CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETÀ E LA BORSA

ANNUAL REPORT 2005

ROME, 31 MARCH 2006

COMMISSIONE NAZIONALE
PER LE SOCIETA' E LA BORSA

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List of boxes

2005 Annual Report

A

FINANCIAL MARKETS DEVELOPMENTS

I – LISTED COMPANIES

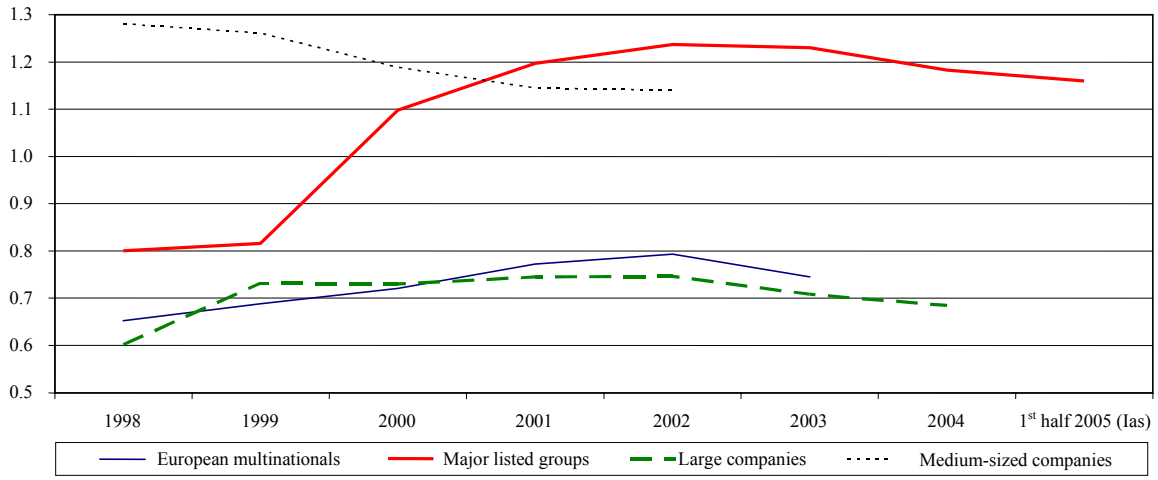
1. Financial structure and profitability

During 2004, the trend towards a reduction in the financial leverage (ratio of financial debt to shareholders' equity) of the leading Italian non-financial companies (major listed groups and other large companies) continued. The financial leverage of the major listed groups however remains at levels definitely higher than those of the other large Italian companies. Again with reference to the major listed groups, the financial leverage at 30 June 2005, calculated on the basis of the first half-yearly reports drawn up according to the Ias/Ifrs, emerged as slightly lower than the 2004 figure based on the Italian accounting standards (from 1.18 to 1.16) (Figure 1).

At the end of 2004, the incidence of bonds maturing beyond 12 months as a percentage of the total financial debt of the major listed groups was up with respect to the previous three-year period, standing at levels close to 50 percent; the figures of the first 2005 half-yearly reports do not disclose significant changes with respect to the 2004 annual financial statements. Considering all bond issues (in other words including those maturing within 12 months), at the end of 2004 the share of bonds as a percentage of financial debt came to approximately 53 percent (48 percent in 2003). In relation to large Italian companies, the incidence of bonds maturing beyond 12 months at the end of 2004 came close to 20 percent, while for the leading European multinationals the figure was over 60 percent in 2003 (last figure available) (Figure 2).

Figure 1

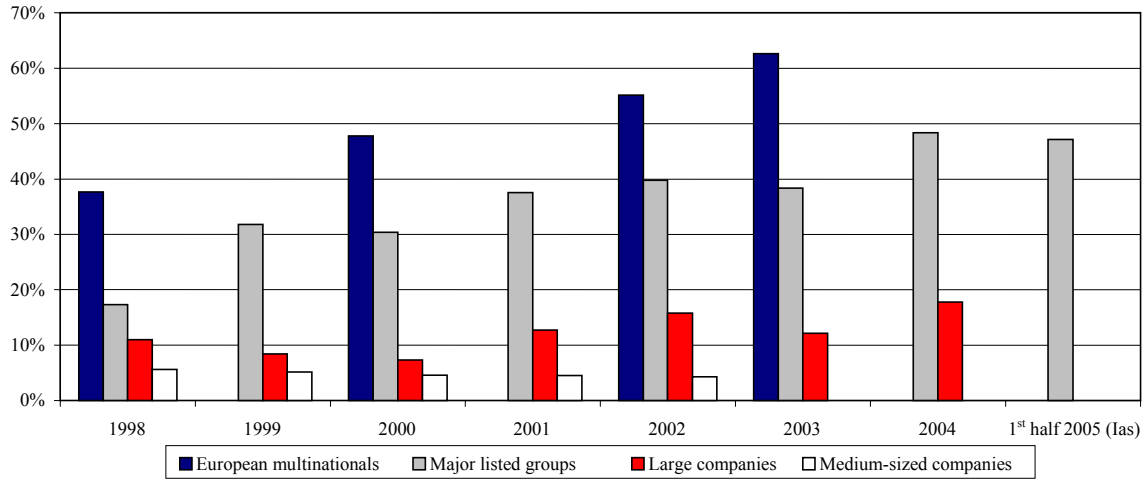
Financial leverage of Italian non-financial companies and leading European industrial multinationals



Source: based on company financial statements, R&S, Mediobanca and Unioncamere data, 2005 half-yearly reports. The financial leverage is calculated as the ratio of financial debt to shareholders' equity. The shareholders' equity is calculated as the algebraic sum of the share capital, reserves and consolidation adjustments, own shares, net income for the year and prior-year losses. See Methodological Notes.

Figure 2

Ratio of bonds to total financial debt of Italian non-financial companies and leading European industrial multinationals



Source: based on company financial statements, R&S, Mediobanca and Unioncamere data, 2005 half-yearly reports. The figures refer exclusively to the portion of bonds maturing beyond 12 months. See Methodological Notes.

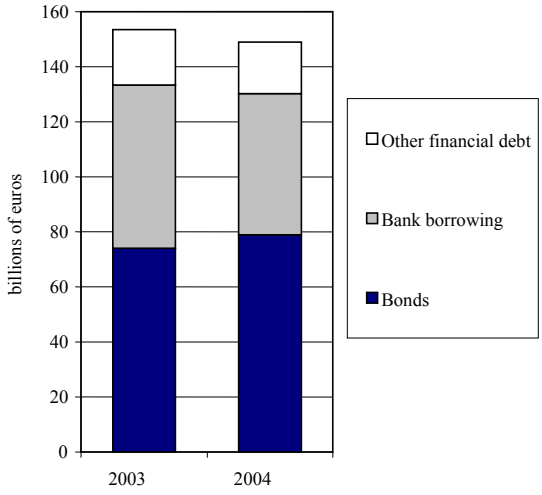
At aggregate level, between 2003 and 2004, the financial debt of the major listed groups fell marginally (from € 153.5 to € 148.8 billion; -€ 4.6 billion or around -3 percent); however, the share of bank debt dropped considerably, passing from 39 percent in 2003 to 34 percent in 2004. In absolute terms, during 2004 bank borrowing dropped by around € 8.1 billion (around -14 percent), while bonds in the financial statements rose by approximately € 4.9 billion (around +7 percent) (Figure 3).

The rise in the incidence of bonds led to a further extension of the maturity of the debt. At the end of 2004, short-term debt represented around 25 percent of the financial debt of major listed groups (compared with around 45 percent in 2000). A similar trend is observed for large Italian companies and the leading European multinationals (Figure 4).

In the international comparison, the evolution of the financial structure of the major Italian listed groups is tendentially similar to that of the major German and French listed groups, while large listed groups in the UK are less indebted and present a minor incidence of liabilities for servicing the debt (Box 1).

Figure 3

Composition of the financial debt of major Italian non-financial listed groups



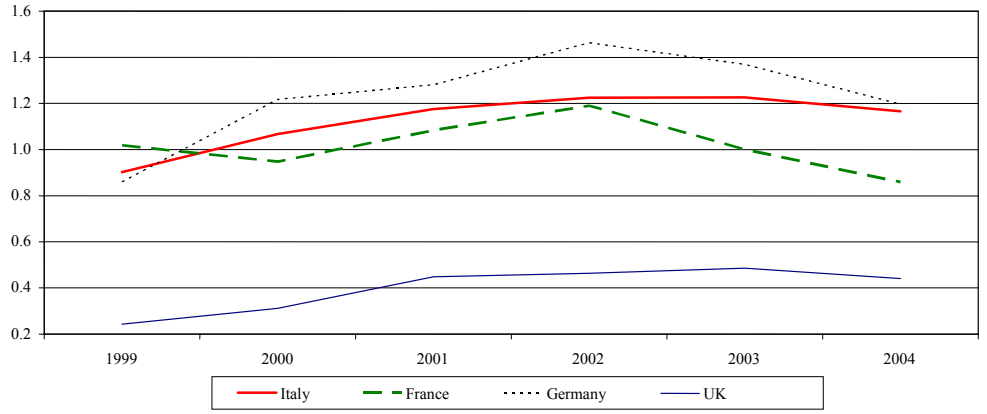
Source: based on 2004 consolidated financial statements. See Methodological Notes.

Box 1

International comparisons in the financial structure of the leading non-financial listed groups

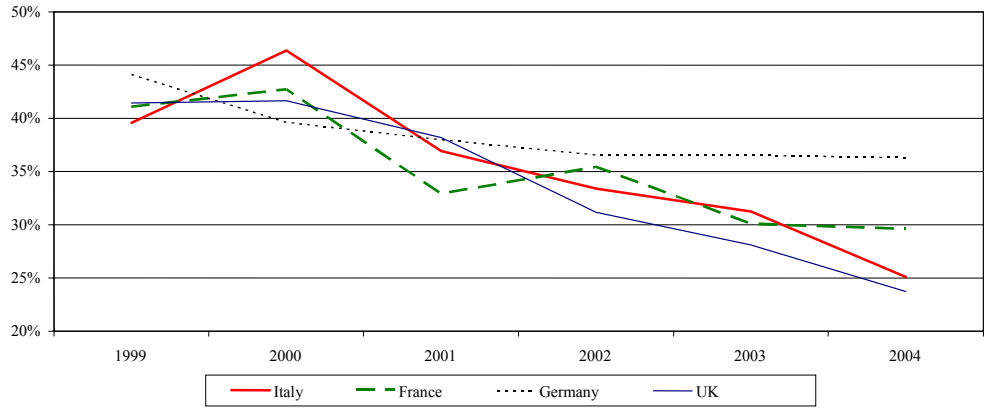
Between 1999 and 2002, the degree of indebtedness of major non-financial listed groups recorded a generalized increase both in Italy and the main European countries. The financial leverage (ratio of financial debt to shareholders' equity) of the leading 30 German non-financial listed groups, of around 0.9 in 1999, rose to over the value of 1.4 in 2002 only to then drop back down to 1.2 in 2004, in line with the value observed in the same year for the top 30 Italian non-financial groups; the financial leverage of the top 30 French listed groups reached a value close to 1.2 in 2002 (around 1.0 in 1999) only to then drop heavily over the next two years (0.86 in 2004). The leading 30 English non-financial listed groups present a clearly lower degree of indebtedness but the trend of the performance of the financial leverage index is similar to that observed in other countries.

Financial leverage of the top 30 non-financial listed groups



Source: based on Worldscope data. The financial leverage is calculated as the ratio of financial debt to shareholders' equity.

Ratio of short-term debt to total financial debt of the top 30 non-financial listed groups

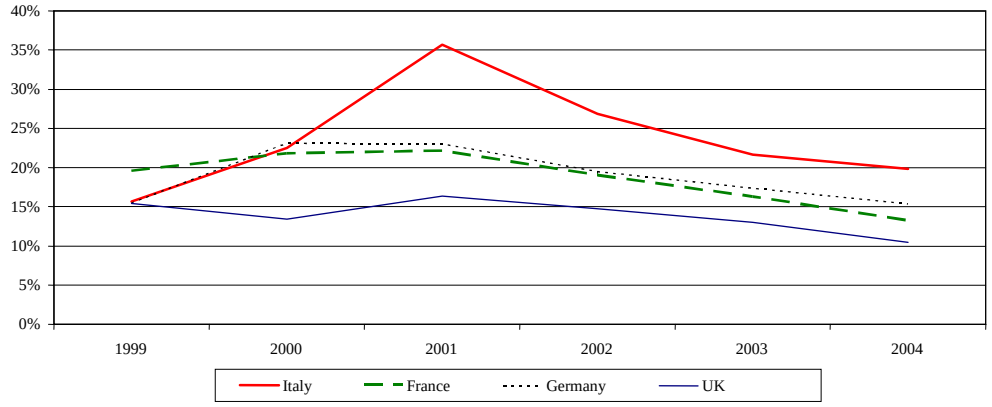


Source: based on Worldscope data.

With regards to the composition of the financial debt, in all the countries a marked trend towards the reduction in the ratio of short-term debt (and

therefore an increase in the average maturity of the debt) can be observed. In 2004, the ratio of short-term debt to total financial debt came to around 25 percent for the major UK and Italian groups (compared with around 40 percent in 1999), approximately 30 percent for the French groups and just over 35 percent for the German groups. The extension of the maturity of the debt is attributable to the rise in bond issues and the possibility of holding the cost of the funding down in an business cycle phase characterized by historically low real interest rates.

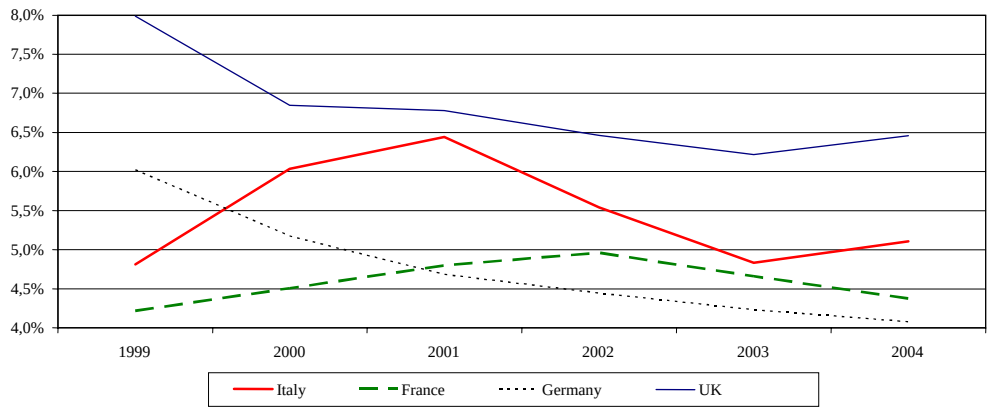
Ratio of interest expense to operating cash flow for top 30 non-financial listed groups



Source: based on Worldscope data.

The ratio of interest expense to the cash flow generated by operating management has shown a downward trend as from 2001, attributable to both the drop in interest rates and the improvement in the profitability experienced by companies in all the countries considered. In the case of the large Italian groups, as from 2001 the incidence of the cost of servicing the debt was higher than that of the groups of the other European countries, even if the difference subsequently tended to shrink. The difference with respect to the French and German companies is largely attributable to a higher average rate of financial debt, while the difference with respect to the UK companies is attributable to the lower financial leverage and the greater profitability of the latter.

Ratio of interest expense to financial debt for top 30 non-financial listed groups

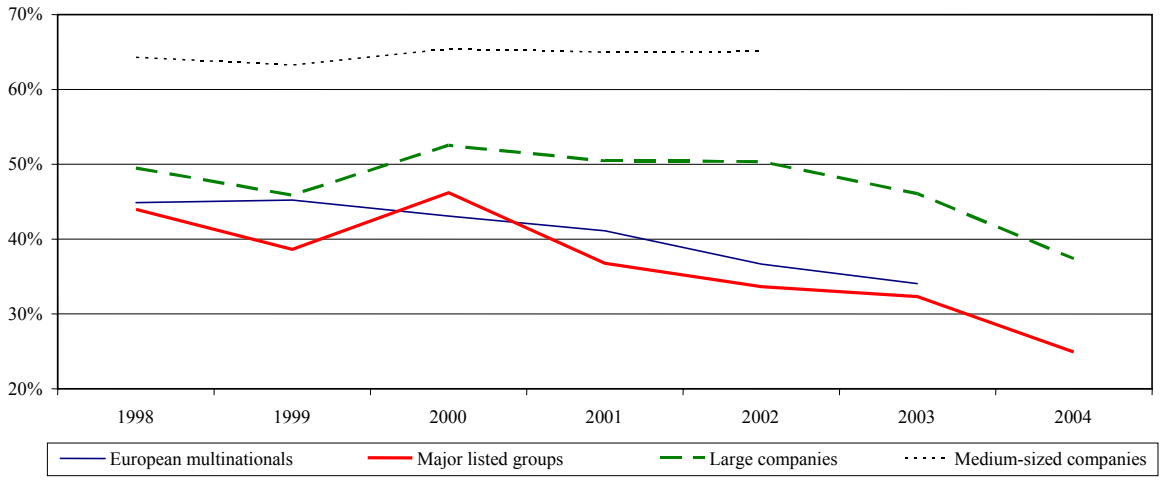


Source: based on Worldscope data.

With regards to profitability, during 2004 major listed groups experienced a sharp increase in the earnings. The ratio between the net operating profit and sales revenues increased further on 2003, to 14 percent, a value clearly higher than that of all the other large Italian companies. The figures from the first 2005 half-yearly reports drawn up according to the Ias/Ifrs confirm the sharp rise in earnings, which nevertheless largely reflects the impact of the application of the new accounting standards on certain accounting items (in particular, the amortization of intangible fixed assets; see Box 7 of Chapter I, Part B) (Figure 5).

Figure 4

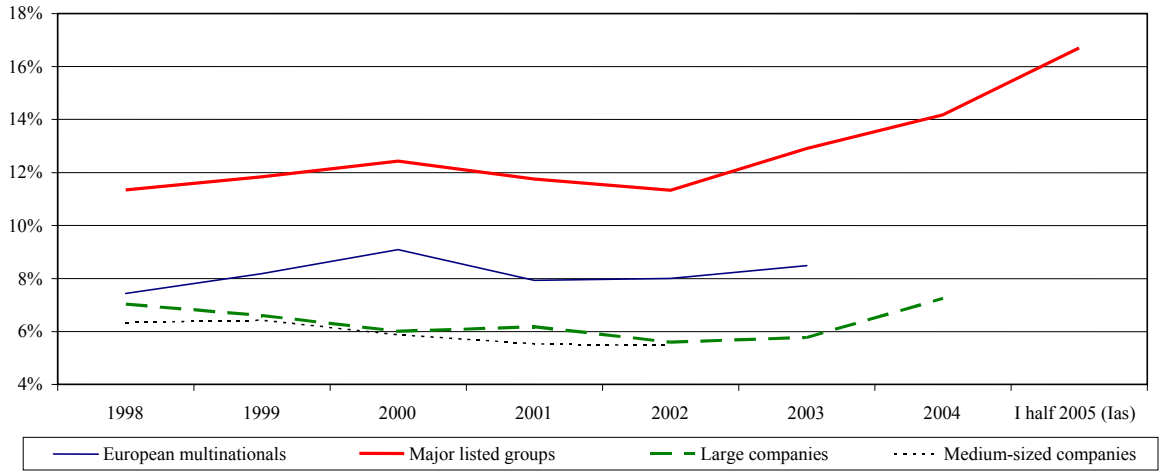
Ratio of short-term debt to total financial debt of Italian non-financial companies and the leading European industrial multinationals



Source: based on company financial statements, R&S, Mediobanca and Unioncamere data. See Methodological Notes.

Figure 5

Ratio between net operating profit and sales revenues of Italian non-financial companies and the leading European industrial multinationals



Source: based on R&S, Mediobanca and Unioncamere data, 2005 half-yearly reports. See Methodological Notes.

In short, during 2004 the satisfactory profitability of all the major Italian companies was accompanied by a slight decrease in the degree of indebtedness, both in absolute and relative terms (financial leverage), with a trend towards the reduction of the exposure to the banking system (- € 8.1 billion for large listed groups, - € 11.5 billion for the other large companies). During the two-year period 2002-2003, a sharp drop in overall indebtedness, accompanied by a reduction in the incidence of bank borrowing, was recorded for the main European multinationals.

Propensity to resort to bond financing persists for major Italian listed groups, essentially as a replacement for bank borrowing, but the trend is much less marked with respect to that observed at the end of the 1990s.

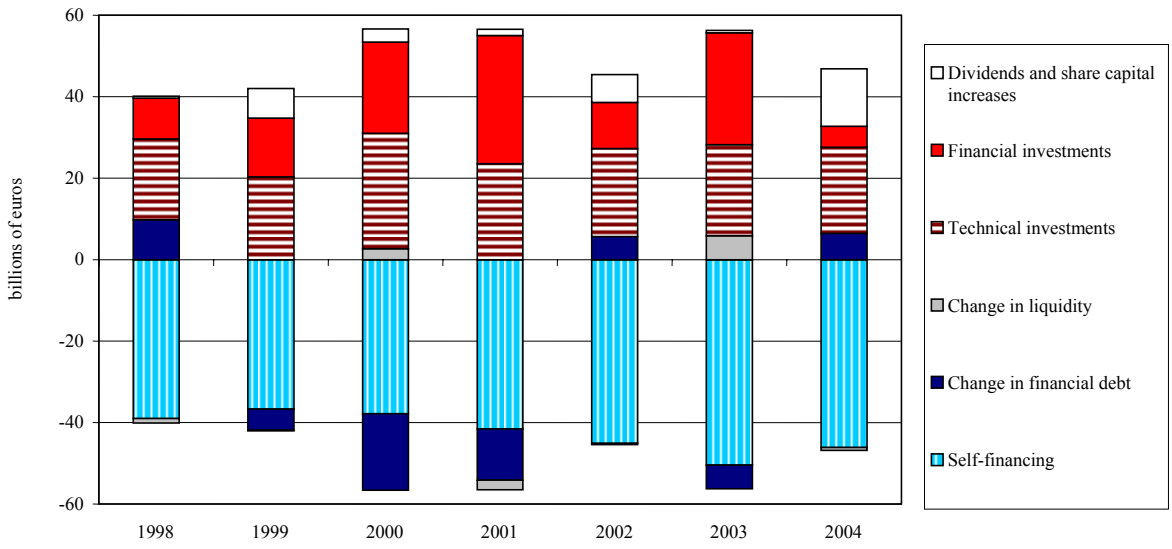
2. The cash flows

A more complete picture of companies' financial choices emerges from the cash flow statements.

With reference to the major listed groups, these figures show how, despite the rise in profitability, during 2004 self-financing (calculated net of the investments in net working capital) overall remained stable (Figure 6); this is mainly attributable to the rise in investments in inventories and trade receivables.

Figure 6

Uses (+) and sources (-) of financial resources of major Italian non-financial listed groups



Source: based on cash flow statements and R&S figures. Self-financing is net of the investments in net working capital. See Methodological Notes.

Self-financing for 2004 was in part allocated to reducing the net financial indebtedness, while a more significant part was assigned to the payment of dividends and the buy backs (item assimilated to dividends, which however has undertaken growing importance in recent years). Even if during the period 1998-2003 dividends always exceeded share capital increases, these latter reached particularly significant proportions in 2004.

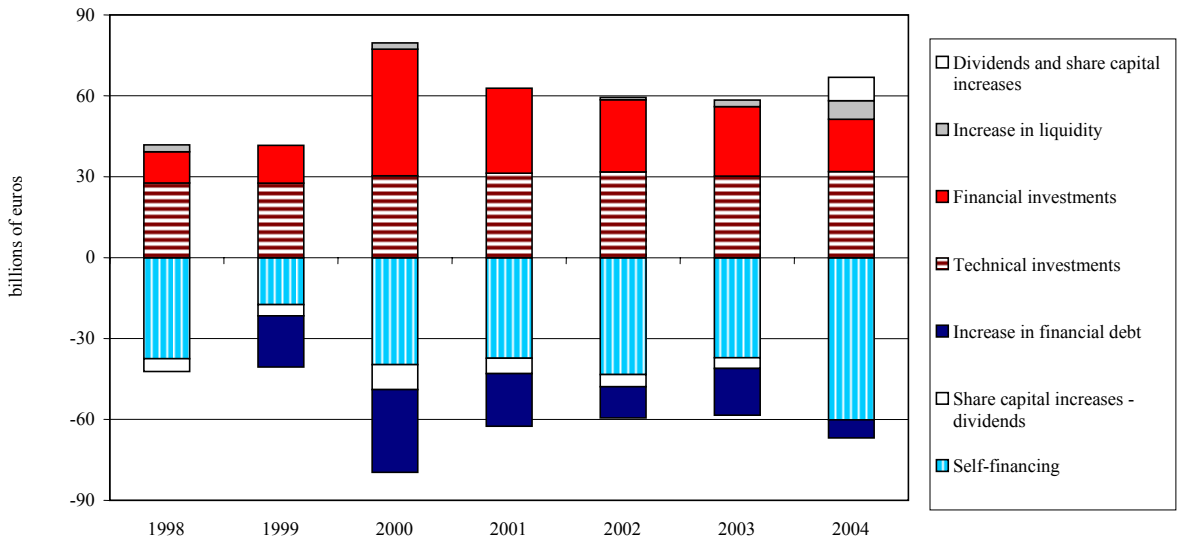
Furthermore, while investments in plant and equipment remained more or less stable, there was a sharp drop in financial investments linked to merger and acquisition activities, which reached the lowest levels since 1998 (also see § 5 below).

With regards to the other large Italian companies, the cash flow dynamics in 2004 disclosed a trend which was only partially similar to that of the major listed groups. In detail, with regards to financial debt, there was a slowdown in the expansion of the debt, rather than a genuine reduction as occurred for the other major quoted groups. There was also a sharp re-composition of the financial debt: exposure to banks fell by € 11.5 billion, against net bond issues for € 13.6 billion. In the previous three years, bank borrowing had by contrast risen by nearly € 5 billion (Figure 7).

For the first time since 1998, a dividend flow greater than share capital increases was seen, flows which absorbed resources for € 8.6 billion. There was also a decrease in financial investments (albeit not as marked as it was for the major listed groups), what is more in line with the trend commenced in 2000.

Figure 7

Uses (+) and sources (-) of financial resources for large Italian non-financial companies



Source: based on Mediobanca data, "Cumulative data of 2,007 Italian companies", 2005 edition. Self-financing is net of the investments in net working capital. See Methodological Notes.

In short, the sharp increase in self-financing (linked to the recovery of profitability described in the previous paragraph) permitted large companies to return a considerable portion of resources to the shareholders. The companies showed an essentially prudent attitude, reducing acquisitions and new financial investments and accumulating liquid funds.

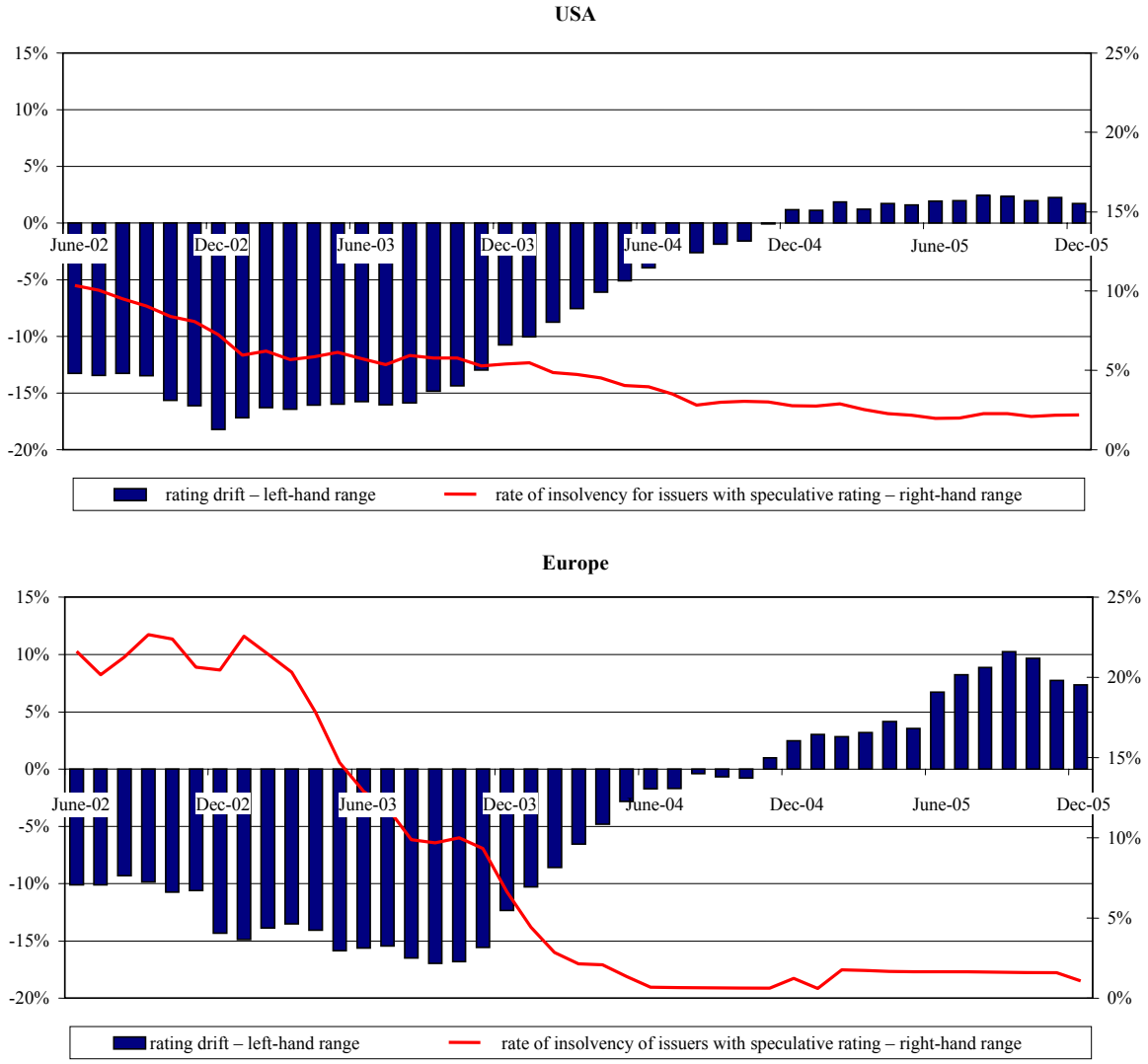
3. Credit quality

Figures on the activities of the rating agencies indicate that 2005 was on the whole a positive year for the bond market and for the credit risk trend in all the main industrial sectors.

In the USA, the number of upgrades was slightly higher than that of the

Figure 8

Credit rating indicators in the corporate sector
(monthly figures; June 2002 – December 2005)



Source: Moody's. The rating drift is the difference between the number of upgrades and downgrades divided the number of rated companies. The rate of default of speculative grade issuers is the ratio between the number of defaulters in the 12 months which end in line with that of the reference period and the total number of speculative grade companies in the same month.

downgrades throughout 2005 and the rate of default of the issuers with speculative rating (in other words those who have a higher probability of default) came to around 2.2 percent at the end of 2005 (2.8 percent in 2004). In Europe, the number of upgrades was by contrast much more consistent than that of the downgrades and the rate of default for issuers with speculative rating was lower than the USA, standing at 1.1 percent (1.3 percent in 2004) (Figure 8).

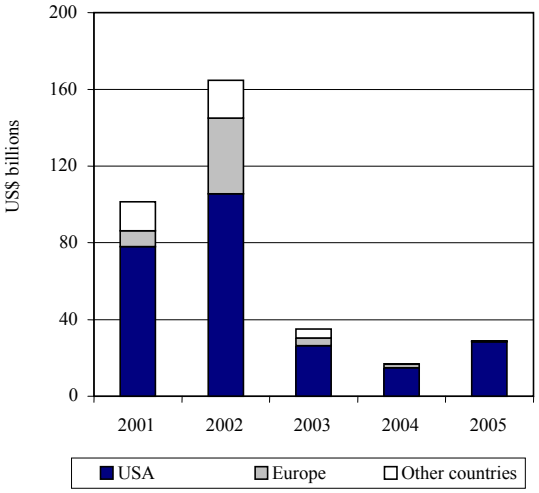
Various analysts, including the rating agencies, however believe that the positive cycle commenced at the end of 2004 is starting to reverse. For example, according to the figures published by Moody's, in the USA the volume of defaulted bonds in 2005 emerged as up with respect to that recorded in 2004 (from US$ 14.8 to 28.4 billion), even if the number of defaulters fell (from 36 to 28) (Figures 9 and 10). This is essentially attributable to the negative trend in the car, air transport and public utilities industries. By contrast, in Europe there were no significant cases of default of bond issuers (apart from that of a Swedish company).

Beyond the crisis of certain industrial sectors, the analysts were mainly concerned about the possibility of a brusque rise in the interest rates, which could affect the issuers with a greater level of financial leverage (especially those who have carried out debt financed acquisitions). A further issue is the still uncertain prospects of a recovery in Europe, which could be unfavourably impacted by oil prices.

Taking a look at the Italian market, and with reference to listed issuers, the activities of the rating agencies in 2005 were particularly intense and, for the majority of the companies, ended up confirming the previous rating (32 confirmations in 2005 compared with 24 in 2004).

Figure 9

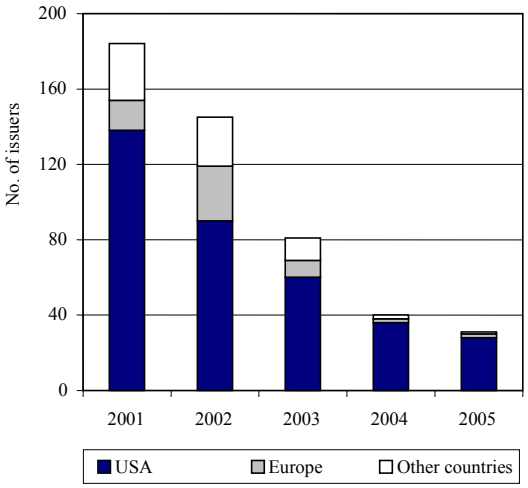
Geographical breakdown of defaulted corporate bonds



Source: Moody's.

Figure 10

Geographical breakdown of defaulting issuers on bonds



Source: Moody's.

With regards to rating changes, there were 12 downgrades which concerned 7 listed issuers (of which 4 non-financial companies and 3 banks) and 12 rating upgrades (5 banks, 3 non-financial companies and 2 insurance companies).

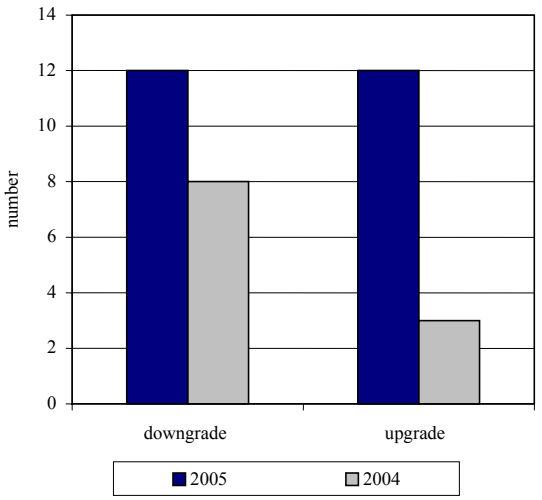
The ratio between the number of rating upgrades and downgrades, which generally indicates the evolution of the credit ratings, increased with respect to 2004 (from 0.4 to 1) (Figure 11).

The trend of the Italian market reflected the trend seen at European level, even if in Europe the turning point of the positive cycle which commenced in 2004 seems closer, as already indicated previously (Figure 12).

A forecast indicator on the evolution of credit ratings is represented by the number of issuers included in the watch lists with negative (for which a downgrade is more probable) or positive (for which an upgrade is more probable) implications. As at 31 December 2005, there were 5 Italian listed issuers included on the watch lists with negative implications, while there was no-one included on the lists with positive implications. It is therefore probable that in 2006 the ratio between upgrade and downgrade will deteriorate with respect to 2005.

Figure 11

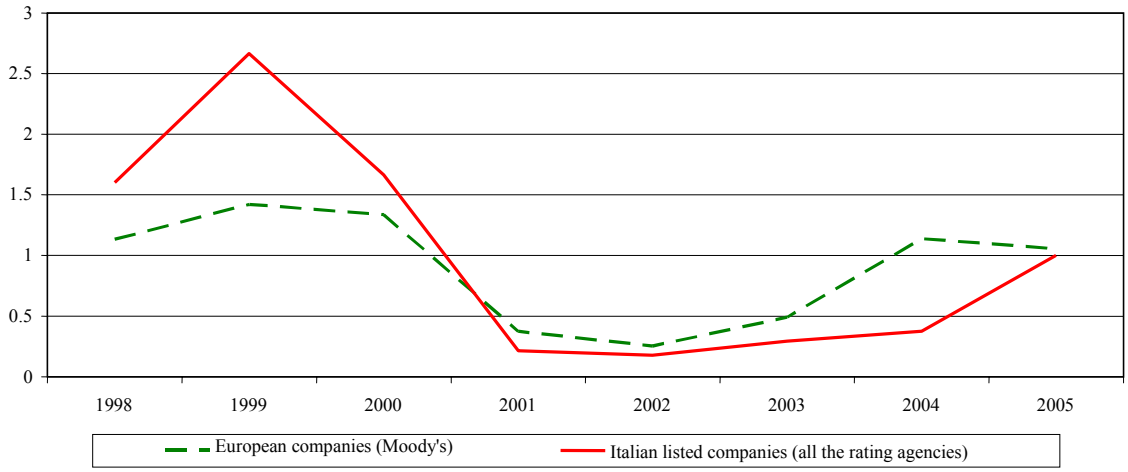
Number of upgrades and downgrades on Italian listed issuers



Source: based on Moody's, Fitch and S&P data.

Figure 12

Ratio between upgrades and downgrades



Source: based on Moody's, Fitch and S&P data.

However, the informative value of these indicators is still partial for the Italian market, essentially because only a few listed companies are rated. At the end of 2005, the number of companies holding a rating came to 51 (18.5 percent of the listed companies) which however represented 73 percent of stock exchange capitalization. The rating agencies cover nearly all the banking and insurance sector and the leading listed companies. The segment of small and medium-sized non-financial companies still remains chiefly uncovered.

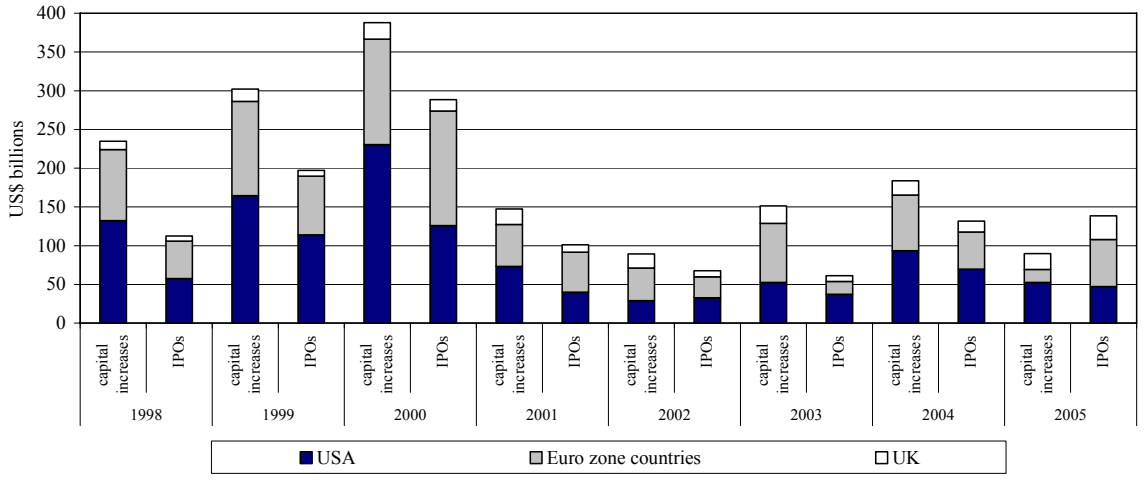
4. Equity fund-raising and admissions to listing

During 2005, the uptrend (which commenced in 2003) towards a pick-up in equity fund raising was in part confirmed, albeit differently in the various geographic areas. In the USA, for instance, there was a considerable decrease both in the equity fund raising of already listed companies and in that of newly-listed companies (*Initial Public Offering* - IPOs). In the Euro area countries, a marked reduction was seen in the share capital increases of listed companies, while funds raised via IPOs rose sharply, as they did in the UK (Figure 13).

In Italy, recovery in equity fund raising was seen with respect to the historically low level in 2004. During 2005, issues of new shares permitted funding of € 13.2 billion, compared with € 3.6 billion in 2004, largely attributable to the share capital increases of companies already listed (€ 12.1 billion). Offers on existing shares (public offers for sale - OPVs) by contrast fell in 2004 and nearly entirely reflect the placement of the fourth portion of Enel shares for over € 4 billion (Figure 14); this placement essentially represents the only privatization transaction carried out in 2005 (Appendix, Tables A.1 and A.2).

Figure 13

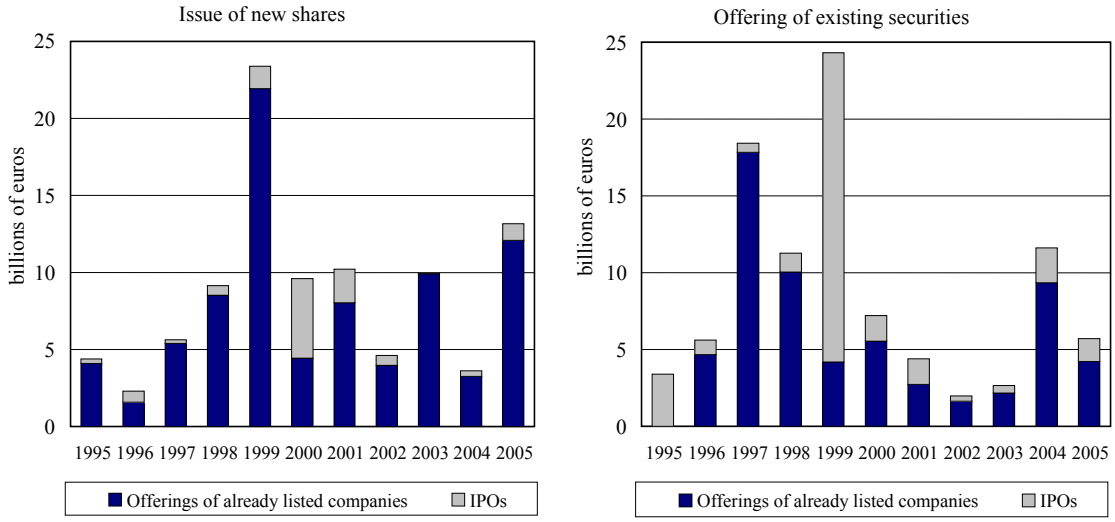
Equity fund-raising on the stock exchanges of the leading industrialized countries



Source: based on *World Federation of Stock Exchanges* data. The item "IPOs" refers to the capital raised by newly-listed companies, while the item "capital increases" refers to the capital raised by companies which were already listed in the year concerned. The USA figures refer to the companies listed on the NYSE and the NASDAQ.

Figure 14

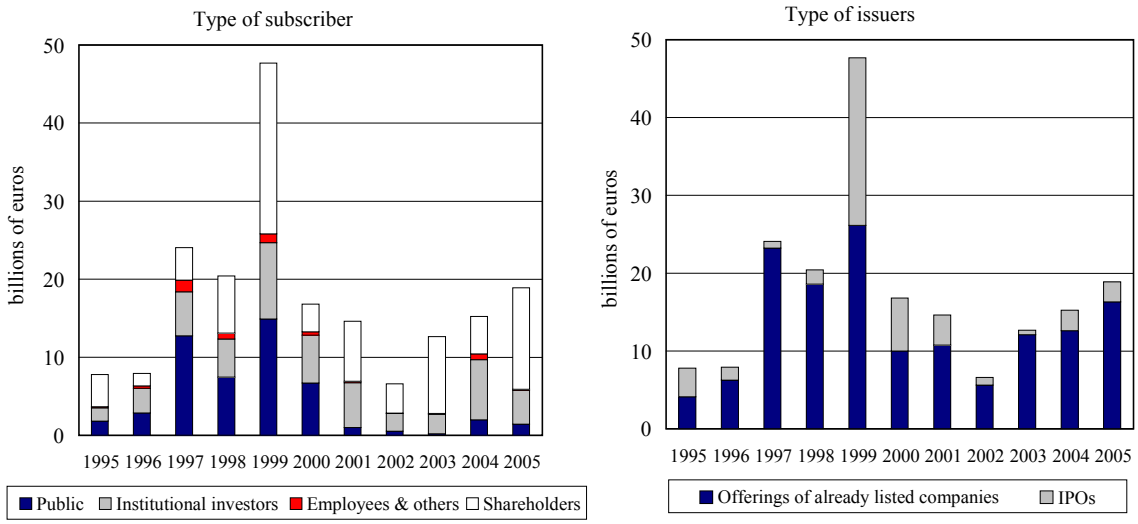
Type of offerings of shares and convertible bonds of Italian listed companies



Source: Consob until 1998; Borsa Italiana as from 1999.

Figure 15

Overall placements of shares and convertible bonds of Italian listed companies
(issues of new securities and offerings of existing shares)



Source: Consob until 1998; Borsa Italiana as from 1999.

Taking into consideration both the raising of fresh funds and the offerings of existing shares, the volume of the IPOs in 2005 was essentially in line with that for 2004 (€ 2.6 billion). The two-year period 2004-2005 was therefore characterized as a relative stabilization for the market, following the negative phase which had affected 2002-2003, primarily reflecting the trend emerging at international level (Figure 15).

During 2005, 15 new companies were admitted for listing (highest value in the last three years) which, on the basis of the equity pre-offering, capitalized a total of € 5.9 billion; the average pre-offering capitalization therefore come to around € 390 million, compared with about € 670 million in 2004 (Table 1).

The characteristics of the newly listed companies confirm the trend, by now underway for several years, which sees the admission to the stock exchange of increasingly smaller and younger companies. The average age of the companies admitted to the stock exchange in 2005 equated to approximately 28 years (excluding the re-listing of Toro Assicurazioni). Such figure was around 32 and 41 years for the companies listed respectively in the three-years period 2001-2004 and in the 1990s (Figure 16).

Table 1

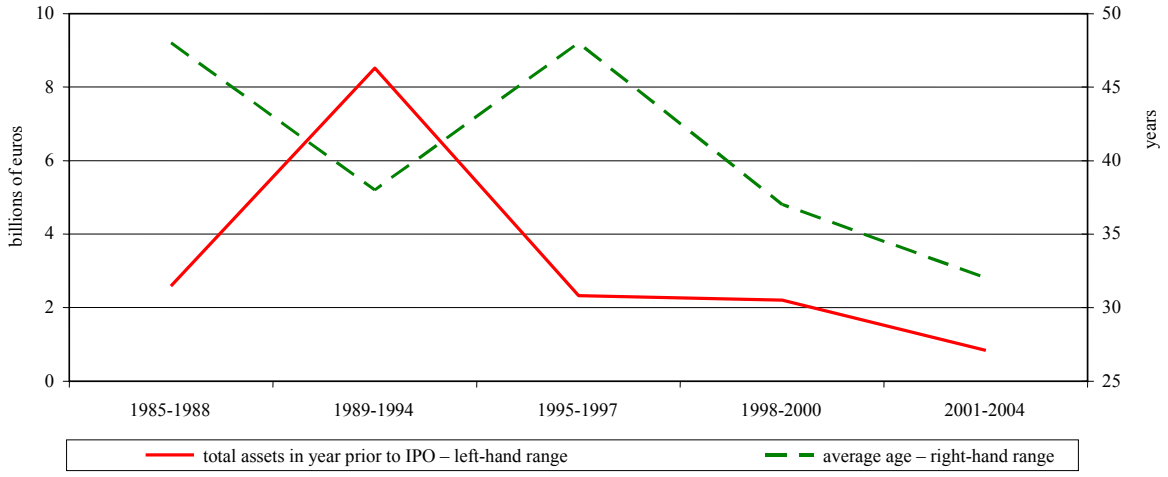
Initial public offerings by Italian companies
(amounts in millions of euros)

	Number of companies	Pre-offering market value [1]	Value of the offering			Share of post-offering market value [2]
			Subscription	Sale	*Total*	
1995	11	22,675	274	3,396	*3,670*	33.1
1996	12	5,550	721	945	*1,666*	26.6
1997	10	2,126	227	606	*833*	35.4
1998	16	3,844	614	1,231	*1,845*	41.7
1999	27	65,788	1,414	21,606	*23,020*	33.2
2000	44	28,308	4,970	1,933	*6,903*	20.7
2001	18	8,193	2,199	1,736	*3,935*	35.2
2002	6	2,504	638	424	*1,062*	33.8
2003	4	1,340	67	483	*550*	39.1
2004	8	5,406	351	2,300	*2,651*	39.7
2005	15	5,874	1,088	1,608	2,696	34.5

Source: Consob. See Methodological Notes. [1] Capitalization of the companies admitted to listing, calculated on the basis of the offering price and the pre-offering number of shares. [2] In relation to the post-listing capitalization, gauged at the offering price. Percentage values, weighted for the sum total of the offerings. Figures do not include ENI in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004.

Figure 16

Average age and size of the newly Italian listed companies



Source: Borsa Italiana. See Methodological Notes.

Table 2

Institutional investors' equity holdings in newly Italian listed companies [1]

	Companies		Number of institutional investors [4]	Pre-offering share[5]	Post-offering share[6]
	Number [2]	% of total [3]			
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	9	33.3	2.0	27.5	10.2
2000	18	40.9	2.7	25.9	16.2
2001	6	33.3	1.5	28.0	13.1
2002	2	33.3	2.5	27.1	15.2
2003	3	75.0	2.0	22.0	10.1
2004	4	50.0	2.3	28.5	9.5
2005	6	40.0	3.2	20.6	4.1

Source: Consob. See Methodological Notes. [1] Institutional investors comprise closed-end investment funds, venture capital companies, commercial and investment banks. Foundations and savings banks are excluded. The figures refer only to companies in which such investors held an interest. [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.

In 40 percent of the newly-listed companies, institutional investors held an equity interest in the share capital (in particular closed-end funds specialized in private equity investments), with an average holding pre-offering of around 20 percent of the capital, falling to just over 4 percent after placement (Table 2).

The ownership structures of newly-listed companies showed some changes with respect to the situation recorded in previous years. The controlling shareholder held on average 73 percent of the company before listing (such figure is considerably lower than the average for the last ten years). After the IPO this holding falls on average to 49 percent (value also much lower than the average in previous years). In fact, in nearly 50 percent of the IPOs in 2005, the post-Ipo holding of the controlling shareholder was lower than 50 percent (Appendix, Table A.3).

The securities of the newly-listed companies were nearly 50 percent placed with foreign investors, as occurred in 2004; the demand/supply ratio, both in public placement and in institutional placement, was the highest for the last five years, confirming the positive phase which affected the equity markets (see following Chapter II) (Table 3).

As in previous years, in many cases the newly-listed companies have a relationship with the placer/intermediaries or the sponsor. Nearly half of the newly-listed companies had credit relationships with the sponsor or the placer/intermediaries and the portion of the loans granted by these parties was on average equal to nearly a quarter of the total financial debt of the newly-listed companies. Equity relationships were however weaker (Table 4).

Table 3

Companies admitted to listing: results of IPOs [1]

	Portion of shares allotted				Ratio of demand to supply [2]	
	Individuals	Italian institutional investors	Foreign institutional investors	Other parties [3]	Public offering	Institutional offering
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	43.7	24.1	32.3	..	12.6	10.2
2000[4]	35.0	26.0	37.6	1.3	18.5	10.2
2001	28.7	37.8	33.0	0.5	1.2	2.2
2002	27.7	50.4	20.3	1.6	1.1	1.1
2003[5]	39.8	45.0	14.5	0.6	1.8	1.6
2004	20.9	26.2	52.9	..	2.0	3.1
2005	24.7	26.7	47.0	1.6	3.8	3.9

Source: Consob. See Methodological Notes. [1] Averages weighted according to the values of the offerings; percentages. Rounding may cause discrepancies in the last figure. The figures do not include ENI in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004. [2] The averages of the ratio of demand to supply are calculated with reference only to offerings for which the data relating to the part reserved for the general public and that reserved for institutional investors is known. [3] Individuals indicated by name for whom a certain quantity of shares is reserved. [4] The remaining holding (0.1 percent) was taken up by the underwriting syndicate for the public offering in connection with the placement of Cairo Communication shares. [5] The remaining holding (0.1 percent) was taken up by the underwriting syndicate for the public offering in connection with the placement of Trevisan shares.

Table 4

Credit and equity relationships between newly Italian listed companies and the intermediaries/placers involved in the IPO [1]

	Companies with credit relationships with sponsors or placers			Companies with equity relationships with sponsors or placers		
	Number of companies	Percentage of newly listed companies[2]	Average share of debt provided by sponsors or placers [3]	Number of companies	Percentage of newly listed companies[2]	Average share of equity held by sponsors or placers [4]
2000	23	52.3	27.2	11	25.0	18.1
2001	10	55.6	27.8	2	11.1	19.8
2002	3	50.0	46.1	1	16.7	28.3
2003	4	100.0	13.9	1	25.0	..
2004	4	50.0	47.2	2	25.0	10.8
2005	7	46.7	24.0	2	13.3	7.3

Source: based on data from the statements of the sponsors and placers. See Methodological Notes. [1] Credit and equity relationships as of the offering date existing between companies admitted to listing (on the Stock Exchange - MTA and Mtax and on the Expandi Market) 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.

5. Mergers and acquisitions

In line with the previous year, during 2005 the upward tendency in merger and acquisition transactions (M&A) continued worldwide, thanks mainly to the favourable performance of the stock exchange cycle and the pickup in the economic activity (Figure 17).

In Italy, a marked inversion in the trend was seen with a volume of transactions in 2005 considerably higher than in the previous four years (Figure 18).

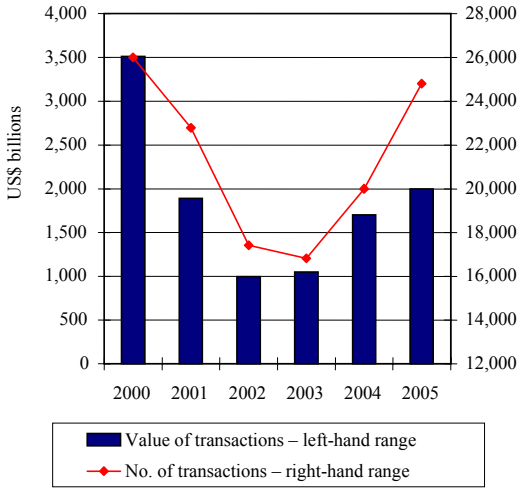
The Italian market reported a number of large transactions which involved the leading listed groups and which took the overall volume of transactions in 2005 to over € 100 billion. Telecom-Tim and Unicredit-HVB transactions were among the top 10 M&A operations worldwide in 2005. Mention should also be made of the Wind-Weather Investments and Aem/Edf-Italenergia Bis transactions.

Acquisitions abroad by Italian companies also picked up (60 transactions in 2005 compared with 32 in 2004; the latter figure represented the lowest value since 1998). The role of private equity funds also remained important, having concluded more than 15 percent of the transactions registered in Italy during 2005 (compared with around 10 percent in 2004).

During 2005, the total value of the tender offers on the securities of Italian listed companies (amounting to around € 20 billion) was the highest recorded in the last thirteen years, after that achieved in 1999 (amounting to approximately € 55 billion as a result of the tender offer on Telecom Italia). This reflects the improved prospects of the M&A market which emerged worldwide (Figure 19; Appendix, Table A.4).

Figure 17

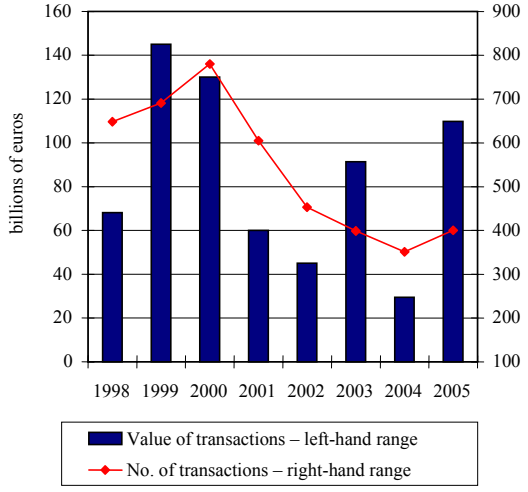
Mergers and acquisitions worldwide



Source: KPMG Corporate Finance.

Figure 18

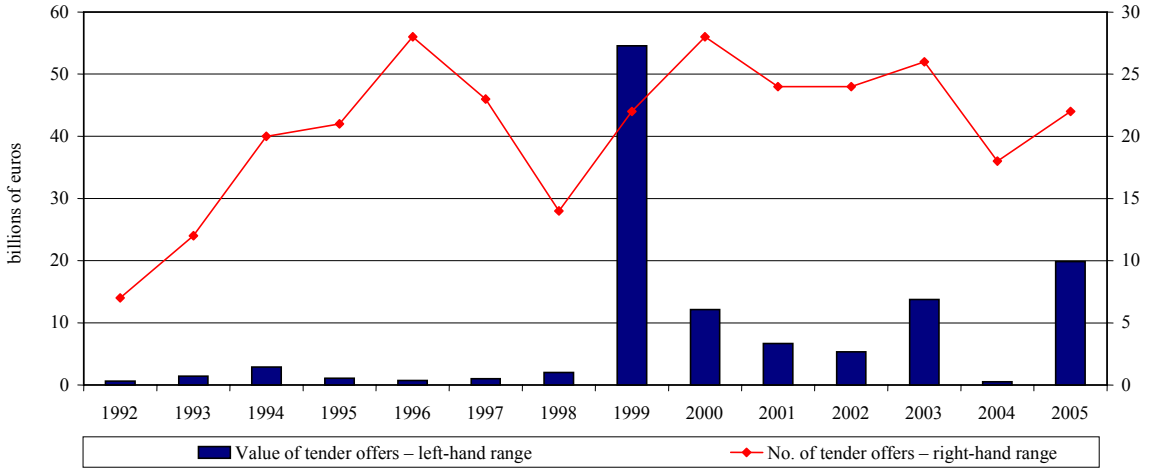
Mergers and acquisitions involving Italian companies



Source: KPMG Corporate Finance.

Figure 19

Tender offers on Italian listed companies



Source: Consob.

The offer launched by Telecom Italia on ordinary Telecom Italia Mobile (Tim) shares alone represented around 70 percent of the total value of the tender offers recorded in 2005. The offer falls within the context of a more extensive programme for the reorganization of the group aimed at the merger through incorporation of Tim within Telecom Italia.

During 2005, 13 transfers of control took place relating to listed companies (10 in 2004) for a value of around € 3 billion (approximately € 293 million in 2004). On a similar basis to the situation in 2004, all the changes in control which took place in 2005 were achieved by means of transferring controlling interests, which was followed by the subsequently mandatory tender offer.

Around 77 percent of the value of the subsequent tender offers made in 2005 refers to the offer launched by Transalpina Energia on ordinary Edison shares (whose value came to around € 2.3 billion).

Considering all the transfers of controlling blocks in listed companies during the period 2000-2005, on average the difference between the price of the subsequent tender offer and the market price of the shares at the date the transfer of the controlling interest took place came to 5.5 percent; whilst, on average, the difference between the price for the transfer of the controlling interest and the market price (at the same date) came to 7.5 percent (Appendix, Table A.5). It can therefore be estimated that the mechanism for determining the tender offer price, calculated on the basis of the provisions of the Consolidated Law on Finance (Tuf), led on average to a drop in the control premium acknowledged to the minority shareholders of two percentage points with respect to that which would have occurred in pursuance of the previous legislation in force (Italian Law No. 149/1992).

6. Ownership structures and corporate governance

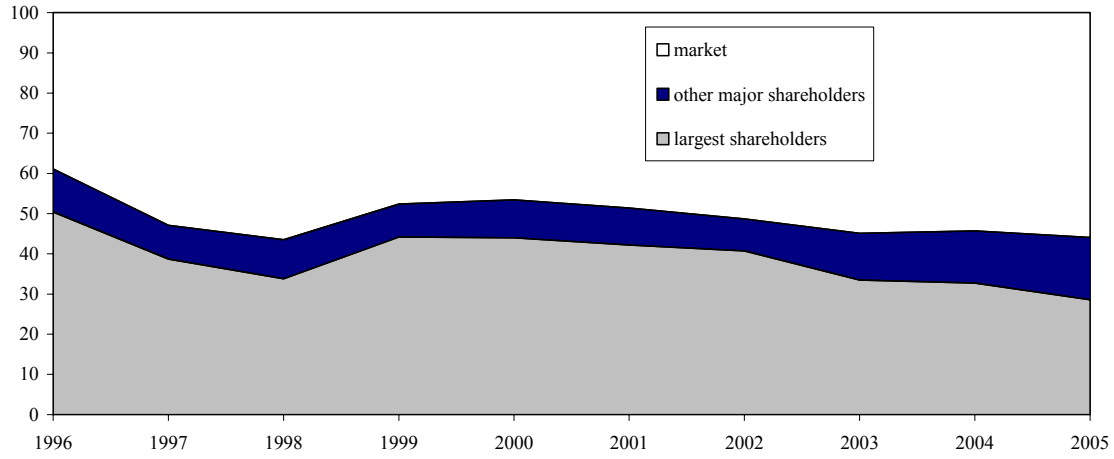
During 2005, the ownership structures of the listed companies underwent a number of significant changes, associated with corporate reorganization transactions as well as the only significant privatization transaction during the year (transfer of an additional 9.4 percent in Enel).

The average holding of the largest shareholders recorded a marked decrease, while the holdings of the other major shareholders rose. In detail, compared with 2004, the average holding of the largest shareholder fell from 32.7 to 28.6 percent, while that of the other major shareholders rose from 13 to 15.5 percent (Figure 20; Appendix, Table A.6).

At the same time, the weight of companies subject to majority control fell, while that of companies not subject to control or subject to working control rose. With respect to 2004, companies subject to majority control decreased by 10 units (from 134 to 124) and their ratio to stock exchange capitalization dropped by around 10 percentage points (from 32.7 to 22.8 percent). Vice versa, the weight of companies not subject to control rose from 25 to 30 percent (Figure 21; Appendix, Table A.7).

Figure 20

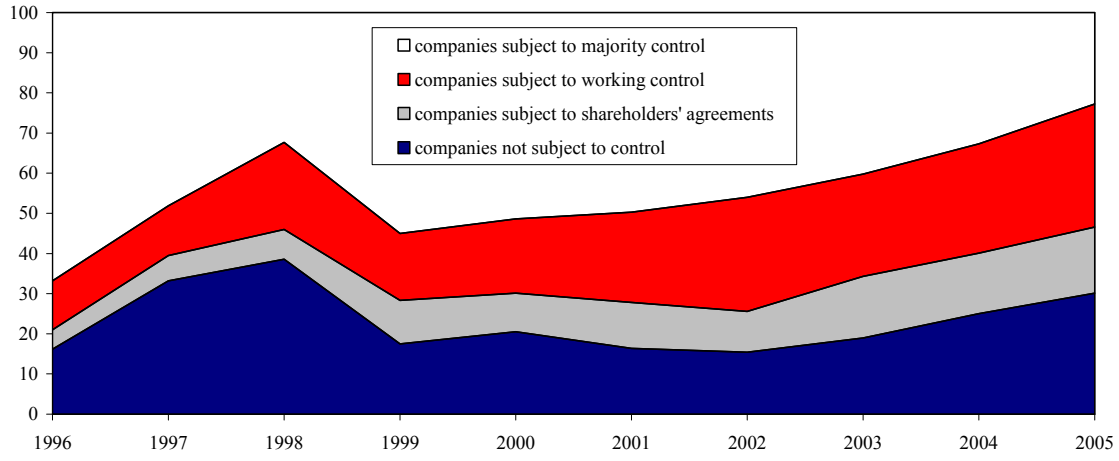
Distribution of Stock Exchange capitalization by type of shareholder
(percentages)



Source: Consob. See Methodological Notes. Capitalization refers exclusively to the ordinary capital of the companies listed on the Stock Exchange/MTA run by Borsa Italiana Spa.

Figure 21

Distribution of Stock Exchange capitalization by type of company control
(percentages)



Source: Consob. See Methodological Notes. Capitalization refers exclusively to the ordinary capital of the companies listed on the Stock Exchange/MTA run by Borsa Italiana Spa.

The distribution of major holdings (in other words greater than 2 percent of the voting capital) by type of shareholder confirms the trends highlighted previously. With respect to 2004, a marked reduction was seen in the major holdings held by joint-stock companies (from 13.7 to 9.6 percent) and in those held in the public sector (from 10.7 to 9.6 percent), while holdings held in financial companies (banks and insurance companies) and foundations increased (Appendix, Table A.8).

The distribution of the major holdings differs greatly however according to the sector in which the investee companies operate. In the financial sector, the holdings in foreign parties, banks and banking foundations are predominant while in the non-financial sectors public holdings and those in non-financial joint-stock companies prevail (Table 5).

In the international comparison, and also considering the holdings less than 2 percent, the distribution of the holding by type of shareholder shows marked differences with respect to that recorded in the main European countries (Box 2).

Table 5

Major holdings in companies listed on the Stock Exchange [1]

	2004			2005		
	Sector of the investee companies			Sector of the investee companies		
	Financial	Industrial	Services	Financial	Industrial	Services
Declarants						
Foreign investors	11.3	7.3	1.7	13.6	4.3	4.1
Insurance companies	3.0	0.6	0.2	2.5	0.4	1.4
Banks	8.6	0.1	0.1	8.0	1.5	0.2
Foundations	8.1	--	0.1	8.0	--	0.1
Institutional investors	0.1	0.1	0.1	--	0.1	0.2
Joint-stock companies	6.9	12.3	24.9	7.6	11.3	12.3
State and local authorities	0.9	14.8	20.0	0.8	15.8	23.1
Individual investors	4.1	7.6	5.9	3.6	8.7	6.8
Total	*43.0*	*42.7*	*52.9*	*44.2*	*42.1*	*48.2*
Number of companies	76	97	46	80	96	44
Share [2]	39.9	32.2	27.9	49.5	33.5	17.0

Source: Consob ownership transparency data base. See Methodological Notes. [1] Holdings of more than 2 percent of the voting capital. Percentage ratio of the market value of the holdings controlled on the ordinary capital to the capitalization of the ordinary capital of all the companies listed on the Stock Exchange. Rounding may cause discrepancies in the last figure. [2] Percentage ratio of the capitalization of the ordinary share capital of the companies in each sector to the total capitalization of the ordinary capital on the Stock Exchange.

Box 2

International comparisons in the distribution of shareholdings

The Report of the European Federation of Stock Exchanges, *Share Ownership structures in Europe*, 2004, provides a comparative framework of the companies listed on the European Stock Exchanges at the end of 2003 on the basis of the type of shareholders (groups are classified as follows: households, foreign investors, private non-financial companies, the public sector and private financial companies, the latter inclusive of insurance companies, banks, pension funds and asset management companies).

Distribution of stock exchange capitalization by institutional sector
(percentages)

		1998	2000	2003	Change 1998-2003
Households	Italy	24.6	28.1	26.6	+2.0
	Germany	15.7	15.6	14.1	-1.6
	UK	16.7	16.0	14.9	-1.8
	France	11.0	8.9	8.5	-2.5
	EU average			*16.0*	
Institutional investors, banks and insurance companies	Italy	15.0	13.1	10.6	-4.4
	Germany	15.4	9.6	9.5	-5.9
	UK	52.5	47.3	48.7	-3.5
	France	19.0	16.6	17.4	-1.6
	EU average			*25.0*	
Public sector	Italy	8.9	9.8	10.2	+1.3
	Germany	9.0	6.4	5.8	-3.2
	UK	0.1	0.1	0.0	-0.1
	France	8.0	6.2	4.5	-3.5
	EU average			*4.0*	
Foreign investors	Italy	19.6	15.7	14.4	-5.2
	Germany	15.9	19.9	17.5	1.6
	UK	27.6	32.4	32.3	4.7
	France	33.0	37.4	34.8	1.8
	EU average			*29.0*	

Source: Share Ownership Structure in Europe 2004, FESE.

The figures reveal a number of peculiarities of the Italian market. In the first instance, in Italy households possess a particularly high portion of stock exchange capitalization if compared with the other European countries; furthermore, whilst in the main European countries, the share of the households fell during the period 1998-2003, in Italy it increased by around 2 percent. This phenomenon is probably partly linked to the scant propensity of Italian households to hold on asset management products. Even the share of the public sector is higher with respect to the average of the other European member nations and, in contrast to what occurred in the these countries, increased in the period 1998-2003.

The share of the financial sector (banks, insurance companies and institutional investors) was lower with respect to the EU average. Furthermore, during the period 1998-2003, this share fell to a greater extent than the main European countries (the only exception being Germany).

In conclusion, another peculiarity of the Italian market is represented by the modest importance of foreign investors; the share of stock exchange capitalization held by foreign parties is considerably lower than that seen in the main European countries. Furthermore, this share fell during the period 1998-2003, in contrast to what occurred in Germany, the UK and France.

Nevertheless, taking into account just the major holdings held by foreign parties, the picture changes. In order to make a consistent comparison with France and Germany, it is necessary to examine the holdings greater than 5 percent of the voting rights, since this is the disclosure threshold adopted by said countries (compared with 2 percent in Italy and 3 percent in the UK).

Therefore, by applying the threshold of 5 percent, the figures at 2004 for the top 20 listed companies disclose a degree of "opening up" to foreign investments which is considerably lower with respect to that which emerges from the FESE report data. Italy, however, is the country in which foreign investors have the most importance. In fact, holdings of foreign parties greater than 5 percent in the top 20 listed companies represent 3.4 percent of their capitalization; the same figure comes to 2.5 percent for France and the UK, and 1 percent for Germany. Furthermore, in the UK 70 percent of foreign holdings are held by investment funds, while in Italy and France foreign holdings seem to be more strategic or industrial. These figures could indicate that the foreign parties are willing to invest in Italian companies– in proportions similar to or greater than in other countries – only when they can hold major holdings in the voting rights (the average of the voting rights of foreign parties in Italy is, in fact, equal to 17.5 percent, compared with 11 percent in the UK, 10.7 percent in France, and 8.9 percent in Germany).

Holdings of foreign investors greater than 5 percent in the top 20 listed companies in Italy, the UK, France and Germany
(2004 figures)

	Italy	UK	France	Germany
No. of companies with foreign investors	6	7	7	4
incidence on sample (top 20 listed companies)[1]	*30*	*35*	*35*	*20*
No. of foreign investors	7	2	7	3
of which asset management companies	--	*1*	--	*1*
Value of foreign holdings at end of 2004 (euros mln[2])	13,082	27,393	16,434	5,099
of which asset management companies	--	*19,495*	--	*1,666*
Incidence on capitalization of sample[1]	3.4	2.5	2.5	1.0
Incidence on stock exchange capitalization[1]	2.3	1.3	1.4	0.6
Average of the voting rights of foreign investors[1]	17.5	11.0	10.7	8.9

Source: based on company financial statements and supervisory authority data. [1] Percentages. [2] The value is based on the exchange rate at the end of 2004 for the UK.

During 2005, recourse to shareholders' agreements rose, used as an instrument for co-ordinating the exercise of the voting right and limiting the transfer of shares. The number of companies listed on the MTA whose shares are subject to shareholders' agreements declared in accordance with Article 122 of the Consolidated Law on Finance increased by 10 in 2005.

The majority of the agreements are global in nature, in other words they comprise clauses both on the exercise of the voting right and the transferable nature of the shares. The average portion of share capital restricted in the agreements remains high, just over 45 percent. These two elements confirm the importance of the agreements for the control set-ups of the companies concerned. The agreement limited itself to envisaging blocking clauses for just eight companies and the average share was much lower than for the other types of agreements for these companies (Appendix, Tables A.9 and A.10).

The number of shareholders' agreements on unlisted companies which control a listed company and which the provisions pursuant to Article 122 of the Consolidated Law on Finance apply to is also significant. The listed companies concerned at the end of 2005 came to 22 and in nearly all the cases these agreements concerned the absolute majority of the share capital of the controlling company (Appendix, Table A.11).

The features of the ownership structures of the listed companies, which involve the maintenance of a high ownership concentration, albeit gradually decreasing, reflect on participation in annual shareholders' meetings (AGMs). The average number of individual participants in ordinary AGMs in 2005 fell and was down with respect to the previous years also in larger companies (companies belonging to the S&P/Mib and Midex indexes) (Appendix, Table A.12).

The portion of votes represented in AGMs held by institutional investors fell especially, being on average lower than 5 percent. The AGMs were consequently dominated by the majority shareholders who on average hold nearly 90 percent of the shares present. This phenomenon is even more apparent for companies in the Star segment (Appendix, Table A.13).

Foreign institutional investors are more present than Italian ones: in 2005 around two thirds of the shares represented during AGMs by institutional investors related to foreign parties. This share has increased with respect to that of previous years (Appendix, Table A.14).

The type of control of the companies sharply affects the size of the board of directors: companies controlled via shareholders' agreements on average have around three directors more than companies subject to majority control (on average one more executive director and around two more non-executive directors) and around two more than those subject to working control (Table 6).

Table 6

Average number of directors of companies listed on the Stock Exchange in 2005 by type of control

Type of control	Executive directors	Non-executive directors	*Total*
Majority control	3.1	6.6	*9.7*
Working control	2.6	7.7	*10.3*
No control	4.0	7.2	*11.2*
Shareholders' agreement	4.1	8.3	*12.4*

Source: Consob.

The size of the board is, however, also conditioned by the sector the company belongs to (even if this in turn is linked to the type of control): 90 percent of insurance companies and over 80 percent of banks have a board made up of more than ten members, while boards with over ten members are only found in about 35 percent of industrial companies and in around 44 percent of service companies (Table 7).

As in the past, the so-called interlocking directorship phenomenon remains a characteristic trait of the structure of the boards' of directors of Italian listed companies, even if partly linked to the diffusion of the group structure. More than 80 percent of the listed companies have a board made up of at least one member with directorships in other listed companies (even if in some cases these are companies in the same group). In 121 companies (nearly half the number of listed companies) more than 50 percent of the board members have directorships in other listed companies (Table 8).

Table 7

Distribution of companies listed on the Stock Exchange in 2005 by number of board directors and sector
(percentages)

Sector	Number of board directors[1]				
	< 6	6 - 10	11 - 15	> 15	*Total*
Insurance	--	10.0	30.0	60.0	*100.0*
Banking	--	18.8	40.6	40.6	*100.0*
Financial	5.3	55.3	31.6	7.9	*100.0*
Industrial	11.5	53.1	32.3	3.1	*100.0*
Services	9.3	46.5	37.2	7.0	*100.0*

Source: Consob.[1] Rounding may cause discrepancies in the total.

Table 8

Interlocking directorships of companies listed on the Stock Exchange in 2005

Directors with more than one directorship	Number of companies
< 25 percent	78
from 25 to 50 percent	13
from 51 to 75 percent	78
> 75 percent	43
Total	*212*
as a percentage of all listed companies	*82.8*

II – SECONDARY MARKETS

1. Equity markets

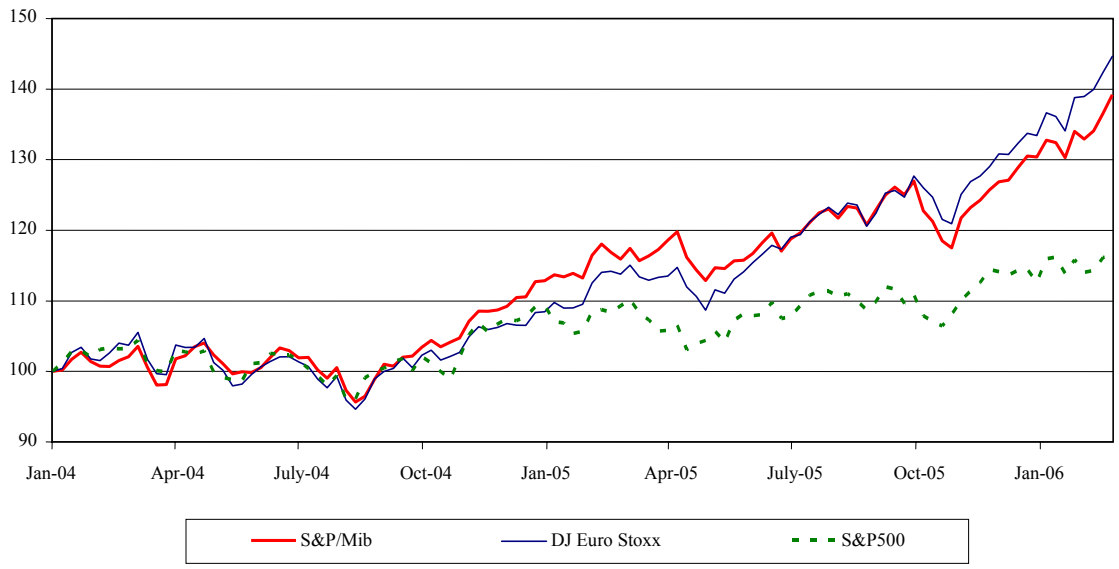
In 2005, the world economy continued to grow, albeit at a slightly lower rate than that registered in the previous year. According to Isae estimates, the GNP rose by 4.5 percent (5 percent in 2004). The world economy performed satisfactorily despite tension on the energy market deriving essentially from the rise in oil prices, and notwithstanding the sharpening of the differences in growth between the main industrial areas. Sharp expansion in the USA, growth in China and rapid economic recovery in Japan were flanked, in fact, by weak manufacturing activities in the Euro area. As in 2004, Italy found itself among the lowest-growth countries, disclosing a growth rate close to zero.

The growth prospects remain positive for most of the economies, even if a number of uncertainties remain linked to the oil price trend and the possible slowdown of activities in the USA. With regards to the Euro area, Italy included, a modest pick-up is envisaged which should contribute towards reducing the distance with respect to the US economy.

Share price performance, positive on all the main markets despite the uncertainties at macro-economic level, did not however reflect the differences in the growth rates in the various areas (Figure 22).

Figure 22

Share prices
(weekly data 2 Jan. 2004-24 Feb. 2006; 2 Jan. 2004=100)



Source: Thomson Financial.Datastream

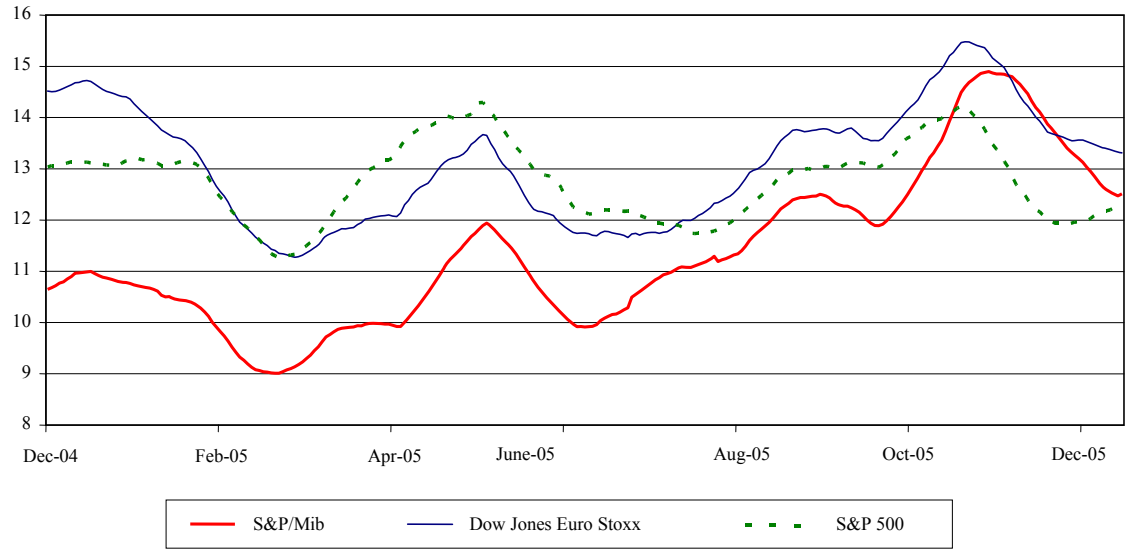
During 2005, growth in the Dow Jones Euro Stoxx index, relating to the stock of the leading European companies in the Euro area, came to 22 percent, clearly exceeding the increase of 5 percent in the Standard & Poor's 500 index, which refers to the leading companies listed on the US market. During the same period, Italian share prices also rose, although the appreciation of the S&P/Mib index, of 14 percent, was more contained than that reported for the Euro area.

The volatility in share prices, which presents trends similar for the European market and for the US one, did not undergo any significant changes in 2005, remaining at historically low levels (Figure 23).

The misalignment between the performance of the real economy and the growth in share prices between the Euro area and the USA seems essentially to be related to the trend in company earnings. During 2005, the effective growth rate of the earnings per share for European companies came to around 16 percent, compared with approximately 14 percent for the US companies; furthermore, the effective growth rate of the earnings of European companies in 2005 exceeded the value anticipated at the end of 2004 (so-called earning surprise) by around five percentage points, while this differential came to 3.7 percent for US companies. For the large Italian listed companies, the effective growth in earnings per share was somewhat higher with respect to the European and US companies. This is in line with the sharp growth in profitability disclosed in the first 2005 half yearly reports both for non-financial groups (see § 1. of the previous Chapter I) and for the leading banking groups (see § 2. of subsequent Chapter III) (Figure 24).

Figure 23

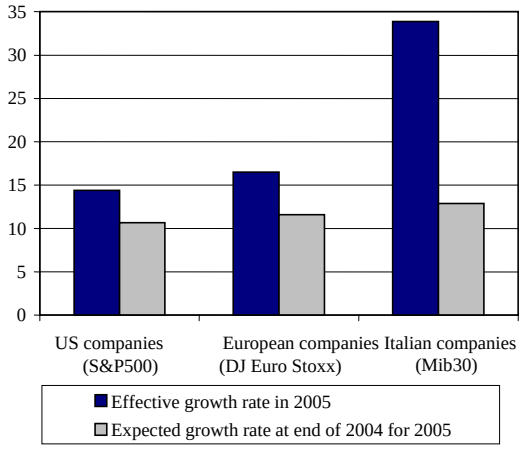
Share price volatility
(percentages on annual basis; mobile averages over 20 days)



Source: Bloomberg. Implied volatility deduced from prices of options on indexes.

Figure 24

Actual and expected growth of earnings per share in 2005
(percentages)



Source: Thomson Financial; IBES data on forecasts of earnings at 12 months before the amortization of goodwill and other atypical income components at the end of December 2004 and on effective earnings for 2005 (estimate at march 2006).

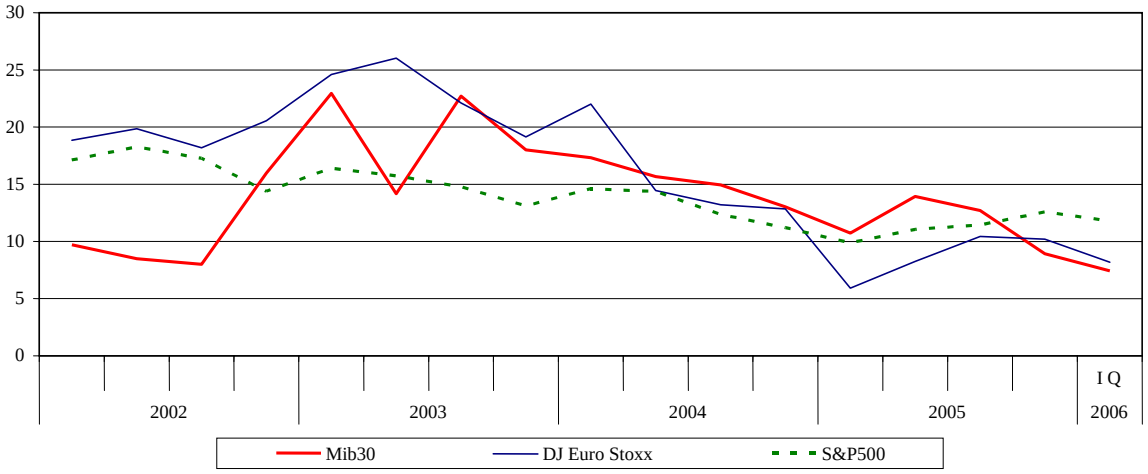
According to a number of analysts, the improved performance of the European companies can possibly by explained, despite the fact that the economic picture is less favourable than in the US, in the fact that for the large European companies (in other words those included in the leading Stock Exchange indexes) the ratio of sales revenues to exports to countries with high growth rates is higher than that of the American countries.

The additional uncertainties which characterize the European economy would seem, however, to have led in 2005 to expected earnings growth rates for 2006 lower than those envisaged for the US companies.

Nevertheless, the figure represents an inversion in the trend with respect to previous years, when the earnings growth forecasts of the European companies were greater than, or at the most, aligned with, those referring to the US companies (Figure 25). The one year forecasts relating to the European companies, are down as from the last quarter of 2005; by contrast, the forecasts improved slightly during the year for the USA. What is more, confirming the degree of dispersion of the expectations, the forecasts are more stable for the US companies than those relating to the European countries, even though for the latter the degree of uncertainty fell as from the second half of 2003 (Figure 26).

Figure 25

Expected growth rate of earnings per share
(percentages; quarterly data)



Source: Thomson Financial; IBES data on earnings forecasts at 12 months before the amortization of goodwill and other atypical income components.

Figure 26

Dispersion of the expectation on earnings per share
(percentages; quarterly data)

Source: Thomson Financial; IBES percentages; quarterly data. The dispersion is based on the ratio between the standard deviation of the forecasts of earnings per share by the individual financial analysts and the average forecast.

The downwards adjustment of the forecasts on the growth rates of the earnings per share also affected Italian companies; the degree of dispersion of these forecasts is also greater than the European average.

*The decreasing performance of the expected growth rate of earnings for the Italian equity market, between the end of 2003 and the first few months of 2006, is partly reflected in the change in the data on the "*consensus*" of the financial analysts drawn up by the specialist company IBES. Between the end of 2003 and February 2006, the percentage of companies included in the S&P/Mib index with a "buy" opinion dropped from 45.9 to 40.5, while the percentage of companies with a "hold" opinion rose from 51.4 to 56.8 (Figure 27). Likewise, the incidence of capitalization of the index of the companies with a "buy" opinion dropped from 54.6 to 49.2 percent, while the incidence of companies with a "hold" opinion rose from 43.8 to 49.2 (Figure 28).*

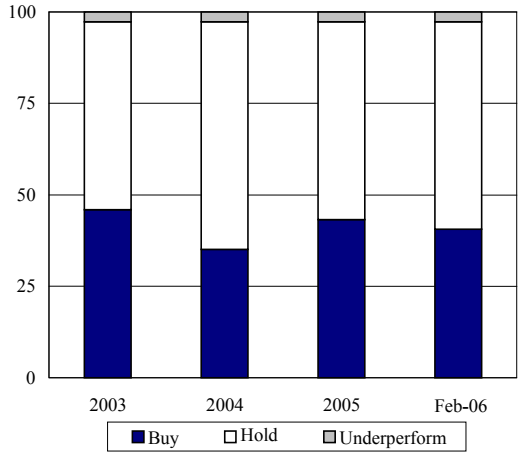
On a structural level, the Italian equity market continued to feature a contained number of listed companies and a low (albeit rising) incidence of stock exchange capitalization with respect to GDP.

At the end of 2005, the number of Italian listed companies came to 275, recording an increase of 6 when compared with last year (Appendix, Table A.15). This change was the result of 19 new listings and 13 delistings. Furthermore, the number of newly-listed companies (IPOs) was higher than in the previous year, both with regards to the Stock Exchange (10 in 2005, compared with 6 in 2004) and with regards to the Expandi market (5 in 2005, compared with 2 in 2004).

Stock exchange capitalization increased by 16 percent (+ 19 percent in 2004), rising from € 581 to 676 billion. Both the capitalization of the Mta/Mtax market, from € 576 to 669 billion, and the Expandi market, from € 5 to 7 billion, reported an increase. As a percentage of GDP, stock exchange capitalization rose from around 42 to 49 percent.

Figure 27

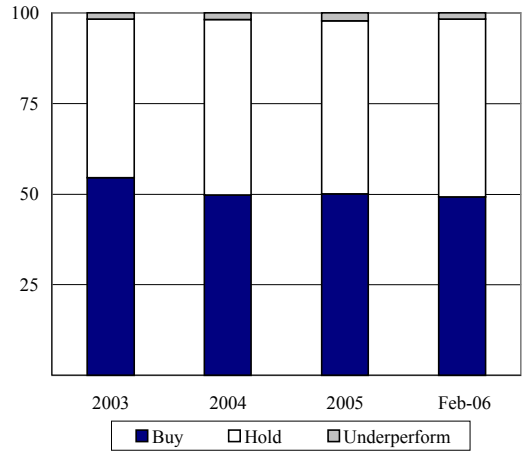
Breakdown of the number of S&P/Mib companies by type of analysts rating
(percentages; period end data)



Source: Thomson Financial; IBES data on the Consensus of the financial analysts. The figure does not include the companies Terna, STMicroelectronics and Lottomatica, for whom consistent data on the Consensus in the three years in question is not available.

Figure 28

Breakdown of the capitalization of the S&P/Mib companies by type of analyst rating
(percentages; period end data)



Source: Thomson Financial; IBES data on the Consensus of the financial analysts. The figure does not include the companies Terna, STMicroelectronics and Lottomatica, for whom consistent data on the Consensus in the three years in question is not available.

Total dividends paid by the listed companies amounted to € 26.2 billion, while in 2004 it had totalled € 24 billion. The market's dividend yield at the end of 2005 fell, however, to 3 percent, compared with 3.4 percent in 2004, due to the rise in share prices.

During 2005, extremely sharp growth was seen in the trading value, which reached the historical record high level of € 893 billion (+ 39 percent when compared with 2004). Turnover also increased, that is the ratio of the trading value to the average capitalization for the year, passing from 1.1 in 2004 to 1.3 in 2005.

In line with international trends, the Italian market reported an increase in share issues achieved by means of share capital increases against payment and transactions finalized at listing (see § 4. of previous Chapter I). These transactions made it possible to raise a total of € 13.2 billion (against 3.6 in 2004), a value abundantly lower than the dividends paid (see § 2. in previous Chapter I).

The amount of the share capital increases reflects the value of the net purchases of listed shares (divided up by institutional sectors) estimated by the Bank of Italy. According to these estimates, in 2005 net purchases of Italian listed shares came to € 12.6 billion and nearly tripled with respect to the previous year. Italian mutual funds, as occurred in 2004, mainly divested; non-resident operators were also net sellers for a total of around € 8.3 billion (whilst in 2004 they had been net purchasers for over € 13 billion). The banks by contrast provided a clearly positive contribution for € 7.3 billion (Table 9).

Table 9

Net purchases of Italian listed shares [1]
(millions of euros)

	Subscribers						
	Bank of Italy UIC	Mutual funds[2]	Banks	Insurance companies	Other investors[3]	Non-residents	*Total*
2000	231	49	4,592	3,328	2,663	-1,714	*9,148*
2001	201	-1,787	-8,270	-594	17,153	-532	*6,171*
2002	346	-1,133	8,947	-4,847	7,735	-7,155	*3,893*
2003	96	229	-8,085	4,200	14,670	-2,400	*8,710*
2004	36	-133	576	5,245	-2,526	13,381	*3,197*
2005[4]	-736	-130	7,382	....	....	-8,295	*12,600*

Source: Bank of Italy. [1] Rounding may cause discrepancies in the last figure. [2] The figure concerns Italian mutual funds. [3] Households, companies, local and central government authorities, Cassa DD. PP., investment firms and welfare and social security institutions. [4] Provisional data.

2. Derivatives markets

The world market of financial derivatives, both unlisted (so-called over-the-counter or Otc) and listed (so-called exchange traded), experienced significant growth rates in 2004 and during the first half of 2005.

According to the survey carried out by the Bank for International Settlements (BIS) with reference to the G-10 countries, the notional value of the OTC derivatives amounted to around US$ 252,000 billion in December 2004 (+ 28 percent on the previous year) and approximately US$ 270,000 billion during the first half of 2005 (around + 7 percent on December 2004; Table 10). The notional value of the exchange traded derivatives came to around US$ 47.000 billion at the end of 2004 (+ 19 percent with respect to 2003) and about US$ 58,000 billion in September 2005 (+ 25 percent on 2004).

OTC derivatives continue to represent a consistent portion of the total derivatives market (over 80 percent). The main component is represented by interest rate derivatives, whose notional value at the end of the first half of 2005 amounted to around US$ 204,000 billion, or 76 percent of the entire OTC derivatives market; derivatives on exchange rates and commodities and on other instruments follow, representing around 12 and 11 percent respectively. The incidence of derivatives on shares and share indexes continued to be marginal, reaching less than 2 percent of the total.

The portion attributable to interest rate derivatives is predominant also with reference to exchange traded derivatives: in detail, at the end of June 2005 futures and options on interest rates represented a total of 90 percent of the entire market.

Table 10

Notional value of derivatives in the G-10 countries
(end of period balances; amounts in US$ billions)

	2001		2003		2004		2005 – 1st Half	
	Notional value	Share of total [1]	Notional value	Share of total [1]	Notional value	Share of total [1]	Notional value	Share of total [1]
OTC derivatives								
Derivatives								
Interest rate	77,568	69.8	141,991	72.0	190,502	75.6	204,393	75.7
Exchange rate	16,748	15.1	24,475	12.4	29,580	11.7	31,075	11.5
Equity-linked	1,881	1.7	3,787	1.9	4,385	1.7	5,145	1.9
Other	14,981	13.5	26,914	13.7	27,356	10.9	29,486	10.9
Total OTC (A)	*111,178*	*100.0*	*197,167*	*100.0*	*251,823*	*100.0*	*270,099*	*100.0*
of which with non-financial counterparties	*14,057*		*27,900*		*29,348*		*32,775*	
Exchange-traded derivatives[2]								
Futures								
Interest rate	9,270	39.0	13,124	33.6	18,165	39.0	19,860	34.1
Exchange rate	66	0.3	80	0.2	104	0.2	110	0.2
Equity index	334	1.4	549	1.4	635	1.4	727	1.2
Options								
Interest rate	12,493	52.6	23,034	59.0	24,604	52.8	32,795	56.3
Exchange rate	27	0.1	38	0.1	61	0.1	63	0.1
Equity-linked	1,575	6.6	2,202	5.6	3,024	6.5	4,727	8.1
Total exchange-traded (B)	*23,765*	*100.0*	*39,027*	*100.0*	*46,593*	*100.0*	*58,282*	*100.0*
Total derivatives (A + B)	134,943		236,194		298,416		328,381	

Source: BRI – *Quarterly Review*, December 2005. [1] Percentages. [2] The figures relating to 2005 refer to the first nine months of the year.

The OTC derivatives market in Italy shows structural trends and features in line with those which emerged in previous years, as disclosed by the Bank of Italy's six-monthly survey relating to the operations of a sample of banking groups most representative of the segment. In detail, the notional value of the derivatives outstanding with Italian banks in the first half of 2005 still represents a modest share of the world market (2.2 percent compared with 2.1 in 2004), even though it continues to rise at a higher rate. Derivatives outstanding at the end of June 2005 in fact disclosed a notional value of just over US $ 5,800 billion, thus registering growth of around 11 percent when compared with the US$ 5,300 billion at the end of 2004 (this figure for 2004 essentially coincides with that relating to the top ten banking groups taken from their financial statements data; see § 2. in the subsequent Chapter III). On a consistent basis with the disclosure for the world market, the incidence of interest rate derivatives was predominant (around 93 percent) (Table 11).

Table 11

Notional value of OTC derivatives in Italy
(end of period balances; amounts in US$ billions)

	2001		2003		2004		2005 – 1st Half	
	Notional value	Share of total [1]	Notional value	Share of total [1]	Notional value	Share of total [1]	Notional value	Share of total [1]
Derivatives								
Interest rate	1,724	85.7	4,241	92.4	4,905	92.8	5,413	92.7
Exchange rate	246	12.2	207	4.5	247	4.7	259	4.4
Equity and commodity linked	42	2.1	140	3.1	133	2.5	166	2.9
Total OTC	*2,012*	*100.0*	*4,588*	*100.0*	*5,285*	*100.0*	*5,838*	*100.0*
of which with non-financial counterparties	....		*328*		*330*		*309*	

Source: Bank of Italy. [1] Percentages.

As at 30 June 2005, the market value of the derivatives, that is the monetary value which it would be necessary to pay or which would be collected in order to settle positions, came to just over US$ 99 billion with a positive market value and just over US$ 95 billion with a negative market value. If all the banks had closed the derivative positions at the end of June 2005, they would have generated a net profit of US$ 4 billion. At the end of 2004, the balance was likewise positive but more contained (US$ 3.5 billion).

With reference to the breakdown of the OTC derivatives by counterpart, the operations of the Italian banks continued to mainly involve financial institutions; counterpart transaction with non-financial bodies were by contrast down, represented mainly by companies and public bodies (5 percent at the end of June 2005, compared with 6 percent at the end of 2004 and 7 percent at the end of 2003).

The Italian exchange traded derivatives market is represented by the "Mercato Italiano dei Derivati" (Idem) run by Borsa Italiana Spa, on which it is possible to trade just derivatives on instruments and share indexes. The notional value of the derivatives open on the Idem (so-called open interest) at the end of 2005 amounted to approximately € 5.2 billion (around US$ 6.2 billion), of which about 92 percent referring to open positions on futures on the S&P/Mib index (Table 12).

Table 12

Listed derivatives traded on the Idem in 2005
(amounts in millions of euros)

	Number of contracts concluded[1]	Daily average [1]	Percentage change [2]	Notional trading value	Notional value of positions open at year end
Index futures	3,581	13.9	+ 7.5	585,445	4,277
Index options	2,598	10.1	+ 17.0	209,526	217
Stock options	12,440	48.6	+ 30.1	54,701	292
Index mini futures	1,294	5.0	- 12.9	42,330	77
Stock futures	5,958	23.3	+ 243.6	34,734	291
Total	*25,871*			*926,736*	*5,154*

Source: Consob figures based on Borsa Italiana Spa data. [1] Thousands of contracts. [2] Compared with 2004.

The value of the positions open on the Idem corresponds to around 0.1 percent of the outstanding OTC derivatives reported at the end of June 2005 by the Bank of Italy. The marginal incidence of the Idem on the entire Italian derivatives market however reflects its exclusive specialization on the equity products. Also at international level, the volumes of activities on these products are always structurally lower with respect to the operations on interest and exchange rate derivatives, as fully documented by BIS statistics.

However, the Idem represents an important segment for the overall functioning of the equity markets run by Borsa Italiana Spa and continues to disclose high growth rates.

During 2005, in fact, trading increased on the Idem: the number of contracts concluded came to around 26 million, thereby registering an increase of around 42 percent on the previous year. The greatest growth was reported for stock futures (around + 244 percent), with average trading standing at more than 23,000 contracts a day, of a value of around € 35 billion. The Italian Stock Exchange also continued to increase the availability in the choice between the underlying stocks, which at the end of 2005 came to 33, compared with 22 at the end of 2004. The drop in volumes relating to the index mini future contract (around -13 per cent compared with -42 percent at the end of 2004) continued, albeit at a more contained rate than last year. By contrast, a reversal in the trend was reported with regards to futures on the S&P/Mib, with trading up by around 8 percent on last year. Finally, the stock and index option segments both disclosed an increase of 30 and 17 percent, respectively.

With regards specifically to the S&P/Mib stock index option segment in the period 2004-2005, the functioning of the market shows some regularities (Box 3).

Besides the financial instrument derivatives, for some years now the market for credit derivatives, which are instruments for the transfer of credit risk, has grown. A more detailed picture of the market can be gained from the last report drawn up by the Fitch rating agency, which carried out a sample survey interviewing leading international banks and insurance companies.

At the end of 2004, credit derivatives amounted to around US$ 5,300 billion (+ 86 percent compared with last year). Almost 90 percent concerns credit default swaps on individual issuers (so-called single name Cds).

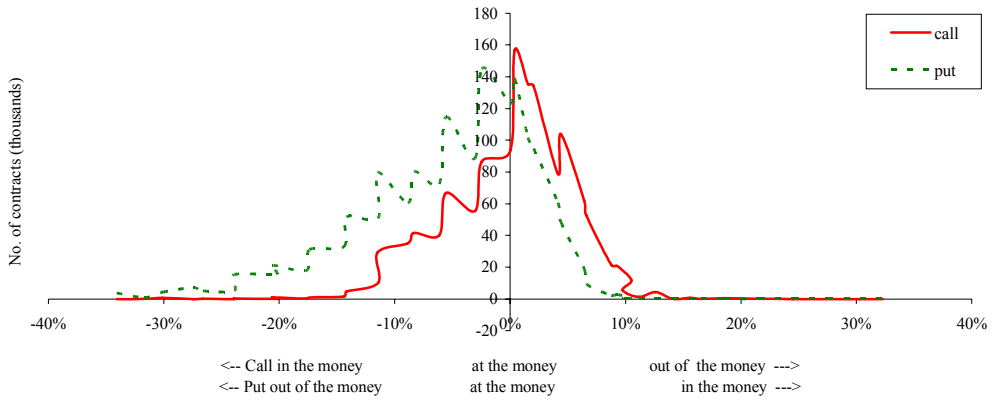
The banks are the main purchasers of protection, compared with insurance companies which, by contrast, are the leading net sellers (respectively for around US$ 427 and 556 billion; the difference between these values is attributable to market operators not covered by the survey, such as hedge funds).

Box 3

The market of S&P/Mib index options traded on the Idem

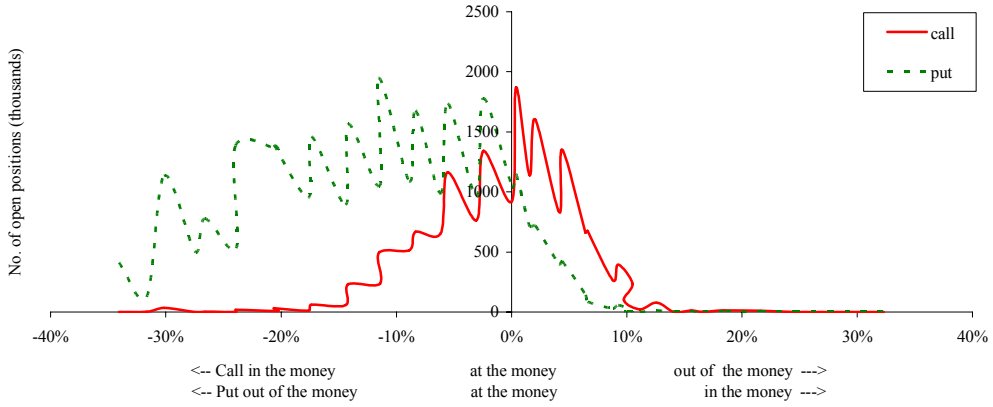
The market of the so-called exchange-traded derivatives on instruments and stock indexes was launched in Italy in 1995 and, since then, with the privatization of the stock exchange and the numerous innovations in the micro-structure and the trading mechanisms, has undergone considerable growth. An important segment of the market is represented by options on the S&P/Mib stock index. The market exhibits a number of empiric functioning regularities.

Distribution of S&P/Mib index option contracts by degree of "moneyness"
(contracts concluded in the period June 2004 – October 2005)



The analysis of the turnover shows that the put contracts (in other words the right to sell) are chosen as an instrument for covering the risk of a drop in the index; in fact, even though trading is mainly carried out on the so-called "*at the money*" series (in other words with an exercise price close to the current price), for the put contracts there is greater propensity towards the purchase of *out of the money* contracts (in other words with an exercise price much lower than the current price). The same emerges with reference to the positions opened at the end of the day (so-called open interest).

Distribution of the open positions on S&P/Mib index options by degree of "moneyness"
(positions outstanding in the period June 2004 – October 2005)

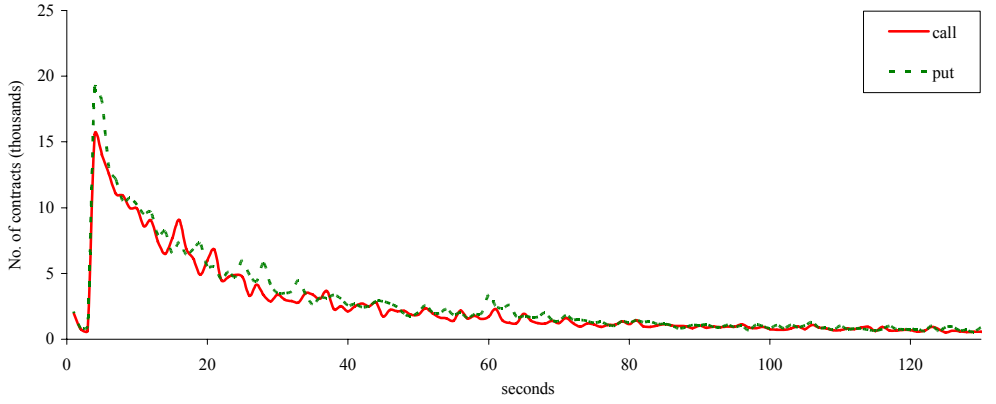


The distribution of the index options turnover by the residual life of the contract shows that the trading increases in proximity to the three months which precede the expiration date and reaches maximum intensity in the last thirty days before said expiration date.

Concentration of trading on S&S/Mib index options by days until maturity of the contract
(contracts concluded in the period June 2004 – October 2005)

The market's liquidity is guaranteed by market makers who are obliged to display bids and offers observing specific formalities and criteria. The trading proposals which give rise to the conclusion of a contract tend to remain stated in the trading book for an extremely brief period of time as a rule, before the conclusion of a contract: the majority of the contracts were in fact generated by trading proposals present on the book for just 4 seconds.

Speed of application of the trading proposals on S&P/Mib index options
(proposals which have given rise to contracts concluded in the period June 2004 – October 2005)



The trading purpose of credit derivatives, rather than that of hedging the credit risk, is the primary driver of the market. The most frequent underlying issuers are non-financial companies (which represent more than 60 percent of the gross positions), followed by banks, Governments and supernational issuers.

The involvement of Italian banks on the credit derivatives market has grown, albeit at a lower rate than that reported internationally (see § 2. of the subsequent Chapter III). However, the Italian market exhibits the international features in terms of purpose of the transaction and breakdown of the outstanding contracts by type of underlying instrument and underlying party. Furthermore, certain empiric regularities observed in other countries describe also the functioning of the credit default swap (Cds) segment with Italian issuers as underlying entities (Box 4).

Box 4

The Italian credit default swaps market

As shown by the empirical evidence, the prices of credit default swaps (Cds) show a certain variability according to the sector and the rating of the underlying (or reference) issuers and the maturity of the contract.

Similar evidence emerges with reference to the prices of Cds relating to a sample of 29 Italian issuers (the Italian Government, 15 listed non-financial companies and 13 listed banks), including two with speculative rating and the remaining with ratings in the range AA- / BBB-.

Prices of credit default swaps by sector of the underlying issuer and maturity of the contract[1]
(January – December 2005)

	Italian non-financial listed companies			Italian listed banks						Italian Republic		
				Senior bonds			Subordinate bonds					
Maturity	1Y	5Y	10Y	1Y	5Y	10Y	1Y	5Y	10Y	1Y	5Y	10Y
Average	37.05	94.08	124.54	8.57	24.67	35.60	14.43	40.98	58.42	5.35	12.57	20.96
Median	9.54	32.46	50.03	5.23	19.50	29.50	7.52	32.00	49.25	5.23	11.75	21.20
Minimum	5.23	12.77	18.68	5.23	9.00	12.98	5.23	18.50	28.89	5.23	5.27	5.31
Maximum	575.00	747.50	866.79	183.52	137.00	157.93	319.18	185.00	203.00	14.28	84.56	134.72
Standard deviation	65.91	126.68	151.23	10.89	16.15	19.30	22.59	26.06	28.54	0.89	7.40	11.60
Number of issuers		15			13			12			1	

Source: Consob figures on Datastream data. [1] Figures in basis points. In order to obtain the value of the premium in percentage points, it is necessary to divide the figure by 100. For example: the premium relating to bonds issued by non-financial companies with a maturity of one year (1Y), of 37.05 basis points, is in other terms equal to 0.3705 percent of the notional reference value.

The average (and median) values of the prices relating to non-financial companies are higher than those registered for banks (this partly depends on the fact that the average rating of the non-financial companies is lower than that of the banks); with reference to the latter, the Cds with subordinate bonds as underlying instrument exhibits higher prices. Furthermore, within the same sector the premium rises as the maturity of the contract or underlying securities increases.

The breakdown of the Cds prices by rating classes of the reference issuer shows that the premium increases – the contract maturity remaining equal - in correspondence with the lowest rating classes. The growth is greatest in the changeover from the investment grade class to the speculative class.

For the purpose of assessing the degree of liquidity of the Cds included in the sample, the average number of updates of the prices by rating class and by issuer type was analyzed. The number of updates was calculated considering the difference between the prices on two consecutive days: if this difference equates to zero, no update has taken place; if by contrast it is positive, the variable in question has been set as equal to one. The number of updates is therefore the sum of the day when, within the sphere of the period in question, the prices showed a change. This variable, which can be considered a proxy of the liquidity, appears positively correlated to the maturity of the contract and inversely correlated to the credit worthiness of the reference issuer.

Prices of credit default swaps and average number of updates of the prices by rating classes of the underlying issuer and maturity of the contract
(January – December 2005)

Number of companies	Rating class of issuer	Average price[2]			Average number of updates		
		1Y	5Y	10Y	1Y	5Y	10Y
		Non-financial companies					
1	from AA to AA-	5.37	17.81	28.76	12	76	76
4	from A+ to A-	5.84	24.94	39.80	73	100	122
7	from BBB+ to BBB-	15.56	50.29	72.90	156	144	167
2	from BB	169.39	378.42	467.14	222	207	222
1	without rating	65.56	153.45	196.68	188	136	188
		Banks					
2	from AA to AA-	5.32	15.47	23.60	47	199	216
10	from A+ to A-	6.55	22.08	32.97	84	132	174
1	from BBB+ to BBB-	32.80	65.77	82.58	167	115	149

Source: Consob figures in Datastream data and rating agency websites. [1] The rating taken is Fitch's, or if not available, S&P and Moody's respectively; figures at 31 December 2005. [2] Figures in basis points.

3. The market for covered warrants and certificates

In 2005, turnover on the securitised derivatives market (SeDeX) managed by Borsa Italiana Spa, reached € 49 billion, more than triple with respect to the previous year. The rise in turnover was accompanied by a sharp increase in the number of new issues of tradable products (around + 62 percent) (Table 13).

Table 13

Covered warrants and certificates listed on the SeDeX market
(amounts in billions of euros)

	Number of issues			Turnover
	Outstanding[1]	New[2]	Expired[3]	
1998	122	122	--	3
1999	1,565	1,660	217	14
2000	3,107	3,343	1,801	31
2001	5,866	8,194	5,435	21
2002	3,571	6,668	8,963	18
2003	2,594	4,749	5,726	11
2004	3,021	4,478	4,051	16
2005	4,076	7,253	6,198	49

Source: Consob and Borsa Italiana Spa. [1] Year-end data. [2] Admitted to listing during the year. [3] Includes securities revoked at the request of the issuer before their original maturity.

The range of tradable instruments includes plain vanilla covered warrants on Italian and foreign shares and stock indexes, exchange rates, precious metals and commodities futures; these are also joined by commodities indexes and interest rates, for exotic covered warrants and certificates.

Plain vanilla covered *warrants continued to be the most popular securitised derivatives on the SeDeX, representing 78 percent of total instruments listed at year end (around + 40 percent on the previous year). These are followed by investment certificates, which come to around 11 percent of the total (registering an identical drop with respect to 2004) and leverage certificates, 7 percent of the total (+ 29 percent with respect to 2004). Exotic/structured covered warrants still represent a modest share of the market (3.7 percent) albeit on the up with respect to 2004 (0.5 percent) (Table 14).*

Table 14

Types of covered warrants and certificates listed on the SeDeX market
(as at 31 December 2005)

Segment and category	Number of issues	Share of total [1]
Covered warrants		
Plain vanilla	3,189	78.2
Exotic	151	3.7
Certificates		
Leverage	290	7.1
Investment	446	10.9
Total	*4,076*	*10.,0*

Source: Consob and Borsa Italiana Spa. [1] Percentages. Rounding may cause discrepancies in the last figure.

Following the introduction of the possibility of admitting covered warrants with a maturity of over 5 years for listing, instruments with a maturity of between 6 and 15 years have been admitted on SeDeX. Long-term investment certificates have in fact been joined by structured cap-type covered warrants with maturities through 2020, aimed at offering the subscribers of floating-rate loans with partial hedging from the interest rate fluctuation risk. The strike acts as a cap (or maximum limit) for these products and corresponds to a fixed rate chosen by the investor: if, on maturity of each of the options

which comprise the covered warrant, the official interest rate is higher than the strike, the investor receives the positive difference between the two balances (and this equates to transforming the floating rate into a fixed one); otherwise, the investor is not entitled to any payment.

The issuers of securities listed on the SeDeX in 2005 numbered in total 15, as against 14 specialists appointed to guarantee the market's liquidity. In nearly all the cases, the issuer coincides with the specialist, or rather involves parties belonging to the same group. With reference to the trading concentration, the top 3 intermediaries cover 55 percent of the volumes (52 in 2004), with a share of over 20 percent for the leading intermediary which also offers a trading on-line service. The share held by the rest of the market fell from 36 percent in 2004 to just over 29 percent in 2005. Over 43 percent of trading took place on-line, a figure which confirms the SeDeX as a retail investors market.

With regards to the distribution of covered warrants on the basis of the profit deriving from an immediate exercise of the option (so-called moneyness), at the moment of issue around 48 percent of the plain vanilla call covered warrants on the S&P/Mib index and on Italian shares was *deep out of the money* (or rather issued with a strike/exercise price 8 percent greater than the market price of the underlying instrument). With regards to put instruments, 41 percent were *deep out of the money* at the time of issue (or with an exercise price 8 percent lower than the market price of the underlying instrument). The share of instruments belonging to this moneyness class came in total to around 66 percent of covered warrants issued during 2005. The covered warrants issued as *deep in the money* (with a strike 4 percent lower than the market price of the underlying instrument for calls and greater for puts) represent a meagre share, equating respectively to 10 and 7 percent of the calls and puts (Table 15).

Table 15

Distribution of the covered warrants listed on the SeDeX on the basis of the degree of moneyness on issue and maturity
(percentages)

	Degree of moneyness[1]	
	on issue[2]	on maturity[3]
Calls		
> 8% (deep out of the money)	47.9	34.6
from 4% to 8% (out of the money)	16.1	9.7
from 0 to 4% (at the money)	15.3	10.3
from 0 to 4% (in the money)	11.2	10.3
< -4% (deep in the money)	9.5	35.1
Total	*100.0*	*100.0*
Puts		
< -8% (deep out of the money)	40.6	64.9
from -4% to -8% (out of the money)	20.5	9.7
from 0 to -4% (at the money)	19.5	9.3
from 0 to 4% (in the money)	12.3	5.7
> 4% (deep in the money)	7.1	10.3
Total	*100.0*	*100.0*

Source: Consob figures on Borsa Italiana data. [1] Percentage difference between the exercise price and the market price of the underlying instrument at the time of issue of the covered warrant. [2] Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index issued in 2005. [3] Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index expired in 2005.

With reference to the moneyness at the time of maturity, the call covered warrants were equally deep out and deep

in the money (35 percent); put covered warrants by contrast present a predominance of expired deep out of the money instruments (65 percent of the cases as against the 10 of the circumstances were the *deep in the money* instruments have expired).

Certain analogies, with respect to the qualitative results which emerge from the analysis of the moneyness carried out with reference to plain vanilla covered warrants, are recognized with reference to leverage certificates. These instruments are characterized by the barrier mechanism or stop-loss, which activates in the event of the unfavourable performance of the underlying instrument, determining the redemption of the certificate. Around 17 percent of the instruments issued in 2005, with variable maturities ranging between 3 months and 4 years, were withdrawn before maturity. It is useful to remember that on reaching the barrier, whose value stands just above (for bull/long positions) or just under (for bear/short positions) the strike necessarily corresponds to a loss on the capital invested.

4. Bond markets

During 2005, gross bond issues by Italian non-financial companies and foreign subsidiary companies of Italian non-financial groups reported a significant drop with respect to last year, coming to around € 11.4 billion (€ 27.3 billion in 2004). Net issues, or rather the difference between bonds issued and those which have matured, came to nearly € 1 billion (€ 2.5 billion in 2004) (Figure 29).

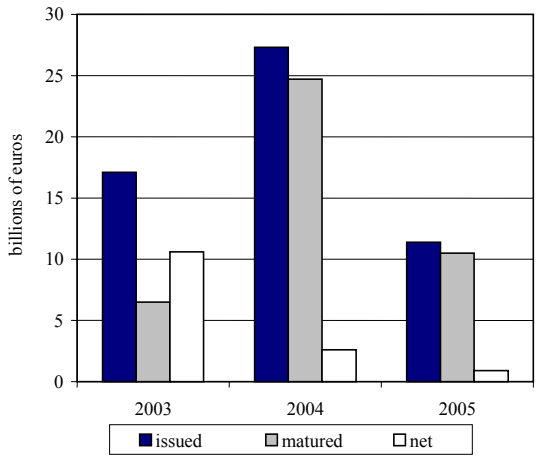
The negative market trend was more notable for certain categories of issuers. Specifically, small-medium sized unlisted companies, despite the still relatively low level of the interest rates and the spreads, continue to report difficulties in accessing the market. During 2005, what is more, even a number of medium-sized companies with bonds maturing preferred to refinance the debt by resorting to bank borrowing, or more complex restructuring transactions which sometimes involved share capital increases and the redefinition of the ownership structure.

As usual, therefore, nearly all the gross issues in 2005 are attributable to a few large listed groups.

In 2005, the first placement of corporate bonds via tender offer addressing retail investors (Enel bond for € 1 billion) took place. With regards to unlisted groups, a number of issues linked to debt financed acquisitions (so-called leverage buy out or LBO transactions) were also of particular significance.

Figure 29

Bond issues of Italian non-financial groups



Source: Calculations on Bondware data. Figures relating to bond issues placed on the Euromarket or via tender offers on the Italian market of Italian companies or foreign subsidiary companies of Italian groups.

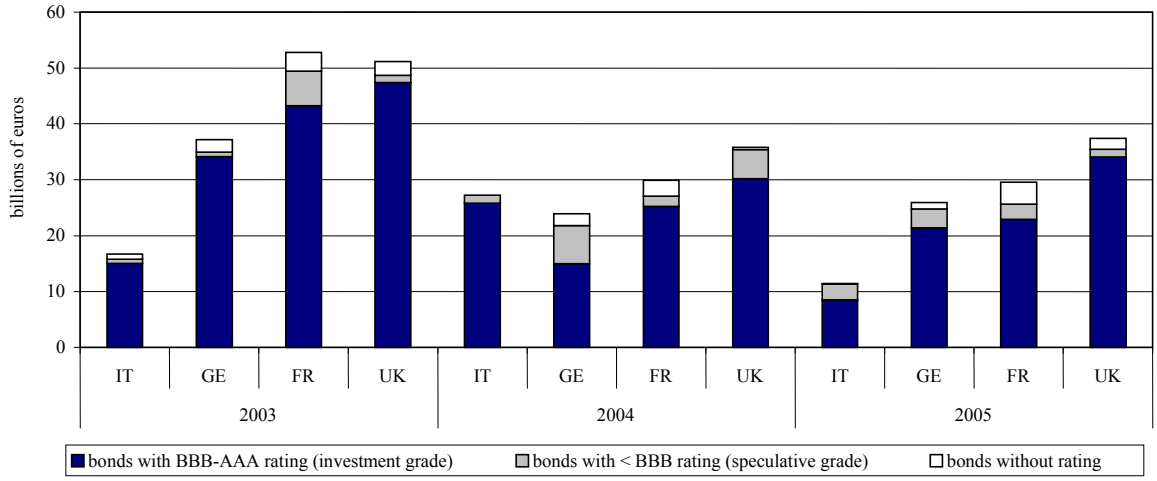
The gross issues made by Italian groups were clearly lower than those made by the companies of the leading European countries. In 2005, bond issues of French and German groups came to more than double the Italian issues, while the issues of UK groups came to more than triple the Italian issues. Furthermore, the portion of bonds with speculative rating or without rating among Italian issues continued on average to be lower than that seen in the other European countries, specifically with respect to France and Germany (Figure 30).

Demand for corporate bonds at European level continued to be high, as emerges from the fact that, also in 2005, the level of the differentials between the returns of the corporate bonds in Euro and those of Government securities remained at historically very low levels (Figure 31).

In detail, with reference to bonds with the highest rating (AA and A), the spreads remained more or less unchanged, while bonds with BBB and BB rating were partly affected by the downgrading of General Motors (GM) and Ford in April. Subsequently, in August, the insolvency of the motor component engineering company which was the main supplier of Ford and GM, Delphi Inc., with bonds issued for a total of US$ 4.8, contributed towards generating further tension on the market, even if overall the rise in returns requested by investors on speculative bonds was relatively contained (the level at the end of 2005 was essentially similar to that at the start of the year for securities with ratings of B).

Figure 30

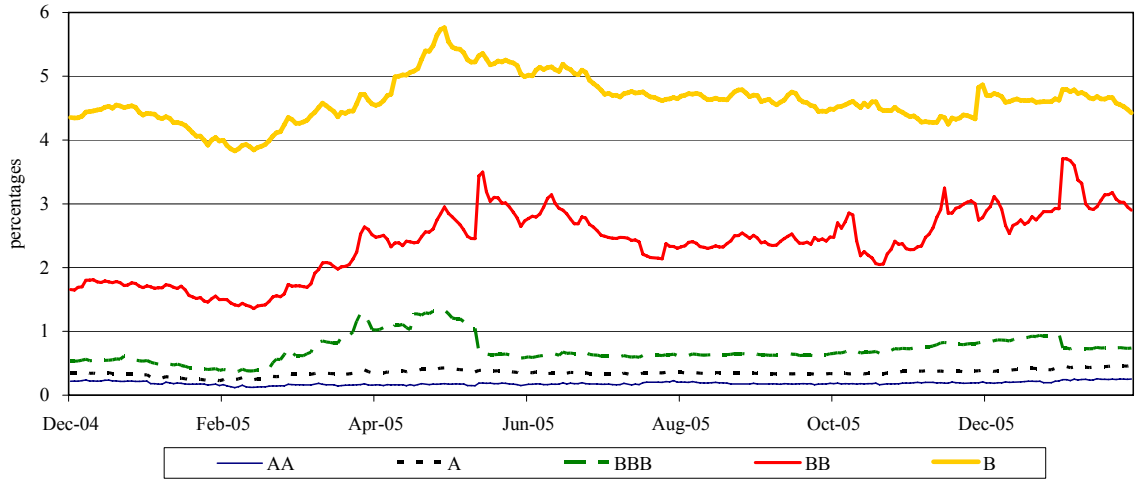
Bond issues of non-financial companies in the leading European countries



Source: Calculations on Bondware data. Figures relating to bond issues placed on the Euromarket or via tender offers on the Italian market of companies resident in the country of reference or foreign subsidiary companies of groups with headquarters in the country of reference.

Figure 31

Differentials between the returns on Euro bonds of non-financial companies and the returns on Euro Government securities
(daily figures; 31 Dec. 2004 – 25 Jan. 2006)



Source: Consob calculations on Merrill Lynch and Thomson Financial Datastream data. The returns on Government securities refer to German securities.

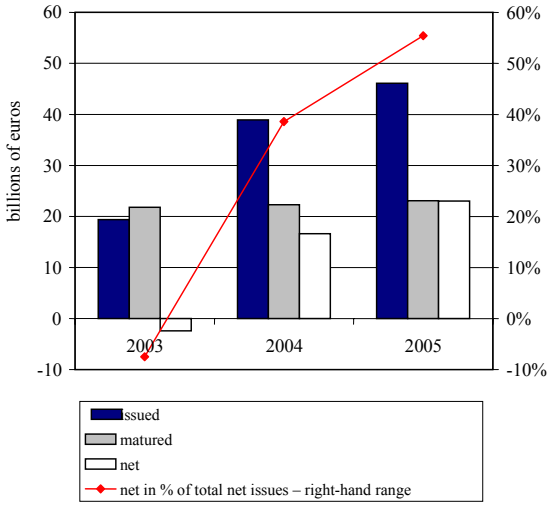
During 2005, the Italian banks' gross issues of Eurobonds amounted to around € 46 billion. Net issues on the Euromarket, totalling € 23.0 billion (€ 16.6 in 2004), represented 55 percent of total net funding (in other words inclusive of Italian placements); this figure increased on last year when it came to 39 percent (Figure 32).

The propensity of Italian banks to increase bond fund-raising on the Euromarket, (in other words with institutional investors) to the detriment of the Italian market (mainly with retail investors), is therefore confirmed.

Approximately 60 percent of gross funding and 53 percent of net funding on the Euromarket is attributable to the top five banking groups.

Figure 32

Bond issues of Italian banking groups placed with institutional investors



Source: Consob calculations on Assogestioni and Banca d'Italia data. Figures relating to bond issues placed on the Euromarket or via tender offers reserved for institutional investors by Italian banks or foreign subsidiaries.

With regards to the composition of the overall stock of Italian bank bonds, there was a continual trend towards reducing the weight of bonds with put or call options, which represented nearly all the stock of bonds in the mid 1990s, while the importance of structured bonds continues to rise (Figure 33).

In relation to structured bonds, the structured features moved towards greater complexity; therefore difficulties in the transparent representation of the effective risk-return profile of the financial instrument rose.

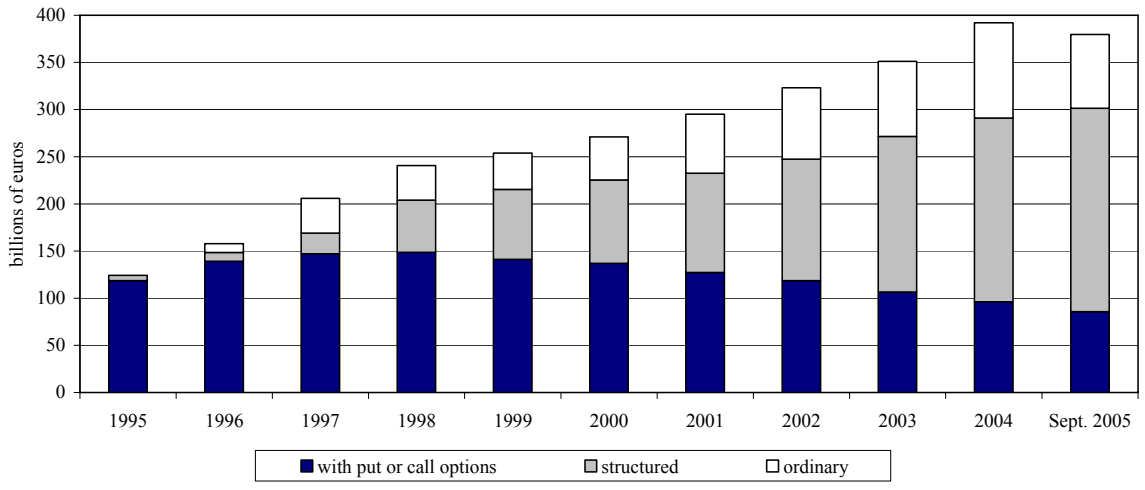
It must also be highlighted that the so-called mixed structures (which combine various different methods of parametrizing the return according to typical schemes of more than one type of structured bond) have a share of around 20 percent; their growth rate is, nevertheless, aligned to that of the entire segment.

With regards to the secondary market, bond turnover on regulated Italian markets dropped by around 12 percent, passing from € 2,478 to 2,193 billion (Appendix, Table A.16).

This decrease is due to the reduction in bond turnover on the regulated market run by Borsa Italiana (Mot), passing from € 147 to 123 billion (around -19 percent with respect to the previous year), and the decrease in the trading activity on the Government securities market (Mts), run by Mts Spa, which fell from € 1,900 billion to just under € 1,600 billion (-18 percent). The decrease recorded on the Mts has continued since 2002 at a rising rate over time.

Figure 33

Composition of the stock of Italian bank bonds



Source: Consob calculations on Kler's data.

It must however be pointed out that turnover on regulated markets provides a partial picture of the Italian secondary market, since the trading of bonds between professional investors mainly takes place also on OTC markets, while trading with non-professional investors essentially takes place off regulated markets and, in particular, on the so-called alternative trading systems (ATSs). These systems represent a significant phenomenon, even though extremely varied in the type of trading system, bilateral or multilateral, the liquidity conditions, the pricing and the type of instruments traded.

The turnover data of the ATSs, which Consob has received quarterly since the start of 2003, shows that the number of systems present, of 332 at the end of June 2005, was essentially stable. The great majority are bilateral systems (that is systems where a single operator – usually the same intermediary organizing the trade – displays bids and offers which can be accepted by the other operators, in contrast with multilateral systems, where a variety of operators are active in direct competition). The number of contracts concluded in the bilateral systems is steady (around 1.4 million contracts every six months), while by contrast there was a considerable drop (of around 40 percent) in the number of contracts concluded in the multilateral systems, as from the beginning of 2004, involving a partial inversion in the trend during the first half of 2005 (Table 16).

The ATSs represent an important circuit for the trading of bank bonds, but the liquidity of the individual securities is not always high. The majority of the trading on the ATSs in fact concerns bonds almost always issued by the same banking group to which the system operator belongs. For around 70 percent of these securities, the trading is somewhat reduced (less than one trade every 2 weeks during the period in question). The major matter of concern is related to structured securities, that is those with returns linked to the performance of market parameters, often according to mechanisms which render the security particularly risky and whose understanding by retail investors is not easy.

Table 16

Transactions on Italian ATSs

ATS type	ATS number	Securities traded	Total contracts
Bilateral			
2003 – 2nd half	331	19,546	1,401,200
2004 – 1st half	325	20,020	1,396,071
2004 – 2nd half	329	20,460	1,439,130
2005 – 1st half	328	21,509	1,474,566
Total (A)			*5,710,967*
Multilateral			
2003 – 2nd half	5	1,612	551,705
2004 – 1st half	5	1,341	456,597
2004 – 2nd half	5	1,337	328,028
2005 – 1st half	4	1,530	404,087
Total (B)			*1,740,417*
Total (A + B)			7,451,384

Source: Consob.

During the period between the second half of 2003 and the first half of 2005, the bond segment, to which 4.6 million contracts out of a total of 7.5 million refer, represents over 60 percent in terms of contracts concluded on the ATSs. Within the bond segment, bonds issued by Italian banks are predominantly traded (more than 3 million contracts in the two-year period in question) (Table 17).

Table 17

Securities traded and contracts concluded on Italian ATSs

		Number of securities traded				Contracts concluded				
		2003 II half	2004 I half	2004 II half	2005 I half	2003 II half	2004 I half	2004 II half	2005 I half	Total contracts
					Bonds					
Banks	Foreign groups	514	604	653	739	41,733	47,760	46,343	63,509	199,345
	Italian groups	17,230	17,581	18,098	18,969	735,046	769,902	735,853	827,927	3,068,728
Corporate	Foreign groups	914	865	866	903	277,587	202,924	103,336	142,388	726,235
	Italian groups	201	198	174	173	130,839	87,072	41,050	28,228	287,189
Governments and international organizations	Local Italian bodies	7	5	4	6	31	8	14	24	77
	Foreign public issuers	349	365	348	421	52,908	105,594	74,581	86,757	319,840
	Total	*19.215*	*19,618*	*20,143*	*21,211*	*1,238,144*	*1,213,260*	*1,001,175*	*1,148,833*	*4,601,412*
					Public securities					
Governments and international organizations	Foreign public issuers	496	542	564	590	62,457	56,496	35,442	77,236	231,631
	Italian public issuers	165	172	159	161	544,233	485,389	660,840	586,578	2,277,040
	Total	*661*	*714*	*724*	*751*	*606,690*	*541,885*	*696,284*	*663,814*	*2,508,673*
					Shares					
Banks	Foreign group	6	6	6	6	2,283	1,690	1,072	2,008	7,053
	Italian groups	60	58	48	51	34,848	29,805	18,759	14,191	97,603
Corporate	Foreign group	117	111	108	106	60,388	64,127	48,103	47,732	220,350
	Italian Groups	57	25	18	17	6,001	1,174	1,484	1,887	10,546
	Total	*240*	*200*	*180*	*180*	*103,520*	*96,796*	*69,418*	*65,818*	*335,552*
Unclassified		122	14	15	16	4,551	727	281	188	5,747

Source: Consob.

The various types of securities traded include, in terms of importance, also the corporate bonds issued by foreign parties belonging to Italian listed groups, initially placed with institutional investors. For some of these securities – exhibiting a higher credit risk – the aspects concerning the fairness of the intermediaries/traders, the liquidity of the security and disclosure are particularly significant, especially when the counterpart is a retail investor.

Following the corporate crises which involved a number of listed issuers (the most important of which being: Parmalat, Cirio and Giacomelli) the trading of corporate bonds with retail customers on ATSs underwent a sharp drop, to the advantage of the sale of other instruments traditionally traded on said systems, such as bank bonds and Government securities, especially Italian ones. The decrease in corporate bond trading mainly concerned smaller issues.

Corporate bonds turnover represented around 13 percent of total contracts, recording a sharp drop in the period in question. In detail, trading on securities issued both by Italian groups and foreign groups fell from more than 400,000 contracts in the second half of 2003, in other words in the period immediately prior to the Parmalat case, to around 170,000 contracts during the first half of 2005.

The corporate bond trading of Italian groups involved, in the two years under review, a total of 168 securities, issued by companies belonging to 55 different groups. There was a sharp reduction in trading on these financial instruments which concerned both the number of securities traded (dropping from 131 to 78), and the trading volume, in terms of the number of contracts and related values (the latter fell from € 2,639 to 572 million during the six-month period concerned) (Table 18).

Table 18

Trading of corporate bonds issued by Italian groups on ATSs [1]
(amounts in millions of euros)

	Number of securities	Number of groups	Number of contracts	Volume
2003 – 2nd half	131	47	123,681	2,639
2004 – 1st half	109	45	81,797	1,798
2004 – 2nd half	92	35	36,559	869
2005 – 1st half	78	32	25,132	572
Total	*168*	*55*	*267,169*	*5,882*

Source: Consob. [1] Includes just securities on which at least 10 contracts were concluded during the period in question. Rounding may cause discrepancies in the last figure.

The breakdown of trading on corporate bonds issued by Italian groups by amount of the loan shows that the reduction in turnover, despite being generalized for all the categories of loans, is particularly conspicuous for smaller issues. In fact, a decrease was reported in the number of contracts for this category of issues, of around 93 percent (from 8,207 to 565), mainly as from the second half of 2004; with regards to the segment overall, the drop came to 80 percent.

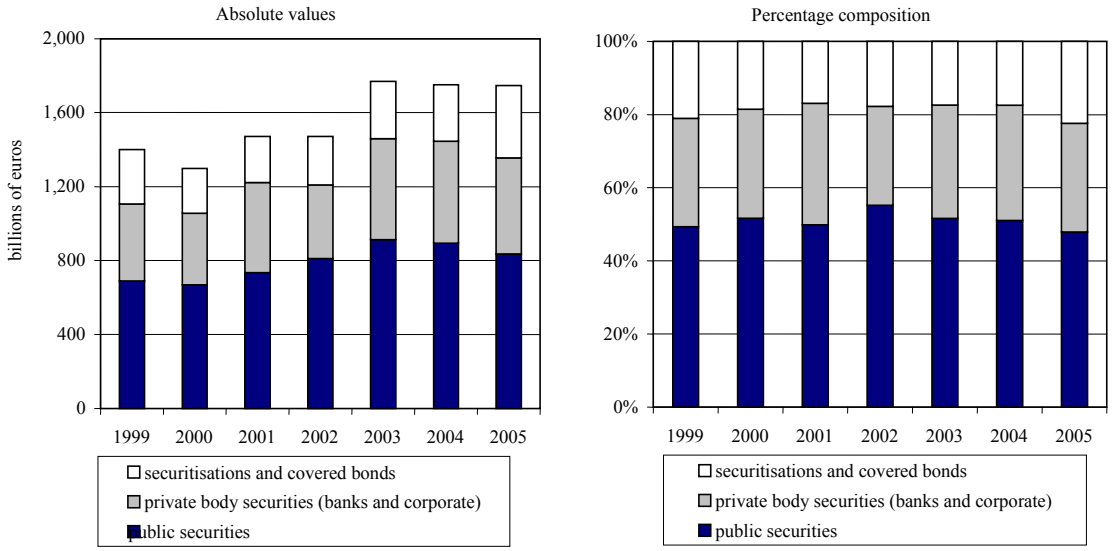
5. The market for asset backed securities and covered bonds

Bonds issued against transactions for securitising receivables or other assets (so-called asset backed securities) and covered bonds represent a bond market segment which is achieving growing importance in Europe, while in the USA these instruments have for several years now represented one of the most important segments of the entire American financial system.

On the basis of the figures of the European Commission, as from 1999 covered bonds and bonds deriving from securitisation represented a share fluctuating around 20 percent of total Euro bond issues; in terms of absolute value, they amounted to nearly € 400 billion in 2005 (Figure 34).

Figure 34

Gross issues of euro-denominated bonds



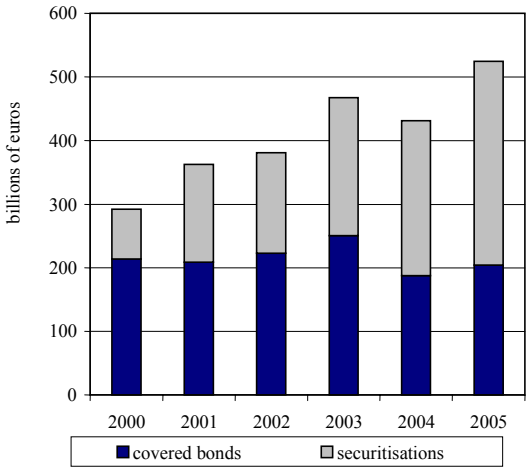
Source: Consob calculations of European Commission data (Economic and Financial Affairs Management Division).

The statistics published by the European Securitization Forum (Esf), which also take into account the issues in currency other than Euro made by European issuers (in particular, those in sterling made by UK issuers), shows that issues of covered bonds and bonds deriving from securitisation by European issuers (in whatever currency) rose from just under € 300 billion in 2000 to over € 500 billion in 2005. The rise, however, is entirely due to the segment of securities deriving from securitisation transactions, whose issues rose from € 100 to over 300 billion, while placements of covered bonds (75 percent of which made by German banks) remained stable at around € 200 billion a year (Figure 35).

With specific reference to the ABSs, the Esf data indicate that most of the issues are attributable to the UK issuers (approximately 45 percent in 2005), while Italy and Spain are the most important markets after the UK (Figure 36).

Figure 35

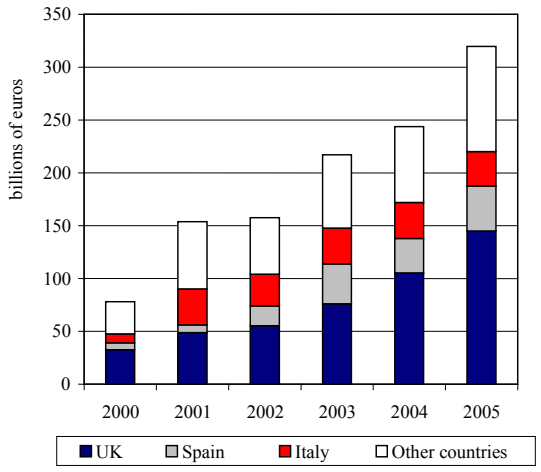
Gross issues of covered bonds and ABSs in Europe



Source: Consob calculations on European Securitization Forum data.

Figure 36

Gross issues of ABSs in Europe



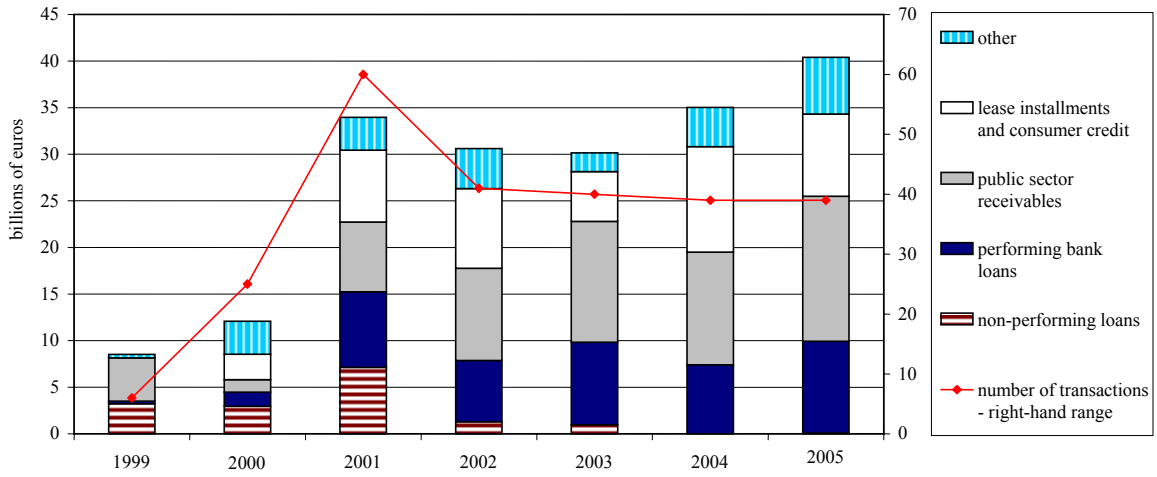
Source: Consob calculations on European Securitization Forum data.

With specific reference to the Italian market, during 2005 securitisation issues backed by receivables reported an increase of just over 15 percent on the previous year, amounting in total around € 40 billion. By contrast, the number of transactions remained stable at 39 (Figure 37).

The breakdown of the ABSs issued in 2005 by type of underlying receivable showed the predominance, per number of transactions, of securities referring to public body receivables, as a result of the substantial programme of securitisations of various types of receivables and assets (in particular public property and contributory receivables) launched for several years now; these are followed by transactions relating to performing loans and to those relating to lease instalments (Appendix, Table A.17). By contrast, the weight of non-performing loans is by now marginal, having progressively decreased following elimination of the favourable statutory and tax regulations envisaged by Italian Law No. 130/1999 for transactions carried out within two years of the date of enforcement of said law. In 2005, the first two covered bond transactions were also achieved, carried out by Cassa Depositi e Prestiti *on the basis of an ad hoc legislative provision passed in 2003.*

Figure 37

Number and value of issues of ABSs carried out pursuant to Law 130/1999 by type of underlying credit



Source: Consob calculations on Securitisation.it data. In 2005, the item "other" includes covered bond issues totalling € 4 billion.

The predominance of transactions attributable to companies belonging to the public sector is confirmed also with reference to the value of the related issues, which at the end of 2005 amounted to around € 17 billion (€ 12 in 2004), representing about 39 percent of the total (35 in the previous year). Issues backed by bank receivables, mainly mortgage loans on residential and commercial properties, increased from € 7 to around 10 billion, representing around 24 percent of the total (21 in 2004); by contrast, the amount referring to the transfer of receivables for lease instalments fell, from around € 9 to 7 billion, as did its percentage of total issues (from 25 to 17 percent in the period under review).

The breakdown of the various portions of ABSs issued during 2005 by degree of subordination and by type of underlying receivables shows that for nearly all the types of transactions the weight of the junior tranches is marginal and progressively decreasing, while the portions of mezzanine tranches have increased (Table 19).

Table 19

Composition of issues of Italian ABSs by subordination tranches and type of underlying receivables
(percentages)

	2003			2004			2005		
	Junior	Mezzanine	Senior	Junior	Mezzanine	Senior	Junior	Mezzanine	Senior
Non performing bank loans	51.7	2.5	45.7	--	--	--	32.4	17.0	50.6
Performing bank loans	3.0	5.3	91.8	1.3	5.9	92.9	0.7	5.9	93.4
Public body receivables	--	0.9	99.1	--	--	100.0	--	7.7	92.3
Lease instalments	4.1	5.8	90.1	0.7	6.0	93.4	0.9	10.1	89.0
Personal loans and consumer credit	3.6	4.4	92.1	1.5	4.9	93.6	3.1	7.0	89.9

Source: Securitisation.it. Rounding may cause discrepancies in the last figure.

III – INTERMEDIARIES AND HOUSEHOLDS

1. The investment services and asset management industry

The Italian investment services and asset management industry is characterized by the predominant presence of banking groups, to which a consistent portion of revenues from investment services and almost all the asset management activities are ascribable either directly or indirectly via investment firms and asset management companies.

It should also be mentioned that the investment firms, banking and non-banking in origin, have by now adopted a marginal role in the asset management and investment sector. Their market share is modest in all investment services, except for the segments concerning door-to-door selling and reception and transmission of orders (Table 20).

Table 20

Market share and composition of investment firm revenues
(percentages for the 1st half of 2005)

	Percentage of total revenues	Market share
Dealing for customer account	23.0	8.9
Dealing for own account	5.5	..
Placement with commitment underwriting	0.5	1.0
Placement without subscription	11.0	4.9
Individual portfolio management	12.0	4.8
Reception and transmission of orders	10.5	32.0
Door-to-door selling	38.0	20.0

Source: Consob calculations on statistical supervisory indications.

In terms of incidence of the revenues, the activities of the investment firms are by now focused on dealing for customer account (albeit with a still modest market share when compared with the banks) and door-to-door sales (in other words the distribution of financial products via networks of salesmen). During the first half of 2005, trading on behalf of third parties contributed towards the total revenues of the investment firms for a total of 23 percent, while revenues relating to door-to-door sales represented 38 percent of total revenues; by contrast, asset management, placement without subscription and reception and transmission of orders contributed to a similar extent (just over 10 percent).

During the first half of 2005, total revenues of the investment firms amounted to around € 470 million (as against € 6 billion reported in the same period by the top 10 banking groups; see § 2. further on). The portion relating to parties controlled by individuals and non-banking groups came to around 46 percent (Table 21).

Table 21

Ownership structure of the investment firms
(percentages at 30 June 2005)

Parent company	Percentage of total number of investment firms	Percentage of total revenues of investment firms
Banking groups	28	54.2
Insurance groups	10	5.3
Financial groups	10	26.8
Individuals	52	13.7
Total	*100*	*100.0*

Source: Consob.

The number of investment firms and trust companies also underwent a decrease, as had already emerged in previous years: the number of authorized persons in fact fell by around 6 percent, passing from 115 in 2004 to 108 in 2005.

Cancellations from the register of investment firms, of 11 (against 4 new enrolments), are essentially attributable to the voluntary exit from the market of marginal operators (7 cases); in 3 cases mergers within asset management companies or banks took place, while in one case the company was transformed into a bank (Appendix, Table A.18).

By contrast, with reference to collective asset management, it should be noted that the majority of the mutual investment funds (open-end, closed-end and speculative) are run by asset management companies of banking-origin (95 out of a total of 179 management companies; Table 22).

Around 92 percent of assets managed in open-end mutual investment funds are ascribable to banking groups (Table 23).

Table 22

Asset management companies by management type and ownership structure
(at 31 December 2005)

Management type	Parent company				
	Banking groups	Insurance groups	Non-bank financial intermediaries	Individuals	Total
Open-end funds	44	9	6	10	69
Closed-end funds	24	2	27	13	66
of which: Private equity	*16*	*1*	*15*	*11*	*43*
Real estate funds	*8*	*1*	*12*	*2*	*23*
Speculative funds	22	2	8	5	37
Asset management	5	--	2	--	7
Total	*95*	*13*	*43*	*28*	*179*

Source: Consob archive on listing prospectuses.

Table 23

Ownership structure of mutual fund management companies [1]
(percentages of total assets managed)

	Type of controller						
	Banking groups	of which foreign	Insurance groups	of which foreign	Non-bank financial intermediaries	Individuals	*Total*
2000	93.5	4.0	5.3	3.8	0.4	0.8	*100.0*
2001	93.7	4.0	5.4	3.7	0.1	0.7	*100.0*
2002	94.0	4.5	5.0	3.0	0.2	0.9	*100.0*
2003	94.3	4.1	4.4	2.3	0.5	0.9	*100.0*
2004	93.5	3.5	5.2	2.8	0.6	0.8	*100.0*
2005	92.3	14.0	5.8	3.1	0.8	1.0	*100.0*

Source: Consob archive on listing prospectuses and Assogestioni data on total assets. See Methodological Notes. [1] Situation as at 31 December referring to open-end mutual investment fund management companies managed by Italian intermediaries (the time series have been adjusted following the inclusion of the Italian funds of funds and foreign funds set up and offered in Italy by companies belonging to Italian groups). Total assets are considered gross of funds of funds and unharmonized funds. Rounding may cause discrepancies in the last figure.

This figure, essentially in line with that reported in previous years, however shows an innovative element with reference to the presence of foreign groups, in relation to which a significant increase was reported (from 3.5 percent in 2004 to 14 percent in 2005). The increase is due to the acquisition of control by a French banking group over a large asset management company. This transaction represents the first significant example of direct entry into the domestic market by a foreign party and flanks the more widespread method of indirect presence, involving the marketing of holdings/shares of UCITs via the distribution channels of national operators.

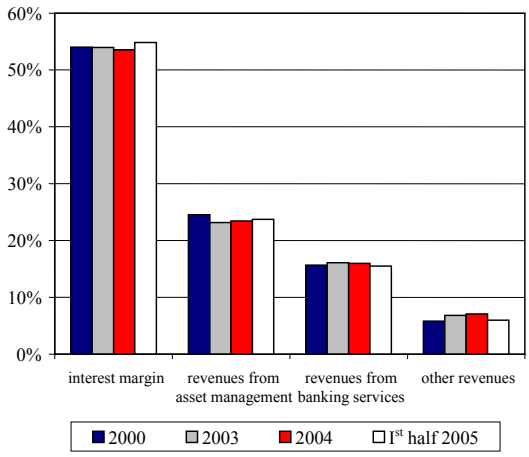
2. Banking groups

Besides the by now dominant presence of banks and banking groups, the asset management and investment sector increasingly features a growing level of concentration. The top 10 banking groups in terms of total assets cover around 64 percent of asset management and approximately 61 percent of trading revenues.

Between 2000 and 2004, the composition of the total revenues (gross income) of the top 10 Italian banking groups remained more or less stable. A slight reduction was seen in the share of the net interest income (essentially the difference between interest income and expense), which rose however to 55 percent in the first half of 2005, while the percentage of revenues from banking services remained stable at around 15 percent. The share of revenues from asset management and investment services was by contrast down slightly with respect to 2000, in any event representing just under a quarter of the total revenues of the leading Italian banking groups (Figure 38).

Figure 38

Composition of the gross income of the top 10 Italian banking groups



Source: calculations on consolidated financial statements and half-yearly report data. See Methodological Notes.

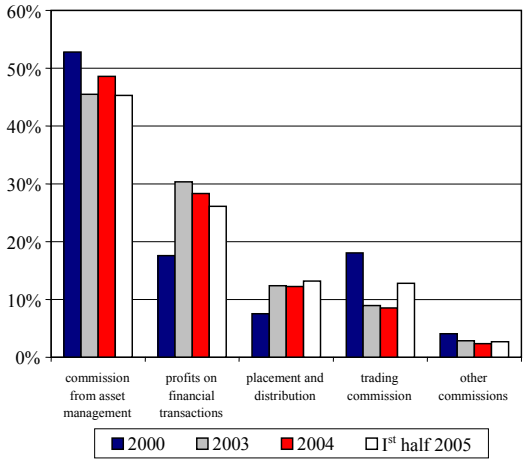
The composition of revenues from asset management and investment activities nevertheless changed considerably during the last few years. The percentage of revenues deriving from asset management (individual and collective portfolios) dropped from around 52 percent in 2000 to approximately 45 percent in the first half of 2005, while the incidence of profits on financial transactions increased sharply (from around 17 percent in 2000 to more than 25 percent in the first half of 2005) together with net placement commission. Between 2000 and 2004, the portion of net revenues from trading for customer account more than halved, rising again in the first half of 2005 (Figure 39).

In the international comparison, the revenues' structure of the leading Italian banking groups differed considerably to that of the leading German and French groups, whilst it is more similar to that of the UK banks (Box 5).

The figures in terms of absolute value show that, between 2000 and 2004, net commissions for investment services and collective asset management fell considerably, passing from € 9.3 to 8.1 billion (around - 13 percent), while profits on financial transactions rose from € 2.0 to € 3.2 billion (around + 60 percent; Table 24).

Figure 39

Composition of revenues from asset management and investment activities of the top 10 Italian banking groups



Source: calculations on consolidated financial statements and half-yearly report data. See Methodological Notes.

Table 24

Aggregate income statement of top 10 Italian banking groups
(amounts in millions of euros)

	2000	2003	2004	1st half 2005	% change 2005/2004[1]
Net interest income (a)[2]	24,770	25,844	25,972	14,032	8.1
of which: balance of transactions in derivatives hedging interest rates	43	-1,559	-1,154	….	
Net commission (b = b.1 + b.2)	16,442	15,425	15,900	8,455	6.3
of which: investment and collective management services (b.1)	9,264	7,732	8,146	4,488	10.2
securities and currency trading and order acceptance	2,028	991	968	777	60.4
individual portfolio management:	1,095	675	693	268	-22.7
collective portfolio management	4,835	4,051	4,476	2,346	4.8
depositary bank	-	325	351	136	-22.6
securities safekeeping	331	201	196	58	-41.0
placement and distribution of financial and insurance products	849	1,371	1,390	800	15.1
consultancy	112	85	72	32	-11.4
other	14	32	-	72	
commission from banking services (b.2)[3]	7,178	7,693	7,755	3,967	2.3
Profits on financial transactions (c)	1,975	3,367	3,218	1,584	-1.5
Revenues from asset management and investment services(b.1 + c)	*11,239*	*11,099*	*11,365*	*6,072*	*6.9*
Other operating income (d)	2,660	3,267	3,428	1,526	-11.0
Gross income (e = a+b+c+d)	45,847	47,904	48,520	25,632	5.7
Operating costs (f)[4]	27,503	30,118	29,808	13,969	-6.3
Operating result (e-f)	18,344	17,785	18,712	11,663	24.7
Net profit[5]	7,235	4,807	8,361	5,899	41.1

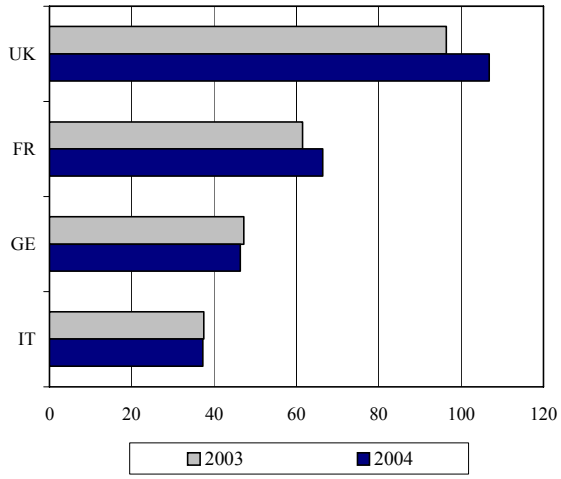
Source: calculations on consolidated financial statements and half-yearly report data. Rounding may cause discrepancies in the last figure. See Methodological Notes. [1] The 2005 figures are annualized. [2] Including dividends on holdings and profits or losses on holdings carried at equity. [3] Net commission for guarantees given and derivatives on receivables, collection and payment services and servicing for securitisation transactions, tax collection services, net commission on current accounts, credit cards and payment cards services. [4] Administrative expenses plus value adjustments on tangible and intangible fixed assets. [5] Including profit pertaining to minority shareholders.

Box 5

Revenues of the leading European banking groups

In terms of net revenues (gross income), the average size of the top 5 Italian banking groups is considerably smaller than that of the leading banks in the main European countries. The average size of the top 5 Italian groups equates to less than half that of the top 5 UK groups (Barclays, HSBC, Royal Bank of Scotland, HBOS and Lloyd's TSB) and less than two thirds of that of the top 5 French groups (BNP Paribas, Société Générale, Crédit Agricole, Banques Populaires Group and Credit Mutuel CIC); the difference with respect to the top 5 German groups (Deutsche Bank, Commerzbank, Dresdner Bank, Bayerische HVB and Postbank), by contrast, is less marked.

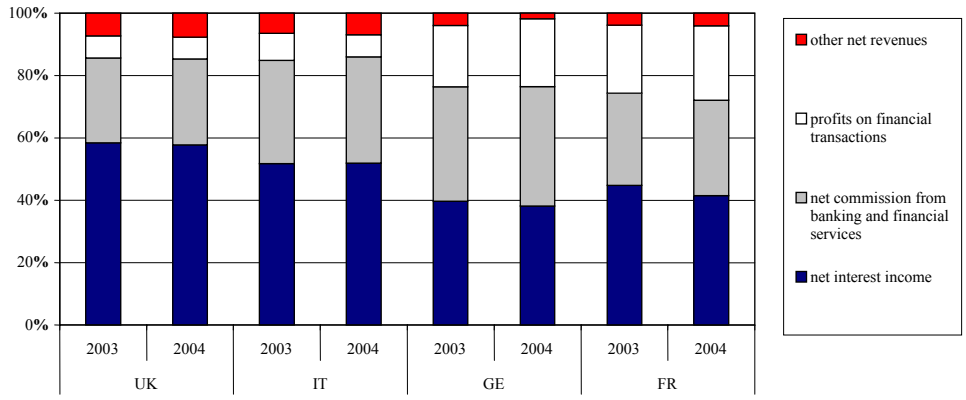
Net revenues of top 5 banking groups
(amounts in billions of euros)



Source: calculation based on company financial statements. Excluding revenues from insurance activities.

The revenues' structure of the Italian banking groups presents a number of differences with respect to that of the other large European banks. With regards to the Italian banks, the incidence of net interest income on total revenues comes to around 50 percent, compared with around 40 percent for the French and German banks; the share of net interest income is by contrast higher for UK banks (just under 60 percent). The incidence of net commission from banking and financial services is higher for the German banks (around 38 percent), compared with 34 percent for the Italian banks, approximately 30 percent for the French banks and 27 percent for the UK banks. The portion of revenues from trading activities (profits on financial transactions) is by contrast higher for the French (around 24 percent) and German banks (approximately 20 percent), compared with about 7 percent for the Italian and UK banks.

Composition of net revenues of the top 5 banking groups of the leading European countries



Source: calculations on company financial statements. Excluding revenues from insurance activities.

In greater detail, net commission for trading on behalf of third parties halved, passing from € 2 to around 1 billion, and that linked to individual portfolio management fell from € 1 billion to around € 700 million (- 30 percent). Net placement commission passed from approximately € 850 million in 2000 to about € 1.4 billion in 2004 (around + 65 percent). The figures for the first half of 2005 confirm the downwards trend of net revenues from individual portfolio management, while they indicate an inversion in the trend of trading commission.

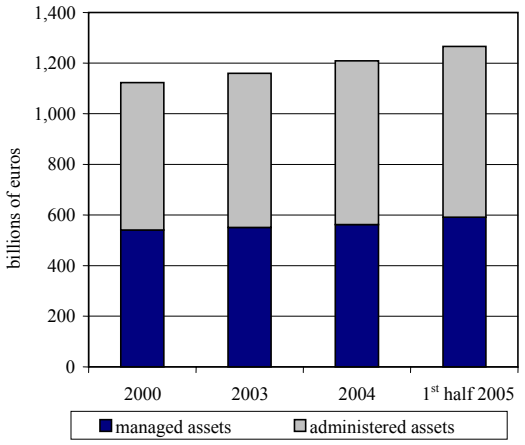
Despite the drop in absolute value of net commissions from asset management (collective and individual portfolio management, and depositary bank), there was essential stability in the managed assets of the main banking groups (which passed from € 540 billion in 2000 to € 590 in June 2005). The total of so-called "indirect funding" (managed assets plus administered assets), by contrast, increased considerably, from around € 1,100 to € 1,250 billion (about + 13 percent), thanks to the rise in administered assets, passing from € 582 to 675 billion (around + 16 percent) (Figure 40).

With regards to direct funding, during the first half of 2005 there was essential stability in the percentage of funding represented by bonds and other securities (subordinated liabilities and certificates of deposit) standing at around 32 percent of total direct funding (Figure 41).

With regards to the securities portfolio, the financial statement figures of the major banking groups showed a growth which reverses the trend for the 2000-2003 period.

Figure 40

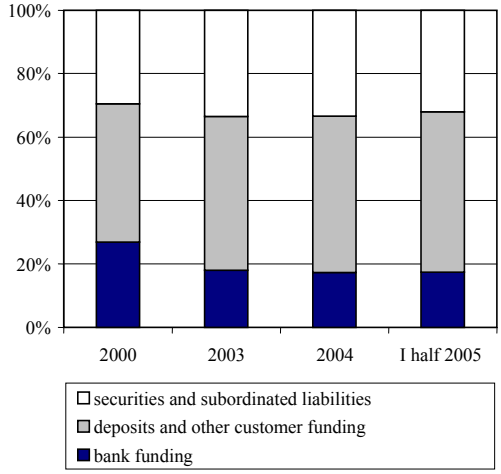
Indirect funding of the top 10 Italian banking groups



Source: calculations on consolidated financial statements and half-yearly reports. Period end balances. See Methodological Notes.

Figure 41

Composition of the direct funding of the top 10 Italian banking groups



Source: calculations on consolidated financial statements and half-yearly reports. Period end data. See Methodological Notes.

The figures for the first 2005 half-yearly reports drawn up on the basis of the Ias/Ifrs separately highlight the new item "Available-for-sale assets" (whilst it is assumed that the other two aggregates introduced by the Ias/Ifrs, "assets held until maturity" and "trading assets", coincide, respectively, with the previous distinction between "investment" and "trading

securities"). The new accounting information based on the Ias/Ifrs makes it possible to separately indicate the net market value of the trading and hedging derivatives (whilst with the previous accounting standards the derivatives remained off balance sheet).

The figures for the first half of 2005 according to the Ias/Ifrs show sharp growth in financial assets, essentially attributable to the new item "*available-for-sale assets*" (Figure 42).

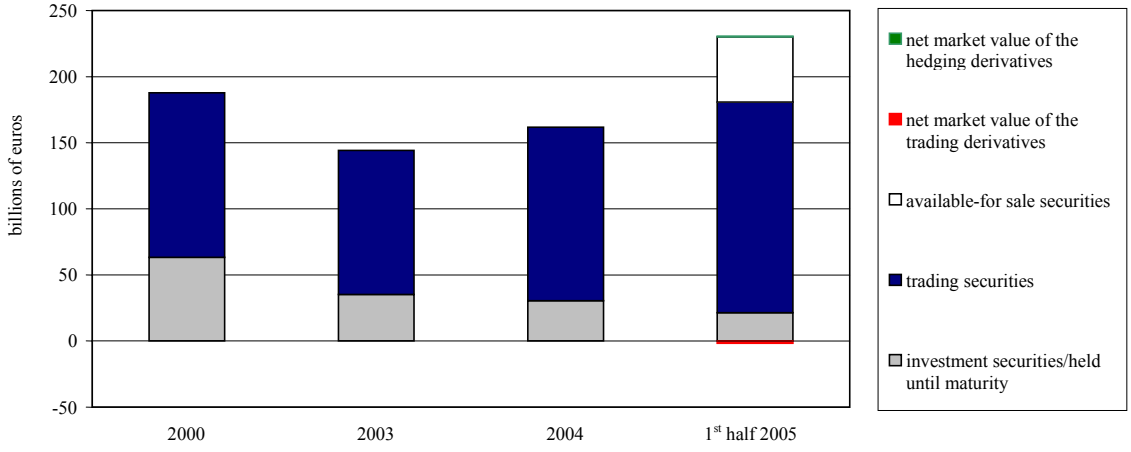
However, this is an item which introduces an inevitable inconsistency in the series, since it includes both securities previously classified under holdings (and therefore not shown in the 2000-2004 figures) and securities and holdings pertaining to the insurance business which did not appear before in the consolidated financial statements.

Even excluding available-for-sale assets, the growth in the securities portfolio with respect to 2004 was rather marked (approximately € 19 billion, + 11.8 percent) and confirms the trading portfolio's growth trend to the detriment of the investment portfolio. The net market value of the derivatives is, by contrast, entirely marginal with respect to the size of the securities portfolio (€ + 700 million for hedging derivatives and € - 1.7 billion for trading derivatives). Nevertheless, for a number of major banking groups the rather modest net value derives from the offsetting of positions with positive and negative market values which, taken at absolute value, have an order of size comparable with that of the entire securities' portfolio. If, therefore, the market risks of these derivative positions are probably limited (since changes in rates and share prices have likewise positive and negative effects which tend to balance out), there however remains a strong counterpart risk, especially for the so-called OTC derivatives.

Taking into consideration both the holdings and the financial assets (including those "available for sale") by contrast one obtains an aggregate more consistent with the same aggregate calculated using the 2000-2004 financial statements, except for the fact that the available-for-sale assets contain securities and financial assets of companies which are dissimilar (in particular insurance companies) and previously excluded from

Figure 42

Composition of the securities portfolio of the top 10 Italian banking groups

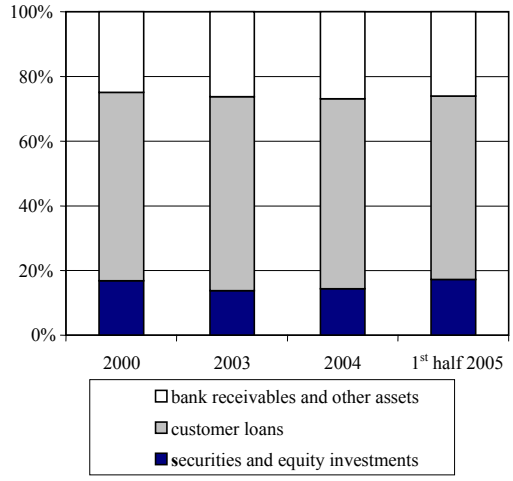


Source: calculations on consolidated financial statements and half-yearly reports. Period end balances. The 2005 figures do not include financial assets designated at fair value deriving from the consolidation of the subsidiary insurance companies. See Methodological Notes.

the scope of consolidation. Despite this limitation, the percentage of the "securities + holdings portfolio" aggregate as a percentage of the total assets of the top 10 banking groups rose, from 14.4 percent in 2004 to 17.2 percent in the first half of 2005, against a drop in the percentage of customer loans, which fell from 58.8 percent to 56.8 percent (Figure 43).

Figure 43

Composition of the assets of the top 10 Italian banking groups



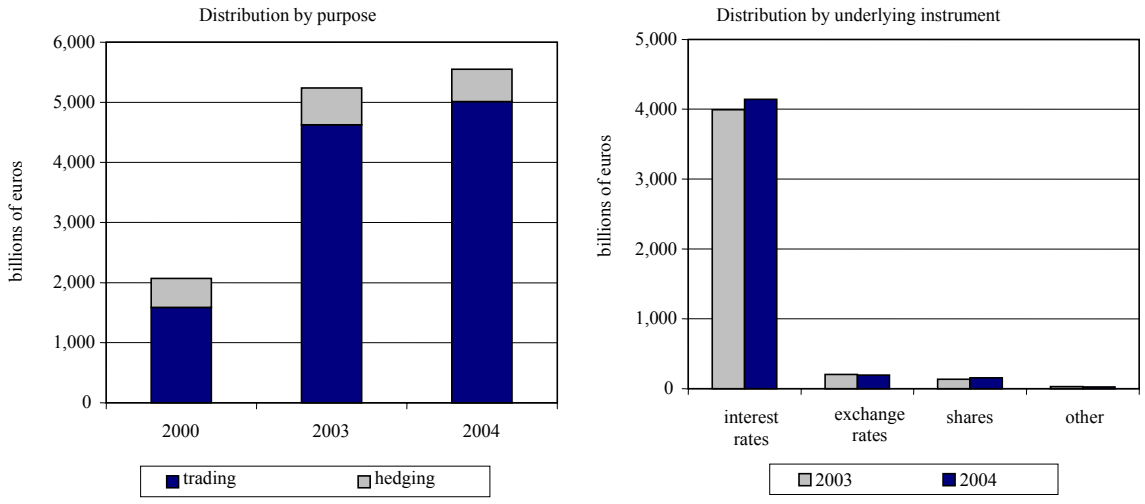
Source: calculations based on consolidated financial statements and half-yearly reports. Period end data. See Methodological Notes.

Despite the modest market value of the derivative instruments, the transactions of the major Italian banking groups on these instruments reported an extremely sharp increase. Between 2000 and 2003, the notional value of the portfolio derivatives more than doubled, passing from around € 2,000 to more than 5,000 billion; in 2004, derivative instruments rose further, reaching around € 5,300 billion (+ 6.2 percent; see § 2. of previous Chapter II). The notional value of the derivatives came to nearly 5 times the total assets (at the end of 2004) of the banking groups in question (Figure 44).

Around 90 percent of the derivatives are classified by the banks in the trading portfolio, while the remaining portion is for hedging purposes. While the notional value of the hedging positions remained essentially unchanged between 2000 and 2004, at around € 450 million, derivative trading contracts, by contrast, rose sharply (from € 1,570 to 4,900 billion). Around 77 percent of derivative contracts concerned interest rates.

Figure 44

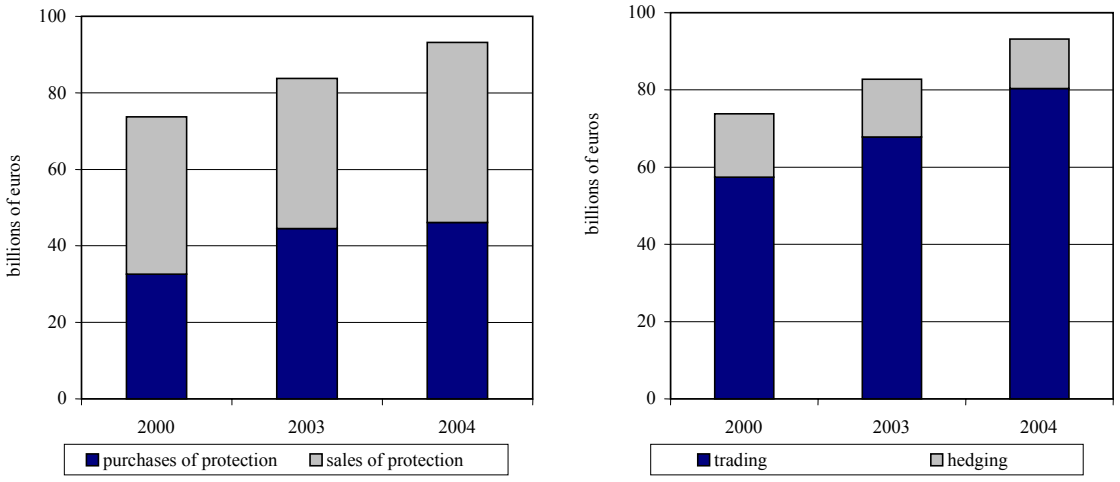
Notional value of the financial derivatives of the top 10 Italian banking groups



Source: calculations based on consolidated financial statements. Period end balances. See Methodological Notes.

Figure 45

Notional value of the derivatives on credit risk of the top 10 Italian banking groups



Source: calculations based on consolidated financial statements. Period end balances. See Methodological Notes.

During 2003 and 2004, hedging transactions for the handling of the interest rate risk caused heavy losses (€ 1.7 billion in 2003 and € 1.4 in 2004; see Table 24 above), which negatively affected the total net interest income of the top 10 banking groups (by around 6 percent in 2003 and around 4 percent in 2004).

By contrast, with regards to credit risk derivatives, so-called credit derivatives, the financial statement figures indicate a rise in operations which is also high but more uniform. The notional value of the contracts, in fact, rose from € 70 billion to approximately 90 billion between 2000 and 2004 (Figure 45).

The magnitude of the credit derivatives transactions, even though consistent in absolute terms, is much lower than that relating to financial derivatives (€ 90 billion compared with over € 5,000 billion), confirming that the credit derivatives market is still at an early stage of development. Again in the case of credit derivatives, the majority of the positions are classified by the bank in the trading portfolio. Sales of protection are more or less balanced by purchases of protection.

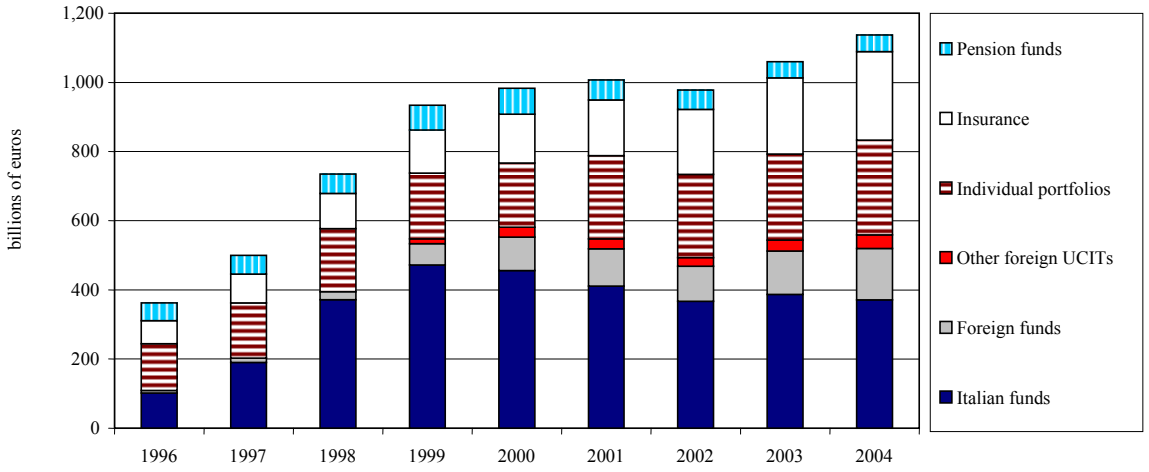
Credit derivative transactions are, for some banks, linked to so-called "synthetic" securitisation transactions; in such cases, the bank, instead of factoring the receivable to specific companies (as occurs, for example, in ordinary securitisation transactions), stipulates a credit default swap contract (Cds) with other financial institutions by means of which it hedges itself from the risk of default on a specific portfolio of receivables. In this way, the hedged receivables can benefit from lower weighting for the purpose of calculating the supervisory capital.

3. Institutional investors

The assets of the institutional investors (including investment funds, individually managed portfolios, pension funds and life sector insurance companies) rose by 7.2 percent to approximately € 1,137 billion in 2004 (Figure 46).

Figure 46

Assets of Italian institutional investors



Source: calculations on Assogestioni data. Period end balances. In relation to insurance, the figure records the technical reserves. The figures relating to individual portfolios, insurance and pension funds are stated net of investment in mutual fund units.

These figures consolidates the reversal emerged as from 2003, when the increase stood at around 9 percentage points on the previous year.

During the period between 1996 and 2004, the percentage of the mutual funds controlled by Italian intermediaries (including foreign funds set up by Italian intermediaries) and that regarding insurance increased, respectively by around 16 and around 4 percentage points (in particular, the percentage of the former rose from approximately 31 to 46 percent; that relating to insurance, from around 19 to 23 percent). Vice versa, the percentage referring to individual portfolios decreased (from 37 to just under 24 percent) together with that concerning pension funds (from 14 to 4 percent).

Excluding insurance and pension funds, the composition of the assets under management by product type and nationality of the manager did not undergo any significant changes during the first half of 2005.

Specifically, against the drop in the percentage of Italian funds, from 44.5 percent at the end of 2004 to just over 43 percent in the first half of 2005, essential stability was seen in the portion relating to foreign funds managed by Italian groups (standing at around 18 percent). There was also a slight increase in the incidence of foreign UCITs (from 4.7 to 5 percent) and individual portfolios (from 33.0 to 33.7 percent) (Table 25).

During the first nine months of 2005, growth of the assets managed by mutual investment funds in the European Union was in line with that reported in the USA (of around 20 percent; Appendix, Table A.19).

The market shares attributable to the European countries recorded some changes when compared with 2004. While France and Luxembourg continued to hold the majority

Table 25

Composition of the assets of individual and collective portfolios by type of product [1]
(percentages)

	Italian funds	Foreign funds [2]	Other foreign UCITs	Individually managed portfolios [3]	*Total*
1996	41.8	2.9	....	55.3	*100.0*
1997	52.5	3.5	....	44.0	*100.0*
1998	64.6	4.0	....	31.5	*100.0*
1999	64.0	8.4	1.7	25.8	*100.0*
2000	59.4	12.7	3.6	24.2	*100.0*
2001	52.2	13.7	3.6	30.6	*100.0*
2002	50.0	13.8	3.4	32.8	*100.0*
2003	48.8	15.8	4.0	31.4	*100.0*
2004	44.5	17.8	4.7	33.0	*100.0*
2005[4]	43.2	18.1	5.0	33.7	*100.0*

Source: calculations based on Assogestioni and Bank of Italy data. See Methodological Notes. [1] Rounding may cause discrepancies in the last figure. The series have been adjusted following the inclusion of funds of funds. Total assets are considered gross of funds of funds and unharmonized funds. [2] Funds managed by Italian groups. Since 2005, the figure also includes the flows attributable to foreign investors. [3] Net of investments in mutual fund units. [4] Figures for first half of the year.

market share (around 27 and 24 percent, respectively), Italy dropped from third to fifth place as a result of the decrease in the related share (from just over 9 to 8 percent). The UK (which achieved around 10 percent, taking it once again to the position seen in 2001) and Ireland (which has shown on-going growth since 2000) are ahead. These developments partly reflect the differences in the composition of the assets managed by fund type (specifically, reference is to the UK, characterized by a greater weight of equity funds and considerable growth in market prices), and in part the differences in the inflows growth rates, which during the first nine months of 2005 were elevated in Luxembourg, France and the UK.

With regard to the composition by fund type, during the first nine months of 2005 the European market experienced a slight reversal on the trend when compared with previous years. In detail, the portion of assets managed by equity funds rose (passing from 35.5 percent at the end of 2004 to 37.4 percent in September 2005) resulting from both the increase in net inflows and the performance of the equity markets. Vice versa, the portion of monetary funds dropped (from 21.6 to 19.6 percent) as did bond funds (from 21 to 19.6 percent) (Figure 47).

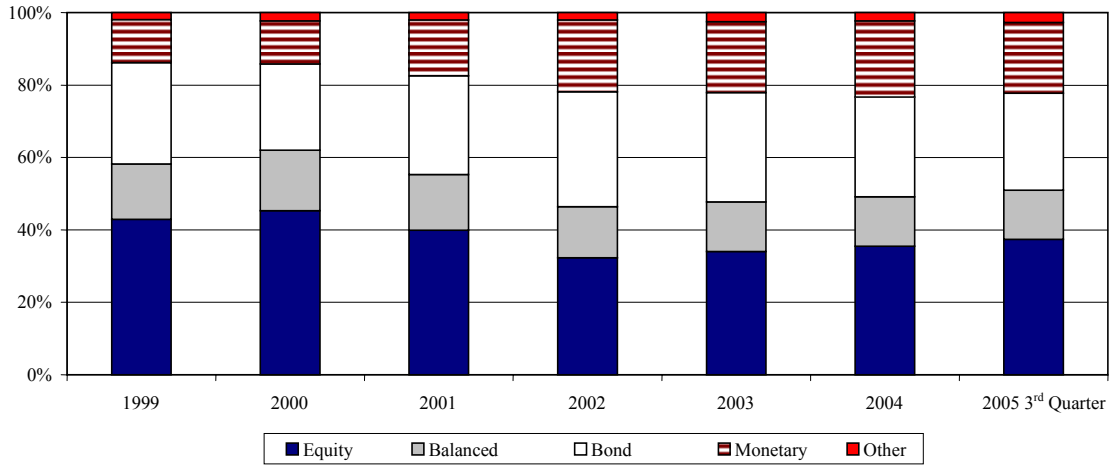
With reference to the US market, the composition of assets managed by mutual investment funds exhibited trends similar to those reported for the European market: the weight of equity funds in fact rose (from 54.1 in 2004 to 55.4 in September 2005), against a drop in the portion concerning monetary funds (from 23.6 to 22.3 during the period in question; Figure 48).

During 2005, the Italian mutual investment fund market reported a number of significant changes with respect to the previous year. In particular, the number of operative asset management companies increased (from 54 to 69), while the drop

in the number of operative funds continued (from 1,156 to 1,057) (Appendix, Table A.20). Net outflows came to around € 14 billion, confirming the trend emerged since 2000. This figure mostly reflects net outflows from liquidity funds and equity funds (in contrast to the previous year which saw the greatest difference between redemptions and subscriptions for bond funds followed by liquidity funds). The negative contribution from equity funds was not in line with the trends recorded for the European and US markets. However, assets under management – which in 2004 had reported a reduction with respect to the previous year – increased to € 386 billion (+ 2.1 percent), thanks to growth in share prices.

Figure 47

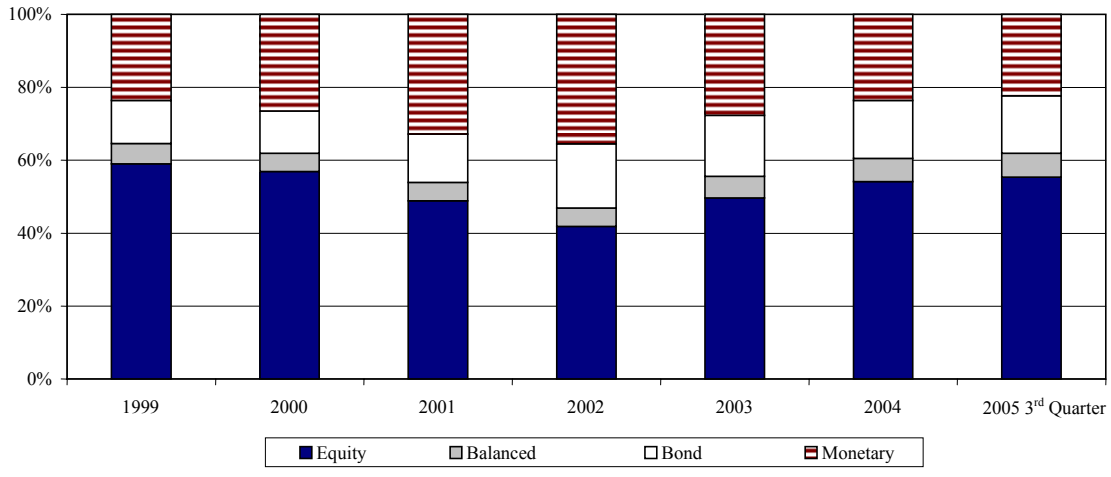
Breakdown of European UCITs assets by category



Source: Efama. Figures relating to countries as per Table A.19 of the Appendix. Period end data.

Figure 48

Breakdown of US mutual investment funds by category



Source: Efama. Period end data.

Table 26

Portfolio composition of Italian mutual funds
(amounts in billions of euros; period end data)

	No. of operative companies	Percentage composition						
		Italian government securities	Italian bonds	Italian shares	Foreign bonds [1]	Foreign shares	Total foreign assets	Other assets
1990	56	49.3	7.9	22.8	3.3	8.2	11.5	8.5
1995	54	50.2	3.2	14.9	8.9	14.1	23.0	8.7
1996	54	62.2	2.4	10.4	7.4	8.0	15.4	9.6
1997	53	52.0	2.1	10.6	13.6	10.7	24.3	11.0
1998	59	51.9	1.4	10.6	17.2	11.7	28.9	7.2
1999	55	34.2	2.6	10.0	21.8	25.6	47.4	5.8
2000	55	28.0	2.3	10.6	22.8	29.0	51.8	7.3
2001	61	30.3	3.4	7.0	26.1	24.6	50.7	8.6
2002	57	35.9	3.8	5.3	25.2	17.3	42.6	12.4
2003	54	36.9	2.9	4.4	26.3	18.3	44.6	11.1
2004	*54*	37.8	2.8	5.2	26.8	18.1	44.9	9.4
2005	*69*	33.5	3.0	5.3	29.0	18.3	47.3	10.9

Source: Bank of Italy. See Methodological Notes. [1] Also includes foreign Government securities.

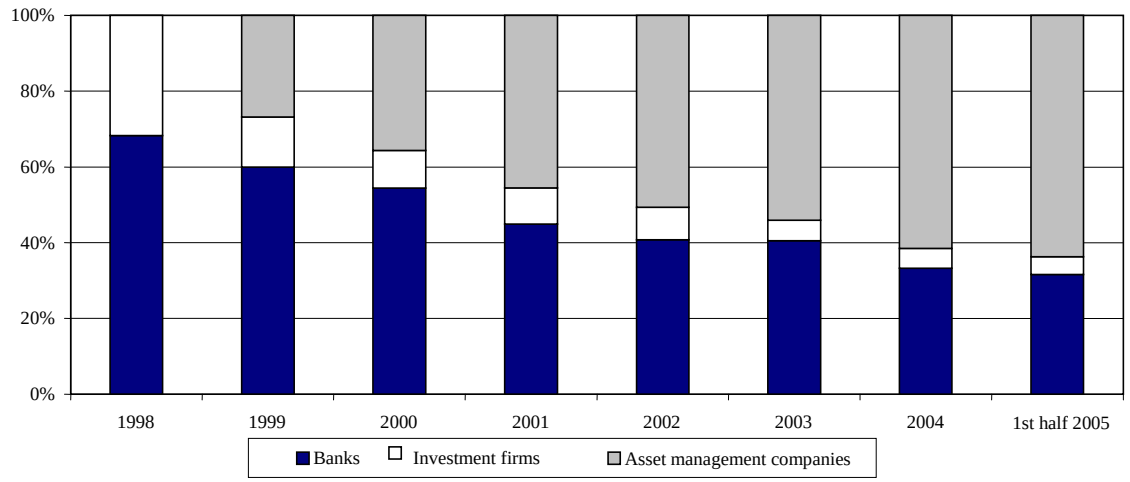
The number of foreign operators in Italy increased with respect to the previous year, rising from 188 to 205; by contrast, the number of funds marketed dropped (by around 2 percent; Appendix, Table A.21). The percentage of operators with registered offices in Luxembourg decreased (77 percent compared with 82 percent in the previous year), despite continuing to be predominant with respect to that of the operators with registered offices in other countries.

With regards to the asset allocation, the percentage of Italian Government securities dropped by just over 4 percentage points with respect to the previous year, offset in part by the rise in the incidence of foreign bonds (also inclusive of foreign Government securities). Italian bonds as a percentage of the portfolio assets remained contained (3 percent) as did Italian shares (at just over 5 percent) (Table 26).

Portfolios managed on an individual basis by banks, investment firms and asset management companies during the first half of 2005 came to € 482 billion (+7.4 percent with respect to the end of the previous year). The percentage of assets managed by banks continued to decrease, leading to 31.7 percent in June 2005 (from 33.3 percent at the end of 2004). The percentage of assets managed by asset management companies by contrast continued to rise (passing from 61.5 to 63.6 percent), whilst a slight drop was seen in the portion attributable to investment firms (from 5.2 to 4.7 percent) (Figure 49).

Figure 49

Individual portfolio management: breakdown of assets by type of manager



Source: calculations on Bank of Italy data. See Methodological Notes. Period end data.

Table 27

Individual portfolio management: breakdown of assets by securities [1]
(percentages)

	Government securities	Italian bonds	Foreign bonds	Italian shares	Foreign shares	UCIT units	Liquidity and other securities	*Total*
1997	55.1	5.9	7.2	5.5	1.6	17.9	6.8	*100.0*
1998	42.5	3.6	6.8	4.9	1.6	35.3	5.3	*100.0*
1999	30.2	3.9	5.9	5.7	2.7	46.8	4.8	*100.0*
2000	25.0	5.4	4.8	5.6	2.5	52.4	4.3	*100.0*
2001	30.2	8.2	4.4	5.1	1.9	46.6	3.7	*100.0*
2002	35.9	9.7	5.8	3.2	1.5	40.2	3.7	*100.0*
2003	31.7	4.8	14.7	2.5	2.1	40.3	3.9	*100.0*
2004	31.6	5.5	16.0	3.4	1.9	38.9	2.9	*100.0*
2005[2]	30.8	5.6	16.8	3.7	1.9	38.4	2.7	*100.0*

Source: calculations based on Bank of Italy data. See Methodological Notes. Period end data. [1] Rounding may cause discrepancies in the last figure. [2] The figures refer to the first half of the year.

The asset allocation of the individually managed portfolios remained more or less unchanged with respect to previous years. There was a light decrease in the percentage of Italian Government securities (from 31.6 at the end of 2004, to 30.8 in the first half of 2005) and in the percentage relating to UCIT units (from 38.9 to 38.4 percent); by contrast, a modest increase was seen with reference to foreign bonds (which rose from 16.0 to 16.8 percent) (Table 27).

In the first half of 2005 the share of Government bonds in individually and collectively managed portfolios by asset management companies predominates; securities issued by financial intermediaries (banks and otherwise) and corporate securities follow (Box 6).

Box 6

The investment in bonds within the collectively and individually managed portfolios of the asset management companies (Sgr)

As at 30 June 2005, the investment in bonds of mutual funds and investment portfolios set up by asset management companies came in total to around € 420 billion, with a percentage of around 64 percent of the overall investment in non-derivative financial instruments (+ 7 percent with respect to the previous six month period). This change is mainly attributable to the simultaneous increase in the overall number of asset management companies offering the individual portfolio management service.

Around 51 percent of the investments in debt securities by mutual funds and portfolios is concentrated in government or sovereign bonds (or rather those issued by local, national and international public bodies and entities). The figure rose to around 57 percent for funds, while it stood at around 44 percent for investment portfolios.

Investments in debt securities as a percentage of total non-derivative financial instruments relating to funds and investment portfolios set up by asset management companies
(percentage at 30 June 2005)

Sector	Geographic areas												
	International bodies		European Union		North America		Japan and Australia		Rest of the world		*Overall total*		
	Funds	Inv. portfolios	Funds	Inv. portfolios	Funds	Inv. portfolios	Funds	Inv. portfolios	Funds	Inv. portfolios	*Funds*	*Inv. portfolios*	*Total*
Government	0.3	0.1	54.1	43.2	1.4	0.3	0.2	..	0.8	..	*56.7*	*43.7*	*50.8*
Banks	—	—	4.5	5.2	0.1	0.6	0.1	..	0.1	0.2	*4.9*	*6.1*	*5.5*
Financial companies	—	—	3.5	4.1	0.8	1.5	0.1	..	0.2	0.3	*4.6*	*6.1*	*5.3*
Non-financial companies	—	—	1.2	2.0	0.2	0.1	..	..	0.1	..	*1.5*	*2.1*	*1.8*
Public companies/bodies	—	—	0.1	0.7	..	..	..	..	..	..	*0.1*	*0.7*	*0.4*
Insurance	—	—	0.1	0.2	..	..	..	..	..	..	*0.1*	*0.2*	*0.2*
Overall total	*0.3*	*0.1*	*63.5*	*55.5*	*2.6*	*2.5*	*0.4*	*0.1*	*1.2*	*0.7*	*67.9*	*58.9*	*63.8*

Source: Consob calculations based on statistical supervisory indications and UIC data.

With regards to the breakdown by geographic area, the euro-denominated securities represent around 60 percent of total investments in bonds. With reference to the sector-based composition, and irrespective of the investments in Government securities, there was a high degree of concentration on bonds issued by banks (5.5 percent of total). The financial companies' sector mainly comprises bonds linked to receivables' securitisation transactions (with an incidence of around 1.8 percent on the total of 5.3) and bonds issued by companies controlled by non-financial groups (with an incidence of 2.5 percent). Taking into account that the percentage of securities of non-financial companies equates to 1.8 percent, overall the incidence of corporate bonds comes to 4.3 percent.

Corporate bonds held are generally issued by investment grade companies.

The corporate bond portfolio is also characterized by a significant degree of concentration by issuer. The top 10 issuers in fact represent around 40 percent of the total investment in corporate bonds; among these, energy and telecommunications sector securities have a predominant weight. The incidence of the investment on the total financial debt of the issuers is normally greater for Italian issuers than it is for foreign issuers.

Main investments in corporate bonds
by funds and investment portfolios set up by asset management companies
(as at 30 June 2005; monetary values in millions of euros)

	Nominal value of bonds	Percentage on total non-derivative financial instruments	Percentage of consolidated financial debt of issuer	S&P's rating	Moody's rating
Telecom Italia	2,704.3	0.41	6.96	BBB+	Baa2
Enel	2,604.1	0.40	9.57	A+	Aa3
Deutsche Telekom	1,539.9	0.23	3.30	A-	A3
Autostrade	899.7	0.14	8.98	A	A3
General Electric	888.4	0.13	0.29	BBB	A3
France Telecom	816.0	0.12	1.88	A-	A3
Vodafone Group	537.0	0.08	3.03	A+	A2
Daimlerchrysler	512.6	0.08	0.77	BBB	A3
Italenergia - Edison	470.4	0.07	11.31	BBB+	Baa2
Veolia Environnement	394.0	0.06	2.40	BBB+	A3
Total	*11,366.5*	*1.73*			

Source: Consob calculations based on statistical supervisory indications, UIC data and company financial statements.

Between 2003 and 2004, the operating costs borne by Italian open-end UCITs in relation to the net assets managed rose slightly (from 1.18 to 1.23 percent of the assets managed). There was a slight decrease in the cost of the funds belonging to the category of flexible funds (from 2.16 to 1.92 percent). Management fees accounted for approximately 86 percent of total costs, while the share of incentive fees fell slightly; the incidence of total depositary bank charges stood stable (Table 28).

Cross referencing the figures on the level of risk indicated in the prospectus of the open-end mutual funds with the figures of the statistical supervisory indications of the asset management companies, it emerges that over 40 percent of the managed assets of open-end mutual funds is concentrated on products which declare a low level of risk in the prospectus (Figure 50).

Table 28

Costs of Italian harmonized open-end UCITs
(percentages)

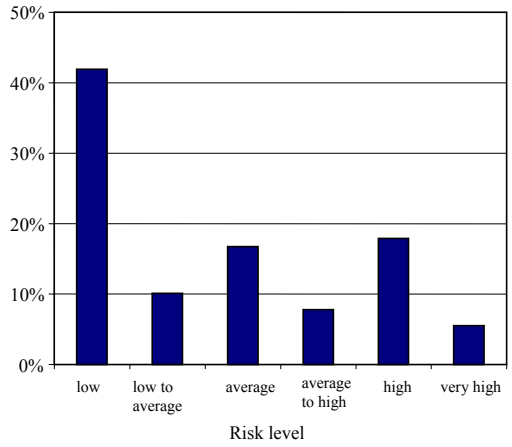
	Percentage of assets managed						Percentage composition [1]					
	Depositary bank fees	Management commission	Operating fees and other expenses	Incentive commission	Commission paid to other intermediaries	Total	Depositary bank fees	Management commission	Operating fees and other expenses	Incentive commission	Commission paid to other intermediaries	Total
2001												
Liquidity	0.05	0.32	..	..	..	0.37	13.2	86.4	..	0.4	0.1	100.0
Equity	0.09	1.37	..	0.05	0.03	1.53	5.6	89.2	0.1	3.1	2.1	100.0
Bond	0.06	0.67	..	0.01	..	0.74	8.0	89.8	..	1.8	0.4	100.0
Balanced	0.06	0.93	..	0.01	0.02	1.02	6.0	91.0	..	1.5	1.6	100.0
Flexible	0.09	1.06	0.09	0.15	0.01	1.39	6.3	75.9	6.2	10.7	0.9	100.0
Total	*0.07*	*0.90*	*..*	*0.03*	*0.01*	*1.01*	*6.7*	*89.3*	*0.2*	*2.5*	*1.3*	*100.0*
2002												
Liquidity	0.06	0.46	..	..	..	0.53	11.7	87.9	..	0.2	0.3	100.0
Equity	0.12	1.76	..	0.06	0.07	2.02	6.1	87.3	0.2	3.0	3.4	100.0
Bond	0.08	0.84	..	0.01	..	0.94	8.6	89.6	0.1	1.3	0.5	100.0
Balanced	0.09	1.09	..	0.02	0.03	1.23	7.7	88.3	0.3	1.5	2.2	100.0
Flexible	0.14	1.67	0.01	0.16	0.04	2.02	7.0	82.5	0.5	7.9	2.0	100.0
Total	*0.09*	*1.04*	*..*	*0.02*	*0.02*	*1.18*	*7.6*	*88.2*	*0.2*	*2.1*	*1.9*	*100.0*
2003												
Liquidity	0.07	0.53	..	..	..	0.60	11.4	88.4	0.1	..	0.1	100.0
Equity	0.13	1.87	0.04	0.26	0.03	2.32	5.5	80.7	1.7	11.0	1.1	100.0
Bond	0.08	0.82	..	0.02	..	0.93	9.1	88.1	0.2	2.3	0.3	100.0
Balanced	0.09	1.19	0.03	0.07	0.01	1.39	6.5	85.6	1.8	5.2	0.8	100.0
Flexible	0.13	1.48	0.26	0.23	0.06	2.16	6.1	68.6	12.2	10.5	2.7	100.0
Total	*0.09*	*1.00*	*0.02*	*0.07*	*0.01*	*1.18*	*7.7*	*84.4*	*1.3*	*5.9*	*0.7*	*100.0*
2004												
Liquidity	0.07	0.55	..	..	..	0.62	11.9	88.0	..	..	0.1	100.0
Equity	0.13	1.93	0.02	0.18	0.06	2.32	5.7	83.2	0.8	7.8	2.5	100.0
Bond	0.09	0.86	..	0.01	..	0.96	9.0	89.4	0.1	1.1	0.4	100.0
Balanced	0.10	1.20	0.02	0.04	0.05	1.40	6.9	85.5	1.3	3.1	3.2	100.0
Flexible	0.12	1.42	0.15	0.19	0.03	1.92	6.5	74.1	7.8	9.8	1.8	100.0
Total	*0.10*	*1.06*	*0.01*	*0.05*	*0.02*	*1.23*	*7.7*	*85.8*	*0.9*	*4.2*	*1.5*	*100.0*

Source: Consob calculations based on financial statement data. [1] Rounding may cause discrepancies in the last figure.

The funds with a low level of risk generate just over a quarter of the total commission income which the asset management companies derive from open-end funds. The main source of income is by contrast represented by high-risk products, therefore featuring greater volatility in the performance. These are mainly equity funds and a number of flexible and balanced funds with higher risk profiles. However, these products only absorb around 18 percent of managed assets (Figure 51).

Figure 50

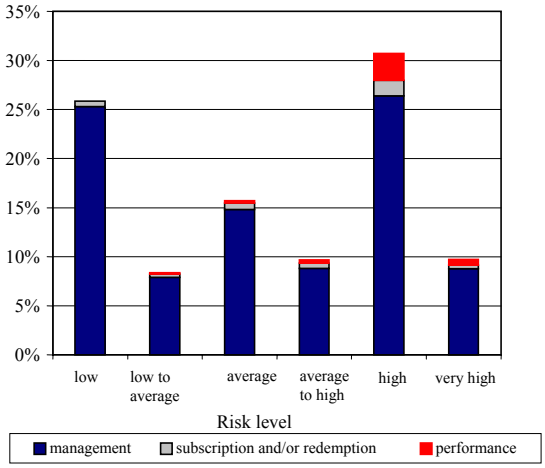
Percentage distribution of managed assets of Italian open-end mutual funds by risk level
(average on monthly figures 2005)



Source: Consob calculations based on statistical supervisory indications of the asset management companies and Consob archive on the listing prospectuses of mutual funds.

Figure 51

Percentage distribution of the value of total commission income on Italian open-end mutual funds by risk level
(2005 figures)



Source: Consob calculations based on statistical supervisory indications of the asset management companies and Consob archive on the listing prospectuses of mutual funds.

During 2005, growth in real estate funds continued; these funds mainly invest in property, property rights and holdings in real estate companies. In June 2005, 16 asset management companies were operative (14 at the end of 2004) along with 35 funds (30 at the end of 2004); of these, 20 were destined for retail investors. As at 30 June, assets amounted to around € 8.4 billion, reporting growth of just over 3 percent when compared with the end of the previous year; around 63 percent of the assets (or € 5.5 billion) concerned retail funds. With reference to the composition of the assets, there were no significant changes with respect to the end of 2004: in particular, the portion invested in properties represented 83.9 percent of the assets (85.5 percent in 2004) (Table 29).

Table 29

Structure of the Italian closed-end real estate fund market
(amounts in millions of euros)

	Number of management companies	Number of funds in operation	Assets	Asset allocation [1]			
				Properties and property rights	Financial instruments [2]	Securities and liquidity	Other
2001	9	11	2,686	54.5	1.4	31.8	12.4
2002	10	14	3,394	69.9	3.9	14.2	12.0
2003	10	18	4,414	77.8	4.1	11.7	6.4
2004	14	30	8,084	85.5	1.6	10.0	2.9
2005[3]	16	35	8,379	83.9	1.8	11.4	2.9

Source: Assogestioni. Period end data. [1] Percentages. Rounding may cause discrepancies in the last figure. [2] Holdings and instruments representative of securitisation transactions. [3] The figures refer to the first half of the year.

4. Households

The portfolio choices of Italian households have undergone significant changes over the last ten years, as can be seen in the figures of the Survey of Households' Income and Wealth, conducted every two years by the Bank of Italy.

The Survey figures indicate that, in the period 1995-2004, the portion of Italian Government securities dropped from 36.7 to 10.4 percent. This decrease was offset by the increase: in the percentage of Italian bonds (bank and non-financial companies), which rose from 3.1 to 6.7 percent; Italian listed shares, which increased from 3.4 to 8.1 percent; and asset management products (mutual funds and investment portfolios), which rose from 8.3 to 17.3 percent. The percentage of "risky" financial assets (or rather non-monetary mutual funds, investment portfolios, bonds, shares and other foreign assets) therefore increased overall from around 18 to 35 percent (Table 30).

The same qualitative indication is obtained by using adjusted data, in other words the data adjusted for measurement errors (common to all the sample surveys) deriving from under-reporting, that is the propensity of the parties interviewed to underestimate certain data (such as, for example, that relating to the possession of risky assets). The use of adjusted data leads to the estimate of values of the portion of risky assets on the portfolio of the households which are higher than those obtained using the raw data; specifically, using the adjusted data, the portion would have risen from 27 to around 42 percent in the period 1995-2004 (Figure 52).

Table 30

Composition of the financial assets of Italian households
(percentages)

	1995	2002	2004
Deposits[1]	44.4	54.4	53.7
Italian government securities	36.7	10.2	10.4
Italian bonds (a)	3.1	7.1	6.7
Mutual fund units (b)	5.3	12.9	11.6
of which: non-monetary (b.1)	*5.3*	*12.3*	*11.6*
Company shares and holdings[2] (c)	6.4	8.3	9.9
of which: listed company shares	*3.4*	*7.1*	*8.1*
Investment portfolios (d)	3.0	5.9	5.7
Foreign securities (e)	0.5	0.9	1.1
Loans to co-operatives	0.6	0.3	0.8
Total	*100.0*	*100.0*	*100.0*
Asset management (b+d)	8.3	18.8	17.3
Risky financial assets (a+b.1+c+d+e)	18.3	34.4	35.1

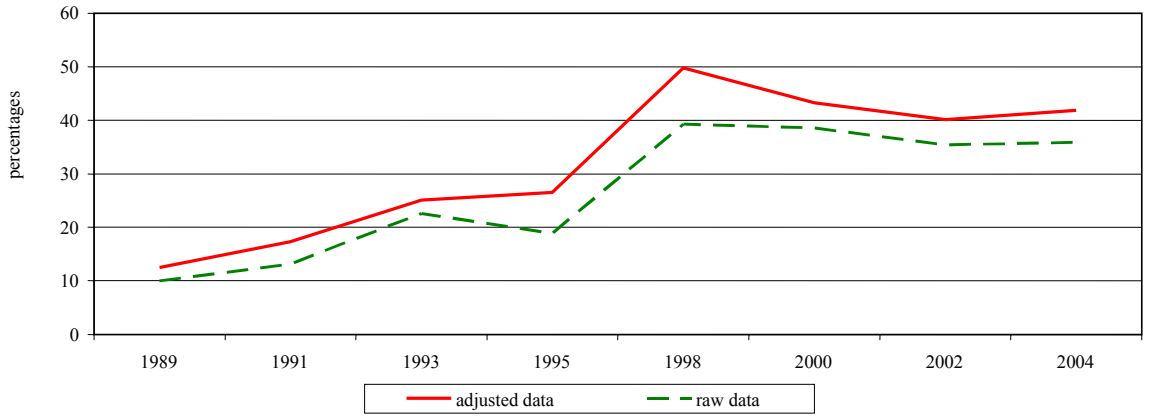
Source: calculations based on Bank of Italy data, the Survey of Households' Income and Wealth. [1] The figure includes bank current account deposits, bank savings deposits, certificates of deposit, repurchase agreements, post office deposits and interest-bearing post office bills. [2] The figure includes listed and unlisted company shares, holdings in limited liability companies and holdings in partnerships. The risky financial assets include Italian bonds, units in non-monetary mutual funds, company shares and holdings, investment portfolios and foreign securities.

The ownership of risky assets is nevertheless very concentrated: in 2004, for example, the proportion of households owning at least one risky asset is estimated to be around 22 percent. The ownership of risky assets, which represents an indicator of "participation" in the financial market, shows a decreasing trend since 2000, after a continually increasing trend since 1989 (Figure 53).

The decrease in the rate of participation of the household in the risky financial products and instruments market was probably driven by the sharp drop in share prices after the technological securities bubble burst and the corporate scandals linked to Cirio and Parmalat.

Figure 52

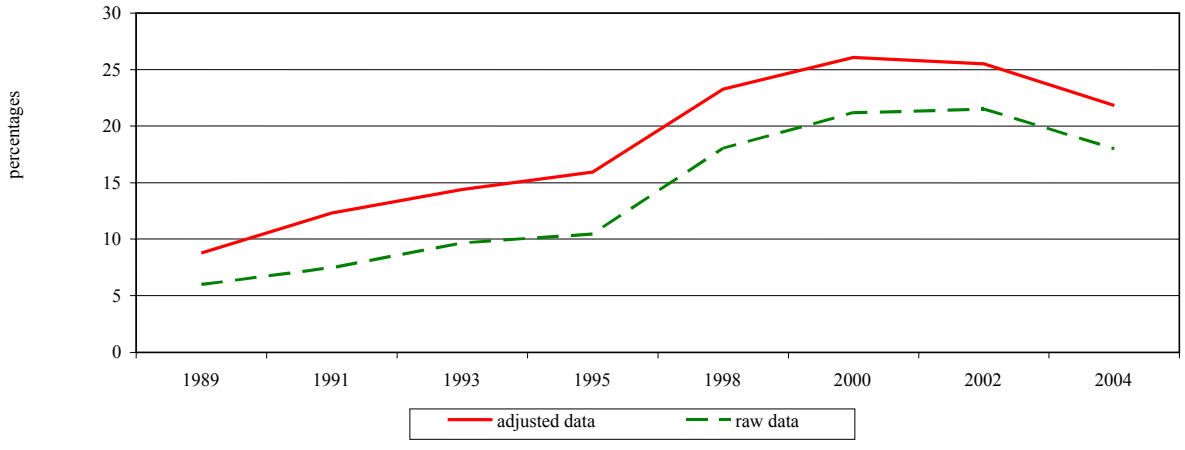
Percentage of "risky" assets out of total financial assets of Italian households



Source: calculations based on Bank of Italy data, the Survey of Households' Income and Wealth. The risky financial assets include Italian bonds, units in non-monetary mutual funds, company shares and holdings, investment portfolios and foreign securities. The series relating to "adjusted data" is the result of the correction of raw data, through a statistical procedure developed by the Bank of Italy, rectifying the distortions due to under-reporting and non-response.

Figure 53

Percentage of Italian households having at least one "risky" financial asset



Source: calculations based on Bank of Italy data, the Survey of Households' Income and Wealth. The risky financial assets include Italian bonds, units in non-monetary mutual funds, company shares and holdings, investment portfolios and foreign securities. The series relating to "adjusted data" is the result of the correction of raw data, through a statistical procedure developed by the Bank of Italy, rectifying the distortions due to under-reporting and non-response.

B

CONSOB ACTIVITY

I – SUPERVISION OF LISTED COMPANIES

1. Corporate disclosures

The supervision of corporate disclosures was extremely intense during 2005 and gave rise to the launch of numerous investigations of particular complexity. The supervisory activities carried out at the time of the takeover attempts on two major Italian banking groups (see subsequent § 2.) were particularly intense and structured.

Consequently, with respect to 2004 the need to request data and information from company officers, statutory auditors and auditing companies increased sharply: in fact, during 2005 some 427 requests for information were made, compared with 127 in 2004 (Table 31). In two cases, the Commission authorized the launch of on-site inspections at the listed issuers.

The number of annual accounts challenged remained relatively high (4 as in 2004, see subsequent § 4.).

The number of cases where the Commission intervened with formal requests for the publication of data and information decreased by contrast (from 124 in 2004 to 94 in 2005).

Table 31

Supervision of corporate disclosures and ownership structures

Type of intervention	2002	2003	2004	2005
Requests for information under Articles 115.1 and 115.2 of the Consolidated Law on Finance				
Information acquired from directors, members of the board of auditors, external auditors, general managers, parent and subsidiary companies	*36*	*82*	*51*	*90*
Requests for data and information	*100*	*317*	*43*	*213*
Requests for confirmation of major holdings	*23*	*49*	*21*	*77*
Requests for information to identify the person responsible for fulfilling disclosure requirements in the event of charges of non-compliance	*52*	*31*	*12*	*47*
Total	211	489	127	427
Requests for information to companies on their shareholding structure under Article 115 of the Consolidated Law on Finance	31	33	39	13
Inspections	2	4	2	2
Requests to publish data and information under Article 114 of the Consolidated Law on Finance				
Supplements to information to be provided in shareholders' meetings	*69*	*18*	*15*	*6*
Supplements to periodic financial reports	*1*	*--*	*14*	*--*
Information to be provided to the market (press releases)	*25*	*46*	*82*	*69*
Monthly periodic disclosures	*9*	*6*	*8*	*2*
Supplements to merger documents	*2*	*1*	*1*	*--*
Supplements to tender offer documents	*3*	*4*	*4*	*17*
Total	109	75	124	94
Waivers of disclosure requirements under Article 114 of the Consolidated Law on Finance	5	10	11	2
Requests to publish research reports immediately in connection with rumours	3	10	3	8
Reports to the courts under Article 2409 of the Italian Civil Code	1	--	--	--
Written reprimands	3	3	--	--
Annual accounts challenged	--	4	4	4

The Commission – especially at the time of the afore-mentioned takeover attempts – requested also unsupervised persons to publish comments and/or specifications on press indiscretions to which anomalies in the prices of the securities in question were attributable, so as to ensure the re-establishment of the necessary market disclosure equality.

The most significant measures concerned requests aimed at making the accounting information and the evolution of the individual corporate situations as complete as possible; in some cases, the Commission also intervened requesting the directors to supplement the information to be provided to the shareholders during ordinary and/or extraordinary shareholders' meetings, with additional and detailed information concerning specific transactions (see subsequent § 3.). With reference to a number of companies listed on the Nuovo Mercato (now the Mtax), in relation to which a situation of potential risk in terms of the business as a going-concern (taking into account their difficult economic-financial position) had been highlighted, the Commission intervened requesting the disclosure of additional and detailed information concerning proposed corporate reorganization transactions.

General measures concerned the request for the disclosure of information, addressing listed municipalized companies, in relation to the procedure established by Article 27 of the 2004 EC Law for the recovery of State aid declared unlawful by Decision 2003/193/CE of the European Commission dated 5 June 2002. Specifically, the municipalized companies were invited to provide the market the following information by means of specific press release, if said information had not already been provided in the report on the first quarter of 2005: the methods by means of which the companies intended to take into account these provisions; the quantification of the amounts of the taxes not paid as a consequence of specific tax exemption schemes and the sums relating to easy-term loans granted by Cassa depositi e prestiti Spa; the methods used for the accounting of these effects at the date of closure of the financial statements 2004.

In one case, the Commission did not uphold the request for the deferral of the terms for the publication of the half-yearly report based on the assumption of serious detriment. The company concerned maintained that the publication of the half-yearly report by the deadlines envisaged by Article 82.2, letter a), of the Regulation on Issuers would have caused detriment to both the investors and to the company, since the publication of the afore-mentioned accounting document before the conclusion of a transaction with the competent Inland Revenue Agency relating to a number of significant tax liabilities could have provided a partial and misleading picture of the economic-financial situation. The Commission, however, considered that the presence of a considerable state of uncertainty regarding the outcome of determinate transactions did not necessarily mean that it was not possible to draw up accounting documents, if settlement-type decisions had not been adopted by the management body. Furthermore, the possibility that the disclosure, via the half-yearly report, of information on the state of significant crisis affecting the company might take on the form of serious detriment was not recognized, since such information is already public. Therefore, the company took steps to publish the half-yearly report at 31 December 2004.

A particularly innovative and significant aspect which characterized the activities for the supervision of corporate disclosures in 2005 is linked to the initial application of the Ias/Ifrs international accounting standards. As a point of fact, the Commission paid particular attention to the quality of the information provided to the market by listed issuers on the main impacts deriving from initial application of the Ias/Ifrs, as well as any effects on the prices of the securities.

The changeover to the Ias/Ifrs represented an event of significant importance for listed issuers during 2005; in fact, on the basis of EC Regulation No. 1606/2002 dated 19 July 2002 of the European Parliament and Council, European companies with securities admitted for listing on an regulated European market must draw up, as from the financial statements as at 31 December 2005, their consolidated financial statements in compliance with the international accounting standards (Ias/Ifrs). In line with EU approaches, via a communication issued in March 2005, Consob requested the listed issuers to publish information relating to the state of implementation of the systems and the accounting procedures for the application of the Ias/Ifrs accounting standards, as well as with regard to the accounting effects of this changeover, at the time of approval of the financial statements or pre-final balance statements for 2004 and the subsequent half-yearly reports approved by 30 September 2005, so that the transitory period would not create differing information relating to the possible impacts of the new accounting standards on the shareholders' equity and on the net profit/loss for the period.

The information contained in the statements for reconciling the Italian accounting principles with the international standards made it possible to make an initial valuation of the impact of the Ias/Ifrs on the accounts relating to 2004 (Box 7).

With regards to the fulfilment of the disclosure obligations introduced by the Commission, it can be deemed that, even though the companies followed varied practices when choosing the information to include in the press releases with reference to the implementation of the procedures and the impacts on the accounting items, the overall information made available to the public appears sufficiently in line with the conduct recommended by Consob. Furthermore, the publication of this information did not, as a rule, lead to significant anomalies with regards to the share price performance, highlighting an essential functioning of the measures specifically introduced in order to avoid disclosure uncertainties produced by indiscretions on the possible impacts of the new accounting standards.

Consob carried out specific supervisory action on information relating to transactions with related parties. The information documents relating to these transactions published in 2005 by the listed issuers mainly concerned infra-Group transactions for the transfer or conferral of business segments and holdings (Table 32).

Box 7

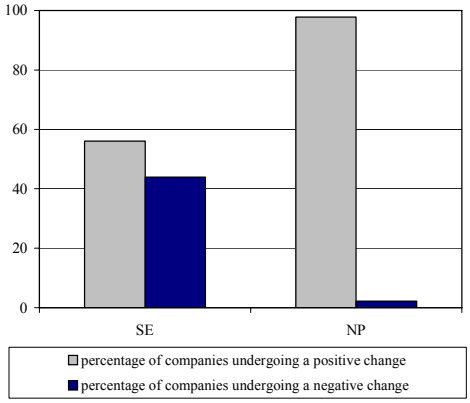
Initial assessments on the impact of the Ias/Ifrs on the financial statements of the leading listed non-financial groups

On the basis of the indications provided by the Commission, during 2005 the listed companies divulged the statement for the reconciliation of the 2004 shareholders' equity and net profit determined in accordance with the Italian accounting principles with the corresponding balances determined in accordance with the Ias/Ifrs international accounting standards. The figures contained in these reconciliation statements with reference to the top 30 listed non-financial groups made it possible to perform an initial analysis of the impact of the Ias/Ifrs. Nevertheless, it is hereby stated that the majority of the groups considered applied the options envisaged by Ifrs 1 which made it possible to postpone the application of Ias 32 and 39 (valuation of financial instruments and application of the so-called fair value) until 1 January 2005 and therefore a complete database is not available for fully assessing the impact of the two accounting standards in question.

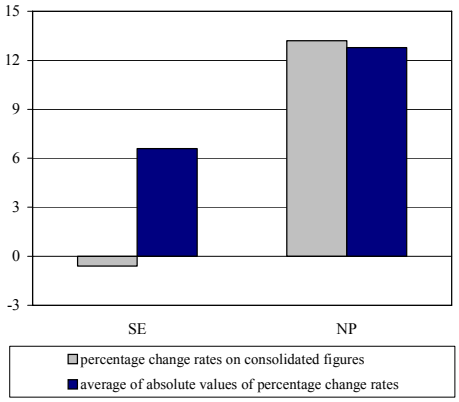
The impact of the new accounting standards on the net profit was essentially positive, while the influence on shareholders' equity was more balanced. In fact, the companies which present a positive change in shareholders' equity represent 56 percent of the sample, while those which saw a positive change in the net profit represented 97.8 percent of the sample.

At aggregate level, the impact of the Ias on shareholders' equity was practically nil (- 0.6 percent), even if this is due to the offsetting of cases with significant positive and negative changes due to specific effects, which differ from company to company. In fact, the average of the rates of change taken in absolute value (an indicator which permits the attainment of a summary figure with regards to the magnitude, but not the sign, of the change in shareholders' equity, without the offsetting of the positive and negative changes taking place) comes to 6.6 percent. The increase in the profitability of the companies is by contrast essentially due to the fact that the goodwill is no longer amortized and is by contrast subject to period tests for assessing any loss in value (impairment tests).

Percentage of companies undergoing a positive and negative change in shareholders' equity (SE) and net profit (NP) in 2004 following application of the new accounting standards (excluding Ias 32 and 39)



Percentage change in shareholders' equity (SE) and net profit (NP) in 2004 for the top 30 non-financial listed groups following application of the new accounting standards (excluding Ias 32 and 39)



Source: calculations based on statements of reconciliation contained in company accounting documents of top 30 non-financial listed groups.

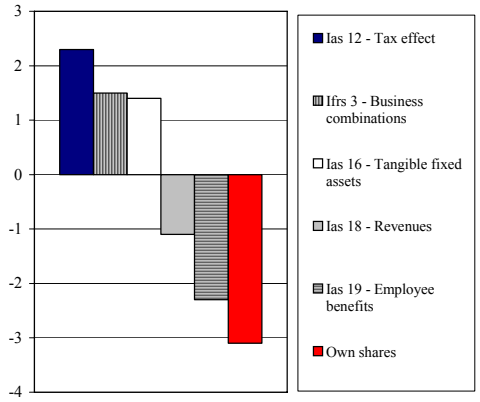
Analyzing the impact of the individual Ias/Ifrs standards at aggregate level, it emerges that the standard which permits the reversal of the amortization of goodwill (classified sometimes under Ifrs 3, which establishes how to account for the items regarding business combination processes, and at other times under Ias 36, which more specifically defines the criteria on the basis of which to estimate the loss in value of the tangible and intangible assets) is that which has the greatest positive impact both on shareholders' equity (excluding the tax effects) and on the net profit.

Some accounting standards have a significant effect, at aggregate level, on just the net profit: in particular, Ias 38 which permits the capitalization of the development costs which satisfy specific characteristics, Ias 2 which replaces the Lifo method (*Last In First Out*) with the Fifo method (*First In First Out*) for the valuation of the inventories, and Ias 37 which defines new, more rigid criteria to be used for determining the amount of the provisions for risks and charges.

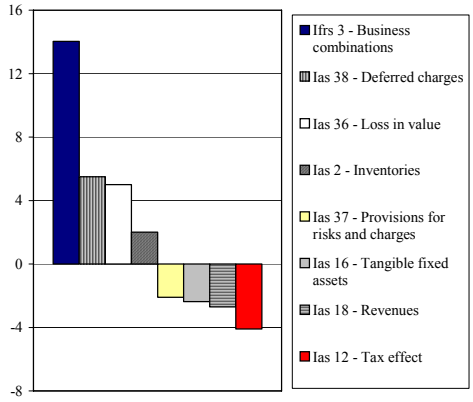
By contrast, other standards have an impact exclusively on the shareholders' equity. Own shares, for example, should be recorded in the account as directly reducing shareholders' equity with a consequent negative effect only on this variable (this principle is assigned in certain reconciliation statements to Ias 1 and in others to Ias 32). Likewise, Ias 19, relating to the valuation of employee' benefits (which among other things calls for the application of the actuarial method when calculating employee leaving indemnities (Tfr) and guarantees greater transparency when defining pension plans in the financial statements), has a significant negative impact, at aggregate levels, only on shareholders' equity.

Lastly, Ias 16, which establishes the methods to be used for stating tangible fixed assets and their depreciation, and Ias 12, relating to the tax effects associated with the introduction of the new accounting standards, have opposing impacts on the net profit and the shareholders' equity. An explanation for the different impact of these two accounting standards lies in the off-settings of negative and positive signs between the sample companies, which at aggregate level lead to different signs depending on how shareholders' equity and net profit is analyzed. Furthermore, these are complex accounting standards which influence more than one income statement and balance sheet item.

Percentage change of the 2004 aggregate shareholders' equity of the top 30 non-financial listed groups following application of the new accounting standards: effect of the individual standards (excluding Ias 32 and 39)



Percentage change of the 2004 aggregate net profit of the top 30 non-financial listed groups following application of the new accounting standards: effect of the individual standards (excluding Ias 32 and 39)



Source: calculations based on statements of reconciliation contained in company accounting documents of the top 30 non-financial listed groups.

Table 32

Transactions with related parties disclosed to the market by listed companies in 2005

Company	Transaction	Counterparties
	Information documents	
Acea	Transfer of entire equity interest in a company to the Municipality of Rome	Listed company and its parent company
Acea	Transfer of entire equity interest in a company to its indirect investee company	Listed company and an investee company
Banca Italease	Subscription of entire share capital increase of subsidiary	Listed company and its subsidiary
Banca Popolare Italiana	Purchase and subsequent sale of minority interests in investee companies	Listed company and its subsidiaries
Coin	Conferral in kind of Oviesse business segment in favour of fully controlled subsidiary Oviesse Srl	Listed company and its subsidiary
Gabetti Holding	Appointment to sell property complex conferred by Generali Properties to Gabetti Spa with commitment to purchase any part unsold by Brunilde Spa	Company which holds holding in listed company and subsidiary of listed company
Immsi	Increase in equity interest in Piaggio and Aprilia transaction	Listed company and direct and indirect subsidiaries
Ipi	Sale of a property complex by the subsidiary Dedalo Real Estate to Immobiliare Valadier	Companies belonging to the same Group and subsidiaries of the same parent company
Roncadin	Conferral of business segments relating to the production and sale of pizza and bread	Listed company and its subsidiary
Roncadin	Acquisition of equity interests in Arena Alimentari Freschi and Arena Surgelati	Listed company and its subsidiary
	Press releases	
Dmail Group	Share capital increase with conferral of minority interests of subsidiary	Listed company and its subsidiary
Mittel	Merger of equity interests	Listed company and new company fully controlled

During 2005, the Commission gave its opinion on a request for exemption from publishing the information document referring to an infra-Group transaction concerning the transfer of equity interests. Even though the transaction exceeded the parameters envisaged by Consob regulations for the purposes of the obligation to draw up the information document, the Commission believed it possible to grant exemption from drawing up the document since the specificity of the transaction rendered the drawing up of said document insignificant. In fact, on the basis of the elements of information which the document would have had to contain, it was believed that the market could avail of the same information by means of the publication of the consolidated accounts of the issuer.

Also the supervision of the disclosure on major holdings saw the intense involvement of the Commission. In fact, during 2005 there was a sharp increase in the declarations of changes of major holdings in listed companies (over 1,800, compared with 1,100 in 2004).

Around 31 percent of the declarations concerned the exceeding the threshold of 2 percent of the voting capital, 23 percent the reduction within this threshold and 46 percent the change in major holdings already held (Table 33).

During 2005, the Commission took steps to amend the regulation of the securities distributed among the general public to a significant extent (see § 2. of the following Chapter V) and as a consequence updated, as at 31 May 2005, the list of the related issuers. The number of the issuers nevertheless emerges as more or less unchanged with respect to 2004 (91 versus 90, Table 34).

2. Disclosure in public offerings and extraordinary finance transactions

During 2005, the Commission cleared some 500 offering prospectuses for publication, of which more than 370 for collective investment undertakings (UCITs) and open-end pension funds. Consob also examined more than 250 reports on bylaw amendments, increases in share capital, mergers and spin-offs and other extraordinary transactions by listed issuers (Table 35).

During 2005, 19 prospectuses were cleared relating to the listing of shares on regulated markets operated by Borsa Italiana, of which 15 linked to IPOs.

Table 33

Declaration of major holdings pursuant to Article 120 of the Consolidated Law on Finance

	Exceeding of the threshold of 2 percent	Change in previously held major holding	Reduction within 2 percent	*Total*
1999	397	353	248	*998*
2000	398	404	379	*1,181*
2001	337	403	313	*1,053*
2002	303	502	308	*1,113*
2003	309	464	257	*1,030*
2004	319	506	275	*1,100*
2005	570	846	437	*1,853*

Table 34

Issuers with widely distributed financial instruments
(at 31 May 2005)

Financial instruments	Number of issuers
Ordinary shares	72
Ordinary shares and convertible bonds	9
Cooperative shares	3
Ordinary and preference shares	2
Ordinary and savings shares	1
Preference shares	1
Convertible bonds	1
Non-convertible bonds	2
Total	*91*

The examination procedures included those for Parmalat listing, which was especially complex also because the solicitation of public savings represented a method for implementing the settlement proposal.

Table 35

Consob's supervisory activities in connection with offerings, admissions to listing and extraordinary finance transactions

Type	2002	2003	2004	2005
Number of prospectuses for:				
Admission to listing of shares [1]	14	14	8	19
of which: IPOs	*6*	*4*	*8*	*15*
Bonds	21[2]	28	4	18
of which: only admission to listing	*16*[3]	*24*	*1*	*13*
Issues of covered warrants [4]	102	26	17	37
Admission to listing of warrants	6	8	--	10
Other offerings of listed securities [5]	1	1	1	2
Offerings of unlisted securities by Italian issuers [6]	3	2	5	7
Offerings reserved for employees [7]	39	35	28	26
Rights offerings [8]	23	10	2	5
Offerings by foreign issuers	13	3	--	3
of which: recognition of foreign prospectuses	*13*	*3*	--	*3*
of which: pan-European tender offerings	--	--	--	--
Collective investment undertakings (UCITs) and pension funds [9]	520	268	374	374
Total	742	422	438	495
Number of reports on extraordinary finance transactions:				
Mergers	43	44	34	30
Spin-offs	6	10	5	3
Increases in share capital [10]	58	66	68	47
Purchases/sales of own shares	78	93	90	91
Changes to bylaws	81	85	302	79
Share conversions	1	3	4	4
Bond issues	5	9	7	6
Reductions in share capital	8	13	14	8
Total [11]	254	323	524	268

[1] The figures refer to transactions for which clearance was received during the year for the filing of the listing prospectus. [2] In one case the public offering was contemporaneous with admission to listing. [3] In addition to this figure one public offering was contemporaneous with admission to listing of a bond loan. [4] The number of prospectuses cleared during the year, each of which normally referring to the issue of more than one series of covered warrants. [5] Public and private offerings other than for listing purposes. [6] Excludes offerings reserved for employees. [7] Includes stock option plans reserved for employees but excludes offerings that involved the recognition of foreign prospectuses. [8] Referring to listed parties and relating to rights offerings concerning non-listed instruments. [9] Includes public offerings of mutual fund units 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 covered more than one subject.

The Parmalat Group was subject to the new bankruptcy procedures for the special administration of major companies in crisis introduced by the so-called "Marzano Law". On the basis of the provisions of this law, the special receiver drew up an industrial and debt restructuring plan and a proposal for settlement with the unsecured creditors of certain Group companies. The proposal envisaged that the assets and liabilities of these companies be transferred to a new party, the Underwriter, whose shares, aimed

at listing, were to have been assigned to the unsecured creditors, together with a pre-established number of warrants, once the settlement proposal had been approved. Precisely the offer under subscription of shares and warrants of the Underwriter to the unsecured creditors of the companies forming the subject matter of the settlement, to be carried out by means of offsetting with the credits due from the same appropriately cleared, took on the form of investment solicitation aimed at the listing of the new party.

The examination procedure on the prospectus firstly had to take into account the specific peculiarities of this transaction which, representing the method of implementation for bankruptcy proceedings, had to be performed according to the timescale and structures of this procedure and saw the involvement of parties extraneous to a normal offering transaction whose purpose is listing (procedure bodies, bankruptcy court, delegated judges).

One of the questions of greatest significance examined during the examination procedure was the difficulty of assessing the future prospects of the issuer, subject to new establishment and lacking any operating history. For such purposes, the prospectus included a pro-forma representation of the issuer and its group as at 31 December 2004 as if the approval of the settlement had already taken place as of that date, and the risk associated with the partial unavailability of historic data supported by opinions on the reliability of Parmalat Finanziaria and the other companies forming the subject matter of the settlement was indicated in the disclaimers. Abundant room was then given in the prospectus: (i) to the dispute brought by and against the Parmalat Group, destined to converge within the Underwriter; (ii) to the indication of the risks associated with the business's weak points and with the inadequacies of the old management control system; (iii) to the description of the risks associated with a shareholding structure which is not only widespread, but also destined over time, as a result of the same features of the share allocation procedure, to enlarge and change significantly; (iv) to the complete representation of the provision concerning voting for the proposed settlement contained both in the "Marzano law" and in the decrees of the delegated judges. The examination procedure for the clearance of the prospectus for publication in Italy in conclusion also intersected with the procedures for the acknowledgement of the prospectus in various European Union countries where creditors, beneficiaries of the settlement proposal, are present.

Another examination procedure of particular complexity concerned the clearance for publication of the offering and listing prospectus of a company which availed itself of the faculty – as recognized by the new wording of Article 2443 of the Italian Civil Code – to delegate the board of directors with the resolution for increasing the share capital with the exclusion of the pre-emption right, to be placed at the service of the offering finalized at listing.

The structure of the share capital increase proposed by the company differed therefore from the traditional one, which envisages that the capital increase be resolved by the shareholders meeting before Consob's clearance for publication of the prospectus. In this case, in fact, the effective exercise of the authority by the board of directors takes place after Consob's clearance but before the start of the tender offering. This transaction established the need for an exception to the

provisions of the Regulation on Issuers which, to the purpose of clearance, included among the documents to be attached to the initial declaration the resolution on the basis of which the financial products will be issued, on penalty of incompleteness of the same. In fact, it was considered that this provision, included within a legislative context prior to the company law reform, could not take into account the possibility, subsequently introduced, of shareholders' meeting authority granted to the board of directors for resolving share capital increases also with the exclusion of the pre-emption right. Moreover, the implementation of this authority, and the manifestation of the corporate will to bring into being the offering it contains at a time prior to the start of the same, in any event guarantees the seriousness of the proposed offering, bearing in mind that in the information prospectus the innovative profiles of the share capital increase in question, the deeds the same is divided up into and their different timescale were widely emphasised.

During 2005, an Italian listed issuer was granted the first clearance for the publication of a listing prospectus to be used in other European Union countries, on the basis of the so-called "European passport" procedure envisaged by the EU directive on prospectuses (Directive 2003/71/EC).

This involves the case relating the merger transaction between Unicredito Italiano and the German bank Bayerische Hypo-und Vereinsbank Ag, which envisaged the launch of three public tender offers (on the same German bank and on two of its subsidiaries) and the admission to listing of Unicredito shares on the Frankfurt and Warsaw Stock Exchanges. For the purpose of achieving said listing, Unicredito requested Consob, in its capacity as competent Authority of the original member state, in other words the state where the Italian bank has its head offices (Article 2 of the Prospectuses directive), that it be able to obtain clearance for the publication of the related prospectus and, at the same time, inform the competent Authorities of the host states (Germany and Poland) for the prospectus approval certificate (as envisaged by the procedure disciplined by Articles 17 and 18 of the afore-mentioned prospectus).

The examination procedure took place at a time when the Prospectuses directive had come into force but had not yet been transposed in Italy. Nevertheless, according to the national and EU jurisprudential line, the directives which have a sufficiently detailed content matter and are unconditional (so-called self executing directives) have been considered immediately applicable, irrespective of transposition in the individual states. On the other hand, the efficacy of these directives is limited to the relationships between private parties and the non complying nation, therefore the direct application of the Prospectuses directive could be requested, as in the case in question, by an Italian company of the competent public authority for the granting of clearance for publishing the prospectus. The innovative nature of the European passport also required close contact with the Authorities of the other states concerned, so as to agree the new formalities for forwarding the prospectus approval certificate and the prospectus itself which the new European regulations make the responsibility of the approving authority.

At the time of the Alitalia rights share capital increase, the Commission availed itself of the power to request the publication of data and information, envisaged by Article 114 of the Consolidated Law on Finance, since it

was not able to exercise prior control over the information prospectus.

The prospectus effectively enjoys exemption from prior clearance envisaged by Article 33.2, letter a) of the Regulation on Issuers previously in force. However, in consideration of the particular economic-financial situation of the company, the Commission has availed itself of the power pursuant to Article 114 of the Consolidated Law on Finance so as to request the publication of additional information also regarding the company's ability to meet the financial commitments to be acquitted in the next 12 months with its own cash flows, the importance for this purpose of the share capital increase and the hypotheses at the basis of the business plan.

With regards to the supervision of the tender offers, in 2005 Consob granted clearance for the publication of the information documents relating to transactions which covered 36 different financial instruments, including 5 unlisted bonds and 2 unlisted shares (Table 36).

The numerous examination procedures concerning tender offers, including those relating to the attempted takeovers on Banca Antonveneta and Bnl, required an exceptional commitment, both in checking the uprightness of the conduct of the offers and the control of the completeness of the information contained in the offer documents, as well as involved a number of verdicts concerning the interpretation of the regulations concerning tender offers of particular significance (Boxes 8 and 9).

Once again with regards to ownership structures, during 2005 Consob was able to voice its opinion on two matters of particular importance.

In the first case, the Commission replied to a query presented on behalf of Giovanni Agnelli & C. Sapa (parent company of Ifil Investments Spa, in turn the controlling shareholder of Fiat Spa) by means of which, in short, information was requested on whether a purchase of shares by Ifil Investments – permitting the company to essentially maintain its holding in Fiat unaltered – would generate (or not) a mandatory tender offer if made at the same time as the share capital increase and accompanied by the transfer of the pre-emption rights due on this increase. In this connection, the Commission believed that the purchase by Ifil would not generate any obligation to launch a tender offer.

Table 36

Financial instruments forming the subject matter of purchase and/or exchange tender offers cleared by Consob in 2005

	Listed shares			Bonds and warrants	Unlisted shares	*Total*
	Ordinary	Savings	Preference			
Voluntary offers	4	1	--	5	2	*12*
Takeover offers	3	--	--	--	--	*3*
Mandatory offers	15	--	--	--	--	*15*
Residual offers	4	--	--	--	--	*4*
Offers for own shares	1	1	--	--	--	*2*
Total	*27*	*2*	--	*5*	*2*	*36*

Source: Consob archive of offer documents.

Box 8

Takeover attempts on Banca Antonveneta and Consob's role

The attempted takeovers on Banca Antonveneta originate from the breakdown of the shareholders' agreement, in force since April 2002 and which united 26.5 percent of the voting rights, following the notice of withdrawal communicated in December 2004 by certain participants. This agreement then ceased to be effective at 15 April 2005 for all the participants.

At the time of the failure to renew the agreement, the Dutch bank Abn Amro, which already held 12.7 percent of Antonveneta's share capital, launched a full voluntary tender offer on the Antonveneta ordinary shares on 30 March 2005, at a price of € 25.00 per share. The tender offer then commenced on 19 May 2005, after the necessary authorisation of the Bank of Italy.

On 9 May 2005, Banca Popolare di Lodi (Bpl, now Banca Popolare Italiana, which had increased its holding in Antonveneta's capital from 2.86 percent, held at 14 February 2005, to around 30 percent) launched a rival exchange tender offer on Antonveneta ordinary shares and convertible bonds. This exchange tender offer envisaged the recognition of a payment in securities and cash [(every share contributed to the offer was paid 0.5 newly issued Bpl ordinary shares, 0.4 Reti Bancarie Holding Spa (Rbh) ordinary shares, 3 newly issued Bpl bonds appreciated at nominal value and a payment in cash for each Rbh share ("contingent payment") valued at € 1; and adjustment in Rbh shares was also envisaged if the market value of the shares offered in exchange should have differed from the valorisation made by Bpl, on conclusion of the tender offer)].

Complex examination activities partly based on inspection checks having concluded, on 10 May 2005, Consob declared the existence – at least as from 18 April 2005 – of an undeclared shareholders' agreement between Bpl, Emilio Gnutti, G.P. Finanziaria Spa, Fingruppo Holding Spa, Tiberio Lonati, Fausto Lonati, Ettore Lonati and Danilo Coppola (the latter via Finpaco Project Spa and Tikal Plaza Sa), concerning the planned purchase of ordinary Antonveneta shares and the exercise, joint or otherwise, of a dominant influence over Antonveneta. The agreed action also involved the exceeding, on 18 April 2005 due to the acquisition made by some of those adhering to the agreement, of the threshold of 30 percent of the share capital, and therefore the obligation to launch a full tender offer.

Bpl, despite denying the existence of the afore-mentioned shareholders' agreement, stipulated an agreement on 16 May 2005 with the afore-mentioned parties and, on 17 May 2005, launched a compulsory tender offer on ordinary Antonveneta shares at a price of € 24.47 per share. At the same time, Bpl launched a purchase and exchange tender offer on the ordinary Antonveneta shares (subject to withdrawal from the tender offer launched on 9 May 2005) which envisaged a payment in securities and cash for a total value of € 26.00 for each ordinary Antonveneta share; the related composition was essentially similar to that of the payment for the previous voluntary tender offer. On 3 June 2005, Bpl then launched a new purchase and exchange tender offer so as to improve the price even further with respect to that of the Abn Amro offer; this tender offer envisaged the payment of a price, again in securities and cash and again totalling € 26.00 for each ordinary Antonveneta shares, but featuring a different mechanism for calculating the adjustment.

On 10 June 2005, Abn Amro took steps to increase the price of its tender offer from € 25.00 to € 26.50 per share. In response to this move, on 16 June 2005, Bpl launched an additional rival offer at a price valued by Bpl of € 27.50 per share.

Between 18 January 2005 and 12 July 2005, Abn Amro had increased its holding in Antonveneta from 12.7 percent to around 25.2 percent and, following the exercise of part of the rights due on the convertible bonds held, this holding had reached around 30 percent by July 2005. On 15 July 2005, Bpl (who in the meantime had adopted the new name of Banca Popolare Italiana - Bpi) informed the market that it had received authorization from the Bank of Italy to acquire, via the tender offers on ordinary Antonveneta shares it had launched, a holding of over 50 percent in Antonveneta's share capital.

On 22 July 2005, the tender offer launched by Abn Amro closed negatively, since the subscriptions (of 2 percent of the capital) were considerably under the threshold of 50 percent which the offer's efficacy was conditional upon.

Again on 22 July 2005, Consob (partly on the basis of the co-operation with the judiciary made possible by the enforcement, on 12 May 2005, of norms assimilating the directive concerning market abuses) ascertained the conclusion of a further shareholders' agreement between Bpi and Magiste International Sa concerning the planned acquisition of ordinary Antonveneta shares and the exercise, joint or otherwise, of dominant influence; i.e. a pact in relation to which the publication obligations pursuant to Article 122 of the Consolidated Law on Finance had not been fulfilled. Consob also ascertained that the Generation Fund and Active Fund funds had acted as third parties for Bpi for the purchase of ordinary Antonveneta shares, purchased in several instalments on dates prior to 30 April 2005.

On 25 July 2005, the Public Prosecutor at the Public Prosecution Office in Milan urgently arranged the seizure of the ordinary Antonveneta shares belonging to or availed of by Giampiero Fiorani (Bpi's Managing Director), Gianfranco Boni (Bpi's Finance Director), Bpi (also via Generation Fund and Active Fund which were managed by Money Bonds Investments Sa), Emilio Gnutti, Fingruppo Holding Sa, G.P. Finanziaria Spa, Tiberio Lonati, Fausto Lonati, Ettore Lonati, Danilo Coppola (via Finpaco Project Spa and Tikal Plaza Sa) and Magiste International Sa. The seizure was then confirmed by the Investigating Magistrate at the Milan Court on 1 August 2005.

Subsequently, in accordance with Article 102.3, letter a) of the Consolidated Law on Finance, Consob suspended the compulsory tender offer and the purchase and exchange tender offer launched by Bpi on a precautionary basis, in consideration of the fact that disclosure shortfalls existed in the offer documents published by Bpi. Consob subsequently declared both the afore-mentioned tender offers as foreclosed, in accordance with Article 102.3, letter b), of the Consolidated Law on Finance, having ascertained numerous, repeated and serious violations of the regulations on purchase and exchange tender offers, such that they rendered the disclosure made to the market seriously lacking and prevented a well-grounded opinion on the tender offers being reached.

On 26 September 2005, a contrast of sale was stipulated between Abn Amro and a number of Antonveneta shareholders for the purchase of a total holding of 39.37 percent in Antonveneta's share capital, whose partial execution led Abn Amro to hold an overall holding of 55.8 percent at 30 December 2005. This entailed the launch of a mandatory tender offer on all the Antonveneta shares (at a price of € 26.50 per share), to be carried out between 27 February - 31 March 2006.

Box 9

Takeover attempts on Banca Nazionale del Lavoro and Consob's role

On 29 March 2005, Banco Bilbao Vizcaya Argentaria Sa (Bbva) presented Consob with the declaration pursuant to Article 102.1 of the Consolidated Law on Finance for the launch of a voluntary exchange tender offer on the entire ordinary share capital of Bnl Spa. The tender offer, also conditional upon the attainment of a holding of over 50 percent in the ordinary share capital of Bnl, envisaged a payment represented by one newly issued Bbva share for every 5 ordinary Bnl shares.

At the time the tender offer was launched, Bbva was the relative majority shareholder of Bnl, with a percentage of around 15 percent. Bbva had also subscribed a three-year voting and block shareholders' agreement on 28 April 2004 (effective as from 9 September 2004) with Assicurazioni Generali Spa and Dorint Holding Sa (Della Valle Group), which restricted around 28 percent of Bnl's share capital (around 14.7 percent Bbva, approximately 8.3 percent Generali, and around 4.9 percent Dorint). At the time of the launch of the tender offer by Bbva, another two shareholders' agreements were in force on Bnl shares.

The tender offer launched by Bbva, which occurred on 20 June and 22 July 2005, concluded negatively since the subscriptions, of approximately 0.7 percent of Bnl's ordinary share capital, together with the holding already held, did not permit Bbva to exceed the threshold of 50 percent, the efficacy of the tender offer being subordinate to said condition.

In July 2005, pending the tender offer launched by Bbva, as a result of the conclusion - between Compagnia Assicuratrice Unipol Spa and other parties – of shareholders' agreements on Bnl shares and simultaneous purchases of Bnl shares for payment by some of the former (following which the threshold of 30 percent was exceeded), the afore-mentioned parties were jointly and severally obliged to launch a subsequent full tender offer on Bnl shares. In detail, the acquisitions which gave rise to the tender offer obligation occurred as a result of the transfer of shares and the simultaneous winding up of a pre-existing shareholders' agreement which differed from that which Bbva was a party to (so-called "counter-agreement"). The transfer of these shares took place at a price of € 2.70 per share. The obligation to launch the tender offer was honoured exclusively by Unipol which, on 14 September 2005, published the offer document.

The Unipol tender offer was launched at a price of € 2.70 per share, a price greater than the minimum calculated in accordance with Article 106.2 of the Consolidated Law on Finance, but which took into account both the price paid to the selling shareholders of the "counter-agreement" and the purchase and sale options stipulated by Unipol within the sphere of the shareholders' agreements with Deutsche Bank. Amongst other things, these agreements envisaged a series of purchase options in favour of Unipol as a result of which the company had the faculty to purchase Bnl shares for a percentage of over 31 percent which, added to that already held, would have permitted Unipol to acquire over 45 percent of Bnl's share capital. The shareholders' agreements stipulated also envisaged industrial and commercial agreements, to be achieved in particular with Credit Suisse.

The tender offer was subject to the granting of the authorizations by Isvap and the Bank of Italy (having consulted the Antitrust Authority in relation to aspects of bank mergers). Under ruling dated 3 February 2006, the Bank of Italy declared that, since conditions of equity soundness of the financial conglomerate being set up, Holmo-Bnl (Holmo is the parent company of Unipol), did not apply, as prescribed by current legislation, it could not grant the authorization to acquire control over Bnl. Consequently Consob, by means of ruling dated 8 February 2006, resolved that the tender offer could not take place.

With regards to this circumstance, Consob was able to declare its opinion on certain legislative aspects regarding tender offers, of particular significance. In the first instance, in response to the query posed by Bnl itself, concerning the transfer within the tender offer of certain assets held via Bnl Inversiones Argentinas Sa, Consob gave its opinion relating to the possible significance of the transaction in pursuance of Article 104 of the Consolidated Law on Finance (so-called passivity rule, which forces the target companies to refrain from carrying out "deeds or transactions which may contrast with the aims of the tender offer"). According to the matters stated by Bnl, the board of directors' resolution relating to the transfer of the Argentine holdings did not represent a significant deed in accordance with Article 104 of the Consolidated Law on Finance, since the transfer transaction was part of a more extensive programme for the transfer of non-strategic assets resolved and started up well before the launch of the tender offer by Unipol.

In this connection, the Commission, partly in light of the previous statement made on the subject, confirmed that not every deed of transfer of holdings held by the target company had to be considered in potential contrast with the aims of the tender offer and therefore falling within the sphere of application of Article 104 of the Consolidated Law on Finance. Specifically, those deeds of transfer which lead to a change in the financial, equity or industrial structure to such a contained extent that they are objectively considered to be unsuitable for conditioning the choices of the offers, should not be considered to be in contrast with the aims of the tender offer. Furthermore, an examination of the press releases issued by Bnl and the accounting information revealed that the negotiations for the transfer of the assets in Argentina had been launched before Unipol showed any interest in Bnl. The Commission therefore deemed that Article 104 of the Consolidated Law on Finance was not applicable to the proposed transaction.

The Commission subsequently expressed its opinion with regards to the relevance, for the purposes of the discipline of the shareholders' agreements, of the agreement contained in the Spot Hedge option contract, stipulated between Unipol and Deutsche Bank (Db) on 18 July 2005, on the basis of which Db undertook not to participate in the tender offer launched by Unipol or any other rival bids. The Commission also considered that Article 42.2 of the Regulation on Issuers (so-called best price rule) was applicable to the purchases of Bnl shares made by Db after the launch of the compulsory tender offer by Unipol. According to the situation which Consob was able to reconstruct, partly thanks to confirmation at the time of international co-operation, these purchases took place, in part, at a price of € 2.755 per share, therefore higher than the tender offer price, which amounted to € 2.70. As a result of the afore-mentioned provision, the price of the entire tender offer launched by Unipol on Bnl was therefore adjusted to € 2.755, in other words the higher price paid by Deutsche Bank for the Bnl shares.

Following the negative conclusion of the transaction launched by Unipol, on 3 February 2006 Bnp Paribas informed the market that it intended to acquire control over Bnl. For such purposes, it stipulated agreements with 13 Bnl shareholders (including Unipol and certain parties who had entered into shareholders' agreements with the latter) relating to the purchase of Bnl shares, for a total of around 48 percent of the related share capital. These agreements were also dependent upon the granting of the prescribed authorization by the Bank of Italy, which was received on 20 March 2006, after which Bnp Paribas will launch the full compulsory tender offer on Bnl's entire share capital, at a price of € 2.925 per share.

In the second case, the Commission was able to express its opinion on the applicability of the regulations concerning shareholders to a specific agreement stipulated, on 5 June 2005, between the shareholders participating in the block and consultation shareholders' agreement on Rcs MediaGroup Spa (Rcs). The agreement mentioned had the same duration as the agreement on Rcs and contemplated, among other things, a clause which – in the event of tender offer on Rcs shares which should legitimate the faculty to withdraw without notice (pursuant to Article 123.3 of the Consolidated Law on Finance) – granted the parties not withdrawing the faculty to acquire, before the conclusion of the tender offer, the shares contributed to the agreements by the withdrawing parties (at a price of the offer price, partly calculated on the basis of possible raising of offers or rival bids) and, therefore, the obligation for the latter to transfer their shares. In this connection, the Commission expressed the opinion that the described agreement presented characteristics capable of confirming it in the category of the agreements envisaged by Article 122 of the Consolidated Law on Finance, and in particular, those which place limits on the transfer of the shares. With the consequence that the same made the provision on the duration and on the right to withdraw, pursuant to subsequent Article 123 of the Consolidated Law of Finance, applicable.

During 2005, Consob examined information documents relating to extraordinary finance and corporate reorganization transactions.

The most complex and articulated extraordinary finance transactions included the merger of Tim Spa within Telecom Italia Spa, the reorganization of the activities headed up by the Marzotto family (with the spin-off of Marzotto Spa and the subsequent listing of Valentino Fashion Group Spa and the tender offer on Industrie Zignago Santa Margherita Spa launched by certain members of the Marzotto family), the merger of LM ETVE Spa within SO.PA.F. Spa, the complex recapitalization and bank debt restructuring transaction of GIM Spa, the merger of Meta Spa within Hera Spa and the corporate transactions for the rationalization of the Capitalia Group.

3. Disclosure to shareholders' meetings

The Commission intervened on several occasions in 2005 so as to request listed companies to supplement the information disclosed to shareholders' meetings.

With reference to one banking issuer, the Commission intervened during the shareholders' meeting called in July 2005 for submitting the proposed share capital increase before the shareholders, with exclusion of the pre-emption right, serving the exchange tender offers which the bank in question was arranging in order to complete the merger plan with an important German banking group. In particular, the company was requested to inform the shareholders: (i) on certain aspects of the calculation of the price for the exchange transactions; (ii) on the effects that this process would have had on the economic-equity and financial situation of the group of origin; (iii) on relationships between said bank and the foreign authorities involved in the complex merger transaction. The Commission's intervention also concerned the supplementing of the information document which the bank had published, in accordance with Article 70 of

the Regulation on Issuers at the time of the shareholders' meeting.

In another case, a company and its subsidiaries, which found themselves in a situation of financial tension, were requested for information concerning the financial requirements, the progress of agreement between new and old shareholders and the evolution of the indebtedness situation.

In the case of a company already subject to monthly disclosure obligations on its economic-financial situation, it was requested to provide clarification on the negotiations underway for rebalancing the economic-equity and financial situation, as well as on the limitations, uncertainties and disclosure shortfalls indicated in the reports of the auditing companies with reference to the 2004 statutory and consolidated financial statements.

In yet another case, as already occurred for four companies during 2004, an issuer was requested to provide specific information during general meetings with regards to which a monthly update via press release was also requested.

Particularly structured and complex supervisory activities concerned those relating to the disclosure made by Unipol at the time of the launch of the tender offer for the purchase of Banca Nazionale del Lavoro shares (see Box 9 above).

In June, the insurance company published an initial document for informing the market of the acquisition of the significant equity interest in Bnl. Subsequently, following the conclusion of a shareholders' agreement with other parties, aimed at bringing together the respective holdings in Bnl, Unipol declared that it had undertaken, as envisaged by the agreement's clauses, the obligation to launch a tender offer on Bnl on an exclusive basis. In view of this transaction, in the meantime Unipol had already acquired a further lot of Bnl shares and, since the surmounting of the relevant parameters of the transaction established by Consob regulations had once again been ascertained, the company had to publish a new information document pursuant to Article 71 of the Regulation on Issuers.

So as to trace the resources necessary for sustaining the financial liability of the tender offer, Unipol called the extraordinary shareholders' meeting in order to delegate the board of directors with authorizing a rights capital increase open to the shareholders. On this occasion, the Commission requested that information be provided during the shareholders' meeting on the board's assessments regarding the need or otherwise to propose a resolution for changing the corporate purpose, consequent to the acquisition of a controlling interest in a much larger banking group, involving the consequent acknowledgement of the right to withdraw to those shareholders who had not contributed towards the resolution. A request was also made to provide the shareholders' meeting with clarification on the main elements considered in the implementation of the business plan relating to the acquisition project.

When the prospectus relating to the launch of this share capital increase was published, the Commission then formulated a number of requests for supplementary information, essentially anticipating the regulatory amendments subsequently introduced by the Prospectuses Directive. The prospectuses concerning rights capital increases for shareholders were not in fact subject to Consob clearance according to the old rules, while the Prospectuses Directive eliminated this exclusion. The Commission therefore requested the company to

supplement the prospectus, availing itself of the powers acknowledged under Article 114 of the Consolidated Law on Finance. In the meantime, the Commission granted Unipol an extension for the publication of the supplementary notices, taking into account the peculiarities of the transition phase from the old regulations on prospectuses, contained in the Consolidated Law on Finance and in the Issuers Regulation then in force, to the new provisions of the Prospectuses Directive.

4. Financial reporting

As part of its supervision on the financial reports of listed companies, during 2005 the Commission intervened on several occasions to obtain information and data from companies' boards of directors and statutory auditors.

In four cases, the power to challenge the financial statements was activated vis-à-vis listed issuers, in accordance with Article 157.2 of the Consolidated Law on Finance. Among these, particularly significant was the decision to exercise the power to challenge relating to the statutory and consolidated financial statements as at 31 December 2004 of Banca Popolare Italiana (former Banca Popolare di Lodi), since, in Consob's opinion, they had been drawn up violating the norms of Italian Legislative Decree No. 87/1992 and Bank of Italy circular No. 166/1992.

In essence, the detected violations appears such that they made the financial statements unrepresentative of the effective economic position and of the assets and liabilities of the bank, together with the risks and commitments which burden the same. The omission of information, in the notes to the accounts, which made it impossible to perceive risks which then turned out to have an important impact, emerged as likewise significant.

In detail, violations were noted in relation to the following: (i) the failure to record the commitments and the economic effects deriving from the stipulation of derivative contracts in the accounts; (ii) the failure to record the return guarantees acknowledged to a number of clients and the provisions against the potential estimable loss in the accounts; (iii) the lack of information regarding the credit risks on the mezzanine portion of the Tiepolo Finance II securitization transaction and the failure to record the "Coupon Swap Transaction" derivative which led to incomplete disclosure in the notes to the statutory and consolidated financial statements and a different amount under the item "Forward trading transactions without exchange of capital: other instruments"; (iv) the lack of provision for the accrued liability deriving from the stipulation of the investment agreement with Aviva Italia Holding Spa; (v) the insufficient provision against the valorisation of the commitments deriving from the subscription, in 2003, of put options in favour of Deutsche Bank Ag London.

The Commission also took steps to challenge the financial statements of Compagnia Italiana del Turismo Spa, Fin.Part Spa and Partecipazioni Italiane Spa.

In the first case, Consob activated the power to challenge in relation to the 2003 statutory and consolidated financial statements with regards to the lack of disclosure on the risks and uncertainties associated with the business as a going-concern and the accounting treatment of

transactions with related parties, with particular reference to the valuation of receivables and the recording of a capital gain relating to assets which the termination clause (included in the settlement terms dated 23 February 2004 and 1 April 2004) envisaged retrocession for. In essence, the overall representation provided by the financial statements in question did not formally acknowledge a situation of significant risk regarding the business as a going-concern, essentially associated with the considerable problems concerning the recovery of positions with related parties.

In the case of Fin.Part Spa, Consob deemed that the 2003 statutory and financial statements presented irregularities, in detail with regards to: (i) the valuation and information relating to an amount receivable from the company Lafico; (ii) the failure to record and lack of information on, in the consolidated financial statements, risk provisions, in relation to the commitment to acquire the Sea Point Srl business segment in liquidation and subject to prior agreement with creditors; (iii) the lack of information concerning an amount receivable from the company GSR. In Consob's opinion, the statutory norms concerning clarity, veracity and correctness of the financial statements, as well as those relating to the concept of prudence and the valuation of the receivables, were therefore violated.

Lastly, in the case of Partecipazioni Italiane Spa, Consob believed that the statutory and consolidated financial statements as at 31 December 2004 had not been drawn up in compliance with the legal provisions, specifically with regards to the valuation of a series of receivables and the statement of risk provisions relating to the receivable for principal due from the Municipality of Rome (factored with recourse to Assicurazioni Generali Spa) and the charges associated with the lease agreement stipulated with Archè.

During 2005, listed companies who had received a negative opinion from the auditing companies or on whose financial statements or half-yearly report it had been impossible to express an opinion, as well as those classified under the provisions of Articles 2446 and 2447 of the Italian Civil Code (in other words those with losses which led to a reduction in the share capital by more than one third or under the legal minimum), were once again requested for updated monthly information on the key variables which characterize the individual crisis situations. Considering the similar requests made in previous years, and also the delisting of some of the companies already subject to these obligations, at the end of 2005 there were 18 listed companies obliged to meet these requests.

The financial reports provided by the football clubs listed on the Stock Exchange were also subject to specific attention, as is customary.

Initial action saw a request, made to one of the afore-mentioned clubs, for information to be made available to the market via press release (information also to be included in the half-yearly report), concerning: (i) the transaction and extension application, presented by the club concerned to the Inland Revenue, regarding a significant tax liability subject to tax assessment; (ii) the club's decision to reduce the consequent tax sanctions by a third applying the institute of judicial settlement analogically.

Again with reference to the same club, subsequent intervention concerned a request for information, to be included in the statutory

financial statement documentation being approved by the supervisory committee, concerning: (i) the full description of the action undertaken for the purposes of rendering management control adequate and reliable in relation to the disclosure requirements, as well as of the results achieved as a result of said action; (ii) the plans possibly being studied for the purpose of enhancing the club's equity, also with a view to the foreseeable effects which could arise from the obligatory application of the international accounting standards, as well as from the amendments, being discussed before Parliament in that period, relating to Article 18-bis of Italian Law No. 91 dated 1981 (the so-called "soccer saving decree", which permitted, solely for statutory purposes, the amortization of the write-down on multi-year rights in respect of sporting services provided by professional players over ten annual instalments of an equal amount); (iii) the description of the contents, the stage of completion and the equity effects of a share capital increase project involving the conferral of assets in kind by the majority shareholder (a project which the press bodies referred to in that period); (iv) the differing statement in the income statement, when compared with the half-yearly report, of the use of the risk provision for indemnities paid to card-carrying members following the early termination of the sporting services' contracts.

Lastly, in the case of another football club, it was requested to provide the market with information referring to the possibility of participating in national sporting competitions. Accordingly, clarification was requested on the measures which the board of directors would have adopted for the purposes of ensuring the compliance of the economic-financial parameters with those required for enrolment on the 2005-2006 football championship, with particular reference to overdue debts and, in general, the additional initiatives for the operational recovery of the club. Furthermore, it was requested to inform the market on the results of the updates of the valuations on the rights in respect of the sporting services made by an independent expert upon the request of the board of statutory auditors, specifying the related economic-equity effects as well as the identity of the players whose sporting services were subject to said updates.

5. External auditors

In 2005, the auditing companies enrolled in the special register examined 263 statutory financial statements and 241 consolidated financial statements 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 conformed to the applicable legislation.

The figures relating to the auditors' activities on the 2004 financial statements disclosed a reduction, when compared with 2003, both in the number of qualified opinions issued and cases of disclaimer owing to serious uncertainties. The qualified opinions came to 12, while disclaimers numbered 6, compared with 15 and 11 cases respectively in 2003. Furthermore, for the first time since 1998, there was case of a negative opinion (Table 37).

Table 37

Auditing activities on the statutory and consolidated financial statements of companies listed on regulated Italian markets

	Type of opinion						
	Opinions with emphasis of matter	Qualified opinion for:			Adverse opinions and disclaimers:		
		Disagreement with respect to accounting treatment	Limitations on the audit	Uncertainties	Adverse opinion	Disclaimers owing to serious limitations	Disclaimers owing to uncertainties
1996	328	8	4	--	1	1	2
1997	197	6	3	3	--	--	1
1998	197	1	2	--	1	1	--
1999	217	--	2	--	--	1	1
2000	207	2	2	--	--	--	--
2001	192	5	--	1	--	--	5
2002	159	9	3	2	--	--	10
2003	143	7	7	1	--	--	11
2004	158	3	7	2	1	--	6

See Methodological Notes. The overall number of opinions may differ from the overall number of qualifications in the event that more than one qualification has been expressed for the same issuer.

The auditing company, in fact, issued an adverse opinion about Centenari e Zinelli Spa, because of: (i) uncertainties associated with the book value of the entire holding in a company in liquidation, whose financial statements had been drawn up using criteria for a going-concern, due to the lack of sufficient elements on the fairness of the recovery value of the inventories and tangible fixed assets; (ii) uncertainties associated with the book value of entire holdings in two companies undergoing considerable financial tension, given the lack of sufficient elements regarding the ability of the companies to track down the necessary financial resources over the short-term for the continuation of the activities; (iii) lack of information in the financial statements from the directors regarding the doubts on the business as a going-concern, the implications of these doubts and the corrective plans of action for dealing with the situation of heavy operating losses and financial tension.

In five cases the auditors, besides declaring the impossibility of expressing an opinion on the financial statements or issuing an adverse opinion, also expressed qualifications of various types (Fin.Part, Innotech, Pagnossin and Richard Ginori, as well as the afore-mentioned case of Centenari e Zinelli).

With regards to Fin.Part, and also Pagnossin, the qualifications concerned uncertainties on the valuation of specific financial statement items. In particular, with regards to Fin.Part the auditors highlighted the absence of adequate evidence supporting the valuation made by the directors regarding the recoverable nature of the receivable. Uncertainties were then expressed concerning: (i) the book value of the holding in an indirect subsidiary, aligned to the amount established in a preliminary sale agreement of the same company, whose efficacy was subordinate to the satisfactory

achievement of a purchase and exchange tender offer; (ii) the book value of the trademark pertaining to another subsidiary group, in relation to the failed definition of contracts for the transfer of the trademark and the assets referring to said group; (iii) the realizable nature of the revenues deriving from the recording of credits for prepaid taxes referring to a subsidiary company.

In the case of Innotech, as in the case of Centenari e Zinelli, the auditors also pointed out limitations on the audit. In detail, with regards to Innotech, on the one hand the auditing company traced the limitations back to the failure of the auditor of an indirect subsidiary to carry out checks and the consequent impossibility of performing an audit on the financial statements of the same, and on the other hand, they traced them to the insufficiency of the elements provided by Innotech itself for the purpose of valuing the fairness of the purchase price of software.

In the case of Richard Ginori and its parent company Pagnossin, the auditor, in addition to declaring that it was unable to express an opinion due to uncertainties as to whether the company would remain in business, also disagreed with some of the accounting standards adopted by the directors. In relation to Richard Ginori, the auditor disagreed with regards to the capitalization of the coverage of the losses of a subsidiary, deeming that the contributions made by the parent company should not be recorded as increasing the value of the equity interest, but rather as operating costs. The auditor also revealed that the loss generated in 2004 partly derived from the adjustment to previous years' items, made to correct erroneous accounting entries. The afore-mentioned qualifications were also pointed out by the auditor of the parent company (Pagnossin).

In other cases, the auditing companies limited themselves to exclusively making qualifications due to disagreement with respect to the valuation of specific account items or due to limitations on the audit.

In the case of AISoftw@re, the qualified opinions concerned disagreements regarding the accounting standards used by the directors in relation to part of the capitalized costs, since the auditors believed that all the requisites envisaged by the accounting standards for their registration and maintenance were not present. In addition, the item "amounts due from customers" was considered to be overestimated, while the items "tax payables", "other operating expense" and "provisions for risks and charges" were deemed to be underestimated.

Regarding Chl, the auditors expressed a qualification due to the failure to complete the audit procedures relating to the valuation of the holding in an associated company, while in the case of Finarte-Semenzato, it was stated that it was impossible to ascertain the cause of an anomalous configuration of the balance of a suspense account, which came about as a result of amendments made to the computerized accounting system.

With regards to Fullsix (formerly Inferentia), the auditors expressed a qualification due to the lack of adequate information concerning the liquidation status of a subsidiary company sold in the previous year, necessary for assessing the existence of any potential residual liabilities falling under the responsibility of the seller.

In the case of Partecipazioni Italiane (formerly Necchi), there were limitations on the audit procedure which concerned the lack of sufficient supporting elements for the purpose of valuing a holding, since updated

financial statement figures of the investee company and the information of the secondary auditor and the company's management was not available. The impossibility of carrying out an audit on a specific accounting situation subsequently emerged.

The cases where the auditing companies declared that they were unable to express an opinion on the financial statements are essentially attributable to the existence of uncertainties as to whether the companies would remain in business, relating in most cases to doubts regarding the ability of the companies to track down adequate sources over the short-term suitable for meeting the financial outlays envisaged or guaranteeing the continuation of the business.

In the afore-mentioned case of Fin.Part, uncertainties emerged regarding the possibility of obtaining financial resources from the banking system and the initiatives launched for the sale of each subsidiary. By contrast, in the case of Innotech, the auditors highlighted the uncertainties associated with the achievement of transactions included in the business plan, the failed execution of the authorized share capital increase and the insufficiency of liquid funds.

In the case of Algol, besides the illustrated uncertainties as to whether the company would remain in business, the auditors noted other uncertainties relating to the petition pursuant to Article 2409 of the Italian Civil Code presented by the board of statutory auditors for reprehensible facts, as well as in relation to any requests for compensation made by the company to which a subsidiary was transferred.

In the case of Ngp, the auditors declared that they had not received confirmation from certain banks regarding dealings with the company and the signing of the agreement for the consolidation of the debt.

In the case of Pagnossin, the impossibility of expressing an opinion on the valuation of the holding in a subsidiary company was highlighted, in the presence of uncertainties regarding the positive conclusion of the negotiations with the banks for the restructuring of this company's debt, as well as on the failure to stipulate agreements with banks aimed at overcoming the financial difficulties of the company in question. In the case of the subsidiary Richard Ginori, the following were emphasised: the failure to stipulate agreements with the banks for the repayment of overdue and unpaid loan instalments; and the uncertainties associated with the effects of the failure to observe the security parameters envisaged by the related loan agreement, with the consequent risk of request for early repayment of the same.

The Commission carried out intense supervision on the auditing companies enrolled in the special register during 2005, which led to 4 inspections and, in 3 cases, the suspension of partners (Table 38; see subsequent Chapter IV).

At 31 December 2005, there were 21 registered companies, one more than at the end of 2004.

Table 38

Controls on auditing companies

	Checks for Register enrolment	Inspections and on-site checks	Written reprimands	Suspension of a partner	Ban on new engagements	Administrative sanction	Cancellation from the special register	Reports to the judicial authorities
1997	--	7	4	5	--	2	--	6
1998	--	5	--	1	1	2	--	--
1999	2	2	--	--	--	--	2	--
2000	--	2	--	1	--	--	--	--
2001	1	1	--	--	--	--	--	--
2002	1	5	--	3	--	--	--	--
2003	2	7	1	1	--	--	5	--
2004	1	5	--	4	--	--	1	--
2005	2	4	--	3	--	--	--	--

Consob officially appointed PricewaterhouseCoopers Spa, in accordance with Article 159.6 of the Consolidated Law on Finance, to audit the statutory and consolidated financial statements of the listed company Algol Spa for the three-year period 2005/2007 and at the same time established the fee due to the auditor for this appointment. The official appointment was the result of Algol Spa's failure to grant the auditing appointment for the afore-mentioned period, at the time of the shareholders' meeting called to approve the 2004 statutory financial statements. The Commission entrusted the appointment to PricewaterhouseCoopers Spa, which had already been appointed to audit Algol Spa's financial statements for the previous three-year period, since, in order to adequately tackle the appointment for auditing the financial statements of Algol Spa and its Group for the 2005/2007 accounting period, the appointed auditor could not have failed to consider the acquisition of an in-depth awareness of all the significant information regarding the events which characterized the 2004 accounting period and which could have continued to produce repercussion in future accounting periods.

During 2005, the Commission received the documentation relating to statutory audit engagements. An examination of the data collected revealed a slight decrease in the number of companies subject to statutory audit, from 2,038 in 2003 to 1,885 in 2004, while the distribution of engagements among registered auditing companies remained basically unchanged. Ranked on the basis of turnover, the top four auditing companies accounted for 94.3 percent of the statutory audit market in Italy.

II – MARKETS SUPERVISION

1. Market abuses

During 2005, the Commission concluded 8 investigations into anomalies it had detected during its supervision of the markets. In 4 cases (compared with 11 in 2004) the reports concluded that an offence might have been committed; these cases formed the subject matter of 4 reports to the judicial authorities: 2 cases concerned the abuse of inside information (respectively, for insider trading and for front running), 2 involved market manipulation (respectively, manipulation of information and operational manipulation). In the remaining 4 investigations (2 relating to alleged abuse of inside information and 2 to alleged market manipulation) it was ruled out that an offence had been committed (Table 39).

In accordance with the new regulations on market abuse, which came into force in May 2005 by means of transposition of the related European directive (see subsequent Chapter V), Consob is no longer obliged to forward reports to the judicial authorities on cases for which alleged offences are not formulated. Nevertheless, the Commission forwarded 2 reports of this kind during 2005 since the related investigations concluded before the enforcement of the new regulations. During the year, a number of important procedures were launched on the basis of the new regulations concerning market abuses, which assigned Consob direct enforcement power; the related examination procedures were still underway at the end of the year.

Table 39

Results of the investigations into market abuses

	Reports of alleged offences [1]	- of which: for alleged abuse of privileged information	Investigations without reports of alleged offences [2]	*Total*
1997	19	16	33	*52*
1998	21	17	15 [3]	*36*
1999	30	22	8	*38*
2000	21	17	5	*26*
2001	18	14	10	*28*
2002	16	7	9	*25*
2003	16	13	10	*26*
2004	11	4	8	*19*
2005	4	2	4	*8*

[1] In 1997 and in 10 cases in 1998 the reports were transmitted under Article 8.3 of Italian Law 157/1991, which was repealed by the Consolidated Law on Finance. [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 public prosecutor. Following the entry into force of the Consolidated Law and until May 2005, Consob was in any event required to transmit a report to the public prosecutor on every investigation and assessment carried out. As from May 2005, Consob is no longer obliged to forward the reports for which alleged offences have not been formulated. [3] Of which 9 cases in which the investigation was closed before the entry into force of the Consolidated Law on Finance.

The number of requests for data and information sent to intermediaries, listed companies, government departments and foreign supervisory authorities in 2005, amounted in total to 219; of these, around 30 percent had the purpose of assisting foreign supervisory authorities involved in investigations on cases of alleged market abuses (Table 40).

Table 40

Requests for data and information relating to market abuses

	Requests addressed to:					
	Authorized intermediaries [1]	Listed companies their parent companies and subsidiaries	Private individuals	Government departments	Foreign supervisory 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*[3]
2002	154	28	52[4]	1	24	*259*[5]
2003	185	15	55[6]	3	27	*285*[7]
2004	146	13	23[8]	2	11	*195*[9]
2005	140	9	47[10]	--	23	*219*[11]

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Includes 7 hearings. [3] Of which 156 on behalf of foreign authorities. [4] Includes 19 hearings. [5] Of which 36 on behalf of foreign authorities. [6] Includes 29 hearings. [7] Of which 38 on behalf of foreign authorities. [8] Includes 7 hearings. [9] Of which 101 on behalf of foreign authorities. [10] Includes 42 hearings. [11] Of which 63 on behalf of foreign authorities.

In the report to the judicial authorities, in which the offence of insider trading was alleged, the inside information being abused comprised the imminent public proof of the state of distress which a listed company had been heading towards for some time. In the report which alleged front running misconduct, the investigations concerned the conduct of 2 dealers, employees of an intermediary member of the regulated market, one whose task it was to receive customer instructions and the other assigned to an in-house dealing account. The abusive conduct came about according to different patterns, sometimes playing on the in-house account, and unfolded over a total period of 10 months on 54 listed securities (Table 41).

Table 41

Type of inside information in the reports to the judicial authorities on alleged abuse of inside information

	Change of control - Tender offer	Financial performance	Share capital transactions. Mergers – Spin-offs	Other		*Total*
					of which alleged cases of front running	
1997	7	4	2	3	--	*16*
1998	13	1	3	--	--	*17*
1999	13	4	3	2	--	*22*
2000	6	1	3	7	1	*17*
2001	9	--	2	3	2	*14*
2002	1	1	2	3	1	*7*
2003	5	2	1	5	2	*13*
2004	2	1	--	1	--	*4*
2005	--	1	--	1	1	*2*

The 2 alleged cases of market manipulation put forward by the judicial authorities concerned a case of manipulating information, with reference to press releases circulated by a listed company, and a case of operational manipulation, regarding the trading of a leading intermediary on several European bond markets. Given the cross-border nature of the latter case, various European authorities co-operated in the investigations.

Total parties reported to the judicial authorities for alleged abuse of inside information and market manipulation came to 3 and 8 respectively (Table 42).

Table 42

Parties involved in alleged market abuse reported to the judicial authorities

	Authorized intermediaries[1]	Institutional insiders[2]	Others[3]	Foreign residents	*Total*
Abuse of inside information					
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*
2003	2	12	35	20	*69*
2004	--	8	7	4	*19*
2005	--	1	2	--	*3*
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*
2003	6	--	1	--	*7*
2004	4	2	6	1	*13*
2005	--	1	7	--	*8*

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Shareholders, directors and executives of listed companies. [3] So-called secondary insiders and tippees (pursuant to Article 180.2 of the Consolidated Law on Finance).

Supervisory activities on the integrity of the markets, with particular reference to the equity market run by Borsa Italiana Spa, have for some years availed of a computerized automated system for the detection of anomalies in trading activities, which permits more efficient action for the identification of possible cases of market abuse (Box 10).

Pursuant to Article 187 of the Consolidated Law on Finance originally in force, in criminal proceedings for the offences of insider trading and market manipulation, Consob exercised the rights and powers that the Italian Code of Criminal Procedure assigns to the entities and associations representing the interests injured by the offence. The new version of Article 187-*undecies* (introduced by Italian Law No. 62 dated 18 April 2005, which transposed the directive on market abuses in Italy), when confirming (section 1) the afore-mentioned faculty, also expressly envisaged (section 2) Consob's faculty to sue as injured party in the related criminal proceedings. The provisions pursuant to the afore-mentioned section 1, what is more, have acknowledgement purport of a faculty deriving from the application of the general principle pursuant to Articles 185 and 74 of the Italian Code of Criminal Procedure. By contrast, the second part of the norm is innovative in nature, introducing special criteria for the determination of the detriment, which must "*in any event take into account the offensive nature of the deed, the personal qualities of the guilty party and the magnitude of the product of the crime or profit there from*".

Consob's legitimization to sue for damages received express recognition by case law. In conclusion, the Milan Court in fact established that "The provisions pursuant to Article 2637 of the Italian Civil Code are laid down to protect the regular formation of prices of the financial instruments and, therefore, the regularity of the financial markets' performance and to protect the stability of the banking system. Bearing in mind that Consob is tasked with protecting the interests of public

Box 10

Probabilistic model for the detection of market abuses

For around three years now, Consob has been using a statistical model for the analysis of the market data inherent to the trading of listed shares on the Stock Exchange, which makes it possible to identify potential market abuses.

The model operates on the basis of four financial variables: the returns, the volumes traded daily, an indicator for the static concentration of the market (which amongst other things checks the presence of a dominant position of individual intermediaries,) and a dynamic concentration indicator (which examines the evolution over time of the operations of the individual intermediaries, highlighting any significant changes).

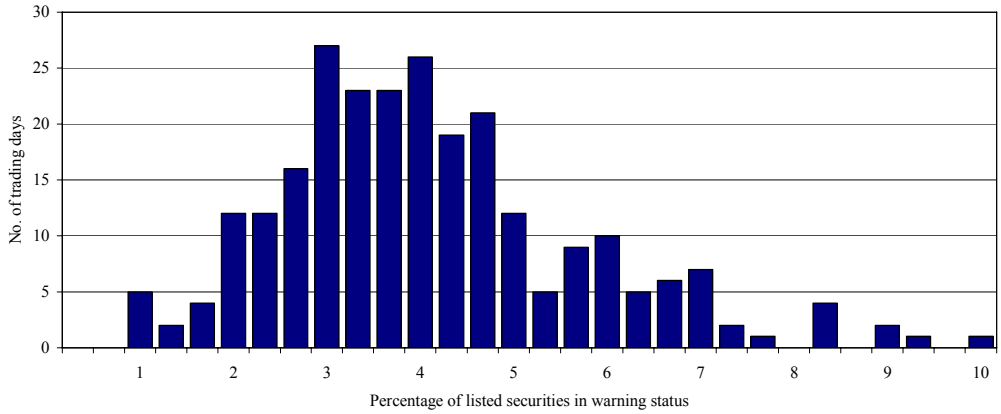
The performance of these variables or "alerters" determine the indication of anomalies whose joint interpretation provides an indication of potential market abuse (warning). In the case in question, with regards to the static concentration, the generation of the alert derives from anomaly signals generated by three pre-alerters which respectively examine the activities of the intermediaries regarding purchases, sale or gross transactions. Likewise, the generation of the alert for the dynamic concentration derives from anomaly signals generated by three pre-alerters which respectively examine the activities of the intermediaries regarding purchases, sale or net transactions.

On the basis of the probabilistic model, during each session and for each security, the system calculates an interval within which the individual alerters should move. If an alerter takes on a value outside the expected range, a possible alert is signalled.

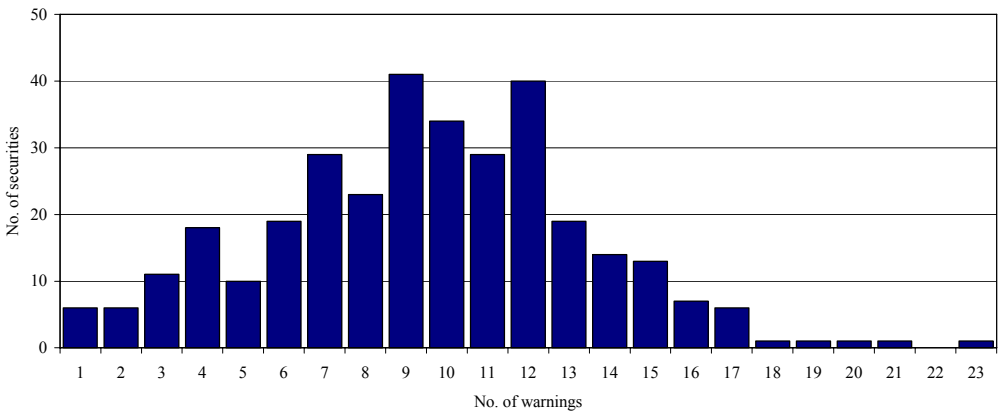
The procedural course followed when handling warnings envisages that steps are taken, in the first instance, to examine the market disclosure available on the security. On conclusion of such analysis, and any other checks, the warning may be considered justified by the market trend or may be traced back to hypothesis worthy of further investigation in relation to violations attributable to alleged market abuse. In the event that the warnings are considered to be symptomatic of a possible market anomaly, specific investigations are launched which may possibly lead to the opening of sanctioning proceedings.

During the three-year period 2003-2005, the system generated around 3,000 warnings a year; this entails that on average each day 4 percent of the securities have gone into warning status. Only on a very limited number of working days did the number of securities under warning status exceed 7 percent of the traded securities; moreover, at least one warning was generated on all the trading days. On average, each security generated around 10 warnings and rarely are more than 20 warnings per security generated in one year; furthermore, all the securities generated at least one warning a year.

Distribution of trading days by number of equity securities which generated a warning in 2005



Distribution of listed equity securities by number of warnings generated in 2005



These figures must be assessed in light of the fact that via the warnings the system detects all the so-called micro-failures of the market, both those induced by inherent phenomena (such as, for example, the dissemination of price-sensitive information), and those generated by market abuses. This implies that the majority of the warnings are attributable to the market disclosure trend, or to particular business cycle situations. Furthermore, during Consob's supervisory experience it emerged that several warnings are generally attributable to a single case of investigation. The warnings which remain after this initial screening must then be further purged of those which required investigations of another kind but which did not involve the opening of an investigation procedure. In conclusion, only part of the warnings which involved the opening of an investigation procedure – having completed the necessary assessments – may establish possible sanctioning.

savings in the financial market sector, the existence of detriment affecting the Commission can be hypothesised, if conduct is carried out, via the methods pursuant to Article 2637 of the Italian Civil Code, with the aim of disturbing or altering the regularity of the financial market" *(Decree dated 25 January 2005, issued within the sphere of the Parmalat proceedings). This approach was essentially confirmed by the Milan Court by means of subsequent decree issued on 21 September and 19 December 2005, as well as by the Brescia Court under decree dated 3 March 2005.*

For the institutional purpose of pursuing the protection of the interest in the efficient functioning of the market, during 2005 Consob sued for damages in 8 new criminal proceedings for insider trading (3 cases) and market manipulation (5 cases). In one case, where the alleged violation pursuant to Article 180.2 of the Consolidated Law on Finance, subsequently decriminalized as a result of Italian Law No. 62/2005, emerged, Consob was present as the body

Table 43

Consob interventions in criminal trials concerning insider trading and market manipulation offences

	Number of cases	Crime [1]	Outcome as at 31 December 2005
1996	1	Insider trading	Plea bargain
1997	1	Insider trading	Dismissal for limitation of actions [2]
	1	Insider trading	Acquittal
	1	Insider trading	Plea bargain
1998	1	Insider trading and market manipulation	Dismissal for limitation of actions
1999	1	Insider trading and market manipulation	Plea bargain for 4 defendants; conviction for two defendants
2000	1	Insider trading and market manipulation	Dismissal for limitation of actions [3]
	1	Market manipulation	Dismissal for limitation of actions [4]
2001	3	Market manipulation	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
2003	1	Insider trading	Pending
2004	1	Insider trading	Pending
	2	Market manipulation	Pending [4, 5] 1 plea bargain
2005	9	Insider trading and market manipulation	Pending [6] 2 plea bargains; 3 non-suits[6,7]

[1] Insider trading: Article 2 of Italian Law 157/1991, then Article 180 of the Consolidated Law on Finance, now Article 184 of the Consolidated Law on Finance; market manipulation: Article 5, Italian Law No. 157/1991, then Article 2637 of the Italian Civil Code, now Article 185 of the Consolidated Law on Finance. [2] Proceedings are still pending for other suspected offences. [3] The proceedings had already begun in 1998, but following the re-opening of the preliminary investigation phase it was necessary to initiate them again in 2000. [4] In these proceedings Consob applied to recover damages as an injured party. [5] One of these proceedings was also initiated for false corporate disclosures and obstructing the public authorities in the performance of their supervisory functions (Article 2638 of the Italian Civil Code). [6] During 2005, Consob again sued for damages as an injured party, except in one case. [7] In one set of proceedings, a non-suit ruling was passed for market manipulation, but the proceedings continue for the offence of obstructing the public authorities in the performance of their supervisory functions (Article 2638 of the Italian Civil Code).

Table 44

Outcome of reports submitted to the judicial authorities on alleged cases of insider trading and market manipulation

	Dismissal	Partial dismissal	Indictment	Plea bargain	Conviction	Acquittal	Non-suit ruling	Ruling of limitation of actions	*Total*
1991-1997	7	--	5	2	2	--	--	--	*16*
1998	4	--	1	1	--	--	--	--	*6*
1999	10	1	2	1	--	1	1	--	*16*
2000	6	4	2	3	--	--	--	1	*16*
2001	12	1	3[1]	2	1[1]	--	--	--	*19*
2002	10	--	2	--	2[2]	--	--	2	*16*
2003	16	--	--	--	--	--	--	1	*17*
2004	2	1	3	--	1	--	--	--	*7*
2005	4	1	9	3	3	1[3]	3[3,4]	1	*25*

[1] The decision of the first-level court was appealed against. [2] Some of the accused were acquitted. One of the decisions was appealed against but upheld by the Supreme Court. [3] One of the decisions acquitted one of the accused and decreed the forwarding of the documents to Consob for the purposes of possible application of pecuniary administrative sanctions as envisaged by Article 187-bis of the Consolidated Law on Finance, as introduced by Italian Law No. 62/2005. [4] In one case, the non-suit ruling for certain of the accused also decreed the forwarding of the documents to Consob for the purposes of possible application of pecuniary administrative sanctions as envisaged by Article 187-bis of the Consolidated Law on Finance.

representative of the interests injured by the offence (Table 43). In the majority of these proceedings, Consob took steps to forward specific reports to the competent judicial authorities, on conclusion of the supervisory activities carried out.

During 2005, 5 cases were dismissed (including one partially) as established by the judicial authorities in relation to cases of market abuse alleged by Consob under specific reports; again in 2005, there were also 9 indictments, 3 convictions and the same number of plea bargains (Table 44).

During 2005, the preliminary hearing was held before the Brescia Court, for the criminal proceedings against numerous parties, company officers, employees and auditors of the intermediary Bipop-Carire, charged, among other things, with the offence of market manipulation and obstructing Consob and the Bank of Italy in the performance of their supervisory functions. On conclusion of this preliminary hearing, under decree issued on 31 May 2005, the Judge for the preliminary hearing ordered the indictment of some of the afore-mentioned accused for the offence of obstructing the performance of the public supervisory functions pursuant to Article 2638 of the Italian Civil Code. During the opening hearing of the trial, held on 29 November 2005, the Court revealed its territorial incompetence and under a ruling provided for the forwarding of the documents relating to said proceedings to the Public Prosecutor's Office at the Milan Court.

Again in 2005, Consob sued for damages within the sphere of the criminal proceedings established, before the Milan Court, against the two former auditors of the

Parmalat Group who had requested that an immediate trial take place. At present, the latter case has converged into the Parmalat trial, where Consob is again suing for damages, in the trial phase.

Other proceedings where Consob sued for damages, pending before the Court of Milan, resolved, on conclusion of the preliminary hearing dated 29 June 2005, with a sentence applying the sanction upon the request of the parties pursuant to Article 444 of the Code of Criminal Procedure and the ordering of the accused to pay the legal costs for the plaintiff Consob.

In another case, where certain parties had been accused of the offence pursuant to Article 180.2 of the Consolidated Law on Finance previously in force, by means of sentence dated 19 October 2005, which became final on 14 November, the Milan Court set forth that it was not necessary to take action against the same because the deed is no longer envisaged by the law as an offence, and it also ordered the forwarding of the document to Consob, in as far as this fell under its responsibility, in observance of Article 187-bis of the Consolidated Law on Finance, as amended by Italian Law No. 62/2005, so as to take steps to apply any pecuniary administrative sanctions.

The Brescia Appeals Court came to similar conclusions and, under sentence No. 1404/05, acquitted one of the accused (who had been charged in accordance with the original Article 180.2 of the Consolidated Law on Finance) because the deed is no longer envisaged by the law as an offence, and ordered the forwarding of the deed and seized securities to Consob. By contrast, the conviction of the other party accused for the offence pursuant to the previously in force Article 180.1 of the Consolidated Law (now Article 184.1), was confirmed. It was in fact deemed that the role of "representative of a purchasing company" *falls perfectly* "within the additional provision, contained in the old and the new regulations, of one exercising a private function" *and that, therefore,* "the analysis of the new regulations is resolved in the sense of legislative continuity".

Sentence No. 2279/05 was particularly significant, by means of which the Supreme Court rejected the appeal against the sentence of the Milan Appeals Court filed on 31 March 2004, which in turn had confirmed the first level conviction of the accused for market manipulation. With reference to the principle of peremptoriness, the Supreme Court confirmed the sufficient determination of the criminal conduct of operational market manipulation. Since the accused's full awareness of causing an alternation to the market was considered proven, by the pertinent judges, the Court also judged the possible existence of further motives as irrelevant.

2. The operation of regulated markets and alternative trading systems

During 2005 intense activities for checking the amendments made to the Stock Exchange Regulations and the Instructions associated with the same were carried out.

In January, the Institute communicated its approval of the amendments made to the Instructions appended to the Regulations for the markets organized and run by Borsa Italiana, amendments concerning the structure of the minimum deviation of the prices (so-called tick) among the trading proposals on share futures contracts.

In the following May, the amendments made to both the Regulations for the markets organized and run by Borsa Italiana (and the attached Instructions), and the rules of the Nuovo Mercato, were approved. These amendments concerned the enforcement regulations toward operators, issuers and parties with specific duties (such as the sponsors and specialists) with regards to the applicable measures, their publication and assessment activities.

The new enforcement regulations envisaged Borsa Italiana's possibility of adopting written reprimand measures, of imposing pecuniary fines and of adopting measures for banning sponsors from activities, as well as measures suspending or excluding the operators (with the introduction of specific regulations for those who carry out functions supporting liquidity). As a rule, the criteria taken as reference for the determination of the type of measures applicable include: (i) the seriousness of the deed, assessed according to parameters relating to the effects on the market, the external significance and the seriousness of the case in question; (ii) any relapse, assessed over a reference period of 30 months prior to the violation.

In the event of reiteration of the same non-serious violation ("specific relapse") Borsa Italiana may apply a pecuniary fine.

The pecuniary fine ranges from a minimum of € 5,000 to a maximum of € 100,000, in relation to the seriousness of the deed. With regards to the sponsor and the listing partner, the pecuniary fine can be applied together with the reprimand and the ban from the specific activities carried out by the party. It is envisaged that the allocation of the amounts received for the imposition of the pecuniary fines be made known to Consob and to the market, so as to enhance the accountability mechanisms of the market management company.

With regards to the ban, suspension or exclusion, for the sponsor and the listing partner, the regulations envisaged that the ban may be effective solely in relation to the new transactions and may be imposed for a period of no longer than 18 months; with regards to the operators, the regulations remain more or less the same and the most serious violations can be punished by means of suspension from one or more markets and by means of exclusion from the same.

With reference to the measures taken toward market makers and specialists, the assessment procedure may only be launched when determinate thresholds of a performance indicator have been exceeded (an indicator which expresses the extent of the observance, by the operator, of the listing and liquidity support obligations), whose features are identified in the Instructions attached to the Regulations. If the violations of the obligations lead to negligible changes in the performance indicator, Borsa Italiana will only intervene with economic deterrents, modulating the payments due to the degree of observance of the obligations envisaged by the Regulations for these types of operator. Lastly, in the case of market makers and specialists on the Idem, it was made possible for Borsa Italiana to add the afore-mentioned measures to those concerning exclusion or suspension from the respective lists.

With regards to the publication of the measures, circumstances have been identified on occurrence of which the market is informed of the adoption of the enforcement measure; the reference criteria includes the seriousness and relapse.

Finally, Borsa Italiana has outlined the procedure for the imposition of the sanctions and for any disputes with parties in relation to whom the measures have been adopted.

In June, the Commission declared its approval of the amendments made to the Instructions attached to the Regulations for Borsa Italiana markets, concerning: (i) the introduction of the long term options on the S&P/Mib index; (ii) the obligations falling under the responsibility of the market makers relating to option contracts on the S&P/Mib index and on shares; (iii) the regulation of the block trades on share futures; (iv) the introduction of a maximum limit of lots on trading proposals relating to certain derivatives.

In the following July, additional amendments to the Regulations and the Instructions were approved, concerning: (i) the segmentation of the Nuovo Mercato; (ii) the sponsor and specialist research activities; (iii) the transformation of the EuroMot market into a united segment of the Mot; (iv) certain aspects concerning the admission to trading in the absence of demand by the issuer. In relation to the Expandi Market, amendments were introduced relating to the accounting documentation and the economic-financial indicators to be produced at the time of admission to listing. More amendments still became necessary following the introduction of the new international accounting standards (Ias/Ifrs).

The Nuovo Mercato, renamed the Mtax, was segmented according to an approach perfectly reflecting that of the Mta (in other words, with the introduction of Blue Chip, Star and Standard segments). The TechStar sector of the Nuovo Mercato was transformed into the Star segment of the Mtax and the financial instruments were divided up into three segments on the basis of their capitalization; within the sphere of each segment the financial instruments were divided up once again into standardized classes from the point of view of the trading formalities and times, taking into account the frequency of the trading and the average daily countervalue traded. The main innovations concerned: (i) the elimination of the Start-ups; (ii) the change of the minimum capitalization threshold, raised to € 40 million; (iii) the change, in the case of tender offers, of the moment of assignment to the segment from the date of the admission to listing order to that of the order for the start of trading; (iv) the introduction of the income from ordinary operating activities as a requisite for gaining admission to the Star segment for the issuers already listed in other segments; (v) the integration of the Regulations of the Nuovo Mercato within the Regulations for the markets organized and run by Borsa.

In April 2005, the migration of the EuroMot to the "Affari" technological platform was achieved, the latter already supporting the Mot segment. Therefore, a number of adaptations became necessary, consequent to the different market microstructure. These adaptations concerned: (i) the creation within the Mot market of two segments, one featuring domestic settlement (DomesticMot) and the other foreign settlement (EuroMot), involving the consequent transfer of the instruments traded on the EuroMot market to the EuroMot segment of the Mot market, and the closure of the EuroMot market (the same trading functions are envisaged for the two segments,

as well as the same trading phases and the introduction of the opening auction phase for the EuroMot segment); (ii) the breakdown into two classes, for the Domestic Mot segment, one comprising Italian government securities and the other euro debt securities and securities in currency other than euros, and the provision of a single class for the EuroMot segment comprising Euro-bonds, asset backed securities and securities of foreign issuers; (iii) the same disclosure to the operators and the general public for the whole of the Mot market; (iv) the provision, as a sole matching system, of Monte Titoli's so-called pre-settlement system; (v) standardization for the two segments, as far as it is possible, of the compulsory settlement procedures, so-called buy in and sell out.

In August, Borsa Italiana was informed of the approval of the amendments made to the Instructions concerning: (i) the regulation of the new "Off-Market Bit Block Service" function; (ii) the reporting of off-market transactions and block trades; (iii) the review of the reference calendar for the settlement of the premiums and the handling of the adjustments in the case of corporate events. In the following December, the same Instructions were further amended with regards to the minimum content of the press releases issued at the time of approval of the period accounting figures relating to the tax treatment of the reserves being distributed, to the covenants and to overdue debt.

During 2005 and further to the understanding reached by the Bank of Italy, the Commission approved a number of amendments to the Regulations of the wholesale market for non-government bonds and securities issued by international organizations invested in by Governments, run by Mts Spa.

In detail, during February 2005, a number of amendments were approved, according to the matters envisaged by Article 63.3 of the Consolidated Law on Finance, relating to: (i) the extension of the contract types which can be traded on the market; (ii) the obligations of the leading operators and the suspension from their functions by the market management companies; (iii) the performance of trading, with specific reference to the functions of the screen-based system and the operations of the intermediaries and the execution of the contracts, so as to take into account the transfer to Monte Titoli of the management of the clearing and settlement service. In the following May, further amendments were approved regarding sanctions.

The Commission also provided an opinion for matters falling within its sphere of competence to the Ministry for the Economy and Finance, relating to the amendments made to Mts Spa's by-laws, as well as to the Regulations of the Government securities wholesale market and the Regulations of the BondVision market (markets run by Mts Spa).

The by-law amendments concerned the adoption of the dualistic administration and control system, pursuant to Article 2409 of the Italian Civil Code. The amendments relating to the Regulations of the Government securities wholesale market concerned the subject of sanctions.

Lastly, in July the Commission provided the opinion for matters falling within its sphere of competence to the

Ministry for the Economy and Finance, relating to further amendments made to Mts Spa's by-laws in connection with the planned acquisition of Mts Spa by Euronext and Borsa Italiana.

By means of press release dated 1 July 2005, it was announced that the majority of Mts Spa's shareholders had accepted Euronext/Borsa Italiana's offer for 51 percent of the capital involving a valuation of Mts Spa of € 245 million. Euronext and Borsa Italiana pledged to subscribe at least 51 percent of Mts's share capital, via a joint venture in which Euronext holds 51 percent and Borsa Italiana 49 percent. The acquisition envisaged the subscription of a share capital increase reserved for the joint venture. The press release disclosed that the subscription of the shares would take place within 90 days of the shareholders' meeting, subject to the satisfaction of a series of legal conditions, including the approval of the by-law amendments by the Ministry for the Economy and Finance, having consulted the Bank of Italy and Consob. The transaction was finalized at the end of November.

During 2005, the Regulations and the Instructions relating to the organized market run by Tlx Spa were also subject to a number of amendments. The main amendment was approved by the Commission during the summer when, as a result of the transposition of the EU Directive on Prospectuses, the admission to trading on the regulated markets in the absence of request by the issuers was also extended to the instruments already traded on other EU regulated markets.

In order to take advantage of this opportunity, it was necessary to harmonize a number of provisions of the Tlx market Regulations concerning, in particular, the admission to trading and the related procedures, corporate disclosure and the duties of the management company. The Instructions to the Regulations were consequently updated.

With regards to the area of the Alternative trading systems, during 2005, 9 new entrants were registered, while there were 8 requests for deletion. Supervision of this segment concerned control of the activities carried out by the individual systems and the observance of the fulfilments envisaged by sector legislation. An improvement was noted in the contents of the regulations drawn up by the trading organizers with regards to the running features, the criteria for the selection of the financial instruments which can be traded and the price formation criteria.

In pursuance of Article 78.1 of the Consolidated Law on Finance, during the year requests were made for information and news from an alternative trading system run by a party not belonging to the category of authorised intermediaries, for the purpose of acquiring elements useful for checking the regularity of the registered price formation process, within a specific timescale, on contracts relating to purchase/sales instructions for a issued security. At year end, such controls were still under way.

3. Clearing, settlement and central depository services

During 2005, the Commission took action at the time amendments were made to the regulation of clearing, guarantee

and settlement services, providing the envisaged opinion to the Bank of Italy.

In April, the Institute intervened with reference to the operative Regulations for settlement services (Express II) and Monte Titoli Spa's additional activities.

The amendments, which aimed at increasing the overall efficiency of the system and interoperability between systems, were previously agreed upon within the Express User Group *(an advisory group made up of market operators and the Authorities). In detail, by means of an initial amendment, the possibility of splitting was also allowed for transactions not guaranteed by central counterparties, if said transactions emerge as unsettled at the end of the net settlement cycle and therefore sent to the gross settlement cycle. A second amendment concerned more stringent rules for the determination, between the trading parties, of the times for removal from the settlement system of unsettled over-the-counter transactions, so as to align them better with the timescales envisaged for the market transactions.*

The last and most important amendment envisaged that the daily matching and adjustment services managed by Monte Titoli be able to forward the settlement instructions to settlement systems other than the one run by Monte Titoli as well. This provision contributes towards the creation of interoperability between settlement systems in the European area.

In September, the Commission provided the Bank of Italy with the opinion, envisaged by Articles 68, 69.2 and 70 of the Consolidated Law on Finance, relating to amendments to the Regulations of the systems for guaranteeing transactions on financial instruments.

The amendments made permitted Cassa di compensazione e garanzia Spa to extend its central counterpart functions to off-market trading. The opportunity was provided by the implementation of a new trading function by Mts Spa – which makes it possible to stipulate repurchase agreements on Italian Government securities in which the parties have the autonomy to negotiate, on a bilateral basis, both the interest rate and the maturities – in relation to which the management company requested Cassa di compensazione e garanzia Spa for the central counterpart service.

If the above matters made it necessary to adapt the regulations for the services provided by Cassa di compensazione e garanzia Spa, the new activities of the central counterpart did not however represent an innovation for the pertinent legislative framework. The Instruction of the Bank of Italy dated 22 October 2002, disciplining the systems for guaranteeing the transactions on financial instruments, already envisaged that the guarantee systems based on central counterpart were aimed at clearing and guaranteeing the contractual position of the system participants deriving both from transactions concluded on an regulated market and transactions concluded outside regulated markets.

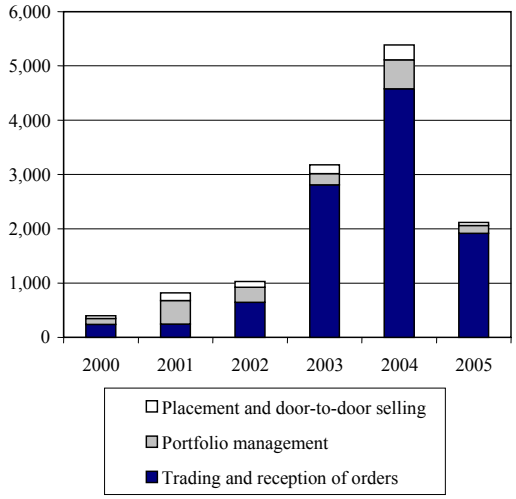
III – SUPERVISION OF INTERMEDIARIES

1. Banks, investment firms and stockbrokers

During 2005, the disputes between retail customers and intermediaries with regards to the provision of investment services fell sharply, as indicated by the number of complaints received by the Commission (Figure 54).

Figure 54

Complaints received by Consob regarding investment services



In fact, the number of complaints received more than halved, dropping from around 5,300 to approximately 2,100; the number remains high however if compared with the average value for the three-year period 2000-2002.

As in the previous two-year period, investors' complaints by far mostly concerned the trading and order execution service and, in more detail, the lack of prior disclosure on the features of the financial instruments.

In relation to the portfolio management service, the complaints mainly concerned violation regarding the observance of the management appointment, whilst with regards to placement and door-to-door selling, as in the case of trading the complaints concerned the representation of the products or financial instruments (Table 45).

During 2005, checks on the intermediaries were affected by the need to continue with activities for checking the intermediaries' conduct in selling corporate bonds to their customers. Such a question recurred also in the complaints received.

In the wake of the investigations carried out with reference to the Cirio affair, investigatory activities were extended to the intermediaries' operations on bonds issued by companies belonging to various industrial groups. Furthermore, examination activities continued in relation to the transactions of intermediaries on Argentine bonds. Other key cases subject to investigation concerned transactions ascribable to financial plans which permit the investors to deploy sums deriving from loans for the acquisition of financial instruments.

Supervisory action was characterized by a transversal approach, founded on analysis of the procedures and the organizational set-up adopted when providing investment services. Accordingly, the investigations carried out, albeit caused by operations on specific financial instruments, led to the emergence of certain shortfalls and defects of a procedural nature, as such liable to unveil their effects irrespective of the specific type of financial instrument in question.

Table 45

Complaints lodged by investors concerning investment services

	Subject of the complaint														
	Trading and reception of orders					Portfolio management				Placement and door-to-door selling					
	Failure to provide prior information on financial instruments	Fees	Unsuitable transactions without customers' prior consent	Execution of orders	Other	Failure to provide prior information on the service	Failure to comply with the contract/management rules	Unsatisfactory rates of return	Other	Allotment of quantity ordered	Description of products/services	Execution of instructions	Suspected unauthorized activity	Other	*Total*
2000	46	5	26	93	68	17	57	11	27	7	22	4	1	13	*397*
2001	38	1	65	109	29	27	152	19	238	1	47	38	25	28	*817*
2002	322	5	53	194	72	27	99	40	114	17	40	39	1	7	*1,030*
2003	2,195	3	66	434	111	44	110	30	22	2	145	9	2	4	*3,177*
2004	3,475	18	476	83	524	182	49	20	285	--	247	18	--	6	*5,383*
2005	1,332	5	59	187	335	23	66	15	40	1	44	6	--	7	*2,120*

The cases disputed, on a general basis, concerned the violation of the principles of diligent and correct conduct and of acting in the interests of the customers (Article 21.1, letter a, of the Consolidated Law on Finance), highlighting shortfalls: (i) in the internal control function and the internal procedures; (ii) in the knowledge of the financial instrument being traded; (iii) in the customer disclosure on the nature and the risks of the transactions; (iv) in the assessment of the adequacy of the instructions imparted by the customer; (v) in the reporting of conflicts of interest.

On the basis of these grievances and the assessment of the defensive reasoning, de jure and de facto*, adopted by all the parties concerned, the pecuniary-administrative sanction proposals (see subsequent Chapter IV) were therefore formulated before the Ministry for the Economy and Finance, on conclusion of the pertinent proceedings phase.*

Supervisory action was supported by specific inspections. During 2005, in total inspections were launched with regards to 4 investment firms, 2 banks and 6 asset management companies (Table 46). In one case, the Bank of Italy was requested in accordance with Article 10.2 of the Consolidated Law on Finance, to carry out checks for aspects falling under the sphere of competence of Consob.

Excluding the inspections of listed companies associated with aspects other than observance of the regulation of asset management and investment services, the inspections concluded in 2005 came to 9, of which 3 launched during 2004; therefore, the inspections started and concluded in 2005 came to 6 in total. The 9 inspections concluded in 2005, included one concerning

Table 46

Inspections at intermediaries and listed companies

	Inspections			*Inspections started at:*							*Inspections concluded at:*						
	Approved	Started	Concluded	Investment firms [1]	Banks	Asset Management co.s \Sicavs	Stockbrokers	Financial salesmen	Listed companies	*Total*	Investment firms [1]	Banks	Asset Management co.s \Sicavs	Stockbrokers	Financial salesmen	Listed companies	*Total*
1997	16	25	31	12[3]	5	1	6	1	--	*25*	17	9	--	4	1	--	*31*
1998	24	20	22	6	9[4]	--	3	--	2[5]	*20*	9[3]	8[4]	--	3	--	2[5]	*22*
1999	21	23	24	8	--	--	3	11	1	*23*	8	2	--	2	11	1	*24*
2000	18	19	18	5	1	6	6	1	--	*19*	5	2	1	9	1	--	*18*
2001	8	9	13[2]	2	2	2	3	--	--	*9*	4[6]	1[7]	5	3	--	--	*13*
2002	9	13	12	5	2	3	1	--	2[8]	*13*	4	3	4	1	--	--	*12*
2003	14	14	18	1	9	--	--	--	4	*14*	5	8	1	--	--	4	*18*
2004	3	5	8	--	2	1	--	--	2	*5*	--	5	1	--	--	2	*8*
2005	14	14	11	4	2	6	--	--	2	*14*	1	4	4	--	--	2	*11*

[1] Includes 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 the Consolidated Law on Finance. [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.

an investment firm and 4 concerning banks (in additional to the 4 which concerned asset management companies; see subsequent § 2.).

In relation to inspections carried out at banks, the field of investigation focused on the conduct shown when providing trading, reception and transmission of orders for corporate bonds. In addition, selling derivatives traded outside regulated markets to small and mediums sized companies were also subject to inspections. This matter was previously subject to Parliamentary hearings within the sphere of a survey on the distribution of financial derivatives.

Investigations into investment firms generally concerned the compliancy of the methods for carrying out the investment services with legislative and regulatory provisions, as well as the observance of the duties concerning conflicts of interest, the "know you customer" rule and information to be provided to the investor. Investigations concerning investment firms authorized to carry out door-to-door sales also concerned the organization adopted and the checks carried out on the sales network.

During 2005, the Commission analyzed the placement of the so-called "guaranteed" and/or "protected" individually managed portfolios, providing guidance and indications to the intermediaries on the most appropriate sales methods for the products and on the disclosure to be provided to the customers (Box 11).

Box 11

"Guaranteed" and/or "protected" individually managed portfolios

In the recent past, the performance of the markets generated interest for asset management services characterized by a strong "defensive" feature and aimed, also in combination with other products, at ensuring the saver a genuine right, in the event of a negative management result, to the return of the assets initially conferred (possibly increased in relation to interest calculated on the same), or rather to contract the specific commitments of the intermediary to protect the capital, by means of specific management techniques.

The Commission specified that the following can be defined as "managed portfolios accompanied by a guarantee" (in the operating procedure identified as "guaranteed management"): individually managed portfolios which are associated with the recognition of a genuine right for the saver to the restitution of the amount corresponding to the assets initially conferred (possibly increased on the basis of an agreed interest rate) in the event of a negative management performance. By contrast, "protected portfolios" are understood to be those which, leaving the customer as the sole and effective beneficiary of the management results – positive or negative – aim to limit the risk of generating financial losses via the use of particular management techniques.

In the managed portfolios accompanied by a guarantee, the customer commits the counterpart (also) to meet a result-related obligation, while in the protected portfolios the intermediary remains bound exclusively to a means-related obligation, within the sphere of which the need to contain the risk of losses takes on particular significance, with a view to protecting the capital conferred by the customer. The Commission also indicated that in the effective situation various combinations are seen between the two types (portfolio management accompanied by a guarantee – protected portfolios) created by financial engineering. These "products" can be defined as "protected portfolios accompanied by a guarantee".

The Commission confirmed the central nature of the priority commitment required the intermediaries, to represent the features of the management portfolio offered, in the advertising messages and the pre-contractual dealings, with the greatest of clarity, so that the investors may make informed choices. In this context, the need to qualify and "sell" the individual "products" using appropriate names was indicated.

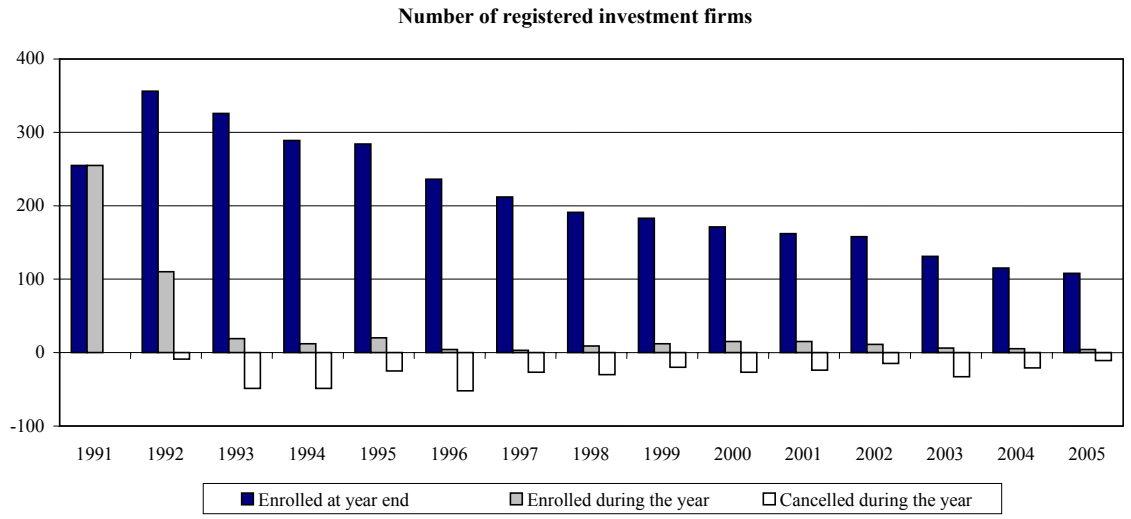
With specific reference to the "managed portfolios accompanied by a guarantee" it was observed that the undertaking of a commitment to "return" the assets initially conferred, in the event of negative management performance, does not fall within the typical motive of the individually managed portfolio contract: the related regulation is in fact dictated in the presupposition that the position risk for the arranged investments is to the charge of the products managed. What is more, the assessment concerning the extraneous nature of the commitment to return the assets

with respect to the individual portfolio management service does not necessarily lead to the consequence of the absolute and objective incompatibility of this commitment with respect to the afore-mentioned service. The coupling of the obligation to manage the portfolio with that of at least returning the capital initially conferred in the event of a negative management performance may, in fact, come about by means of two different transactions which, despite each remaining completely faithful to the respective areas of reference, link up in a united underlying interest. The sphere and the features of the management remain exclusively – as clarified – those represented in the management contract concluded with the customer in terms of the risk-return aspect. Therefore, the operator remains obliged to make dynamic investment and divestment choices in observance of the general concept of professional diligence. Specifically, the Commission specified that the investment choices and the management style cannot be influenced by the needs to control the financial risk deriving from the issue of the guarantee. Any form of "pre-determination" of the operator's activities which, at the time of structuring the product, was envisaged following the collateral presence of a "guarantee" commitment in fact takes on the shape of portfolio management "which is protected and accompanied by a guarantee" and therefore requires that these forms of "pre determination" form the subject matter of an explicit agreement with the investor in the management agreement.

The Commission has therefore provided additional, specific "guiding criteria" capable of guiding the operators in complete observance of correct and transparent sales and the performance of the indicated services, specifying, among other things, in relation to the case of portfolio management accompanied by a guarantee, that the afore-mentioned principles impose not only a full representation to the customer of the portfolio management characteristics, but also a clear illustration of the overall effects of the proposed financial transaction, emerging from the linking of the management contract with that concerning the guarantee.

With regards to the "protected portfolios managed accompanied by a guarantee", particularly common on the market, the need was indicated in this case that the management contract must clearly illustrate the management methods adopted for the "protection". In relation to the hypothesis where the management techniques used envisage that, in specific market scenarios, the operator fully or partly invests the customer portfolio in so-called risk free securities, without any additional or subsequent possibility of freeing-up the investment until the date envisaged for the performance of the guarantee, the need was specified for the operator to provide timely communication to the customers of the occurrence of this eventuality and to envisage mechanisms for reviewing the commission-related structure of the service which permits remuneration of the same proportioned to the streamlining undergone by the management activities.

Figure 55



During 2005, the number of registered firms dropped from 115 at the end of 2004 to 108 at the end of the year, confirming the now marginal role adopted by these intermediaries (see Chapter III of previous Part A) (Figure 55).

The reduced numerousness of new enrolments in the Register can be explained by the scant interest of the market for the "investment firm model", while the cancellations reflect the consolidation process underway, characterized by the progressive elimination of marginal parties and the restructuring within banking groups.

In 2005, Consob gave its opinion on matters falling within its sphere of competence regarding the annual review of the plan for the financial coverage of the special management of the National Investor Compensation Fund, relating to insolvencies prior to 1 February 1998. The Fund represents the compensation system operating in Italy for claims deriving from the provision of investment services and those deriving from the safekeeping and administration of financial instruments.

The Fund continued the new management arrangements launched, in accordance with Article 59 of the Consolidated Law on Finance, with reference to the bankruptcy proceedings whose liability statement was filed after 1 February 1998. In detail, the compensation fund intervened in 19 cases of default (11 investment firms and 8 stockbrokers; Table 47). Such operations were carried out alongside the so-called special operations, financed in part by the Ministry for the Economy and Finance and governed by the rules predating the Consolidated Law; they concern 25 insolvencies in which the statement of liabilities was filed before 1 February 1998.

Table 47
Intervention by the National Investor Compensation Fund
(as at 31 December 2005
amounts in thousands of euros)

	Bankruptcies [1]		
	Investment firms	Stockbrokers	*Total*
1997	4	1	*5*
1998	2	3	*5*
1999	1	1	*2*
2000	1	--	*1*
2001	1	--	*1*
2002	--	2	*2*
2003	2	1	*3*
2004	--	--	--
2005	--	--	--
Total insolvencies	*11*	*8*	*19*
of which: with statement of liabilities filed	*11*	*8*	*19*
Number of creditors admitted	1,148	874	*2,022*
Amount of claims admitted [2]	30,330	38,040	*68,370*
Intervention by the Fund [3]	7,989	10,932	*18,921*

Source: Consob calculations based on National Investor Compensation Fund data. [1] For which the statement of liabilities was filed after 1 February 1998. [2] Net of partial allotments made by the bodies responsible for the bankruptcy proceedings. [3] Intervention for claims entered in the statement of liabilities, of which around €90,000 set aside for claims that have been challenged.

2. Asset management companies

During the year, supervisory activities continued on the correct conduct of the asset management companies which manage open-end mutual investment funds. The aspects worthy of attention which emerged from the analysis performed essentially concerned the formalization of the general investment strategies and the procedural controls for the first and/or second level monitoring of the operational activities (operating limits posed on front-office, methods for updating the electronic order and executed order register, reporting to the Board of Directors).

In 5 cases, company officers of the asset management companies were summoned and, subsequently, information was acquired by the companies appointed to audit the accounts. The purpose of calling the company officers was to solicit the prompt preparation of a programme of corrective measures aimed at overcoming the organizational- procedural shortfalls detected. Meetings were held with the companies appointed to audit the accounts of the asset management companies, so as to check the effective implementation of the afore-mentioned plans for intervention, especially with regards to the assessments on the adequacy of the internal control systems adopted.

In 3 cases, the key elements noted were such that they entailed the launch of inspections. These inspections focused on: (i) the organizational and procedural mechanisms adopted for the provision of the service; (ii) the investment decision-making process and the coherence between the strategic choices resolved by top management and the management activities effectively put together; (iii) the controls aimed at ensuring the observance of the norms concerning conflicts of interest, as well as the observance of the requirement of independence.

In one case, enforcement proceedings were launched against company officers for the inadequacy of the investment decision-making process, due to shortfalls in the front-office procedures and improper conduct concerning the provisions of individual portfolio management services pertaining to a so-called "protected" line.

Once again during 2005, an inspection at a leading asset management company was concluded. The results led to the launch of enforcement proceedings against certain company officers, due to: shortfalls regarding the analysis supporting a significant investment in bonds; the divestment formalities for the same considered incompatible with the observance of the integrity of the markets; and shortfalls in the procedures relating to the management of real estate funds.

The Commission also carefully controlled the closed-end real estate funds market. The action was carried out during the examination procedure for authorization to perform management activities. In this phase, attention was focused on the governance regulations adopted by the asset management companies and, specifically, on the investment decision-making mechanisms in situations featuring potential conflicts of interest.

In the cases of listing of the funds, the analysis process concerned the determining factors of the profitability of the real estate portfolio (lease instalments, duration of the contracts, type of lessee, geographic area, intended use), as well as the criteria adopted by the independent experts for the appraisal of the real estate (limits and specification of the estimated appraisal, method for calculating the state of default, comparisons made, correction factors used for the valorisation of the assets, etc.).

During 2005, initiatives were proposed by several asset management companies for the establishment of "reserved private-contribution real estate funds" for which the management companies were to have carried out activities just for the administration of the real estate contributed in view of its progressive disposal, rather than perform tangible activities for the management of said assets. The contributors in the afore-mentioned transactions (generally real estate companies) adopt the guise of the sole investors in the fund, and therefore of the sole holders of the units received. In this connection, its was believed that in certain cases the management methods were subordinate to aims extraneous to the provision of the collective management service vis-à-vis the general public and therefore an improper use of the financial model placed at the basis of the mutual investment funds had been discouraged.

Supervisory activities on the correct conduct of the asset management companies also concerned the management of the closed-end investment funds, specialized in unlisted shares of small/medium-sized companies with difficulty in accessing the capital market, with particular regard to the identification of measures suitable for preventing and handling conflicts of interest inherent to the characteristic peculiarities of the activities carried out.

Situations featuring conflicts of interest which come to light in the management of closed-end investment funds are essentially ascribable to group dealings or to the own business dealings of the asset management company or companies in the group it belongs to. Specifically, reference is made to the conflicts of interest which arise following recourse by an asset management company to group advisors, or in the event that an asset management company invests the assets of the fund in a target company financed by a party belonging to the group of the same operator or decides to" jointly invest" the fund's assets

together with this party at different moments in time. Within this context, the supervisory activities were focused on the existence of adequate organizational measures aimed at guiding the operators' conduct in the presence of conflicts of interest. For this purpose, the measures adopted by the asset management companies for the identification of ad hoc procedural mechanisms were significant (recall, for example, the application of a "grid" of situations assessed ex ante *as potentially critical; and when these situations arise it becomes obligatory to activate a procedure for reporting to a Supervisory Board, or identify an adequate number of independent directors with the task of expressing binding opinions, if conflicts of interest appear during the investment decision-making process).*

The initiatives adopted with regards to the Association representing the private equity operators were targeted at the definition of "autonomy protocols", containing a body of best practices, assessed positively in view of the drafting of self-regulation codes. In view of this, Consob launched profitable discussions on the subject with the afore-mentioned Associations.

With regards to the aspects of disclosure to subscribers, Consob Regulations have been amended in the part relating to the prospectus formats of the mutual funds following the transposition of the pertinent directives (see subsequent Chapter V) and the issue of the second-level legislation (Recommendations on the Simplified prospectus of the European Commission dated April 2004 and Regulations of the European Commission dated March 2004).

The Commission was therefore required to carry out additional checks during the year on the correct application of the new prospectus formats, essentially so as to avoid generic descriptions of the investment policies and incomplete disclosure regarding the structural peculiarities of the same UCITs (collective investment undertakings).

As part of the examination activities for the publication of the open-end mutual fund prospectuses, particular attention was focused on the representation of the portion of commission fees retroceded on average to the placers. The decision to increase the transparency on the placers' remuneration pursues the aim of acquainting the investor with regards to the fact that the service/advisory activities provided to the same during the "selling" phase do not finish with the payment of the subscription fee, but continue during the period of investment in the fund with the retrocession by the asset management company of a predominant portion of the management commission fees. Analysis carried out during 2004 had in fact indicated that the remuneration of the placers represents around 70 percent of the cost of the "fund product" incurred by the investor.

The importance of the decision made by Consob is confirmed by the attention given by the European Commission to the problems associated with the methods used for distributing the funds in the "Green paper on the improvement of the legislative framework relating to mutual investment funds in the European Union" dated 12 July 2005. According to the European Commission, an improvement in the transparency of the overall costs of the funds, by means of specific indication of the distribution costs, may increase competition between those participating in the distribution process to the

benefit of the end investors. In the "Feedback Statement" *dated 13 February 2006, containing the responses forwarded by the European asset management market players to the questions raised in the "Green paper", the importance of the theme of distribution costs for improved market competitiveness is once again confirmed. Recently, the American Securities and Exchange Commission (Sec) also proposed regulations which increase the transparency concerning costs associated with the investment in US mutual funds, also requiring greater detail of the distribution costs both in the offer prospectus and in the investment confirmation letter.*

Again on the subject of supervision on disclosure to fund subscribers, the Commission dedicated specific attention to the so-called flexible or "risk managing" funds (Box 12).

On the subject of corporate governance, analysis continued on the structure of the asset management companies' board of directors and on the presence of the directors' independence requisites. Specifically, the composition of the board of directors of the top 20 bank and insurance company-controlled asset management companies was analyzed by portfolios managed as at 31 December 2005 (which, with total assets of € 318 billion, represented 83 percent of the total managed portfolios of Italian harmonised funds), making a comparison with the same figures for 2004 (Table 48).

Table 48

Positions held by directors of asset management companies in other companies belonging to the same group
(number of directors)

Position on the board of the asset management company	Positions held in the parent company					Positions held in other group companies	No position held in other group companies	*Total*
	Chairman	Managing Director	Director	Director General	Manager			
2005								
Managing Director						12		*12*
Director	2	1	13	7	20	55	11	*109*
Executive director					1	7	4	*12*
Independent director			2			8	13	*23*
Chairman	2	1	3		4	1	1	*12*
Chairman, executive director			1	1		3		*5*
Chairman, independent director			1				3	*4*
Total	*4*	*2*	*20*	*8*	*25*	*86*	*32*	*177*
2004								
Managing director						10	1	*11*
Director	2	2	14	8	12	54	19	*111*
Executive director		1		1		9	2	*13*
Independent director						2	15	*17*
Chairman	1	1	3	2		6	1	*14*
Chairman, executive director			1					*1*
Chairman, independent director			1	1		2	1	*5*
Total	*3*	*4*	*19*	*12*	*12*	*83*	*39*	*172*

Source: offer prospectuses. Figures relating to the top 20 banks and insurance company-owned asset management companies by portfolios managed. Period end data.

Box 12

Open-end mutual funds "managing risk" and profiles of transparency

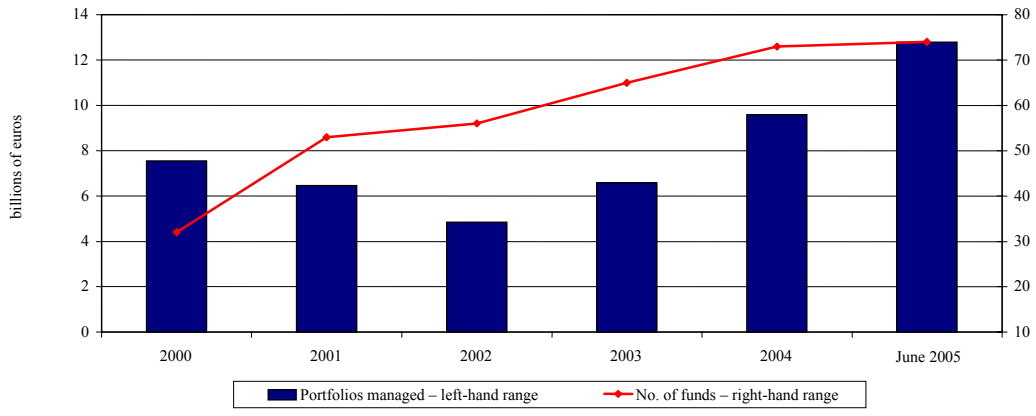
In the last decade, the asset management market was affected by an intense process of financial innovation which led to an increase in products handled via increasingly sophisticated techniques.

The restrictions established by Directive No. 85/611/CEE with regard to the types of financial instruments which can be selected by the so-called harmonized funds, that are admitted for unrestricted circulation in the member states, however emerged as partially impedimental to the use of the afore-mentioned techniques. By means of directives 2001/107/CE and 2001/108/CE, the EU legislator extended the eligible investments, also including therein derivatives, on the assumption that the protection of the investors was in any event ensured by the raising of the disclosure level (circumstantial evidence within the sphere of the offer prospectus on the riskiness of the product) and by the enhancement of the intermediary's organizational structure (provision of portfolio risks' management procedure).

Nationally, traditional funds whose level of risk is defined in relation to that of a stylized reference portfolio (so-called benchmark funds), have been flanked by a growing number of products featuring a risk level expressed in absolute value, partly in response to the investor's requirements. Specifically, these involve the so-called flexible, protected, guaranteed funds.

The flexible funds are managed with the aim of maximizing the return within the sphere of a risk level defined *ex ante*, without any restriction with regards to financial instruments or reference markets. Between December 2000 and June 2005, these funds more than doubled (from 32 to 74), involving an increase in managed assets of around 70 percent.

Number and assets of Italian flexible funds



The risk profile of the flexible funds appears particularly varied and, at the same time, poses problems of representation, given the impossibility of identifying an index which recapitulates the features of a flexible managed portfolio due to their changeable nature. Therefore, the indication of alternative risk measures other than the benchmark, such as for example, the so-called VaR (Value at Risk), is permitted in the prospectus. The VaR represents the maximum potential loss which a financial portfolio is subject to in a specific period of time and within the sphere of a pre-defined confidence level.

Alongside the flexible funds, the "protected" and "protected and guaranteed" funds also present peculiarities with regards to the risk profiles. The protected management method in fact aims to contain the exposure to risk by means of the use of quantitative techniques which regulate the investment limits in the various financial instruments. In the event that the protection is accompanied by a guarantee provided by a third party counterpart, the saver by contrast acquires a genuine right to the reimbursement of the invested capital.

Funds qualified as protected and guaranteed have nearly doubled in number since 2003, the year in which they were introduced, and have grown by around 70 percent in terms of assets managed. Protected funds are characterized by an abundant recourse, on a par with many flexible funds, to quantitative techniques for monitoring and gauging the risk. Nevertheless, the protected methods represent a management qualification and not a product category, therefore it will always be possible that within the sphere of the "protected" category there are funds, linked to the portfolio composition expressed by a benchmark, in relation to which the protection expresses an objective for containing just the related risk. In any event, the recent market trend demonstrated propensity for the choice of a flexible asset allocation for the protected funds as well.

The danger for the investor of a non-immediate availability of the information on the quantitative techniques used made specific supervisory intervention necessary with regards to transparency. Accordingly, the amendments made in 2005 to Regulation No. 11971/1999 made it possible to envisage the inclusion of a probabilistic representation of the potential return - to be compared with the possible result of an investment of similar duration in bonds lacking risk – within the offer documentation of the protected funds.

Further to the new regulatory provisions, supervisory activities were therefore particularly careful that the simulations expressed in the return scenarios offered to the investors were carried out in observance of scientific accuracy, and as part of estimation processes aimed at seizing financial market dynamics which are diversified, but also reasonable with respect to the current and forecast conditions.

With reference to the 20 asset management companies belonging to the sample examined, during 2005 the overall number of directors rose by 5 units on the previous year, passing from 172 to 177; specifically, the trend reflects an increase in the number of members with directorships in the parent company (+ 9) or in other group companies (+ 3) and a decrease in directors without positions (- 7). The number of executive directors remained very low in both the periods: the average ratio is 1 executive director to every 15 directors; the number of independent directors is also low, with an average of 1 independent director to every 8, compared with a ratio of 1 every 3 suggested by the Codes of Best Practice for listed companies. The afore-mentioned ratio however shows an improvement with respect to last year, when the ratio was 1 independent director to every 11 directors.

If, from a structural point of view, the number of directors who do not carry out management or monitoring functions on management appears unbalanced to say the least, also from a qualitative point of view there are aspects which reveal a certain backwardness of the corporate governance system. In detail, the concept of independence does not seem to be fully applied, if one considers what the requisites are which are requested by the autonomy protocols of the trade association for the purposes of assigning the qualification of independence (the absence of operating authority in the company, of business or professional dealings with the asset management company or group company). With respect to the requisites hoped for, particular cases are noted: (i) one case where an independent directors is also executive; (ii) two cases where the independent directors are also present on the Board of Directors of the parent company; (iii) 8 cases where the independent directors with other directorships in group companies; (iv) 7 cases where there are no directors indicated as independent. The absence of formal observance of the independence requisite is noted in many asset management companies of co-operative banks.

3. Financial salesmen

As in the past, during 2005 supervisory action in respect of financial salesmen originated from complaints filed by investors, the outcome of inspections carried out at intermediaries, communications received from the judicial authorities or the police, and reports transmitted by intermediaries themselves.

There was a decrease in reports of alleged irregularities by financial salesmen. The overall number of complaints and reports examined during the year (or 378) fell by 15 percent when compared with 2004 (445) and by 18 percent when compared with 2003 (461). Of the 378 complaints examined in 2005, 112 did not present sufficient elements for launching enforcement procedures.

By way of example, these reports included anonymous complaints, not pertaining to matters falling under the responsibility of the Institute, absolutely generic or regarding circumstances in relation to which the five-year cut-off deadline had already expired at the time the report was received.

The decrease in the number of reports seems to be linked to the improved performance of the financial markets, which if, on the one hand, has minimized the contentiousness of the investors and improved

the expectations of a satisfactory result on the investments made, on the other hand encouraged the operators' propensity towards conduct in keeping with the dictates of sector legislation.

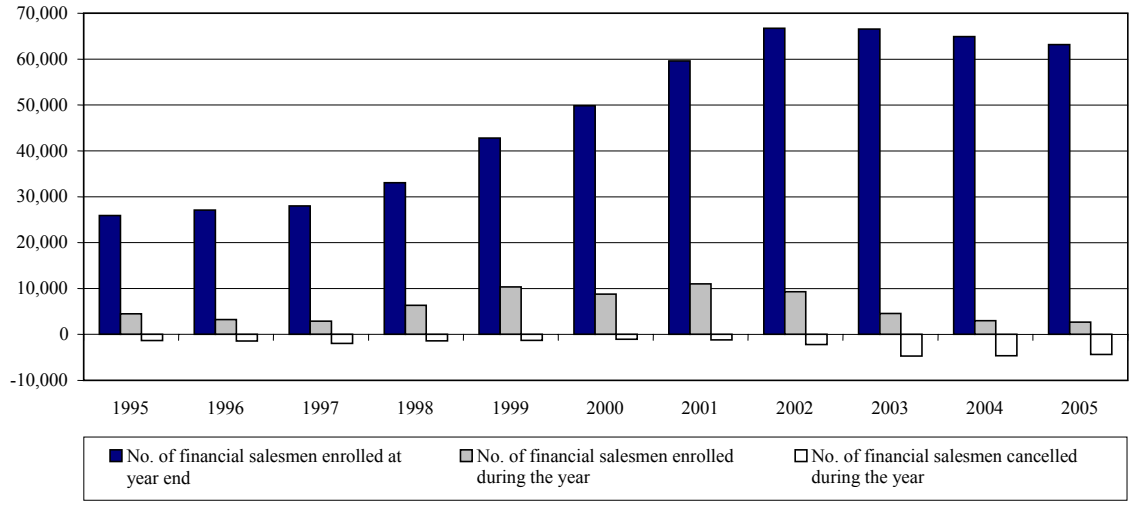
During 2005, the downwards trend in the number of financial salesmen enrolled in the Register continued. At year end in fact, there were 63,168 financial salesmen enrolled in the register, compared with 64,894 enrolled as at 31 December 2004. Thus, a progressive decrease in the total number of financial salesmen enrolled in the Register has continued to be registered since 2003, going against the trend which was seen in the period between 1991 (year the Register was set up) and 2002 (Figure 56).

Note that, of the 2,692 new enrolees in 2005 (2,982 in 2004), 797 were enrolled by right, that is under the system of exemption from appraisal, pursuant to Article 3 of Italian Ministerial Decree No. 472 dated 11 November 1998.

The number of cancellations (or 4,402) dropped slightly with respect to the previous year (or 4,644). Cancellations due to loss of requisites came to 4, those for failure to pay the supervisory contribution 2,112, those upon the request of the party concerned 2,167, those due to demise 77 and those who were struck-off 42.

Figure 56

Financial salesmen enrolled in the Register



IV – SANCTIONS AND PRECAUTIONARY MEASURES

1. Measures regarding intermediaries and financial salesmen

During 2005, activities for the enforcement of the rules of conduct for intermediaries almost entirely concerned the conclusion of a series of enforcement procedures relating to the sale of bonds belonging to companies duly declared in default or which encountered serious financial problems. A number of important enforcement procedures were also launched during the year against asset management companies, which were still underway at the end of 2005 (see previous Chapter III).

Since the sanction proposals relating to the Cirio case had been forwarded to the Ministry for the Economy and Finance during 2004, along with part of the sanction proposals relating to the Argentine bonds, the forwarding of the proposals relating to the Argentina situation was completed in 2005, with reference to other intermediaries involved in the case. The proposals relating to the sale of Parmalat, Giacomelli, Italtractor, Giochi Preziosi bonds and those of the American telecommunications company Viatel were also forwarded.

During 2005, the imposition of fines was proposed for a total of € 1.9 million, a value clearly lower than that in 2004 (which was affected by the sanctions relating to the Cirio case), but essentially in line with the values for the two-year period 2002-2003. The intermediaries who received sanctions were mainly banks (Figure 57 and Table 49).

Figure 57

Fines proposed to the Ministry of the Economy and Finance on intermediaries

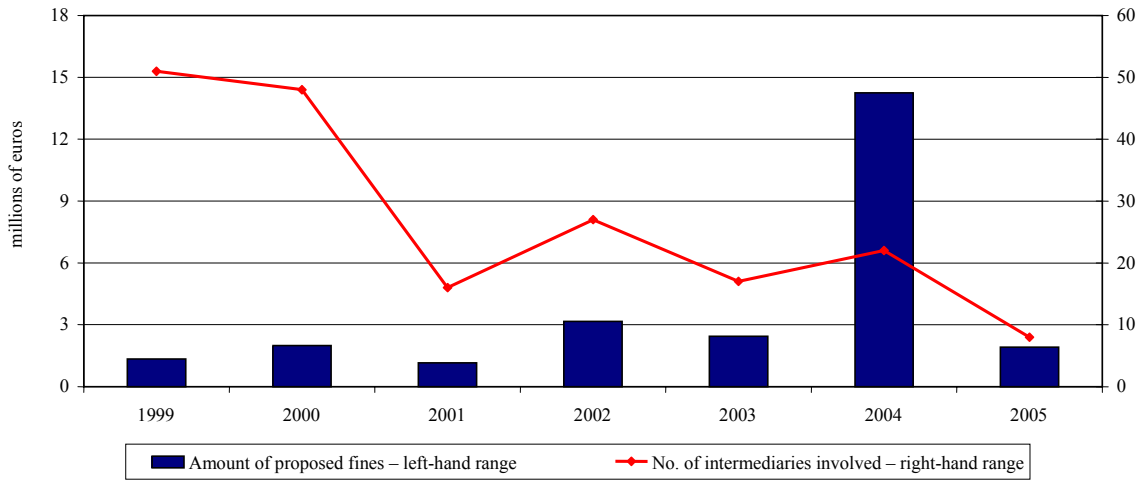


Table 49

Fines proposed to the Ministry of the Economy and Finance on intermediaries[1]
(amounts in thousands of euros)

	Number of intermediaries involved					Number of persons fined					Amount of the proposed fines				
	Banks	Investment firms	Stockbrokers	Asset management companies	*Total*	Banks	Investment firms	Stockbrokers	Asset management companies	*Total*	Banks	Investment firms	Stockbrokers	Asset management companies	*Total*
1999	23	25	3	--	*51*	71	71	3	--	*145*	647	566	120	--	*1,333*
2000	13	21	14	--	*48*	71	88	14	--	*48*	986	901	100	--	*1,987*
2001	5	10	1	--	*16*	31	52	1	--	*84*	252	860	39	--	*1,151*
2002	5	12	5	5	*27*	90	161	6	61	*318*	557	1,319	136	1.147	*3,159*
2003	7	3	1	6	*17*	114	25	3	73	*215*	1,847	172	54	369	*2,441*
2004	18	3	1	--	*22*	504	11	1	--	*516*	14,087	108	55	--	*14,250*
2005	7	1	--	--	*8*	126	11	--	--	*137*	1,849	61	--	--	*1,910*

[1] Rounding may cause discrepancies in the last figure.

The overall amount of the sanctions on investment firms was marginal with respect to that on banks. In the case of the latter, the parties fined were mainly directors, even if charges on individual employees were also numerous. Again with reference to the banks, the charges concerned procedural violations and violations relating to conduct to an equal extent; what is more, the overall amount of the sanctions mainly referred to irregularities when providing trading services on own account and for the acceptance of orders (Table 50).

The most recurrent cases subject to charge concerned: (i) the failure to observe the principles and the regulatory provisions which oblige intermediaries to establish procedures, also concerning internal control, serving to ensure the efficient supply of services and guaranteeing an adequate supervision of the activities carried out by personnel involved and financial salesmen; (ii) the failure to disclose adequate information to customers on the nature and the risks of the instruments or the products offered (Tables 51 and 52).

Table 50

Proposed administrative fines on company officers working for intermediaries in 2005 [1]
(amounts in thousands of euros)

	Investment firms		Banks		Stockbrokers		Asset management companies	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Company officers								
Executive directors	3	20.5	33	647.3	--	--	--	--
Non-executive directors	4	19.5	35	374.9	--	--	--	--
Chairman of the board of statutory auditors	1	5.8	7	127.9	--	--	--	--
Other auditors	2	9.0	16	231.6	--	--	--	--
Director General	--	--	6	124.3	--	--	--	--
Controller	1	6.5	7	90.7	--	--	--	--
Employees	--	--	22	251.8	--	--	--	--
Total	*11*	*61.3*	*126*	*1,848.5*	--	--	--	--
Fines already imposed by Ministerial Decree [2, 3]								
Proposed	21	61.3	439	2,883.3	--	--	--	--
Imposed	21	61.3	439	2,883.3	--	--	--	--
Type of violation [3]								
Procedural	11	39.2	201	1,490.6	--	--	--	--
Behavioural	10	22.1	238	1,392.7	--	--	--	--
Investment service/Management [4]								
Placement	--	--	171	1,165.0	--	--	--	--
Reception of orders	--	--	257	1,496.3	--	--	--	--
Trading for customer account	21	61.3	169	833.7	--	--	--	--
Trading for own account	--	--	248	1,633.6	--	--	--	--
Collective portfolio management	--	--	--	--	--	--	--	--
Individual and collective portfolio management	--	--	--	--	--	--	--	--
Individual portfolio management	21	61.3	31	227.8	--	--	--	--

[1] Rounding may cause discrepancies in the last figure. [2] The figures refer only to sanctions that were actually imposed by the Ministry for the Economy and Finance. [3] The amounts differ from the previous ones due to the application of the legal accrual and the number refers to the number of violations committed by the company officers. [4] The figures differ from the previous ones since the same violation may involve more than one service.

Table 51

Top five violations, in terms of amount and proposed sanction, detected during the supervision of intermediaries during 2005[1]
(amounts in thousands of euros)

Violation	Relevant provisions	Number of violations	Amount of fines	Share [2]
Non-compliance with the principles and regulatory provisions requiring intermediaries to have resources and procedures, including internal control mechanisms, suitable for ensuring the efficient performance of services	Article 21.1, letter d) of the Consolidated Law on Finance and Article 56 of the Regulation on Intermediaries	52	553.5	19
Non-compliance with the principles requiring intermediaries to have resources and procedures, including internal control mechanisms, suitable for ensuring the efficient performance of services and guaranteeing adequate supervision of the activities carried out by personnel involved and financial salesmen.	Article 21.1, letter d) of the Consolidated Law on Finance and Article 56.22, letter b) of the Regulation on Intermediaries	54	436.5	15
Non-compliance with the principles requiring intermediaries to act in a way that ensures customers are always adequately informed, determined by the failure to disclose adequate information on the nature, risks and implications of specific transactions or services, awareness of which is necessary in order to make informed investment decisions.	Article 21.1, letter b) of the Consolidated Law on Finance and Article 28.2 of the Regulation on Intermediaries	56	430.6	15
Non-compliance with the principles requiring intermediaries to organize themselves with the aim of minimizing the risk of conflicts of interest and, where a conflict exists, to act in a way that ensures transparency and equal treatment, determined by the lack of controls, for identifying conflicts of interest, omitted/irregular written notifications to customers of conflicts of interest, and the use of inadequate forms, etc..	Article 21.1, letter c) of the Consolidated Law on Finance and Article 27 of the Regulation on Intermediaries	65	310.2	11
Non-compliance with the principles requiring intermediaries to act diligently, correctly and transparently, in the interests of the customer and for the integrity of the markets, determined by not having acquired knowledge of the financial instruments, services, as well as the products other than own or third party investment services, offered by the same, in keeping with the type of service to be provided.	Article 21.1, letter a) of the Consolidated Law on Finance and Article 29.1, letter e) of the Regulation on Intermediaries	75	308.9	10
			Total	*69*

[1] Rounding may cause discrepancies in the last figure. [2] Percentage of the total amount of sanctions proposed.

Table 52

Main violations detected in the course of supervision during 2005 by category of intermediary
(amounts in thousands of euros)

Category of intermediary	Violation	Relevant provisions	Number of violations	Amount of fines	Share [1]
Investment firms	Non-compliance with the principles requiring intermediaries to have resources and internal control procedures suitable for ensuring the efficient performance of services	Article 21.1, letter d) of the Consolidated Law on Finance and Article 57 of the Regulation on Intermediaries	11	39.2	64
Banks	Non-compliance with the principles and regulatory provisions requiring intermediaries to have resources and procedures, including internal control mechanisms, suitable for ensuring the efficient performance of services	Article 21.1, letter d), of the Consolidated Law on Finance and Article 56 of the Regulation on Intermediaries	52	553.5	19

[1] Percentage of the total amount of sanctions proposed for the category of intermediary. Percentages

With regards to financial salesmen, during 2005 the Commission adopted a total of 88 disciplinary measures and 24 measures for precautionary suspension from carrying out activities. In addition, the judicial authorities were forwarded 59 reports relating to alleged offences associated with the performance of financial sales activities (Table 53).

Overall, the number of disciplinary and precautionary measures were down with respect to previous years, as was the percentage on the total of financial salesmen enrolled in the Register (or around 0.2 percent in 2005; Figure 58).

Table 53

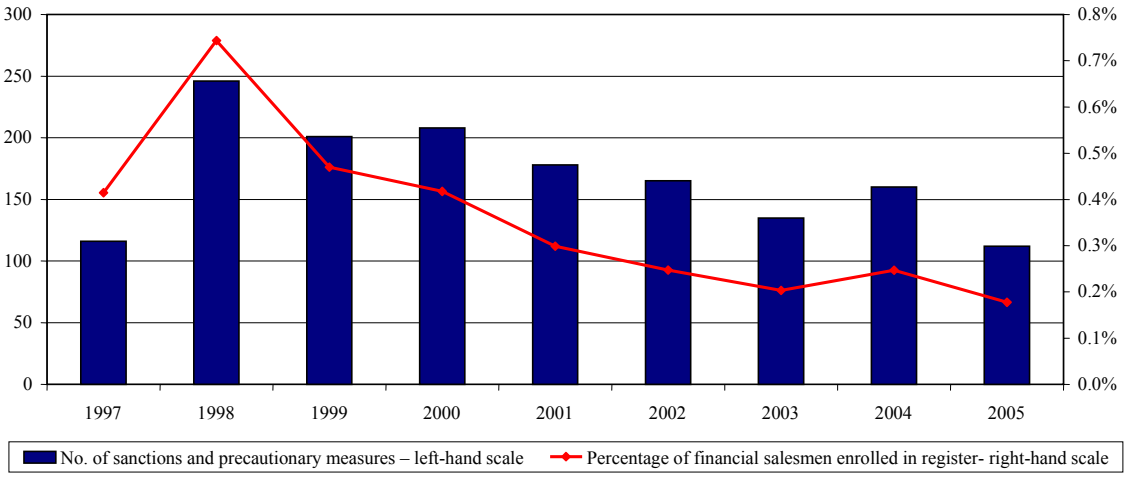
Measures regarding financial salesmen and reports to the judicial authorities

	Type of measure						
	Sanctions					Precautionary measures	Reports to the judicial authorities
	Reprimand	Struck-off the register	Suspension from the register for a given period	Administrative fine	*Total*	Suspension from activities for a given period [1]	
1997	8	39	5	--	*52*	64	58
1998	11	86	73	--	*170*	76	137
1999	2	70	51	4	*127*	74	106
2000	21	49	73	26	*169*	39	134
2001	29	36	48	15	*128*	50	72
2002	33	58	37	6	*134*	31	72
2003	1	56	47	5	*109*	26	77
2004	3	68	46	7	*125*	35	78
2005	1	42	41	4	*88*	24	59

[1] The figures for 1997 and 1998 include measures adopted under Article 45.4 of Italian Legislative Decree 415/1996 and, from 1 July 1998 onwards, under Article 55 of the Consolidated Law on Finance.

Figure 58

Sanctions and precautionary measures regarding financial salesmen



The drop in disciplinary measures (from 125 in 2004 to 88 in 2005) is essentially attributable to the reduced number of reports of irregularities and the progressive, additional severity in activating checks by the pertinent intermediaries. The decrease in precautionary measures (from 35 in 2004 to 24 in 2005) is attributable to the constant fall in measures disqualifying parties from activities for up to one year (amounting to 3 in 2005).

The most serious and recurrent types of violation continue to be: (i) the acquisition of financial resources pertaining to investors associated with the acceptance of means of payment differing from those envisaged by sector legislation; (ii) transactions not authorized by customers; (iii) the simulation of inexistent investment transactions and the issue to customers of false statements of account, often precisely for the purpose of concealing the misappropriation of sums of money. The irregularities relating to the acquisition of financial resources are increasingly frequently created by means of recourse, by the financial salesmen, to the improper use of secret codes and log-in passwords for accessing electronic channels reserved for investors.

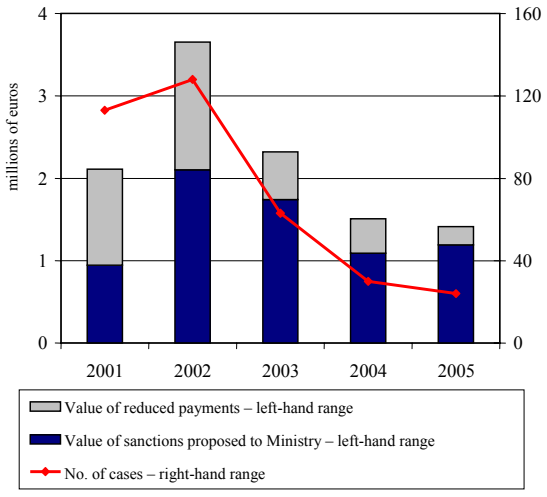
2. Measures regarding issuers and auditing companies

During 2005, activities for the enforcement of provisions concerning offerings and corporate disclosure were particularly intense, even if at year end only some of the procedures launched had been concluded. In detail, sanction procedures have been launched, but not yet concluded, relating to the failure to declare shareholders' agreements in relation to the takeover on Banca Antonveneta (see previous Chapter I). These procedures were launched after the enforcement of the law transposing the directive on market abuses (Italian Law No. 62 dated 18 April 2005) which, among other things, assigned Consob a decision-making role regarding the imposition of the sanction (as well as excluding, for the sanctions imposed by Consob, the application of the provisions on the reduced payment contained in Article 16 of Italian Law No. 689 dated 24 November 1981).

The total amount of the sanctions proposed to the Ministry for the Economy and Finance and the reduced payments came to approximately € 1.4, lower than the average for previous years (Figure 59).

Figure 59

Sanctions regarding tender offerings and corporate disclosure



The sanction procedures concluded in 2005 mainly concerned alleged

unauthorized offering by small unlisted companies and co-operative banks (Tables 54 and 55), which were followed by suspension or disqualification measures (Table 56). These measures included, by way of importance, those relating to the tender offer on Banca Antonveneta, illustrated in greater detail in the previous Chapter I.

With regards to corporate disclosure, the most significant enforcement procedures concerned an issuer of financial instruments distributed among the general public to a significant extent, for violation of the corporate disclosure obligations, and an intermediary, for violations of the regulations concerning the correct dissemination and presentation of reports on listed issuers.

Table 54

Administrative fines proposed by Consob to the Ministry of the Economy and Finance in connection with the tender offerings, corporate disclosure and voting proxies
(amounts in thousands of euros)

	Number of cases						Number of persons to be fined						Amount of the proposed fines					
	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*
2001	27	--	6	3	--	*36*	35	--	5	4	--	*44*	545	--	160	238	--	*943*
2002	14	--	12	11	--	*37*	24	--	18	43	--	*85*	1,404	--	400	300	--	*2,104*
2003	3	1	5	22	--	*31*	7	5	7	13	--	*32*	702	464	216	359	--	*1,741*
2004	4	--	2	1	--	*7*	7	--	2	1	--	*10*	1,023	--	57	10	--	*1,090*
2005	5	--	3	2	--	*10*	13	--	9	1	--	*23*	1,120	--	52	20	--	*1,192*

Table 55

Reduced payments to settle charges of violations of the regulation on tender offerings, corporate disclosure and voting proxies
(amounts in thousands of euros)

	Number of cases						Number of persons to be fined						Amount of the proposed fines					
	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*	Solicitation	Tender offers	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxies	*Total*
2001	13	2	11	51	--	*77*	19	3	20	53	--	*95*	344	31	258	537	--	*1,170*
2002	6	1	6	78	--	*91*	6	1	6	77	--	*90*	207	103	392	845	--	*1,547*
2003	1	3	6	22	--	*32*	8	4	6	29	--	*47*	83	41	155	300	--	*579*
2004	4	6	7	6	--	*23*	31	6	7	6	--	*50*	203	62	72	83	--	*420*
2005	5	1	1	7	--	*14*	9	2	5	7	--	*23*	80	20	52	70	--	*222*

Table 56

Measures concerning public offerings

	Precautionary suspension	Disqualification	Annulment	*Total*
2001	3	3	--	*6*
2002	2	6	--	*8*
2003	9	2	2	*13*
2004	9	7	3	*19*
2005	5	6	--	*11*

Again during 2005 and with regards to auditing companies, after complex examination proceedings the Commission adopted two measures relating to partners of Deloitte & Touche Spa, with reference to auditing work on Parmalat Finanziaria Spa and Tiscali Spa.

In the first case, pursuant to Article 163. 1, letter a) of the Consolidated Law on Finance, the Commission enjoined Deloitte & Touche Spa not to use – for a period of two years – the services of two partners responsible for the audit carried out on the statutory and consolidated financial statements as at 31 December 2001 and 31 December 2002 of Parmalat Finanziaria Spa. The sanction was increased to the maximum extent following the verification of particularly serious irregularities referring to various aspects.

In the first instance, Deloitte & Touche erroneously believed it possible to maintain and perform the accounts auditing appointment on the statutory and consolidated financial statements of Parmalat Finanziaria Spa as at 31 December 2001 and 2002 in its capacity as main auditor, despite not auditing the financial statements of companies representing a fundamental part of the Parmalat group due to the nature of the activities they perform.

In second place, during the stage for the planning of the audit work, having underestimated numerous risk factors, Deloitte & Touche made an erroneous assessment of the global risk of the appointment; specifically, the auditor assessed the risk as "greater than normal" *(in other words an average level according to the methods of this auditing company) instead of* "much greater than normal"*, (in other words a high level). This hindered the activation of a particularly prudent measure for the maintenance and performance of the appointment in question, such as the involvement, during the most important moments of the appointment itself, of specifically qualified figures, who are also independent with respect to the responsible partner and the team tasked with the work. Consequently, the underestimation of the risk affected the entire auditing process.*

Finally, even where certain factors of risk had been detected in relation to which the auditor had identified – as an audit response – the application of greater professional scepticism, this approach did not emerge as having been tangibly put into practice. Proof of this was demonstrated by the serious shortfalls ascertained with respect to the checks carried out by the auditor on consolidation adjustments relating to the items "amounts due to banks and financial institutions" and "amounts due to other providers of finance", shortfalls which emerged as recurrent and pervasive and which did not permit Deloitte & Touche to acquire sufficient supporting elements for expressing their conclusions on the correctness of the afore-mentioned items in

the consolidated financial statements of the Parmalat Group.

In the second case, the Commission once again enjoined Deloitte & Touche Spa not to use the auditing services of the partner responsible for the audit carried out on the consolidated financial statements of Tiscali Spa for the period ended 31 December 2002 for three months. This measure was adopted following the violation of Consob Communication No. DAC/99088450 dated 1 December 1999 relating to the methods for drawing up the audit report envisaged by Article 156 of the Consolidated Law on Finance.

Specifically, despite having correctly identified the inexact registration in the accounts of the incremental adjustment of the consolidation difference, which should have been recorded in the income statement rather than charged directly to shareholders' equity, the auditor did not detect and appropriately indicate in the report on Tiscali Spa's 2002 consolidated financial statements, that the disclosure provided to the market concerning the reasons underlying the afore-mentioned adjustment were not compliant with the effective situation which the directors and said auditor were aware of.

3. Internet enforcement activities

During 2005, supervision of the activities on the internet was intense; moreover the quantitative methods for identifying anomalies were further improved.

The growing use of internet as a means for promoting the supply of financial instruments and investment services or as a means for accessing financial instrument markets, on the one hand, and the specificities of the web supervisory checks with regards to technicality and instrumentation required, on the other hand, have made constant streamlining of the supervisory procedure necessary, in addition to intense collaboration with regards to other supervisory authorities, Italian and foreign. The supervisory procedure envisages a web spidering model which is based on artificial intelligence algorithms capable of scanning the web site on the basis of specific semantic training criteria and, therefore, seeking the information concerning the case being assessed on the internet.

During 2005, supervision concerning the examination of 432 internet sites gave rise to 498 enforcement measures, in addition to 264 reports to the judicial authorities and 523 reports to other authorities (Table 57).

Enforcement action involved precautionary/disqualification measures which concerned cases of offerings and irregularities in the functioning of alternative trading systems, followed by measures for blacking-out the web sites involved (measures achieved, for the web sites maintained on the internet by EU service providers, in accordance with Italian Legislative Decree No. 70 dated 9 April 2003 and, for those maintained by non-EU service providers, via private law clauses which discipline the web service provision contracts envisaged by the ICANN formats).

Table 57

Internet supervisory activities

	No. of web sites examined for:				Enforcement actions	Reports to other authorities						
	Web Spidering	Press reviews	Reports to Consob operational offices	*Total*	Precautionary/disqualification measures[1]	Judicial authorities	Guardia di Finanza	Bank of Italy	Uic	Isvap	Foreign authorities	*Total*
2000	105	1	1	*107*	9	5	1	2	1	--	4	*13*
2001	32	--	3	*35*	4	6	2	3	3	--	4	*18*
2002	21	2	26	*49*	4	20	2	0	10	--	2	*34*
2003	27	1	42	*70*	12	6	3	1	2	2	2	*16*
2004	297	2	18	*317*	97	42	30	35	30	1	11	*149*
2005	406	3	23	*432*	498	264	164	169	163	1	26	*787*

[1] The figures for 2004 and 2005 include the measures for blacking out websites adopted in compliance with Italian Legislative Decree No. 70/2003.

With regards to unauthorized solicitation, the recurrent pattern continues to be that typical of the so-called "chain letter", as in previous years. What is more, in 2005 a new phenomenon involving solicitation via internet emerged, associated with the formation of credit societies via committee's of financial salesmen.

The measures for blacking out websites involved in cases of unauthorized solicitation and irregularities in the functioning of organized trading concerned websites, as in previous years and, for the first time in 2005, messaging forwarded from electronic mail boxes or that present on discussion forums.

With reference to website backing out measures, collaboration with the body responsible for assigning ".it" domain names was particularly useful (the Register of ccTLD ".it") as was that with the main service providers.

In relation to black-out measures regarding messaging, besides acquiring the contents of the same via the afore-mentioned collaboration for the purpose of fully reconstructing the case subject to verification, complex reverse lookup procedures have been activated which have made it possible to trace back to the owners of the mail boxes and the users registered in discussion forums, via which the messaging was forwarded onto the internet. Moreover, the reverse lookup procedures made it possible to comply with requests for co-operation made by foreign supervisory authorities, within the sphere of the memorandums of association stipulated with the Consob.

The reports to the judicial authorities mainly concerned alleged unauthorized provision of investment services.

In detail, with regards to the unauthorized provision of investments services, as in previous years the most common scheme on the internet involves the presentation of apparent advisory activities which, in reality, involve the unauthorized provision of financial instrument management and/or placement services.

When carrying out internet supervision, alleged illicit conduct not falling under Consob's responsibility was also detected, and reported to the competent authorities.

Within the international sphere, besides the presentation to other supervisory authorities of the afore-mentioned web supervisory procedure, the three-year European research project concerning detection methods on the internet was completed; the project was entitled FFPOIROT (Financial Fraud Prevention Oriented Information Resources using Ontology Technology), and has made it possible to streamline the web spidering model used by Consob even further.

V – REGULATORY AND INTERPRETATIVE ACTIVITY AND INTERNATIONAL DEVELOPMENTS

1. Regulation of public offerings

The most important development during 2005 with regards to the regulation of solicitation of public savings concerned the amendments to the Regulation on Issuers introduced as a consequence of the transposition of the European Directive on Prospectuses (Box 13).

Box 13

The reform of the Regulation on Issuers in light of the Directive on Prospectuses

In November 2005, on conclusion of the specific consultation process, the Commission approved a number of amendments to the Regulation on Issuers aimed at rendering the regulations on prospectuses consistent with European Level 1 regulations, as well as with the related execution measures contained in Regulation No. 809/2004/CE.

The regulatory amendments pertain solely to aspects of the rules on prospectuses not in formal contrast with the provisions of the Consolidated Law on Finance and which are compatible with Consob's regulatory authority, since the directive has not yet been assimilated within the Italian legal system.

In more detail, the amendments to the Regulation on Issuers fully transposed the afore-mentioned Regulation No. 809/2004/CE (directly applicable to all the European Union member states as from 1 July 2005). This regulation disciplines the content matter, the model and the formalities for publishing the prospectuses and the divulgation of the promotional messages.

The Regulation on Issuers was also amended so as to guarantee the effectiveness of the basic principles introduced by the directive regarding a number of significantly innovative and important institutes for the financial markets of the European Union, including the European passport on the prospectus. The directive in fact pursues the aim of promoting a single European capital market, removing the pre-existing restrictions to the cross-border offers/admission to listing within the EU area. On a consistent basis with these aims, the new "European passport" procedure was introduced into the Regulation on Issuers, which permits the use, in all the countries of the Union, of the prospectus authorized by the authority of the original member state, instead of the more complex procedure involving "mutual recognition of the prospectus". The new regulatory provisions also fully acknowledge the cases of exemption from the obligation of the prospectus disciplined by the directive, as well as the new terms of approval of the prospectus (within the limits of the matters permitted by Article 94.3 of the Consolidated Law on Finance).

Furthermore, the possibility of publishing the information relating to the price and the final amount of securities offered by means of supplementary notice to be disclosed using the same formalities as the prospectus, has also been introduced. Specifically, the criteria or the conditions on whose basis the price and the quantity of the financial products are determined, will have to be indicated.

The Regulation on Issuers has not however transposed Article 8.1, letter b) of the directive, which acknowledges the investor's possibility to revoke the acceptances of the purchase or subscription, as an alternative to the inclusion in the prospectus of the afore-mentioned indications concerning price and quantity of the securities offered. Since these are provisions which innovatively affect the statutory regulation of the contracts, it was considered appropriate to await, with regards to this subject, the transposition of the directive by the Italian legislator.

Clarification has been provided with regards to the scope of the new regulations.

First and foremost, in relation to certain types of transactions, such as mergers with exchange ratio and takeovers, the directive dispenses with publishing the prospectus if a document "containing information considered by the authority to be equivalent to that of the prospectus, taking into account EU legislation requirements" is published. It was therefore considered necessary to specify that the documents envisaged by the Regulation on Issuers relating to purchase and exchange tender offers (offer document) and important mergers (merger document pursuant to Article 70) could be considered equivalent to the prospectus.

Additional specifications have been formulated regarding the application of the new Ias/Ifrs accounting standards. Specifically, in the case of presentation within the prospectus of historic financial information restated in compliance with Regulation No.1606/2002/CE, it has been specified that the related international accounting standards are those in force as of the date the prospectus is drafted, since the aim of the restatement of the historic data is to provide the investor with financial information which is as comparable as possible with that which will be subsequently published. On a consistent basis with Recommendation Cesr/05-054b dated February 2005 (sections 75 to 82), in the event of bond issuers it has been stated that the financial statements for the last accounting period restated according to the Ias/Ifrs, due to the lack of comparative data, represent historic financial information provided exclusively for the purposes of the prospectus, which lies outside the field of application of Ifrs 1. Lastly, in observance of Article 35 of Regulation No. 809/2004/CE, relating to the case of offers whose aim is the admission of financial instruments to listing on regulated markets, it has been clarified that the half-yearly financial information must comply with the requisites of international accounting standard Ias 34, in line with the applicative practice of Regulation No. 809/2004/CE already accrued.

Other significant measures concerned the completion of the process for adapting the Regulation on Issuers to the company law reform.

In detail, specific disclosure obligations were introduced consequent to the new provisions of the Italian Civil Code concerning shareholders' agreements, issuers of widely distributed shares and creation of assets. Furthermore, the regulatory provisions concerning tender offers have been adapted to the new definition of major holding which no longer makes reference to just ordinary shares but to all the share categories which assign the right to vote during shareholders' meetings regarding the appointment, removal and responsibilities of directors or supervisory officers. Finally, Article 50.6 of the Regulation on Issuers has been amended, introducing the obligation to forward Consob a specific declaration by the issuer's auditor in the event that the price of the residual tender offer is determined by means of simplified procedures which envisages the application of the same price as the first offer. At the same time, a general press release was adopted in which the purpose and the contents of the afore-mentioned declaration are issued.

With regards to international developments, in February 2005 the Cesr issued recommendations aimed at harmonizing the interpretation of the EU regulations on the information content matter of prospectuses (Directive No. 2003/71/CE and Regulation No. 809/2004/CE), as well as providing specific indications on the information to be included in the prospectuses relating to issuers operating in particular business sectors.

The various subjects which the afore-mentioned recommendations concern include the principles for the drawing up of the sections of the prospectus relating to the following which are of particular significance: "selected financial information"; "the report on the operating and financial situation"; "the financial resources"; "the profit forecasts or estimates"; "own funds and indebtedness". Of equal importance were the recommendations concerning: (i) the methods for the presentation of the historic financial information of the issuer in restated financial statement format complying with the Ias/Ifrs international accounting standards; (ii) the content of the half-yearly financial information; (iii) the methods adopted for observing the issuer's obligation to declare whether the cash flows envisaged for the following 12 months are to be considered sufficient for the fulfilment of the liabilities falling due.

2. Regulation of ongoing corporate disclosure

During 2005, the most important amendments to the regulations on on-going corporate disclosure were those introduced at the time of transposition of the EU regulations on market abuse (see subsequent § 4.).

The innovative aspects of the regulation included the possibility for the issuer, at its own liability, to delay the public disclosure of inside information, provided that this does not mislead the public with regards to essential facts and circumstances and again provided that said persons are able to guarantee confidentiality. Under Article 66 bis, the Regulation on Issuers contained the new implementing provisions for the delay in disclosing inside information envisaged by the new version of Article 114 of the Consolidated

Law on Finance. A description of the circumstances under which exemption from the immediate publication of the inside information is applicable is envisaged and it has been established that the issuer must in any event inform Consob without postponement of the delays and the circumstances which justify it. Section 4 of the same Article 66-bis also envisages that Consob receives news of the delay and, subject to assessment of the circumstances represented, can in any event request the parties concerned to proceed without delay in disclosing the information to the public.

Another innovation concerns the communication obligations relating to "internal dealing". The transparency of the transactions carried out by the persons who most probably avail of inside information, typically the managers and major shareholders of the company, has been considered by the EU legislator as useful for the purposes of both market efficiency and the prevention of market abuses. The empirical evidence in fact shows that the transactions carried out by insiders involve returns which are systematically higher than the average. The internal dealing disclosure would therefore permit the market to avail of the information content of insiders' trades. The types of significant transactions, the methods and deadlines of the communications, the methods and deadlines for the public disclosure of the information, as well as the cases where said obligations apply also with reference to the companies controlling said issuers, have been established in the Regulation on Issuers.

Additional disclosure obligations have been envisaged for the parties who hold equity interests at least equal to 10 percent of the share capital of a listed company, with reference to the transactions that it carries out on the securities issued by this company. The provision is lent by US regulations and enhances all the information available publicly. It could have protectionist repercussions on the market of corporate control, thereby making the takeover via transactions carried out on the market more complex.

With regards to research, two different spheres of regulation on which the Institute has ample regulatory powers are envisaged. The first establishes the correctness and transparency of the conflicts of interest in the production and disclosure of the research. The second, not envisaged by the directive, concerns the obligation to publish the research compiled by authorised persons and by the issuers. With regards to the first matter, the new regulations contained in the Regulation on Issuers resumes the provisions envisaged by the Level 2 directive which disciplines the correct presentation and the transparency of the conflicts of interest in the production and disclosure of investment recommendations. The provisions develop in a structured manner in relation to the matter regulated (correct presentation of the recommendations or transparency of the conflicts of interest), the characteristic of the content matter (explicit or implicit recommendation), the activities carried out (production-related or recommendation dissemination-related) and the category of parties concerned (all or just the intermediaries who cover the role of "specialist"). The possibility of self-regulation is envisaged for the journalists on condition that the related application makes it possible to achieve the same effects of the implementing provisions of the Consolidated Law on Finance. With regards to the second matter (publication of the research), the obligations for communication to the general public by the authorised persons have been simplified. The obligation of observing

publication formalities which as far as possible guarantee a prompt and consistent distribution of the research among the beneficiaries has been envisaged for these parties. The obligation to publish the same research on the website of the market management company is, by contrast, now envisaged solely for certain operators who, performing specific activities in relation to the issuers forming the subject matter of the research (sponsors, specialists and lead managers within the sphere of a placement), must be subjected to a greater degree of transparency.

Other innovative aspects concerned the obligations for updating the information published, the possibility of the issuers using internet so as to guarantee greater dissemination of the information, the ban on using the press release pursuant to the Consolidated Law on Finance for advertising purposes, as well as measures aimed at ensuring the confidentiality of the information in the case of delay in its disclosure.

During 2005, certain amendments were made to the regulation of issuers of widely distributed securities. These amendments introduced more selective qualitative and quantitative requisites which led to a considerable reduction in the number of widely distributed securities.

Other amendments to the regulations concerned the elimination of the restriction of six-monthly frequency in the updating of the list of issuers of widely distributed securities by Consob and the elimination of the possibility that these issuers are exonerated from the disclosure obligations aside from the cases specifically envisaged by the regulations.

3. Regulation of corporate disclosure, financial reporting and auditing companies

As regards financial reporting, the most important innovations in 2005 were associated with the enforcement of the Ias/Ifrs. Amendments were made to the Regulation on Issuers necessary for transposing certain provisions deriving from the introduction of the international accounting standards relating to quarterly and half-yearly reports and the notion of related parties.

The provisions relating to half-yearly accounting (quarterly and half-yearly reports) expressly refer to the new Ias/Ifrs accounting regulations. A transitory system has been introduced aimed at permitting a gradual changeover to the Ias/Ifrs, as well as the obligation – for the issuers who at the time of drawing up the half-yearly accounts apply the Ias/Ifrs accounting standards for the first time – of presenting the reconciliation statements envisaged by Ifrs 1. Additional amendments have been made in order to introduce reference to the definition of related party contained in international standard Ias 24 concerning "Financial statement disclosure on transactions with related parties".

In April, the Commission adopted a general press release regarding the accounting information which unlisted issuers were to have included in the offering and/or listing prospectuses published as from 1 June 2005, pending the enforcement of the norms on the application of the international accounting standards envisaged by EU Regulation No. 1606/2002/CE and the enforcement of the new EU provisions concerning prospectuses (EU Regulation No. 809/2004/CE, in force as from 1 July 2005).

Again in relation to the enforcement of the Ias/Ifrs, the Commission provided a response to the request made by a number of associations, aimed at obtaining: the extension of the deadline for the presentation of the third quarterly report for 2005; exemption from drawing up the quarterly report as at 31 December 2005 as well as, for the parties obliged to draw it up on the basis of Borsa Italiana Spa regulations and for those who draw it up on a voluntary basis, the extension of the deadline for presentation; the omission of the presentation of comparative data in the quarterly reports as at 30 September 2005.

With regards to the request for extending the deadline for the presentation of the third quarterly report, it was emphasised that, at the time of the response to the consultation on the regulatory amendments, the Commission had indicated 30 September as the last date for adaptation to the new accounting standards, already granting an extension with respect to the recommendations made by the Cesr (according to which the changeover to the Ias/Ifrs would have had to take place as from the first half-yearly accounts for 2005). This provision was based on an estimate of the "Ias adaptation" timescales gathered at the time of consultation and represented a compromise between the need for a prompt changeover (declared internationally) and the operational difficulties of the changeover to the new regulations.

The Commission also highlighted that the obligation to use international accounting standard Ias 34 "Half-yearly financial statements" does not apply to the quarterly reports. The quarterly reports are in fact drawn up as extremely simple off-the-books accounting, aimed at providing background information based on economic-financial figures easy to establish and indicative of the company's general performance. Having taken into account its ability to produce the figures, the issuer can decide whether to consolidate on a more sophisticated disclosure level, provided that it is compatible with the timescale laid down by Article 82 of the Regulation on Issuers. The Commission emphasised that the promptness of the information must be favoured with respect to its completeness and coherence. These provisions are fully consistent with the matters which emerged at the time of drawing up the Transparency Directive, which establishes the obligation to apply Ias 34, whilst it leaves the individual member states the faculty to determine the content of the quarterly reports, fixing just a minimum disclosure level. On the basis of the reasons just illustrated, the request to extend the deadline for the publication of the fourth quarterly report, as well as that providing exemption from its drafting, were not granted. The Commission in fact emphasised that the fourth quarterly report is a document which, according to Article 82 of the Regulation on Issuers, must be published in February 2006, or rather more than one year from the introduction of the new accounting standards.

With regards to the request to omit the presentation of the comparative data indicated in Attachment 3 D of the Regulation on Issuers from the quarterly report as at 30 September 2005, the Commission indicated that the possibility of not providing such comparative data is already envisaged in the Ias/Ifrs regulations system if the related production is considered "unfeasible" (in compliance with Ias 1 - "Presentation of the financial statements"). If the company is exonerated from applying a specific provision of a standard, it is in any event obliged to provide adequate disclosure suitable for

demonstrating its effective impossibility in applying the provision. The Commission also emphasised that the principle established by Ias 34 is unaffected, according to which the preparation of the half-yearly accounts requires a more extended adoption of the estimation methods than in the annual financial statements, and that the information to be disclosed to the public must in any event be sufficiently reliable and useful for correct market disclosure. Any estimation uncertainties must also be clearly illustrated in the related accounting documents.

In the field of auditing, there were two general interventions.

With reference to the afore-mentioned introduction of the transitory system for the changeover to the Ias/Ifrs, by means of specific press release the Commission indicated the nature of the auditing activities to be performed on the quarterly consolidated reports and on the 2005 consolidated half-yearly report of listed issuers during the changeover to the Ias/Ifrs standards. The Commission also established that the issuers must request the auditing companies to carry out a full audit on the balances present in the reconciliation statement. The results of this audit, together with the data audited, must be communicated to the market.

Subsequently, the Commission recommended that the auditing companies enrolled in the Special Register adopt the "Principles on the independence of the auditor" document, issued by the Italian accounting profession. The recommendation also addressed the auditing companies enrolled in the Register of Chartered Accountants, held by the Ministry of Justice, solely in relation to the performance of auditing activities on the financial statements of financial instrument issuers present among the general public to a significant extent. The afore-mentioned document relating to the "Principles on the independence of the auditor" transposes the Recommendation of the European Commission dated 16 May 2002 on "The independence of legal auditors in the EU: a series of fundamental principles", also well as contains applicative principles and criteria which take into account the national legislative context and the specific situation of incompatibility disciplined therein.

With regards to the activities carried out internationally during 2005, initiatives continued as part of the collaboration between Cesr and the European Commission, aimed at improving and harmonizing the financial information in Europe.

Specifically, Cesr, via a permanent group on financial information (Cesrfin) and its sub-committee on enforcement (Sce), developed the project relating to the implementation of the mechanisms for co-ordinating the supervisory activities on financial information. The project includes the organization and launch of specific sessions, known as Eecs (European Enforcers Coordination Sessions) also extended to authorities which are not members of Cesr, during which the decisions taken by the national enforcers are discussed and general matters concerning financial information are examined. On a parallel, Cesr has envisaged the creation of an electronic database which will have to be updated by said national European Union enforcers. This database, which it will be possible to access for consultation purposes, will contain the decisions adopted on specific supervisory cases.

The Subcommittee on International Standard Endorsement (Sise), another sub-group belonging to Cesrfin, continued to look

in-depth at subjects pertaining to the changeover to the Ias/Ifrs. Cesr published a recommendation on the methods for representing the performances by listed companies. This recommendation established principles which the companies will have to consider in the preparation and disclosure of said information.

Questions relating to corporate disclosure have also been dealt with in a Iosco sphere.

In particular, in October the Permanent Committee on Issuers (Standing Committee 1) published a document for consultation on the Disclosure Principles applicable to cross-border tender offers of bonds. The consultation phase concluded on 22 December and the comments received are currently being examined. The Disclosure Principles intend to provide a guide for the countries belonging to Iosco which are currently reviewing or implementing the regulations concerning offers and listing on bonds and propose to harmonize the disclosure included in the listing prospectuses.

4. Regulation of markets

On a similar basis as the regulation of corporate disclosure, with regards to the regulation of markets the most important development concerned the transposition of the European legislation on market abuses.

One of the most important innovations concerns the introduction of a new sanction regulation (Article 184 of the Consolidated Law on Finance) which supports the administrative system, envisaged by the directive for all the cases of abuse, with a criminal-type system for certain cases.

With regards to criminal sanctions, imprisonment between 1 and 12 years is envisaged for all the types of abuse and a fine ranging from € 20 thousand to € 3 million is envisaged for the abuse of inside information and up to € 5 million for market manipulation. The fine can be tripled when, due to the circumstances of the offence (significant offensiveness of the act, personal qualities of the agent, entity of the result or profit of the offence), it appears inadequate even if applied to its maximum extent. Furthermore, following a provision already operative within the French legal system, it is established that the judge may increase the sanction up to 10 times the result or the profit of the offence, so as to discourage the agent from making opportunist assessments which would arise from comparing the profit which can be derived from the offence with the potential impoverishment of said agent's assets. The increase of the maximum pecuniary sanction takes into account the fact that parties operate on the market with extremely different funds, interests and ability to influence the prices, therefore it is necessary that the judge can adapt the sanction to the circumstances of the individual case.

Finally, the new Articles 186 and 187 of the Consolidated Law on Finance complete the criminal regulations, respectively, referring to the application of the accessory sanctions and arranging the measure of confiscation of the result or profit of the offence and the assets used for committing it.

The statutory administrative sanction ranges from a minimum of € 100 thousand to a maximum of € 15 million for the abuse of inside information and to € 25 million for market manipulation. With regards to particularly serious cases, it is also envisaged

that Consob has the power to order the qualified parties, market management companies, listed issuers and auditing companies not to avail, for a specific period of time, of the perpetrator of the violation; the competent professional orders may also be requested to temporarily suspend said perpetrator. Article 187 quinquies establishes the responsibility of the party in the event that the offences are committed in their interests or to their advantage. Guaranteeing the payment of the sanction, Article 187 sexies envisages the instrument of confiscation of the result or profit of the offence and the assets used to commit it. In conclusion, the faculty of cash settlement of the sanction envisaged by Article 16 of Italian Law No. 689/1981 has been eliminated, since the exercise of this faculty cancelled the reputation-related consequences of the administrative sanction associated with the publication of the related imposition measures.

With regards to the relationships between the various sanction procedures, the coexistence of the criminal procedure and the administrative one requires regulation of the execution of the administrative sanction for the violations which will also merge as criminally relevant.

In such cases, the law sets forth the immediate execution of the administrative sanction applied by Consob, while the levy of the pecuniary sanction is limited to the part exceeding that already levied following the administrative procedure. Additional provisions define the relationship between the criminal sanction procedure and the administrative one, dictating norms for the co-ordination of the administrative assessment activities with those of the judicial authorities, aspiring to the principal of reciprocal autonomy of the procedures.

Finally, the transposition of the Market Abuse Directive envisages granting Consob essential powers for the performance of its functions. Article 187-*octies* of the Consolidated Law on Finance systematically disciplines the framework of new supervisory and investigative powers.

Specifically, section 3 identifies a range of powers which can be exercised in relation to whomever appears to be informed or acquainted with the facts: (i) power to request data and information and documents in any form, including therein existing telephone records; (ii) power to go ahead with personal hearings; (iii) power to go ahead with the seizure of assets which may be subject to administrative confiscation; (iv) power to go ahead with inspections and, subject to the authorization of the judicial authorities, searches. Section 4 is of identical importance, permitting Consob: (i) to avail itself of the collaboration of the public authorities and to access the tax records information system; (ii) to request, subject to the authorization of the judicial authorities, the acquisition from the supplier of data relating to telephone calls; (iii) to request the pertinent bodies for the communication of personal details. Furthermore, section 12 assigns Consob the faculty to avail itself of the Tax Police.

As a consequence of the transposition of the EU regulations, it became necessary to make amendments to the Regulation on Issuers and the Markets Regulation.

The amendments mainly concern the strategy for preventing the offence. The norms for preventing abuses concern the issuers and associated parties (the shareholders, the managers and their consultants), the intermediaries, the regulated markets and the

market management companies. With regards to the issuers and associated parties, mechanisms have been put together for the correct identification and disclosure to the general publication of the inside information and instruments for controlling and confidentially handling said information as well as for the identification of insider parties. Furthermore, correctness and transparency standards were established for the conduct of the market participants, with indication of criteria for the identification of manipulation practices, examples of the same practices and procedures for the recognition of market procedures which must consider themselves to be liable to being reported to the competent authorities. A specific rule was introduced in the Regulation on Issuers, relating to the establishment, keeping and updating of the registers of individuals who have access to inside information (registers which the directive requires be kept by the issuers and the parties who act in their name or on their behalf, typically law companies, professionals and intermediaries).

5. Regulation of asset management

With regard to asset management, the most significant regulatory measures in 2005 are referable to the transposition of directives 107/2001/CE and 108/2001/CE.

These directives, which amended directive 85/611/CEE concerning collective investment undertakings (Oicvm and Oicr), came into force in February 2002 and became binding for all the member states as from 13 February 2004. With particular regard to the regulation of the management company, a transitory adjustment period is however envisaged, running from 13 February 2007 for the companies authorized before 13 February 2004. So as to provide clarification concerning the application of the afore-mentioned transitory regime, the Asset Management Expert Group, set up within Cesr, adopted guidelines for the supervisory authorities in February 2005 (see subsequent Chapter VI).

The consequent main amendments made to the Regulation on Issuers concern: (i) the separation of the listing prospectus into simplified prospectus and full prospectus; (ii) the definition of disclosure obligations concerning the rebate of commission; (iii) the definition of a subscription form outline for foreign UCITs; (iv) the provisions concerning publication of the prospectus.

The division of the original prospectus format into two documents (simplified prospectus and full prospectus) complies with the purpose of adjusting the type, quantity and technique for communicating the information with respect to the investor's needs. The simplified prospectus must be delivered free to investors before concluding a transaction, while the full prospectus, together with periodic reports, must be made available free of charge to subscribers who request a copy. The simplified prospectus, duly translated into the language of the host country, is valid for the distribution of UCITS in other EU member states.

With reference to open-end UCITS, the most important innovations introduced concern the indication of the percentage of commission returned on average to the parties tasked with placement and the provision of disclosure obligations to be acquitted via internet. Provisions have also been introduced which establish the preparation of a specific subscription form for the purchase of holdings and/or shares in foreign UCITS marketed in

Italy and falling within the sphere of application of the EU directive concerning collective investment undertakings.

With regards to foreign UCITs marketed in Italy falling within the sphere of application of the EU directives, it has been envisaged that compliance with the offer take place by means of subscription of a form drawn up in compliance with the indications contained in a specific format. The subscription form must be accompanied by certain information, initially contained in the supplementary document, concerning specific aspects of the offer in Italy (for example, the method of subscription via capital accumulation plans or information concerning the costs for the investment activities in the payments). Such information must therefore be contained in the simplified prospectus, so that Italian investors can reach a well-grounded opinion on financial products offered in Italy and on the related rights.

Finally, with regards to the publication of the prospectus, the alternative methods for making the prospectus available introduced by EU legislation have become applicable to types of UCITs other than closed-end funds.

VI – INTERNATIONAL AFFAIRS

1. International cooperation

During 2005, Consob's international co-operation saw numerous commitments linked to technical assistance, the activation of agreements and the exchange of information with the supervisory authorities of other countries.

With regards to technical assistance, the twinning project launched in 2002 with the Rumanian National Securities Commission (Cnvm) was completed, forming part of the Phare twinning programmes furthered by the European Union. Specifically, from 1 August 2002 to 30 November 2003, genuine twinning was achieved for the adaptation of Rumanian legislation to the EU *acquis*. Assistance for the drawing up of regulatory provisions and staff training then continued with the so-called light twinning which concluded in August 2005.

The light twinning was concluded to the complete satisfaction of the Rumanian Commission and the European Commission; the latter formally acknowledged the total achievement of the objectives indicated in the twinning project.

Consob activities continued during 2005 for extending contact at bilateral level with other supervisory authorities. Specifically, a new agreement was stipulated with the Moldavian National Securities Commission.

This agreement joins the previous agreements already finalized by Consob with other supervisory authorities, both within the EU and outside. At the end of 2005, 33 bilateral co-operations agreements had been concluded, as well as an understanding for the maintenance of confidentially regarding the information exchanged.

It should be recalled that Consob complies with the multilateral Agreement between the countries of the European Economic Area belonging to Cesr, as well as with the IOSCO Multilateral Memorandum of Understanding (MmoU) which envisages a particular mechanism for assessing the ability of the potential members to observe the obligations anticipated by the agreement. By the end of 2010, the MMoU will have to be signed by all the members of IOSCO.

In February 2006, the International Monetary Fund (IMF) published its findings on the assessment of Italy, known as the Financial Sector Assessment Program (Fsap), carried out between 2004 and 2005. With regards to the sector Consob is responsible for, the experts of the International Monetary Fund recognized the complete compliance of internal regulations with the international standards, also emphasising the adequacy of the supervisory practices adopted by Consob.

The exchange of information for supervisory purposes led to relationships mainly with the authorities of other EU countries and essentially concerned questions relating to market abuses and integrity and professionalism requisites of corporate representatives (Tables 58 and 59).

The 2005 figures on the exchange of information indicate considerable stability in both the number of requests made by Consob, and those made to Consob by other supervisory authorities. However, an increase in requests of other authorities relating to cases of unauthorised solicitation and investment service activities was seen (in total 9, compared with 3 in 2004).

Table 58

Requests to and by foreign authorities by subject

Subject	1998	1999	2000	2001	2002	2003	2004	2005
To foreign authorities								
Insider trading	17	43	32	24	24	11	8	12
Market manipulation	2	--	1	4	--	4	8	6
Unauthorized solicitation and investment services activity	7	4	3	10	9	5	2	4
Transparency and disclosure	--	--	1	--	--	6	9	10
Major holdings in listed companies and authorized intermediaries	--	--	--	1	1	3	1	2
Integrity and professionalism requirements	12	10	19	14	34	21	7	4
Violation of rules of conduct	--	--	2	--	--	1	2	--
Total	*38*	*57*	*58*	*53*	*68*	*51*	*37*	*38*
From foreign authorities								
Insider trading	2	3	5	20	13	17	18	18
Market manipulation	1	3	--	1	1	2	3	4
Unauthorized solicitation and investment services activity	3	3	1	2	7	4	3	9
Transparency and disclosure	1	--	2	--	--	--	--	4
Major holdings in listed companies and authorized intermediaries	--	--	--	--	2	1	--	4
Integrity and professionalism requirements	30	44	53	49	80	70	44	31
Violation of rules of conduct	--	--	--	--	--	--	--	--
Total	*37*	*53*	*61*	*72*	*103*	*94*	*68*	*70*

Table 59

Requests to and by foreign authorities by subject and geographic area

		2003		2004		2005	
		To foreign authorities	From foreign authorities	To foreign authorities	From foreign authorities	To foreign authorities	From foreign authorities
Insider trading	EU	7	14	5	16	10	18
	USA	1	1	1	1	--	--
	Other	3	2	2	1	2	--
Market manipulation	EU	3	2	7	3	5	4
	USA	1	--	1	--	1	--
	Other	--	--	--	--	--	--
Unauthorized solicitation and investment services activity	EU	4	3	--	1	2	4
	USA	--	--	2	1	1	4
	Other	1	1	--	1	1	1
Transparency and disclosure	EU	3	--	9	--	5	2
	USA	2	--	--	--	2	1
	Other	1	--	--	--	3	1
Major holdings in listed companies and authorized intermediaries	EU	2	--	--	--	1	3
	USA	--	1	--	--	--	--
	Other	1	--	1	--	1	1
Integrity and professionalism requirements	EU	20	62	6	34	2	28
	USA	--	1	--	2	--	--
	Other	1	7	1	8	2	3
Violation of rules of conduct	EU	1	--	1	--	--	--
	USA	--	--	--	--	--	--
	Other	--	--	1	--	--	--
Total		*51*	*94*	*37*	*68*	*38*	*70*

2. Activities within the European Union

During 2005, Consob's activities within the EU mainly concerned matters of company law and questions relating to the issue of second level provisions for the implementation of the directive adopted, in 2003 and 2004, according to the so-called Lamfalussy model. Support was also provided to the Ministry for the Economy and Finance during the meetings of the European Securities Committee - Esc, also given the technical nature of the subjects associated with supervision on stock markets.

With regards to the directive proposals discussed during the Council of the European Union, Consob participated in the negotiations on the amendments of the eight directive, concerning auditing, on which a political agreement was reached during the year between the Council of the European Union and the

European Parliament; furthermore, Consob participated in the meetings on the proposal to review the second directive, concerning share capital, with regards to the maintenance of the capital and the formation of the joint-stock company.

The aim of the auditing directive was to ensure, at European level, an elevated degree of harmonization with regards to access to the profession and the professionalism requisites of the auditors, the professional ethics, the audit standards, as well as the control of the quality of audit. Furthermore, in line with the international standards, it envisages a system of public control on the accounting profession and provisions aimed at ensuring full co-operation between supervisory authorities, especially in relation to the cross-border operations of listed issuers on several organized markets.

The proposal to review the directive concerning share capital aims to simplify the current regulations on the integrity of the share capital of joint-stock companies, so as to guarantee greater efficiency and competitiveness of European companies. This proposal is a minimum harmonization initiative which introduces optional regimes, whose adoption or specification, at national level, is left to the discretion of the member states. The Council of the European Union and the European Parliament has reached a political agreement on the proposal and, therefore, its adoption is envisaged fairly rapidly. With respect to the formulation originally put forward by the Commission, the current proposal no longer includes the controversial provisions regarding squeeze-outs (or the right of the shareholder, who holds a holding of 90 percent, to acquire the market shares at a fair price) and sell-outs (or the right of the minority shareholders to oblige the majority shareholder to acquire their shares). The proposal will amend the current regulation of conferrals in kind. In particular, the member states will be able to envisage exceptions to the ordinary evaluation procedure by means of the appraisal of independent experts when, upon the decision of the management body, securities traded on organized markets are conferred, or assets already previously appraised by independent experts and assets deriving from the previous year's audited financial statements. The regulation of the purchase of own shares has been made more flexible. With regards to the maximum duration of the shareholders' meeting authorization to purchase shares, it will rise from the current 18 months to 5 years (subject to the faculty of the member states to determine a shorter duration). Furthermore, the current maximum purchase threshold, of 10 percent of the subscribed share capital, will be eliminated and it will be up to each state to decide whether to introduce this limit or not (which cannot however be less than 10 percent). Finally, the system for granting loans to third parties for the purchase of own shares will be simplified, envisaging a regulation departing from the current ban, if certain conditions are met (for example, if the transaction is carried out under fair market conditions, subject to general meeting approval and within the limits of the subscribed share capital and the restricted reserves).

Consob's commitment also involved participation in the Regulation Committee concerning accounting standards as well as the Committees relating to auditing.

Finally, Consob took part in the meetings, called by the European Commission, for the implementation of the directive on financial instrument markets (Markets in Financial Instruments

Directive - Mifid), the directive on purchase tender offers and the directive concerning the transparency of the issuers on organized markets (Transparency Directive).

With regards to the new legislative proposals of the European Commission, work is underway on the directive proposal concerning clearing and settlement and on the directive proposal relating to the rights of the shareholders; Consob's participation in the respective negotiations is envisaged for both proposals.

Among the activities for the preparation of the directive proposal concerning clearing and settlement, which could be drawn up formally in 2006, the European Commission launched a study for assessing the costs and benefits of a specific regulatory initiative on the subject. The objective of the directive will be to encourage a reduction in the costs of intermediaries' cross-border operations, benefiting the investors and the liquidity of the markets, and to harmonize the functioning of the post-trading systems.

The directive proposal concerning shareholders' rights, being discussed by the Council, falls within the sphere of the Plan of Action for modernizing the right of the companies to enhance the corporate governance in the European Union. It contains provisions aimed at harmonizing the legislation of member states on the subject of: general meeting notice, dissemination of pre and post general meeting information; legitimation of those entitled to attend general meetings; electronic voting, by mail or by proxy; exercise of voting rights pertaining to the shares held by the intermediaries. These provisions will have a significant impact on Italian regulations. In particular, the extended notion of shareholder seems to be aimed at permitting the exercise of the voting right of the shareholder by parties other than the owner of the share. With regards to legitimation of those entitled to attend and vote during general meetings of listed companies, the directive proposal prescribed the abolition of all forms of share blocking. The proposal permits just the introduction at national level of a system based on the record date, it does not set quantitative or subjective limits to the granting of representation and assigns limited discretion to the member states for introducing conditions for the issue of the proxies; lastly, it does not appear to prohibit the issue of proxies without the name of the representative.

By means of the document entitled "White paper on financial services", the European Commission established the guidelines of the regulation concerning financial services for the five-year period 2005-2010.

*Despite confirming the validity of the approach underlying the Plan of Action for financial services (*Financial Services Action Plan - *Fsap), the White paper shifts the fulcrum of the Commission's action from the introduction of new regulatory measures to an approach which is based on the ex-ante assessment of the benefits of the new proposals (impact studies), on the harmonization of legislative texts concerning transposition of the directives in national legal systems, and on the control of the effective enforcement.*

The European Commission has also published the "Green paper on mutual investment funds", focusing on the intervention at the EU level needed to make the European passport for the funds more effective.

In place of a radical re-thinking of the Ucits (Undertakings for Collective Investments in Transferable Securities) directive, based on the harmonization of the product, intervention has been proposed on the distribution and on the format of the simplified prospectus, on the disclosure of the commission paid to the managers and to the distributors and on the passport for management companies.

Lastly, the European Commission, the Council of the European Union and the European Parliament have renewed the composition of the inter-institutional Control Committee for financial services and have widened the mandate in order to take account of the extension of the Lamfalussy model to the banking and insurance sectors.

3. Activities within the Committee of the European Securities Regulators (Cesr)

In 2005, Consob's activities within Cesr represented a considerable commitment, in relation to the work of *ad hoc* groups set up for the drafting of the Level 2 and 3 norms implementing the various EC directives and, above all else, in relation to the chairmanship of the Asset Management Expert Group.

The Expert Groups set up by Cesr include that on the Transparency Directive which, on the basis of the European Commission's mandate, provided technical advice on Level 2 implementing measures concerning the dissemination of regulated information, notification of major holdings, half-yearly financial reports, equivalence of third countries legislation and the issuer's choice of the authority of the country of origin as the competent authority.

Again with reference to the norms implementing the Transparency Directive, in July 2005 Cesr received new Level 2 mandate from the European Commission, relating to the "storage" of the regulated information and the filing of the regulated information with the competent authority. Thus, a new working group was set which will conclude its activities in June 2006.

The Transparency Directive specifically imposes the existence in each country of at least one officially designated mechanism for the central storage of the information (Officially Appointed Mechanism - Oam). By contrast, with regards to the filing of the information with the competent authorities, the directive permits the member states to request that the consignment take place at the same time the information is disclosed to the public, further guaranteeing the completeness and integrity of the data.

Cesr's activities regarding storage of regulated information did not directly define the type of entity which can be designated as an Oam; the choice is in fact the responsibility of the member states. Cesr must exclusively indicate the possible safety and accessibility standards in a neutral manner, without pre-representing the nature of the chosen structure. In this connection, a consultation document has been drawn up which limits itself to listing a series of general principles concerning quality requirements of the system. Again within the sphere of the storage of the information, the examination of the feasibility of a European network of systems continued, where disclosure on the issuers is accessible. In this context an IT

Task Force was set up, with a horizontal mandate, so as to render the national systems compatible for the establishment of data-bases at European level which concern several directives.

With regards to the filing of regulated information, envisaged by the Transparency directive, *a consultation document has been drawn up indicating common standards for the electronic forwarding of the information to the competent authorities, in line with those envisaged for the storage systems. In detail quality standards are envisaged which mainly concern the safety, the certainty of the source and the registration of the date and time of transmission.*

The Asset Management Expert Group, chaired by Consob's Chairman, worked intensely during 2005 in order to comply with the mandates received from Cesr and from the European Commission. In particular, in February the Group published a document containing guidelines for the operations of the transitory regime envisaged by the Ucits directives.

The approval of the guidelines involves convergence, between the various competent authorities, on the administrative practices of the member states with regards to the interpretation of the provisions pertaining to the transitory regime. The objective is to put an end to the uncertainties issue raised by the market participants, by removing the barriers to the single market experienced by the fund managers. The guidelines approved by the Cesr are intended to ensure common approaches for the whole Union and during 2005 the Review Panel carried out an assessment on the observance of the guidelines by the member states.

The Group also concluded the work, on the mandate received from the European Commission, relating to the definitions of eligible investments.

The opinion produced clarifies certain definitions contained in the directives concerning investments admissible by the harmonized funds. The subject matter is relevant in that it determines the type of investment permitted in said funds; the range of permitted investment is extended, in the meantime, observing the principles of the directive (on the diversification of the risk, on the limits to the leverage of the derivative products, on the investment in liquid financial instruments, etc.). Two public consultations were held in the document.

Finally, the Group submitted the document concerning the simplification of the fund notification procedures for public consultation.

The measures contained in this document intend to simplify the procedure which must be observed by the funds which market their own units in a European Union nation other than that of origin. Compliance with the Level 1 provisions is in any event envisaged. Such provisions permit the host country Authorities to check the observance of the marketing and advertising regulations envisaged at national level which establish the deadline by which the assessments of the competent authority of the host country must be carried out as two months from notification, before the marketing of the units can start. Cesr's aim is to facilitate the notification procedures, avoiding that the authorities of the host country assign a different interpretation to the directive.

Cesr has created three *ad hoc* sub-groups of experts for the implementing measures concerning the Mifid directive.

In February 2005, the expert groups forwarded an opinion to the European Commission on the so-called first set of mandates for the regulations to be applied to intermediaries, co-operation and enforcement.

With regards to the intermediaries, the technical advice dealt with policies and procedures to ensure compliance by the investment firm and its employees, and the handling of complaints from investors; the internal organizational requirements and that linked to the need to avoid additional operating risks in the event of outsourcing; the registration obligations; the safeguarding of customers' funds; conflicts of interest; the disclosure which must be provided in the event that an investment firm carries out activities for the marketing of products and/or financial services; the information which must be provided by the intermediary to the client before the investment service is provided; agreements with the retail customer regarding the execution of orders and periodic dealings.

The section of the technical advice on cooperation and enforcement contains, instead, the implementing regulation on the exchange of information between supervisory authorities, and in particular, on the transmission of data on transactions carried out by investment firms to the authority of the most relevant market in terms of liquidity.

In April 2005, Cesr published the technical advice on the second set of mandates relating to the Level 2 measures of the Mifid directive.

Among other things, the opinion concerned: clarification of the scope of application of the directive, through the definition of investment advice and commodity derivatives; certain aspects of the regulation of the intermediaries, including research, suitability test, the execution only service, the best execution and the definition of eligible counterparties; all the aspects associated with market transparency and the requisites for admission of financial instruments to trading. The advice completes that relating to the first set of mandates and seeks to propose solutions which take into account the different nature of the market participants and the different forms of products and services offered to customers; at the same time, it tries to provide the market participants with the necessary legal clarity and certainty for making financial innovation possible.

In 2005, the joint Cesr-Escb (European System of Central Banks) Working Group published a report containing nineteen standards concerning post-trading, which have the aim of increasing the safety, stability and efficiency of the clearing and settlement systems in the European Union. The standards are based on recommendations issued jointly by IOSCO's Technical Committee and by the Cpss (Committee on Payment and Settlement System) in 2001, adapted to the European Union context.

The Group's activities were carried out with the involvement of the parties concerned in the sector of clearing and settlement systems, by means of consultations and public hearings. The set of standards requires an assessment of their impact (assessment methodology) on the existing system. Furthermore, they are based on the current market situation and legislative context which, at European level, is not subject to harmonization; therefore, the adoption of the standards in question is not intended to prejudice further initiatives of the European

Union in terms of harmonization of the provision of post-trading services.

The Expert Group on prospectuses was given a mandate by the European Commission in relation to possible amendments to regulation No. 809/2004/CE; the purpose is to ensure that the prospectus always includes the necessary financial information so that the investor can carry out an informed analysis of the issuer's financial position, profits and losses and prospect.

Cesr published an advice on the subject in October 2005 which proposes to amend the EU regulation. The proposed amendments are delivered as guidelines.

The proposed amendments enable the competent authority to request the issuers to supply significant financial information on the prospectuses, taking into account some principles. The advice also clarifies the interaction (attachment II to regulation No. 809/2004/CE) between pro forma information and the financial information of the issuers with a complex financial history.

During Cesr's plenary meeting, held in Paris, the decision was made to set up a Task Force which the Chairmen of the supervisory authorities of the main countries belonging to Cesr, including Consob's Chairman, participated in.

The Task Force's purpose is to: identify Cesr's priorities for the next three years; propose methods for improving Cesr's decision-making process; check whether its structure and organization are suitable for ensuring an elevated degree of compliance with the Level 3 measures. In relation to these objectives, the participants in the Task Force agreed on the opportunity of limiting the new legislative proposals so as to concentrate, instead, on the consistent application of EU legislation and Cesr standards, without setting up new working groups. The Task Force proposed resorting to mediation when conflicts exist between the members and developing the activities of the Review Panel so that the members themselves comply with the standards decided at Level 3.

The Cesrpol Group (permanent group for co-operation and exchange of information for supervisory purposes) worked intensively to prepare Level 3 measures in relation to the Market Abuse Directive. In May 2005, the group issued a guidance concerning accepted market practices, market manipulation and reporting of suspicious transactions.

Cesrpol also set up an internal sub-group, entitled Surveillance and Intelligence, whose aim is to handle practical questions, emerging from daily supervisory activities on investment firms and markets. In detail, the sub-group is required to facilitate the surveillance of violations which may involve several authorities of various member states, and to identify possible Level 3 measures.

As part of Cesrpol's restructuring, ad hoc groups will be set up in order to respond, promptly and in an agreed manner, to significant illegal conduct which concerns several countries (as in the Citigroup case).

Cesrfin (permanent working group for financial information) and its sub-groups continued to work intensely. The work concentrated on the adoption of regulations for the changeover to the Ias/Ifrs standards, in particular on the consistent application of these standards

within the European Union and on the identification of any operating difficulties.

The sub-group on enforcement set up a database for the publication of the enforcement decisions in anonymous form and so as to facilitate a convergent approach between the various authorities on the observance of the Ias/Ifrs standards when drawing up the accounting documents.

During 2005, the Review Panel (a permanent Cesr working group whose purpose is to check the implementation of the standards with regards to rules of conduct by the member states) ascertained compliance with the Cesr standards on cold calling (telephone contact with the client not agreed by the latter) and the implementation of the recommendations on the transitory regime for the marketing of funds units. It also started similar work on the implementation of standard No. 1 concerning enforcement on the subject of financial information published by the issuers.

4. Activities within the International Organization of Securities Commissions (IOSCO)

During 2005, Consob's activities within IOSCO involved participation in permanent working groups dealing with issuers, markets, mutual funds, exchange of information and international co-operation.

Work carried out by the permanent Group dealing with the exchange of information and international co-operation was of particular importance. The activities focused on the development of co-operation with so-called off-shore centres. The project, launched upon the request of the Financial Stability Forum, should see its first phase completed within the first four months of 2006.

During the Annual IOSCO Conference held in Colombo, the Technical Committee established a Task Force to deal with corporate governance (jointly chaired by the Chairman of the Spanish supervisory authority and the Deputy Chairman of the Australian authority). The Task Force's work focused on the VI (E) standard of the principles of corporate governance laid down by the OECD (objectivity and independence of the board of directors on the governance of the company) and on its application to the companies listed on the stock markets.

Specifically, the analysis will concern: the identification of the national regulations which have a practical impact on the questions covered by Principle VI (E); the national interpretation of the key concepts of the Principle; the identification of the national bodies responsible; the identification of the associations, the bodies or the public institutions which play a role in the domestic application of the Principle.

The activities of the Implementation Committee continue to be of particular importance, being associated with the evaluation of the state of implementation of the IOSCO Objectives and Principles on Securities Regulation and co-operation with the International Monetary Fund (IMF) and the World Bank. The IMF and the World Bank use the IOSCO principles

in the programmes for assessing the financial sector of the individual countries.

During the Conference of the IOSCO Technical Committee held in Frankfurt, Consob took part in a round table on financial fraud.

The round table discussed the recommendations contained in the IOSCO report on international fraud which will form the subject matter of standards drawn up by the Technical Committee's working groups. The mandate granted to the No.3 working group of the Technical Committee on intermediaries was particularly important. It concerns the placement on the primary market of bonds in relation to the due diligence activities which the responsible for the placement syndicates must carry out on issuers, so as to avoid disclosure asymmetries between investors and intermediaries.

VII – JUDICIAL CONTROLS ON CONSOB'S ACTIVITIES

1. Disputes concerning sanctions and other supervisory measures

Proceedings brought before the administrative courts in 2005, for the cancellation of measures adopted or proposed by the Commission when exercising its supervisory and enforcement power, were down slightly with respect to the previous year, passing from 31 to 26. By contrast, a significant increase was seen in the number of appeals made before the ordinary courts (138 compared with 61 in 2004) (Table 60; Appendix, Tables A.22 and A.23).

The rise in appeals brought before the ordinary courts is essentially the result of challenges made against 11 ministerial decrees inflicting administrative pecuniary sanctions for irregularities in the trading of Cirio and Argentina bonds (see previous Chapter III).

In detail, 9 ministerial decrees concerned the Cirio case alone, one concerned the Argentina case and one decree concerned both cases. These measures, comprising the outcome of supervisory initiatives relating to an equal number of banks, were subject to 79 autonomous appeals presented before eight different Courts of Appeal, brought in total by 417 parties (banks and company representatives).

With specific reference to the appeals brought by banks, the Courts of Appeal already recognised the existence of violations in 10 cases, while in 8 cases they fully confirmed the sanctions. In 2 cases, only the amount of the sanctions imposed was reduced: in the first case, the Court of Appeal deemed the amounts of the sanctions to be excessive and reduced them by 50 percent; in the second case, the amount of the sanction, whose payment was ordered on the intermediary pertaining to the parties responsible, was reduced to an extent of the amount of the sanctions imposed on three representatives on which the enforcement decree was not served.

Table 60

Appeals against measures adopted or proposed by Consob [1]
(outcome as at 31 December 2005)

	Administrative court [2]						Ordinary court [3]					
				of which:						of which:		
	Upheld [4]	Rejected [5]	Pending	Stay granted	Stay not granted	*Total appeals*	Upheld [4]	Rejected [5]	Pending	Stay granted	Stay not granted	*Total appeals*
2003	--	8	23	1	12	*31*	43	19	--	--	--	*62*
2004	1	4	26	--	12	*31*	19	42	--	--	--	*61*
2005	2	4	20	1	4	*26*	7	42	89	--	--	*138*

[1] The appeals are shown according to the year in which they were made. [2] Appeals to Regional Administrative Courts and the Council of State, and extraordinary appeals to the President of the Republic. [3] Courts, Courts of Appeal and Supreme Courts. [4] Also includes proceedings concluded with the partial upholding of the appeal or with a reduction in the sanction imposed. [5] Also includes the appeals waived by the plaintiff and those in relation to which the subject of appeal was declared as ceasing to exist.

The most important case law judgments adopted in 2005 included those which settled the challenges presented against the ministerial decrees imposing pecuniary sanctions relating to the Cirio and Argentina cases.

Numerous questions were brought to the attention of the Courts of Appeal in question, concerning both the correctness of the development of the enforcement procedures and the existence of the violations ascertained by Consob.

With regards to the preliminary questions, first and foremost indication should be made of the consolidation of the case law approach which believes the individuals responsible for the violations - but who are not enjoined to pay the sanctions - to be lacking legitimation to act; an injunction which the Ministry for the Economy targeted, in the cases examined, directly at the intermediary belonging to the same.

The interest to act of the individuals responsible but not enjoined was in fact qualified "as a mere de facto interest, insufficient for granting them the legitimation to oppose an injunction not addressing them (...). The protection of their interests is only postponed until the moment than the bank, after having paid the entire sanction, makes recourse to them so as to obtain the reimbursement of the amount paid in relation to the amounts calculated for each one. In fact, at this point they can enforce their reasons, also disputing the existence of the ascertained violations and the related responsibility, it not being possible to enforce the judgment issued by the court in this venue against them, since they are extraneous to the appeal of the bank*" (decree of the Rome Court of Appeal 4.7-26 September 2005).*

The case law decisions relating to the Cirio case, subsequently, unanimously ratified the observance of Article 14 of Italian Law No. 689 dated 1981, in accordance with which the notification of the disputes must take place within ninety days of the assessment. The judgment on the reasonableness of the time period used by Consob for assessing the violations was likewise unanimous.

The decisions in question first and foremost confirm the principle why the assessment of the infractions cannot be made to coincide with the conclusion of the investigations carried out at the premises of the intermediaries. The Venice Court of Appeal acknowledged that "the merely examining and not resolutionary nature of the final investigation report drawn up by the inspectors*" stating how* "for the purposes of the identification of the initial moment said term started for the complaint, the «assessment» must also be considered to be included in the time period necessary for the evaluation of the acquired data, necessary for checking the subjective and objective elements of said violation and for the evaluation of the suitability of the event for supplementing the essential elements of the sanctioning conduct as illegal, with the limitation that the evaluation of these elements, despite not being subject to a pre-established deadline, takes place however within a reasonable time span*" (decree 17.10/1.12.2005). And, in the case in question, the Courts of Appeal vested with the question unanimously acknowledged the fairness of the time period used for achieving the assessment of the disputed violations, in consideration of the complexity and extent of the phenomenon scrutinized.*

Case law did not fail to give significance, within a context of reasonableness, to the time employed for assessing the violations and the simultaneousness of the checks undertaken vis-à-vis the intermediaries most active in the trading of Cirio bonds; in fact, "within the necessary observance of the principles of coherence and impartiality of the administrative action, the trading activities subject to investigation could not fail but to require a simultaneous evaluation for all the intermediaries subject to investigation and that the complex transaction required the use of all the resources assigned to the three Consob operating divisions (Intermediaries, Markets, and Issuers) determining the launch of enforcement procedures against around four hundred company representatives and employees of the banks investigated" *(decree of the Bologna Court of Appeal 18.11/1.12.2005).*

The Courts of Appeal applied to fully confirm the existence of the violations ascertained in relation to the trading of Cirio bonds. Specifically, these violations concerned: (i) the shortfalls in the internal procedures (in violation of Article 56 of the Consob Regulation on Intermediaries); (ii) the lacking knowledge of the financial instrument offered (in violation of Article 26.1, letter e) of the afore-mentioned Regulation); (iii) the lack of information to clients on the nature and the risks of the transactions (in violation of Article 28.2 of the afore-mentioned regulation); (iv) the failure to evaluate the suitability of the instructions imparted by the client (in violation of Article 29 of the afore-mentioned regulation); (v) the failure to indicate potential conflicts of interest deriving from the participation of the intermediary-trader (or other Group companies) in syndicates for the placement of the traded securities, or deriving from the role of financing bank of the issuers of the securities sold to the client.

With particular reference to the violations of a procedural nature, the Courts applied to first of all declared the clear and unequivocal preceptive purport of the obligations imposed on the intermediary by Article 21.1, letter d), of the Consolidated Law on Finance and by Article 56 of Consob Regulation 11522/1998.

On the basis of these provisions "the conduct imposed on the operators therefore appears clear, and from this standpoint the suitability should be appreciated seeing that it is efficiently directed at guaranteeing – within the sphere of the operations chosen by the intermediary – the orderly, efficient and transparent provision of the investment services via the adoption of instrumental internal procedures with respect to the purpose of enduring the accurate observance of the conduct obligations envisaged by legislation. From the specific point of view of obliging the intermediaries to endow themselves with specific internal procedures one could not, moreover, reasonably expect greater precision from the legislative system: the variety of the financial instruments offered by the market and, therefore, the possible operating sphere of the intermediary and the organizational methods which can be adopted by the same within the ambit of their entrepreneurial autonomy do not in fact permit the anticipation, *ex ante*, of all the possible procedural layouts functional for the purposes indicated by sector legislation making it inevitable that, notwithstanding the binding nature of the related results, the effective set up of these procedures is left to

the discretion of the entrepreneur (for whom, the legal system also prescribed the possession of strict competence requisites)" *(decree of Bologna Court of Appeal 25.11/14.12.2006).*

As a rule, any hypothesis of duplication has been excluded between the violation of the obligation to draw up suitable procedures for the provision of investment services and the violations of individual provisions containing conduct-related rules, in the event of cases considered an immediate and direct consequence, for the record, of the procedural shortfalls. In decree 27.10/1.12.2005, the Venice Court of Appeal acknowledged that "the same omission (failure to adopt adequate procedures) effectively violated various provisions (Articles 26, 27, 28 and 56 of Consob Regulation No. 11522/1998) provided to protect the separate legal assets (the supply, by the intermediary, of an efficient, orderly and correct provision of the trading services on behalf of third parties, adequate knowledge of the financial instruments offered, communication, to the investors, of adequate information on the nature and the risks of the specific investment transaction, the communication to the client of the existence of conflicts of interest deriving from funding relationships outstanding with the issuer of the securities offered or with companies belonging to the same group) and imposing various administrative sanctions".

With regards to the violation, the Courts of Appeal also confirmed the disputed lack of accurate procedural provisions aimed at disciplining the phase for the selection of the securities to be offered in direct counterpart with the client; these being procedures were extensive inadequacy has been noted at the banking intermediaries subject to investigation.

In decree 14.12.2005/18.1.2006, the Turin Court of Appeal declared on a general level - irrespective of the peculiarities of the Cirio case - the existence of the obligation to "issue provisions aimed at preventing arbitrary choices by the structure tasked with the choice of the securities and the dispute pertaining precisely to the omissions of specific procedures on the policies, criteria, and limits relating to the selection faculty". *In short, according to another Court of Appeal,* "the choice of furthering a specific financial instrument, including it within one's trading portfolio, represents a professional option prior to the requests of the clients" *(Rome Court of Appeal, decree 22.12.2005/13.1.2006).*

With regards to the obligation to prepare suitable procedures relating to the provision of investment services, the peculiarities of the grey market period were acknowledged (market phase running between the bond issue and the settlement of the transactions), during which the majority of the Cirio and Argentina bond trading took place.

The Rome Court of Appeal gave importance to the fact that, in the case in question, there was the presence of "negotiation, with non-professional investors, of Cirio bonds during a trading period of bonds not yet issued and featuring prices lacking any significant disclosure efficacy" *(so-called grey market phase), which should have led the trading bank to be particularly careful even when drawing up the procedural provisions, specifically so as to ensure* "strict and accurate observance of the disclosure obligations vis-à-vis the unqualified investors, in order to make them aware of the possible investment risk".

The Courts of Appeal in question also confirmed the enforcement decrees with regard to the sections imposing pecuniary sanctions for violation of the obligation, ratified by Article 26.1, letter e), of Regulation No. 11522/1998, to acquire adequate awareness of the financial instruments traded.

The Turin Court of Appeal considered "the bank's failure to readily and promptly acquire the credit opinions and the offering circulars as particularly important. As stated by Consob, the credit opinions, intended precisely for institutional investors, revealed the assignment - by the lead manager of the Cirio bonds – of an implicit long-term rating of B and therefore their placement within the sphere of the speculative grade category, elevated risk thereby being indicated. Information was provided in the offering circular on the elevated level of indebtedness of the Cirio Group vis-à-vis the banking and financial system".

With particular regard to the observance of the obligation to disclose information to the client, the circumstance that the bonds in question were mostly traded in the so-called grey market period was of particular importance for the courts.

The Rome Court of Appeal acknowledged (decree 2/20.12.2005) that "the negotiation of the Cirio bonds on the afore-mentioned 'grey market' should have led the bank to a more penetrating observance of the disclosure obligations, in relation to a poorly liquid and highly volatile security, featuring real risk". *In this connection, the Bologna Court of Appeal observed that* "the purchases by retail clients who intervene in the grey market period end up influencing the same primary market (reserved for professional investors) freeing the placers from substantial risks: the issuer and the *lead managers*, indeed, can in fact take into account the trend in the transactions registered in the grey market and, hypothetically, revoke – before the closure of the placement and with consequent ineffectiveness of all the medium-term transactions carried out – the effective issue if the same has not already met with success in this phase or increase the amount of the securities offered in the event of a particularly positive market response".

The Cirio case also offered the courts the opportunity of intervening on the nature of the obligation contained in Article 29 of Regulation No. 11522/1998, which forbids intermediaries from carrying out transactions with or on behalf of investors which are not suitable in terms of type, object, frequency or size.

In this connection, the Ancona Court of Appeal observed (decree 30.11/1.12.2005) that "the intermediary bank (...) cannot limit itself to a mere contractual role, even if also intermediate, but must, in essence, not only take on responsibility for the 'informed consent' of the clients, but also take on responsibility for creating a framework of compatibility of the individual transactions with respect to the specific 'profile' of the same interest, so that the intermediated transactions (...) are adequate and in keeping with respect to the characteristics (quantitative and qualitative) of the specific asset situation of the investor".

Article 27 of the Regulation on Intermediaries, concerning transactions presenting potential conflicts of interest, was also subject to clarification.

In this connection, the Venice Court of Appeal (decree 27.10/1.12.2005) revealed the "absolute irrelevance, on the configurable

nature of the violation in question, of the existence of an effective profiting, by the bank, of the position of intermediary and of detriment for the investor*"; de facto,* "the regulation of the conflict of interests, in that it is aimed at ensuring the protection of the correctness of the intermediary and the transparency of the action of the same, provides – with the imposing of the obligation to show the client-investor the existence of a situation of potential conflict – an anticipatory solution to the danger that the conduct of the intermediary may, tangibly, be conditioned by a specific interest in the transaction intermediated*"*.

Passing on to the questions relating to the regulation of the issuers, during 2005, Consob challenged the shareholders' resolution appointing the directors and statutory auditors of Banca Antoniana Popolare Veneta before the Civil Court of Padua, in accordance with the combined provisions of Articles 14, sections 5 and 6 and 122.4 of the Consolidated Law on Finance and Article 2377 of the Italian Civil Code, deeming that the same had been adopted by means of the decisive contribution of parties who could not exercise the right to vote since they adhered to a secret shareholders' agreement. By means of the same petition, Consob also proposed a precautionary request for suspension of the execution of the resolution in question; in the meantime, this suspension was provisionally ordered by the Court via decree issued urgently upon the instance of another party.

The Court first of all confirmed the provisional precautionary measure already adopted (court order 8.6.2005) and subsequently, rejected the claims against the first order.

The precautionary judgements are of particular interest due to the objective relevance of the case since the Consob's legitimation and interest in proposing not only a petition for the cancellation of the shareholders' resolution, but also the precautionary petition aimed at suspending the challenged shareholders' resolution pursuant to Article 2378.3 of the Italian Civil Code, are expressly maintained in them.

In particular, in upholding the precautionary petition proposed by Consob, the Court clarified that the comparative assessment between the detriment which the plaintiff would suffer as a result of the execution of the challenged resolution and that which the company would suffer as a result of the suspension of execution of the same resolution (assessment which the court is called to make, in accordance with Article 2378.4 of the Italian Civil Code) must be carried out taking into account the circumstance that the "interest which can be pursued by Consob by means of challenge is an expression of market transparency and correct corporate management requirements, which the independent authority is appointed to protect*"*.

In rejecting the claims presented against the precautionary order, the Court in collective form fully shared the "finding which the first level court assigned, not only to the comparison of the interests of the necessary parties of the suspension procedures, but also to the current affairs interest which Consob is the bearer of and for which it is legitimated both in relation to the challenge pursuant to Article 2377 of the Italian Civil Code and the precautionary protection pursuant to Article 2378 of the Italian Civil Code, interest which is that

associated with the market transparency and correct corporate management need; interest which due to case law legitimates Consob's action also when the resolution is advantageous for the company and the challenge is detrimental*", also declaring that* "the harmfulness of the challenge for the company, to be assessed in accordance with the IVth section of Article 2378 of the Italian Civil Code, is not decisive for denying the suspension if this is by contrast consistent with the current affairs publication needs for whose protection Consob itself is permitted to request the suspension" *(court order 8/14.7.2005).*

During 2005, the two challenges of the statutory and consolidated financial statements as at 31 December 2003 (Arquati and Stayer), made by Consob exercising the power granted it by Article 157.2 of the Consolidated Law on Finance, concluded satisfactorily, with the cancellation of the related financial statements.

Furthermore, also of significance was the structured judgement by means of which the Lazio Regional Administrative Court (sentence No. 15180/05), in December, rejected the appeal made, jointly, by an auditing company enrolled in the Consob Register and by the partner of the company against the sanction imposed on them by Consob following the verification of irregularities in the work carried out, in accordance with Article 155 of the Consolidated Law on Finance, on the statutory and consolidated financial statements of a listed joint-stock company.

The sentence is particularly significant in the section where it maintains the irrelevance of generic criticisms based on the failure of management to produce documents (or part of the same) requested by the parties concerned within the sphere of proceedings which concluded with the issue of a sanction where the same are not accompanied by the demonstration that "the injury of the right to defence has effectively taken place*", or by circumstantial indications regarding* "the effective existence of fact and circumstances placed at the basis of the sanctions adopted not known by the same*". In the absence of precise indication, by the parties concerned, of the aspect of the reasoning which* "has made reference to factual elements unduly precluded therefrom*", the sentence concludes,* "there is no reason to doubt that the parts labelled by omission or the other documents in relation to which access has not been permitted, were considered by Consob as uninfluential for the purposes of the formation of the desire to take measures".

The case law decisions adopted during 2005 included two sentences of the Lazio Regional Administrative Court (No. 11292/05 and No. 13749/05) concerning the establishment of the price of the residual acquisition tender offer, activities which the Consolidated Law on Finance delegates to Consob.

In the first case, the administrative courts upheld the appeal made by the offerer against the resolution fixing the price of the residual tender offer, considering both the examination carried out preliminarily to its adoption and the motivational part of the measure challenged as lacking. The Court considered this latter part insufficient, even if supplemented, resorting to the preparatory documents of the measure. Specifically, the Regional Administrative Court believed that Consob, in establishing the price of the residual tender offer, must also provide sufficient justification of any change in the

valuations made by the same with respect to the disclosure elements provided by the offerer in accordance with Article 50 of the Regulation on Issuers.

In the second case, the Administrative Court by contrast rejected the appeal made by a shareholder against the resolution establishing the price of the residual tender offer, stating that the activities which Consob is vested with include the exercise of "power of a technical discretionary nature, based on the application of regulations concerning business valuational methods and technical procedures, which are not based on exact scientific rules"*. The Court also agreed that Consob is not obliged to use* "additional parameters other than those indicated legislatively" *and also backed the joint consideration of the parameters of the shareholders' equity adjusted to current value and the performance and income-earning prospects of the issuer, pursuant to Article 50.3 of the Regulation on Issuers.*

In conclusion, mention is made of the judgements by means of which the Lazio Regional Administrative Court, on a precautionary basis, and the Council of State, at the time of appeal against the precautionary orders of the Administrative Court, applied to by two separate consumers' associations, recognized that Consob's action has been correct at the time of the issue of the go-ahead to publish the document relating to the tender offer targeted by the Argentine Republic at all the bondholders not reimbursed following the declaration of a default (December 2001).

2. The judicial review of Consob's activity

The most important judgements during 2005 relating to cases of action against Consob for the compensation of damages included sentence No. 11149/2005 by means of which the Milan Civil Court rejected the claim for compensation made, against Consob, by a savers' association for alleged negligence when exercising supervisory powers vis-à-vis a company admitted to listing on the Nuovo Mercato; the shares of this company had in fact undergone a significant loss in value.

The Court in question excluded that the association, whose statutory purposes include "the safeguarding of savers' rights"*, had been able to acquire shares in the company relying solely on the information contained in the prospectus (published months before and no longer up-to-date at the time of purchase), not taking any notice in fact that, in the same period, press coverage had been made on investigations underway by the competent Public Prosecutor's Office for false accounting, market manipulation and other violations of the law in relation to the conduct of corporate representatives of issuing companies at the time of placement and listing of the security. Therefore, the causal connection between the alleged negligent conduct and the reported damage has been excluded.*

Other sentences of great importance were the 27 which settled part of the lawsuits for compensation brought against the Consob by a number of savers, who had purchased Cirio and Argentina bonds (Appendix, Table A.24).

Nearly all these judgements decreed the responsibility of the intermediaries involved in the distribution of the bonds with the consequent order to compensate damages vis-à-vis those entitled as such. The claims for compensation formulated vis-à-vis the Consob were, by contrast, all rejected, given the declared inexistence, in this connection, of the Commission's responsibility (not laid down by contract) for omitted and/or negligent performance of supervisory activities on the intermediaries involved in the distribution of the afore-mentioned bonds, since no violation by the Commission of the supervisory obligations laid down by the pertinent legislation has been recognized.

The afore-mentioned sentences clarified that the omission-type of offence must find grounds in the violation of a specific norm, while it is not possible to identify any obligation to the charge of Consob to control the undifferentiated flow of information intended for the investors. This is because, in accordance with the specific discipline, the norms assigning Consob responsibility have authorised persons as their immediate beneficiaries. In fact: "no obligation can be found in the Consolidated Law on Finance, nor could it be considered to be effectively due, which makes Consob responsible for the general and constant general information (directed at the undifferentiated public of investors) regarding the performance of the financial markets and, specifically, concerning the changes in the systematic and specific risk referring to the individual financial products". *Furthermore:* "the protection of the interests of the investors represents the ultimate aim of the exercise of the supervisory and investigation powers, whose primary and direct object is by contrast the activities of the authorised persons. It follows that the alleged offence of omission attributed to Consob … cannot be generically inferred by the afore-mentioned end objective, but must be identified in relation to the specific norm assigning the responsibility" *(sentences of the Court of Rome Nos. 14516 and 15196).*

In detail, Consob's responsibility has been excluded in relation to the placement of securities in the absence of the offer prospectus, given that "an obligation to check the information directed at the general public is given to Consob … only in the case of the soliciting of investments addressing the general public ("prospectus" pursuant to Articles 94, 95 and 97 of the Consolidated Law on Finance) and listed issues on regulated market ("listing prospectus" pursuant to Articles 113 *et seq.* of the Consolidated Law on Finance), but none of the indicated provisions comes to light in the case in question, since it is undisputed between the parties that the Argentina bonds acquired by the investors concerned an issue targeted at solely institutional investors (so-called "private placement", therefore the publication of the offer prospectus was not required: Article 100.1, letter a of the Consolidated Law on Finance), as well as debt securities traded on the unregulated market, involving consequent exoneration from preparation of the listing prospectus" *(sentences No. 14516 and 15196).*

During 2005, Consob presented an appeal against the Court of Rome sentence No. 34309 dated 14 December 2004, which had ordered the Commission to pay, in favour of a group of savers, a sum of money by way of compensation for damages from omitted control activities on an asset management and investment firm.

At the end of 2005, a judgment was pending before the same Court of Appeal in Rome, relating to the challenge of another sentence which, likewise, had ordered the Commission to compensate damages suffered by a group of savers, consequent to the omitted control on a group of companies, of which just some authorized to carry out asset management and investment activities and others, vice versa, operating without authorization.

VIII – CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

1. Financial management

During 2005, income (net of the prior year surplus) amounted in total to € 76.1 million (Table 61). Supervisory fees accounted for 61.9 percent of net income, totalling to € 47.1 million; the largest portions concerned the categories: issuers, financial salesmen and intermediaries (Table 62).

With regards to expenditure, current items rose, essentially due to staff costs. Capital expenditure (€ 3.4 million) also increased, mainly due to purchases of IT instruments and equipment.

Table 61

Summary table of income and expenditure
(millions of euros)

Items	2000[1]	2001[1]	2002[1]	2003[1]	2004[1]	2005[2]
Income						
Prior-year surplus [3]	50.7	74.0	12.3	11.6	11.7	15.4
State funding	31.0	31.0	23.7	23.3	26.7	25.4
Own revenue						
Application fees [4]	3.0	1.5	–	–	–	–
Exam fees [4]	3.0	1.5	–	–	–	–
Supervisory fees	31.8	27.4	39.9	41.6	49.2	47.1
Trading fees [4]	5.2	3.6	–	–	–	–
Sundry revenues	4.2	11.6	3.8	4.9	3.5	3.6
Total income	*128.9*	*150.6*	*79.7*	*81.4*	*91.1*	*91.5*
Expenditure						
Current expenditure						
Members of the Commission	1.2	1.4	1.4	1.3	2.2	2.5
Staff	33.7	45.8	42.2	43.2	44.6	53.1
Goods and services	14.2	16.4	18.7	18.9	19.4	22.2
Renovation and expansion of fixed assets	2.4	3.8	4.7	4.6	4.3	5.3
Unclassified expenditure	0.1	4.9	1.1	0.4	5.2	5.0
Total current expenditure	*51.6*	*72.3*	*68.1*	*68.4*	*75.7*	*88.1*
Capital expenditure	3.6	66.8	2.8	1.7	2.6	3.4
Total expenditure	*55.2*	*139.1*	*70.9*	*70.1*	*78.3*	*91.5*

[1] Annual accounts. [2] Budget. [3] The surplus is the difference between total income and total expenditure plus the differences deriving from the handling of residual amounts and value adjustments of investments, which are not shown in the table. The 2004 surplus is included in 2005 income. [4] As a consequence of the amendment of Article 40.3 of Italian Law 724/1994, as from 2002 accounting period only one type of fee exists, known as "supervisory fees".

Table 62

Fees by category of supervised persons
(millions of euros)

	Investment firms and stock-brokers	Banks	Auditing companies	Financial salesmen	Market entities [3]	Issuers	UCITS [4]	Solicitors of investors	Traders on the MTA and Expandi markets	Other	*Total fees*
2000[1]	0.5	2.9	2.3	10.3	1.2	8.4	3.0	9.2	5.2	0.0	*43.0*
2001[1]	0.5	2.8	2.1	8.7	1.4	7.9	3.1	3.5	3.6	0.4	*34.0*
2002[1]	1.2	7.5	2.0	6.4	2.8	8.9	5.3	4.9	–	0.9	*39.9*
2003[1]	1.0	7.4	2.5	8.0	3.1	9.0	6.1	3.4	–	1.1	*41.6*
2004[1]	0.9	7.7	3.7	9.5	3.9	8.8	6.2	7.1	–	1.4	*49.2*
2005[2]	0.9	7.7	3.6	9.4	4.0	10.8	6.1	2.9	–	1.7	*47.1*

[1] Annual accounts. [2] Budget. [3] Borsa Italiana Spa, MTS s.p.a., Cassa di Compensazione e Garanzia s.p.a. and Monte Titoli s.p.a.. [4] Includes the supervisory fees paid by asset management companies for individual portfolio management services.

The 2006 budget was approved in December. Total income for the year is expected to amount to € 89.8 million, comprising € 13.1 million of State funding for that year, € 73.1 million of fees and € 3.6 million of sundry revenues for the Commission. The above is joined by € 11.4 million deriving from the estimated operating year surplus for 2005. The latter is divided up into the separate components of operating surplus available for the financial coverage of scheduled expenditure for 2006 (€ 10.7 million) and the operating surplus generated by commitments for 2005 carried over to 2006 in accordance with Article 19 of the Accountancy Rules (€ 0.7 million) re-linked to the deferral of the creation of a new library at the Rome Head Offices and the enhancement of the central servers.

Total expenditure in 2006 (net of the prior-year commitments carried over from 2005 and included in capital account expenditure) is expected to amount to € 100.4 million, of which € 93.2 million on current account and € 7.2 on capital account. Estimated current expenditure for 2006 reported an increase with respect to the same final budget figure for 2005 amounting to € 6.8 million, essentially as a result of the rise in costs relating to the increase in Consob's staff, stated by the law, and the need to proceed, partly in relation to the new operating requirements established by EU directive already transposed or being transposed, with a general modernization and enhancement of the Commission's IT system. Forecast capital expenditure for 2006 also reflects the programme for the modernization and enhancement of the IT system, as well as the afore-mentioned setting up of the new library.

In December 2005, Consob established the fee schedule for 2006, identifying, on the basis of Article 40 of Italian Law 724/1994, the categories of persons subject to supervision required to pay fees and the fee amounts.

2. Personnel management

During 2005 47 members of staff were employed, of which 38 permanent and 9 with fixed-term contracts. During the same period, 7 permanent staff members left (of which 6 voluntarily and one for compulsory retirement) along with 2 fixed-term contract staff (both of which left voluntarily). Therefore, compared with 2004, the Institute's effective staff rose by 38 members of staff (Tables 63 and 64).

In particular, 38 permanent staff members were taken on competitive examinations. By contrast, 8 individuals were employed under fixed-term contracts.

Table 63

The staff [1]

	Permanent employees				Fixed-term contract employees	*Total*
	Managerial staff	Operational staff	General services staff	*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*
2003	129	245	15	*389*	19	*408*
2004	131	236	15	*382*	20	*402*
2005	182	218	15	*415*	25	*440*

See Methodological Notes. [1] As at 31 December.

Table 64

Breakdown of staff by grade and organizational unit [1]

	Managerial staff		Operational staff	General services staff	*Total*
	Senior managers	Junior managers			
Divisions					
Issuers	11	44	27	--	*82*
Intermediaries	5	28	56	--	*89*
Markets and Economic consultancy	7	25	26	--	*58*
Administration and Finance	5	7	34	16	*62*
Legal Services	4	14	11	--	*29*
External Relations	5	5	5	--	*15*
Resources	3	9	17	--	*29*
Other offices [2]	12	17	47	--	*76*
Total	*52*	*149*	*223*	*16*	*440*

See Methodological Notes. [1] As at 31 December 2005. Fixed-term employees are classified according to the equivalent grades of permanent employees. [2] The offices outside the division structure.

During the year, contractual agreements were finalized concerning: amendments to the "*Staff remuneration levels*" and the "*Staff pension fund*" adopted after 27 April 1993.

Turning to training, a total of 22,135 hours were devoted to this activity in 2005 (13,832 in 2004), involving an increase of 60 percent on the previous year and corresponding to an average of around 50 hours per head (35 in 2004).

As in previous years, the areas of growth which absorbed the greatest resources were those of technical-professional training (referable to refresher courses on specialist skills) and language courses (for facilitating the performance of Consob's international activities); furthermore, in relation to the hiring of new resources, specific training courses were dedicated to new recruits.

Training associated with legislative innovations on market abuse and the application of the new Ias/Ifrs accounting standards was covered extensively.

3. External relations and investor education

During 2005, Consob dedicated considerable energy to external relations. Relations with other national Institutions when drawing up and approving important legislative measures were of great importance.

Specifically, by means of EU law for 2004, significant innovations were introduced for the regulation of market abuses, assigning new duties and powers to Consob, among other things. Italian Law No. 262 dated 28 December 2005, containing provisions for the protection of savings and the regulation of the financial markets, concluded the process for the legislative reform launched after the cases of corporate defaults between 2002 and 2004.

Consob promptly implemented the new discipline on market abuse by means of its own Regulations and, in accordance with Italian Law No. 262/2005, in 2006 will be required to set up impressive secondary standardization activities, which will provide content for many of the innovations introduced by the new discipline.

Within the framework of relations with other Institutions, enormous endeavours were made to provide the government authorities with the elements necessary for launching numerous parliamentary hearings and question times concerning matters falling under the Commission's responsibility.

Consob's communication activities were also focused on satisfying the disclosure requirements of the savers and the market operators. Within this sphere, the Institute's website proved itself to be a particularly valid instrument for providing complete and prompt information.

The Institute continued work during the year, aimed at improving the qualitative level of the website contents; worthy of note is the part dedicated to the legal framework, which also contains the main European directives on financial markets.

Once again, the commitment dedicated to the website had a positive feedback in the generalized rise in visitors confirming and consolidating the growing trend of the last few years (Table 65).

Table 65

Visits to Consob's website

Sections	2002	2003	2004	2005
Home page (What's new)	829,385	953,900	1,563,957	2,040,414
Investors' corner	102,159	144,333	156,023	158,124
Operators' corner [1]	—	70,573	69,071	101,098
About Consob	121,688	118,407	157,075	229,123
Companies	1,014,943	2,214,855	2,567,876	2,811,214
Intermediaries and markets	262,218	189,417	234,561	289,627
Consob decisions	416,423	387,879	421,345	519,469
Legal framework	555,583	430,937	501,071	727,141
Publications and press releases	438,993	451,318	495,005	521,198
Links	30,148	27,122	29,087	14,098
General search engine	242,315	223,459	245,013	275,192
Help and site map	63,927	64,543	72,354	89,210
English version	200,237	132,605	136,357	141,498

[1] Section added in 2003.

In detail, the rise in visitors to the sections "Operators' corner" and "Legal framework" was over 45 percent. Such increase confirms the importance of the Institute's website as a working instrument for the daily activities of the market operators.

Investor education activities maintain a strategic role within the sphere of communications.

The website now features many initiatives which illustrate, simply and immediately, financial products widely distributed among the general public, or rather with characteristics which are difficult for retail investors to understand especially with regards to the risk/return features.

An additional initiative dedicated to derivative products was published in 2005.

Consob's aim is to provide investors with the basics on derivative products, via the illustration of the purposes and the risks of the individual instruments. The initiative not only contributes to the growth of the financial culture of the investors but, above all else, provides the same with instruments for understanding the use made of the derivatives in combination with other financial products, at times widely distributed among the general public.

Activities carried out via traditional communication instruments were also significant. The publication of the Newsletter and of "Consob Informs" in fact represents a recurrent appointment, for the press as well, useful for gaining prompt information on the measures adopted by the Commission and, more generally, the activities it carries out.

Other initiatives include the by now customary appointment with the Public Administration Forum, a venue useful for directly encountering the general public.

Table 66

Applications for documentation and information on Consob's activities

	Applicants			Subject of applications				
	Institutional investors and market operators	Individual investors, students et al.	*Total*	Resolutions, communications, prospectuses	Texts of laws and regulations	Data and information	Other	*Total*
1997	673	441	*1,114*	451	367	286	10	*1,114*
1998	597	448	*1,045*	427	300	300	18	*1,045*
1999	540	475	*1,015*	310	290	300	115	*1,015*
2000	1,460	1,158	*2,618*	588	379	1,261	390	*2,618*
2001	782	1,407	*2,189*	365	112	1,259	453	*2,189*
2002	655	922	*1,577*	182	79	1,092	224	*1,577*
2003	365	1,114	*1,479*	149	6	1,007	317	*1,479*
2004	247	1,277	*1,524*	182	48	1,024	270	*1,524*
2005	298	1,542	*1,840*	192	53	1,397	198	*1,840*

Finally, during 2005 activities satisfying the requests for documentation and information rose sharply.

Around 80 percent of the applications are due to requests made by investors and students (Table 66). Telephone help desk activities also continued to be intense, and carried out on a daily basis.

4. Developments in information technology

During 2005, activities continued for adapting the hardware and software platforms to the most recent technological standards.

Specifically, 17 new servers were purchased, for receiving data flows from external sources and the improvement of the services provided by the website and the electronic post system.

The development of the hardware and software architecture protecting the IT system also continued, through firewalls, the installation of an intrusion detection system and the separation of the Institute's network area accessible from outside.

Turning to telecommunications channels, steps were taken to increase the Institute's internet connection line to 8 Mbit and the line for the institutional site to 16 Mbit. Thanks to these increases, it was also possible to create a new version of the "Teleraccolta" system which permits the automatic acquisition of the supervisory reports of the intermediaries.

The applications of greatest importance included the creation of the first version of the system for the management of the investigation activities and the related deadlines (Integrated Management Reporting System - SIRD), which also provides up-to-date information on the stage of completion of the activities.

Lastly, activities also continued aimed at creating a new system for the handling of data concerning financial salesmen (Integrated Financial Salesmen System- SIPF), a system which introduces functions supporting supervision, the management of the Register and the publication of related data on the Institute's website; once completed, this system will also make it possible to exchange information and interact with the various institutional stakeholders on the subject of financial salesmen.

C

APPENDIX AND METHODOLOGICAL NOTES

List of statistical tables

Table A.1

Sales of public-sector holdings in Italian listed companies by means of public offerings and institutional placements [1]
(1993-2005; amounts in millions of euros)

Company	Date	Value [2]	Seller	Holding sold [3]	Offering aimed at [4]			
					The public [5]	Employees	Foreign buyers	Inst. investors
Credit ordinary	04.12.1993	886	Iri	63.1	36.3	—	—	26.8
Credit savings	04.12.1993	44	Iri	17.4	—	17.4	—	—
Imi	31.01.1994	1,231	Ministry of the Economy and others	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	Ministry of the Economy	47.2	31.6	0.6	—	15.0
Eni	21.11.1995	3,254	Ministry of the Economy	15.0	4.3	0.7	3.3	6.7
Imi	07.07.1996	259	Ministry of the Economy	6.9	—	—	—	6.9
Amga	07.10.1996	107	Municipality of Genoa	49.0	17.6	0.8	—	30.6
Eni	21.10.1996	4,582	Ministry of the Economy	15.8	8.0	0.8	2.0	5.0
Montefibre	08.07.1996	94	Enichem	66.4	8.2	—	—	58.2
Ist. Banc. S. Paolo	19.05.1997	1,374	S. Paolo Banking Group, Ministry of the Economy and others	31.0	12.3	2.4	—	16.3
Eni	23.06.1997	6,805	Ministry of the Economy	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	Ministry of the Economy	32.9	24.3	3.3	1.1	4.2
Banca di Roma	24.11.1997	1,195	Iri and Ente Cassa Risp. Roma	45.4	—	—	—	45.4
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	Ministry of the Economy	14.0	10.5	0.6	—	2.8
Aem	14.07.1998	761	Municipality of Milan	49.0	28.9	0.5	—	19.6
Bnl	16.11.1998	2,620	Ministry of the Economy	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	Municipality of Rome	49.0	15.7	10.5	—	22.9
Acsm	20.10.1999	18	Municipality of Como	25.0	13.5	1.4	—	10.1
Enel	29.10.1999	16,550	Ministry of the Economy	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[7]	29.05.2000	6,570	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. Firenze	10.07.2000	320	Ente Cassa Risparmio di Firenze	25.0	15.0	1.7	—	9.8
Aem Torino	22.11.2000	112	Municipality of Turin	14.6	6.3	—	—	8.3
Acsm	29.11.2000	42	municipality of Como	24.0	18.3	0.4	—	5.4
Eni	15.02.2001	2,721	Ministry of the Economy	5.0	—	—	—	5.0
Ac.e.ga.s.	19.02.2001	174	Municipality of Trieste	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 Aut. Fiera Internazionale di Milano	22.9[8]	—	—	—	13.7
Telecom Italia [9]	09.12.2002	1,434	Ministry of the Economy	3.5	—	—	—	3.5
Meta	17.03.2003	39	Municipality of Modena and others	14.9	—	—	—	14.9
Hera	16.06.2003	435	Municipality of Bologna and others	44.5	18.5	0.9	—	25.1
Terna	14.06.2004	1,700	Enel	50.0	12.3	13.1	—	24.6
Enel	18.10.2004	7,636	Ministry of the Economy	18.9	7.3	0.3	—	11.3
Acegas – aps	08.06.2005	25	Acegas-Aps Holding	5.0	—	—	—	5.0
Enel	27.06.2005	4,101	Ministry of the Economy	9.4	3.9	0.2	—	5.3

Source: Consob and the Ministry of the Economy and Finance (Report to Parliament on the sale of holdings in companies controlled directly or indirectly by the State under Article 13.6 of Italian Law 474/1994), various years. [1] Rounding may cause discrepancies in the last figure. [2] Total value of the offering. [3] 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. [4] Percentages of the pre-offering share capital. The figures include the entire overallotment or greenshoe option actually exercised. [5] Includes the shares reserved for other parties (except employees) in the public offering tranche. [6] Includes the public offering abroad. [7] Includes the issue of € 0.9 billion of convertible bonds. [8] Includes the private placement reserved for the organizers and the Chamber of Commerce, equal to 9.2 percent. [9] Includes the sale of savings shares amounting to € 68 million.

Table A.2

Sales of public-sector holdings in Italian listed companies by means of private negotiations
(1993-2005; amounts in millions of euros)

Companies	Seller	Buyer	Date of completion of sale	Holding sold [1]	Total value	Date of mandatory tender offer [2]
Fin. Italgel	Iri	Nestlé	06.08.1993	62.1	223	23.02.1994
Fin. Cirio Bertolli De Rica	Iri	Sagrit	14.10.1993	62.1	161	16.09.1994
Nuovo Pignone	Eni	Gen. Electric Co.	22.12.1993	69.3	361	05.07.1994
Sme	Iri	Benetton, Del Vecchio, Movenpick, Crediop	23.12.1994	32.0	373	22.06.1995
Imi II	Ministry of the Economy	Cariplo, MPS, S. Paolo	01.07.1995	19.0	620	—
Enichem Augusta	Eni	Rwe-Dea ag	31.08.1995	70.0	155	27.12.1995
Ina II	Ministry of the Economy	Cariplo, Imi, S. Paolo, Banca d'Italia	12.10.1995	18.4	871	—
Dalmine	Iri	Techint, Siderca	27.02.1996	84.1	156	09.04.1996
Seat	Ministry of the Economy	Abn-Amro, Bain Capital, Comit, Bc Partners, Cvc Capital Partner, Investitori ass., De Agostini, Sofipa	25.11.1997	61.3[3]	849	—
Banco di Napoli [4]	Ministry of the Economy	Ina-Bnl	11.06.1997	60.0	32	—
San Paolo [5]	Foundation	Ifi/Ifil, Imi, Banco Santander, Reale Mutua Assic., Monte Paschi, Kredietbank	23.04.1997	19.0	594	—
		Altri[6] (Ina, Hdi, Credit Loc. France, Credit Comm. Belgique)	24.04.1997	3.0	134	
Telecom [5, 7]	Ministry of the Economy	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	—
Bnl [5]	Ministry of the Economy	Banco Bilbao Vizcaya, Ina, Bca Pop Vicentina	29.09.1998	25.0	1,335	—
Autostrade	Iri	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	Iri	Consorzio Leonardo (Gemina, Falck, Italpetroli, Impregilo)	31.07.2000	51.2	1,327	25.09.2000
Beni Stabili [9]	Ministry of the Economy	Banca Imi	June 2001	0.3	2	—
S. Paolo Imi [9]	Ministry of the Economy	Banca Imi	June 2001	0.3	80	—
Bnl [9]	Ministry of the Economy	Banca Imi	27.12.2001	1.3	77	—
Generali [9, 10]	Ministry of the Economy	Banca Imi	April 2002	1.1[11]	76	—
Enel [9]	Ministry of the Economy	Morgan Stanley & Co. Int. Ltd.	30.10.2003	6.6	2,173	—
Snam Rete Gas[9]	Eni	Mediobanca	30.03.2004	9.1	651	—

Source: Consob and the Ministry for the Economy and Finance. See Methodological Notes. [1] As a percentage of the ordinary share capital. [2] Date tender offer started. [3] The sale included 0.8 percent of the capital in the form of savings shares. [4] Transaction effected by means of a competitive auction. [5] The date refers to the signing of the agreement. Figures referring to permanent structure. [6] Shareholders not part of permanent structure. [7] The sale value does not include the fee for the sale of 1.2 percent of ordinary shares to AT&T and Unisource, dependent on the conclusion of strategic alliances with Telecom. [8] The figure does not include the sale of € 172 million of convertible bonds. [9] Transactions carried out by means of the sale of the holding to an intermediary, which then gradually placed the shares with institutional investors. [10] Includes the proceeds of the sale of a tranche of INA shares in the period May-June 2001. [11] The figure refers to the Ministry for the Economy and Finance's holding in the capital of INA before the latter's merger into Generali s.p.a., with effect from 1 December 2001.

Table A.3

Ownership structure of newly Italian listed companies
(percentages of the voting share capital)

	Before IPO		After IPO	
	Controlling shareholders	Shareholders with more than 2 %	Controlling shareholders	Shareholders with more than 2 %
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	88.9	97.4	55.6	57.9
Average 2000	73.8	93.9	54.5	68.0
Average 2001	78.3	94.8	53.4	62.8
Average 2002	83.3	98.9	57.8	67.3
Average 2003	87.0	90.8	54.5	58.2
Average 2004	85.6	99.2	56.1	63.8
		2005		
Anima Sgr	72.7	100.0	50.9	70.0
Apulia Prontoprestito	100.0	100.0	88.3	88.3
Banca Italease	70.6	94.5	55.6	70.7
Bioera	75.0	99.0	57.7	68.8
Caleffi	45.8	96.9	34.8	60.3
Eurofly	89.1	98.6	44.2	49.2
Eurotech	47.1	93.3	28.2	40.9
Guala Closures	49.5	98.3	14.4	39.7
Igd	99.4	99.4	62.4	62.4
Marr	66.7	99.3	53.9	53.9
Monti Ascensori	84.8	99.3	50.5	56.1
Safilo Group	98.2	98.2	47.9	47.9
Save	53.9	97.7	39.0	69.2
Tamburi	39.8	35.5	42.2	37.2
Toro Assicurazioni	100.0	100.0	65.5	65.5
Average 2005	*72.8*	*94.0*	*49.0*	*58.7*

Source: Consob. See Methodological Notes.

Table A.4

Public offers to buy or exchange for securities of Italian listed companies [1]
(amounts in millions of euros)

	Voluntary		Takeover bids [2]		Incremental [3]		Mandatory		Residual		For own shares		*Total*	
	Number of transactions	Value	Number of transactions	Value	Number of transactions	Value	Number of transactions	Value	Number of transactions	Value	Number of transactions	Value	*Number of transactions*	*Value*
1992	5	611	--	--	--	--	2	11	--	--	--	--	*7*	*622*
1993	2	850	2	543	--	--	3	12	5	7	--	--	*12*	*1,412*
1994	2	72	1	1,947	--	--	11	832	6	23	--	--	*20*	*2,874*
1995	4	75	--	--	--	--	8	975	9	24	--	--	*21*	*1,074*
1996	6	264	2	213	1	53	9	161	10	14	--	--	*28*	*705*
1997	5	378	2	234	1	4	7	376	8	27	--	--	*23*	*1,019*
1998	2	96	2	1,658	1	126	6	102	3	23	--	--	*14*	*2,005*
1999	4	631	8	53,292	--	--	8	640	2	5	--	--	*22*	*54,568*
2000	7	4,299	8	4,878	--	--	6	2,734	7	218	--	--	*28*	*12,129*
2001	4	171	2	726	--	--	7	5,573	11	196	--	--	*24*	*6,666*
2002	10	3,724	4	809	--	--	4	26	5	44	1	709	*24*	*5,312*
2003	8	5,837	4	7,359	--	--	6	174	8	356	--	--	*26*	*13,726*
2004	4	142	--	--	--	--	10	293	3	79	1	2	*18*	*516*
2005	4	16,593	1	11	--	--	12	3,007	4	82	1	148	*22*	*19,841*

Source: Consob archive of offer documents and Borsa Italiana Spa notices. [1] Securities offered in exchange are valued at the market prices of the day preceding the announcement of the transaction. Rounding may cause discrepancies in the last figure. [2] The number of transactions includes competitive bids. [3] Type of bid provided for under Italian Law No. 149/1992 but not envisaged by the Consolidated Law on Finance.

Table A.5

Control premiums in mandatory tender offers on Italian listed companies
(2000 - 2005)

Target company	Date 30% threshold exceeded	Initial holding held by offeror before 30% threshold exceeded[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
Banco di Chiavari	17/03/2003	0.0	69.6	19.7	0.9
Alerion Industries	14/04/2003	0.0	59.6	1.5	0.3
Ipi	05/05/2003	0.0	56.0	9.6	0.6
Air Dolomiti	26/05/2003	20.7	31.2	4.3	-1.5
Seat Pagine Gialle	01/09/2003	0.0	62.5	-28.0	-28.0
Roncadin	13/10/2003	29.1	2.7	-26.1	-23.6
Euphon	24/03/2004	0.0	41.0	1.9	2.4
Saeco International Group	30/03/2004	0.0	66.8	8.3	2.3
Nts	29/04/2004	0.0	80.0	3.6	24.1
Roncadin	15/06/2004	0.0	40.9	-28.7	1.9
Bastogi	16/06/2004	0.0	53.8	-14.2	-0.7
Dmail Group	30/06/2004	0.0	46.1	-4.9	1.0
Saes Getters	28/07/2004	0.0	62.1	-0.6	-10.0
Beni Stabili	06/09/2004	29.5	3.5	-1.3	-3.2
Grandi Navi Veloci	12/10/2004	0.0	70.9	81.3	56.6
Marcolin	22/11/2004	29.2	24.4	4.3	57.8
Sirti	16/12/2004	0.0	69.5	2.1	-3.4
Ipi	20/01/2005	0.0	65.0	25.9	0.7
Acque Potabili	15/03/2005	0.0	67.1	-13.5	-0.7
Gruppo Coin	18/05/2005	0.4	62.9	-9.1	1.4
Industrie Zignago	04/07/2005	0.0	48.3	-3.5	-0.8
Garboli-Conicos	24/06/2005	0.0	90.0	6.1	2.6
Tas	18/08/2005	0.0	57.0	-2.4	-10.0
Edison	16/09/2005	5.3	63.3	-16.3	0.4
Acquedotto De Ferrari	01/10/2005	27.6	67.4	6.7	0.7
Datamat	05/10/2005	0.0	52.7	12.1	0.6
Dada	11/11/2005	23.5	18.1	-1.4	-8.9
		Mean		7.5	5.5
		Median		2.0	0.7

Source: calculations based on offer document data. [1] As a percentage of the share capital. [2] Percentages. The market price is that as of the date the controlling interest was acquired.

Table A.6

Concentration of ownership of Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(at 31 December)

	Mta			Mtax		
	Largest shareholder	Other major shareholders	Market	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	44.8	25.9	29.3
2001	42.2	9.2	48.6	41.8	23.7	34.5
2002	40.7	8.0	51.2	41.0	21.8	38.2
2003	33.5	11.6	54.9	36.2	19.4	44.4
2004	32.7	13.0	54.3	36.3	18.6	45.2
2005	28.6	15.5	55.9	33.2	15.4	51.5

Source: Consob transparency archive. See Methodological Notes. [1] As a percentage of the capitalization of the ordinary share capital of all the companies listed on the Stock Exchange/MTA and MTAX (formerly the Nuovo Mercato). Rounding may cause discrepancies in the last figure.

Table A.7

Types of control of Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(at 31 December)

	Companies subject to majority control		Companies subject to working control		Companies subject to shareholders' agreement		Companies not subject to control		*Total*	
	Number	Share [2]	Number	Share [2]	Number	Share [2]	Number	Share [2]	*Number*	*Share* [2]
					Mta					
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*
2003	130	40.2	25	25.5	28	15.3	36	19.0	*219*	*100.0*
2004	134	32.7	22	27.2	26	15.1	37	25.0	*219*	*100.0*
2005	124	22.8	28	30.6	24	16.5	44	30.1	*220*	*100.0*
					Mtax					
2000	14	51.1	8	32.4	13	14.6	4	1.9	*39*	*100.0*
2001	15	42.0	7	36.3	9	12.7	13	9.0	*44*	*100.0*
2002	12	43.4	9	33.2	10	13.3	12	10.1	*43*	*100.0*
2003	10	18.5	10	33.3	3	2.0	18	46.3	*41*	*100.0*
2004	9	19.1	8	23.4	6	8.5	14	49.0	*37*	*100.0*
2005	10	17.8	6	21.8	5	9.6	15	50.8	*36*	*100.0*

Source: Consob transparency archive. See Methodological Notes. [1] Rounding may cause discrepancies in the last figure. [2] Percentage ratios of the capitalization of the ordinary share capital of the companies attributable to each type of control and the capitalization of the ordinary share capital of all the companies listed on the Stock Exchange/MTA and MTAX (formerly the Nuovo Mercato).

Table A.8

Major holdings in Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(at 31 December)

	Declarant								
	Foreign parties	Insurance companies	Banks	Foundations	Institutional investors	Joint-stock companies	State and local authorities	Individuals	*Total*
					Mta				
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*
2003	6.7	1.2	3.9	3.6	--	12.3	11.2	6.2	*45.1*
2004	7.3	1.4	3.5	3.3	0.1	13.7	10.7	5.7	*45.7*
2005	8.9	1.6	4.5	4.0	0.1	9.6	9.6	5.9	*44.2*
					Mtax				
2000	14.2	--	0.7	--	1.1	4.2	--	50.4	*70.7*
2001	16.7	--	0.6	0.1	0.5	4.8	--	42.7	*65.5*
2002	12.1	--	0.3	0.2	0.8	4.8	--	43.6	*61.8*
2003	7.7	--	1.0	--	0.2	4.8	--	41.7	*55.6*
2004	5.9	0.2	0.3	--	0.3	8.0	0.1	40.0	*54.8*
2005	5.2	0.1	0.4	--	0.8	10.1	0.1	31.9	*48.5*

Source: Consob transparency archive. See Methodological Notes. [1] Holdings of more than 2 percent of the voting capital. Percentage ratio of the market value of the major holdings calculated with reference to ordinary share capital to the capitalization of the ordinary share capital of all the companies listed on Italian Stock Exchange/Mta and Mtax (formerly the Nuovo Mercato). Rounding may cause discrepancies in the last figure.

Table A.9

Types of shareholders' agreements involving Italian listed companies
(at 31 December)

	Type of agreement											
	Blocking			Voting			Global			*Total*		
	No. of agreements	Share capital covered[1]	No. of companies[2]	No. of agreements	Share capital covered[1]	No. of companies[2]	No. of agreements	Share capital covered[1]	No. of companies[2]	*No. of agreements*	*Share capital covered[1]*	*No. of companies[2]*
						Mta						
2002	7	31.5	7	8	39.7	8	32	47.6	30	*47*	*43.9*	*41*
2003	8	39.0	8	11	41.9	9	36	46.9	34	*55*	*44.8*	*47*
2004	7	50.8	7	10	40.8	8	39	47.8	37	*56*	*46.9*	*49*
2005	8	32.2	8	10	42.4	8	46	49.1	43	*64*	*45.9*	*59*
						Mtax						
2002	6	38.9	6	3	62.9	3	15	49.1	13	*24*	*48.3*	*18*
2003	6	30.7	6	--	--	--	4	44.8	4	*10*	*36.3*	*9*
2004	4	29.5	4	--	--	--	7	41.9	6	*11*	*37.4*	*9*
2005	2	29.0	2	--	--	--	6	49.6	5	*8*	*44.4*	*7*

Source: Disclosures pursuant to Article 122 of the Consolidated Law on Finance. See Methodological Notes. [1] As a percentage of the ordinary share capital. Average values. [2] The total does not coincide with the sum of the individual figures because in some cases more than one shareholders' agreement concerned the same company.[3] Agreements containing both blocking and voting clauses.

Table A.10

Italian listed companies with shareholders' agreements
(at 31 December 2005)

Company	Type of agreement	Expiry	Share of voting rights [1]	Number of participants
Acegas – aps	Global	22.12.2006	67.9	2
Actelios	Blocking	05.08.2006	75.9	2
Aisoftware[2]	Global	2007 Financial statements	62.1	2
Alerion Industries	Global	19.03.2006	57.1	22
Anima sgr	Blocking	26.10.2007	9.6	2
Apulia Prontoprestito	Global	06.12.2008	88.4	2
Assicurazioni Generali	Voting	13.09.2005	8.3	3
Azimut	Global	07.07.2007	23.4	771
Banca Antoniana Popolare Veneta	Blocking	16.05.2008	39.4	8
Banca Intesa	Global	15.04.2008	43.3	24
Banca Italease	Global	05.05.2008	51.6	6
Banca Lombarda e Piemontese	Global	31.12.2007	48.7	303
Banca Nazionale del Lavoro	Global	09.09.2007	28.0	3
	Global	18.07.2008	30.9	8
Banca Popolare di Spoleto	Global	30.06.2007	77.0	3
Banco di Sardegna	Global	30.03.2007	100.0	2
Bipielle Investimenti	Voting	Indefinite	87.7	3
	Global	01.04.2007	89.4	2
Bulgari	Global	17.07.2008	51.8	3
Capitalia	Global	03.07.2008	31.4	23
Cit	Global	Indefinite	58.0	3
	Global	06.09.2008	43.0	3
Csp	Global	15.06.2007	50.2	7
Dada	Global	10.11.2008	56.3	6
	Blocking	Indefinite	15.4	2
Dmail Group	Global	30.06.2007	37.3	4
Edison	Global	16.09.2008	88.6	4
	Global	06.07.2008	35.6	7
El.En.	Global	10.12.2006	49.9	8
Enertad	Global	10.08.2007	67.7	3
Esprinet	Blocking	26.04.2006	42.5	4
Euphon	Global	10.01.2007	51.1	3
	Global	24.03.2007	41.0	3
Eurofly	Global	20.12.2008	50.6	3
Fiat	Voting	17.06.2008	12.4	4
Gemina	Global	2006 Financial statements	43.4	7
Gim	Global	2006 Financial statements	60.5	23
Hera	Voting	06.11.2006	8.0	5
	Voting	08.03.2008	7.7	29
	Voting	31.12.2006	54.3	146
	Blocking	31.12.2006	51.0	146

--- *Cont.* ---

--- Table A.10 cont. ---

Company	Type of agreement	Expiry	Share of voting rights [1]	Number of participants
I Viaggi del Ventaglio	Blocking	29.12.2007	15.5	2
Igd	Global	11.02.2008	64.6	2
Immobiliare Lombarda	Global	19.07.2008	56.8	4
Impregilo	Global	20.03.2008	24.9	2
	Global	12.06.2008	24.4	2
Ipi	Global	15.03.2006	10.0	2
	Voting	19.01.2008	74.9	*2*
	Blocking	01.01.2007	9.9	*2*
Italjolly	Voting	11.10.2008	50.0	*5*
	Global	11.10.2008	50.0	*2*
La Doria	Global	30.06.2006	70.0	*7*
La Gaiana	Global	2008 Financial statements	75.6	*4*
Linificio e Canapificio Nazionale	Global	01.11.2006	67.8	2
Marcolin	Global	16.12.2007	70.9	8
Mariella Burani F.G. [5]	Blocking	28.07.2008	6.4	2
Marzotto	Global	22.08.2007	18.0	4
Mediobanca	Global	01.07.2007	54.1	48
Mediolanum	Global	14.09.2007	51.1	6
Pirelli & c.	Global	15.04.2007	46.7	10
Premafin	Global	31.10.2008	43.7	5
Premuda	Global	31.12.2007	45.0	3
Rcs	Global	30.06.2007	63.5	16
Reti Bancarie Holding	Voting	24.08.2008	71.3	2
	Global	20.05.2007	77.1	2
Rgi	Global	30.04.2007	87.3	10
Richard-Ginori 1735	Global	15.07.2007	50.0	2
Sanpaolo Imi	Global	2006 Financial statements	25.4	5
Seat Pagine Gialle	Voting	17.03.2008	54.1	6
	Global	24.03.2007	54.1	32
Smi	Blocking	31.12.2007	50.1	2
Snai	Global	06.06.2007	7.2	71
Socotherm	Global	10.12.2008	64.2	3
Stefanel	Global	27.01.2008	14.1	2
Tamburi Investment Partners	Global	06.10.2008	42.2	16
Trevisan Cometal	Global	2006 Financial statements	16.8	3
Valentino Fashion Group	Global	22.08.2007	18.0	4

See Methodological Notes. [1] As a percentage of the ordinary share capital. [2] As from 27 March 2006 Exprivia Spa.

Table A.11

Shareholders' agreements involving companies controlling listed companies
(at 31 December 2005)

Listed companies	Parent companies subject to agreement	Type of agreement	Expiry	Share of voting rights[1]	Number of participants
A.S. Roma	Compagnia Italpetroli	Voting	29.03.2007	50.8	3
		Global	21.06.2007	100.0	6
Autostrade	Schemaventotto	Global	31.12.2007	100.0	5
Credito Emiliano	Credito Emiliano Holding	Blocking	20.07.2007	72.7	228
Datalogic	Hydra	Global	03.03.2007	100.0	4
Ducati Motor Holding [2]	TPG Advisors	Global	Indefinite	100.0	4
Edison	Delmi	Global	06.07.2008	14.0	3
Gruppo Coin	Financiere Tintoretto	Global	17.05.2008	100.0	6
Gemina	Investimenti Infrastrutture	Global	15.11.2008	100.0	6
Immsi [3]	Omniapartecipazioni[4]	Global	2005 Financial statements	100.0	3
	Omniainvest	Voting	31.10.2008	89.7	4
Impregilo	Igli	Global	12.06.2008	100.0	4
	Tesir	Global	12.07.2008	100	2
Intek	Quattroduedue Holding	Voting	30.06.2007	100.0	4
Isagro	Manisa	Global	02.12.2007	100.0	12
Mariella Burani F.G. [5]	Burani Private Holding	Global	21.12.2008	100.0	5
Navigazione Montanari	G. & A. Montanari & co.	Global	26.05.2006	98.2	10
Reply	Alika	Global	09.11.2007	51.0	4
Sabaf	Giuseppe Saleri	Global	22.05.2008	100.0	6
Sirti[6]	Technology systems holding	Global	16.12.2007	100.0	3
	Albrida	Voting	14.09.2007	100.0	2
	Global technology systems	Voting	16.12.2007	100.0	2
	Technology systems holding	Global	16.12.2007	60.0	2
Telecom Italia	Olimpia [7,8]	Global	04.10.2007	67.2	2
		Global	05.10.2006	67.2	3
		Global	08.05.2006	100.0	6
Trevi Fin. Industrial	Trevi Holding	Voting	31.12.2007	8.0	2
Unipol	Finsoe	Global	15.04.2006	88.6	2
Vemer Siber Group	Hopa [8]	Global	01.09.2007	54.4	15
Vittoria Assicurazioni	Vittoria Capital	Blocking	13.09.2008	80.0	4

See Methodological Notes. [1] As a percentage of the ordinary share capital. [2] Even though Tgp Advisors does not hold a controlling interest (33.5 per cent), it exercises a dominant influence over the listed company. [3] Control over the company is held by Roberto Colaninno, via Omniaholding, which controls Omniainvest, which in turn controls Omniapartecipazioni. [4] The agreement also contains agreements concerning the listed company. [5] Control over the company is held by Walter Burani, via a direct holding and through Burani Private Holding, which in turn controls Burani Designer Holding. [6] The agreements concern the parent company and companies belonging to its group. [7] The agreement expiring on 8 May 2006 also contains agreements concerning the listed companies of the Telecom Italia Group. [8] Agreements notified pursuant to Article 122 of the Consolidated Law on Finance even though at the time of the notification the company did not consider it controlled the listed company.

Table A.12

Distribution of companies listed on the Stock Exchange by number of participants in AGMs
(2002-2005)

Number of participants	2002 AGM	2003 AGM	2004 AGM	2005 AGM
Mib30 and Midex			S&P/Mib and Midex	
< 50	18	19	21	28
between 50 and 100	5	6	6	3
between 100 and 500	21	20	20	26
> 500	5	5	4	6
Total	*49*	*50*	*51*	*63*
Average number of participants [1]	178	184	190	164
Star				
< 50	–	36	39	42
between 50 and 100	–	1	1	--
between 100 and 500	–	--	1	--
> 500	–	--	--	1
Total	–	*37*	*41*	*43*
Average number of participants [1]	–	16	21	15

Source: Minutes of the AGMs approving the financial statements of the listed companies forming part of the Mib30 (S&P/Mib for 2004 and 2005), the Midex and the Star segment. [1] Arithmetic mean.

Table A.13

Share of voting rights held by major shareholders and institutional investors in AGMs of Italian listed companies
(percentages)

	2002 AGM		2003 AGM		2004 AGM		2005 AGM	
	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting
	Mib30 and Midex				S&P/Mib and Midex			
Major shareholders [1]								
Median	49.7	89.2	52.4	90.7	52.3	89.4	52.0	88.3
Minimum	7.2	50.6	24.1	58.6	17.1	49.0	22.0	58.3
Maximum	17.5	100.0	83.7	99.6	81.5	99.9	78.0	99.9
Minor institutional investors[1]								
Median	2.9	5.8	2.2	4.3	2.4	4.5	2.5	4.6
Minimum	--	--	--	--	--	--	--	--
Maximum	9.7	26.7	8.0	16.1	6.3	14.5	9.7	16.6
	Star							
Major shareholders [1]								
Median	–	–	58.9	93.8	59.2	92.6	57.1	94.0
Minimum	–	–	19.8	7.7	--	–	14.0	37.0
Maximum	–	–	76.5	100.0	77.4	100.0	76.5	100.0
Minor institutional investors[1]								
Median	–	–	1.1	1.9	0.5	1.0	0.9	1.7
Minimum	–	–	--	--	--	--	--	--
Maximum	–	–	8.6	12.1	4.8	10.6	4.0	9.4

Source: Minutes of the AGMs approving the financial statements of the listed companies forming part of the Mib30 (S&P/Mib for 2004 and 2005), the Midex and the Star segment. [1] Major (minor) shareholder means shareholders with a holding of more (less) than 2 percent of the voting capital (Article 120 of the Consolidated Law on Finance).

Table A.14

Share of voting rights held by minor institutional investors in AGMs of Italian listed companies
(arithmetic means; percentages)

	2002 AGM		2003 AGM		2004 AGM		2005 AGM	
	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting	As a percentage of the total voting capital	As a percentage of the share capital represented at the meeting
	Mib30 and Midex				S&P/Mib and Midex			
Italian asset management companies	0.5	1.0	0.2	0.4	0.2	0.4	0.2	0.4
Italian pension funds	0.8	0.7	0.2	0.4	0.2	0.4	0.1	0.2
Italian banks and insurance companies	0.4	0.7	0.5	1.0	0.6	1.0	0.5	0.9
Foreign funds	1.5	3.0	1.2	2.3	1.2	2.3	1.4	2.7
Foreign banks and insurance companies	0.1	0.4	0.1	0.2	0.2	0.2	0.2	0.3
Total	*2.8*	*5.8*	*2.2*	*4.3*	*2.4*	*4.5*	*2.5*	*4.6*
	Star							
Italian asset management companies	–	–	0.1	0.1	--	0.1	0.1	0.2
Italian pension funds	–	–	--	--	--	--	--	--
Italian banks and insurance companies	–	–	0.1	0.2	0.1	0.2	--	--
Foreign funds	–	–	0.8	1.4	0.3	0.6	0.8	1.5
Foreign banks and insurance companies	–	–	0.1	0.2	0.1	0.1	--	--
Total	–	–	*1.1*	*1.9*	*0.5*	*1.0*	*0.9*	*1.7*

Source: Minutes of the AGMs approving the financial statements of the listed companies forming part of the Mib30 (S&P/Mib for 2004 and 2005), the Midex and the Star segment. [1] Minor shareholders means shareholders with less than 2 percent of the voting capital (Article 120 of the Consolidated Law on Finance).

Table A.15

Indicators of the equity markets operated by Borsa Italiana Spa
(amounts in billions of euros)

	Stock Exchange[1]									Expandi Market			Nuovo Mercato			
	Capitalization[2]	Capitalization (as a % of GDP)	Volume of trading in shares	Number of Italian listed companies	Number of Italian newly listed companies	Number of Italian listed companies delisted	Change in the Mib historical index[3]	Dividend/price ratio[3]	Earnings/price ratio[3]	Capitalization[2]	Volume of trading in shares	Number of Italian listed companies	Capitalization[2]	Volume of trading in shares	Number of Italian listed companies	Change in the NM index[3]
1996	199	20.3	81	213	14	18	13.1	2.1	6.9	3	..	31	—	—	—	—
1997	310	30.2	174	209	14	18	58.2	1.7	4.6	5	1	26	—	—	—	—
1998	484	44.8	423	219	25	15	41.0	1.6	3.9	4	2	20	—	—	—	—
1999	714	64.4	503	241	28	6	22.3	1.5	3.4	5	1	17	7	4	6	536[4]
2000	790	67.8	839	237	16	20	5.4	2.1	4.5	6	1	15	22	30	39	-25.5
2001	575	47.3	637	232	13	18	-25.1	2.8	6.0	5	..	12	13	21	44	-45.6
2002	447	35.7	562	231	11	12	-23.7	3.8	5.9	5	..	13	6	10	44	-50.1
2003	475	36.6	567	219	9	21	14.9	3.4	6.4	5	..	11	8	14	41	27.3
2004	569	42.2	641	219	7	7	17.5	3.4	6.0	5	..	13	7	19	37	-17.5
2005	669	48.8	893	257	13	12	13.9	3.0	5.2	7	1	18	—	—	—	—

Source: Borsa Italiana Spa Consob, Thomson Financial. [1] Since 2005 Mta/Mtax. [2] The figure for market capitalization refers to Italian companies. [3] Year-end percentages. [4] From 17 June 1999 to 30 December 1999.

Table A.16

Volume of trading in bonds on regulated Italian markets [1]
(amounts in billions of euros)

	MTS	Bondvision	Wholesale market for bonds other than government securities	Mot[2]	EuroMOT	Tlx[3]	*Total*
2000	2,020	—	„	154	„	—	*2,174*
2001	2,324	18	12	136	1	—	*2,491*
2002	2,205	100	24	159	2	—	*2,490*
2003	2,160	176	23	142	4	2	*2,507*
2004	1,949	339	31	147	4	8	*2,478*
2005	1,596	448	19	123	—	7	*2,193*

Source: Consob calculations based on MTS s.p.a., Borsa Italiana Spa and TLX s.p.a. data. [1] Rounding may cause discrepancies in the last figure. [2] Since 2005, includes trading on bonds, government securities, Euro-bonds, Abs. [3] Market began operations on 20 October 2003.

Table A.17

Number and value of issues of ABSs pursuant to Italian Law No. 130/1999 by type of underlying credit
(amounts in millions of euros)

	Non-performing loans	Performing loans	Other loans and bonds	Loans of public entities	Leasing instalments	Consumer credit	Covered bonds	Other	Total
					Number				
1999	3	1	1	1	--	--	--	--	6
2000	6	3	6	1	5	3	--	1	25
2001	17	16	7	4	7	7	--	2	60
2002	3	12	4	4	12	4	--	2	41
2003	3	15	2	8	6	4	--	2	40
2004	--	10	5	8	7	6	--	3	39
2005	1	11	3	12	8	2	2	--	39
Total	*33*	*68*	*28*	*38*	*45*	*26*	*2*	*10*	*250*
					Value [1]				
1999	3,235	275	360	4,650	--	--	--	--	8,521
2000	2,959	1,510	3,514	1,350	971	1,756	--	25	12,086
2001	7,142	8,085	2,230	7,510	4,303	3,399	--	1,300	33,967
2002	1,301	6,578	4,093	9,888	6,925	1,606	--	215	30,606
2003	978	8,871	1,297	12,941	3,225	2,129	--	699	30,141
2004	--	7,417	2,810	12,091	8,766	2,556	--	1,388	35,028
2005	88	9,850	2,056	15,556	7,024	1,823	4,000	--	40,397
Total	*15,703*	*42,587*	*16,358*	*63,987*	*31,215*	*13,269*	*4,000*	*3,627*	*190,746*

Source: Consob calculations based on Securitisation.it figures. [1] Rounding may cause discrepancies in the last figure.

Table A.18

Register of Italian investment firms: cancellations [1]

	Reasons								
	Crisis of the intermediary [2]	Mergers and spin-offs	Voluntary liquidation – Change in activities	Transformation into a bank	Transformation into an asset management co.	Transformation from a trust company into an Italian investment firm	Non-operational	Failure to provide authorized services	Total
1992-1997	37	29	100	5	–	2	38	--	*211*
1998	2	7	16	4	--	--	–	1	*30*
1999	1	9[3]	4	--	4	2	–	--	*20*
2000	1	3	11	3	7	1	–	1	*27*
2001	1	3	6	10[4]	3[5]	--	–	--	*23*
2002	--	3	5	4	--	1	–	2	*15*
2003	2	21	8	1	1	--	–	--	*33*
2004	--	10	8	2	--	1	–	--	*21*
2005	--	3	6	1	--	--	1	--	*11*

Source: Consob. [1] The figure refers to the total number of resolutions delisting a company from the register, and also includes the measures relating to the special section of the Register concerning trust companies. [2] Includes Ministry for the Economy and Finance decrees, measures adopted by Consob, bankruptcies and companies 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 into a bank. [5] In all 3 cases the investment firm was merged into an asset management company. [6] As at the time of enforcement of Italian Legislative Decree No. 415/1996 (Article 60).

Table A.19

Assets managed by mutual investment funds in selected EU countries and the United States [1]
(percentages)

	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	Netherlands [2]	Portugal	United Kingdom	Spain	Sweden	*Total*	Assets under management EU [3]	Assets under management USA [3]
2000	1.8	2.2	1.0	0.4	22.4	7.4	0.9	4.3	13.2	23.2	2.9	0.5	12.2	5.4	2.4	*100.0*	3,419	7,390
2001	1.8	2.2	1.1	0.4	23.2	7.0	0.8	6.2	11.7	24.7	2.6	0.5	10.4	5.2	2.1	*100.0*	3,444	7,824
2002	2.0	2.2	1.0	0.5	25.3	6.3	0.8	7.5	11.3	24.1	2.5	0.6	8.7	5.4	1.7	*100.0*	3,179	6,482
2003	2.2	2.3	1.1	0.6	25.0	6.2	0.8	7.8	10.6	24.0	2.0	0.6	9.1	5.6	1.9	*100.0*	3,637	5,870
2004	2.2	2.3	1.2	0.7	24.8	5.5	0.8	8.5	9.3	25.3	1.8	0.6	9.3	5.8	2.0	*100.0*	4,052	5,952
2005[4]	2.2	2.1	1.2	0.8	24.3	5.4	0.6	9.0	8.0	27.0	1.6	0.5	9.8	5.5	2.1	*100.0*	4,809	7,132

Source: Fefsi. [1] Percentages of the total assets under management in Europe. Rounding may cause discrepancies in the last figure. [2] With reference to the year preceding the reference year. [3] Billions of euros. [4] As at 30 September.

Table A.20

Structure of the UCITs market in Italy: Italian operators [1]
(amounts in billions of euros)

	Equity	Balanced	Bond	Liquidity	Flexible	*Total*
Number of funds in operation [2]						
1996	235	57	239	—	—	531
1997	277	53	296	—	—	626
1998	321	57	325	—	—	703
1999	356	61	344	33	29	823
2000	448	98	395	36	38	1,015
2001	535	139	417	37	58	1,186
2002	569	145	404	39	60	1,217
2003	534	158	392	40	71	1,195
2004	499	151	383	39	84	1,156
2005	424	143	360	42	88	1,057
Net inflows						
1996	-2	-1	33	—	—	*30*
1997	15	3	55	—	—	*74*
1998	24	12	125	—	—	*162*
1999	32	16	4	7	3	*61*
2000	41	20	-69	1	5	*-2*
2001	-18	-15	-6	22	-1	*-17*
2002	-9	-10	-20	27	-1	*-12*
2003	-4	-4	2	13	2	*8*
2004	-6	-2	-10	-9	3	*-25*
2005	-9	1	-2	-11	6	*-14*
Assets under management [2]						
1996	18	7	77	—	—	*102*
1997	40	11	138	—	—	*190*
1998	74	29	269	—	—	*372*
1999	140	51	257	21	5	*475*
2000	157	75	194	23	8	*458*
2001	113	56	192	48	7	*416*
2002	74	40	175	77	5	*372*
2003	76	37	174	97	7	*392*
2004	75	38	172	84	10	*378*
2005	79	42	174	74	17	*386*

Source: Assogestioni. See Methodological Notes. [1] Up until 1999, the figures include open-end mutual investment funds and harmonized Sicavs. As from 2000, the figures also include unharmonized open-end funds (so-called reserved funds) and fund funds. Rounding may cause discrepancies in the last figure. [2] End-of-period data.

Table A.21

Structure of the UCITs market in Italy: foreign operators
(at 31 December)

	Registered office								Funds/sub-funds distributed in Italy
	Luxembourg	Ireland	France	Germany	Austria	United Kingdom	Belgium	*Total*	
1996	53	1	9	1	--	--	--	64	*446*
1997	65	1	9	1	--	--	2	78	*603*
1998	86	4	9	1	--	--	2	102	*833*
1999	104	5	10	1	1	--	2	123	*1,134*
2000	105	7	8	1	1	--	2	124	*1,534*
2001	127	12	7	1	1	1	--	149	*2,132*
2002	159	15	7	2	1	2	--	186	*2,730*
2003	158	31	8	1	1	1	1	201	*2,791*
2004	155	19	8	2	1	3	--	188	*2,818*
2005	158	31	10	2	1	3	--	205	*2,773*

Source: Consob archive of prospectuses and Luxor-FI.DATA archive. [1] Companies that offer units/shares of collective investment undertakings subject to the EU directives to the general public in Italy.

Table A.22

Appeals to administrative courts against measures adopted or proposed by Consob between 2003-2005

Plaintiffs	Appeals	Subject of appeal	Outcome as at 31 December 2005	
			Regional administrative court appeal	Council of State appeal
		2003		
Financial salesmen	5	Debarment	Stay not granted (3)	
			Dismissed (2)	Pending (2)
Financial salesmen	2	Disciplinary suspension	Dismissed (1)	
			Pending (1)	
Financial salesmen	1	Precautionary suspension	Stay granted (1)	
Financial salesmen	1	Striking off the register	Appeal discontinued (1)	
Investment firms	2[1]	Fine	Stay not granted (1)	
			Appeal discontinued (1)	
Officers of an investment firm	3[2]	Fine	Stay not granted (1)	
			Dismissed (1)	
			Appeal discontinued (1)	
Stockbrokers	1	Striking off the register	Pending (1)	
Market management company	1[3]	Approval of market rules	Appeal discontinued (1)	
Listed company	2	Consob resolution on a shareholders' agreement	Pending (2)	
Shareholders of a listed company	1	Denial of access to records	Pending (1)	
Shareholders of a listed company and listed company	2	Reply to query on exercise of voting rights	Pending (2)	
Shareholders of a listed company and listed company	1	Denial of access to records	Pending (1)	
Officers of a listed company	7[4]	Charges under Article 195 of the Consolidated Law on Finance	Stay not granted (7)	
Unlisted company	1	Ban on public offering	Pending (1)	
Other	1	Cancellation of Fib30 contracts	Pending (1)	
Total	*31*			

--- *Cont.* ---

--- Table A.22 cont. ---

Plaintiffs	Appeals	Subject of appeal	Outcome as at 31 December 2005	
			Regional administrative Court appeal	Council of State appeal
		2004		
Financial salesmen	4	Debarment	Stay not granted (3)	
			Dismissed (1)	
Financial salesmen	2	Disciplinary suspension	Stay not granted (1)	
			Pending (1)	
Financial salesmen	3	Precautionary suspension	Stay not granted (1)	
			Pending (2)	
Financial salesmen	3	Striking off the register	Stay not granted (1)	
			Dismissed (1)	
			Pending (1)	
Financial salesmen	1	Failure to pass professional exam	Pending (1)	
Officers of an investment firm	1[5]	Dissolution management bodies	Stay not granted (1)	
Stockbroker's employees	1	Fine	Pending (1)	
Auditing company and auditor	1	Denial of access to records	Partially accepted (1)	
Auditing company and auditor	4	Order to refrain from using a partner	Stay not granted (1)	
			Dismissed (1)	
			Pending (2)	
Auditing company	1	Striking off the register	Pending (1)	
Listed companies	1	Suspension of listing	Pending (1)	
Unlisted companies	5	Ban on public offering	Stay not granted (4)	
			Pending (1)	
Issuer of widely distributed securities	1	Inclusion in register of widely distributed securities	Pending (1)	
Other	1	Denial of access to records	Dismissed (1)	
Total	*29*			
		Extraordinary appeals to the President of the Republic		
Shareholders of listed companies	1	Clearance of a tender offer	Pending (1)	
Bondholders of an unlisted company	1	Exchange tender offer foreclosure	Pending (1)	
Total	*2*			

--- Cont. ---

--- Table A.22 cont. ---

Plaintiffs	Appeals	Subject of appeal	Outcome as at 31 December 2005	
			Regional administrative court appeal	Council of State appeal
		2005		
Financial salesmen	2	Precautionary suspension	Stay not granted (1)	
			Stay granted (1)	
Banks	1	Denial of access to records	Partially accepted (1)	Pending (1)
Asset management companies	1	Denial of access to records	Dismissed (1)	
Listed company	1	Measures pursuant to Article 114 of the Consolidated Law on Finance	Stay not granted (1)	
Listed company	1	Assessment of intervention of individual[6]	Pending (1)	
Unlisted company	2	Ban on public offering	Pending (2)	
Listed parent company	1	Establishment of price of mandatory tender offer	Upheld (1)	
Officers of listed company	1	Assessment of secret agreement [7]	Pending (1)	
Officers of listed company officers of unlisted company unlisted company	1	Qualification of tender offer and compensation of damages	Pending (1)	
Shareholders of listed company	7	Assessment of secret agreement [8]	Pending (7)	
Shareholders of listed company	1	Tender offer document	Pending (1)	
Shareholders of listed company	1	Suspension of initial and exchange tender offers	Pending (1)	
Shareholders of listed company	1	Establishment of price of mandatory tender offer	Dismissed (1)	
Consumer Association	1	Exchange tender offer document	Stay not granted (1)	
Consumer Association	1	Refusal of exchange tender offer intimation	Dismissed (1)	
Consumer Association	1	Denial of exchange tender offer suspension	Stay not granted (1)	
Foreign fund manager	1	Assessment of intervention of individual[9]	Pending (1)	
Auditing companies	1	Denial of access to records	Dismissed (1)	
Total	*26*			

[1] One investment firm also challenged the sanction measure before the competent Appeal Court under Article 195 of the Consolidated Law on Finance 58/1998. [2] There are 22 plaintiffs. In one case an appeal was also made separately by the investment firm the Plaintiffs belonged to. In two cases the same challenge was also presented to the competent Appeal Court under Article 195 of Italian Legislative Decree No. 58/1998. [3]Subsequent to the establishment of the sentence, the waiver of the deeds was filed. [4] Seven appeals presented by seven officers of the same listed company. The same appeals were also presented before the competent Appeal Court under Article 195 of the Italian Legislative Decree No. 58/1998. [5] The appeal was lodged jointly by five officers of an investment firm. [6] The same resolution was challenged, by means of autonomous appeal, also by a foreign investment fund manager. [7] Six appeals were also brought against the same resolution by the shareholders of a listed company. [8] An appeal was also made against the same measure, by means of sole deed, by 17 officers of a listed company. [9] The same resolution was also challenged by a listed company.

Table A.23

Appeals to ordinary courts against measures adopted or proposed by Consob between 2003 – 2005

Plaintiffs	Appeals	Court	Type of sanction	Outcome as at 31 December 2005	
				First instance	Appeal to Supreme Court
			2003		
Financial salesmen	1	Court (1)	Fine (1)	Dismissed (1)	
Investment firms	2[1]	Appeal court (2)	Fine (2)	Upheld (1)	Pending (1)
				Dismissed (1)	
Officers of an investment firm	11[2]	Appeal court (11)	Fine (11)	Upheld (6)	Pending (5)
				Sanction reduced (3)	
				Dismissed (2)	
Banks	1	Appeal court (1)	Fine (1)	Upheld (1)	Pending (1)
Officers of banks	19[3]	Appeal court (19)	Fine (19)	Upheld (15)	Pending (15)
				Partially accepted (2)	Pending (2)
				Dismissed (2)	Pending (2)
Stockbrokers	1	Appeal court (1)	Fine (1)	Dismissed (1)	
Asset management companies	1	Appeal court (1)	Fine (1)	Dismissed (1)	
Officers of asset management companies	6[4]	Appeal court (6)	Fine (6)	Upheld (4)	Pending (4)
				Partially accepted (2)	
Officers of OTSs	3[5]	Appeal court (3)	Fine (3)	Dismissed (3)	
Unlisted companies	6	Appeal court (6)	Fine (6)	Dismissed (6)	Pending (1)
Shareholders of listed companies	3	Appeal court (3)	Fine (3)	Dismissed (2)	
				Upheld (1)	
Officers of a listed company and listed companies	8[6]	Appeal court (8)	Fine (8)	Upheld (8)	Pending (8)
Total	*62*				
			2004		
Financial salesmen	2	Court (2)	Debarment (2)	Upheld (1)	
				Dismissed (1)	
Officers of an investment firm	1[7]	Appeal court (1)	Fine (1)	Dismissed (1)	
Officers of banks	42[8]	Appeal court (42)	Fine (42)	Upheld (6)	Pending (6)
				Sanction reduced (6)	Pending (1)
				Dismissed (30)	Pending (8)
Stockbrokers	2	Appeal court (2)	Fine (2)	Dismissed (2)	Pending (1)
Stockbroker's employees	2	Appeal court (2)	Fine (2)	Dismissed (2)	Pending (1)
Officers of asset management companies	7[9]	Appeal court (7)	Fine (7)	Upheld (1)	Pending (1)
				Partially accepted (1)	Pending (1)
				Dismissed (5)	
Officer of company controlling listed companies	*1*	Appeal court (1)	Fine (1)	Dismissed (1)	Pending (1)
Officers of listed companies	*3*	Appeal court (3)	Fine (3)	Upheld (3)	Pending (3)
Officers of issuer of widely distributed securities	*1*	Appeal court (1)	Fine (1)	Upheld (1)	
Total	*61*				

--- *Cont.* ---

--- Table A.23 cont. ---

Plaintiffs	Appeals	Court	Type of sanction	Outcome as at 31 December 05	
				First instance	Appeal to Supreme Court
2005					
Financial salesmen	2	Court (2)	Debarment (2)	Pending (2)	
Financial salesmen	4	Court (4)	Disciplinary suspension (4)	Dismissed (2)	
				Sanction reduced (1)	
				Pending (1)	
Financial salesmen	1[10]	Tribunal (1)	Precautionary suspension (1)	Dismissed (1)	
Banks	6	Appeal court (6)	Fine (6)	Dismissed (4)	
				Pending (2)	
Officers of banks	121[11]	Appeal court (121)	Fine (121)	Dismissed (34)	
				Upheld (2)	
				Sanction reduced (4)	
				Pending (81)	
Officers of a listed company	1	Appeal court (1)	Fine (1)	Pending (1)	
Unlisted company	2	Appeal court (2)	Fine (2)	Dismissed (1)	
				Pending (1)	
Officers of an unlisted company and unlisted company	1	Appeal court (1)	Fine (1)	Pending (1)	
Total	*138*				

[1] One investment firm also challenged the same measure before a Regional Administrative Court. [2] With a total of 81 plaintiffs. An appeal was presented jointly by 29 officers of an investment firm and by the investment firm. Three appeals were made by the members of the board of statutory auditors of the same investment firm. In two cases an appeal was made separately by the investment firm to which the opponents belonged. In another two cases an appeal was also made to a Regional Administrative Court. [3] With a total of 42 applicants. Three appeals were made by a total of 25 officers of a bank, which took part in all three actions. In another two cases the appeal was submitted jointly by the intermediary to which the applicants belonged. Fifteen appeals were made individually by an equal number of officers of a bank, which also appealed separately. [4] With a total of 27 opponents. In one case the appeal was made jointly by 11 officers and the asset management company they belonged to; another officer appealed separately. Two appeals were made by as many officers of the same asset management company. [5] The three appeals were made by the members of the board of statutory auditors of an intermediary that operated an OTS. [6] In 7 cases an appeal was also lodged with a Regional Administrative Court. [7] The appeal was lodged by 9 officers of an investment firm and the company itself. [8] With a total of 118 opponents from eight banks; two of them challenged the same sanction measure before two different courts of appeal. In 4 cases the appeal was also lodged by the bank concerned. [9] With a total of 27 opponents. In one case the appeal was made jointly by 11 officers and the asset management company they belonged to; another officer appealed separately. Two appeals were made by as many officers of the same asset management company. [10] The same appeal was also made to the Lazio Regional Administrative Court. [11] With a total of 574 opponents; these also include 18 banks, who presented a joint appeal with its corporate officers and employees; 2 banks and 33 individuals, presenters of 13 appeals challenged the same decree before two Courts of Appeal.

Table A.24

Action for damages brought against Consob[1]

1996	1997	1998	1999	2000[2]	2001	2002	2003[3]	2004	2005	Grounds	Outcome as at 31 December 2005
Clients of intermediaries											
1	1	4	9	1	--	--	29	59	125	Omission of supervision	Pending; 27 1st level favourable sentences; 2 unfavourable sentences – appeal proposed
--	1	--	1	--	2	--	--	--	--	Omission of supervision – under Art. 185.2 of the Italian Criminal Code	Pending[4]; 1 favourable sentence
--	2	--	--	--	--	--	--	--	--	Libel	Pending
Liquidator of an investment firm											
--	1	--	--	--	--	--	--	--	--	Omission of supervision	Stayed
Investment firms											
--	1	--	--	--	--	--	--	1	--	Omission of supervision – under Art. 106 of the Italian Code of Criminal Procedure	Pending
--	1	--	--	--	--	--	--	--	1	Denial of extension of authorization/registration in Register of Investment firms	Pending
--	--	--	--	--	--	--	--	2	--	Unlawful conduct in performance of supervision	Pending
Shareholders of listed companies											
1	--	--	--	--	--	--	--	--	--	Illegitimacy of Consob's exoneration from obligation to make a tender offer	Damages refused on 2nd appeal
1	--	--	--	--	2	1	--	1	--	Omission of supervision	Pending[5]; 1 1st instance sentence favourable
Clients of a stockbroker											
1	--	--	--	--	--	--	--	--	--	Offence by an employee – under Art. 185.2 of the Italian Criminal Code	Damages refused on appeal – Appealed to the Supreme Court
--	--	--	3	1	--	--	--	1	1	Omission of supervision	Pending
Liquidator of a stockbroker											
--	--	--	--	--	--	--	1	--	1	Omission of supervision	Pending
Clients of a stockbroker and an investment firm											
1	--	--	--	--	--	--	--	--	1	Omission of supervision	Pending
Committee of shareholders											
--	--	1	--	--	--	--	--	--	--	Ban on unauthorized public offering	Pending
Clients of trust companies											
--	--	--	2	--	1	--	--	--	--	Omission of supervision	Pending; 1 claim for damages dismissed
Clients of financial salesman											
--	--	--	--	--	--	5	--	--	--	Omission of supervision	Pending; 1 claim for damages dismissed
Financial salesman											
--	--	--	--	--	--	5	--	--	--	Unlawful striking off the register	Pending; 1 claim for damages dismissed

--- *Cont.* ---

--- Table A.24 cont. ---

1996	1997	1998	1999	2000[2]	2001	2002	2003[3]	2004	2005	Grounds	Outcome as at 31 December 2005
						Advisor to a listed company					
--	--	--	--	--	--	--	--	1	--	Omission of supervision – under Art. 106 of the Italian Code of Criminal Procedure	Pending
						Other					
--	--	--	--	--	--	--	--	1	--	Unlawful conduct in investigation under Art. 185 Consolidated Law on Finance	Pending
						Total					
5	*7*	*5*	*15*	*2*	*6*	*7*	*30*	*66*	*129*		

[1] In addition to the action shown, there is an appeal under Article 700 of the Italian Code of Civil Procedure made by an intermediary to block enforcement proceedings initiated by Consob. Appeals were also initiated in 1999 against 3 dismissals of action for damages brought against Consob in 1994 and 1995 by clients of intermediaries. [2] With regards to 3 disputes, respectively established in 1999 and 2000, brought before the administrative courts, the Combined Sections of the Supreme Court upheld the law of the ordinary court before which the same were resumed. [3] In 2003 the Supreme Court rejected an appeal against a decision in Consob's favour adopted in 2000 by the Milan Appeal Court, which had rejected the claim for damages in a dispute initiated in 1994 by a client of an investment firm. [4] In one case Consob also applied to recover damages as an injured party. [5] Two of the actions brought against Consob in 2002 are not for damages but call on the civil courts to order Consob to adopt certain administrative measures. Again in 2002 appeals were made against two judgements dismissing action for damages (one brought in 1996 by an intermediary and the other in 1997 by the clients of an intermediary).

METHODOLOGICAL NOTES

Instructions

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 figures are not known;

.. the figures are below the significance threshold.

Sources: unless stated otherwise, the data reported in the tables was obtained by Consob when performing its institutional supervisory functions.

Figures 1-7

Major listed groups are represented by a "closed" sample of 30 groups for which an uninterrupted series of financial statements from 1998 to 2004 is available assessed in the Mediobanca R&S 2005 yearbook. At the end of 2004, these groups included around 50 listed companies which represented around 80 percent of the total capitalization of the listed non-financial companies. This therefore involves analysis which covers nearly all the panorama of the Stock Exchange share list with regards to the services and industry sectors. The groups considered are the following (the main listed companies consolidated in the financial statements are indicated in brackets): Enel (Terna), Eni (Snam Rete Gas, Saipem), Autostrade, Telecom (Tim), Ifi (Ifil, Fiat, Juventus), Edizione Holding (Autogrill, Benetton), Aurelia (Autostrada TO-MI, Sias TO-MI), Italmobiliare (Italcementi), Luxottica, Alitalia, Aem, Fininvest (Mondatori, Mediaset), Edison, Erg, Acea, Pirelli & C., Cofide (Cir, L'Espresso, Sogefi), Buzzi Unicem, Marzotto (Linificio), Tenaris-Dalmine, Impregilo, Gim (Smi), Rcs MediaGroup, Finmeccanica, Caltagirone (Cementir, Vianini industrie, Vianini lavori), Indesit-Merloni, Bulgari, Davide Campari, Snia (as from 2004, Sorin is taken into consideration, having come about from the spin-off from Snia). In order to render the time series of the financial statements of the Telecom Group consistent, the Seat Pagine Gialle groups was also considered (first consolidated in Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (i.e., for Fininvest, Edizione Holding and Aurelia).

The figures relating to other groups of companies have been restated on the basis of information contained in a number of periodic surveys carried out by Mediobanca. The source is "*2007 cumulative data of Italian companies*", 2005 edition, for the major Italian companies which practically covers all the large industrial companies (with more than 500 employees), while for average-size Italian companies the source was "*Average-size industrial Italian companies*", 2005 edition (in collaboration with Unioncamere) and refers to companies with a number of employees ranging from between 50 and 500 (and to a sample of around 3,800 companies). The European industrial multinationals are assessed in the R&S publication "*Cumulative data of 280 multinationals*", 2005 edition, and for Europe 135 multinational groups are analyzed. These

surveys refer to "closed" samples, in other words where the number of companies observed is set over the years, like that relating to the major listed groups.

Figure 16

The figures are taken from the study "*The evolution of initial public offerings in Italy*", Borsa Italiana, Bit Notes No. 14, June 2005.

Figures 20, 21, Table 5, Tables A.6, A.7, A.8

Consob's ownership transparency archive is based on the notifications made in accordance with Article 120 of the Consolidated Law on Finance, whereby persons who own more than 2 percent of the voting capital of an Italian listed company are required to notify the fact in writing to the company and to Consob, which discloses the information to the market.

Major holdings are defined as holdings of more than 2 percent of the capital represented by voting shares (Article 120 of the Consolidated Law on Finance).

The figures shown in the tables are calculated with reference to holdings in companies' ordinary share capital.

Figure 21, Table A.7

The types of control are defined as follows:

- majority control: when a single shareholder 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 held by those belonging to a shareholders' agreement is more than 50% of the shares with voting rights exercisable in the ordinary shareholders' meeting or permits working control to be exercised.

Tables 1, 2, 3, 4, Table A.3

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 within the context of an overallotment. Accordingly, the data is independent of the fact that, in connection with stabilization activity undertaken by the placers, the greenshoe option may not be exercised, in whole or in part, in the 30 days following the offering;
- the data on the development of the ownership structure is taken from prospectuses and takes account of the results of offerings, including the exercise of greenshoe options; if the number of shares offered for sale is lower than that 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 according to the division

specified in the prospectus;

- the determination of the percentage held by the controlling shareholder is based on an essential approach 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 conferred to any shareholders' agreements by parties belonging to such agreements; 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 4

Includes the credit and equity relationships existing 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 relating to trade receivables, 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 but not used.

The equity relationships do not include options held by the above-mentioned persons for the purchase or subscription of shares.

Table A.2

The data refers 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.

Tables A.9, A.10, A.11

The information on shareholders' agreements is obtained from the disclosures required by Article 122 of the Consolidated Law on Finance, 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.

Figures 38 - 45, Table 24

The leading 10 Italian banking groups are the top 10 with regards to total assets at the end of 2004 (Banca Intesa, Unicredito Italiano, San Paolo IMI, Banca MPS, Capitalia, Banca Nazionale del Lavoro, Mediobanca, Banca Antonveneta, Banche Popolari Unite and Banca Popolare di Verona e Novara) and, as of that date, covered 64.0 percent of the total assets of the Italian banking system and 64.3 percent of managed assets.

With regards to 2000, the data of the leading banks subsequently included in the banking groups considered were added together (in detail, Banca Popolare di Verona and Banca Popolare di Novara for the BPVN group, and Banca Popolare Commercio e Industria and Banca Popolare di Bergamo for the BPU group).

Figure 38

Net interest income includes the balance of the derivative transactions hedging interest rates, the dividends on holdings and the profits and losses of holdings carried at equity. Revenues from asset management and investment services include profits/losses on financial transactions and net commission from investment services and collective portfolio management (including foreign currency trading, advisory services, safekeeping and administration of securities, depositary bank services and the placement of insurance products and services). Revenues from banking services include net commission for guarantees granted and credit derivatives, for collection and payment services, for tax collection services and servicing on securitization transactions, net commission on current accounts, credit cards and direct debit cards.

Figure 39

Revenues from asset management comprise the net commission from individual and collective portfolio management and depositary bank services. Revenues from placement services comprise the net commission from the placement of securities and other financial and insurance products (including door-to-door selling). Revenues from trading for customer account comprise the net commission from trading in securities and foreign exchange and from the acceptance of orders. Other revenues essentially comprise net commission from the safekeeping and administration of securities and advisory services.

Figure 49, Tables 25, 26, 27, Table A.20

Individual portfolio management involves the activities laid down by Article 1.5, letter d), of the Consolidated Law on Finance. UCITs are collective investment undertakings in savings. The figures for funds also include Sicavs.

Table 23

The analysis of the ownership structures not only considered the direct shareholders of the management companies, but also determined the beneficiaries of significant holdings. In classifying controlling companies, reference was made to their "prevalent activity".

In the case of management companies for which there is neither majority control nor a shareholders' agreement, an attempt was made to establish whether there existed "coalition" relationships that, without amounting to shareholders' agreements, 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 activities.

"Joint ventures" are companies whose shares are divided into two parts on a 50-50 basis and held by non-homogeneous investors.

"Non-banking 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 an individual as the controller.

Table A.20

The categories of funds are based on the Assogestioni classifications in force at the time.

Table 37

The types of opinion auditing companies may render are described below.

1) *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 regarding 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.

2) *Adverse opinion.* Auditors are required to express an adverse opinion where the effects of their findings concerning significant failures to comply with the rules governing annual accounts, significant disagreements with the directors regarding accounting policies, errors in the latter's application or inadequate information, are such as to cast doubt on the reliability and information content of the annual accounts taken as a whole.

3) 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.

4*) Disclaimer owing to serious uncertainties* Auditors must also issue a disclaimer when 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.

Tables 63, 64

Senior managers comprise the following grades: Director general, General officer, Central assistant manager, Principal manager, Manager and Assistant manager. Junior managers comprise the following grades: First officer, Grade 1 officer and Grade 2 officer. The operational staff comprises the following grades: Chief deputy, Deputy, Senior assistant, Assistant and Deputy assistant.

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