10

The prospectus directive and the European passport for issuers

The proposed directive harmonizes the rules on prospectuses for public offerings and for admission to listing by introducing a common concept of public offering, defining the content of the prospectus to be complied with in all the Member States, identifying the cases of exemption from the obligation to publish a prospectus and above all by introducing the European passport for issuers.

In particular, under the proposed directive the traditional single-document model will be flanked by a prospectus made up of more than one document (the registration document, with information on the issuer, and the securities note, with information on the securities being offered). Whichever solution issuers choose, the prospectus must be accompanied by a summary note with a résumé in non-technical language of the main items included in the prospectus. A special format (the basic prospectus) is contemplated for programmes and for continuing and periodic issues by banks.

Model forms for the various types of issuers and financial instruments offered will be adopted following comitology procedures.

In the case of cross-border transactions, after the home-country authority has approved the prospectus it will inform the host-country authority, transmitting a copy of the prospectus, a certificate of conformity with the acquis communautaire, a translation of the summary note and any supplements. Even though the issuer passport mechanism is based on the principle of control by the home-country authority (considered the entity best placed to carry out the control), the proposed directive nonetheless provides for some derogations from the principle by allowing the issuer to

choose the jurisdiction for transactions involving securities other than equity securities with a par value of more than €5,000 or derivative instruments not issued by the issuer of the underlying (or by an entity belonging to the group of the latter issuer). In order to make the issuer passport really operational, a simplified language regime is introduced under which only the summary of the prospectus has to be translated into the languages of the host countries in which the transaction is to be carried out.

In April 2002 the European Commission conferred a provisional mandate on the Committee of the European Securities Regulators (CESR) to give its technical advice by 31 March 2003 on the definition of the rules regarding the minimum information to be included in prospectuses, with special reference to the offering/admission of equity and debt securities of recently constituted companies and small and medium-sized enterprises, the possibility of using previously published documents in prospectuses (incorporation by reference), and the publication of prospectuses.

In conformity with the legislative procedure recommended in the Lamfalussy Report, which gives considerable importance to public consultation with market participants, CESR published two documents: the first in October 2002 entitled "CESR's Advice on possible Level 2 Measures for the Proposed Prospectus Directive" (02/185b) and the second in December 2002 entitled "Addendum to the Consultation Paper" (02/286), both of which are available on the CESR website. The consultation phase ended on 6 February 2002.

The proposed advice published for consultation presented a system of model prospectus forms based on the building-block approach and intended to achieve an equivalent degree of transparency at European level for cross-border offerings, that were also differentiated by category of issuer since this was considered important. In particular, as regards the information to be disclosed on issuers, the proposals published also provided for specific model prospectus forms for issues of non-equity securities by banks in view of the fact that they are subject to supervision.

The regulation of ongoing corporate disclosure

In the field of ongoing corporate disclosure, one particularly important amendment to Consob Regulation 11971/1999 on issuers was the introduction of an ad hoc disclosure regime for transactions deemed to be "significant" that listed issuers conclude with related parties.

The essential information to be disclosed in such circumstances is specified in Annex 3B of the same regulation (the risks connected with potential conflicts of interest, the conditions and characteristics of the transaction, the related parties involved, the consideration and an assessment of its fairness, and whether the remuneration of the directors of the issuer and/or its subsidiaries will change as a result of the transaction).

As regards the timetable for disclosure, the regulations provide for two options: within 15 days of the conclusion of the transaction where the issuer decides to issue the information document referred to in Annex B or without delay where it decides not to file such a document and to include the information deemed to be price sensitive and specified in Annex 3B in the press release to be issued under Article 66 of Consob Regulation 11971/1999. While the second method leads to earlier disclosure, it also saves issuers from incurring the cost of filing an information document and publishing a notice in the press.

The transactions with related parties deemed to be significant are those that "in view of the financial instruments involved, the consideration or the manner or time of their conclusion, may affect the security of the company's assets or the completeness and correctness of information on the issuer".

Article 71-*bis* of Consob Regulation 11971/1999 on issuers provides for Consob to define "related parties" in a subsequent measure taking account of the relevant international accounting standards.

The decision not to include the definition of related parties in Consob Regulation 11971/1999 was mainly due to the need to study the matter further and to take account of the comments submitted by market participants in the consultation on the first draft of the amended text of the regulation.

Accordingly, in Communication DEM/2064231 of 30 September Consob provided a definition of the notion of related parties that was basically in line with the International Accounting Standard on Related Party Disclosures (IAS 24). This model was also adopted in view of Regulation 1606/2002 of the European Parliament and of the Council of the European Union, which provides for the application of international accounting standards for the preparation of the consolidated accounts of all listed EU companies from 2005 onwards.

The communication also pointed out that since IAS 24 was being revised it might prove necessary to amend the definition of related parties, possibly quite soon. In addition, in order to facilitate the definition of the notion of "related parties", the communication indicated that reference should be made to the notions of control (Article 93 of the Consolidated Law on Financial Intermediation) and of affiliation and significant influence (paragraph 3 of Article 2359 of the Civil Code). In addition, the communication specified that related parties are to be taken to include the member's of a company's governing bodies, the general managers and the managers with powers granted by the board of directors. Lastly, as regards related parties as a consequence of close family ties - in addition to the general criterion whereby this category includes persons potentially able to influence the natural person related to the issuer or to be influenced thereby in the context of their relationships with the issuer - the communication specified that the following persons are always to be considered as having close family ties: not legally separated spouses and relatives by blood or affinity up to the second degree of kinship.

The marginal differences compared with the definition of related parties to be found in the international accounting standards are due, as explained in the communication, to the need to adapt some

of the typically accounting concepts in IAS 24 to legal categories already present in Italian law (in matters such as joint control, affiliation and significant influence) and to the desirability of specifying more exactly concepts that have blurred boundaries in IAS 24 (such as the natural persons to be considered related to the issuer).

It should be noted that the notion of related party defined in this way is also important for other aspects of corporate disclosure subject to Consob's control of transparency (notably: the annual and consolidated accounts of listed companies, the content of the report of the board of auditors of such companies and offering/listing prospectuses). In fact, the definition has been given general force so that market participants have an instrument serving to satisfy all corporate requirements vis-à-vis Consob and the market.

Consequently, as of 1 January 2003, the date of entry into force of Article 71-*bis*, the notion of related parties adopted with the above-mentioned communication replaces the analogous definitions issued by Consob in the past.

In June 2002 the Commission also amended Article 69 of Consob Regulation 11971/1999 on the publication of research reports and statistics by authorized intermediaries (the article had previously been amended by Resolution 13086 of 18 April 2001 and subsequently replaced by Resolution 13616 of 12 June 2002). The latest amendment introduces rules that differentiate the times at which reports are to be made public according to whether or not they are addressed exclusively to the shareholders of the issuer or of companies it controls or is controlled by or to the clients of the authorized intermediary or of companies it controls or is controlled by (Article 69.2).

Specifically, in the event of the regular distribution of research reports the span of time before they have to be released to the public has been lengthened from 10 to 60 days. The release can be effected by sending the market management company the report or statistics or a notice stating that the material is available on the intermediary's website.

Where, instead, before the material is made available to the public the content of a report or statistics leaks out, accompanied by a sizable movement in the market price of the financial instruments that are the subject of the research report or statistics and/or in the volume of trading,, a press release now has to be issued, at Consob's request, commenting on the truthfulness of the rumours. If the material has already been issued to customers, it is now necessary in the presence of rumours for it to be made available to the public immediately (Article 69.3).

In addition to its supervision on the disclosure of price sensitive information, the Commission issued a number of interpretative documents during the year intended to supplement and clarify the regulations in force.

As regards the information to be provided by listed football clubs, the Commission noted that, owing to the special features of such companies, for which attention on the part of the media is of considerable importance, there are often rumours that expose the market to the risk of information asymmetries.

It is therefore necessary for football clubs to be extremely cautious in issuing declarations regarding the transfer of players and that they should bear in mind that the announcement of agreements that are not sufficiently defined is useful only where it is necessary to guarantee equality of information (Recommendation DEM/2080535 of 9 September 2002). In any other circumstances, according to the Commission, such announcements can distort the operation of the market. Under the rules and regulations in force it is therefore only when transfer agreements have been concluded, that football clubs can issue a press release permitting an informed assessment of the key elements, such as the purchase or sale price, the compensation agreed for players who have been acquired and the other information specified in earlier recommendations.

Lastly, in response to queries regarding the merger of an Italian company listed on the Nuovo Mercato into a US company listed on Nasdaq, with the latter's simultaneous admission to listing on the Nuovo Mercato, the Commission issued the following clarifications with reference to the applicable disclosure requirements and the status of Nasdaq:

- the possibility of releasing financial reports according to the time limits established by US law and the applicability of Article 66.6a) of Consob Regulation 11971/1999, insofar as the Commission deemed that the US rules on this matter did not conflict with those in force in Italy;
- the applicability of the provisions of Article 114.4 of the Consolidated Law on Financial Intermediation concerning the right to defer the disclosure of price-sensitive information and consequent impossibility of "automatically" deferring the disclosure of such information as provided for by US law;
- Nasdaq was not entered in the list referred to in Article 67 of the Consolidated Law on Financial Intermediation and consequently could not be considered a regulated market because it was not recognized in Italy; it therefore followed that it could not be claimed that it was equivalent to the Nuovo Mercato regulated market for the purposes of the application of the regulation in question.

The regulation of financial reporting and auditing firms

At the request of a listed bank in 2002 the Commission gave its opinion on the manner of accounting for the assignment of stock to employees (stock granting) and the use of revaluation reserves created under Law 342/2000.

As regards the first point, in the absence of Civil Code provisions and internationally recognized accounting standards, the Commission ruled that it was admissible for the assignment of shares to employees to be considered a gift and therefore for such transactions to be accounted for merely as a change in the shareholders' equity with no effect on the income statement.

Turning to the second point, the Commission ruled that the revaluation reserve created under Law 342/2000 could be used to offset an unrealized or a realized loss on a shareholding only if the choice of this accounting treatment was intended to give effect to the principle of income statement continuity in

terms of symmetry between cost and revenue flows and therefore on condition that the reserve included in shareholders' equity was the result of directly allocating positive income items that had legitimately not been included in the income statement and that the negative income item to be "neutralized" was closely correlated with the reserve to be used to that end.

With a view to increasing the efficacy of listed football clubs' disclosures to the market, Consob issued Recommendation DEM/2080535 of 9 December 2002 concerning these companies' periodic financial reports and press releases regarding significant events. The aim of the recommendation was to arrive at a minimum degree of standardization of the form and content of listed football clubs' financial reports.

The examination of the information provided by these companies showed, in fact, that certain events typical of the sector were marked by differences regarding the ways in which they were selected and presented. This disparity of treatment reduced the comparability and utility of the data. In view of the special nature of the football business, the recommendation also called for greater attention with regard to the information on the companies' financial management and the events that characterize the overall management of players, with special reference to the purchase of multi-year rights.

After consultation with the interested parties, in preparing the recommendation the Commission identified some data and information that were particularly significant for the purpose of making the financial performance of football clubs more comprehensible and recommended that they should be highlighted in their periodic reports (for example by placing them in the opening pages) and accompanying press releases.

The data in question are: the company's net financial position with a specification of the main short and medium and long-term components; the ratio of debt (financial debt net of liquid balances) to equity; and cash flow. The Commission also deemed that additional information should be made available in the notes to the accounts, with special reference to debtor and creditor positions vis-à-vis related parties.

The Commission also recommended that the notes to the accounts should highlight the main economic and financial effects of events of a seasonal nature, securitizations, sales of season tickets, sponsorships and radio and TV rights, and, lastly, transfers of players, including any concluded after the end of the accounting period. Another express recommendation concerned the need, at times of financial tension, to account separately for any sanctions to which the company is liable for taxes or social security contributions.

As regards the notes to the accounts in these companies' annual and half-yearly reports, the Commission recommended that the analysis of the item "rights to the services of footballers" should include a summary table showing for each player: the original carrying value; the duration of the contract and related depreciation period; accumulated depreciation up to the reference period and the amount remaining to be depreciated.

Turning to developments in the international sphere, as part of the process of harmonizing the rules on financial reporting in the European Union, in 2002 the European Parliament and the Council of the European Union adopted Regulation 1606 on the application, from 2005 onwards, of the International Financial Reporting Standards (IFRS) prepared by the International Accounting

Standards Board (IASB) for listed companies' consolidated accounts. The regulation also states that the same standards may be adopted by unlisted companies and/or for companies' annual accounts.

In conformity with the general approach followed by the European Union aimed at rendering international accounting standards applicable in Europe, the European Commission has embarked on the "modernization" of the relevant directives in order to make these rules, where transposed by the Member States, applicable to all European companies.

These initiatives, aimed at harmonizing and improving the information in financial reports at European level, showed the need for interventions by securities markets regulators aimed at coordinating the interpretation of the new rules and enforcement activity at European level. Accordingly, a permanent group on financial reporting was set up, known as CESR-Fin. Operational activity is entrusted to two subgroups: the Subcommittee on International Standard Endorsement and the Subcommittee on Enforcement.

In particular, in 2002 the first of these subcommittees proceeded to carry out its work programme concerning, among other things, evaluation of the IASB's new projects and the modernization of the accounting directives.

Turning to the harmonization of enforcement activity, the second subcommittee, having taken note of the request contained in the preamble to Regulation 1606 on IFRS, drew up a work programme covering the main aspects of enforcement in the field of financial reporting and published a first document on the general principles upon which enforcement should be based. Specifically, the activity of this subcommittee gave effect to the content of the sixteenth recital of the regulation in question, which calls on the European Commission to cooperate with the Member States to develop a common approach to enforcement.

This led to the publication in October 2002 of a consultation paper containing 21 general principles to provide the basis for an efficient system of oversight of financial reporting. The document, which should be approved in its final version early in 2003, describes an institutional enforcement mechanism based on independent national administrative authorities.

These administrative authorities can have different legal forms and organizational arrangements according to the different national legal systems of the Member States, but they should coordinate their activities by agreeing on the same objectives and adopting similar enforcement mechanisms.

As regards regulatory activity in the auditing field, the Commission recommended that registered auditing firms should adopt the new standards drawn up by the Consiglio Nazionale dei Dottori Commercialisti and the Consiglio Nazionale dei Ragionieri e dei Periti Commerciali (Resolution 13809 of 30 October 2002).

These principles are based on the International Standards on Auditing (ISA), issued by the International Auditing Practices Committee (IAPC), now the International Auditing and Assurance Standards Board (IAASB), established by the International Federation of Accountants (IFAC).

The work carried out by the Italian accounting profession, in close collaboration with Consob, focused on the evaluation of the amendments that needed to be made to the ISA standards for their adoption in Italy.

With this recommendation Italy has made an important advance as regards the technical rules on auditing and come into line with the highest international standards.

In introducing the international standards into Italy, it was deemed appropriate to make the amendments that were necessary in the light of statutory rules, implementing provisions and Consob communications, which had already in part regulated some aspects of auditing, and to maintain some of the obligatory audit procedures of the existing Italian standards and amend them so as to take account of the change in the approach to auditing inherent in the international standards, in which the evaluation of risk plays a central role. The new standards will come into force for the auditing of company and consolidated accounts for the financial years ending from 31 December 2002 onwards.

In addition to the new standards that have been introduced, those recommended by Consob in earlier measures will continue to apply. In this respect it should be noted that through its participation in IOSCO working groups Consob continues to play an international role by contributing analysis and comment on the international auditing standards issued by IFAC, with a view to raising the level of their quality.

The regulation of securities markets

Last year the Commission approved two resolutions that served to amend Consob Regulation 11768/1998 on securities markets. In the first the amendments concerned a limitation of the obligation to dematerialize widely distributed financial instruments (Article 23.2c)), the reduction, from 5 to 3 days, of the time limit for intermediaries to issue the certification attesting participation in the central securities system (Article 34.1); the dematerialization of units/shares of collective investment undertakings not entered in the system (Article 48.3 "Dematerialization of financial instruments not under central management"); and the dematerialization of newly-issued units/shares of open-end collective investment undertakings (Article 49.2 "Dematerialization of newly issued financial instruments").

The amendment of Article 23.2c) restricted the dematerialization obligation applicable to widely distributed financial instruments to issuers included in Section A of the relevant list, i.e. to those subject to the disclosure requirements referred to in Articles 109, 110 and 111 of Consob Regulation 11971/1999 on issuers.

The amendment of Article 48 concerning the dematerialization of financial instruments not under central management was made to take account of the particular characteristics of the units/shares of collective investment undertakings represented by a cumulative certificate that is held on deposit at no charge for administration by the depository bank. The solution adopted takes account of the following needs: (i) *the verification of the rights attached to the units/shares is the responsibility of the issuer, which is the only entity to know the identity of the individual subscribers and the number of units/shares they own;*

(ii) *dematerialization presupposes the opening of an account by each participant in the collective investment undertaking with an authorized intermediary; each intermediary must ask the issuer to make the verification referred to in the preceding point;* (iii) *the entry of units/shares of collective investment undertakings into the central management system in dematerialized form entails the cancellation of the cumulative certificate held by the depository bank and the contemporaneous issue of a new cumulative certificate representing the units/shares that have not yet been dematerialized.*

The amendment of Article 49 concerning the dematerialization of newly issued financial instruments was made to permit the issue in dematerialized form of units/shares of open-end collective investment undertakings. The mechanism governing the operation of such entities does not permit, in contrast with other categories of financial instruments, the issue quantity to be determined since the number of units/shares varies from day to day according to the demand for subscriptions and redemptions. Furthermore, the mechanism in question does not make provision for the placement to have a predetermined duration. In order to overcome these difficulties, a set of ad hoc rules has been introduced that distinguishes between two stages. In the first stage, which precedes the start of the offering, the issuer notifies the central system management company of the date of the start of the offering and the procedures for the settlement of subscriptions and redemptions. In the second stage, which lasts as long as the offering, the issuer notifies the quantity of financial instruments issued each day.

The second resolution made a series of amendments to the chapter "Liquidation of market insolvencies"; the most important of these changes concerned the definition of "member" (Article 1.c)).

Reference is no longer made exclusively to Article 70 of the Consolidated Law on Financial Intermediation. Instead reference is now made to the "guarantee systems based on a central counterparty" referred to in the Bank of Italy Regulation of 22 October 2002containing rules on guarantee systems (under Articles 68, 69.2 and 70 of the Consolidated Law on Financial Intermediation, "Regulation on guarantee systems"), which include not only the central counterparties of derivative markets, under Article 70 of the Consolidated Law, but also those of cash markets, under Article 68 of the Consolidated Law. In this way the rules on market insolvencies, which had previously been applicable only to the central counterparties of derivative markets, now also apply to the central counterparties of cash markets.

Last year saw the Commission collaborate intensely with the Bank of Italy and give its favourable opinion on the issue of the latter's regulation on guarantee systems, the approval of the operating rules of Cassa di Compensazione e Garanzia for the markets managed by MTS and of those provided for in the secondary legislation on settlement services (under Article 69.1 of the Consolidated Law on Financial Intermediation), and the issue of the Bank of Italy regulation with rules on the finality of transfer orders and of that appointing Cassa di Compensazione e Garanzia as a system under Legislative Decree 210/2001.

The Bank of Italy's regulation on guarantee systems governs in a unitary manner the working of guarantee systems for transactions in both derivative and non-derivative financial instruments. The Regulation of 16 June 1999 governing the existing settlement guarantee fund will remain in force until the complete replacement of the existing securities settlement system by Express II. In the context of a general reminder of the need for "sound and prudent" management of guarantee systems, the rules establish, among

other things, the capital requirements for management companies, the general characteristics of the mechanisms to be put in place to protect against risks and the obligation for the guarantee action to be separated in both accounting and organizational terms from any other activities carried out. With a view to the integration of markets, the regulation also contains rules governing the procedures for establishing international links between central counterparties. Consistently with the legislative approach followed for other post-trading activities, the drafting of the detailed provisions (the operational rules) is entrusted to the entities running the systems; the operational rules must nonetheless be approved by the authorities.

The operational rules for the Express II settlement system govern in a unitary manner, in view of their complementarity, the net and gross settlement procedures. The net component is divided into two clearing and settlement phases: one daytime and one nighttime. The gross component is restricted to the daytime and settles transactions in real time on a bilateral basis. The daytime net settlement phase serves to handle any fails that occur in the nighttime phase and can also be used as a contingency mechanism for the recovery of the same. The nighttime phase nonetheless remains the heart of the settlement process. Transactions that are still unsettled at the end of the daytime net settlement phase are entered into the gross settlement system and handled in the same way as all the other transactions entered into that system. Additional general features of the Express II system are: the reserve of dedicated liquidity on the accounts of the central bank; the use of collateral as a source of additional liquidity; the presence of mechanisms for handling fails; and the guarantee that the settlement will be closed in the event of an insolvent member.

As regards the finality of transfer orders and its effects on settlement systems and central counterparties, the regulation establishes that transfer orders entered into settlement systems are not considered to be entered into a system, and therefore definitive, until the two following conditions are met: the parties to the transactions can no longer alter them (irrevocability) and they have been definitively assigned to the settlement entities. Moreover, in no case may that time be before the third day preceding the settlement day.

Turning to international regulatory developments, the market abuse directive was approved in 2002 and CESR presented its advice on the drafting of the detailed implementing measures, which precedes the phases of international cooperation among securities regulators and the application of the provisions at national level (Box 11).

BOX 11

The directive on market abuse: preparatory work and the implementing procedures proposed by CESR

The directive on market abuse was proposed by the European Commission on 30 May 2001 and published in the Official Journal of the European Union on 12 April 2003. The speed with which it was approved can be attributed in large part to the need to respond adequately to the potential market abuses related to terrorist activity and to the more flexible legislative process provided by the Lamfalussy approach.

As regards the level 2 detailed implementing measures, on 27 March 2002 the Commission requested CESR's advice on: the definition of inside information and market manipulation; the disclosure obligations of issuers of financial instruments; transparency with regard to conflicts of interest and the appropriate presentation of research reports and information with recommendations or suggestions for investment strategies; and the conditions for access to the safe harbours for share buy-backs and stabilization. CESR submitted this advice in December 2002 after consulting market participants on several occasions and in different ways. On the basis of this advice the Commission will publish a first draft of the implementing measures in the coming months. In addition, on 31 January the Commission requested CESR to provide advice on another set of questions by 31 August 2003.

Turning to insider trading, the directive defines inside information as price-sensitive information which has not been made public of a precise nature. It also confirms that it can refer directly or indirectly to issuers of financial instruments or to financial instruments. Accordingly, CESR considered that the definition could extend to data and information published by public institutions. research reports prepared by intermediaries, government decisions and changes in the microstructure of markets. The European Parliament also wished to clarify that buy and sell orders that are about to be entered on the market can be considered insider information. It follows that so-called front running is a form of market abuse.

The European Parliament and the Council of the European Union agreed on the desirability of: *(i)* the abuse of inside information consisting in the "use" and no longer the "exploitation" of such information; *(ii)* the list of "primary insiders" also including persons who possess the information in relation to criminal activities; *(iii)* the definition of "secondary insiders" being extended to include any person who knows or should know the privileged nature of the information; *(iv)* both categories of insiders being subject to the same confidentiality obligations.

As for market manipulation, the directive prohibits the deliberate dissemination, including over the Internet, of information likely to give false or misleading indications with regard to financial instruments. The directive also prohibits the spreading of rumours. The European Parliament requested, however, that the behaviour of journalists should be judged taking into account the profession's code of conduct, unless the journalist had benefited directly or indirectly from the dissemination of the information.

Article 6 of the directive requires issuers of financial instruments to disclose inside information promptly. This provision is analogous to that of Article 114 of the Consolidated Law on Financial Intermediation. In its advice for the level 2 implementing measures CESR proposed that issuers should disclose inside information through an "officially appointed mechanism". Such a system should guarantee efficient dissemination and ensure certainty, rapid access and concentration. Turning to the timing of the disclosure of news, the level 2 implementing measures specify that disclosure should be made at the time the event occurs, regardless of whether it has been formalized or not.

The directive leaves it up to issuers to decide whether to delay the disclosure of inside information where they have a legitimate interest to protect, without the need for authorization by the competent authority; provision is nonetheless made for Member States to be able to require issuers to inform the competent authority of such decisions.

In its advice CESR suggested giving only some examples of situations which might justify delaying the disclosure of inside information, such as "matters in course of negotiation" and "specific negotiations designed to ensure the financial recovery of the issuer" where its existence is endangered.

The European Parliament requested a further extension of the measures designed to prevent market abuse and inserted rules in the directive providing for: *(i)* persons with managerial responsibilities in an issuer to communicate the details of transactions they carry out involving its listed financial instruments; *(ii)* the management companies of regulated markets to adopt appropriate provisions aimed at preventing and detecting abuses; and *(iii)* public institutions to disclose data and statistics likely to have a significant influence on financial markets in an appropriate manner.

The Council called in turn for greater flexibility with regard the supervisory and investigatory powers granted to the competent authorities. Such powers can be exercised in various ways: *(i)* directly; *(ii)* by applying to the competent judicial authorities; *(iii)* in collaboration with other authorities or market management companies; or *(iv)* by delegating them to other authorities under its responsibility.

As regards sanctions, the Council requested that it be made clear in the directive that Member States may supplement the indispensable administrative measures and sanctions with penal sanctions. Lastly, of the utmost importance is the request made by the European Parliament for a list of such administrative measures and sanctions to be provided in the level 2 implementing measures, since this would be of help in harmonizing the applicable penalties.

The regulation of intermediaries

In 2002 a number of amendments were made to Consob Regulation 11522/1998 on intermediaries.

The main changes concerned the content of the register of investment firms, with a view to making more information available to investors and market counterparties, the inclusion of financial salesmen among qualified intermediaries, the revision of Article 39 (*Categories of financial instruments*), aimed at identifying selection parameters closer to the standards in use in the financial market and in line with the level of disclosure already planned for fund prospectuses, provisions serving to increase the responsibility of the top managements of investment firms and asset management companies with respect to the results reported by the internal control function.

Last year also saw the completion of the procedure for the approval of the documents drawn up by CESR to define a Community-wide regime for intermediary's rules of conduct with regard to relations with retail and professional investors ("Standards and rules for harmonizing core conduct business rules for investor protection" and "The professional and the counterparty

regimes". The process of harmonization thus requires an updating of Italian legislation in the light of the document issued by CESR. The transposition, however, will require amendments of a certain entity only for some parts, while in many other cases it will consist in a specification of the rules of conduct already present in Italian legislation at the level of general principles, on which the Commission has already provided some interpretative guidance in communications.

In addition, in 2002 a start was made on consultation with the relevant trade associations on the revision of the "Provisions concerning the requirements applicable to authorized intermediaries and stockbrokers with regard to the communication of information and the transmission of documents" contained in Consob Resolution 12191/1999. The purpose of the revision, in addition to simplifying the administrative burden for intermediaries, is to introduce a system for the electronic transmission of the required information and ultimately to eliminate the use of paper-based documents in complying with the notification requirements.

As part of its interpretative activity, the Commission responded to several queries on the regulation of investment firms.

In the first place it reaffirmed the possibility for "static" trust companies to conclude individual portfolio management contracts in their own names on behalf of their customers, including, subject to certain conditions, in the case of the repatriation of financial assets represented by management contracts with foreign intermediaries.

The Commission also addressed the question of persons other than financial salesmen simply signaling financial intermediaries to potential customers and recommended intermediaries to take all the necessary precautions to ensure that such activity remained within the prescribed limits. In another ruling, the Commission stated that it was legal for an intermediary charged with the "reception of orders" from institutional investors to channel those for execution on foreign markets to another investment firm belonging to the same group. In particular, the activity of the intermediary engaged in the reception of orders was considered, in the case in question, as equivalent to selling the dealing service provided by the other firm and supplying an after-sale service to the institutional investors, which had a direct contractual relationship with the firm providing the dealing service.

The Commission was also asked by intermediaries authorized to provide dealing services on customer account to give its opinion on the possibility of outsourcing, in particular through recourse to call centres, the performance of certain tasks inherent in the provision of investment services, such as the reception of buy and sell orders over the phone. Lastly, the examination of the results of supervisory checks on transaction-based fees made it necessary for the Commission to clarify certain aspects of the remuneration of management companies.

During the year Borsa Italiana introduced a new market segment known as MTF (Mercato Telematico dei Fondi) for the listing and trading of indexed funds (ETFs), which are "passive management" collective investment undertakings that reproduce indexes or baskets of securities. Consob Regulation 11971/1999 on issuers was updated accordingly with the introduction of two new model forms (Annex 1B-Form 19 and Annex 1H-Form 2) for the offering and listing of ETFs.

The new prospectus forms contain all the information prescribed for other collective investment undertakings, suitably reformulated to take account of the particular features of ETFs, as well as information in relation to the listing of such products. The disclosure requirements with regard to significant facts applicable to listed closed-end funds have been extended to ETFs and rules introduced regarding the manner of making public the documents regarding them, with provision made for management companies to use their websites to disseminate the information contained in their prospectuses and operating rules, including amendments thereto, and statements of operations.

Lastly, as regards financial salesmen, the Commission responded to numerous queries submitted by individuals, trade associations and the regional and provincial financial salesmen's register commissions. For the most part it concentrated on questions concerning *de jure* registration and applicants' satisfaction of the integrity and experience requirements.

In the latter respect the Commission clarified that the position of "2nd level junior manager" was not equivalent to that of "bank officer" and that the position of "head of internal control" referred to in Article 4.1c) of Ministerial Decree 472/1998 did not coincide with that of "branch manager" but with that of head of the bank's whole internal control function as specified in Article 57 of Consob Regulation 115221/1998. The Commission also ruled that the manager of a post office could be registered de jure *where the minimum period of at least three years required under Article 4.2 of Ministerial Decree 472/1998 had lapsed, starting from the moment when, with the entry into force of Presidential Decree 144/2001, Poste Italiane spa was put on the same footing as Italian banks as regards the application of the Consolidated Law on Banking and Credit and the Consolidated Law on Financial Intermediation.*

IX. INTERNATIONAL AFFAIRS

International cooperation

In 2002 Consob continued the intense bilateral cooperation with foreign regulatory authorities that had been a feature of the preceding years.

As regards the exchange of information, there was an increase in the number of requests for cooperation received and in the number of requests sent by Consob. In particular, the former rose from 72 to 103 (Table IX.1). Most of this increase consisted of requests concerning the compliance of shareholders and managers of investment firms with the relevant integrity and experience requirements, which rose from 49 to 80.

TABLE IX.1

INTERNATIONAL COOPERATION
(REQUESTS FOR COOPERATION)

SUBJECT OF THE REQUEST	FROM CONSOB TO FOREIGN AUTHORITIES					FROM FOREIGN AUTHORITIES TO CONSOB				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
INSIDER TRADING	17	43	32	24	24	2	3	5	20	13
MARKET MANIPULATION	2	--	1	4	--	1	3	--	1	1
UNAUTHORIZED SOLICITATION AND INVESTMENT SERVICES ACTIVITY	7	4	3	10	9	3	3	1	2	7
TRANSPARENCY AND DISCLOSURE	--	--	1	--	--	1	--	2	--	--
MAJOR HOLDINGS IN LISTED COMPANIES AND AUTHORIZED INTERMEDIARIES	--	--	--	1	1	--	--	--	--	2
INTEGRITY AND EXPERIENCE REQUIREMENTS	12	10	19	14	34	30	44	53	49	80
VIOLATION OF RULES OF CONDUCT	--	--	2	--	--	--	--	--	--	--
TOTAL	*38*	*57*	*58*	*53*	*68*	*37*	*53*	*61*	*72*	*103*

The number of requests for cooperation sent by Consob also rose significantly, from 53 to 68. Here again, the increase was primarily due to requests concerning compliance with integrity and experience requirements (Table IX.1).

With a view to further broadening contacts with other countries, three new Memorandums of Understanding were concluded with the regulatory authorities of Slovenia, Guernsey and South Africa. Moreover, early in 2003 an agreement was concluded with the Republic of San Marino Credit and Currency Inspectorate.

These agreements on cooperation and the exchange of information for enforcement purposes are in addition to those already concluded by Consob with other EU and non-EU regulatory authorities. To date the Commission has entered into 25 bilateral cooperation agreements and another 3 agreements providing for the confidentiality of the information shared. Consob is also a signatory of the multilateral memorandum of understanding drawn up by the CESR countries belonging to the European Economic Area. Negotiations are under way with a number of other countries for the conclusion of similar agreements.

At the end of last year Consob and the Bank of Italy on the one hand and the Commission Bancaire, the Comité des Etablissements de Crédit et des Entreprises d'Investissement, the Banque de France and the Conseil des Marchés Financiers on the other signed a cooperation agreement designed to allow Clearnet to become a member of the Italian securities settlement system.

Consob was also heavily involved in bilateral relations with a view to the forthcoming enlargement of the European Union.

A start had already been on this activity in 2001, when Consob participated in projects to provide support for the securities commissions of countries that are candidates for joining the European Union or potentially interested in the enlargement process.

In particular, in August 2002 a start was made on the implementation of the twinning project between Consob and the Romanian National Securities Commission, as part of the PHARE programme financed by the European Union.

The aim of this initiative, in which the Bank of Italy, Borsa Italiana spa and Monte Titoli spa are also participating, is to strengthen the administrative capabilities of the Romanian Commission and to ensure the adoption of the acquis communautaire *in Romania, so as to allow its accession to the European Union in 2007. A Consob official has been seconded tothe Romanian Commission for one year.*

Other initiatives financed by the European Union under the PHARE programme with the aim of bringing candidate countries's legislation into line with Community law were carried out in Malta and Turkey. In addition, a number of Consob managers visited Tirana at the invitation of the Albanian Securities Commission.

Lastly, several meetings of working groups were held at Consob during the year. In particular, in August IOSCO's Task Force on Disclosure and Transparency, co-chaired by the Chairman of Consob, met at Consob's offices in Rome to identify minimum international standards for ongoing disclosure by issuers.

Activity within the European Union

Last year saw further intense activity by the European Commission, the Council and the Parliament aimed at fulfilling the objectives set out in the Action Plan for Financial Services with a view to creating the single market by 2005.

Consob participated in several working groups set up by the European Commission and the Council to draft the texts of directives in the field of financial markets and services.

The presence of Consob officials seconded to work within the European Commission as national experts allowed Italy's regulatory authority to collaborate on the drafting of the texts of the proposed directives on prospectuses and investment services.

Numerous legislative initiatives reached the common position or political agreement stage. As regards the legislation that was completed, 4 directives were approved in 2002, together with the regulation on the application of international accounting standards.

Directive 2002/47/EC, on financial collateral arrangements, contributes to the integration and cost-efficiency of financial markets and the stability of the European financial system by harmonizing the rules on financial collateral so as to improve legal certainty through the disapplication of national legislation that would inhibit the effective realization of financial collateral or cast doubt on the validity of current techniques such as bilateral close-out netting, the provision of additional collateral and the substitution of collateral.

Directive 2002/65/EC, concerning the distance marketing of consumer financial services, covers the whole range of services that can be provided using distance marketing techniques, regardless of whether they have been harmonized at Community level. It thus supplements, for the financial services sector, the framework legislation on the conclusion of contracts using techniques of distance communication (Directive 97/7/EC).

In order to increase the confidence of consumers in the use of distance marketing techniques, the directive establishes requirements designed to ensure that consumers are adequately informed before concluding a contract. It provides basically for two protection mechanisms: an adequate description of the information requirements vis-à-vis the consumer that the supplier of the service must fulfill prior to the conclusion of a contract; and the consumer's right of withdrawal at no cost. This directive will need to be coordinated with that on e-commerce.

Directive 2002/87/EC concerns the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. It acknowledges the recent developments in markets that have led to the creation of groups that can provide services and products in different sectors of the financial markets, without this being accompanied by the introduction of forms of prudential supervision on a group-wide basis of the entities making up such groups.

The most important aspects previously not covered by specific rules were the solvency position and risk concentration at the level of the conglomerate, intra-group transactions and internal risk management processes at conglomerate level.

Accordingly, the directive on the supplementary supervision of conglomerates addresses the prudential loopholes in the existing sectoral legislation and the related additional prudential risks, so as to ensure sound supervisory arrangements with regard to financial groups with cross-sectoral financial activities. In order to make the supplementary supervision effective, the directive contains specific provisions

governing collaboration between the authorities responsible for the supervision of the individual components of a conglomerate, including the development of ad hoc cooperation arrangements between such authorities and the selection from among them of a coordinator, to be entrusted with specific tasks in connection with the supplementary supervision provided for in the directive.

In addition, Directive 2003/6/EC on insider dealing and market manipulation was approved at the beginning of this year in order to ensure the integrity and smooth functioning of Community financial markets and to enhance investor confidence, factors that are essential for the development of the single market. The new directive repeals the earlier one on insider trading (89/592/EEC) and extends the harmonization of the Community protection against market abuses by redefining the notion of insider trading and introducing that of market manipulation (see Box 11 in Chapter VIII).

It should be noted that the directive places particular emphasis on the role of the competent authority in the performance of enforcement activity. To prevent the existence of a variety of competent authorities with different responsibilities and powers from causing confusion among economic actors and giving rise to opaque situations and uncertainty that could prejudice the integrity of the financial markets, the directive requires each Member State to designate a single competent authority, which would assume final responsibility for supervising compliance with the provisions adopted pursuant to the directive and for international cooperation.

The single competent authority should be of an administrative nature and independent of economic actors, so as to avoid conflicts of interest. It should also be endowed with all the supervisory and investigatory powers needed for the exercise of its functions of market supervision. It should be able to perform these directly, in collaboration with or by granting mandates to other authorities or market operators, or by application to the competent judicial authorities.

The list of minimum powers that Member States should grant to the competent authority under the directive will entail important changes to Italian law since it will require an increase in Consob's powers. In particular, the latter's powers of inspection and information-gathering will have to be broadened to allow it to exercise them vis-à-vis entities that are not subject to supervision. The directive provides for the single competent authority to be able to summon and hear any person who appears to be in possession of information relevant to its investigations. Consob will also need to be granted new powers to request the freezing and/or sequestration of assets (the powers with which the administrative authority should be endowed can also be granted byway of collaboration with other authorities, including judicial authorities), to impose injunctive measures (the cessation of any activity that is contrary to the provisions adopted in the implementation of the directive), and to request the temporary prohibition of professional activity.

In order to ensure that a Community framework against market abuse is sufficient, the directive establishes that any infringement of the prohibitions or requirements laid down under it will have to be promptly detected and sanctioned. To this end, the directive makes it clear that sanctions should be sufficiently dissuasive and proportionate to the gravity of the infringement and to the gains realized and that they should be consistently applied by the competent authorities, which may disclose to the public every measure or sanction that will be imposed for infringement of the provisions adopted in the implementation of the directive, unless such disclosure would seriously jeopardize the financial markets or cause disproportionate damage to the parties involved. This will also entail major changes to Italian law since at

present Consob has no powers to impose sanctions for market abuses, which remains the exclusive purview of the judicial authorities.

In the field of market abuse, it is worth noting that the large number of transactions carried out on Italian markets by foreign intermediaries means that Consob needs to be able to count on the cooperation of offshore centres. In this respect, as highlighted last year, cooperation with Switzerland remains problematic owing to a law and court decisions that make it impossible in practice to identify persons operating through Swiss intermediaries.

Lastly, in conformity with the strategy outlined in the Communication of June 2000 on the future of financial reporting in Europe, Regulation 2002/3626/EC on the application of international accounting standards requires all EU companies listed on regulated markets, including banks and insurance companies, to draw up their consolidated accounts for the financial year ending in 2005 and after in accordance with the international accounting standards to be issued by the International Accounting Standards Board. The regulation also provides for the establishment of an accounting regulatory committee for the adoption of international financial reporting standards (IFRS).

The proposal for a directive on the activities and supervision of institutions for occupational retirement provision is at an advanced stage of discussion.

On 5 November the common position was finalized. This directive is intended to be a first step on the way to an internal market for occupational retirement provision organized on a European scale, in view of the significant differences between the provisions governing workers' participation in institutions for occupational retirement provision and the ways these are supervised. The prudential provisions of the directive are based on the "prudent person" rule as the underlying principle for managers.

Another development on 5 November 2002 was the political agreement reached within the ECOFIN Council on the proposal for a directive on the prospectus to be published when securities are offered to the public or admitted to trading. This directive had already been indicated by the European Commission in the Action Plan for Financial Services as providing an instrument essential to the achievement of the single capital market and facilitating the widest possible access to that market by granting a single passport to issuers.

Political agreement was reached by the Council on the proposed directive (amending Directive 68/151/EEC) on the disclosure requirements for certain types of companies. The proposal concerns the rules for private and public companies, with special reference to the related register. The directive's purpose is to make the information on such companies more readily and rapidly accessible and to this end it requires Member States to allow companies to file the information they are required to make public in electronic form as well as paper form as required by Directive 68/151/EEC. Provision is made in fact for any person wishing to have a copy of the information to be able to submit an application and obtain the information in electronic form.

The Council also reach political agreement on the proposed directive amending directives 78/660/EEC, 83/349/EEC and 91/674/EEC on the annual and consolidated accounts of certain types

of companies and insurance companies. The main aim of the proposed directive is to eliminate any incompatibility between the international financial reporting standards that the European Union intends to adopt by 2005 under the regulation referred to earlier and the above-mentioned directives in the light of the new strategy for the internationalization of the accounting standards for financial markets. The proposal thus provides for the amendments needed to ensure the compatibility of the accounting directives with the future development of the IFRS.

Turning to other proposals for directives submitted recently, it is worth noting that concerning investment services and regulated markets. The new proposal owes its origin to the fact that the directive currently in force (93/22/EEC) no longer provides an adequate framework for cross-border investment activity within the European Union and does not lay down clear rules on competition between trading systems. The proposed directive represents an organic development of that in force and not a radical change. It sets out to respond to the structural changes under way in the EU's financial markets and to achieve two main objectives: the protection of investors and a harmonization of transparency rules.

Another recent proposal is that for a directive on takeover bids, which the Commission submitted on 2 October 2002. The proposal takes only partial account of the recommendations of the Winter Group and basically confirms the structural features of the earlier proposal.

In particular, the proposal has the same objectives as the previous one: on the one hand to increase the legal certainty of cross-border takeovers and on the other to ensure protection for minority shareholders in the course of such transactions. It nonetheless remains a framework directive laying down principles and general requirements to which the Member States will have to give effect by adopting detailed implementing provisions in accordance with their national practices.

Other proposed directives are still being drafted, notably that on clearing and settlement and that on regular reporting, which covers the ongoing disclosure requirements for issuers.

As regards e-commerce, the European Commission has not yet approved the communication concerning the guidelines for safeguard rules in the field of financial services, which had originally been scheduled for January 2002.

A first version of the guidelines, which are intended to simplify the task of the Member States in the event of the introduction of derogations from the application of the principle of the single market, was presented in Brussels at a meeting held on 9 September 2002. The new guidelines are a consequence of the acknowledgement on the part of the Commission that it was unable to complete the project as originally intended.

The new committee at European level to monitor the functioning of the system for implementing secondary Community legislation in the financial services field has begun operating with a full review planned in 2004.

The regime was introduced in the Lamfalussy Report and accepted by the Council and the European Parliament and may lead to proposals for Treaty amendments aimed at achieving closer integration of the

regulation of securities markets (with the possibility of the institutionalization of CESR) and to formal provision for a delegation system for the adoption of secondary legislation that would not necessarily be restricted to the comitology procedure. The monitoring committee is composed of six persons, two appointed by the Commission, two by the Council and two by the Parliament.

A start was made in 2002 on the preparatory phase of the Italian Presidency, during which several proposed directives will be examined by the Council and the European Parliament.

The activity of the Committee of European Securities Regulators (CESR)

CESR is a committee established by the European Commission which, among other things, provides advice to the Commission and prepares regulatory standards for approval by the Securities Committee. Consob is represented in the Secretariat by an official holding the position of Vice Secretary General and by another official.

Following the resolutions adopted by the European Council and the European Parliament endorsing the Lamfalussy Report, CESR assists the Commission in the preparation of the implementing measures of EU directives. During the year a market participants consultative panel was set up to assist CESR, as a supplement to the broad consultation practices the latter has already adopted.

During the first half of the year the Working Group set up to analyze conduct of business rules on securities markets completed its activity. This led to the approval of a document ("A European Regime of Investors Protection: the Harmonisation of the Conduct of Business Rules"), which makes available a set of harmonized rules and standards for the protection of retail investors.

The regime for professional investors was established separately by CESR, which on 9 April 2003 approved a document ("Stabilisation and Allotment: A European Supervisory Approach" that lays down harmonized standards for stabilization practices in the context of public offerings, together with a harmonized disclosure regime and some basic principles concerning allotment.

Although the CESR standards were not prepared in response to a formal request from the European Commission in connection with the proposed directives on market abuse or prospectuses, they will nonetheless be a significant contribution to any future work undertaken in these fields.

In the field of market abuse, in response to a formal request from the Commission, CESR prepared technical advice on the implementing measures set out in the Commission's mandate: the definitions of insider trading and market manipulation; the disclosure obligations of issuers of financial instruments; the disclosure of conflicts of interest and the requirements for the fair presentation of research reports that recommend or suggest investment strategies; and exemptions for purchases of own shares and stabilization transactions. CESR submitted this advice in December

2002 after consulting market participants. On the basis of this advice the Commission will publish a first set of draft provisions in the coming months.

In October 2002 CESR issued a Statement of Principles covering the enforcement of accounting standards. The Statement was prepared by CESR's standing committee on financial reporting (CESR-Fin) and more specifically by the Subcommittee on Enforcement, chaired by a Consob official.

CESR, with the aim of promoting the protection and confidence of investors by developing mechanisms to ensure the transparency, correctness and completeness of financial reports, calls on Member States to establish a single competent authority responsible for the enforcement of standards for financial information contained in annual and interim financial statements and reports, prepared on an individual or a consolidated basis, and the offering and listing prospectuses of companies listed on regulated markets and of those that have applied for listing thereon. The document contemplates the possibility of such authorities delegating the actual performance of the enforcement activity to other authorities and calls for a high level of collaboration among enforcement authorities to permit the uniform implementation of the acquis communautaire, especially where enforcement is entrusted to the issuer's home country.

As regards the other standing committees, CESR-Pol's work programme was approved; it is based primarily on six mandates aimed for the most part at improving cooperation but also concerned with enforcement strategy.

In addition, work will be completed on compliance with the provisions of the European Convention for the Protection of Human Rights and the procedure for the imposition of administrative sanctions by supervisory authorities.

In October 2002 CESR also released a consultation document on possible detailed technical measures needed to implement the proposed directive on the prospectuses to be published when securities are offered to the public or admitted to trading. These measures were developed on the basis of a provisional mandate given to CESR by the European Commission on 18 March 2002, before the directive had been finally approved. The changes made to the proposed directive by the Council subsequently made it necessary for the European Commission to give another mandate covering the new matters to be included in level two legislation.

Attached to the consultation document are a number of model prospectuses for the various types of financial instruments covered by the proposed directive (equity securities, debt securities and derivative instruments).

The document also provides for specialist regimes for the various types of issuers and defines the types of documents that can be incorporated by reference, the procedures for such incorporation by reference, and the ways in which prospectuses are to be made available to the public.

At present CESR is working on the model prospectuses for offering programmes, wholesale markets, public issuers (governments, regions and local authorities), the annual registration document for issuers, and the requirements for advertisements and the equivalence of the obligations to which issuers are subject in third countries.

Lastly, work continued within the working group set up jointly at the end of 2001 by CESR and the European System of Central Banks (ESCB) to draw up standards on settlement systems and central counterparties. The working group has taken the recommendations issued jointly by the Technical Committee of IOSCO and the Committee on Payment and Settlement Systems (CPSS) as the starting point for these standards. The aim of the working group is to make the CPSS/IOSCO recommendations more stringent while adapting them to the European context. The working group intends to publish, subject to approval by CESR and the ESCB, a consultation document in the first half of 2003.

Activity of the International Organization of Securities Commissions (IOSCO)

Consob's participation in the various IOSCO groups was as planned. The main events were its confirmation in the Executive Committee, of which it has been a member since 1986, and the appointment of the Chairman of Consob as co-chairman of the Task Force on Disclosure and Transparency, which has defined minimum international standards for continuous disclosure by issuers and identified information of importance to investors. On the basis of the work of the task force, in October the Technical Committee of IOSCO issued a paper entitled "Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities". These principles are part of a series of recommendations issued by IOSCO in response to the Enron affair and focus on the independence and oversight of auditors and ongoing disclosure.

Again in October the Technical Committee laid down guidelines in three separate documents for national regulatory systems to comply with in areas essential for the proper functioning of markets: the transparency and disclosure of corporate information by listed companies; the independence of external auditors; and the need for the oversight of external auditors to be entrusted to a body subject to public control. The approval of these principles is a response at international level to some of the questions raised by the collapse of Enron.

It is also worth noting the adoption of the Multilateral MOU (known as the Prada MOU). This was drafted by a Special Project Team set up by the Technical Committee of IOSCO during the meeting held in Rome on 10 and 11 October 2001, in which Consob officials participated actively.

The agreement is primarily intended to introduce more stringent rules for cooperation following the terrorist attacks of 11 September 2001 and provides for a high degree of information exchange for the regulatory authorities of securities markets in comparison with other segments of the financial industry. In fact, as well as establishing the minimum content of signatories' obligations, the MOU introduces, for the first time, a mechanism for checking regulatory authorities' ability to fulfill the commitments they enter into. To this end a Screening Group, of which Consob is a member, was recently established to examine applicant signatories. The checks are of a dual nature. In the first place they are designed to establish whether the obligations contained in the MOU are compatible with the powers the candidate regulatory authority

possesses; subsequently, in the event of a proven failure to fulfill the obligations, a regulatory authority may be excluded from the MOU in the manner laid down in the agreement itself.

Last year also saw an increase in the activity of the IOSCO Principles Implementation Committee, which is cooperating with the International Financial Institutions (notably the International Monetary Fund and the World Bank) in developing benchmarks for the implementation of the principles that will serve as the basis for the IMF's country assessments under the FSAP programme.

Following the publication in November 2001 of the recommendations aimed at enhancing international financial stability, the efficiency of financial systems and the protection of investors, in November 2002 IOSCO's Technical Committee and the Committee on Payment and Settlement Systems (CPSS) issued a document laying down a methodology for assessing the degree of implementation of the recommendations.

The methodology is intended above all for use by national regulatory authorities. It is also for use in peer reviews and provides a guideline for the activities of the above-mentioned International Financial Institutions.

X. JUDICIAL CONTROL

Disputes concerning sanctions and other supervisory measures

The number of appeals made to ordinary courts against sanctions imposed by the Ministry of the Economy acting on a proposal from Consob decreased from 44 in 2001 to 37 last year, while those made to administrative courts rose by one to 35 (Table X.1). However, the number of appeals made to courts of appeal against administrative sanctions for violations of the rules on issuers established by the Consolidated Law on Financial Intermediation and its implementing regulations rose from 7 to 18 (Table aX.1). Eleven appeals were made to regional administrative tribunals in 2002 to vacate Consob decisions concerning issuers, up from 4 in 2000 and 8 in 2001 (Table aX.2).

TABLE X.1

OUTCOME OF APPEALS AGAINST MEASURES ADOPTED OR PROPOSED BY CONSOB[1]
(AT 31 DECEMBER 2002)

	ADMINISTRATIVE COURTS[2]			ORDINARY COURTS[3]		
	2000	2001	2002	2000	2001	2002
GRANTED	3	6	1	9	13	4
REJECTED	6	2	2	15	22	9
PENDING	34	26	32	5	9	24
OF WHICH[4]:						
- SUSPENSION GRANTED	6	2	1	2	1	1
- SUSPENSION REJECTED	15	12	10	—	—	—
TOTAL	*43*	*34*	*35*	*29*	*44*	*37*

[1] The appeals are shown according to the year they were presented. [2] Regional Administrative Tribunals, the Council of State and extraordinary appeals to the President of the Republic. [3] Magistrate's courts and courts of appeal. [4] Includes only appeals in which an application for suspension was made.

Of particular note was decision no. 3070 of 27 February 2002, in which the Lazio Administrative Tribunal Regional, hearing an appeal brought by 3 companies for the annulment of an opinion Consob had issued concerning the existence of corporate control, ruled that the appellants' objections regarding the procedure and its motivation were well-founded. Accordingly, the tribunal did not examine the further objections concerning the evaluation of the facts that had led Consob to conclude that a control relationship existed.

Another important decision by the Lazio Administrative Tribunal (no. 10709/2002) concerned the appeal by a foreign investment fund that held shares in a listed company for annulment of Consob's decision that the shareholders' agreement found in August 2001 in respect of the shares of the listed company no longer existed, so that the parties to the agreement (both of which were also companies with listed shares) were no longer under a joint and several tender offer obligation. In that appeal the appellant had also requested damages for the losses incurred as a consequence of Consob's decision. In its ruling the Lazio Administrative Tribunal found that there were no grounds for awarding damages but set aside Consob's decision, finding it inconsistent with the decision made in 2001. Consob has appealed the Tribunal's ruling to the Council of State.

Concerning the same matter, in February 2003 the Milan and Turin Courts of Appeal upheld the sanctions that the Ministry of the Economy acting on a proposal from Consob had imposed on the participants in the shareholders' agreement found to exist in August 2001 for their failure to publish the agreement pursuant to Article 122 of the Consolidated Law. Rejecting the appeal presented by the persons on whom sanctions had been imposed, the Courts determined that Consob had had good grounds for presuming the existence of the shareholders' agreement, as subsequently confirmed by the documentation acquired.

An important decision was adopted by the Milan Court of Appeal on the objection lodged by a listed company and its corporate officers against the sanction imposed by the Ministry of the Economy acting on a proposal from Consob for failure to draw up a quarterly report pursuant to Article 114 of the Consolidated Law and Article 82 of Consob Regulation 11971/1999 on issuers. The Court found that the violation with which the members of the board of directors had been charged had in fact been committed and reached a similar conclusion in the case of the board of auditors for failing to inform Consob promptly of the directors' irregularity in the performance of their duty pursuant to Article 149.3 of the Consolidated Law.

Lastly, the question of the constitutionality of Article 4.10 of the Consolidated Law regarding Consob's professional secrecy (decision no. 460 of 3 November 2000 of the Constitutional Court) was raised again by the Council of State in connection with a dispute between Consob and an auditing firm concerning a denial of access to records that the Regional Administrative Tribunal had considered legitimate.

In particular, the auditing firm intended to gain access to the records of a supervisory proceeding that had ended with the case being closed, in order to use the documentation in its defence in a civil action for damages.

On 21 November 2002 the Court of Justice of the European Communities ruled on a question of interpretation of Directive 93/22/EEC that had been raised by the Tuscany Administrative Tribunal in connection with an appeal against 2 sanctions imposed on 2 financial salesmen. The question posed was the conformity of the notion of management found in Italian legislation, defined by the Consolidated Law as "management on a client-by-client basis of investment portfolios", with

that found in the Directive, which includes "discretion" and "mandate" among the elements characterizing the service.

In this matter the Community judges began by observing that the Directive, in defining the notion of the management of investment portfolios, bars national legislation from deviating from such definition in implementing the Directive by failing to provide that portfolio management takes place "on a discretionary and individualized basis" and "in accordance with mandates given by investors". However, the Court added that nothing prevented a member state from using national legislation to extend the scope of the provisions of the Directive to operations not governed by the Directive itself, provided it was clear that the national legislation in question did not constitute a transposition of the Directive but expressed the independent will of the legislature. Mutual recognition established by Directive 93/22/EEC "is only to benefit the services covered by the Directive, as emerges from its third indent"; hence, the decision specifies that "nothing prevents a member state from extending the scope of the provisions of said Directive by means of national legislation", provided such extension involves operations not governed by the Directive.

At the domestic level, there were conflicting court decisions regarding the provisions of Law 205/2000 giving the administrative courts exclusive jurisdiction over disputes concerning sanctions imposed under Article 195 of the Consolidated Law.

The Rome Court of Appeal, in its recent decree 14.10/4.12.2002, denied that the matter in question fell within its exclusive jurisdiction. In its detailed motivation, the decree dwells on the highly distinctive elements of the procedure delineated by Article 195 of the Consolidated Law, concluding that disputes involving sanctions under Article 195 of the Consolidated Law must be referred to the Court of Appeal.

By contrast, the Naples Court of Appeal found in favour of the exclusive jurisdiction of administrative courts on several occasions (decrees 27.6/5.7.2001, 4.6/12.11.2002 and 15/29.10.2002). The Naples court stressed the important innovation introduced by Law 205/2000 in revising the general structure of jurisdiction regarding supervision of the securities market.

A similar approach was constantly followed by the Lazio Administrative Tribunal (most recently in decision 13741 of 23 December 2002), while the Campania Administrative Tribunal considered that the exclusive jurisdiction of the administrative courts over the disputes in question was still doubtful, in view of the special nature of the provision of Article 195.4 of the Consolidated Law (ordinance no. 5795 of 5.12.2001).

An appeal is pending in the Court of Cassation against the above-mentioned decree 27.6/5.7.2001 of the Naples Court of Appeal, on grounds of jurisdiction. In addition, during the challenge before the Catanzaro Court of Appeal against a sanction adopted under Article 195 of the Consolidated Law, the appellants petitioned for a prior ruling on the question of jurisdiction by the Court of Cassation.

Legal proceedings involving Consob

Last year seven civil actions were brought against Consob for damages; in all cases the proceedings are still pending (Table aX.3).

Two actions were brought by a group of investors who, alleging a series of irregularities committed by an intermediary and its financial salesmen, petitioned for the latter to be made to pay damages and for Consob to take measures against them.

Another action was brought by the shareholders of a company who asked that Consob be made to pay damages for its alleged omission and/or negligence in checking the truthfulness and completeness of the information in the prospectus for the listing and simultaneous public offering of a company's shares.

In two cases, a group of investors sought damages for Consob's alleged omission of supervision of the activity of a financial salesman and the intermediary with which the salesman was affiliated.

Another action was brought by a saver who sought damages for alleged negligence by Consob in the supervision of a financial salesman.

Lastly, a group of savers sought damages, alleging that Consob was remiss or tardy in using its powers of suspension and sanction against an intermediary that was subsequently declared bankrupt.

Last year two decisions were published in which the finding was favourable to Consob in cases where Consob had been cited for damages.

In the first decision, the court ruled on an action brought against Consob in 1999 by a group of savers, formerly customers of a trust company that was subsequently put into compulsory administrative liquidation, alleging omission and/or negligence in its supervision of the company. In particular, the judge, observing that the limitation had expired on claims for damages, stated that the "limitation of the right claimed by the plaintiffs is (...) the short period pursuant to Article 2947, first paragraph, of the Civil Code, the third paragraph of the same article not applying in the absence of conduct, complementary to the civil offence, qualifying as a crime". The judge argued that the "omission with which Consob is charged in the description of the facts contained in the introductory record is not established to be a case of criminal participation of the members of the Commission in the same criminal plan linking the crimes committed by the directors and corporate officers of the Group" to which the intermediary belonged; "nor is it independently attributed to and subsumed under distinct cases having penal relevance, the plaintiffs having based their case for damages on what they perceived as serious negligence in the supervisory authority's tardy intervention".

In a second decision, the court found in Consob's favour in an action brought in 1997 by the officers of an financial intermediary. The officers had cited Consob for damages for the loss suffered as a result of Consob's allegedly illicit conduct in executing the procedure, which had led to the intermediary's application for the extension of authorization to engage in securities business being dismissed. The judge pointed out that in the case in question there was no loss for which compensation was due as a direct consequence of Consob's behaviour, since the losses complained of by the plaintiff had to be attributed to the change in the legislative framework between the period in which the events for which the action was brought occurred and the entry into force of Legislative Decree 415/1996. The decision has been appealed.

XI. CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

The organizational structure

Further implementing the medium-term guidelines approved in 2001, whose aim in internal affairs is to achieve steadily more efficient use of resources, the instruments for planning and control of activities and expenditure were refined and strengthened during the year. Operational planning is now a standard working method within Consob and ensures that constant, synergic attention is paid to achieving operating objectives, thus also permitting optimal utilization of available human and financial resources. In the last few months of the year it was flanked by more effective methods of checking results, which also allow periodic updates to be made to plans during their implementation. The same months also saw the introduction of constant expenditure monitoring, for evaluation of the scope for curbing expenditure, particularly as regards the variable components of staff compensation (overtime, missions, training, etc.) and purchases of goods and services. This measure was considered not only advisable but necessary, in view of the reduction in Consob's public funding and the consequent increase in the costs borne by the market. From the same angle, in deciding Consob's fee system for 2003, the Commission refined the methods used for the prior estimation of Consob's expenditure allocable to the different categories of entities subject to supervision. Lastly, for the first time a mathematical model was developed for measuring Consob's activities and evaluating operational efficiency.

This set of measures, alongside the other instruments already in place, gives Consob a fully-fledged model of activity-based costing — one implemented, for good measure, gradually and pragmatically, without resorting to standardized solutions, which would have been incompatible with ordinary activities. Continuing with this approach, there will be further fine-tuning of the model in 2003.

The logistical problems in Rome were definitely solved once the new Head Office at Via Giovanni Battista Marini became fully operational; as regards the offices in Milan, work was begun in January 2002, according to plans, for the restoration of Palazzo Carmagnola, at 7 Via Broletto, which the Milan City Council has made available for Consob to use for sixty years. The work proceeded during the year more or less on schedule; however, the recent notice from the Milan Superintendent of Archeology announcing that archeological excavations will have to be carried out on part of the site will set back completion of the work by about six months. Consequently, Consob's new offices in Milan should be operational in the second half of 2004.

As regards information technology, the hardware and software platform of the central computers ("server farm") was updated with the replacement of the database machine, the computer used for storing Consob's main databases, and the upgrading of application servers.

The new database machine is ten times more powerful than the one it replaced in terms of both processing capacity and storage space.

The software platform was upgraded to bring all its components (Sun Solaris, Oracle, etc.) into line with the latest available version. This involved extraordinary adaptive maintenance of the procedures and programmes currently utilized, to make them compatible with the new server farm while exploiting all their expanded potential.

As regards telecommunications networks, the internal connection between Consob's Rome and Milan offices was restructured under the agreement entered into by the Technical Centre of the Office of the Prime Minister with Path.net SpA within the context of the Government Network . The opportunity was also used to establish a permanent link with the Government Network.

The connection with the Internet was upgraded last year from 2 to 4 Mbits/second, with scope for enhancement up to 8 Mbits/second during peaks), and the host computer of Consob's website was replaced.

The new host is not only more powerful and equipped with more storage space than the one it replaced, but it also features duplication of the main hardware components (two power supplies, two CPUs and mirror discs) guaranteeing greater reliability and fault tolerance.

The most important applications made operational in 2002 include that for the management of the final phase of supervision of intermediaries, which regards, in particular, the calculation of sanctions and permits various statistics on the results of supervisory activity to be produced. During the year the first version of the control system for the covered warrants market was completed; it allows prices and quantities to be analyzed and charts of the operations of intermediaries to be created. Among the main applications launched in 2002, mention should also be made of the system for management of data on financial products issued by collective investment undertakings (asset management companies and Sicavs), information that is contained in the related prospectuses.

As in previous years, close assistance was provided by information technology specialists with a view to optimizing the use of computerized procedures in Consob's different units.

Financial management

Consob's total income in 2002 amounted to €78.2 million (Table XI.1), of which €38.5 million (49.2 per cent) came from fees. Last year fee income was generated entirely by annual supervision fees, following the changes made to Consob's fee system by the Finance Law for 2001; the largest share came from fees paid by issuers, intermediaries and financial salesmen (Table aXI.1).

Turning to expenditure, there was an increase in that on current account, mainly as a consequence of the higher operating costs of the new premises in Via G.B. Martini, Consob's Rome

Head Office (purchased in February 2001 and operational since May of that year) and the increase in allocations to provisions for the renovation of fixed assets, connected principally with the depreciation of the Head Office premises. Capital expenditure totaled €4 million; this was substantially less than in 2001, when such spending included the purchase of the premises in Via G.B. Martini (€55 million) and the portion of the renovation work on the building made available by the Milan City Council in 1999 for Consob's offices in Milan (€9.1 million). Capital expenditure in 2002 essentially reflects the continuation of the programme to modernize and upgrade the information system and the allocations for the creation of a new library at the Head Office in Rome.

TABLE XI.1

SUMMARY TABLE OF INCOME AND EXPENDITURE
(MILLIONS OF EUROS)

	1997	1998	1999	2000	2001	2002[1]
INCOME						
PRIOR-YEAR SURPLUS[2]	4.4	16.7	18.9	50.7	74	12.3
STATE FUNDING	30.2	25.8	28.4	31.0	31	24.6[3]
OWN REVENUE						
- APPLICATION FEES	1.3	2.5	3.7	3.0	1.5	—
- EXAM FEES	0.6	1.4	2.1	3.0	1.5	—
- SUPERVISION FEES						
- TRADING FEES	21.7	20.3	39.8	31.8	27.4	38.5
- SUNDRY REVENUES	—	—	3.9	5.2	3.6	—
	2.4	2.0	2.6	4.2	11.6	2.8
TOTAL INCOME	*60.6*	*68.7*	*99.4*	*128.9*	*150.6*	*78.2*
EXPENDITURE						
CURRENT EXPENDITURE						
- MEMBERS OF THE COMMISSION	1.2	1.2	1.2	1.2	1.4	1.6
- STAFF	33.4	32.6	31.1	33.7	45.8	43.4
- GOODS AND SERVICES	10.9	12.5	12.1	14.2	16.4	21.3
- RENOVATION AND EXPANSION OF FIXED ASSETS	1.0	1.2	1.8	2.4	3.8	6.5
- UNCLASSIFIED	1.5	0.2	0.8	0.1	4.9	1.4
TOTAL CURRENT EXPENDITURE	*48.0*	*47.7*	*47.0*	*51.6*	*72.3*	*74.2*
CAPITAL EXPENDITURE	0.5	2.4	2.4	3.6	66.8	4.0
TOTAL EXPENDITURE	*48.5*	*50.1*	*49.4*	*55.2*	*139.1*	*78.2*

[1] Budget. [2] The 2001 surplus is the difference between total income and total expenditure plus the difference in respect of expenditure carryovers and value adjustments of investments; the last two items are not shown in the table and amounted to 0.8 million euros. The 2001 surplus is included in 2002 income. [3] The figure does not take account of the reduction in State funding for 2002 enacted in the decree issued by the Minister for the Economy and Finance on 29 November 2002.

The budget for 2003 was approved in December 2002. Total income is expected to amount to €68 million, comprising €23.3 million of state funding for the year, €40.7 million of fee income and €4 million of other own revenues. In addition, the budget includes a "prior-year surplus" of €9.8 million, all of which will serve to finance expenses already planned for 2003. The estimated surplus for 2002 was negatively affected by the reduction of €0.9 million in state funding of Consob for 2002, decided by the Ministry for the Economy with a decree dated 29 November 2002. The latter reduction in the funds available to cover 2003 budgetary expenditure comes on top of the reduction in state funding for Consob for the year 2003 with respect to the amount planned in the Finance Law for 2002 (from €23.9 million to €23.3 million). The budget for 2003 responds to the overall reduction of €1.5 million in public financing for Consob first of all by curbing all expenses that can be reduced without impairing Consob's effectiveness and, secondly, by increasing the fees planned for 2003 with respect to the amount notified in July 2002 to the Ministry for the Economy pursuant to Article 40 of Law 724/1994.

Total expenditure in 2003 is expected to amount to €77.8 million, of which €74.3 million on current account and €3.5 million on capital account. Budgeted current expenditure represents a slight increase (2.3 per cent) on last year's final figure. Capital expenditure for 2003 essentially reflects the continuation of the programme to strengthen the information system, the creation of a new library at the Head Office in Rome, mentioned above, and the allocation for the purchase of furniture and furnishings for the new offices in Via Broletto in Milan.

In December 2002 Consob established the fee schedule for 2003, identifying on the basis of Article 40 of Law 724/1993, as amended by the Finance Law for 2001, the categories of entities subject to supervision required to pay fees and the fee amounts.

The related measures reflect the lack of substantial change in the legislative framework. They therefore provide for the same categories of entities to be charged an annual supervision as in the 2002 fee schedule and contain only limited amendments and adjustments suggested by the latter's application or designed to take account of changes made in the regulated markets during 2002.

These amendments and adjustments exclusively concern the fees for listed issuers and are briefly described below:

- *adoption for Italian issuer s of listed bonds of a tariff criterion providing for payment of a fixed amount for every bond issue listed as at 2 January 2003 in place of the criterion followed up to 2002 (identical to that still applied to listed shares and correlated to the face value of the securities listed at 2 January of each year);*

- *introduction of an amendment clarifying that issuers of listed certificates are subject to fees in the same way as issuers of covered warrants;*

- *imposition of fees on listed collective investment undertakings (closed-end and open-end securities and real-estate investment funds, ETFs and Sicavs), following the establishment by Borsa Italiana SpA of the MTF electronic funds market.*

Personnel management

Consob used the results of several public competitive examinations held during 2002 and the rankings of competitive examinations held in 2001 to recruit 33 new employees; 10 employees resigned voluntarily during the year, so that at the end of 2002 Consob had 23 employees more than a year earlier (TablesXI.2 and Table aXI.2).

In particular, Consob held 4 competitive examinations to recruit grade 1 officers for the Rome Head Office (specifically, for the Information Systems, Budget and Financial Management, Administration and Personnel Administration Offices); an exam for an assistant manager to be assigned to head the Organization Office; an exam for 8 coadjutors for the Milan office and another exam for 3 similar positions at the Head Office in Rome; an exam for 2 positions as coadjutor at the Head Office in Rome, in the International Relations Office; an exam for 1 position as deputy assistant at the Head Office in Rome and another one for 3 positions in Milan. Lastly, a selection procedure was held for the recruitment on a fixed-term employment contract of one person for property management at the Milan office, with the equivalent rank of coadjutor, and one to head the Office for Relations with the Press, with the equivalent rank of manager.

TABLE XI.2

THE STAFF[1]

	PERMANENT EMPLOYEES				FIXED-TERM EMPLOYEES	*TOTAL*
	MANAGERIAL	OFFICERS	OTHER	*TOTAL*		
1990	91	63	16	170	67	*237*
1993	134	72	16	222	96	*318*
1996	128	152	16	296	108	*404*
1997	125	161	21	307	96	*403*
1998	122	156	17	295	88	*383*
1999	116	205	19	340	24	*364*
2000	110	246	20	376	13	*389*
2001	110	241	19	370	15	*385*
2002	126	250	15	391	17	*408*

See the Methodological Notes. [1] End-of-year data.

Turning to training, a total of 27,407 hours were devoted to this activity in 2002 (11,400 in 2001), corresponding to a per capita average of about 67 hours (30 in 2001).

Training programmes focused to a greater extent on technical and vocational courses, with the general aim of relating training activity more closely to the tasks that employees actually perform. This result was achieved through a substantial increase in human resources development planning.

Lastly, the year also saw the renewal of the labour contracts in order to implement the changes in employees' legal and economic treatment pursuant to Article 1/2.3 of Law 216/1974.

External relations and investor education

In 2002 Consob continued its work on external relations, with efforts addressed primarily to investors and market participants.

For some time now Consob's strategic objectives have included investor education, to enhance investors' ability to protect themselves, which is a necessary complement to the traditional supervisory tasks assigned by law for the protection of savings.

In particular, a new initiative was taken regarding investment funds with the addition of a new area to Consob's website and the publication of pamphlets. The initiative aims at satisfying savers' financial needs through the choice of products that are very widespread, such as investment funds, but which are not always sufficiently well known. The project is to be developed further in 2003.

During the year Consob provided market participants with increasingly reliable and timely means of obtaining the information and references essential for complying with legislative and regulatory principles and provisions.

A project for reorganizing all the non-regulatory acts of Consob, the majority of them issued at the request of market participants, goes in this direction. These acts are published for the purpose of interpreting primary and secondary legislation or indicating the criteria that will be followed in supervisory activity, or recommending certain forms of behaviour or self-regulatory initiatives. As a result of the project, next year the translation into regulatory norms of the generally applicable principles derivable from these non-regulatory acts will be evaluated, organic bodies of implementing rules will be established by individual subject matter, and collections summarizing their contents and facilitating their application will be published.

Consob's website, the main channel for the dissemination of information on the Commission's activity, was further enriched in content and its utilization was improved through the introduction of a connection band with greater capacity.

In particular, a list of tender offers was added. Besides summarizing the main features of the transaction (type of offer, issuer, offeror, offer period), the new feature allows users to view or download the offer document (for transactions dating from 9 May 2000 onwards). The website increases the transparency of tender offers by giving both small shareholders and intermediaries easy access to documents that are essential for evaluating the offers made on the market. The effort devoted to improving this instrument has been rewarded by the growth in the number of visitors to the website (Table XI.3).

During the year Consob participated in the Public Administration Forum, which provided an opportunity to make direct contact with investors. The initiative served to publicize the functions that Consob performs and the instruments it uses, and to acquire information on the information expectations and needs of the public.

TABLE XI.3

VISITORS TO CONSOB'S WEBSITE
(2002)

SECTIONS	TOTAL
HOME PAGE (WHAT'S NEW)	829,385
INVESTORS' CORNER	102,159
ABOUT CONSOB	121,688
COMPANIES	1,014,943
INTERMEDIARIES AND MARKETS	262,218
CONSOB DECISIONS	416,423
LEGAL FRAMEWORK	555,583
PUBLICATIONS AND PRESS RELEASES	438,993
LINKS	30,148
GENERAL SEARCH ENGINE	242,315
HELP AND SITE MAP	63,927
ENGLISH VERSION	200,237

Consob has been deeply involved in "The Law on the web" project of the Authority for IT in the Public Administration and was one of the first authorities to apply the standards for structuring and marking legal documentation, permitting users of the legal portal www.normeinrete.it to consult the "Legal framework" ("Regolamento") section of its own website.

Consob continued its customary activity of responding to requests received (Table aXI.3).

The data reported in the table show a decrease in requests received for documentation (laws, regulations, resolutions, communications, etc.), which are now largely satisfied over the Internet, and a high level of activity by the telephone help desk, where the number of requests for information remained broadly unchanged.

STATISTICAL APPENDIX

LIST OF STATISTICAL TABLES

TABLE aI.1

CONCENTRATION OF OWNERSHIP OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE[1]

	CONCENTRATION		
	LARGEST SHAREHOLDER	OTHER MAJOR SHAREHOLDERS	MARKET
1996	50.4	10.7	38.9
1997	38.7	8.4	52.9
1998	33.8	9.7	56.5
1999	44.2	8.2	47.6
2000	44.0	9.4	46.6
2001	42.2	9.2	48.6
2002	40.7	8.0	51.2

Source: Consob ownership transparency database. See the methodological notes. [1] As a percentage of the market value of the ordinary share capital of all the companies listed on the Italian Stock Exchange. Year-end data.

TABLE aI.2

MAJOR HOLDINGS IN COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE[1]

	TYPE OF HOLDER								
	FOREIGN RESIDENT	INSURANCE COMPANY	BANK	FOUNDATION	INSTITUTIONAL INVESTOR	OTHER COMPANY	STATE OR LOCAL AUTHORITY	INDIVIDUAL	*TOTAL*
1996	4.5	1.9	4.3	3.8	0.8	8.2	32.5	5.5	*61.5*
1997	5.0	2.2	5.1	3.1	0.1	14.4	12.1	4.8	*46.8*
1998	5.9	2.5	4.8	5.2	0.1	12.6	8.8	3.8	*43.6*
1999	6.2	1.5	5.3	4.5	0.2	19.4	10.6	4.5	*52.2*
2000	6.5	3.2	5.9	5.0	0.3	17.2	10.2	4.9	*53.1*
2001	5.6	1.8	4.4	4.9	0.1	18.2	11.1	5.0	*51.1*
2002	4.9	1.1	3.4	4.5	0.7	16.8	12.3	5.1	*48.8*

Source: Consob ownership transparency database. See the methodological notes. [1] Holdings of more than 2 per cent of the voting capital. Year-end data. Percentage ratio of the market value of the major holdings calculated with reference to ordinary share capital to the market value of the ordinary share capital of all the companies listed on the Italian Stock Exchange.

TABLE aI.3

COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE
BY TYPE OF CONTROLLING SHAREHOLDER
(YEAR-END DATA)

	TYPE OF CONTROLLING SHAREHOLDER							
	INDIVIDUAL	BANK	FOUNDATION	INSURANCE COMPANY	OTHER COMPANY	FOREIGN RESIDENT	STATE OR LOCAL AUTHORITY	*TOTAL*
				NUMBER				
1996	45	12	5	2	54	17	21	*156*
1997	42	9	5	3	55	18	17	*149*
1998	51	12	5	3	52	21	15	*159*
1999	53	15	6	2	60	26	17	*179*
2000	53	12	6	4	53	31	16	*175*
2001	54	11	6	2	49	33	17	*172*
2002	64	12	5	1	49	24	18	*173*
				PERCENTAGE[1]				
1996	6.4	2.7	3.6	2.2	15.1	4.0	45.0	*79.0*
1997	5.4	4.2	2.4	2.3	25.2	3.0	18.0	*60.5*
1998	4.6	4.1	2.4	2.6	21.5	3.1	15.6	*53.9*
1999	6.0	5.5	2.8	1.4	32.8	4.4	18.7	*71.6*
2000	5.3	6.1	2.2	3.7	29.7	4.4	18.5	*69.9*
2001	5.4	3.8	2.9	1.8	32.1	3.8	22.4	*72.2*
2002	7.5	2.9	2.7	1.4	28.7	4.0	26.4	*73.6*

Source: Consob ownership transparency database. See the methodological notes. [1] Percentage ratio of the market value of the ordinary share capital of all the companies listed on the Italian Stock Exchange.

TABLE aI.4

TYPES OF CONTROL OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE
(YEAR-END DATA)

	MAJORITY CONTROL		WORKING CONTROL		UNDER SHAREHOLDERS' AGREEMENTS		NO CONTROLLING SHAREHOLDER(S)		*TOTAL*	
	NUMBER	%[1]	NUMBER	%[1]	NUMBER	%[1]	NUMBER	%[1]	NUMBER	%[1]
1996	130	66.8	26	12.2	26	4.8	26	16.2	*208*	*100.0*
1997	122	48.1	28	12.4	27	6.3	28	33.2	*205*	*100.0*
1998	128	32.3	31	21.7	24	7.4	35	38.6	*218*	*100.0*
1999	148	55.0	31	16.7	29	10.8	32	17.5	*240*	*100.0*
2000	141	51.4	34	18.5	24	9.6	38	20.5	*237*	*100.0*
2001	135	49.7	37	22.5	21	11.4	39	16.4	*232*	*100.0*
2002	142	46.0	37	28.4	20	10.2	32	15.4	*231*	*100.0*

Source: Consob ownership transparency database. See the methodological notes. [1] Percentage ratio of the market value of the ordinary share capital of the companies subject to each type of control to the market value of the ordinary share capital of all the companies listed on the Italian Stock Exchange.

TABLE aI.5

TYPES OF SHAREHOLDERS' AGREEMENTS INVOLVING LISTED COMPANIES
(AT 31 DECEMBER 2002)

TYPE OF AGREEMENT	NUOVO MERCATO			STOCK EXCHANGE		
	NUMBER OF AGREEMENTS	VOTING RIGHTS[1]	NUMBER OF COMPANIES	NUMBER OF AGREEMENTS	VOTING RIGHTS[1]	NUMBER OF COMPANIES
BLOCKING	6	38.9	6	7	31.5	7
VOTING	3	62.9	3	8	39.7	8
GLOBAL[2]	15	49.1	13	32	47.6	30
TOTAL	*24*	*48.3*	*18*	*47*	*43.9*	*41*

Source: Disclosures pursuant to Article 122 of the Consolidated Law on Financial Intermediation. See the Methodological Notes. [1] As a percentage of the total ordinary share capital. Averages. [2] Agreements containing both blocking and voting clauses.

TABLE aI.6

LISTED COMPANIES WITH SHAREHOLDERS' AGREEMENTS
(AT 31 DECEMBER 2002)

COMPANY	TYPE OF AGREEMENT	EXPIRATION	VOTING RIGHTS[1]	NUMBER OF PARTICIPANTS
ACOTEL GROUP	GLOBAL	09.08.2003	64.6	3
AIR DOLOMITI	GLOBAL	31.12.2003	50.0	2
ART'È	BLOCKING	30.10.2003	19.6	2
ASTALDI	BLOCKING	06.06.2003	57.4	5
	VOTING	06.06.2005	57.4	5
AUTOSTRADE	BLOCKING	02.03.2003	30.0	2
BANCA ANTONIANA POPOLARE VENETA	BLOCKING	15.04.2004	22.0	58
	VOTING	15.04.2005	22.0	58
BANCA CARIGE	GLOBAL	15.12.03	5.5	2
BANCA INTESA	GLOBAL	15.04.2005	38.0	27
BANCA LOMBARDA E PIEMONTESE	GLOBAL	31.12.2004	44.0	313
BANCA MONTE DEI PASCHI DI SIENA	VOTING	29.07.2003	6.0	68
BANCA NAZIONALE DEL LAVORO	GLOBAL	24.12.2005	7.8	2
BANCA POPOLARE DI LUINO E DI VARESE	GLOBAL	15.07.2005	79.9	2
BANCA POPOLARE DI SPOLETO	GLOBAL	09.07.2004	78.1	2
BANCA TOSCANA	BLOCKING	20.05.2005	9.3	2
BANCO DI SARDEGNA	GLOBAL	30.03.2004	100.0	2
BIPIELLE INVESTIMENTI	VOTING	31.07.2005	74.6	2
	GLOBAL	INDETERMINATE	83.2	4
BULGARI	GLOBAL	17.07.2004	54.1	3
CASSA DI RISPARMIO DI FIRENZE	GLOBAL	17.07.2003	43.9	3
	GLOBAL	17.07.2003	47.1	2
CIT	GLOBAL	07.06.2005	67.8	3
	GLOBAL	06.09.2005	50.0	3
	VOTING	27.11.2005	57.8	4
CSP	GLOBAL	15.06.2004	50.2	7
CTO	BLOCKING	21.06.2003	57.5	3

See the Methodological Notes. [1] As a percentage of the ordinary share capital.

- CONT. -

- TABLE aI.6 Cont. -

COMPANY	TYPE OF AGREEMENT	EXPIRATION	VOTING RIGHTS[1]	NUMBER OF PARTICIPANTS
DADA	BLOCKING	10.10.2003	15.4	2
	GLOBAL	05.02.2005	28.1	3
DATA SERVICE	GLOBAL	18.10.2003	56.7	19
DATAMAT	BLOCKING	12.10.2003	26.0	5
	GLOBAL	26.06.2003	41.0	17
DAVIDE CAMPARI - MILANO	VOTING	EXPIRATION BOARD OF DIRECTORS	51.0	2
DIGITAL BROS	GLOBAL	17.10.2005	58.1	3
E.BISCOM	GLOBAL	30.03.2003	50.1	15
	GLOBAL	30.03.2003	50.1	17
EL.EN.	VOTING	11.12.2003	59.2	8
	BLOCKING	11.12.2003	52.0	8
ENGINEERING INGEGNERIA INFORMATICA	VOTING	07.06.2003	71.9	8
EPLANET	GLOBAL	29.06.2004	43.6	13
ESAOTE	VOTING	20.12.2003	60.5	6
ESPRINET	BLOCKING	25.07.2004	62.9	6
EUPHON	GLOBAL	07.06.2003	40.9	3
FIAT	VOTING	18.06.2005	31.2	4
FILATURA DI POLLONE	GLOBAL	22.04.2003	50.2	16
GEMINA	GLOBAL	2004 AGM	43.4	11
GIM	GLOBAL	31.12.2003	48.1	19
HOLDING DI PARTECIPAZIONI INDUSTRIALI	GLOBAL	01.07.2004	44.9	12
I.M.A.	BLOCKING	INDETERMINATE	61.0	3
LA DORIA	GLOBAL	30.06.2004	70.0	8
LA GAIANA	GLOBAL	2003 AGM	75.6	4
MANULI RUBBER INDUSTRIES	GLOBAL	2004 AGM	44.1	6
MARCOLIN	GLOBAL	24.07.2005	63.7	6
	GLOBAL	31.07.2005	12.7	7
MEDIOBANCA	GLOBAL	01.07.2004	46.9	41
MEDIOLANUM	GLOBAL	14.09.2004	51.1	7

- CONT. -

- TABLE aI.6 Cont. -

COMPANY	TYPE OF AGREEMENT	EXPIRATION	VOTING RIGHTS[1]	NUMBER OF PARTICIPANTS
NOVUSPHARMA	GLOBAL	13.11.2004	9.3	6
PERMASTEELISA	GLOBAL	30.08.2005	29.9	5
PIRELLI & C.	GLOBAL	15.04.2004	56.5	10
PREMUDA	GLOBAL	31.12.2004	45.0	3
RENO DE MEDICI	GLOBAL	01.07.2004	24.5	2
SAES GETTERS	GLOBAL	15.12.2005	57.3	35
SANPAOLO IMI	GLOBAL	2004 AGM	16.2	5
	VOTING	INDETERMINATE	15.0	3
SMI	GLOBAL	31.12.2004	50.1	2
SNIA	GLOBAL	11.10.2003	16.3	8
SOCOTHERM	GLOBAL	11.12.2005	75.0	4
TARGETTI SANKEY	BLOCKING	27.09.2004	15.3	2
TAS	GLOBAL	2003 AGM	59.1	5
TXT E-SOLUTIONS	GLOBAL	22.06.2003	37.8	41
ZIGNAGO	BLOCKING	31.12.2004	25.4	7

TABLE aI.7

SHAREHOLDERS' AGREEMENTS INVOLVING COMPANIES CONTROLLING LISTED COMPANIES
(AT 31 DECEMBER 2002)

LISTED COMPANY	CONTROLLING COMPANY COVERED BY AGREEMENT	TYPE OF AGREEMENT	EXPIRATION	VOTING RIGHTS[1]	NUMBER OF PARTICIPANTS
AUTOSTRADE	SCHEMAVENTOTTO	GLOBAL	02.03.2003	100.0	6
BASIC NET	BASIC WORLD	GLOBAL	15.12.2003	83.0	2
BIESSE	BIESSE FINANCE	GLOBAL	31.12.2003	100.0	7
CALP	SELFIN	GLOBAL	CORPORATE EVENTS	100.0	23
	SELFIN	GLOBAL	23.10.2005	100.0	20
CREDITO EMILIANO	CREDITO EMILIANO HOLDING	BLOCKING	20.07.2004	71.5	214
DATALOGIC	HYDRA	GLOBAL	14.02.2004	100.0	4
DUCATI MOTOR HOLDING	TPG ADVISORS	GLOBAL	INDETERMINATE	100.0	4
FREEDOMLAND ITN	JULY TWENTY	GLOBAL	04.10.2005	100.0	3
IMMSI	OMNIAPARTECIPAZIONI	GLOBAL	15.11.2005	100.0	4
	OMNIAINVEST	VOTING	06.11.2005	100.0	4
INTEK	QUATTRODUEDUE HOLDING	VOTING	30.06.2004	100.0	4
LA RINASCENTE	EUROFIND	GLOBAL	06.05.2003	100.0	2
LOTTOMATICA	FINEUROGAMES	GLOBAL	27.02.2005	100.0	2
OLIVETTI	OLYMPIA[2]	GLOBAL	07.08.2004	100.0	2
		GLOBAL	05.10.2004	100.0	3
SABAF	GIUSEPPE SALERI	GLOBAL	20.10.2003	96.0	3
SIRTI	HILUX	GLOBAL	03.08.2003	100.0	9
SNAI	SNAI SERVIZI	GLOBAL	30.06.2004	29.3	68
SNIA	BIOS	GLOBAL	28.07.2005	100.0	14
TREVI FIN. INDUSTRIALE	TREVI HOLDING	VOTING	31.12.2004	8	2

See the Methodological Notes. [1] As a percentage of the ordinary share capital. [2] The total shares covered held by the 5 participants in the 2 agreements is equal to 100 per cent of Olympia's share capital.

TABLE aI.8

TENDER OFFERS FOR SECURITIES OF LISTED COMPANIES, 1992-2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
						NUMBER OF TRANSACTIONS					
VOLUNTARY OFFERS	5	2	2	4	6	5	2	4	7	4	10
TAKEOVER BIDS[2]	—	2	1	—	2	2	2	8	8	2	4
INCREMENTAL BIDS[3]	—	—	—	—	1	1	1	—	—	—	—
MANDATORY BIDS	2	3	11	8	9	7	6	8	6	7	4
RESIDUAL BIDS	—	5	6	9	10	8	3	2	7	11	5
FOR OWN SHARES	—	—	—	—	—	—	—	—	—	—	1
TOTAL	*7*	*12*	*20*	*21*	*28*	*23*	*14*	*22*	*28*	*24*	*24*
						MILLIONS OF EUROS[1]					
VOLUNTARY OFFERS	611	850	72	75	264	378	96	631	4,299	171	3,724
TAKEOVER BIDS[2]	—	543	1,947	—	213	234	1,658	53,292	4,878	726	809
INCREMENTAL BIDS[3]	—	—	—	—	53	4	126	—	—	—	—
MANDATORY BIDS	11	12	832	975	161	376	102	640	2,734	5,573	26
RESIDUAL BIDS	—	7	23	24	14	27	23	5	218	196	44
FOR OWN SHARES	—	—	—	—	—	—	—	—	—	—	709
TOTAL	*622*	*1,412*	*2,874*	*1,074*	*705*	*1,019*	*2,005*	*54,568*	*12,129*	*6,666*	*5,312*

Sources: Consob archive of offer documents and Borsa Italiana S.p.A. notices. [1] Securities offered in exchange are valued at the market prices of the day preceding the announcement of the transaction. [2] The number of transactions includes competitive bids. [3] Type of bid provided for in Law 149/1992 but not envisaged by the Consolidated Law on Financial Intermediation.

TABLE aI.9

TENDER OFFERS FOR SHARES OF LISTED COMPANIES IN 2002

OFFEROR	TARGET COMPANY'S SHARES	TYPE OF OFFER	OFFER PRICE[1]	SUBJECT SECURITIES[2]	DURATION OF OFFER
BIOSDUE	SNIA ORD.	VOLUNTARY	2.00	71.7	22.02-05.04
	SNIA RNC		2.00	100.0	22.02-05.04
	SNIA RCV		2.00	100.0	22.02-05.04
SAN PAOLO IMI	BANCO DI NAPOLI RNC	VOLUNTARY	1.30	99.2	26.03-19.04
GRUPPO TAD	CMI	MANDATORY	1.52	18.1	18.04-10.05
BANCA POPOLARE DI LODI	IIL ORD	MANDATORY	4.38	12.1	10.06-28.06
FINMA-MA.GI.MA	MARANGONI ORD.	VOLUNTARY	2.70	13.8	12.06-16.07
FINOS	ROTONDI EVOLUTION ORD	VOLUNTARY	3.50	10.4	25.06-15.07
HOLDING MACCHINE UTENSILI	GILDEEMEISTER ITALIANA ORD	RESIDUAL	4.52	8.5	25.06-15.07
IMPE LUX - COCI	FERRETTI ORD	TAKEOVER	4.35	100.0	05.08-13.09
INTERACTIVE GROUP	FREEDOMLAND ORD	TAKEOVER	12.6	100.0	19.07-23.08
IDRA PARTECIPAZIONI	IDRA PRESSE ORD	RESIDUAL	2.86	8.6	19.08-20.09
CONTENT	FREEDOMLAND ORD	TAKEOVER	13.20	100.0	23.08-27.09
BANCA ANTONVENETA	BCA DI CREDITO POP. SIRACUSA ORD	VOLUNTARY	20.26	34.2	26.08-20.09
BRACCO BIOMED	ESAOTE ORD	VOLUNTARY	5.17	100.0	02.09-04.10
SELFIN	CALP ORD	VOLUNTARY	3.22	46.9	11.09-11.10
EUROFIN	LA RINASCENTE ORD	VOLUNTARY	4.45	43.7	04.11-29.11
	LA RINASCENTE PRIV		4.45	100.0	04.11-29.11
	LA RINASCENTE RNC		4.15	32.2	04.11-29.11
UNICREDITO ITALIANO	ONBANCA ORD	TAKEOVER	32.00	100.0	04.11-06.12
FINMA-MA.GI.MA	MARANGONI ORD	RESIDUAL	3.00	8.9	06.11-26.11
TENARIS	DALMINE ORD	VOLUNTARY	0.17	52.8	14.11-13.12
IMPE LUX - COCI	FERRETTI ORD	RESIDUAL	4.35	5.1	09.12-03.01
RAS	RAS ORD	OWN SHARES	14.00	5.9	09.12-10.01
	RAS RNC		14.00	96.7	09.12-10.01
SELFIN	CALP ORD	RESIDUAL	3.22	8.0	09.12-15.01
OMNIAPARTECIPAZIONI	IMMSI ORD	MANDATORY	0.72	54.7	16.12-13.01
ENI	ITALGAS ORD	VOLUNTARY	13.00	55.9	16.12-27.01
GABBIANO	BORGOSESIA ORD	MANDATORY	5.00	29.0	27.12-21.01

Source: Consob archive of offer documents. [1] In millions of euros. In the case of exchange offers, unless specified otherwise in the offer document, securities are valued at the market prices of the day preceding the announcement of the transaction. [2] As a percentage of the securities issued of the same class.

TABLE aI.10

RESULTS OF TENDER OFFERS FOR SHARES OF LISTED COMPANIES IN 2002

OFFEROR	SUBJECT SHARES	SHARES ACQUIRED[1]	PERCENTAGE HELD BY OFFEROR[2]	VALUE OF THE OFFER[3]
BIOSDUE	SNIA ORD	30.4	50.1	218.6
	SNIA RNC	72.4	72.4	22.0
	SNIA RCV	23.8	23.8	1.8
SAN PAOLO IMI	BANCO NAPOLI RNC	90.9	91.0	150.1
GRUPPO TAD	CMI ORD	0.5	82.0	0.0
BANCA POPOLARE DI LODI	IIL ORD	67.6	58.3	17.0
FINMA-MA.GI.MA	MARANGONI ORD	30.3	90.7	2.3
FINOS	ROTONDI EVOLUTION ORD	95.0	99.5	6.8
HOLDING MACCHINE UTENSILI	GILDEMEISTER ITALIANA ORD	87.9	99.0	9.7
IMPE LUX - COCI	FERRETTI ORD	93.7	93.7	633.4
INTERACRIVE GROUP	FREEDOMLAND ORD	--	--	--
IDRA PARTECIPAZIONI	IDRA PRESSE ORD	70.7	98.6	2.6
CONTENT	FREEDOMLAND ORD	81.6	81.6	155.2
BANCA ANTOVENETA	BCA DI CREDITO POP. SIRACUSA ORD.	51.0	83.1	34.3
BRACCO BIOMED	ESAOTE ORD	37.0	97.1	89.8
SELFIN	CALP ORD	83.0	92.0	35.0
EUROFIN	LA RINASCENTE ORD	84.3	93.1	489.3
	LA RINASCENTE PRV	71.9	71.9	10.1
	LA RINASCENTE RNC	88.3	96.2	121.2
UNICREDITO ITALIANO	ONBANCA ORD	25.5	25.5	20.3
FINMA- MA.GI.MA	MARANGONI ORD	90.5	99.2	4.8
TENARIS	DALMINE ORD	41.2	88.4	81.8
IMPE LUX - COCI	FERRETTI ORD	60.4	98.1	20.7
RAS	RAS ORD	100.0	7.0	597.5
	RAS RNC	85.6	86.1	111.6
SELFIN	CALP ORD	91.4	99.3	6.5
OMNIAPARTECIPAZIONI	IMMSI ORD	9.2	50.4	8.0
ENI	ITALGAS ORD	97.2	98.3	2,461.4
GABBIANO	BORGOSESIA ORD	52.1	86.2	0.7

Source: Notices issued by Borsa Italiana S.p.A.. [1] As a percentage of the offer quantity. [2] After the offer, as a percentage of the company's share capital. [3] In millions of euros, calculated on the basis of the quantity actually acquired. For offers to exchange, unless indicated otherwise in the offer document, the consideration in securities is valued at the market price of the day preceding the announcement of the offer.

TABLE aI.11

AVERAGE NUMBER OF DIRECTORS OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE BY SECTOR OF ACTIVITY

	2001			2002		
	EXECUTIVE	NON-EXECUTIVE	*TOTAL*	EXECUTIVE	NON-EXECUTIVE	*TOTAL*
INSURANCE	5.6	11.3	*16.9*	4.7	11.2	*15.9*
BANKING	6.2	8.4	*14.6*	6.3	8.7	*15.0*
FINANCE	3.0	6.2	*9.2*	3.0	6.2	*9.1*
INDUSTRIAL	3.0	5.5	*8.5*	2.9	5.7	*8.6*
SERVICES	3.3	7.0	*10.3*	2.8	7.4	*10.2*
TOTAL	*3.6*	*6.6*	*10.2*	*3.5*	*6.8*	*10.3*

TABLE aI.12

DIRECTORSHIPS OF MEMBERS OF THE BOARDS OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE

	2001			2002		
	NUMBER	POSITIONS HELD		NUMBER	POSITIONS HELD	
		IN THE GROUP	IN OTHER GROUPS		IN THE GROUP	IN OTHER GROUPS
DIRECTORS WITH ONLY ONE POSITION	*1,574*	*1,574*	*--*	*1,580*	*1,580*	*--*
DIRECTORS WITH MORE THAN 1 POSITION	*299*	*292*	*493*	*302*	*278*	*499*
OF WHICH:						
- 2 POSITIONS	196	142	250	210	128	292
- FROM 3 TO 5 POSITIONS	94	116	214	79	102	168
- MORE THAN 5 POSITIONS	9	34	29	13	41	48

TABLE aII.1

INDICATORS OF THE EQUITY MARKETS MANAGED BY BORSA ITALIANA S.P.A.

	1995	1996	1997	1998	1999	2000	2001	2002
ITALIAN STOCK EXCHANGE (MTA)								
MARKET CAPITALIZATION[1,2]	168.1	199.4	309.9	484.1	714.1	790.3	575.0	447.1
- AS A PERCENTAGE OF GDP	18.5	20.6	30.7	45.4	66.1	70.2	48.6	36.6
VOLUME OF TRADING IN SHARES[1]	72.5	80.8	174.3	423.0	503.0	838.5	637.1	562.3
NUMBER OF LISTED ITALIAN COMPANIES	217	213	209	219	241	237	232	231
NUMBER OF NEWLY-LISTED ITALIAN COMPANIES	14	14	14	25	28	16	13	11
NUMBER OF ITALIAN COMPANIES DELETED	16	18	18	15	6	20	18	12
CHANGE IN THE MIB HISTORICAL INDEX[3]	- 6.9	13.1	58.2	41.0	22.3	5.4	- 25.1	-23.7
DIVIDEND/PRICE RATIO[3]	1.8	2.1	1.7	1.6	1.5	2.1	2.8	3.8
EARNINGS/PRICE RATIO[3]	7.0	6.9	4.6	3.9	3.4	4.5	6.0	5.9
MERCATO RISTRETTO								
MARKET CAPITALIZATION[1,2]	3.6	3.3	4.8	4.1	5.4	5.9	4.9	4.5
VOLUME OF TRADING IN SHARES[1]	0.4	0.4	0.7	2.2	0.9	1.2	0.4	0.3
NUMBER OF LISTED COMPANIES	33	31	26	20	17	15	12	13
NUOVO MERCATO								
MARKET CAPITALIZATION[1,2]	—	—	—	—	7.0	22.2	12.5	6.4
VOLUME OF TRADING IN SHARES[1]	—	—	—	—	3.5	29.5	20.6	10.4
NUMBER OF LISTED ITALIAN COMPANIES	—	—	—	—	6	39	44	44
CHANGE IN THE NM INDEX[3]	—	—	—	—	536[4]	- 25.5	- 45.6	-50.1

Sources: Borsa Italiana S.p.A., Consob, Thomson Financial. [1] In millions of euros. [2] The figure for market capitalization refers to Italian companies. [3] Year-end percentages. [4] From 17 June 1999 to 30 December 1999.

TABLE aII.2

VOLUME OF TRADING IN FIXED-INCOME SECURITIES ON ITALIAN REGULATED MARKETS

	2000	2001	2002
MTS	2,020	2,324	2,205
BONDVISION	—	18	100
WHOLESALE MARKET FOR BONDS OTHER THAN GOVERNMENT SECURITIES	..	12	24
MOT	154	136	159
EURO MOT	..	1	2
TOTAL	*2,174*	*2,491*	*2,490*

Sources: Mts S.p.A. and Borsa Italiana S.p.A.. Data in billions of euros.

TABLE aII.3

OWNERSHIP STRUCTURE OF COMPANIES ADMITTED TO LISTING ON THE ITALIAN STOCK EXCHANGE (MTA) AND THE MERCATO RISTRETTO
(PERCENTAGES OF VOTING SHARE CAPITAL)

COMPANY	BEFORE IPO		AFTER IPO	
	CONTROLLING SHAREHOLDER	SHAREHOLDERS WITH MORE THAN 2 PER CENT	CONTROLLING SHAREHOLDER	SHAREHOLDERS WITH MORE THAN 2 PER CENT
AVERAGE 1995	*79.0*	*96.3*	*55.6*	*63.3*
AVERAGE 1996	*78.3*	*94.7*	*52.8*	*61.2*
AVERAGE 1997	*81.2*	*90.8*	*55.6*	*61.3*
AVERAGE 1998	*89.7*	*98.6*	*57.8*	*60.1*
AVERAGE 1999	*91.9*	*98.5*	*57.8*	*59.9*
AVERAGE 2000	*80.3*	*94.9*	*56.7*	*66.0*
AVERAGE 2001	*87.7*	*97.8*	*58.8*	*63.0*
2002				
ASM BRESCIA	99.5	99.5	73.2	73.2
ASTALDI	67.6	99.0	52.1	61.4
CIT	54.8	95.1	44.5	75.5
FIERA MILANO	100.0	100.0	56.1	56.1
PIRELLI&C. REAL ESTATE	100.0	100.0	62.7	62.7
SOCOTHERM	78.0	100.0	58.4	75.0
AVERAGE 2002	*83.3*	*98.9*	*57.8*	*67.3*

See the Methodological Notes.

TABLE aII.4

COMPANIES ADMITTED TO LISTING: RESULTS OF IPOS[1]

	PROPORTION OF SHARES ALLOTTED				RATIO OF DEMAND TO SUPPLY[2]	
	INDIVIDUALS	ITALIAN INSTITUTIONAL INVESTORS	FOREIGN INSTITUTIONAL INVESTORS	OTHER INVESTORS[3]	PUBLIC OFFERINGS	INSTITUTIONAL OFFERINGS
ITALIAN STOCK EXCHANGE (MTA) AND MERCATO RISTRETTO						
1995	42.3	16.3	41.4	—	3.2	6.8
1996	40.5	24.3	35.2	—	6.3	9.4
1997	31.4	24.5	44.1	—	10.8	12.2
1998	44.4	27.3	28.3	—	7.7	13.9
1999	44.6	23.6	31.8	--	11.1	9.8
2000	48.7	26.4	24.8	0.1	2.2	4.5
2001	29.0	36.1	34.5	0.4	1.2	2.3
2002	27.7	50.4	20.3	1.6	1.1	1.1
NUOVO MERCATO						
1999	27.3	32.5	40.2	..	38.1	16.6
2000	27.2	25.8	45.0	2.0	27.1	13.3
2001	25.0	58.5	14.4	2.1	1.0	1.4
2002	--	--	--	--	--	--

See the Methodological Notes. [1] Averages weighted according to the values of the offerings; percentages. The figures for the Italian Stock Exchange do not include ENI in 1995, Enel in 1999 or Snam Rete Gas in 2001. [2] Computed only for those IPOs for which data on both public and institutional offerings were known. [3] Persons indicated by name to whom a certain quantity of shares is reserved.

TABLE aII.5

ROLE OF INVESTMENT BANKS IN IPOS[1]
(MARKET CONCENTRATION)

	TOP RANKING BANK[2]	FIRST THREE BANKS[2]	FIRST FIVE BANKS[2]	NUMBER OF TRANSACTIONS	VALUE OF TRANSACTIONS[3]
			GLOBAL COORDINATOR[4]		
1995	27.7	72.3	91.5	11	3,671
1996	64.3	88.9	93.9	12	1,666
1997	36.8	71.0	89.0	10	833
1998	20.6	59.6	74.4	16	1,845
1999	25.9	71.7	81.2	26	5,032
2000[5]	18.1	45.0	59.7	43	6,728
2001	16.3	42.9	62.5	17	1,732
2002	30.0	65.0	83.1	6	1,062
			LEAD MANAGER[6]		
1995	43.1	77.4	96.9	11	1,264
1996	69.0	90.2	94.2	12	675
1997	57.0	79.0	91.4	10	261
1998	58.3	87.3	92.2	16	818
1999	45.9	74.2	84.5	26	2,196
2000	33.7	65.0	79.7	44	2,418
2001	23.6	59.9	83.5	17	497
2002	32.7	84.7	100.0	6	294

Source: Based on listing particulars. See the Methodological Notes. [1] The indicators of concentration refer to the value of the offerings on the Italian Stock Exchange, the Mercato Ristretto and the Nuovo Mercato. The figures for the Italian Stock Exchange do not include the Enel offering in 1999 or the Snam Rete Gas offering in 2001. [2] Percentages. [3] Millions of euros. [4] The figures refer to global offerings. [5] One transaction has been excluded because it consisted only of a public offering in Italy. [6] The figures refer only to public offerings in Italy.

TABLE aII.6

OFFERINGS OF SHARES AND CONVERTIBLE BONDS BY LISTED COMPANIES[1]
(MILLIONS OF EUROS)

TO	1995	1996	1997	1998	1999	2000	2001	2002[2]
INITIAL OFFERINGS								
THE PUBLIC	165	516	1,122	392	413	1,827	798	416
INSTITUTIONAL INVESTORS	103	193	226	1,090	802	4,846	2,080	577
EMPLOYEES	6	25	104	319	221	40	10	12
SHAREHOLDERS	4,103	1,572	4,172	7,341	21,736	2,737	7,793	3,290
OTHER	....	....	....	....	....	78	9	491
TOTAL	*4,377*	*2,306*	*5,624*	*9.142*	*23,172*	*9,528*	*10,690*	*4,786*
SECONDARY OFFERINGS								
THE PUBLIC	1,649	2,342	11,616	7,054	14,433	4,995	692	248
INSTITUTIONAL INVESTORS	1,588	2,965	5,422	3,774	10,478	2,492	3,750	1,778
EMPLOYEES	159	301	1,389	446	884	118	15	2
SHAREHOLDERS	--	3	--	--	--	--	--	--
OTHER	....	....	....	....	....	10	,,	18
TOTAL	*3,396*	*5,611*	*18,427*	*11,274*	*25,795*	*7,615*	*4,457*	*2,046*
TOTAL								
THE PUBLIC	1,814	2,858	12,738	7,446	14,846	6,822	1,490	664
INSTITUTIONAL INVESTORS	1,691	3,158	5,648	4,864	11,280	7,338	5,830	2,355
EMPLOYEES	165	326	1,493	765	1,105	158	25	14
SHAREHOLDERS	4,103	1,575	4,172	7,341	21,736	2,737	7,793	3,290
OTHER	....	....	....	....	....	88	9	509
TOTAL	*7,773*	*7,917*	*24,051*	*20,416*	*48,967*	*17,143*	*15,147*	*6,832*

Sources: Consob archive of prospectuses and notices issued by Borsa Italiana S.p.A. See the methodological notes. [1] The figures refer to companies listed on the Italian Stock Exchange (MTA); they include offerings made bt companies listed on the Mercato Ristretto and the Nuovo Mercato. [2] The figures include the initial public offering of units of a closed-end real-estate investment fund.

TABLE aII.7

SALES OF PUBLIC-SECTOR HOLDINGS IN LISTED COMPANIES BY MEANS OF PUBLIC OFFERINGS AND PRIVATE PLACEMENTS
(1993-2002)

COMPANY	DATE	VALUE[1]	SELLER	HOLDING SOLD[2]	OFFERING AIMED AT[3]			
					THE PUBLIC[4]	EMPLOY-EES	FOREIGN BUYERS	INST. IN-VESTORS
CREDIT ORD	4.12.1993	886	IRI	63.1	36.3	—	—	26.8
CREDIT RISP	4.12.1993	44	IRI	17.4	—	17.4	—	—
IMI	31.01.1994	1,231	TREASURY ET AL.	36.5	14.8	0.8	—	20.9
COMIT	26.02.1994	1,493	IRI	51.9	26.9	3.5	—	21.5
INA	27.06.1994	2,340	TREASURY	47.2	31.6	0.6	—	15.0
ENI	21.11.1995	3,254	TREASURY	15.0	4.3	0.7	3.3	6.7
IMI	7.07.1996	259	TREASURY	6.9	—	—	—	6.9
AMGA	7.10.1996	107	GENOA CITY COUNCIL	49.0	17.6	0.8	—	30.6
ENI	21.10.1996	4,582	TREASURY	15.8	8.0	0.8	2.0	5.0
MONTEFIBRE	08.07.1996	94	ENICHEM	66.4	8.2	—	—	58.2
ISTITUTO BANC. SAN PAOLO	19.05.1997	1,374	SAN PAOLO BANKING GROUP, TREASURY ET AL	31.0	12.3	2.4	—	16.3
ENI	23.06.1997	6,805	TREASURY	17.6	9.9	0.8	2.3	4.6
AEROPORTI DI ROMA	15.07.1997	307	IRI	45.0	15.5	0.9	—	28.6
TELECOM	20.10.1997	9,778	TREASURY	32.9	24.3	3.3	1.1	4.2
BANCA DI ROMA	24.11.1997	1,379	IRI	36.6[5]	26.7	2.4	—	7.5
SAIPEM	17.03.1998	383	ENI	17.1	—	—	—	17.1
ALITALIA	22.05.1998	406	IRI	18.4	—	—	—	18.4
ENI	22.06.1998	6,594	TREASURY	14.0	10.5	0.6	—	2.8
AEM	14.07.1998	761	MILAN CITY COUNCIL	49.0	28.9	0.5	—	19.6
BNL	16.11.1998	2,620	TREASURY	64.7	34.8	3.6	—	26.3
BANCA MONTE PASCHI	18.06.1999	2,217	MONTE PASCHI FOUNDATION	21.2	7.6	2.0	—	11.6
ACEA	09.07.1999	934	ROME CITY COUNCIL	49.0	15.7	10.5	—	22.9
ACSM	20.10.1999	18	COMO CITY COUNCIL	25.0	13.5	1.4	—	10.1
ENEL	29.10.1999	16,550	TREASURY	31.7	18.5	1.5	....	14.5[6]
AUTOSTRADE	03.12.1999	3,805	IRI	48.0	41.0	0.7	—	6.2
FINMECCANICA	29.05.2000	6,570[7]	IRI	44.0	33.7	0.7	—	10.7
AEROPORTO DI FIRENZE	03.07.2000	18	SUNDRY ENTITIES	29.0	10.5	—	—	18.5
CASSA RISP. DI FIRENZE	10.07.2000	320	ENTE CASSA RISP. DI FIRENZE	25.0	15.0	1.7	—	9.8
AEM TORINO	22.11.2000	112	TURIN CITY COUNCIL	14.6	6.3	—	—	8.3
ACSM	29.11.2000	42	COMO CITY COUNCIL	24.0	18.3	0.4	—	5.4
ENI	15.02.2001	2,721	TREASURY	5.0	—	—	—	5.0
AC.E.GA.S.	19.02.2001	174	TRIESTE CITY COUNCIL	46.8	16.0	0.8	—	30.0
SNAM RETE GAS	26.11.2001	942	SNAM (ENI)	22.4	11.1	0.3	—	11.0
FIERA MILANO	02.12.2002	41	ENTE AUTONOMO FIERA INTERNAZIONALE DI MILANO	22.9[8]	—	—	—	13.7
TELECOM ITALIA	09.12.2002	1,434[9]	MINISTRY OF THE ECONOMY	3.5	—	—	—	3.5

Sources: Consob and the Ministry for the Economy, "Report to Parliament on the sale of holdings in companies controlled directly or indirectly by the State under Article 13.6 of Law 474/1994", various years. [1] Total value of the offering. Millions of euros. [2] Percentages of the pre-offering share capital. The figures do not include any bonus shares but do include the shares corresponding to the greenshoe option actually exercised. [3] Percentages of the pre-offering share capital. The figures include the entire over-allotment or greenshoe option actually exercised. [4] Includes the shares reserved to other persons (apart from employees) in the public offering tranche. [5] Figure calculated with reference to the post-offering share capital. [6] Includes the public offering abroad. [7] Includes the issue of 0.9 billion euros of convertible bonds. [8] Includes the private placement reserved to the organizers and the Chamber of Commerce, equal to 0.9 per cent. [9] Includes the sale of savings shares amounting to 68 billion euros.

TABLE aII.8

SALES OF PUBLIC-SECTOR HOLDINGS IN LISTED COMPANIES BY MEANS OF PRIVATE NEGOTIATIONS
(1996 - 2001)

COMPANY	BUYER(S)	DATE OF COMPLETION OF SALE	HOLDING SOLD[1]	TOTAL VALUE[2]	DATE OF MANDATORY TENDER OFFER[3]
DALMINE	TECHINT SIDERCA	27.02.1996	84.1	156	9.04.1996
SEAT	ABN-AMRO BAIN CAPITAL COMIT BC PARTNERS CVC CAPITAL PARTNER INVESTITORI ASS. DE AGOSTINI SOFIPA	25.11.1997	61.3[4]	849	—
BANCO DI NAPOLI[5]	INA-BNL	11.06.1997	60.0	32	—
SAN PAOLO[6]	IFI/IFIL IMI BANCO SANTANDER REALE MUTUA ASSIC. MONTE PASCHI KREDIETBANK	23.04.1997	19.0	594	—
	OTHERS (INA. HDI. CREDIT LOC. FRANCE, CREDIT COMM. BELGIQUE)	24.04.1997	3.0	134	
TELECOM[6]	AT&T UNISOURCE IMI CREDIT CREDIT SUISSE ASS. GENERALI COMPAGNIA S.PAOLO IFIL COMIT MONTE PASCHI FONDAZ. CARIPLO INA ALLEANZA ASS. ROLO BANCA	29-30.09.1997	9.0	2,040[8]	—
BANCA DI ROMA[6]	TORO[9] OTHERS[7]	09.12.1997 09.12.1997	4.1 15.1	155 639	—
BNL[6]	BANCO BILBAO VIZCAYA INA BCA POP VICENTINA	29.09.1998	25.0	1,335	—
AUTOSTRADE	EDIZIONE HOLDING SPA FOND. CASSA RISP. TORINO AUTOPISTAS CONC. ESPANOLA SA INA UNICREDIT BRISA AUTOSTRADE DE PORTUGAL SA	09.03.2000	30.0	2,516	—
AEROPORTI DI ROMA	CONSORZIO LEONARDO (GEMINA, FALCK, ITALPETROLI, IMPREGILO)	31.07.2000	51.2	1,327	25.09.2000
BENI STABILI[10]	BANCA IMI	06/2001	0.3	2	—
S. PAOLO IMI[10]	BANCA IMI	06/2001	0.3	80	—
BNL[10]	BANCA IMI	27/12/2001	1.3	77	—
GENERALI[10]	BANCA IMI	04/2002	1.1[11]	76[12]	—

Sources: Consob and the Ministry for the Economy "Report to Parliament". See the methodological notes. [1] As a percentage of the ordinary share capital. [2] Millions of euros. [3] Date tender offer started. [4] The sale included 0.8 per cent of the capital in the form of savings shares. [5] Transaction effected by means of a competitive auction. [6] The date refers to the signing of the agreement. The figures refer to the *noyeau dur*. [7] Shareholders not part of the *noyeau dur*. [8] The figure does not include the sale of 1.2 per cent of the ordinary shares to AT&T and Unisource, subject to the conclusion of strategic alliances with Telecom. [9] The figure does not include the sale of 172 million euros of convertible bonds. [10] Transactions carried out by means of the sale of the holding to an intermediary, which then gradually placed the shares with institutional investors. [11] The figure refers to the Treasury Ministry's holding in the capital of INA before the latter's merger into GeneraliS.p.A., with effect from 1 December 2001. [12] Includes the proceeds of the sale of a tranche of INA shares in the period May-June 2001.

TABLE aIII.1

ASSETS MANAGED BY MUTUAL FUNDS IN EUROPE AND THE UNITED STATES
(1999-2002)[1]

	1999	2000	2001	2002
AUSTRIA	1.8	1.7	1.7	1.9
BELGIUM	2.0	2.1	2.2	2.2
CZECH REPUBLIC	0.0	0.1	0.1	0.1
DENMARK	0.9	1.0	1.1	1.2
FINLAND	0.3	0.4	0.4	0.5
FRANCE	20.5	21.9	22.5	24.3
GERMANY	7.4	7.2	6.7	6.0
GREECE	1.1	0.9	0.8	0.8
HUNGARY	0.1	0.1	0.1	0.1[2]
IRELAND	3.0	4.2	6.1	7.2
ITALY	14.8	12.9	11.4	10.9
LUXEMBOURG	20.6	22.7	24.0	23.2
NETHERLANDS	3.0	2.8	2.5	2.7[3]
NORWAY	0.5	0.5	0.5	0.4
POLAND	0.0	0.0	0.0	0.2
PORTUGAL	0.6	0.5	0.5	0.6
SPAIN	6.5	5.2	5.1	5.2
SWEDEN	2.6	2.4	2.1	1.7
SWITZERLAND	2.6	2.5	2.4	2.7
UNITED KINGDOM	11.7	11.0	10.0	8.3
ASSETS UNDER MANAGEMENT IN EUROPE[4]	*3,181.7*	*3,497.3*	*3,551.4*	*3,310.0*
ASSETS UNDER MANAGEMENT IN THE US[4]	*6,800.1*	*7,390.4*	*7,823.9*	*6,482.1*

Sources: Fefsi and Ici data. [1] End-of-period data. Percentages of the total assets under management in Europe. [2] With reference to end-June. [3] With reference to end-December 2001. [4] Billions of euros.

TABLE aIII.2

STRUCTURE OF THE MUTUAL FUND INDUSTRY IN ITALY: ITALIAN OPERATORS[1]
(YEAR-END DATA)

	1996	1997	1998	1999	2000	2001	2002
NUMBER OF MANAGEMENT COMPANIES	53	53	59	54	55	61	57
NUMBER OF FUNDS IN OPERATION							
- EQUITY	235	277	321	356	435	492	515
- BALANCED	57	53	57	61	82	85	88
- BOND	239	296	325	337	382	396	382
- LIQUIDITY	—	—	—	33	35	37	38
- FLEXIBLE	—	—	—	29	33	49	49
TOTAL	*531*	*626*	*703*	*816*	*967*	*1,059*	*1,072*
NET INFLOWS							
- EQUITY	- 0.5	15.5	24.0	32.1	39.4	- 18.9	- 9.4
- BALANCED	- 1.4	3.2	12.1	15.7	17.1	- 16.3	- 10.3
- BOND	33.4	55.1	125.4	3.6	- 68.7	- 6.6	- 19.6
- LIQUIDITY	—	—	—	6.9	- 0.6	21.8	27.3
- FLEXIBLE	—	—	—	2.7	4.7	- 0.9	- 0.6
TOTAL	*31.5*	*73.8*	*161.5*	*61.0*	*- 8.1*	*- 20.9*	*- 12.6*
ASSETS UNDER MANAGEMENT							
- EQUITY	17.9	40.2	74.0	140.3	155.7	110.6	72.6
- BALANCED	6.7	11.4	28.9	51.1	72.7	51.9	36.2
- BOND	77.1	137.9	269.4	257.2	191.4	188.6	171.9
- LIQUIDITY	—	—	—	21.1	22.5	46.7	75.7
- FLEXIBLE	—	—	—	5.5	7.6	5.9	4.3
TOTAL	*101.7*	*189.5*	*372.3*	*475.2*	*449.9*	*403.7*	*360.7*

Source: Assogestioni. See the Methodological Notes. [1] In billions of euros. Includes Sicavs.

TABLE aIII.3

COLLECTIVE INVESTMENT UNDERTAKINGS DISTRIBUTED IN ITALY BY FOREIGN OPERATORS[1]
(YEAR-END DATA)

	1996	1997	1998	1999	2000	2001	2002
FOREIGN COMPANIES[1]	*64*	*78*	*102*	*123*	*124*	*149*	*186*
WITH REGISTERED OFFICE IN:							
- LUXEMBOURG	53	65	86	104	105	127	159
- IRELAND	1	1	4	5	7	12	15
- FRANCE	9	9	9	10	8	7	7
- GERMANY	1	1	1	1	1	1	2
- AUSTRIA	--	--	--	1	1	1	1
- UNITED KINGDOM	--	--	--	--	--	1	2
- BELGIUM	--	2	2	2	2	--	--
NUMBER OF FUNDS/SUBFUNDS DISTRIBUTED IN ITALY	*446*	*603*	*833*	*1,134*	*1,534*	*2,132*	*2,730*

Sources: Consob archive of prospectuses and Luxor-FI.DATA archive. [1] Companies that offer units/shares of collective investment undertakings subject to the Community directives to the public in Italy.

TABLE aIII.4

ASSET ALLOCATION IN INDIVIDUAL PORTFOLIO MANAGEMENT SERVICES
(PERCENTAGES)

	1997	1998	1999	2000	2001	2002[1]
ITALIAN INVESTMENT FIRMS[2]						
GOVERNMENT SECURITIES	47.0	39.7	22.6	20.9	16.8	19.4
ITALIAN BONDS	6.9	5.0	3.3	2.5	1.8	1.7
FOREIGN BONDS	10.4	8.6	6.0	6.6	6.1	9.6
ITALIAN SHARES	8.4	5.8	6.6	5.6	3.6	2.9
FOREIGN SHARES	4.6	4.1	5.2	3.1	2.5	2.9
UNITS OF CIUS	17.0	33.4	52.1	57.5	65.2	59.5
LIQUIDITY AND OTHER SECURITIES	5.6	3.4	4.1	3.8	4.1	4.1
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
BANKS						
GOVERNMENT SECURITIES	58.7	43.7	30.0	20.0	22.4	23.0
ITALIAN BONDS	5.4	3.0	2.2	2.2	2.0	1.8
FOREIGN BONDS	5.7	5.9	5.9	5.7	6.8	7.9
ITALIAN SHARES	4.3	4.4	4.7	4.1	3.6	2.9
FOREIGN SHARES	0.2	0.5	2.1	2.1	1.7	2.1
UNITS OF CIUS	18.4	36.2	50.0	61.4	58.9	57.4
LIQUIDITY AND OTHER SECURITIES	7.2	6.3	5.1	4.4	4.7	5.0
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
ASSET MANAGEMENT COMPANIES						
GOVERNMENT SECURITIES	—	....	34.5	33.6	40.8	43.2
ITALIAN BONDS	—	....	8.5	11.0	15.6	16.0
FOREIGN BONDS	—	....	5.8	3.0	1.7	1.7
ITALIAN SHARES	—	....	7.7	7.9	7.0	5.6
FOREIGN SHARES	—	....	3.1	2.9	2.0	1.4
UNITS OF CIUS	—	....	36.0	37.4	30.4	29.3
LIQUIDITY AND OTHER SECURITIES	—	....	4.5	4.1	2.5	2.8
TOTAL	—	....	*100.0*	*100.0*	*100.0*	*100.0*

Source: Based on Bank of Italy data. [1] First six months. [2] Including trust companies.

TABLE aIII.5

ITALIAN INVESTMENT FIRMS: DELETIONS FROM THE REGISTER[1]

REASON	1992-1997	1998	1999	2000	2001	2002
CRISIS OF THE INTERMEDIARY[2]	37	2	1	1	1	--
MERGERS AND SPIN-OFFS	29	7	9[3]	3	3	3
VOLUNTARY LIQUIDATION	49	11	4	9	2	5
CHANGE IN ACTIVITY	51	5	--	2	4	--
TRANSFORMATION INTO A BANK	5	4	--	3	10[4]	4
TRANSFORMATION INTO AN ASSET MANAGEMENT COMPANY	—	--	4	7	3[5]	--
TRANSFORMATION FROM A TRUST COMPANY INTO AN ITALIAN INVESTMENT FIRM	2	--	2	1	--	1
NON-OPERATIONAL[6]	38	—	—	—	—	—
FAILURE TO PROVIDE AUTHORIZED SERVICE	--	1	--	1	--	2
TOTAL	*211*	*30*	*20*	*27*	*23*	*15*

[1] The figures refer to the total number of resolutions deleting a firm from the register, including those deleting trust companies from the special section of the register. [2] Includes Ministry for the Economy decrees, measures adopted by Consob, bankruptcies and firms placed in compulsory administrative liquidation. [3] Includes an investment firm that transferred the business to another company belonging to the same group. [4] In 3 cases the investment firm was merged with a bank. [5] In all 3 cases the investment firm was merged with an asset management company. [6] At the entry into force of Legislative Decree 415/1996 (Article 60).

TABLE aIV.1

SUPERVISION OF CORPORATE DISCLOSURES, OWNERSHIP STRUCTURES AND RESEARCH REPORTS

	2000	2001	2002
REQUESTS FOR INFORMATION UNDER ARTICLES 115.1 AND 115.2 OF LEGISLATIVE DECREE 58/1998	89	397	211
REQUESTS FOR INFORMATION UNDER ARTICLE 115.3 OF LEGISLATIVE DECREE 58/1998 (NAMES OF SHAREHOLDERS)	68	52	31
INSPECTIONS	--	4	2
REQUESTS TO PUBLISH DATA AND INFORMATION UNDER ARTICLE 114.3 OF LEGISLATIVE DECREE 58/1998	17	40	109
REQUESTS TO PUBLISH RESEARCH REPORTS ON LISTED COMPANIES	—	—	3
REPORTS TO THE COURTS UNDER ARTICLE 2409 OF THE CIVIL CODE	2	—	1
WRITTEN REPRIMANDS	12	5	3
CHALLENGES OF THE ANNUAL ACCOUNTS	1	1	--

TABLE aIV.2

DISTRIBUTION OF COMPANIES COVERED BY RESEARCH REPORTS BY NUMBER OF REPORTS

	NUMBER OF COMPANIES COVERED BY RESEARCH REPORTS[1]	DISTRIBUTION OF COMPANIES BY NUMBER OF REPORTS[2]						
		MORE THAN 51	FROM 25 TO 50	FROM 13 TO 24	FROM 5 TO 12	4	UP TO 3	*TOTAL*
1998	179	4.5	10.1	21.2	25.1	7.8	31.3	*100*
1999	146	4.9	8.9	16.4	27.4	7.5	34.9	*100*
2000	261	9.9	9.3	15.6	27.4	6.3	31.5	*100*
2001	217	7.8	17.5	14.7	24.4	5.6	30.0	*100*
2002	198	9.4	19.1	20.8	22.6	4.9	23.2	*100*

[1] Companies listed on the regulated markets operated by Borsa Italiana S.p.A. [2] Percentages.

TABLE aIV.3

DISTRIBUTION OF RESEARCH REPORTS BY TYPE OF RECOMMENDATION
(PERCENTAGES)

RECOMMENDATION	1998	1999	2000	2001	2002
BUY	59.1	57.5	58.2	48.3	46.7
HOLD	25.5	26.7	26.1	33.6	29.2
IMPORTANT NEWS	9.9	9.1	9.6	9.0	11.7
SELL	5.5	6.6	6.1	9.1	12.4
TOTAL NUMBER OF REPORTS	*2,288*	*2,260*	*2,368*	*5,912*	*5,351*

TABLE aIV.4

RESULTS OF THE EXTERNAL AUDITS OF THE UNCONSOLIDATED AND CONSOLIDATED ACCOUNTS OF COMPANIES LISTED ON ITALIAN REGULATED MARKETS

TYPE OF OPINION	1996	1997	1998	1999	2000	2001
OPINIONS WITH EMPHASIS OF MATTER PARAGRAPHS	328	197	197	217	207	192
OPINIONS QUALIFIED FOR:						
- DISAGREEMENT WITH ACCOUNTING TREATMENTS	8	6	1	--	2	5
- LIMITATIONS ON THE AUDIT	4	3	2	2	2	--
- UNCERTAINTY	--	3	--	--	--	1
ADVERSE OPINIONS AND DISCLAIMERS						
- ADVERSE OPINIONS	1	--	1	--	--	--
- DISCLAIMERS FOR SERIOUS LIMITATIONS ON THE AUDIT	1	--	1	1	--	--
- DISCLAIMERS OWING TO UNCERTAINTY	2	1	--	1	--	5

See the Methodological Notes.

TABLE aIV.5

CONTROLS ON AUDITING FIRMS

TYPE OF CONTROL	1997	1998	1999	2000	2001	2002
CHECK FOR INITIAL REGISTRATION	--	--	2	--	1	1
INSPECTION AND ON-SITE CONTROLS	7	5	2	2	1	5
WRITTEN REPRIMAND	4	--	--	--	--	--
SUSPENSION OF PARTNERS	5	1	--	1	--	3
BAN ON NEW ENGAGEMENTS	--	1	--	--	--	--
ADMINISTRATIVE SANCTION	2	2	--	--	--	--
DELETION FROM THE SPECIAL REGISTER	--	--	2	--	--	--
REPORT TO THE JUDICIAL AUTHORITIES	6	--	--	--	--	--

TABLE aIV.6

THE AUDIT MARKET[1]

	1997	1998	1999	2000	2001
TOTALTURNOVER[2]	338.9	398.1	450.1	469.7	567.2
NUMBER OF STATUTORY AUDIT ENGAGEMENTS	683	684	1,440	1,684	1,725

[1] The figures refer to auditing firms entered in the special register kept by Consob. [2] Millions of euros.

TABLE aIV.7

CONCENTRATION OF THE AUDIT MARKET[1]

	TURNOVER						NUMBER OF STATUTORY AUDIT ENGAGEMENTS					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
FIRST FIRM	22.2	23.6	24.4	21.9	22.5	26.2	24.4	20.6	19.9	22.3	19.9	26.7
FIRST 3 FIRMS	55.3	59.4	56.0	55.5	60.4	64.8	52.6	49.9	50.6	47.8	60.8	62.7
FIRST 6 FIRMS	92.2	90.4	90.7	90.4	91.8	93.0	84.1	83.6	83.6	88.3	90.1	92.3

[1] The figures refer to the auditing firms entered in the special register kept by Consob. Market shares in percentages.

TABLE aV.1

REQUESTS FOR INFORMATION IN CONNECTION WITH INSIDER TRADING AND MARKET MANIPULATION INVESTIGATIONS

	REQUESTS ADDRESSED TO					
	AUTHORIZED INTERMEDIARIES[1]	LISTED COMPANIES, THEIR CONTROLLERS AND SUBSIDIARIES	INDIVIDUALS	GOVERNMENT DEPARTMENTS	FOREIGN AUTHORITIES	TOTAL
1997	220	37	49	22	11	339
1998	324	14	50	10	17	415
1999	416	22	48	--	21	507
2000	492	33	11	4	30	570
2001	247	30	93[2]	10	33	413[4]
2002	154	28	52[3]	1	24	259[5]

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Including 7 hearings. [3] Including 19 hearings. [4] Of which 156 on behalf of foreign authorities. [5] Of which 36 on behalf of foreign authorities.

TABLE aV.2

MARKET PARTICIPANTS REPORTED TO THE JUDICIAL AUTHORITIES ON SUSPICION OF INSIDER TRADING OR MARKET MANIPULATION

	AUTHORIZED INTERMEDIARIES[1]	INSTITUTIONAL INSIDERS[2]	OTHERS[3]	FOREIGN RESIDENTS	TOTAL
			INSIDER TRADING		
1997	11	12	41	17	81
1998	17	31	34	32	114
1999	21	26	56	48	151
2000	24	11	149	34	218
2001	20	6	53	30	109
2002	14	1	69	21	105
			MARKET MANIPULATION		
1997	3	21	--	--	24
1998	7	2	--	2	11
1999	10	5	34	2	51
2000	1	2	1	1	5
2001	4	1	1	2	8
2002	18	2	--	4	24

[1] Banks, investment firms, asset management companies and stockbrokers . [2] Shareholders, directors and managers of listed companies. [3] So-called secondary insiders and tippees (under Article 180.2 of Legislative Decree 58/1998).

TABLE aVI.1

INSPECTIONS AT INTERMEDIARIES AND LISTED COMPANIES

	1997	1998	1999	2000	2001	2002
INSPECTIONS						
APPROVED	16	24	21	18	8	9
STARTED	25	20	23	19	9	13
CONCLUDED	31	22	24	18	13[2]	12
INSPECTIONS STARTED AT:						
INVESTMENT FIRMS[1]	12[3]	6	8	5	2	5
BANKS	5	9[4]	--	1	2	2
ASSET MANAGEMENT COMPANIES/SICAVS	1	--	--	6	2	3
STOCKBROKERS	6	3	3	6	3	1
FINANCIAL SALESMEN	1	--	11	1	--	--
LISTED COMPANIES	--	2[5]	1	--	--	2[8]
TOTAL	*25*	*20*	*23*	*19*	*9*	*13*
INSPECTIONS CONCLUDED AT:						
INVESTMENT FIRMS[1]	17	9[3]	8	5	4[6]	4
BANKS	9	8[4]	2	2	1[7]	3
ASSET MANAGEMENT COMPANIES/SICAVS	--	--	--	1	5	4
STOCKBROKERS	4	3	2	9	3	1
FINANCIAL SALESMEN	1	--	11	1	--	--
LISTED COMPANIES	--	2[5]	1	--	--	--
TOTAL	*31*	*22*	*24*	*18*	*13*	*12*

[1] Including trust companies. [2] Of which two suspended. [3] Of which one at an EU investment firm. [4] Of which six under Article 8 of Law 157/1991. [5] Of which one under Article 8 of Law 157/1991 and one under Article 185 of Legislative Decree 58/1998. [6] Of which one suspended. [7] Suspended. [8] Of which one at a company that made a tender offer for shares of a listed company.

TABLE aVI.2

NATIONAL INVESTOR COMPENSATION FUND: SPECIAL INTERVENTIONS
(AT 31 DECEMBER 2002)

		INVESTMENT FIRMS	STOCK-BROKERS	TRUST COMPANIES	*TOTAL*
BANKRUPTCIES[1]	1992	1	--	--	*1*
	1993	5	1	3	*9*
	1994	4	--	--	*4*
	1995	3	1	--	*4*
	1996	4	2	--	*6*
	1997	1	--	--	*1*
	TOTAL BANKRUPTCIES	*18*	*4*	*3*	*25*
TOTAL NUMBER OF CREDITORS ADMITTED		7,088	2,235	304	9,627
TOTAL VALUE OF CLAIMS ADMITTED[2]		185.9	172.9	12.2	371.0
NUMBER OF APPLICATIONS TO THE FUND		4,404	1,259	208	5,871
VALUE OF CLAIMS IN APPLICATIONS[2]		169.9	125.0	11.9	307.0
INDEMNITIES IN RESPECT OF APPLICATIONS[2]		41.6	30.8	3.0	75.4
- INDEMNITIES COMMITTED DRAWING ON AVAILABLE ASSETS		41.6	30.8	3.0	75.4
- REMAINING INDEMNITIES TO BE COMMITTED		--	--	--	--

Source: Based on National Investor Compensation Fund data. Amounts in millions of euro. [1] For which the statement of liabilities was filed before 1 February 1998. [2] Net of partial allotments made by the bodies responsible for the bankruptcy proceedings.

TABLE aVI.3

INVESTMENT FIRMS: ENTRIES IN AND DELETIONS FROM THE CONSOB REGISTER[1]
(1991-2002)

	REGISTERED FIRMS	ENTRIES	EXITS
1991	255	255	—
1992	356	110	9
1993	326	19	49
1994	289	12	49
1995	284	20	25
1996	236	4	52
1997	212	3	27
1998	191	9	30
1999	183	12	20
2000	171	15	27
2001	162	15	24
2002	158	11	15

[1] Including trust companies.

TABLE aVII.1

FINES PROPOSED BY CONSOB FOR INVESTMENT FIRMS

	1999	2000	2001	2002
NUMBER OF CASES				
BANKS	23	13	5	5
INVESTMENT FIRMS	25	21	10	12
STOCKBROKERS	3	14	1	5
ASSET MANAGEMENT COMPANIES	--	--	--	5
TOTAL	*51*	*48*	*16*	*27*
NUMBER OF PERSONS FINED				
BANKS	71	71	31	90
INVESTMENT FIRMS	71	88	52	161
STOCKBROKERS	3	14	1	6
ASSET MANAGEMENT COMPANIES	--	--	--	61
TOTAL	*145*	*173*	*84*	*318*
AMOUNT OF FINES PROPOSED[1]				
BANKS	646.6	985.9	252.0	557.3
INVESTMENT FIRMS	566.0	900.7	860.0	1,318.9
STOCKBROKERS	120.3	100.2	39.0	135.5
ASSET MANAGEMENT COMPANIES	--	--	--	1,146.9
TOTAL	*1,332.9*	*1,986.8*	*1,151.0*	*3,158.6*

[1] Thousands of euros.

TABLE aVII.2

ADMINISTRATIVE SANCTIONS AND PREVENTIVE MEASURES ADOPTED OR PROPOSED BY CONSOB FOR INTERMEDIARIES

	INVESTMENT FIRMS		BANKS		STOCK-BROKERS		ASSET MANAGEMENT COMPANIES	
	2001	2002	2001	2002	2001	2002	2001	2002
FINE	10	12	5	5	1	5	--	5
SUSPENSION (+ SPECIAL ADMINISTRATOR)	--	--	—	—	3	2	--	--
PENALTY DELETION	—	—	—	—	1	3	—	—
INJUNCTIVE REMEDIES	--	2	--	--	--	--	--	--
SUSPENSION OF GOVERNING BODIES	1	--	—	—	—	—	--	--
SPECIAL ADMINISTRATION	1	--	—	—	—	—	--	--
COMPULSORY ADMINISTRATIVE LIQUIDATION	--	--	—	—	—	—	—	—

TABLE aIX.1

INTERNATIONAL COOPERATION
(REQUESTS FOR COOPERATION BY GEOGRAPHICAL AREA - 2002)

	COUNTRY /AREA	FROM CONSOB TO FOREIGN AUTHORITIES	FROM FOREIGN AUTHORITIES TO CONSOB
INSIDER TRADING	EU	8	12
	USA	2	--
	OTHER	14	1
MARKET MANIPULATION	EU	--	--
	USA	--	1
	OTHER	--	--
UNAUTHORIZED SOLICITATION AND INVESTMENT SERVICES ACTIVITY	EU	4	5
	USA	1	1
	OTHER	4	1
TRANSPARENCY AND DISCLOSURE	EU	--	--
	USA	--	--
	OTHER	--	--
MAJOR HOLDINGS IN LISTED COMPANIES AND AUTHORIZED INTERMEDIARIES	EU	1	--
	USA	--	--
	OTHER	--	2
INTEGRITY AND EXPERIENCE REQUIREMENTS	EU	34	68
	USA	--	2
	OTHER	--	10
VIOLATION OF CONDUCT OF BUSINESS RULES	EU	--	--
	USA	--	--
	OTHER	--	--
TOTAL		*68*	*103*

TABLE aX.1

APPEALS TO ORDINARY COURTS AGAINST ADMINISTRATIVE SANCTIONS 2000 - 2002

PLAINTIFF(S)	NUMBER	COURT	TYPE OF PENALTY	OUTCOME AT 31 DECEMBER 2002	
				FIRST LEVEL	COURT OF CASSATION
			2000		
FINANCIAL SALESMEN	5	TRIBUNAL (5)	FINE (5)	SUSPENSION GRANTED (1) PENDING (1) ACCEPTED (2)[1] SUBJECT OF APPEAL CEASED TO EXIST (1)	
FINANCIAL SALESMEN	2	TRIBUNAL (2)	DEBARMENT (2)	SUSPENSION GRANTED (1) REJECTED (1)	
MEMBERS OF THE BOARDS OF AUDITORS OF LISTED COMPANIES	2	TRIBUNAL (2)	REPORT UNDER ARTICLE 152.2 OF LEG. DECREE 58/1998	SETTLED (2)	
INVESTMENT FIRMS	4[2]	APPEAL COURT (4)	FINE (4)	ACCEPTED (3) SUBJECT OF APPEAL CEASED TO EXIST (1)	PENDING (2)
BANKS	8	APPEAL COURT (8)	FINE (8)	REJECTED (6)[3] ACCEPTED (2)	PENDING (1)
CORPORATE OFFICERS OF INVESTMENT FIRMS	2[4]	APPEAL COURT (2)	FINE (2)	ACCEPTED (2)	PENDING (1) CONSOB'S APPEAL ACCEPTED (1)
CORPORATE OFFICERS OF BANKS	5[5]	APPEAL COURT (5)	FINE (5)	REJECTED (5)	PENDING (1)
STOCKBROKER	1	APPEAL COURT (1)	FINE (1)	REJECTED (1)	
TOTAL	*29*				

[1] In one case the appeal was accepted partially. [2] In one case the appeal was made jointly by the intermediary and 20 of its corporate officers. [3] In one case the court was declared not to have jurisdiction. The case was later brought before the competent Appeal Court. [4] With a total of 13 plaintiffs. [5] With a total of 111 plaintiffs.

- *CONT.* -

- *TABLE aX.1 Cont.* -

PLAINTIFF(S)	NUMBER	COURT	TYPE OF PENALTY	OUTCOME AT 31 DECEMBER 2002	
				FIRST LEVEL	COURT OF CASSATION
			2001		
FINANCIAL SALESMEN	5	TRIBUNAL (5)	FINE (2)	SUSPENSION GRANTED (1)	
			DISCIPLINARY SUSPENSION (1)	PENDING (1)	
			DENIAL OF ENTRY IN THE REGISTER (1)	PENDING (1)	
			VERIFICATION PROFESSIONAL REQUIREMENTS (1)	PENDING (1)	
BANKS	6	APPEAL COURT (6)	FINE (6)	ACCEPTED (1) REJECTED (1) PENDING (4)	
PERSONS RESPONSIBLE FOR PLACEMENT	4	APPEAL COURT (4)	FINE (4)	ACCEPTED (3) PARTIALLY ACCEPTED (1)	
INVESTMENT FIRMS	6	APPEAL COURT (6)	FINE (6)	PENDING (1) ACCEPTED (2) REJECTED (3)[6]	
CORPORATE OFFICERS OF BANKS	5[7]	APPEAL COURT (5)	FINE (5)	REJECTED (4) PENDING (1)	PENDING (1)
CORPORATE OFFICERS OF INVESTMENT FIRMS	15[8]	APPEAL COURT (15)	FINE (15)	PENDING (1) REJECTED (8)	PENDING (1)
				ACCEPTED (5) SANCTION REVISED (1)	
SHAREHOLDERS OF LISTED COMPANIES	2	APPEAL COURT (2)	FINE (2)	REJECTED (2)[9]	
OTHER	1[10]	APPEAL COURT (1)	FINE (1)	REJECTED (1)	
TOTAL	*44*				

[6] In one case the sanction was imposed for violation of the rules concerning the solicitation of investors. [7] With a total of 18 plaintiffs. In one case the plaintiff also appealed to a Regional Administrative Tribunal. [8] With a total of 18 plaintiffs. In 2 cases the plaintiffs also appealed to a Regional Administrative Tribunal. [9] In one case the fine was reduced. [10] The appeal, made by a company and 7 of its corporate officers, concerned fines imposed for violation of Article 188 of Legislative Decree 58/1998. The appeal was rejected for the fines imposed on the directors of the company but not for those applied to the members of the board of auditors.

- *CONT.* -

- TABLE aX.1 Cont.

PLAINTIFF(S)	NUMBER	COURT	TYPE OF PENALTY	OUTCOME AT 31 DECEMBER 2002	
				FIRST LEVEL	COURT OF CASSATION
			2002		
FINANCIAL SALESMEN	4	TRIBUNAL (4)	FINE (1)	REJECTED (1)	
			DEBARMENT (2)	SUSPENSION GRANTED (1) PENDING (1)	
			DISCIPLINARY SANCTION (1)	PENDING (1)	
INVESTMENT FIRMS	2	APPEAL COURT (2)	FINE (2)	ACCEPTED (1) PENDING (1)	
CORPORATE OFFICERS OF INVESTMENT FIRMS	3[11]	APPEAL COURT (3)	FINE (3)	ACCEPTED (2) REJECTED (1)	
CORPORATE OFFICERS OF BANKS	5	APPEAL COURT (5)	FINE (5)	REJECTED (1) PENDING (4)	
STOCKBROKERS	3[12]	APPEAL COURT (3)	FINE (3)	REJECTED (1) PENDING (2)	
EMPLOYEES OF A STOCKBROKER	1	APPEAL COURT (1)	FINE (1)	PENDING (1)	
CORPORATE OFFICER OF AN ATS OPERATOR	1	APPEAL COURT (1)	FINE (1)	REJECTED (1)	
CORPORATE OFFICERS OF LISTED COMPANIES AND LISTED COMPANIES	9	APPEAL COURT (9)	FINE (9)	REJECTED (3) PENDING (6)	
LOCAL AUTHORITY OFFICIALS AND A LOCAL AUTHORITY	1	APPEAL COURT (1)	FINE (1)	PENDING (1)	
PERSON RESPONSIBLE FOR PLACEMENT	1	APPEAL COURT (1)	FINE (1)	REJECTED (1)	
CORPORATE OFFICERS OF UNLISTED COMPANIES AND UNLISTED COMPANIES	5	APPEAL COURT (5)	FINE (5)	PENDING(5)[13]	
LISTED COMPANY	1	APPEAL COURT (1)	FINE (1)	PENDING (1)	
SHAREHOLDERS OF A LISTED COMPANY	1	APPEAL COURT (1)	FINE (1)	ACCEPTED (1)	
TOTAL	*37*				

[11] With a total of 4 plaintiffs. [12] In one case the appeal was made by 4 stockbrokers acting in administrative association.
[13] Four appeals are currently suspended because a question of jurisdiction has been raised.

TABLE aX.2

APPEALS TO ADMINISTRATIVE COURTS AGAINST MEASURES ADOPTED BY CONSOB AND THE MINISTER FOR THE ECONOMY ACTING ON A PROPOSAL FROM CONSOB, 2000-2002

PLAINTIFF(S)	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2002	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
		2000		
FINANCIAL SALESMEN	7[1]	DEBARMENT	SUSPENSION GRANTED (2)	
			SUSPENSION REJECTED (3)	
			ACCEPTED (1)	PENDING (1)
			PENDING (1)	
FINANCIAL SALESMEN	18	DISCIPLINARY SUSPENSION	SUSPENSION GRANTED (2)	
			SUSPENSION REJECTED (8)	PLAINTIFF'S APPEAL REJECTED (1)
			PENDING (8)	
FINANCIAL SALESMEN	5[2]	PREVENTIVE SUSPENSION	SUSPENSION REJECTED (3)	
			REJECTED (1)	
			PENDING (1)	
FINANCIAL SALESMEN	2	DELETION FROM THE REGISTER	SUSPENSION REJECTED (1)	
			PENDING (1)	
FINANCIAL SALESMEN	3[3]	DENIAL OF ENTRY IN THE REGISTER	SUSPENSION REJECTED (2)	
			PENDING (1)	
FINANCIAL SALESMEN	3[4]	ANNULMENT OF A REGISTRATION RESOLUTION	SUSPENSION GRANTED (1)	CONSOB'S APPEAL REJECTED (1)
			REJECTED (1)	
			ACCEPTED (1)	PENDING (1)
STOCKBROKERS	1	LAPSE OF REGISTRATION	SUSPENSION GRANTED (1)	
LISTED COOPERATIVE BANK	1	CONSOB NOTE	REJECTED (1)	PLAINTIFF'S APPEAL REJECTED (1)
S.R.L.	1	BAN ON OFFERING FUND UNITS	PENDING (1)	
AUDITING FIRM	1	DENIAL OF ACCESS TO DOCUMENTS	ACCEPTED (1)	
AUDITING FIRM	1	ORDER NOT TO USE A PARTNER	REJECTED (1)	
TOTAL	*43*			

[1] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. In another case the plaintiff, upon acceptance of his appeal, made a further appeal for the execution of the sentence. [2] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [3] In 2 cases Consob - to which the appeals had been notified - did not appear in court because the subject of the appeal was a denial by the Lazio Regional Commission for the register of financial salesmen. In the last case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [4] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending.

- CONT. -

- TABLE aX.2 Cont. -

PLAINTIFF(S)	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2002	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
			2001	
FIN. SALESMAN	1[5]	DEBARMENT	SUSPENSION REJECTED (1)	
FINANCIAL SALESMEN	6	DISCIPLINARY SUSPENSION	SUSPENSION REJECTED (3)	
			PENDING (3)	
FINANCIAL SALESMEN	5[6]	PREVENTIVE SUSPENSION	SUSPENSION GRANTED (1)	
			SUSPENSION REJECTED (2)	
			ACCEPTED (2)	CONSOB'S APPEAL REJECTED (2)
FINANCIAL SALESMEN	3	DELETION FROM THE REGISTER	SUSPENSION GRANTED (1)	
			SUSPENSION REJECTED (2)	PLAINTIFF'S APPEAL REJECTED (2)
FINANCIAL SALESMEN	2[7]	DENIAL OF ENTRY IN THE REGISTER	SUSPENSION REJECTED (1)	
			PENDING (1)	
FIN. SALESMAN	1[8]	FINE	PENDING (1)	
INVESTMENT FIRM	1	DENIAL OF ENTRY IN THE REGISTER	PENDING (1)	
CORPORATE OFFICERS OF BANKS	1	FINE	PENDING (1)	
CORPORATE OFFICERS OF INVESTMENT FIRMS	2[9]	FINE	PENDING (1)	
			SUSPENSION REJECTED (1)	
STOCKBROKERS	1	DELETION FROM THE REGISTER	SUSPENSION REJECTED (1)	
AUDITING FIRMS	2	DENIAL OF ACCESS TO ACTS	REJECTED (2)	PENDING (1)[10]
LISTED COMPANIES	2	CHALLENGE UNDER ARTICLE 195 OF LEG. DECREE 58/1998	PENDING (2)	
LISTED COMPANIES	2	CLEARANCE OF PROSPECTUS	ACCEPTED (2)	
UNLISTED CO.	1	CLEARANCE OF PROSPECTUS	ACCEPTED (1)	
UNLISTED CO.	1	BAN ON PUBLIC OFFERING	SUSPENSION REJECTED (1)	PLAINTIFF'S APPEAL REJECTED (1)
OTHER	3	FAILURE TO INITIATE SANCTION PROCEDURE	PENDING (1)	
		DENIAL OF ACCESS TO ACTS	PENDING (1)	
		SUSPENSION ATS	ACCEPTED (1)	CONSOB'S APPEAL REJECTED (1)
TOTAL	*34*			

[5] In 3 cases an appeal was also made to the Pretore. [6] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [7] In one case Consob - to which the appeal had been notified - did not appear in court because the subject of the appeal was a denial by the Lazio Regional Commission for the register of financial salesmen. In the other case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [8] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [9] One of the two appeals was made jointly by nine corporate officers of an investment firm. [10] The constitutional legitimacy of Article 10.4 of Legislative Decree 58/1998 has been questioned.

- CONT. -

- *TABLE aX.2 Cont.* -

PLAINTIFF(S)	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2002	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
		2002		
FINANCIAL SALESMEN	4[11]	DEBARMENT	SUSPENSION REJECTED (2) PENDING (2)	
FINANCIAL SALESMAN	1	DISCIPLINARY SUSPENSION	SUSPENSION REJECTED (1)	
FINANCIAL SALESMEN	2	PREVENTIVE SUSPENSION	SUSPENSION REJECTED (1) PENDING (1)	
FINANCIAL SALESMAN	1	DELETION FROM THE REGISTER	SUSPENSION GRANTED (1)	
FINANCIAL SALESMEN	2	DENIAL OF ENTRY IN THE REGISTER	PENDING (1) CESSATA MATERIA DEL CONTENDERE (1)	
INVESTMENT FIRM	1	ADMINISTRATIVE FINE	PENDING (1)	
CORPORATE OFFICERS OF BANKS	3[12]	ADMINISTRATIVE FINE	PENDING (3)	
STOCKBROKERS	2	ADMINISTRATIVE FINE	SUSPENSION REJECTED (1) REJECTED (1)	
STOCKBROKERS	3	PREVENTIVE SUSPENSION	SUSPENSION REJECTED (1) PENDING (2)	PLAINTIFF'S APPEAL REJECTED (1)
EMPLOYEES OF A STOCKBROKER	1	ADMINISTRATIVE FINE	PENDING (1)	
ATS OPERATOR	1	BAN ON TRADING	SUSPENSION REJECTED (1)	
SHAREHOLDER OF A LISTED COMPANY	1	OPINION CONCERNING A TENDER OFFER AND DAMAGES	PARTIALLY ACCEPTED (1)	PENDING (1)
CORPORATE OFFICERS OF LISTED COS AND LISTED COS	4	ADMINISTRATIVE FINE	PENDING (4)	
CORPORATE OFFICERS OF UNLISTED COS AND UNLISTED COS	3	ADMINISTRATIVE FINE	SUSPENSION REJECTED (2) PENDING (1)	
SHAREHOLDERS' TRUST	1	RESPONSE TO A COMPLAINT ABOUT A TENDER OFFER	SUSPENSION REJECTED (1)	

[11] In one case an appeal was also made to the Pretore. [12] Three appeals were made by three corporate officers of the same bank. The three officers also appealed against the same disciplinary measure to the Appeal Court.

- *CONT.* -

- TABLE aX.2 Cont. -

PLAINTIFF(S)	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2002	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
AUDITING FIRMS	2	ORDER NOT TO USE A PARTNER	PENDING (2)	
OTHER	1	DECISION NOT TO PROCEED WITH A COMPLAINT	PENDING (1)	
TOTAL	*33*			
EXTRAORDINARY APPEALS TO THE HEAD OF STATE				
FINANCIAL SALESMAN	1	DEBARMENT	PENDING (1)	
S.P.A.	1	BAN ON SOLICITING INVESTORS	PENDING (1)	
TOTAL	*2*			

TABLE aX.3

ACTIONS FOR DAMAGES BROUGHT AGAINST CONSOB[1]

PLAINTIFF(S)	1996	1997	1998	1999	2000[2]	2001	2002	GROUNDS	OUTCOME AT 31 DECEMBER 2002
CLIENTS OF INVESTMENT FIRMS	1	1	4	9	1	--	--	OMISSION OF SUPERVISION	PENDING. DAMAGES REFUSED AT FIRST LEVEL. APPEAL PLANNED
	--	1	--	--	--	2	--	OMISSION OF SUPERVISION - ACTION BROUGHT UNDER ART. 185.2 PENAL CODE	PENDING[3]
	--	--	--	1	--	--	--	OMISSION OF SUPERVISION - ACTION BROUGHT UNDER ART. 185.2 PENAL CODE	EXCLUSION OF CONSOB FROM THE PENAL PROCEEDINGS
	--	2	--	--	--	--	--	LIBLE	PENDING
LIQUIDATOR OF AN INVESTMENT FIRM	--	1	--	--	--	--	--	OMISSION OF SUPERVISION	SUSPENDED
INVESTMENT FIRMS	--	1	--	--	--	--	--	OMISSION OF SUPERVISION - ACTION BROUGHT UNDER ART. 106 CODE OF PENAL PROCEDURE	PENDING
	--	1	--	--	--	--	--	DENIAL OF EXTENSION OF AUTHORIZATION	PENDING. DAMAGES REFUSED AT FIRST LEVEL. APPEAL PLANNED
	--	--	--	--	1	1	--	ILLEGITIMATE CONDUCT IN PERFORMANCE OF SUPERVISION	PENDING
SHAREHOLDERS OF LISTED COMPANIES	1	--	--	--	--	--	--	ILLEGITIMACY OF CONSOB'S EXONERATION FROM THE OBLIGATION TO MAKE A TENDER OFFER	PENDING
	1	--	--	--	--	2	1	OMISSION OF SUPERVISION	PENDING[4]
CLIENTS OF STOCKBROKERS	1	--	--	--	--	--	--	ILLICIT ACT BY AN EMPLOYEE - ACTION BROUGHT UNDER ARTICLE 185.2 PENAL CODE	DAMAGES REFUSED BY APPEAL COURT. APPEAL TO THE COURT OF CASSATION PLANNED
	--	--	--	3	1	--	--	OMISSION OF SUPERVISION	PENDING

[1] In addition to the actions shown, there is an appeal under Article 700 of the Code of Civil Procedure by an intermediary to block a disciplinary procedure initiated by Consob, Appeals were also initiated in 1999 against 3 dismissals of actions for damages brought against Consob in 1994 and 1995 by clients of intermediaries. [2] In 2000 an additional appeal to the Court of Cassation was initiated against a Court of Appeal decision in Consob's favour in a dispute initiated in 1994. [3] In one case Consob also applied to recover damages as an injured party. [4] Two of the actions brought against Consob in 2002 are not for damages but call for Consob to be ordered to adopt certain administrative measures. Last year also saw appeals against two judgements dismissing actions for damages (one brought in 1996 by an intermediary and the other in 1997 by the clients of an intermediary).

- CONT. -

- TABLE aX.3 Cont. -

PLAINTIFF(S)	1996	1997	1998	1999	2000[2]	2001	2002	GROUNDS	OUTCOME AT 31 DECEMBER 2002
CLIENT OF A STOCKBROKER AND AN INVESTMENT FIRM	1	--	--	--	--	--	--	OMISSION OF SUPERVISION	PENDING
COMMITTEE OF SHAREHOLDERS	--	--	1	--	--	--	--	INTERDICTION UNAUTHORIZED SOLICITATION OF INVESTORS	PENDING
CLIENTS OF TRUST COMPANIES	--	--	--	2	--	1	--	OMISSION OF SUPERVISION	PENDING; ONE APPLICATION FOR DAMAGES REJECTED
CLIENTS OF FINANCIAL SALESMEN	--	--	--	--	--	--	5	OMISSION OF SUPERVISION	PENDING; ONE APPLICATION FOR DAMAGES REJECTED
FINANCIAL SALESMEN	--	--	--	--	--	1	1	ILLEGITIMATE DELETION FROM THE REGISTER	PENDING
TOTAL	*5*	*7*	*5*	*15*	*3*	*7*	*7*		

TABLE aXI.1

CONTRIBUTIONS TO CONSOB'S FINANCING BY PERSONS SUBJECT TO SUPERVISION
(MILLIONS OF EUROS)

	1997[1]	1998[1]	1999[1]	2000[1]	2001[1]	2002[2]
INTERMEDIARIES						
- INVESTMENT FIRMS AND STOCKBROKERS	0.7	0.6	0.6	0.5	0.5	1.1
- BANKS	2.8	2.8	2.8	2.9	2.8	7.5
AUDITING FIRMS	2.3	2.3	2.1	2.3	2.1	2.0
FINANCIAL SALESMEN[3]	5.3	7.6	8.9	10.3	8.7	6.6
MARKET OPERATORS AND THE LIKE[4]	1.2	1.2	1.3	1.2	1.4	2.8
ISSUERS	6.1	5.5	6.5	8.4	7.9	9.5
COLLECTIVE INVESTMENT UNDERTAKINGS	1.3	1.7	2.4	3.0	3.1	3.9
SOLICITORS OF INVESTORS	3.6	2.4	21.1	9.2	3.5	4.7
TRADERS IN SECURITIES LISTED ON MTA/MERCATO RISTRETTO	—	—	3.9	5.2	3.6	—
OTHER	0.2	0.2	0.0	0.0	0.4	0.4
TOTAL FEE REVENUES	*23.5*	*24.3*	*49.6*	*43.0*	*34.0*	*38.5*

[1] Final data. [2] Provisional data. [3] Including trainees. [4] Borsa Italiana S.p.A., Mts S.p.A., Cassa di compensazione e garanzia S.p.A. and Monte Titoli S.p.A.

TABLE aXI.2

DISTRIBUTION OF STAFF BY GRADE AND ORGANIZATIONAL UNIT[1]

	MANAGERS		PROFESSIONALS AND CLERKS	OTHER	TOTAL
	SENIOR	JUNIOR			
DIVISIONS					
CORPORATE ISSUERS	8	29	36	—	73
INTERMEDIARIES	4	15	62	—	81
MARKETS AND ECONOMICS	5	18	31	—	54
ADMINISTRATION AND FINANCE	6	6	37	15	64
LEGAL SERVICES	3	5	14	—	22
EXTERNAL RELATIONS	4	6	6	—	16
RESOURCES	3	4	21	—	28
OTHER OFFICES[2]	11	13	46	—	70
TOTAL	*44*	*96*	*253*	*15*	*408*

See the Methodological Notes. [1] At 31 December 2002. Fixed-term employees are classified according to the equivalent grades of permanent employees. [2] The offices outside the division structure.

TABLE aXI.3

APPLICATIONS FOR INFORMATION AND DOCUMENTATION ON CONSOB'S ACTIVITIES

		1997	1998	1999	2000	2001	2002
APPLICANTS							
INSTITUTIONAL INVESTORS AND MARKET PARTICIPANTS		673	597	540	1,460	782	655
INDIVIDUAL INVESTORS, STUDENTS, ET AL.		441	448	475	1,158	1,407	922
	TOTAL	*1,114*	*1,045*	*1,015*	*2,618*	*2,189*	*1,577*
SUBJECT OF APPLICATIONS							
RESOLUTIONS, COMMUNICATIONS AND PROSPECTUSES		451	427	310	588	365	182
TEXTS OF LAWS AND REGULATIONS		367	300	290	379	112	79
DATA AND INFORMATION		286	300	300	1,261	1,259	1,092
OTHER		10	18	115	390	453	224
	TOTAL	*1,114*	*1,045*	*1,015*	*2,618*	*2,189*	*1,577*

METHODOLOGICAL NOTES

N.B.

The symbols used in the tables in the Report and the Appendix have the following meanings:

-- the observed value is nil;

— the phenomenon does not exist;

.... the phenomenon exists but the data are not known;

.. the data are below the significance threshold.

Rounding may cause the sum of the individual items to differ from the total shown.

Sources: unless stated otherwise, Consob's archives.

GOVERNANCE OF LISTED COMPANIES

Table I.3 and Tables aI.1, aI.2, aI.3, aI.4, aI.5, aI.6 and aI.7

Listed companies means companies whose securities are admitted to trading on any Italian regulated market.

Companies listed on the Italian Stock Exchange means companies with securities admitted to trading on the MTA electronic share market operated by Borsa Italiana S.p.A.

Tables I.3, I.4 and I.5 and Tables aI.1, aI.2, aI.3 and aI.4

Consob's ownership disclosure archive is based on the disclosures referred to in Article 120 of the Consolidated Law on Financial Intermediation, whereby persons who own more than 2 per cent of the voting capital of an Italian listed company are required to notify the fact in writing to the company and to Consob, which disseminates the information to the market.

Major holdings are defined as holdings of more than 2 per cent of the capital represented by voting shares (Article 120 of the Consolidated Law).

The figures shown in the tables are calculated with reference to holdings of companies' ordinary share capital.

Table I.4 and Tables aI.1 and aI.4

The types of control are defined as follows:

- *majority control*: when a single shareholders holds more than 50% of the shares with voting rights exercisable in the ordinary shareholders' meeting;
- *working control*: when a shareholder who does not have majority control of the company is able to exercise a dominant influence in the ordinary shareholders' meeting;

- *under shareholders' agreements*: when the sum of the voting rights attaching to the shares covered by the agreement is equal to more than 50% of the shares with voting rights exercisable in the ordinary shareholders' meeting or permits working control to be exercised.

Tables aI.5, aI.6 and aI.7

The information on shareholders' agreements is obtained from the disclosures required by Article 122 of the Consolidated Law on Financial Intermediation, whereby any agreement that limits or regulates participants' voting rights, creates obligations or gives rights with regard to consultation prior to the exercise of voting rights, imposes conditions on the transfer of shares, or provides for the concerted acquisition of shares must be notified to Consob within five days of its being concluded on pain of nullity.

Only agreements covering more than 5 per cent of the shares are considered.

MARKETS AND FIRMS

Tables II.9, II.10, II.11, II.12, II.13 and II.14 and Tables aII.3, aII.4, aII.5 and aII.6

The following criteria are adopted in dealing with initial public offerings:

- offerings made by foreign companies are excluded;
- the data on the amounts of offerings refer to the results of placements and include any shares allotted to institutional investors at the close of the offering under greenshoe options. Accordingly, the data are independent of whether, in connection with stabilization activity undertaken by the placers, the greenshoe option is exercised, in whole or in part, in the 30 days following the offering;
- the data on the development of the ownership structure are taken from prospectuses and take account of the results of offerings, including the exercise of greenshoe options; if the number of shares offered for sale is smaller than envisaged in the prospectus, and in the absence of accurate information in this respect, the calculation of each selling shareholder's post-offering quota is based on a pro rata division of the shares sold based on the division specified in the prospectus;
- the determination of the percentage held by the controlling shareholder is based on a substantial criterion which takes into account all the shares held by the members of the same family, of those held by companies owned by the same person and of those not committed to a shareholders' agreement if there is one; in the absence of a controlling shareholder, the leading shareholder is shown under that heading;
- own shares are deducted from the share capital of the issuer for the purpose of calculating the percentages held by major shareholders and the market value.

Table II.10

In determining the top-ranking investor and the related amounts applied for and allotted, other persons belonging to the same group are considered.

Table II.12

Includes the credit and equity relationships at the offering date between the companies admitted to listing and the persons controlling or controlled by the sponsors or placers that handled the operation.

The credit relationships do not include transactions with commercial banks or those for which it was not possible to determine the portion of credit actually disbursed; only in some particularly important cases was account taken of the figures for credit facilities granted.

The equity relationships do not include options held by the above-mentioned persons for the purchase or subscription of shares.

Table II.14 and Table aII.6

The data refer exclusively to offerings of listed securities and securities issued by listed companies and initial public offerings. The time classification of offerings is based on their starting dates.

The sample does not include offerings made for the purpose of restructuring the listed company's debt and reserved to creditor banks, nor to increases in capital with contributions in kind. By contrast, it includes increases in capital connected with employee stock option plans and the conversion of shares with a cash balance. The data on public offerings include the offerings of unexercised preemption rights on the Stock Exchange and any amounts reserved to issuers' clients; by contrast, amounts reserved to individually named persons and any amounts taken up by members of the underwriting syndicate are included under "Other". In some public offerings for the sale and subscription of securities for which the distribution of the sale of existing securities and the subscription of new securities by type of acquirer was not known, the breakdown was made on the basis of the total number of securities allotted to each category.

Table aII.5

The data refer to financial intermediaries that act as global coordinators and lead managers in initial public offerings.

Where an intermediary took part in more than one IPO, the figure shown in the table is the sum of the offerings in question in relation to the market total (consisting, according to the case, of the total of the global and public offerings made during the year). Moreover, where an offering had more than one global coordinator and/or lead manager, its value was divided by the number of intermediaries, and the market share of each intermediary calculated on the basis of the amounts obtained in this way.

Table aII.8

The data refer to listed companies at the time of the sale of the holding. The total value includes only the proceeds of the sale, gross of the related costs; it does not include any financial debts transferred.

FINANCIAL INTERMEDIATION

Tables III.1, III.4, III.7 and III.8 and Table aIII.2

Individual asset management services are those defined in Article 1.5d) of Legislative Decree 58/1998. The figures for funds include Sicavs.

Table III.5

The analysis of management companies' ownership structures not only considered their direct shareholders but also determined the beneficiary owners of significant holdings. In classifying controlling companies, reference was made to their "prevalent activity".

In the case of management companies for which there was neither a legal controller nor a shareholders' agreement, an attempt was made to establish whether there existed a "coalition" relationship that, without amounting to a shareholders' agreement, nonetheless allowed control to be attributed to a particular group of investors marked by a high degree of homogeneity as regards their legal nature or form and their activity.

"Joint ventures" are companies whose shares are divided into two parts on a 50-50 basis and held by non-homogeneous investors.

"Non-bank financial intermediaries" is a residual category where control is exercised by an unlisted financial company that does not engage in either banking or insurance and for which it is not possible to identify a natural person as the controller.

Table aIII.2

The categories of funds are based on the Assogestioni classifications in force at the time.

SUPERVISION OF CORPORATE DISCLOSURE AND THE SOLICITATION OF INVESTORS

Table aIV.4

The types of opinion auditing firms may render are described below.

- Qualified opinion

Auditors are required to express a qualified opinion where they find: significant failures to comply with the rules governing annual accounts; significant disagreements with the directors about accounting policies; errors in the latter's application or inadequate information; significant limitations in performing the audit owing to technical obstacles or restrictions imposed by the directors; a situation of significant uncertainty not adequately described in the report or action taken by the directors which does not appear to be acceptable.

- Adverse opinion

Auditors are required to express an adverse opinion where the effects of the matters they criticize concerning significant failures to comply with the rules governing annual accounts, significant disagreements with the directors about accounting policies, errors in the latter's application or inadequate information are such as to cast doubt on the reliability and informational content of the annual accounts taken as a whole.

- Disclaimer owing to serious limitations

Auditors must issue a disclaimer where the possible effects of the limitations encountered in performing the audit are such as to prevent them from having the elements needed to express an opinion.

- Disclaimer owing to serious uncertainties

Auditors must also issue a disclaimer where they are faced with one or more situations of uncertainty such as to cast doubt on the reliability of the annual accounts taken as a whole or the continued existence of the company and they deem that the action taken or planned by the directors is based on highly questionable assumptions.

CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

Table XI.2 and Table aXI.2

Senior managers comprise the following grades: Direttore generale, Funzionario generale, Condirettore centrale, Direttore principale, Direttore and Condirettore. Junior managers comprise the following grades: Primo funzionario, Funzionario di 1ª and Funzionario di 2ª. Professionals and clerks comprise: Coadiutore principale, Coadiutore, Assistente superiore, Assistente and vice Assistente.