ANNUAL REPORT 2006

ROME, 31 MARCH 2007

List of boxes

ANNUAL REPORT 2006

A

FINANCIAL MARKET DEVELOPMENTS

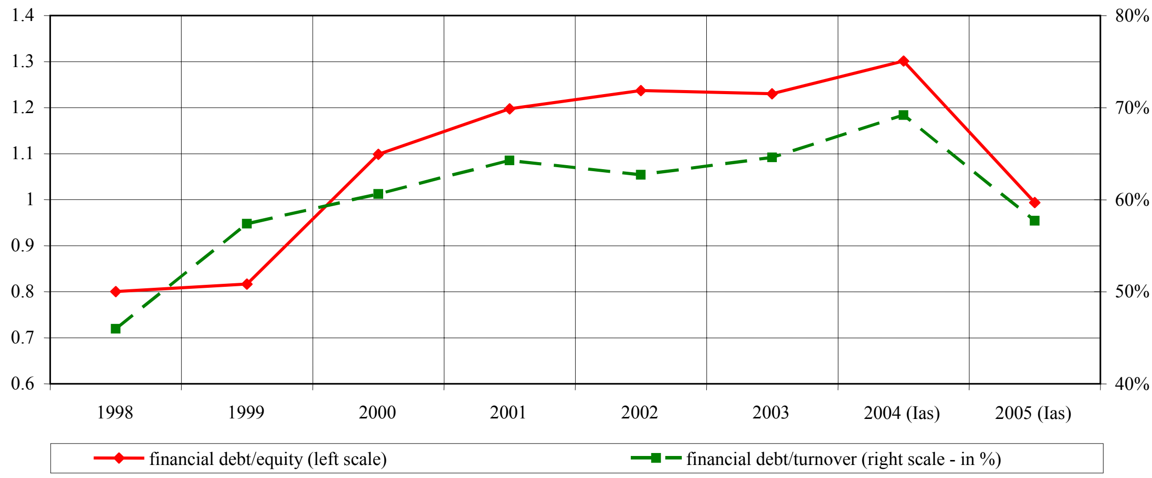
I – LISTED COMPANIES

1. Financial structure and profitability

2005 recorded a considerable reduction in the level of indebtedness of the major listed non-financial groups. Financial leverage (the financial debt-equity ratio) calculated according to IAS/IFRS decreased from 1.3 to around 1 between 2004 and 2005 whilst the financial debt-turnover ratio dropped from 70% to approximately 58% (Fig. 1). Aggregate financial debt reduced by around 4% (-7 billion euro in absolute terms), whilst aggregate equity increased by 26% (approx. +33 billion euro).

Figure 1

Indebtedness indicators for the major Italian listed non-financial groups



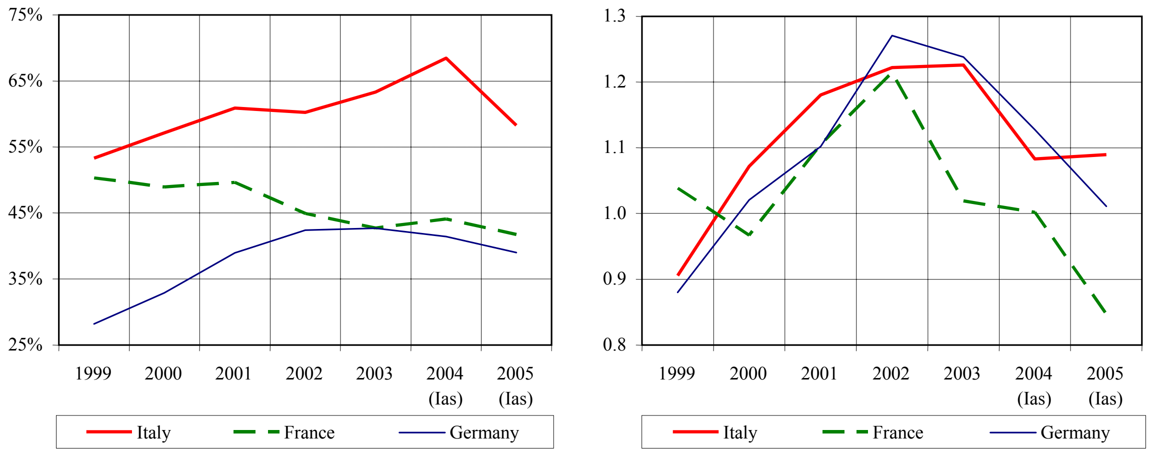
Source: calculations based on reclassified R&S financial statements. See Methodological Notes.

A comparison with the major listed non-financial groups in France and Germany shows that the level of indebtedness of the major Italian listed groups, though falling, remains high. The debt-turnover ratio for Italian groups exceeds that of French and German companies by almost 15 percentage points. The financial leverage of Italian groups is on the whole stronger than that of French groups, whilst the difference between Italian and German groups is more contained (Fig. 2).

The incidence of bonds on the total financial debt is stable at around 40%, whilst the medium-long term share of debt on the total has increased from 70% to approximately 74% (Fig. 3).

Figure 2

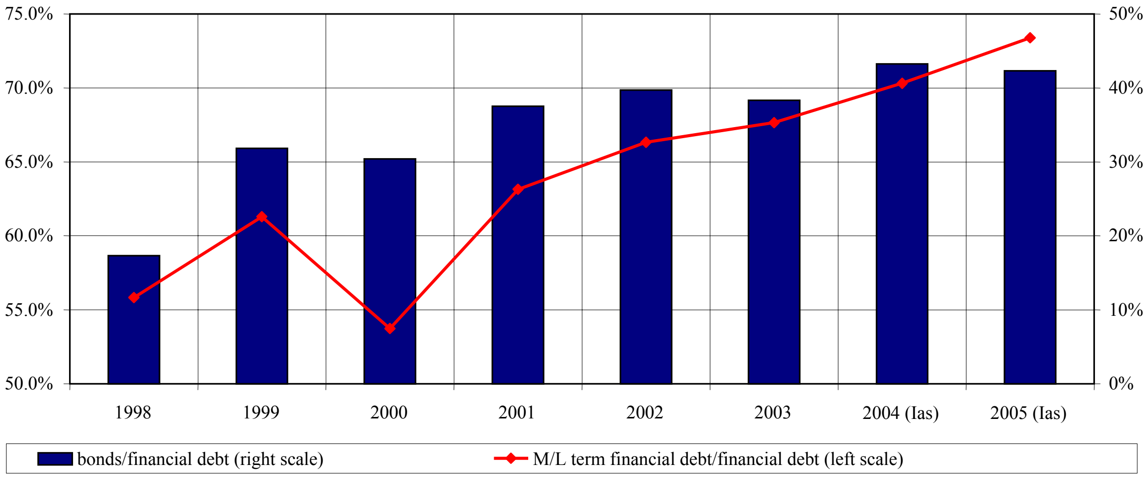
Indebtedness indicators for the major listed non-financial groups of certain EU countries



Source: calculations on Worldscope data. See Methodological Notes.

Figure 3

Incidence of bonds and medium-long term debt on the total financial debt of major Italian listed non-financial groups



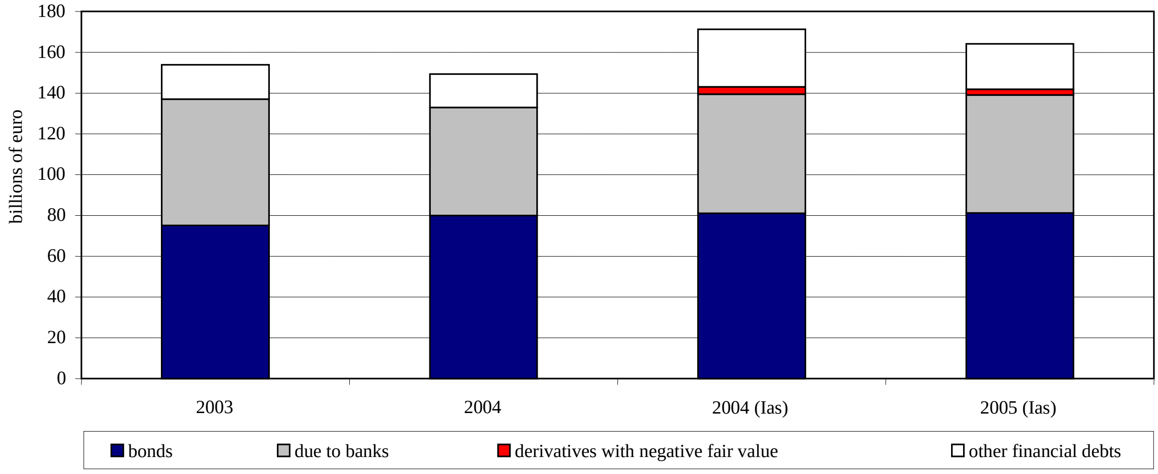
Source: calculations based on reclassified R&S financial statements. See Methodological Notes.

The breakdown of financial debt for major Italian listed groups recorded no significant change. Between 2004 and 2005 bank debt and bond debt remained practically unchanged in absolute terms, whilst there was a considerable reduction in “other financial debts” (by around 6 billion euro; approx. -21%) (Fig. 4).

2003-2005 dataflows show a tendency for listed groups to reduce bank debt (around -4 billion euro), partly replaced by bond debt (approximately +6 billion euro), whilst changes in other financial debts reflect the new assessment methods for certain balance sheet items required under IAS/IFRS.

Figure 4

Breakdown of financial debt of major Italian listed non-financial groups



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

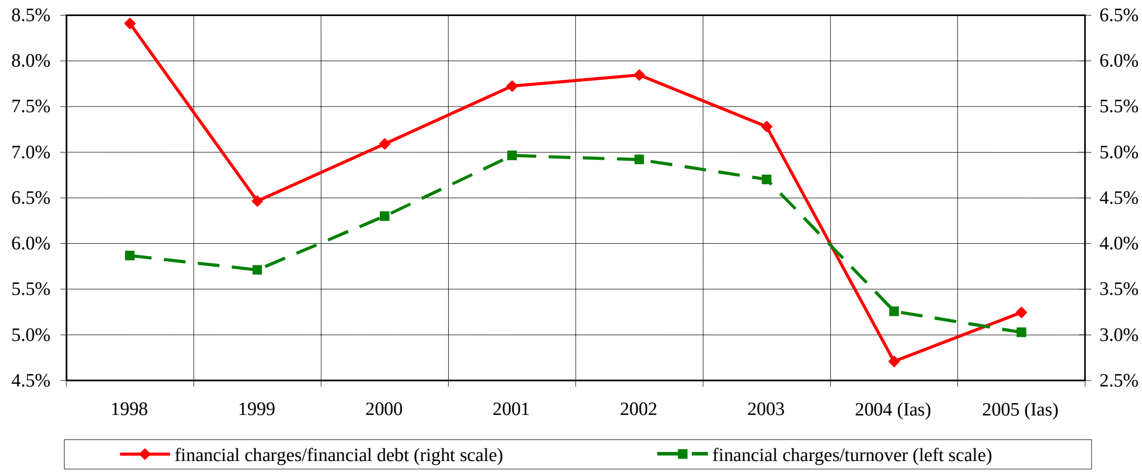
Though there is a clear downward trend in bank debt, an analysis performed by Mediobanca on 2004 financial statements of the leading multinationals indicates that major Italian listed groups have a distinctly higher exposure to the banking system than leading groups in the major European countries.

As the market value of derivates recorded in the balance sheets is modest (specifically, those with a negative market value accounted for 2% of total financial debt at the end of 2005), the use of derivatives now plays a significant role in the financial management of listed groups (Box 1).

Despite the reduction in indebtedness, 2005 recorded a notable increase in the financial charges-financial debt ratio (from 4.7% to 5.2%), whereas the incidence of financial charges on turnover reduced slightly (from 3.2% to 3%) (Fig. 5).

Figure 5

Incidence of financial charges for major Italian listed non-financial groups



Source: calculations based on reclassified R&S financial statements. See Methodological Notes.

Box 1

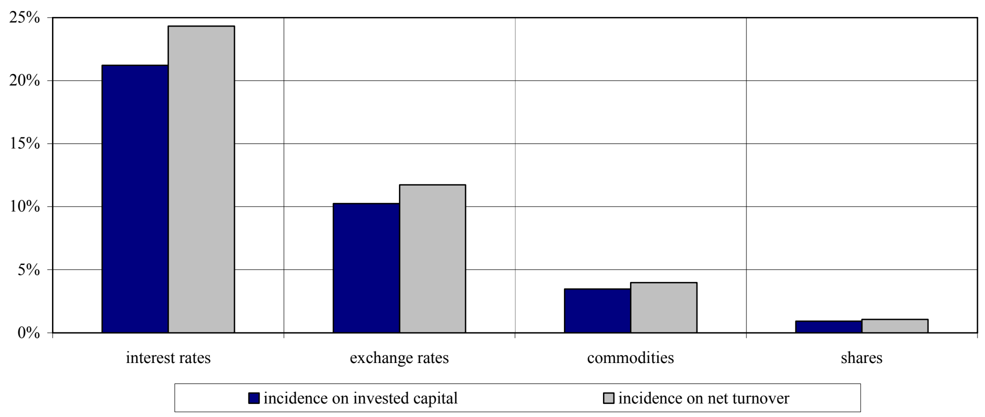
Use of derivatives by the leading Italian non-financial companies listed on the Stock Exchange

With the entry into force of IAS/IFRS, for the first time 2005 financial statements recorded analytical data on derivatives which show a widespread use among listed non-financial companies (around 92% of companies record a derivatives position).

The overall notional value of the derivative positions at the end of 2005 for major listed non-financial companies was around 110 billion euro, 59% of which relating to interest rate derivatives, 29% to exchange rate derivatives, 10% to commodity-based derivatives and 3% to share-based derivatives. In relation to invested capital and net turnover, the notional values of derivative positions were 36% and 41%, respectively.

With regard to fair values, however, the loss position data (i.e. negative fair value) can be disaggregated from profit (i.e. positive fair value). The positive fair value of derivatives totalled around 1.4 billion euro, whilst negative fair value derivatives were approximately 2.4 billion euro. The net fair value of derivative positions was negative by one billion euro. The most consistent net fair value applies to interest rate derivatives (-790 million euro, the balance between -1.399 million euro and +608 million euro), followed by that of exchange rate derivatives (-415 million euro, the difference between -698 million euro and +282 million euro). Commodity-based derivatives, on the other hand, show a positive net fair value of 213 million euro.

Notional value of derivatives held by major Italian listed non-financial companies by underlying item type in relation to invested capital and net turnover



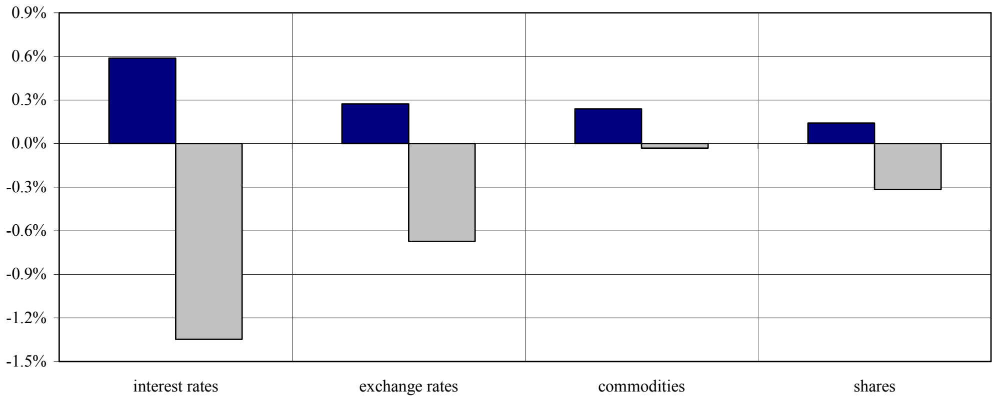
Source: calculations based on 2005 financial statements. Invested capital is defined as the sum of equity and financial debt.

Though absolute values are consistent, at aggregate level the incidence of fair value of derivative positions on the main financial items is modest. Gross and net fair values of derivatives were 3.7% and 1%, respectively, of the net financial position. The fair value of interest rate derivatives recorded under financial liabilities represents 1.3% of the net financial position, whereas for other derivative types the positive or negative fair values represent a share consistently below 1% of the net financial position.

All the companies disclose the possession of financial risk hedges. Interest rate derivatives are used mainly to transform floating rate debts into fixed rate debts, or vice versa. With regard to exchange rate derivatives, on the other hand, the hedged items are normally loans and trade receivables or payables in currency other than euro (occasionally deriving from the consolidation of subsidiaries resident in non-EU countries). Commodity-based derivatives are normally used by companies in the public utilities sector as hedges against unfavourable price fluctuations in certain raw materials (particularly electricity, oil, coal and gas) or by companies in the transport sector or metalworking/oil industries. Lastly, a number of companies use derivatives based on own shares (call options or equity swaps) to hedge against risks from the issue of stock option plans in favour of employees.

Though almost all companies record hedges, a number of companies hold derivatives formally classified as trading derivatives, albeit not purchased for speculative purposes. The companies sustain, in fact, that they cannot account for part of their derivatives as hedges as the periodic hedge testing required under IAS/IFRS fails to give favourable results. In terms of gross fair value, trading derivative positions represent around 34% of total derivative positions.

Gross fair value of derivative positions in major listed non-financial companies by underlying item type as a percentage of the net financial position

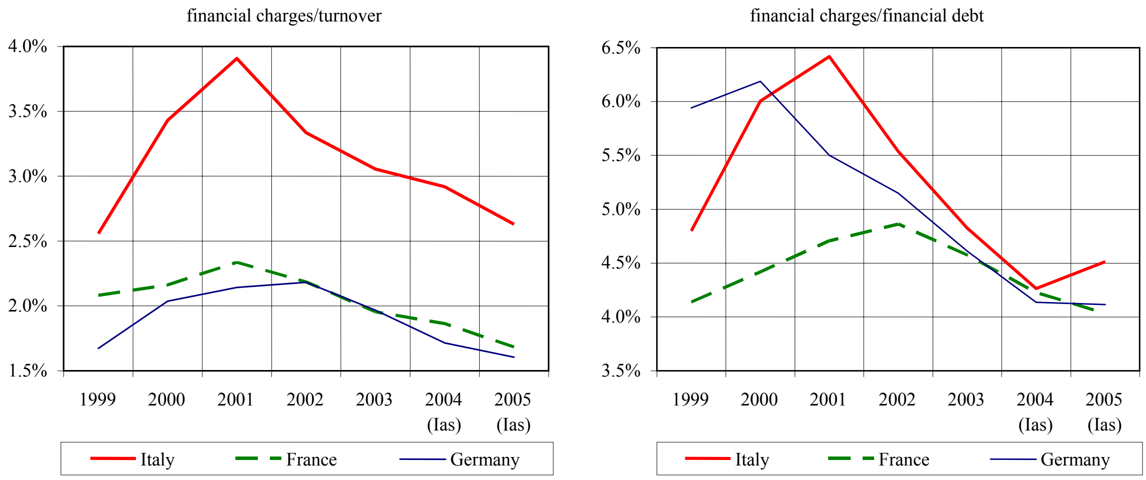


Source: calculations based on 2005 financial statements. The net financial position is the difference between financial assets/liabilities and cash/cash equivalents.

Compared with the major listed non-financial companies in France and Germany, Italian group record a higher incidence of indebtedness. The financial charges-financial debt ratio is higher than that of German and French companies by around 50 base points, whilst the incidence of financial charges on turnover is higher by around 1.5 percentage points (Fig. 6).

Figure 6

Incidence of financial charges for major listed non-financial groups in certain EU countries

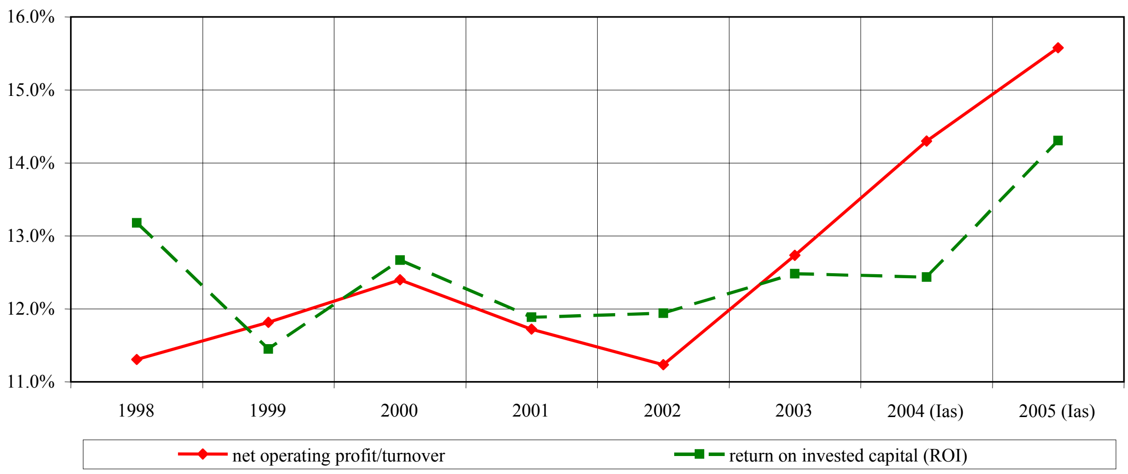


Source: calculations on Worldscope data. See Methodological Notes.

2005 saw a strong increase in the profitability of major listed groups (not attributable to the effect of IAS/IFRS application as the 2004 and 2005 data present very similar profiles). The net operating profit-turnover ratio increased from 14.3% to 15.5%, whilst return on investments (ROI) rose from 12.4% to 14.3% (Fig. 7). Compared to a sample of around 2,000 large Italian companies, the major listed groups shows distinctly higher profitability levels, but a lower ROI than that of the European multinationals.

Figure 7

Profitability of the major Italian listed non-financial groups



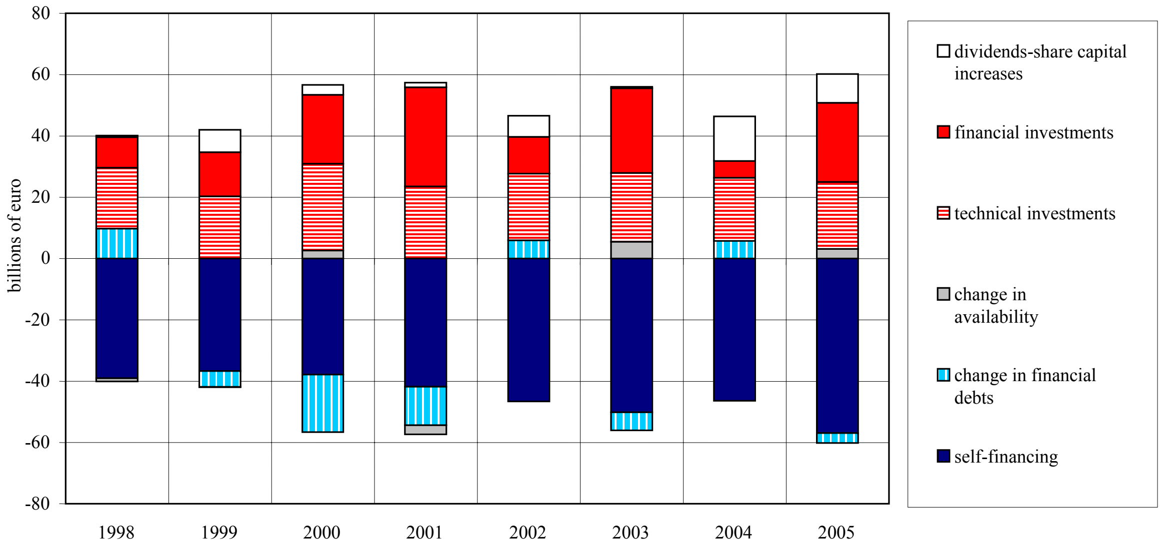
Source: calculations based on reclassified R&S financial statements. See Methodological Notes.

2. Cash flows

2005 cash flow data of the major Italian listed non-financial groups report a strong increase in self-financing (57 billion euro against the approximate 46 billion euro of 2004; +23%), linked to increased margins and profitability (see paragraph 1 above).

Figure 8

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



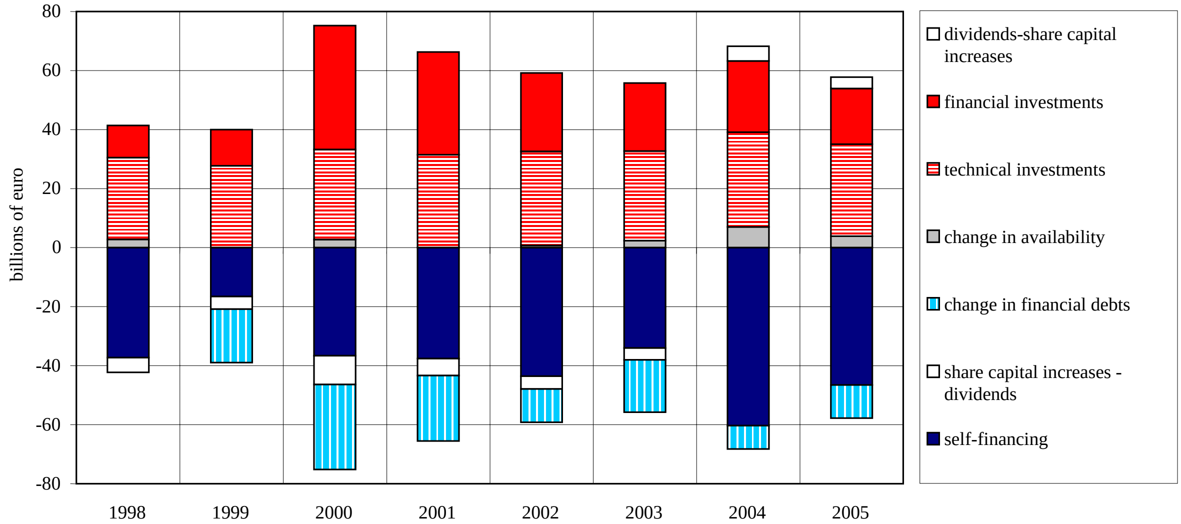
Source: based on cash flow statements and R&S figures. Self-financing is net of investments in net working capital. See Methodological Notes.

Listed groups have again begun to make financial investments, the totals increasing almost fivefold as compared to 2004. The financial resources refunded to shareholders (dividends less share capital increases) have remained substantial, though reduced in comparison with the 2004 figure (9 billion euro against the near15 billion euro of 2004). Technical investments in plant and equipment, on the other hand, have remained stable.

Data on a wider sample of around 2,000 large Italian companies show a slightly different development, including a reduction in self-financing and a strong increase in financial debts. Instead, uses demonstrate a reduction in financial investments (Fig. 9).

Figure 9

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



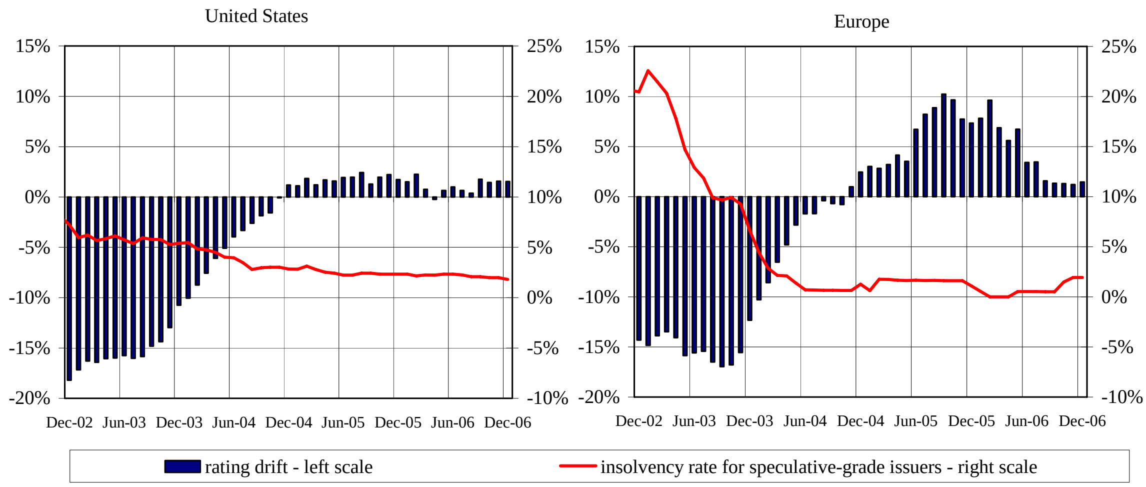
Source: based on Mediobanca data, "Cumulative data of 2,010 Italian companies", 2006 edition. Self-financing is net of the investments in net working capital.

3. Credit quality

Indicators based on rating agency data show that in 2006 the positive cycle continued. This trend has characterised credit risk developments in the corporate sector, since 2005. In the United States, the number of upgrades is generally higher than downgrades (with a negative difference in April only) and the insolvency rate for issuers with a speculative rating dropped from 2.3% at the end of 2005 to 1.8% as at December 2006. In Europe the balance between upgrades and downgrades was more consistent than that of the United States, but showed a consistent reduction in the last quarter of 2006 (Fig. 10).

Figure 10

Credit quality indicators
(monthly figures; June 2002-December 2007)

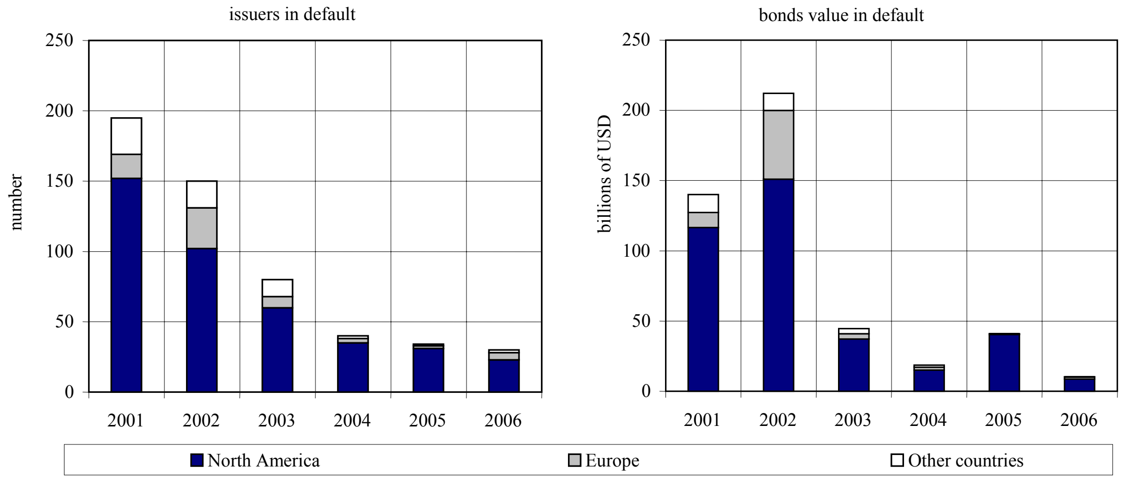


Source: Moody's. The rating drift is the difference between the total upgrades plus downgrades divided by the number of rated companies. The insolvency rate of issuers with a speculative rating is the ratio between the number of defaulters in the 12 months ending in line with that of the reference period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

Improvement in credit quality is confirmed by the reduction in the number of bond issuers classified as in default, from 34 in 2005 to 30 in 2006 (Fig. 11). The bond value declared to be in default also reduced as compared to 2005, from 41 to approximately 10 billion dollars (-75%).

Figure 11

Corporate bonds in default by geographic area

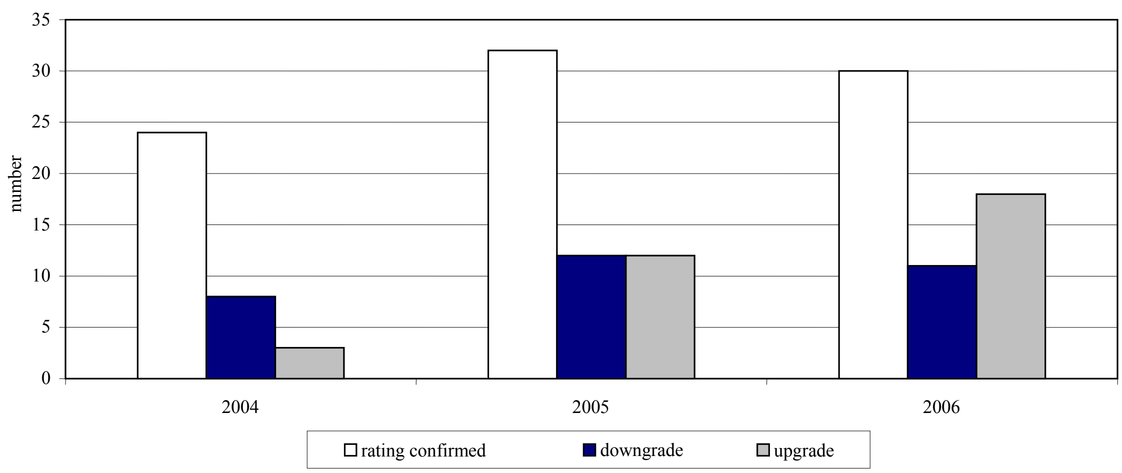


Source: Moody's.

Credit quality indicators remain positive for Italian listed issuers also. Rating agency activity remained intense in 2006 and in many cases led to confirmation of the previous rating (30 cases; 32 in 2005). With regard to rating changes, however, there were 11 downgrades concerning 7 listed issuers (5 non-financial companies and 2 banks) and 18 rating upgrades (including 9 banks and 3 non-financial companies) (Fig. 12). At the end of 2006, 2 listed issuers were on the watchlist with negative implications (i.e. with downgrading likely) and two with positive implications (i.e. forecasting an upgrade).

Figure 12

Confirmed and changed ratings on Italian listed issuers

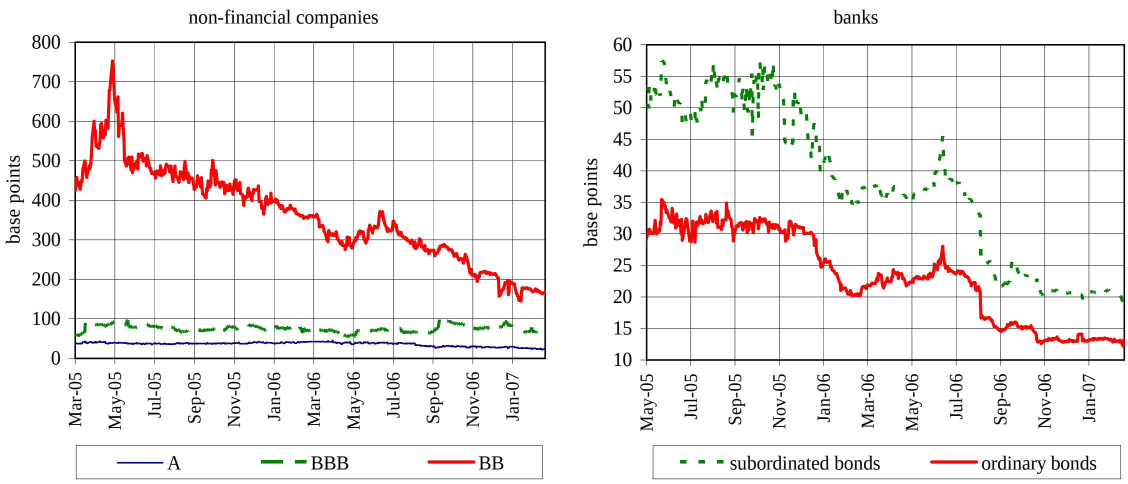


Source: based on Moody's, Fitch and S&P data.

Positive indications in the development of credit quality are also demonstrated through an analysis of credit risk derivative prices. In fact, the average prices of credit default swaps (CDS) reduced for issuers with the lowest rating, whereas the average contract prices for companies with investment grade ratings remained stable. Prices that instead reflect the default risk on a sample of large Italian banking groups reduced by over 10 base points for ordinary bonds and around 20 base points on subordinated bonds (Fig. 13).

Figure 13

Credit default swap prices for contracts with 10-year maturity on Italian listed issuers



Source: Calculations on Datastream data. For non-financial companies the data is calculated as the average daily price of credit default swaps on samples with the same rating, whereas for banks the data relates to the average daily price on a sample of intermediaries formed by Unicredito Italiano, Banca Intesa, BNL, MPS and Capitalia. A price listed, for example, at 100 base points indicates that the contract buyer (i.e. the purchaser of credit risk protection) pays an annual protection fee to the seller amounting to 1.1% of the nominal value of the bond or credit to be protected against default risk.

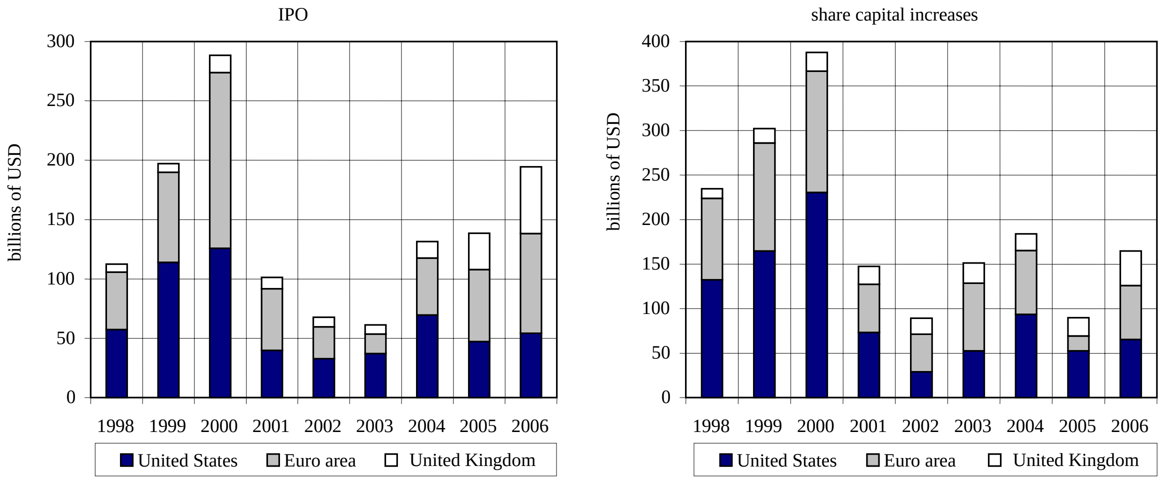
4. Equity funding and admissions to listing

2006 recorded a definite increase in equity funding on stock exchanges in the leading industrialised countries. Increases in share capital of companies already listed more than tripled on Euro area stock exchanges (from 17 to 60 billion USD), whilst in the UK they almost doubled (from 20 to 39 billion USD). In the United States growth was less marked, however (from 52 to 65 billion USD; +25%) (Fig. 14).

In the Euro area the positive trend continued for new listing transactions, allowing companies to raise fresh funds of around 84 billion USD (+39% over 2005). The increase in funds raised through IPOs was even more marked in the United Kingdom (from 31 to 56 billion USD in 2006; +84%). In the United States the IPO volume increased by around 15% (from 47 to 54 billion USD).

Figure 14

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

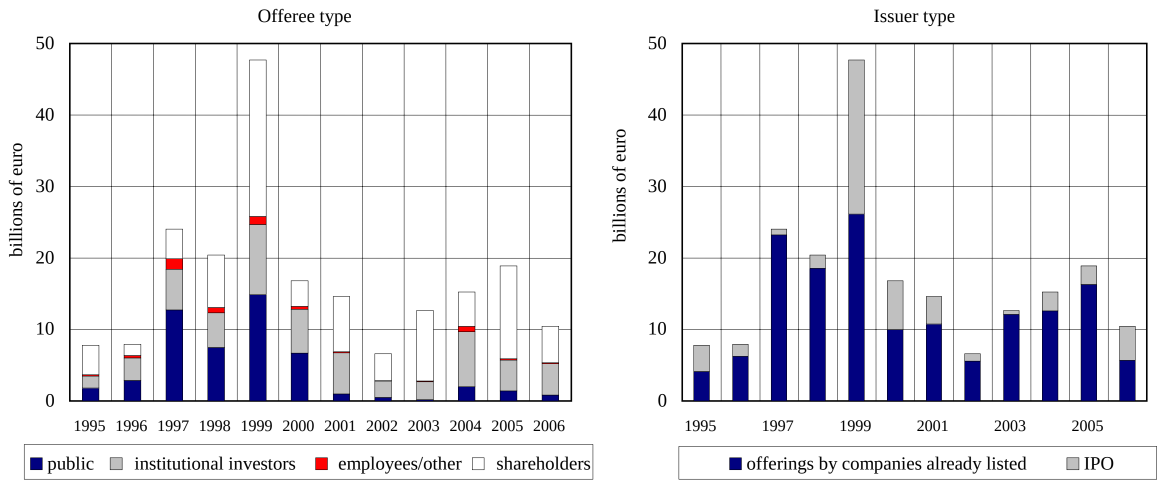


Source: based on World Federation of Stock Exchanges data. The item "IPO" refers to capital raised by newly listed companies, while the item "capital increases" refers to capital raised by companies already listed in the year concerned. The US figures refer to NYSE and NASDAQ listed companies.

In Italy, total share placements (to raise new funds and public offers of shares already outstanding) almost halved (from around 18.9 billion euro in 2005 to around 10.4 billion euro in 2006; Fig. 15). This reduction is mainly due to the fall in share capital increases in companies already listed (from approximately 12 billion euro in 2005 to around 5 billion euro in 2006; -58%). On the other hand, funds raised by newly listed companies showed an increase (from 1.4 to approximately 3.7 billion euro) (Fig. 16).

Figure 15

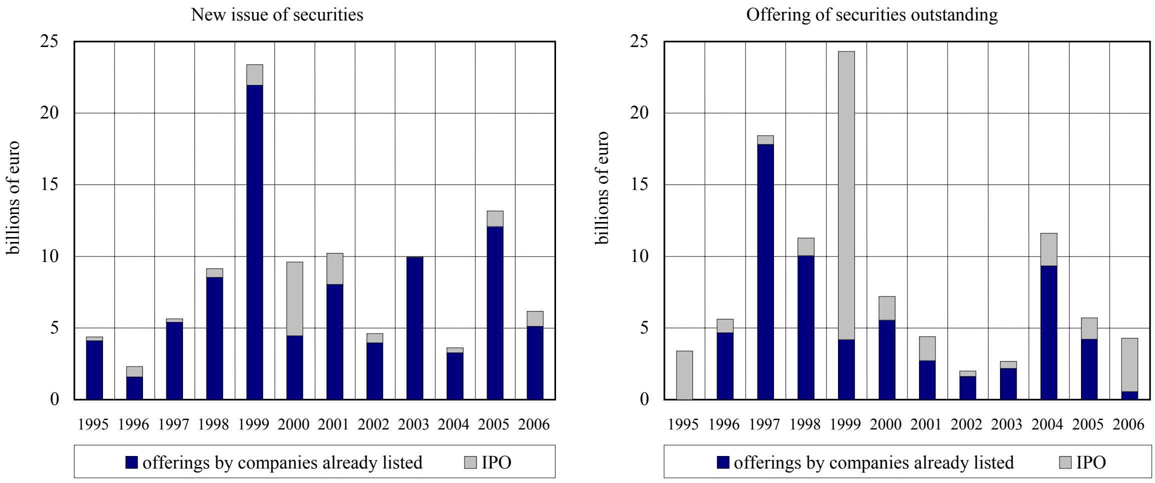
Overall placements of shares and convertible bonds of Italian listed companies
(issues of new securities and existing share offers)



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

Figure 16

Offer types of shares and convertible bonds of Italian listed companies



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

In 2006 21 new companies were admitted to listing (15 in 2005). The total pre-offer capitalisation of newly listed companies totalled around 11.7 million euro, whilst average pre-offer capitalisation increased by 43% over the 2005 figure (from 390 to 560 million euro) (Table 1).

Table 1

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

	Number of companies	Pre-offering capitalisation[1]	IPO value			Incidence on post-offering capitalisation[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
2006	21	11,736	1,053	3,977	5,030	39.3

Source: Consob. See Methodological Notes. [1] Capitalisation 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 capitalisation, 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.

Institutional investors were present among shareholders in around half of the newly listed companies. The pre-offer holding accounted for approximately 24% of the share capital and, after placement, around 12% (Table 2).

Table 2

Institutional investors' shareholdings in newly listed Italian companies[1]

	Company		Average number of institutional investors [4]	Average pre-offering share[5]	Average 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
2006	11	52.4	1.8	23.7	11.8

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 data refers only to companies with this investigator category among its shareholders, taking into account both direct investments and those in issuer controlling companies. [2] Number of companies listed during the year, in which institutional investors held an interest at the offering date. [3] Percentage of all 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.

The ownership structures of newly listed companies show characteristics typical of companies admitted to listing in previous years. The average share of voting rights of the major shareholder prior to the offering was 82%, whereas afterwards this drops to 54%. The post-offering controlling rights proved less than 50% in five cases only (Appendix, Table A.1).

Shares in newly listed companies were placed mainly with foreign investors (62% in 2006, against the 47% of 2005) and the demand-supply ratio for both public and institutional placements increased to reach the highest value since 2001 (Table 3).

Table 3

Italian companies admitted to listing: results of IPOs [1]

	Portion of shares allocated				Demand-supply ratio [2]	
	Public	Italian institutional investors	Foreign institutional investors	Others [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
2006	19.3	18.7	61.9	0.1	5.3	5.4

Source: Consob. See Methodological Notes. [1] Averages weighted according to the values of the offerings; percentages. Rounding may cause discrepancies in the final 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 demand-supply ratio are calculated with reference only to offerings for which data on the part reserved for the general public and that reserved for institutional investors is known. [3] Named individuals for whom a certain quantity of shares is reserved. [4] The remaining holding (0.1%) 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%) was taken up by the underwriting syndicate for the public offering in connection with the placement of Cairo Communication shares.

Credit and equity relationships between newly listed companies and the placement intermediaries or sponsors remain frequent. Almost half of the companies listed in 2006 had credit relations with placement agents or sponsor and financial debts with such entities represent an average 36% of total indebtedness (24% in 2005), whereas around a quarter of companies had equity investment links (Table 4).

Table 4

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

	Companies with credit relationships with sponsors or placement agents			Companies with equity relationships with sponsors or placement agents		
	Number of companies	Percentage of the total newly listed companies[2]	Average share of lending provided by sponsors or placement agents [3]	Number of companies	Percentage of the total 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
2006	11	52.4	36.1	5	23.8	25.9

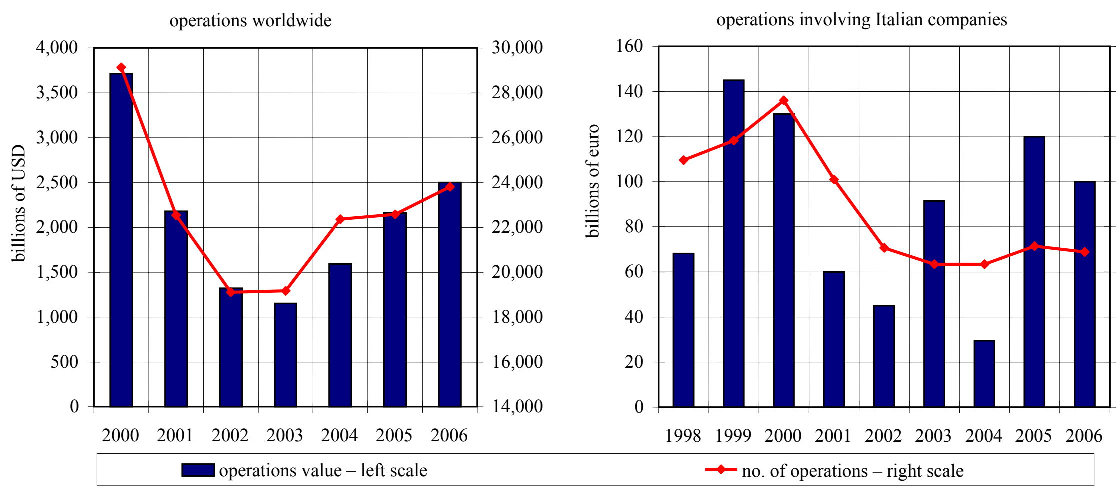
Source: based on data from statements by the sponsors and placement agents. See Methodological Notes. [1] Credit and equity relationships as of the offering date existing between companies admitted to listing (on the Stock Exchange - MTA and Mtax and on the Expandi Market) and the sponsor, specialist, 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 2006 the positive cycle of the M&A market continued. Worldwide, the number of transactions concluded increased by 5% (from around 22,600 to 23,800) and the value of the transactions by 15% (from approximately 2,200 to 2,500 billion USD) (Fig. 17). This increase was fuelled mainly by the positive stock exchange performance, favourable conditions in the corporate sector and the still limited level of interest rates.

Figure 17

Mergers and acquisitions



Source: KPMG and Thomson Financial.

In Italy there was a notable decrease in mergers and acquisitions (the value of the operations dropped from 120 to 100 billion euro, and the number reduced from 457 to 447).

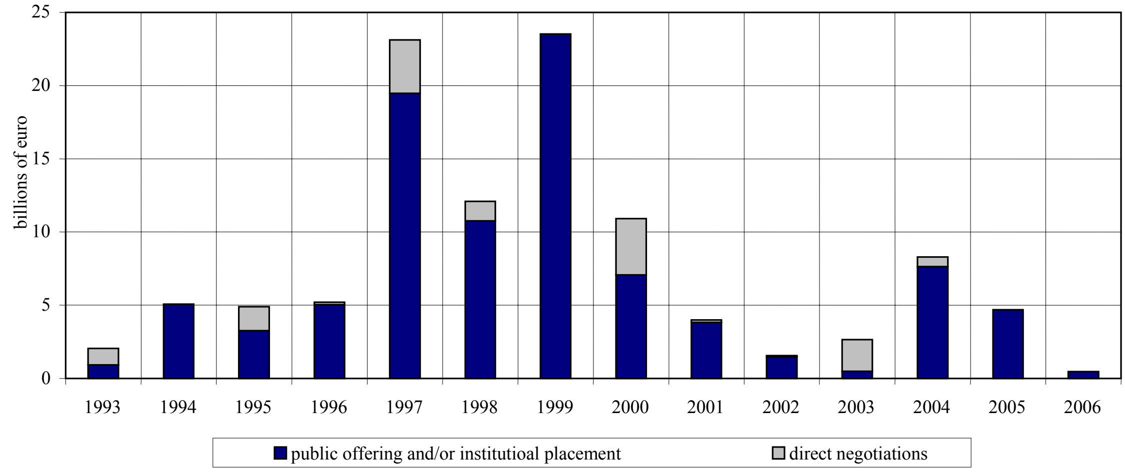
Based on data recorded in the KPMG study, the more significant M&A took place in the banking sector (55% of the total value) and insurance sector (4%). The number of cross-border transactions (“Italy-abroad” and “abroad-Italy”) was high (161, of which 91 “Italy-abroad”).

With reference to privatisations involving listed companies, 2006 saw a strong decrease in the value of holdings sold to the public with respect to the previous two years (Fig. 18).

The total value of takeover bids and/or share swaps of holdings in Italian listed companies fell by around 20 billion euro in 2005 to around 7 billion euro in 2006 (Fig. 19), whilst the number of transactions reduced from 22 to 17.

Figure 18

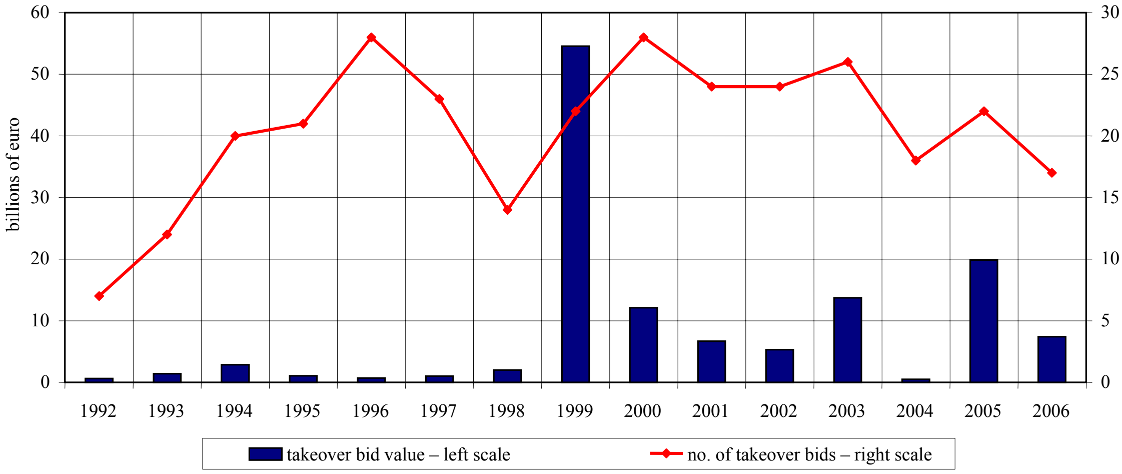
Disposals of public shareholdings in Italian listed companies



Source: based on Borsa Italiana and Ministry of the Economy and Finance data.

Figure 19

Takeover bids and/or share swaps of Italian listed companies



Source: calculations based on Borsa Italiana and offer document data. Share swap prices are valued at the market prices for the day preceding announcement of the bid.

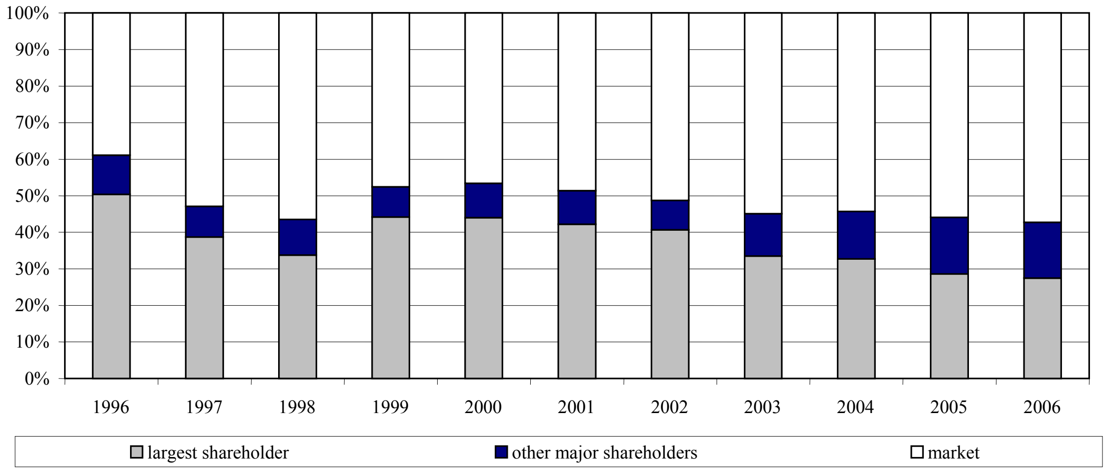
Approximately 82% of the total takeover bids implemented in 2006 relate to 10 controlling block transfers followed by mandatory takeover bids, with a total value of around 6 billion euro (Appendix, Table A.2). Around 50% of this value relates to the BNP Paribas takeover bid for BNL shares.

6. Ownership structures and corporate governance

During 2006 the ownership structure of Italian listed companies remained essentially unchanged. Compared with 2005, the average holding of the largest shareholder fell from 28.6% to 27.5%, while that of other major shareholders remained more or less stable at 15% (Figure 20; Appendix, Table A.3).

Figure 20

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

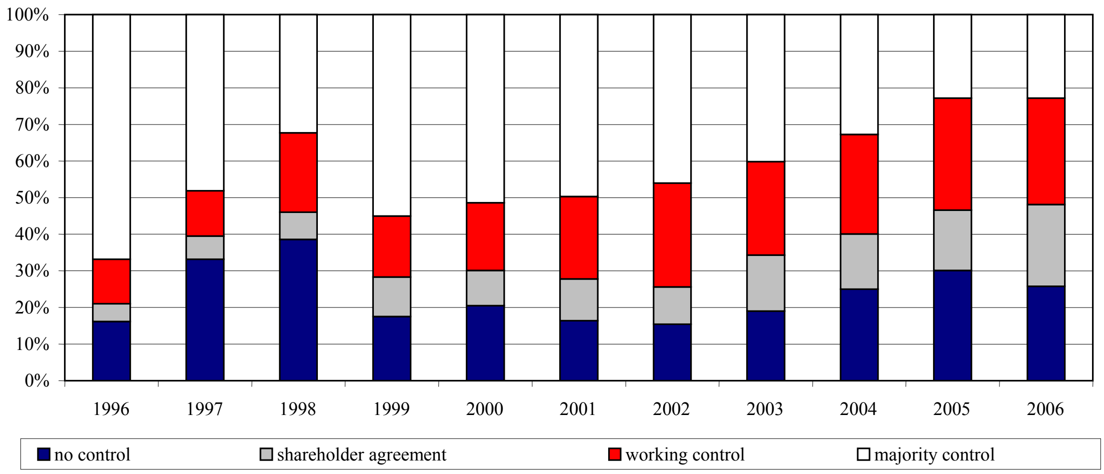


Source: Consob. See Methodological Notes. Capitalisation refers exclusively to the ordinary capital of companies listed on the Stock Exchange/MTA run by Borsa Italiana Spa.

The distribution of listed companies by control model also recorded no significant changes. The incidence of companies controlled by voting rights or by working control of a single shareholder on stock exchange capitalisation remained essentially stable (from 53% to 52%). Among other company types the incidence of control by shareholders' agreements increased (Fig. 21; Appendix, Table A.4).

Figure 21

Distribution of Stock Exchange capitalisation by company control model
(percentages)



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

With respect to 2005, there was a slight increase in the incidence on stock exchange capitalisation of significant holdings of limited companies' capital (from 9.6% to 10.4%) and of the public sector (from 9.6% to 9.8%). However, there was a decrease in the incidence of holdings of foreign entities (from 8.9% to 6.7%) and of banks (from 4.5% to 3.8%) (Appendix, Table A.5).

The distribution of major holdings differs greatly however according to the sector in which the investee companies operate. Foreign entities and banking foundations are the majority holders in the financial sector. In the non-financial sectors, public investments and non-financial limited companies are more widespread (Table 5).

Table 5

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

	2005			2006		
	Sector of the investee companies			Sector of the investee companies		
	Financial	Industrial	Services	Financial	Industrial	Services
Declarants						
Foreign parties	13.6	4.3	4.1	8.4	5.0	5.5
Insurance companies	2.5	0.4	1.4	2.9	0.4	0.7
Banks	8.0	1.5	0.2	7.4	0.5	0.6
Foundations	8.0	--	0.1	9.2	--	0.2
Institutional investors	--	0.1	0.2	--	0.1	0.2
Limited companies	7.6	11.3	12.3	7.5	12.8	13.3
State and local authorities	0.8	15.8	23.1	0.8	14.8	23.5
Natural persons	3.6	8.7	6.8	3.7	9.3	5.8
Total	*44.2*	*42.1*	*48.2*	*40.0*	*42.9*	*49.8*
Number of companies	80	96	44	73	106	44
Share [2]	49.5	33.5	17.0	47.1	35.1	17.9

Source: Consob ownership transparency archive. See Methodological Notes. [1] Holdings of more than 2% of the voting capital. Percentage ratio of the fair value of holdings controlled on ordinary capital to the capitalisation of ordinary capital of all companies listed on the Stock Exchange. Rounding may cause discrepancies in the final figure. [2] Incidence on capitalisation of ordinary share capital of companies in each sector to the total capitalisation of ordinary capital on the Stock Exchange.

Compared to figures at the end of 2005, the number of listed companies subject to significant shareholders' agreements pursuant to art. 122 of the Consolidated Law on Finance also remained stable, whilst there was a slight reduction in the number of agreements. The predominance of "global" shareholders' agreements involving either blocking clauses, limiting the transfer of shares, or voting rights clauses, was confirmed (Table 6 and Appendix, Table A.6).

The number of listed companies controlled by an unlisted company with an existing shareholders' agreement increased from 22 in 2005 to 27 in 2006. Almost all instances of shareholders' agreements involved the exercise of voting rights on the absolute majority of parent company capital (Appendix, Table A.7).

Table 6

Types of shareholders' agreements involving Italian listed companies
(as at 31 December)

	Type of agreement											
	Blocking			Voting			Global			*Total*		
	No. of agreements	Share capital covered[1]	Number of companies	No. of agreements	Share capital covered[1]	Number of companies	No. of agreements	Share capital covered[1]	Number of companies	*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*	*47*
2005	8	32.2	8	10	42.4	8	46	49.1	43	*64*	*45.9*	*52*
2006	7	45.4	7	8	44.3	4	44	50.0	43	*59*	*48.7*	*52*
							Mtax					
2002	6	38.9	6	3	62.9	3	15	49.1	13	*24*	*48.3*	*16*
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*	*8*
2005	2	29.0	2	--	--	--	6	49.6	5	*8*	*44.4*	*6*
2006	1	15.4	1	--	--	--	7	50.2	6	*8*	*45.2*	*6*

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. When more than one shareholders' agreement of the same type exists in reference to the same company, only the agreement with the highest coverage was considered. [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. [2] Agreements containing both blocking and voting clauses.

The high level of ownership concentration ensures that the average number of shareholders' meeting attendees for companies on the S&P/MIB indices is low, though showing a slight increase over 2005 (from 164 to 179) (Appendix, Tables A.8-A.10).

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 additional executive director and around two additional non-executive directors), and around two more than those subject to working control (Table 7).

Table 7

Average number of directors of Italian companies listed on the Stock Exchange in 2006 by control model

Control model	Executive directors	Non-executive directors	*Total*
Majority control	3.1	6.6	*9.7*
Working control	2.6	7.1	*9.7*
No control	3.7	7.1	*10.8*
Shareholders' agreement	4.4	8.5	*12.9*

Source: Consob.

The size of the board, however, is also conditioned by the business sector of the company (even if this is in turn linked to the control model): around 90% of insurance companies and over 70% of banks have a board of more than ten members, whereas boards with over ten members are only found in about 32% of industrial companies and in around 39% of service companies (Table 8).

Table 8

Distribution of Italian companies listed on the Stock Exchange in 2006 by number of board directors and business sector[1]
(percentages)

Sector	Number of board directors				
	< 6	6 - 10	11 - 15	> 15	*Total*
Insurance	--	12.5	25.0	62.5	*100.0*
Banking	--	27.6	27.6	44.8	*100.0*
Financial	8.3	52.8	30.6	8.3	*100.0*
Industrial	11.3	56.6	29.2	2.8	*100.0*
Services	11.4	50.0	34.1	4.5	*100.0*

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

The interlocking phenomenon (i.e. the presence on a board of directors of at least one member with directorship in other listed companies, even within the same group) relates to over 80% of listed Italian companies (Table 9). In 162 companies, over 50% of the board members with directorship in other listed companies.

Table 9

Interlocking directorship of companies listed on the Stock Exchange in 2006

Directors with more than one directorship	Number of companies
less than 25%	86
from 25% to 50%	76
from 51% to 75%	38
more than 75%	10
Total	*210*
as a percentage of all listed companies	*81.4*

II – SECONDARY MARKETS

1. *The current economic trend and equity markets*

In 2006 the world economy continued on the whole to grow, but at different rates from one geographic area to the next.

Economic expansion in the USA slowed during the year, due mainly to the negative performance of the real estate market and oil price increases. In the emerging markets in Asia, however, growth was steady (particularly in China and India), whilst in Japan levels remained more or less those of 2005.

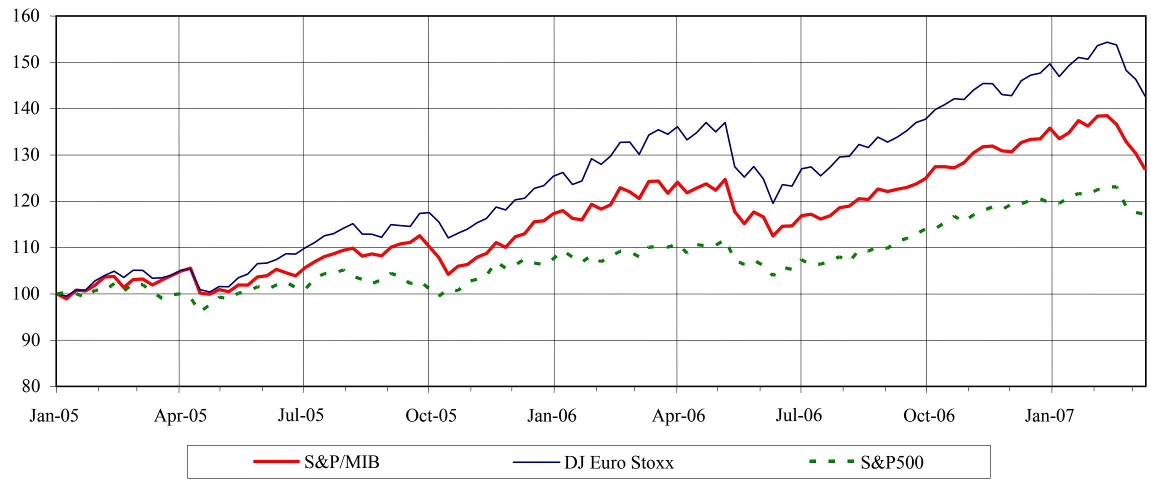
In the Euro area, economic expansion showed a clear improvement with respect to 2005 (initial forecasts of the European Commission indicate a 2.6% growth rate for 2006, against the 1.4% of the previous year). The rate in the UK was also consistent (2.5%).

In Italy the GDP growth rate was positive (around 2%, based on ISTAT forecasts at the start of 2007), after being close to zero in 2004 and 2005. Albeit significant, economic expansion was lower than that of the Euro area; it was mainly the result of increased investments, household expenditure and exports.

During 2006 the favourable Euro area economy and the slowdown of the US economy helped explain the difference in share prices between these two geographic areas. In effect, the Dow Jones Euro Stoxx (index of the major listed companies in the Euro area) increased by around 20%, compared to the 14% of the S&P500 index (which includes the more important companies on the US equity market) (Fig. 22). In Italy, the S&P/MIB index instead recorded a 16% growth in 2006 (against the 14% of 2005).

Figure 22

Share price performance
(weekly data 01/01/2005-14/03/2007; 01/01/2005=100)



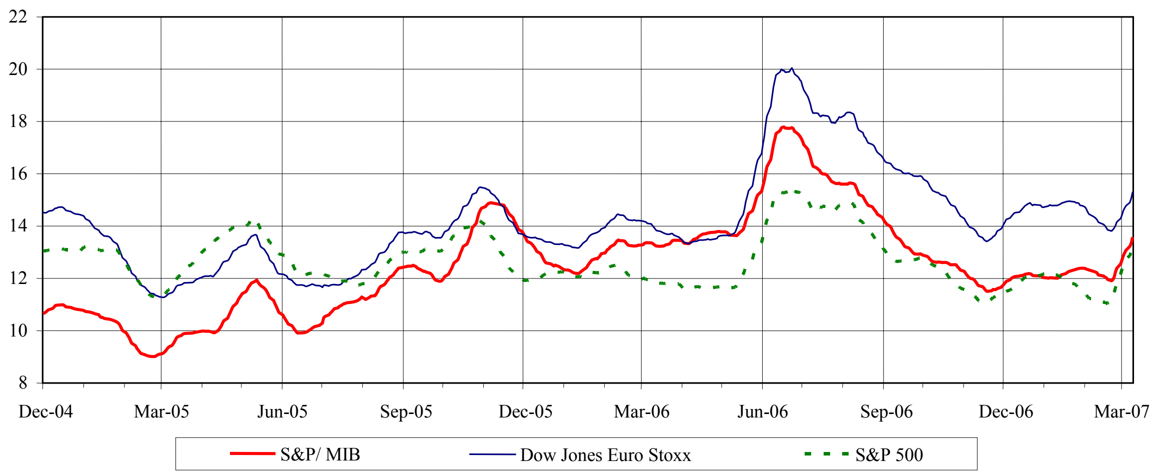
Source: Thomson Financial Datastream

In May and June 2006 share prices suffered an abrupt ‘about turn’ as a result of the uncertainty and of the volatility, caused by the oil and raw materials price increases. The subsequent reduction in oil prices brought the financial markets back to their previous levels.

In 2006, excluding the peak in May and June, share price volatility remained at historically low levels (Fig. 23). Economic expansion and increased business profits helped create a confident climate, reducing uncertainty in prospects of returns on equity investments. The moderate volatility is also reflected in the reduced differences in returns on speculative bonds with respect to government securities (see paragraph 4 below).

Figure 23

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



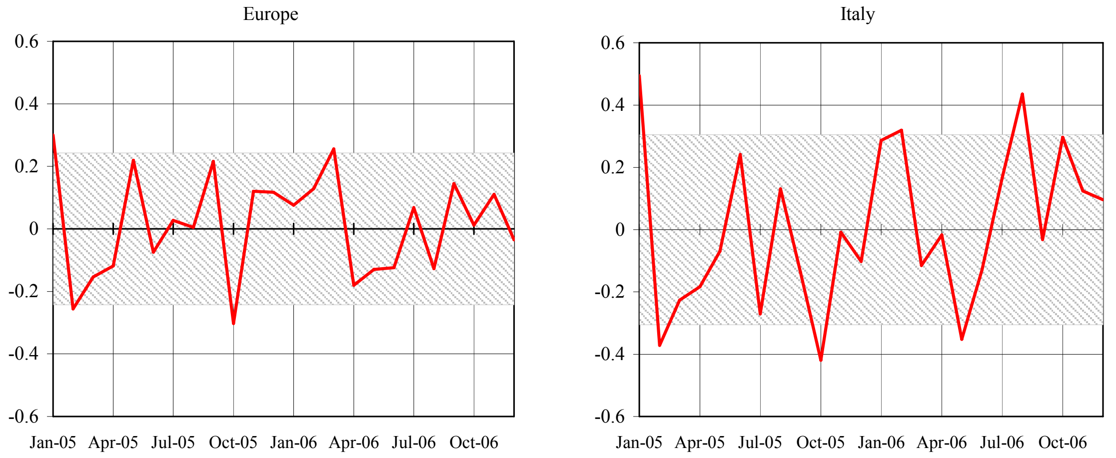
Source: Bloomberg. Implied volatility deduced from index option prices.

Statistical indicators identifying operators’ approach to risk, though with a certain margin for approximation, show that during 2006 there was no significant change in investors' propensity to risk in the Euro area, even during the period of increased market tension that characterised May and June (Fig. 24). In Italy, however, propensity to risk diminished in May, then rose again in August.

The start of 2007 saw another correction to the main world stock exchanges as a result of a sharp reduction in China share prices and worries about excessive exposure of certain US intermediaries in the "subprime" mortgage sector (i.e. granted to persons with a low credit rating), where the insolvency rate had increased considerably. In addition, the US real estate sector problems caused some worry as to whether a possible further slowing of the US economy could weaken growth at global level.

Figure 24

Indicator of change in the propensity to risk on equity markets

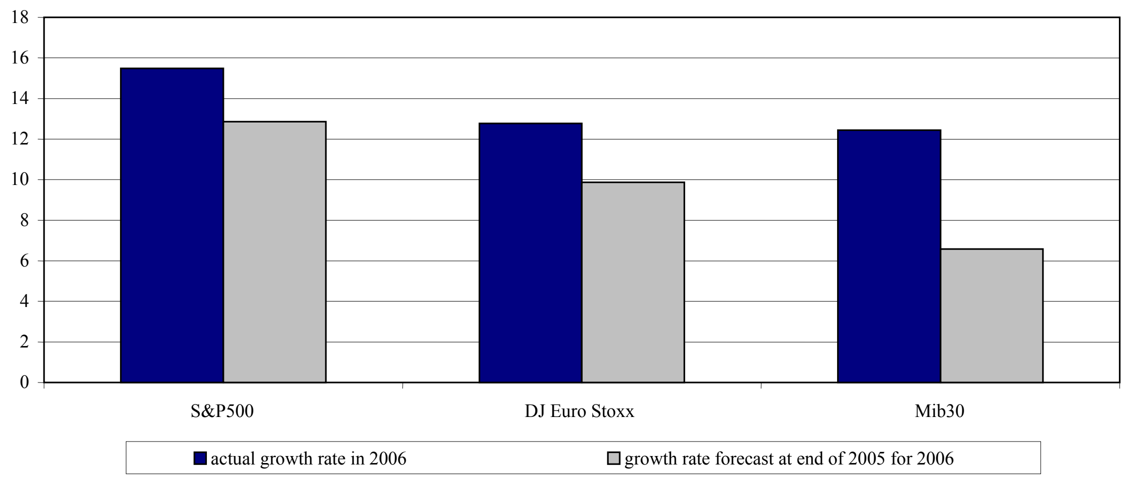


Source: calculations based on Thomson Financial Datastream data. The indicator measures the range relationship between volatility and returns for securities on the Dow Jones Euro Stoxx index (Europe) and securities on the S&P/MIB index (Italy). The points on the graph above (below) the dotted line mark statistically significant increases (reductions) in investors' propensity to risk. See Methodological Notes.

The favourable equity market economy in 2006 is essentially linked to good business profit trends. The increase in earnings per share of US companies listed in the S&P500 index was around 15%. This "earning surprise" exceeded forecasts made by analysts at the end of 2005 by approximately 2.6 percentage points (Fig. 25). In the Euro area, the "earning surprise" for companies on the Dow Jones Euro Stoxx index was about 3 percentage points. For companies listed on the MIB30 index, the earnings per share were in line with those of the Euro area (approx. 12%), and almost double that predicted at the end of 2005.

Figure 25

Actual and forecast growth in business profits in 2006
(percentages)

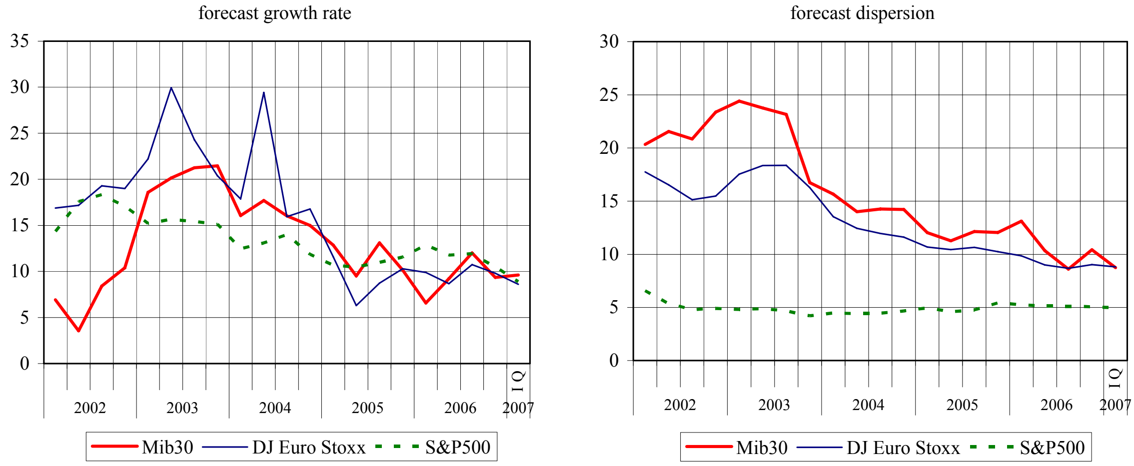


Source: Thomson Financial Datastream; IBES data on 12-month earnings forecasts (before the amortization of goodwill and other atypical income components) at the end of December 2005 and on actual earnings for 2006 (February 2006 estimate).

Growth rate forecasts for business profits with a 12-month time horizon for companies on the S&P500, Dow Jones Euro Stoxx and MIB30 indices improved in the first half of 2006 as a result of a satisfactory overall economic trend. Later, estimates were revised downwards due to the slowing of the US economy and prospects of a slowdown in growth in the Euro area in 2007. For Italian and European companies, the downward dispersion trend with regard to earnings forecasts by a number of analysts continued. The dispersion rate of expectations remains significantly lower, however, for US companies (Fig. 26).

Figure 26

Analyst forecasts on business profits
(percentages; quarterly data)



Source: Thomson Financial Datastream; IBES data on 12-month earnings forecasts before the amortization of goodwill and other atypical income components. The dispersion is based on the ratio between the standard deviation of forecasts by individual financial analysts and the average forecast.

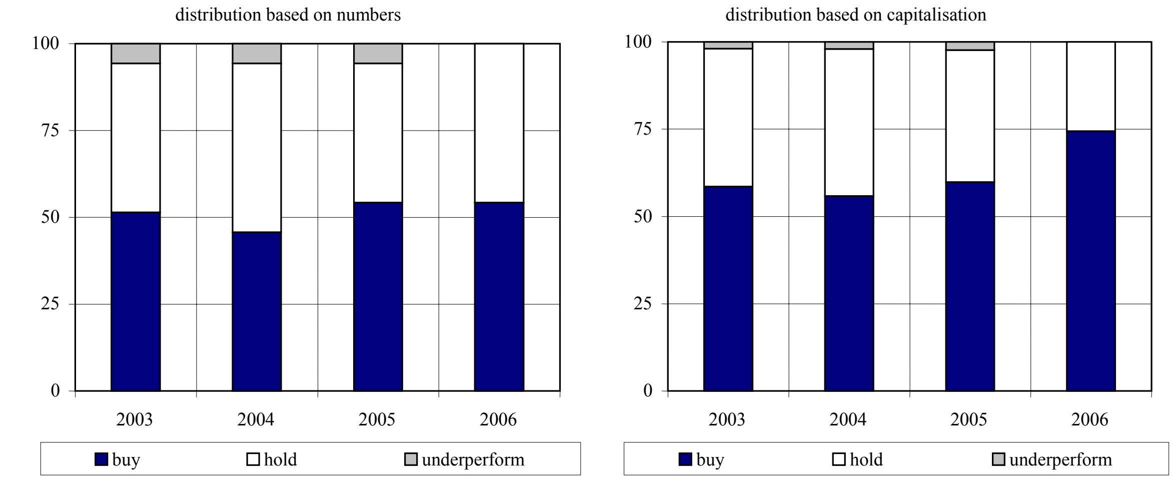
The positive position of the Italian corporate sector is highlighted by statistics on analyst opinions of companies on the S&P/MIB index. Comparing end of December 2006 data with that for the same period in 2005, the number of companies achieving a "buy" rating remained unchanged (around 54% of the sample), whilst all companies previously in the "underperform" category were reclassified to “hold”. In addition, the breakdown of groups with a “buy” rating was modified, enhanced by the presence of companies with a higher degree of capitalisation. The percentage in capitalisation terms of companies achieving the best rating in effect increased from 60 to 75% (Fig. 27).

The favourable business cycle and share price increase have contributed to an overall positive scenario for the Italian equity market.

The capitalisation of Italian companies listed on the MTA/Mtax market increased in both absolute terms (from 669 to 768 billion euro; +15%) and in relation to GDP (from 47.2% to 52.1%; Table 10).

Figure 27

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



Source: Thomson Financial Datastream; IBES data on the financial analysts' Consensus . The companies Lottomatica, Parmalat, STMicroelectronic, Terna and Unipol, for which complete series of Consensus data for all four years considered are unavailable, have been excluded.

Table 10

Indicators of equity markets operated by Borsa Italiana Spa
(amounts in billions of euro)

	Stock Exchange[1]									Expandi Market			Nuovo Mercato			
	Capitalisation[2]	Capitalisation (as a % of GDP)	Volume of trading in shares	Number of Italian listed companies	Number of Italian newly listed companies	Number of Italian companies delisted	Change in the MIB historical index[3]	Dividend/price ratio[3]	Earnings/price ratio[3]	Capitalisation[2]	Volume of trading in shares	Number of Italian listed companies	Capitalisation[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	47.2	893	257	13	12	13.9	3.0	5.2	7	1	18	—	—	—	—
2006	768	52.1	1.076	258	17	16	19.0	3.4	6.0	10	2	26	—	—	—	—

Source: Borsa Italiana Spa, Thomson Financial. [1] Since 2005 MTA/Mtax. [2] The figure for market capitalisation refers to Italian companies. [3] Year-end percentages. [4] From 17 June 1999 to 30 December 1999.

Volumes traded on the MTA/Mtax market (in relation to Italian company shares only) increased by 21% (from 893 to 1,076 billion euro) and the turnover index (trading value-capitalisation ratio) increased from 1.3 in 2005 to 1.4 in 2006.

The prices of listed Italian companies did not, however, show any significant change in 2006. The number of listed Italian companies increased by just 9 (from 275 to 284), with 25 new listings (17 on the MTA/Mtax market and 8 on the Expandi market) and 16 delistings. Of the 25 new listings, 21 were the result of public offers (14 on the MTA/Mtax market and 7 on the Expandi market).

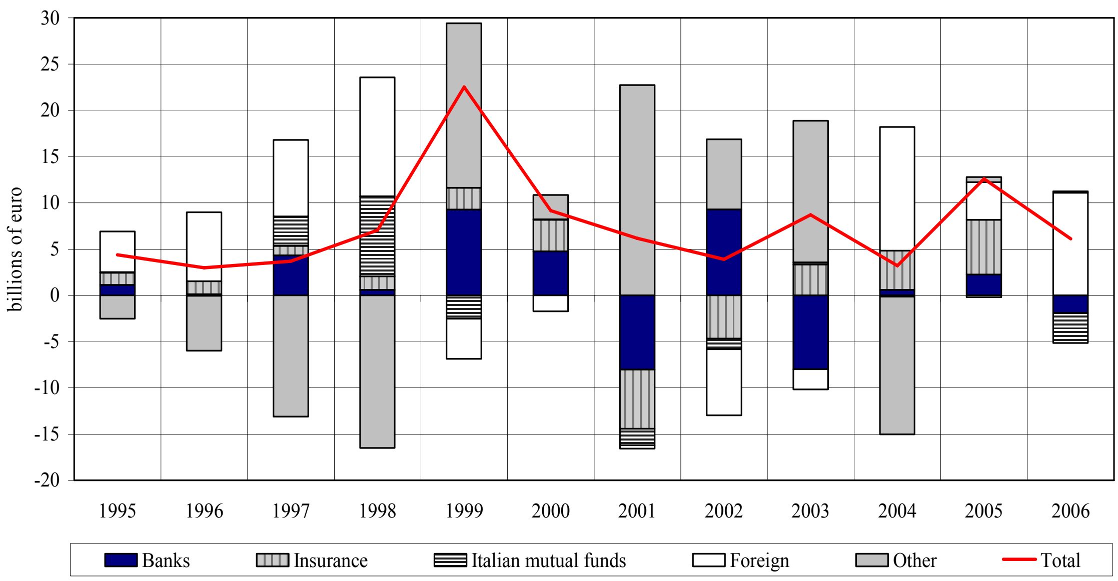
In 2006 a new segment of the MTA market was introduced, the MTA International, reserved for foreign companies already listed on another EU regulated market for over 18 months. There were 21 admissions to listing on the MTA International market.

In spite of favourable performance of the stock exchange cycle, share issues reduced by over 50% (from 13.2 billion euro in 2005 to around 6.2 billion euro in 2006), mainly due to the reduction in share capital increases against payment (approximately 5 billion euro in 2006, against the 12 billion euro of 2005).

Based on data estimated up to November 2006 by the Bank of Italy, the major net buyers of Italian listed shares were non-resident operators. Italian mutual funds were net sellers for a total of 3.2 billion euro with banks recording around 1.9 billion euro (Fig. 28).

Figure 28

Net purchases of Italian listed shares by institutional sector



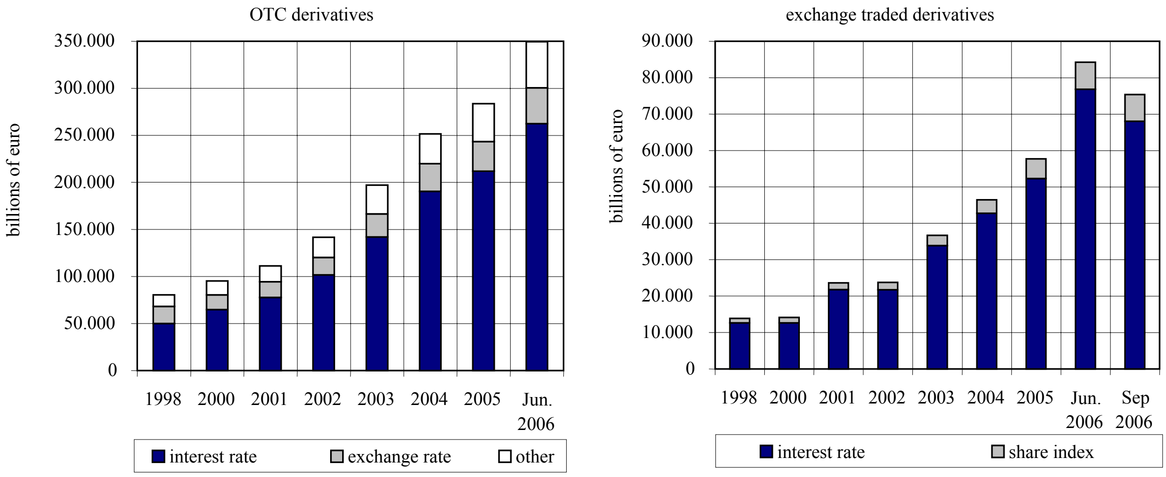
Source: Bank of Italy. The “Other" institutional sector includes households, companies, centrally and locally administered organisations, Cassa Depositi e Prestiti, investment firms and social security institutions. 2006 data is provisional and does not include insurance.

2. The derivatives market

Over the first half of 2006 the total unlisted (over the counter, OTC) and listed (exchanged traded) derivatives increased steadily, confirming the trend of recent years (Fig. 29).

Figure 29

Notional value of derivatives in G-10 countries
(period end balances)

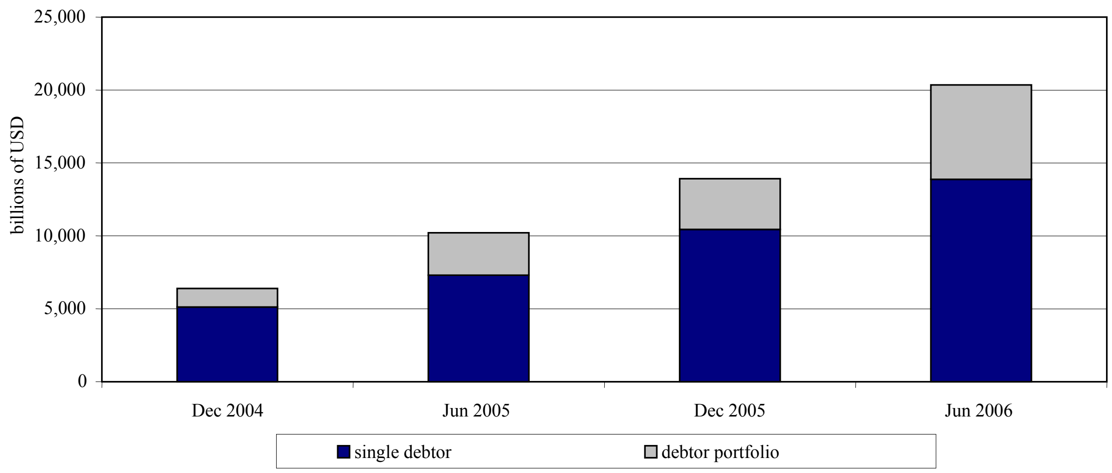


Source: Bank for International Settlements. Exchange traded derivatives in currency are not included as they represent less than 1% of the total notional value in each year considered.

The credit risk derivatives market was characterised by changes similar to that of financial instrument derivatives. Based on the BIS survey into G-10 countries, the notional value of credit default swap contracts (CDS) doubled between June 2005 and June 2006 (Fig. 30). The main share of credit default swaps is represented by derivatives with a single underlying debtor (70% of the total notional value).

Figure 30

Notional value of credit default swaps in G-10 countries
(period end balances)



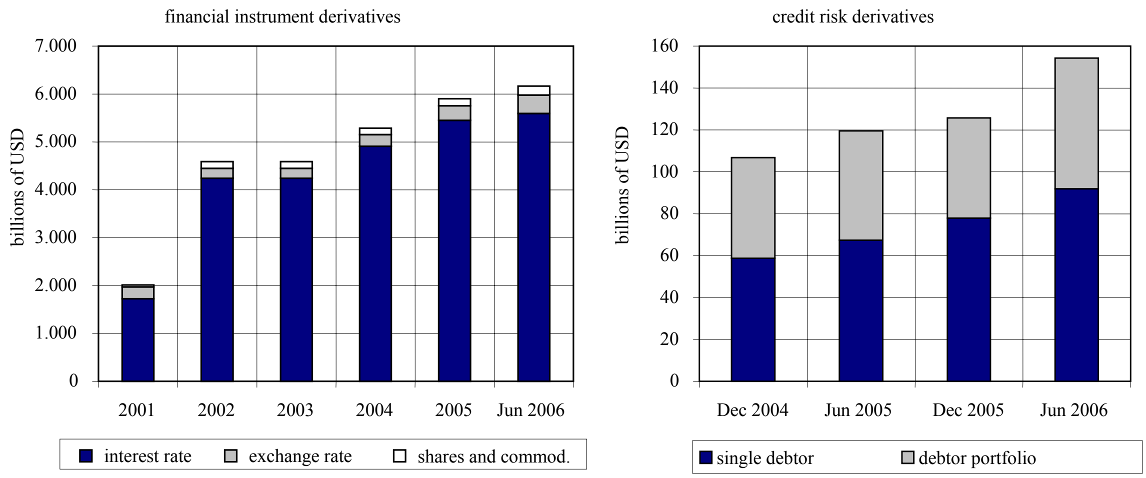
Source: Bank for International Settlements.

The OTC derivatives market increased significantly in Italy too (as confirmed by data from the Bank of Italy half-year survey on transactions by a sample of banking groups best representing the sector), though at clearly lower rates than those seen overall in the G10 countries.

In June 2006, the total notional value of OTC derivatives was 6,167 billion USD, increasing by 5% over the December 2005 figure (Fig. 31). Italy's share of the entire sample of G-10 countries remains scanty (1.8% in the first half of 2006). From December 2005 to June 2006, share-based derivatives increased by 31%, compared with a 28% increase in exchange rate derivatives and a mere 3% in interest rate derivatives, which in any event continue to represent the major share of OTC derivatives on financial instruments (around 91%).

Figure 31

Notional value of OTC derivatives in Italy
(period end balances)



Source: Bank of Italy.

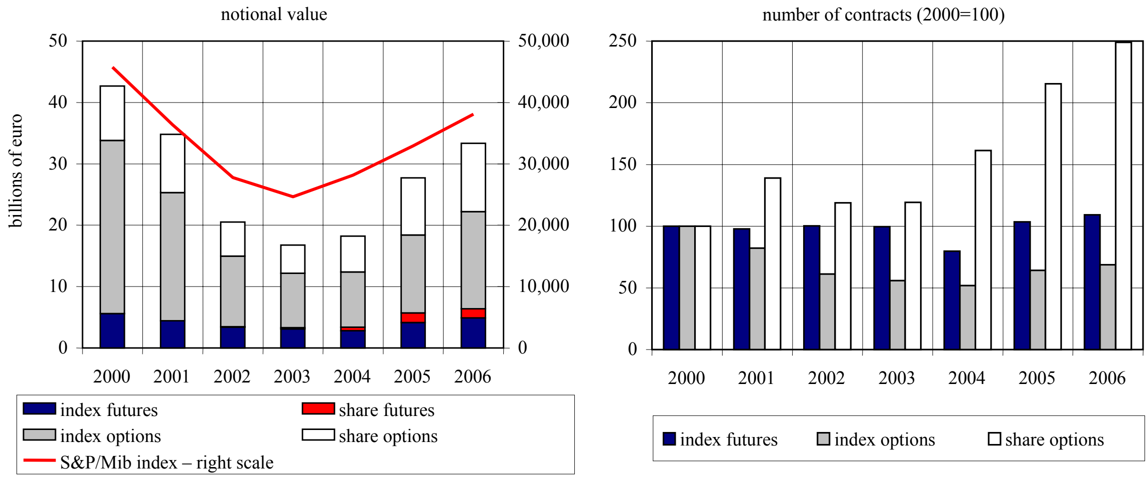
As at the end of June 2006, the market value (gross of bilateral compensation effects and of other credit risk reduction mechanisms) of derivative positions in the banking groups sample used in the Bank of Italy survey reduced considerably with respect to the same period in 2005. As at that date, in fact, the market value of asset derivative positions was 68.7 billion dollars and liability derivatives 65.7 billion dollars (compared with 99 and 95 billion dollars, respectively, as at the end of June 2005).

The Italian credit default swap market increased, on the other hand, at a steadier rate than that of derivatives on financial instruments, though lower in totals percentages than those for G-10 countries as a whole (23% against 46%).

The only exchange traded derivatives for the Italian market were those quoted on the Italian Derivatives Market (IDEM) operated by Borsa Italiana Spa, and only with underlying share indices or shares. In 2006 the notional value of contracts opened on the IDEM market (calculated as a daily average) increased considerably (around 20%; 52% in 2005), from approximately 28 to 33 billion euro (Fig. 32).

Figure 32

Notional value and number of positions opened in derivatives traded on the IDEM market
(average daily percentages)

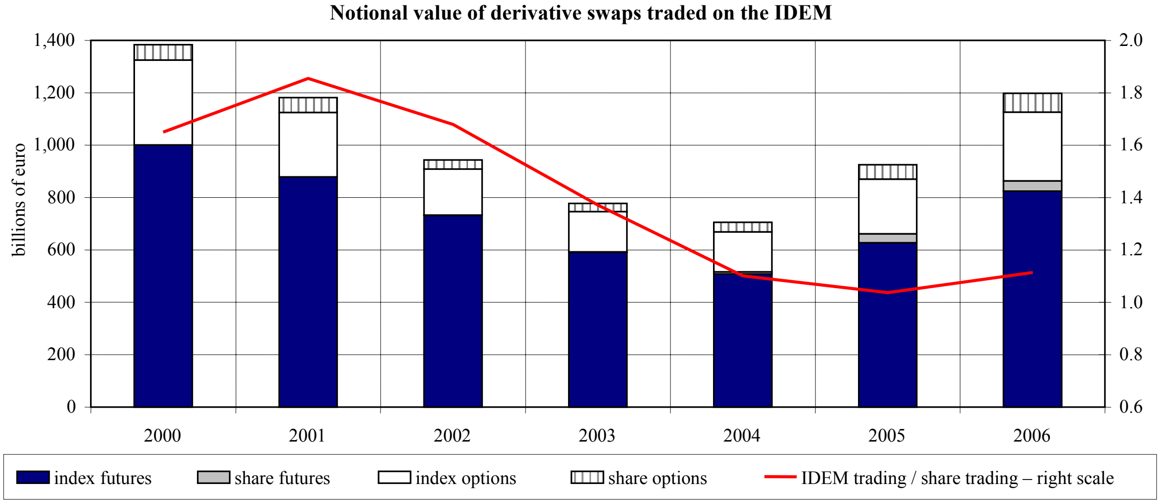


Source: calculations based on Borsa Italiana data. The graph on the notional value of positions opened in the "index futures" category includes index minifutures. The annual values for the S&P/MIB index are the average end of month figures.

The notional value traded on the IDEM in 2006 reached around 1,200 billion euro (similar to the 2001 figure), increasing by around 29% over 2005 (Fig. 33). The derivative-share swap ratio also increased (approximately from 1.0 to 1.1).

Figure 33

Notional value of derivative swaps traded on the IDEM



Source: calculations based on Borsa Italiana data. The "index futures" category includes index minifutures.

3. The covered warrants and certificates market

In 2006 trading on the securitised derivatives market operated by Borsa Italian Spa (SeDeX) reached 70 billion euro (+43% over 2005) and the number of new issues increased by approximately 4% (62% in 2005) (Table 11).

Table 11

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

	Number of issues			Turnover
	outstanding[1]	new[2]	matured[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
2006	4,647	7,572	7,001	70

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

New instruments were issued by 18 intermediaries, often acting as specialists (directly or through a group company) with the role of guaranteeing market liquidity. Also taking into account the intermediaries trading instruments issued prior to 2006, the number of issuers present on the market increased to 21 (+40% on 2005).

In terms of numbers of instruments outstanding, the plain vanilla covered warrants remain the most widespread (76.3% of the total), followed by investment certificates (14.7% of the total), leverage certificates (5.9%) and exotic/structured covered warrants (3%) (Table 12).

With regard to the distribution of covered warrants based on profit deriving from an immediate exercise of the option ("moneyness"), at the time 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 (i.e. issued with a strike price 8% higher than the market price of the underlying instrument). For put instruments issued in 2006, 48% percent were deep out of the money at the time of issue (or with a strike price 8 percent lower than the market price of the underlying instrument). Covered warrants issued deep in the money (with a strike 4% less than the market price of the underlying instrument for calls and 49% higher for puts) instead represent a meagre share (10% of calls and 3% of puts issued in 2006) (Table 13). With reference to moneyness at the time of maturity, the call covered warrants matured in 2006 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 (53% of cases against the 15% of deep in the money).

Table 12

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

Segment and category	2005		2006	
	Number of issues	Share of total [1]	Number of issues	Share of total [1]
Covered warrants				
Plain vanilla	3,189	78.2	3,548	76.3
Exotic	151	3.7	142	3.1
Certificates				
Leverage	290	7.1	276	5.9
Investment	446	10.9	681	14.7
Total	*4,076*	*100.0*	*4,647*	*100.0*

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

Table 13

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

	Degree of moneyness[1]	
	on issue[2]	on maturity[3]
Calls		
> 8% (deep out of the money)	50.7	35.6
from 8% to 4% (out of the money)	14.0	8.8
from 4% to 0 (at the money)	15.0	10.1
from 0 to -4% (in the money)	11.0	10.4
< -4% (deep in the money)	9.5	35.1
Total	100.0	100.0
Puts		
< -8% (deep out of the money)	48.4	52.9
from -8% to -4% (out of the money)	18.6	12.9
from -4% to 0 (at the money)	18.0	11.3
from 0 to 4% (in the money)	12.1	8.4
> 4% (deep in the money)	2.9	14.5
Total	100.0	100.0

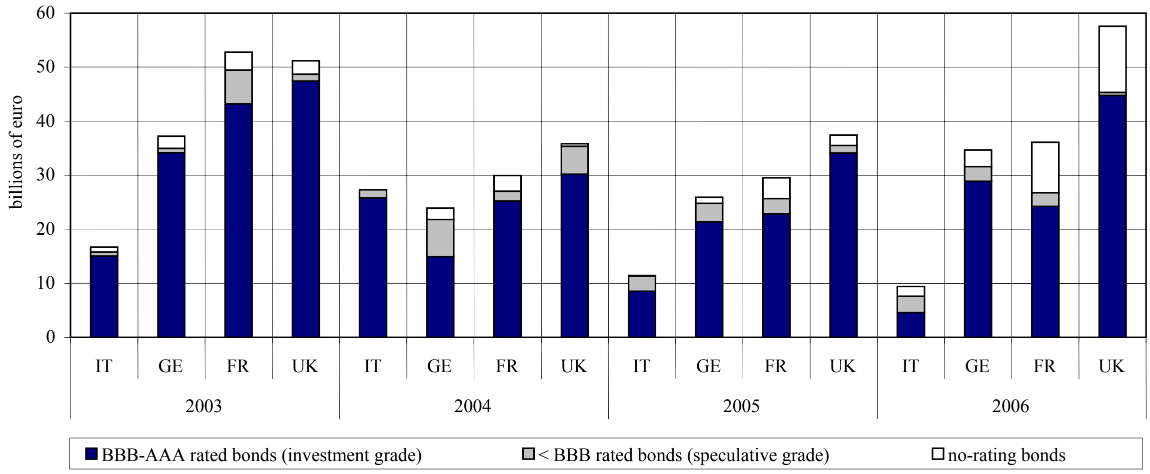
Source: calculations based on Borsa Italiana data. 1 Percentage difference between the exercise price and the market price of the underlying instrument at the time of issue of the covered warrant. [2] Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index issued in 2006. [3] Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index expired in 2006.

4. The bond market

In 2006 the gross issue of bonds by non-financial companies increased steadily in the major European countries. Issues increased by 34% in Germany, 22% in France and 54% in the United Kingdom. In addition, in the UK the volume of bonds with speculative ratings or without ratings increased almost fivefold (Fig. 34).

Figure 34

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



Source: Calculations on Bondware data. Figures relating to bond issues placed on the Euromarket or via public 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.

In any event the market remains highly concentrated. The top five companies account for 63% of bond issues in Germany, 43% in the UK and 32% in France.

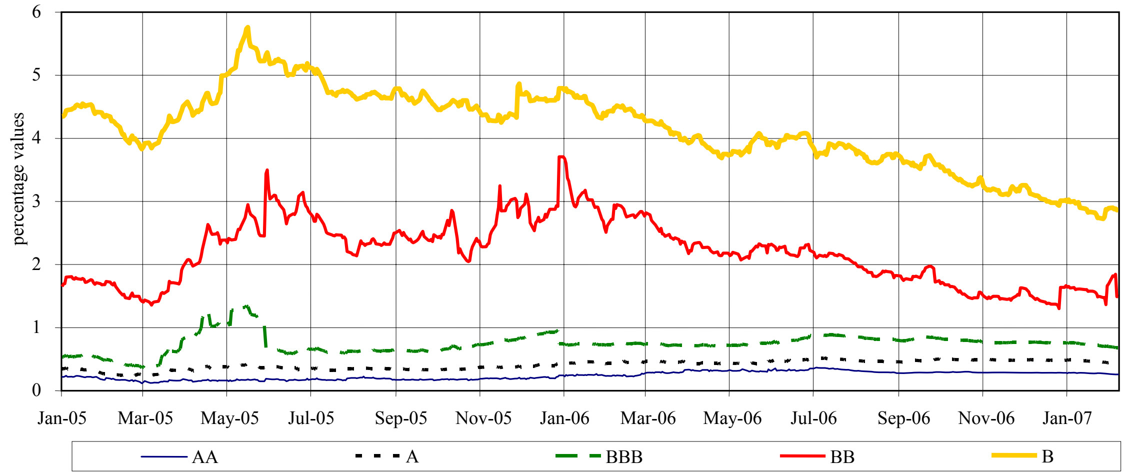
The increase in corporate bonds in Germany and the UK can be attributed to the strong recovery of the M&A market Many companies in the Euro area, also, have issued bonds on markets in emerging countries to fund expansion projects.

The strong increase in corporate bond issues was also aided by improvement in the credit quality of the issuers. In effect, the difference between returns on corporate bonds and returns on government securities in euro further reduced, especially for issuers with speculative ratings (Fig. 35). At the end of 2006, these differences were 1.6% for issuers with BB ratings (3.7% at the end of 2005) and around 3% for those with B ratings (4.8% at the end of 2005).

In contrast with data recorded for the major European countries, gross issues of bonds by non-financial Italian companies (and foreign companies controlled by non-financial Italian groups) reduced considerably, from 11.4 billion euro in 2005 to 9.4 billion euro in 2006 (approx. -20%). Net issues (balance between bonds issued and matured), on the other hand, were negative by 1.1 billion euro (Fig. 36).

Figure 35

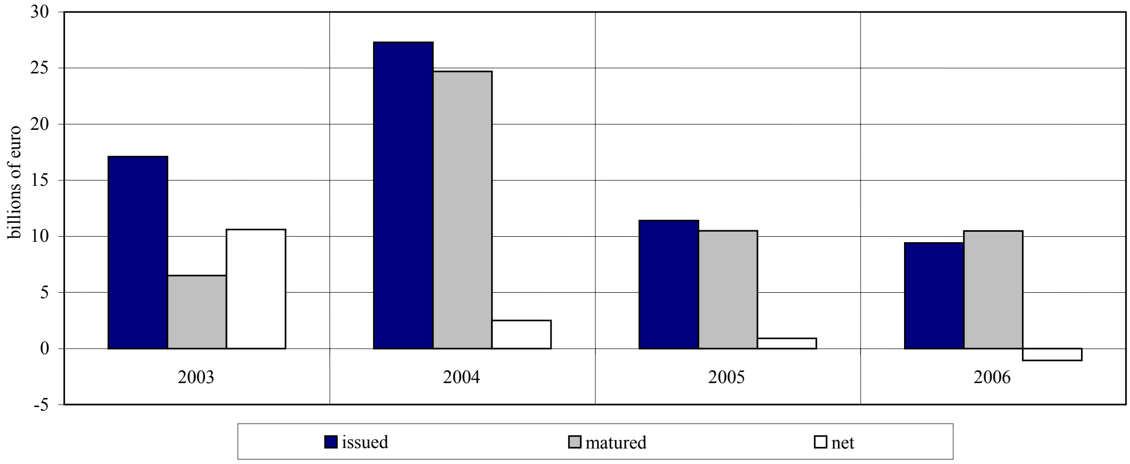
Differentials between the returns on Euro bonds of non-financial companies and the returns on Euro Government securities
(daily data-03/01/2005-09/02/2007)



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

Figure 36

Bond issues of Italian non-financial companies



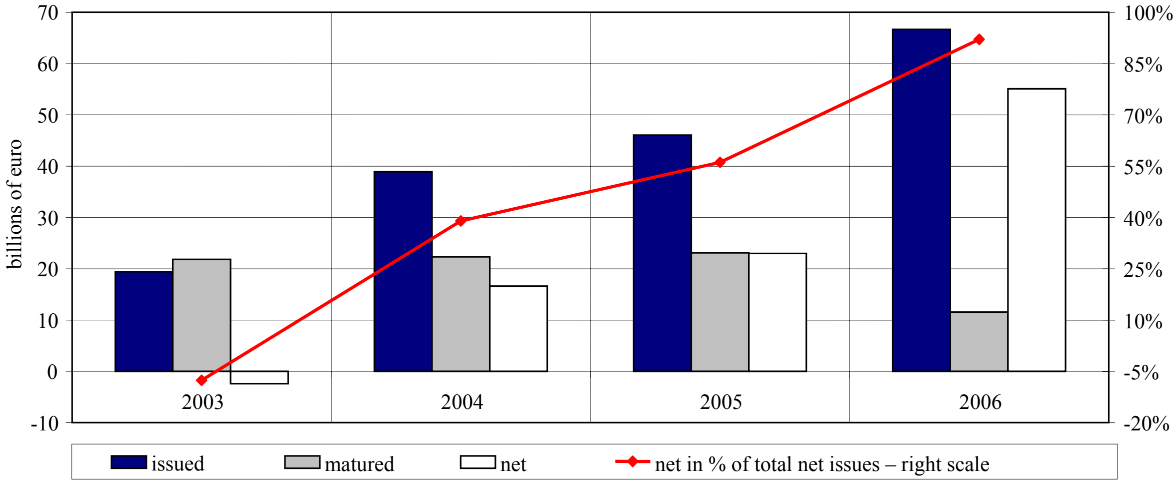
Source: Calculations on Bondware data. Figures relating to bond issues placed on the Euromarket or via public offers on the Italian market of Italian companies or foreign subsidiaries of Italian groups.

The number of companies issuing bonds remained low (10) and 90% of the bonds issued are attributable to the top 5 companies. Nevertheless, there was a significant recovery on high yield or no-rating bond issues.

In 2006, however, gross issues of bonds by the Italian banks on the Euromarket (through placements reserved to institutional investors) were particularly intense. The gross issues were 67 billion euro (against 46 billion euro in 2005; +45%), whereas net issues more than doubled, from 23 to 55 billion euro (Fig. 37).

Figure 37

Bond issues of Italian banking groups placed with institutional investors

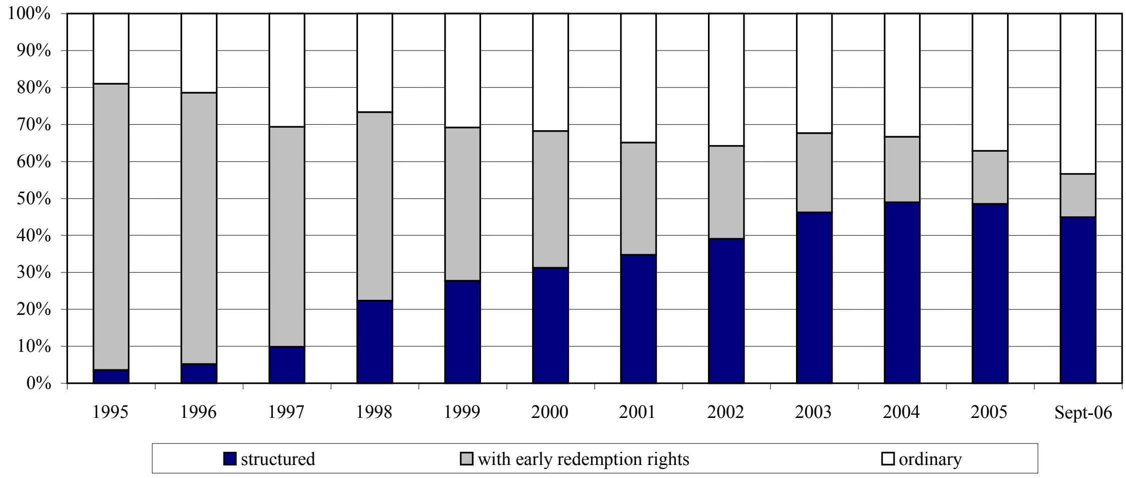


Source: calculations based on Bondware and Bank of Italy data. Figures relating to bond issues placed on the Euromarket or via tender offers reserved for institutional investors by Italian banks or foreign subsidiaries.

At the end of 2005, of the stock of bonds issued by Italian banks almost 50% were structured securities, a level that reduced slightly in September 2006 (around 45%), whereas ordinary bonds without early redemption options increased (approx. 43% as at September 2006) (Fig. 38).

Figure 38

Balances for Italian bank bonds
(percentage breakdown by bond type)



Source: Calculations on Kler's data.

With reference to secondary markets, bonds traded on Italian regulated markets increased by around 7% (from 2,341 billion euro in 2005 to 2,193 billion euro in 2006 (Table 14). For the first time since 2001, gross trading increased on the government bond market (MTS) run by MTS Spa (from 1,634 to 1,596 billion euro). Trading also increased on the Bondvision (from 448 billion to 555 billion euro) and TLX markets, whilst trading on the MOT remained stable.

Table 14

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*
2006	1,634	555	17	122	—	13	*2,341*

Source: Based on MTS s.p.a., Borsa Italiana s.p.a. and TLX s.p.a. data. [1] Rounding may cause discrepancies in the last figure. [2] From 2005 includes trading of bonds previously traded on the EuroMot market. [3] Market began operations on 20 October 2003.

However, 2006 again saw a consistent reduction in ATS trading with respect to 2005. The number of contracts concluded reduced by around 17% on bilateral systems and by approximately 18% on multilateral systems (Table 15).

Table 15

Transactions on Italian ATSs

ATS type	ATS totals	Securities traded	Total contracts
Bilateral ATSs			
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
2005 – 2nd half	326	21,824	1,408,714
2006 – 1st half	334	22,352	1,320,564
2006 – 2nd half	325	21,156	1,086,926
Multilateral ATSs			
2004 – 1st half	5	1,341	456,597
2004 – 2nd half	5	1,337	328,028
2005 – 1st half	4	1,530	404,087
2005 – 2nd half	4	1,541	353,805
2006 – 1st half	4	2,109	346,711
2006 – 2nd half	3	2,837	275,053

Source: Consob.

The number of bilateral systems (i.e. systems in which a single operator - usually the same intermediary organising trading – lists its own buy and sell proposals for acceptance by other operators) and multilateral systems (i.e. systems in which multiple operators are in direct competition between themselves) remained stable, however, with respect to 2005.

Most trading on ATSs is attributed to Italian bank bonds (87% of securities traded and 47% of contracts concluded (Tables 16 and 17). Italian public securities contracts on the other hand accounted for around 30% of the total.

Table 16

Securities traded on Italian ATSs

	2004 I half	2004 II half	2005 I half	2005 II half	2006 I half	2006 II half
Private issuer bonds						
Foreign banks	604	653	739	741	727	723
Italian banks	17,581	18,098	18,969	18,369	18,963	18,854
Non-financial foreign corporations	865	866	903	809	774	711
Non-financial Italian corporations	198	174	173	133	136	107
Total	19,248	19,791	20,784	20,052	20,600	20,395
Public issuer bonds						
Foreign public issuers	907	912	1011	951	917	865
Italian public issuers	177	163	167	154	154	144
Total	1,084	1,075	1,178	1,105	1,071	1,009
Shares						
Foreign banks	6	6	6	6	7	6
Italian banks	58	48	51	51	50	48
Non-financial foreign corporations	111	108	106	116	115	113
Non-financial Italian corporations	25	18	17	10	4	5
Total	*200*	*180*	*180*	*183*	*176*	*172*

Source: Consob.

Table 17

Contracts concluded on Italian ATSs

	2004 I half	2004 II half	2005 I half	2005 II half	2006 I half	2006 II half
Private issuer bonds						
Foreign banks	47,760	46,343	63,509	77,397	70,075	67,054
Italian banks	769,902	735,853	827,927	763,236	756,082	647,379
Non-financial foreign corporations	202,924	103,336	142,388	89,391	72,282	60,211
Non-financial Italian corporations	87,072	41,050	28,228	18,813	18,920	16,627
Total	1,107,658	926,582	1,062,052	948,837	917,359	791,271
Public issuer bonds						
Foreign public issuers	162,090	110,023	163,993	151,547	143,180	99,399
Italian public issuers	485,397	660,854	586,602	528,516	510,368	392,784
Total	647,487	770,877	750,595	680,063	653,548	492,183
Shares						
Foreign banks	1,690	1,072	2,008	2,641	3,678	1,811
Italian banks	29,805	18,759	14,191	21,982	18,372	23,612
Non-financial foreign corporations	64,127	48,103	47,732	50,009	53,176	21,334
Non-financial Italian corporations	1,174	1,484	1,887	23,186	896	216
Total	*96,796*	*69,418*	*65,818*	*97,818*	*76,122*	*46,122*

Source: Consob.

Contracts on non-financial corporate bond issues represent only 6% of contracts concluded on ATSs, and 4% in terms of the number of securities traded. In addition, most of these securities relate to foreign enterprises.

With regard to Italian corporate bonds, 71 securities were issued in the second half of 2006 by companies from 27 different groups (Table 18). Trading continued a notable decrease in terms of both the number of contracts (from 18,761 in the first half of 2006 to 16,449 in the second half) and in value terms (from 432 to 382 billion euro).

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	Value
2003 – II half	131	47	123,681	2,639
2004 – I half	109	45	81,797	1,798
2004 – II half	92	35	36,559	869
2005 – I half	78	32	25,132	572
2005 – II half	84	30	18,607	447
2006 – I half	68	25	18,761	432
2006 – II half	71	27	16,449	382

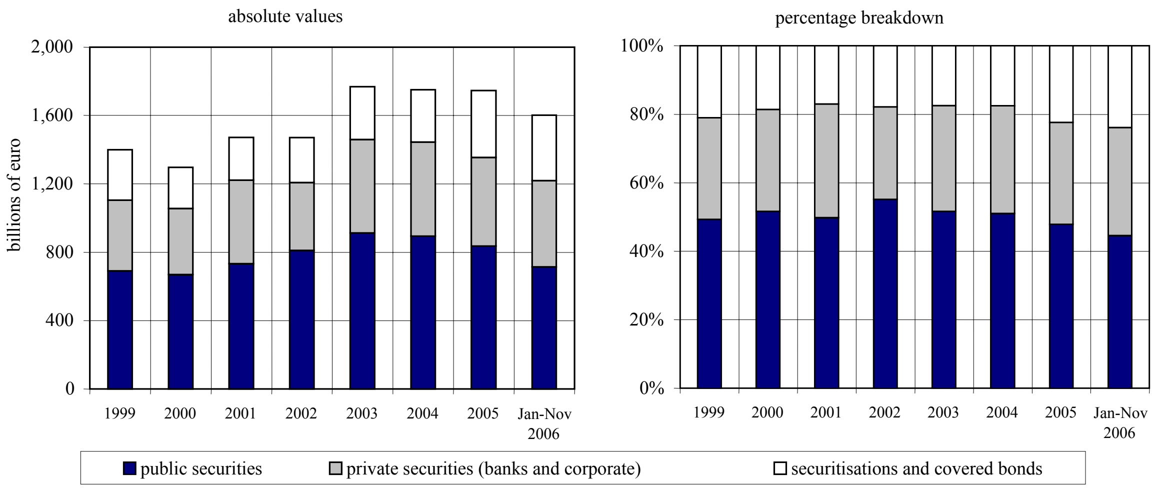
Source: Consob. [1] Includes only securities on which at least 10 contracts were concluded during the period in question. Rounding may cause discrepancies in the final figure.

5. The asset backed securities and covered bonds market

Data published by the European Commission indicates that in the first nine months of 2006 the market share of bonds issued against asset backed securities (ABS) and covered bonds on the total of bonds issued in euro was 24% (22% in 2005; Fig. 39).

Figure 39

Gross issues of euro bonds



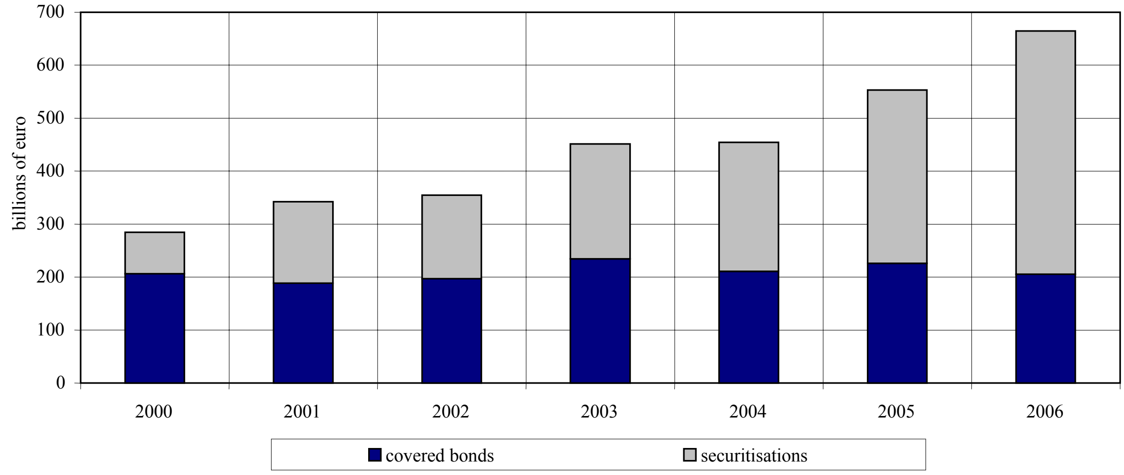
Source: calculations on European Commission data.

Statistics published by the European Securitisation Forum (ESF), which also take into account bonds issued in currencies other than euro (particularly those in sterling of UK issuers), recorded a strong market growth in 2006, almost totally due to the issue of asset-backed securities (which reached 459 billion euro, increasing by 40% over 2005), whereas gross issues of covered bonds remained stable (Fig. 40).

The increase in asset-backed securities issues is largely due to placements backed by home mortgages, which represented around 53% of total gross issues in 2006.

Figure 40

Gross issues of covered bonds and ABSs in Europe

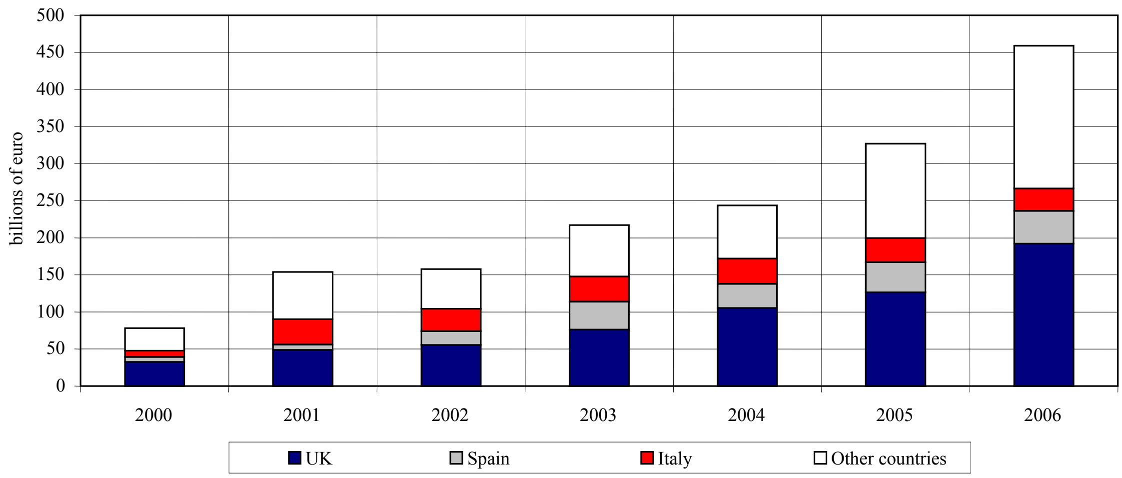


Source: calculations based on European Securitisation Forum and European Commission data. For 2006 the covered bond issues relate to the period January-November.

The United Kingdom remains the leading EU country for the issue of asset-backed securities (Fig. 41). In 2006, British issues (without considering Collaterized Debt Obligations - CDOs) totalled 192 billion euro (+52% over the previous year) with a 40% weight on the total volume.

Figure 41

Gross issues of ABSs in Europe

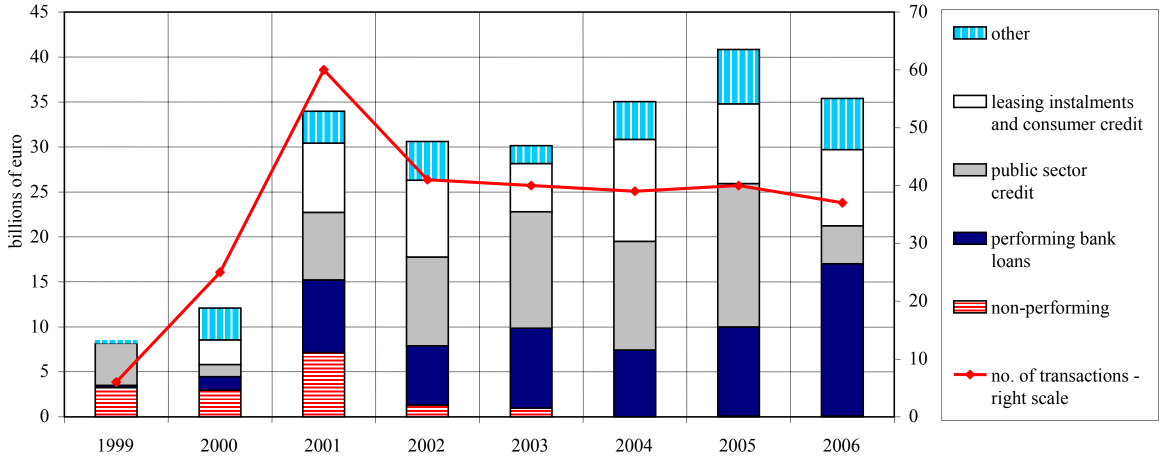


Source: calculations on European Securitisation Forum data. With regard to 2005 and 2006, Collaterized Debt Obligation data is included in the category “Other countries”.

In spite of the positive trend of the European market, in Italy the issues of securities linked to securitisation transactions reduced by 41 to 35 billion euro (Fig. 42).

Figure 42

Number and value of issues of ABSs pursuant to Italian Law No. 130/1999 by type of underlying debt



Source: calculations on Securitisation.it data. "Other" includes issues of covered bonds by the Cassa Depositi e Prestiti Spa.

This movement is attributable to the lack of large securitisation transactions ("jumbo deals") in the public sector. ABS issues backed by public debt, in fact, totalled around 4 billion euro, against the 16 billion euro of 2005 (-74%). A strong increase, on the other hand, was seen in performing bank loan securitisations (+71%), linked mainly to transactions backed by home mortgages.

III – INTERMEDIARIES AND HOUSEHOLDS

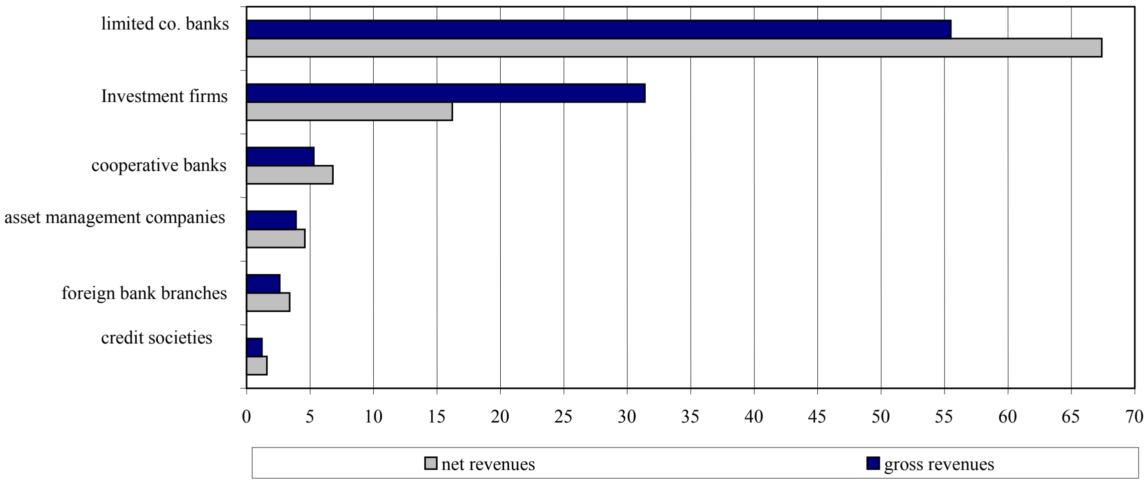
1. The structure of the investment services sector

The investment services sector in Italy is characterised by the central role of banks, which (based on unconfirmed data) account for around 62% of total gross revenues from investment services in 2005 (intended as the sum of gross commissions from investment and asset management services plus profits from financial transactions) and approximately 76% of net revenues (the sum of net commissions plus profits from financial transactions).

Around 56% of gross revenues from investment services can be attributed to banks established as joint-stock companies (approx. 200). Foreign bank branches (39) instead account for around 3% of total revenues (Fig. 43).

Figure 43

Breakdown of revenues from investment services in 2005 by entity type
(percentages)

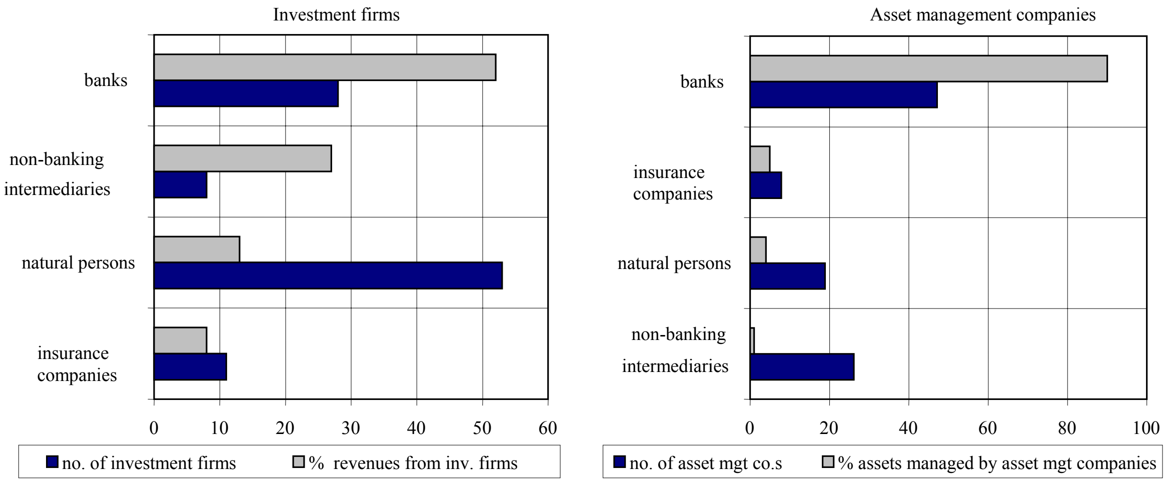


Source: calculations on statistical supervisory indications. Gross (net) revenues from investment services equal the sum of gross (net) commissions on investment and asset management services plus profits from financial transactions.

Intermediaries organised as investment firms account for only 4% of gross revenues from investment services. Investment firms, the number of which is in constant decline (from 171 in 2000 to 106 in 2006), always tend to deal with niche markets and to concentrate their operations on the provision of specific investment services (particularly distribution and the receipt and transmission of orders). In addition, around 52% of investment firm revenues are attributable to firms controlled by banking intermediaries (Fig. 44), whose operations reflect the strategies and management decisions of their group. A consistent quota of total investment firm revenues are also attributed to firms controlled by foreign banks and insurance companies (approximately 22%).

Figure 44

Control of investment firmpress and asset management companies
(percentages)



Source: calculations on statistical supervisory indications and Assogestioni data. For investment firms data relate to the first half-year 2006. For the asset management companies the asset figures are for the end of 2006 and relate to Italian open-end funds and foreign funds promoted by Italian intermediaries ("roundtrip" funds), including subfunds.

Asset management companies instead account for around 31% of gross revenues from investment services (deriving from collective and individual asset management commissions) and approximately 16% of net revenues. The difference depends on the fact that a very high quota of asset management company commission income is returned to banks in the same group as remuneration for placement and distribution activities (returns classed as override commission expense in asset management company financial statements). The asset management companies are mainly controlled by banking intermediaries. At the end of 2006 the total assets managed by bank-controlled companies totalled around 90% (19% of which relating to companies controlled by foreign banks).

2. The major banking groups

2005 was a very positive year for the major Italian banking groups. Consolidated data show an increase in operating results of approximately 19%, due to an increase in net revenues (gross income) of 4.6% and a reduction in operating costs of 4.3% (Table 19). Net profits increased by 46%, reflecting both the aforementioned increase in profitability and the strong reduction in write-downs and adjustments on loans. Consolidated data for the first half of 2006 confirm the positive trend: compared to the first half of 2005 (and excluding the HVB group now consolidated into Unicredito Italiano), the operating result has increased by around 11% (due to a 7% increase in gross income, against a 3.5% increase in costs) and net profits of approximately 19%.

The merger between Unicredito Italiano and the German banking group, HVB, had a marginal impact on aggregate data for the 2005 income statement, as consolidation took place on 1 November 2005, whilst balance sheet data as at 31 December and for the first half of 2006 fully reflect the HVB group contribution to aggregates in the Unicredito Italiano statements. This contribution proves to be highly significant as the HVB group has total assets of roughly 500 billion euro, almost double the assets of the major Italian group prior to the Unicredito-HVB merger. The Unicredito-HVB group, with total assets of almost 800 billion euro was the largest Italian banking group as at 30 June 2006.

Table 19

Aggregate income statement of the major Italian banking groups
(amounts in millions of euros)

	2000	2003	2004	2005 (IAS)	1st half 2005	1st half 2006[1] (IAS)	% change 2006/2005
Net interest income (a)[2]	24,770	25,844	25,972	28,359	14,032	15,419	9.9
Net commissions (b = b.1 + b.2 + b.3)	16,442	15,425	15,900	18,500	8,455	9,288	9.9
of which: investment and collective management services (b.1)	9,264	7,732	8,146	9,321	4,488	5,125	14.2
securities and currency trading and order receipt	2,028	991	968	1,019			
individual portfolio management:	1,095	675	693	912			
collective portfolio management	4,835	4,051	4,476	4,628			
depositary bank	-	325	351	348			
securities safekeeping	331	201	196	171			
placement and distribution of financial and insurance products	849	1,371	1,390	2,160			
consultancy	112	85	72	82			
other	14	32	--	--			
from retail banking services (b.2)[3]	4,786	5,107	6,692	7,905	3,322	3,891	17.1
other net commissions (b.3)	2,392	2,586	1,063	1,274	645	273	-57.7
Profits on financial transactions (c)[4]	1,975	3,367	3,218	2,342	1,584	1,863	17.6
Other operating income (d)	2,660	3,267	3,428	1,561	1,526	770	-49.5
Gross income (e = a+b+c+d)	45,847	47,904	48,520	50,761	25,598	27,341	6.8
Operating costs (f)[5]	27,503	30,118	29,808	28,513	13,969	14,458	3.5
Operating result (e-f)	18,344	17,785	18,712	22,249	11,629	12,883	10.8
Net profit[6]	7,235	4,807	8,361	12,206	5,899	6,990	18.5

Source: calculations based on consolidated financial statements and half-yearly reports. Insurance business data are excluded. Rounding may cause discrepancies in the last figure. See Methodological Notes. [1] Does not include the HVB group. [2] Including dividends on holdings and profits or losses on holdings carried at equity. [3] Net commission for guarantees granted and credit derivatives, collection and payment services and servicing for securitisation transactions, tax collection services, net commissions on current accounts, credit cards and ATM cards. [4] For the 2005 annual statements and first half year 2006 statements, prepared in accordance with IAS/IFRS standards, the item includes the net result of trading, hedges and assets and liabilities assessed at fair value, plus profits from the disposal or buyback of financial assets and liabilities. [5] Administrative expenses plus value adjustments on tangible and intangible fixed assets. [6] Including profit pertaining to minority shareholders.

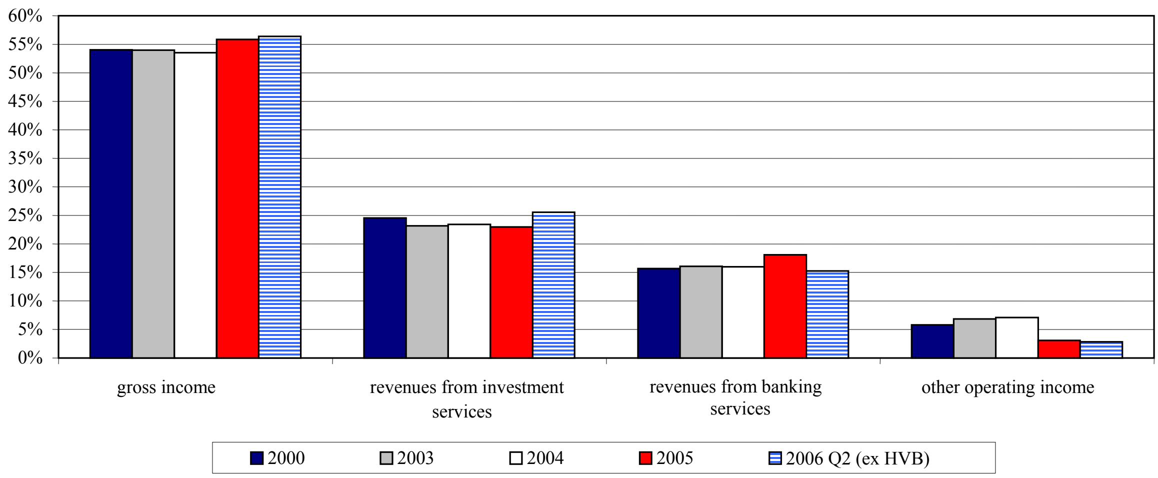
The increase in revenues in 2005 was driven by a strong increase in net commissions (+16.4%) and net interest income (+9.2%), whilst reductions are seen in operating income (-54.5%) and profits on financial transactions (-27.2%, data which reflect a non-standard discrepancy between 2004 and 2005 due to the inclusion of certain specific items required under the new IAS/IFRS accounting standards). Data for the first half of 2006 show a similar trend, with an increase in net commissions and gross income of around 10%, compared with the same period in 2005.

Net commissions from investment services and collective management services by the major Italian banking groups increased from 8.1 to 9.3 billion euro between 2004 and 2005 (+14.4%), largely reflecting the strong increase in placement fees (+55.4%) and net commissions on individual portfolio management (approx. +32%), whilst net commissions from trading and the receipt of orders increased by around 5% and commissions from collective portfolio management by around 3%. First half 2006 data confirm the high rates of increase in commissions from investment and collective management services (approx. +14% compared with the first half of 2005).

The breakdown of total revenues for 2005 sees a slight increase in the weight of gross income and banking service revenues, whereas the weight of revenues from investment services (intended as the sum of net commissions on investment services, collective portfolio management and profits on financial transactions) remains essentially stable at around 23% (Fig. 45). Data for the first half of 2006 show a further increase in the weight of gross income and a reduction in the weight of banking service revenues.

Figure 45

Breakdown of gross income for the major Italian banking groups

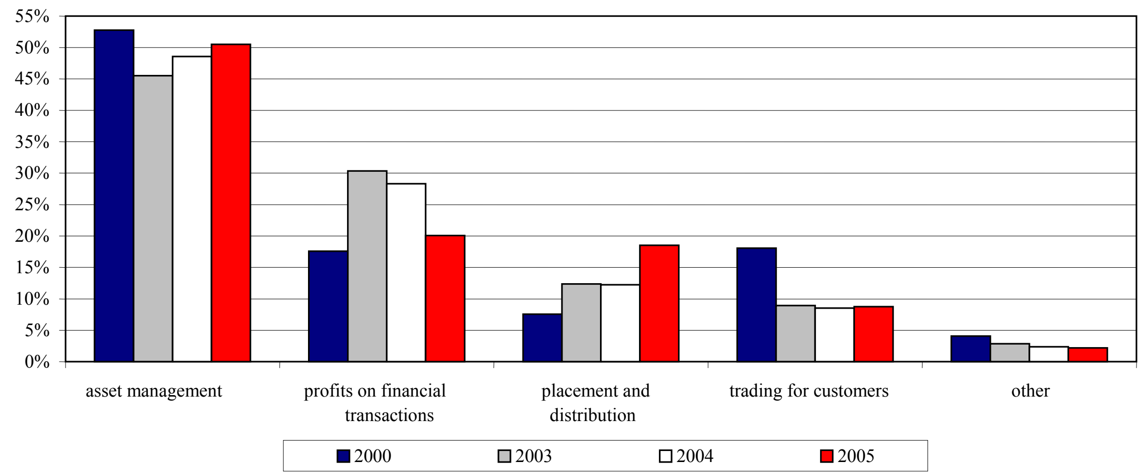


Source: calculations based on consolidated financial statements. See Methodological Notes.

On investment service revenues achieved in 2005, the net commissions from asset management have an impact of around 50% (approximately 5 percentage points up on 2003), whilst the weight of placement and distribution fees for financial products and instruments shows a strong increase (from 12.2% to 18.5%). The weight of commissions from trading and receipt of orders remains stable (Fig. 46). The reduced impact from profits on financial transactions partly reflects the discontinuity due to first time application of IAS/IFRS.

Figure 46

Breakdown of revenues from investment services for the major Italian banking groups

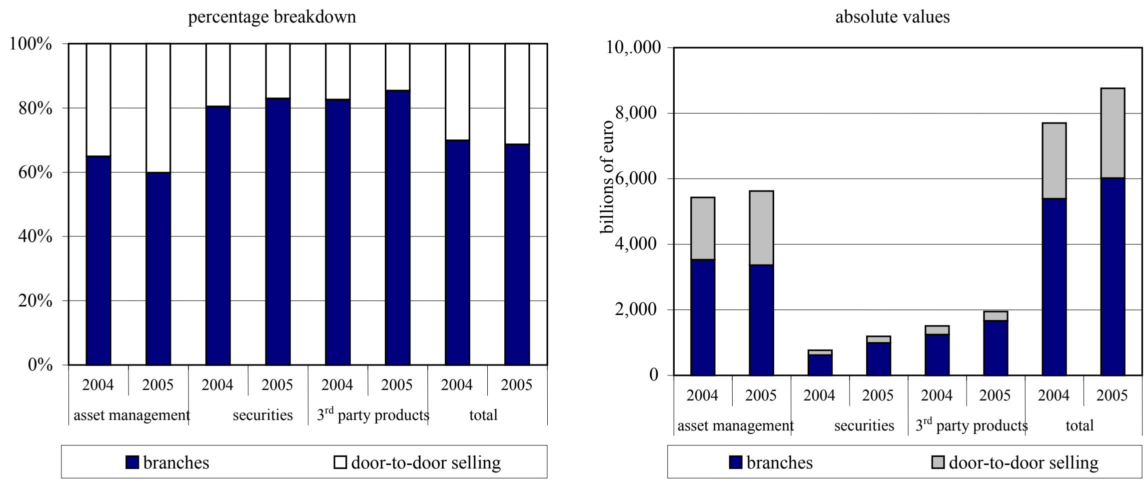


Source: calculations based on consolidated financial statements. See Methodological Notes.

With regard to distribution channels, branches generate around 70% of total commission income on investment products and services (Fig. 47). The weight of commissions generated by approved person networks is higher for asset management products (around 40%) and lower for the distribution of third party products (around 15%).

Figure 47

Commission income from investment services and placement of products and financial instruments for the major Italian banking groups by distribution channel

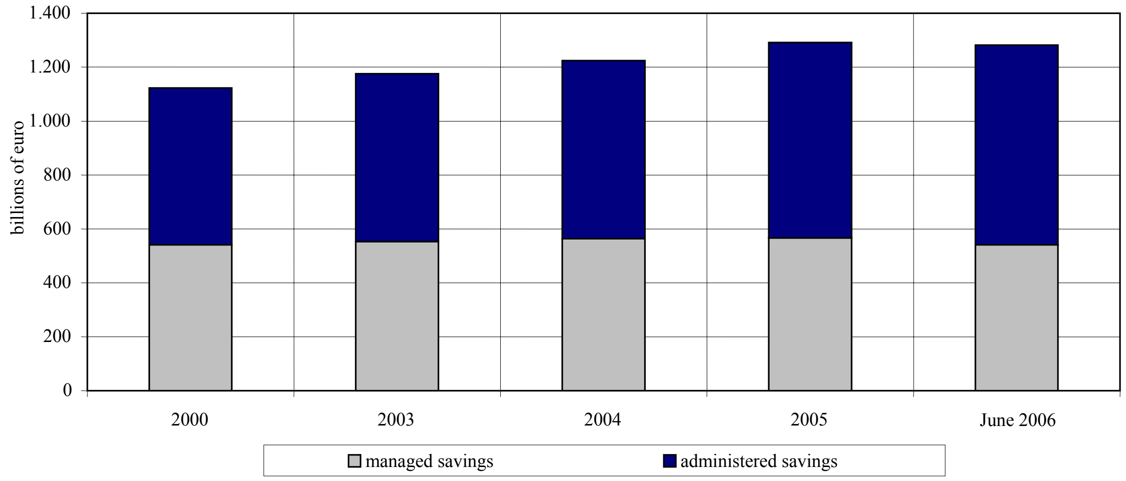


Source: calculations based on consolidated financial statements. See Methodological Notes.

In 2005, indirect funding (managed savings plus administered savings) of the major banking groups increased by around 67 billion euro (+5.5%), almost entirely due to the increase in administered savings, whereas the overall mass managed remains essentially stable (Fig. 48).

Figure 48

Breakdown of indirect funding of the major Italian banking groups



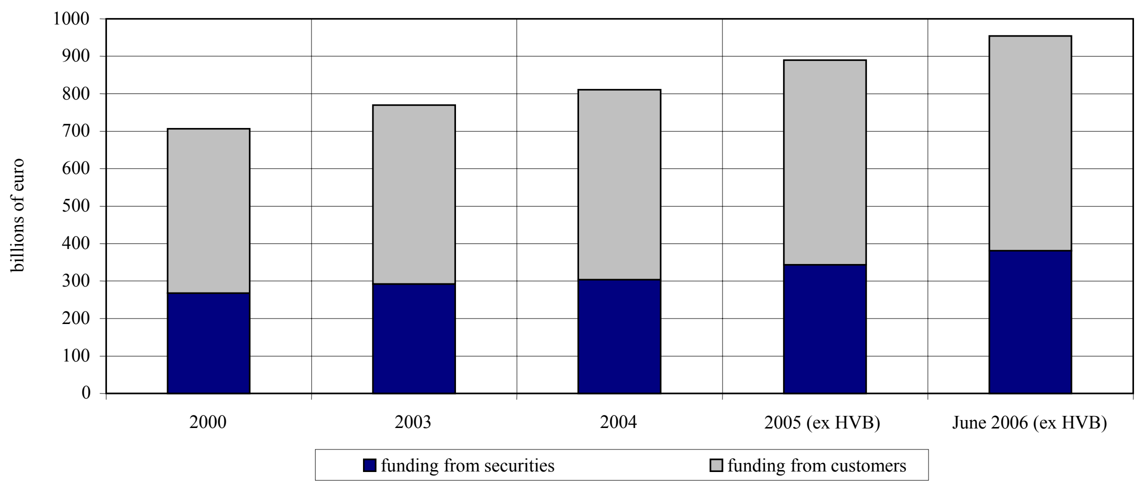
Source: calculations based on consolidated financial statements. See Methodological Notes. Managed savings include technical reserves for insurance and welfare products for group companies. June 2006 data are part-estimated.

With regard to direct funding, on the other hand, a considerable increase was seen in outstanding stocks (bonds and certificates of deposit) between 2004 and 2005 (from 303 to 343 billion euro). The increase continued in the first half of 2006, bringing the stock of securities to around 380 billion euro as at the end of June (Fig. 49). Funding from securities as at June 2006 was equal to 67% of total funding from customers (61% in 2000).

With reference to the securities portfolio, 2005 recorded a strong reduction in “investment” securities (i.e. “held to maturity” as per the new classification introduced by IAS/IFRS; approx. -40%) and a less marked reduction in trading securities (from 131 to 119 billion euro; approx. -10%) (Fig. 50).

Figure 49

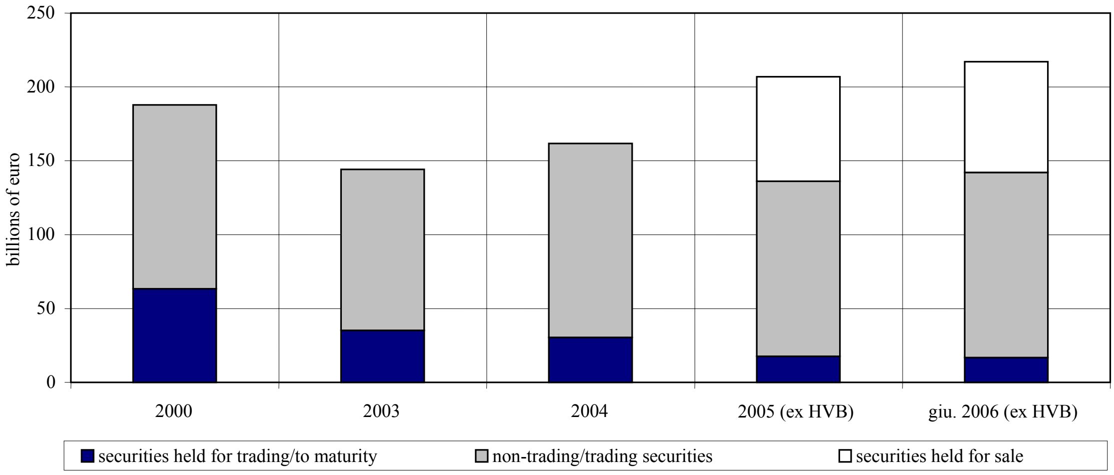
Breakdown of direct funding of the major Italian banking groups



Source: calculations based on consolidated financial statements. See Methodological Notes. Subordinated liabilities, liabilities held for trading and interbank relations are excluded.

Figure 50

Breakdown of the securities portfolio of the major Italian banking groups



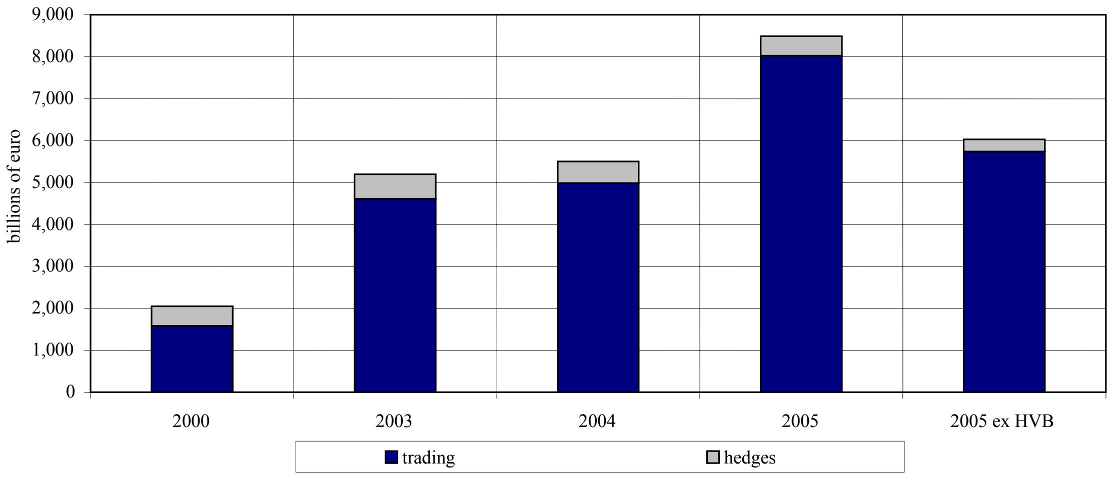
Source: calculations based on consolidated financial statements. See Methodological Notes. Financial assets other than securities (such as loans or financing) and the fair value of derivatives are excluded, though UCITS are included.

2005 data show the consistency of the new item introduced by IAS/IFRS of "securities held for sale" (around 70 billion euro), basically including the equity investments in minority interests no longer entered under "equity investments" according to IAS/IFRS, and investments and securities not classifiable under other company portfolios unlike those for which IAS/IFRS imposes consolidation.

The net market value of trading derivatives as at the end of 2005 was modest (around 2 billion euro), whereas the gross market value (the sum in absolute market value terms of positive positions and those recording a loss) was particularly consistent (approx. 220 billion euro, higher than the value of the entire securities portfolio). As at the end of 2005 the notional value of derivative positions of the major Italian banking groups was 8,490 billion euro, against the 5,504 billion euro at the end of 2004. This increase, however, was largely due to HVB positions consolidated into Unicredito; excluding the HVB positions, the notional value of derivative positions would be 6,029 billion euro (+9.5% on 2004) (Fig. 51).

Figure 51

Notional value of derivatives for the major Italian banking groups
(period end balances)

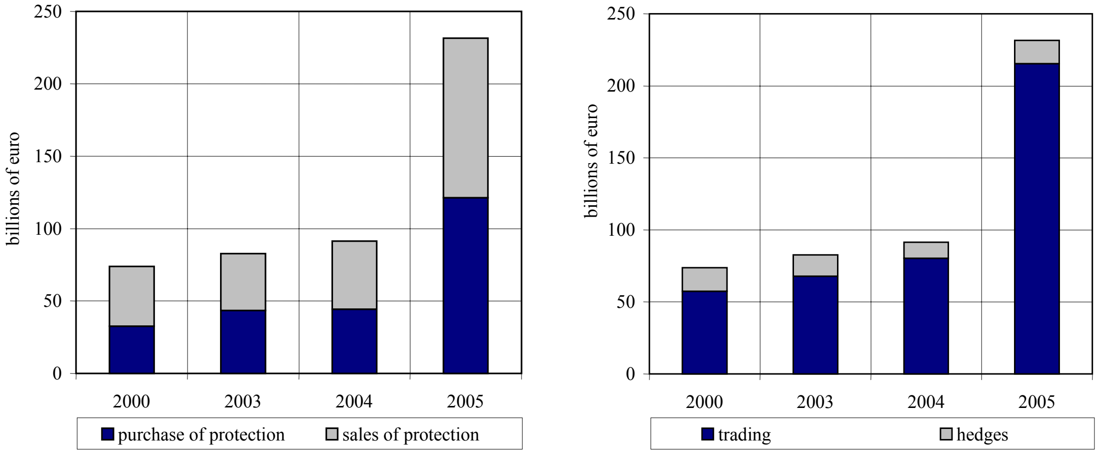


Source: calculations based on consolidated financial statements. See Methodological Notes.

Credit risk derivatives also show an increase in positions, again attributable for the most part to the consolidation of HVB into Unicredito. The notional value of credit risk derivative positions at the end of 2005 was 232 billion euro, against the 91 billion euro at the end of 2004 (Fig. 52). As for derivatives on financial instruments, the net prevalence of open trading positions is confirmed, whereas the total value of purchases of protection is similar to that of sales of protection.

Figure 52

Notional value of credit risk derivatives for the major Italian banking groups
(period end balances)



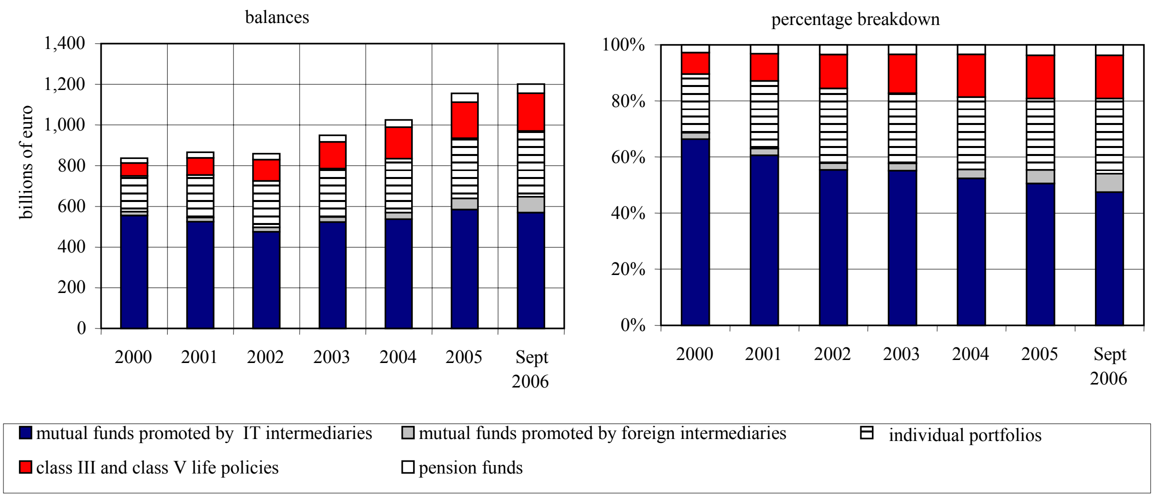
Source: calculations based on consolidated financial statements. See Methodological Notes.

3. Institutional investors

At the end of September 2006, total assets relating to asset management products placed in Italy were around 1,200 billion euro, approximately 4% up on the end of 2005 (Fig. 53). This increase is mainly due to mutual funds promoted by foreign intermediaries (approx. +40%), individual portfolio management (approx. +10%), class III (linked) and class V (capitalisation transactions) life insurance policies (approx. +4%). The portfolio of mutual funds promoted by Italian intermediaries, on the other hand, reduced by around 3%. As compared with 2000, the weight of pension funds and insurance products has increased from 10% to around 19%, whilst the weight of mutual funds promoted by Italian intermediaries has decreased considerably, from 66% to around 47%. The weight of individual portfolios managed (excluding the percentage invested in mutual funds) increased, however, from 21% to around 27%.

Figure 53

Portfolio of asset management products placed in Italy

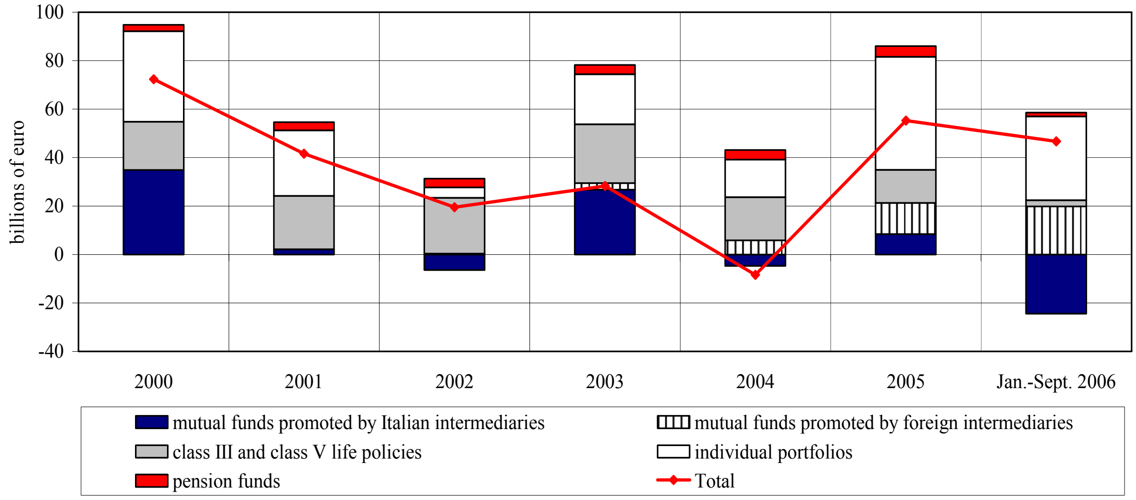


Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Period end data. Data relating to mutual funds promoted by Italian intermediaries include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Data also include subfunds. The figures relating to individual portfolios are stated net of investments in mutual fund units. Data relating to life policies refer to "direct Italian business" (i.e. excluding reinsurance business and that performed by foreign companies operating in Italy). The 2006 figure is estimated. The data relating to pension funds in 2006 are part-estimated.

Data on net inflows of asset management products in the first nine months of 2006 confirm the positive trend begun in 2005, the year in which total inflows (net of investments in mutual funds by individual portfolio management) were around 55 billion euro (Fig. 54). Nevertheless, the first nine months of 2006 saw a considerable reduction in net inflows of class III and class V life policies, which had instead been consistent for the entire period 2000-2005 (even if gross premiums continue to have an impact of around 50% on total life policy premiums, in line with that of previous years).

Figure 54

Net inflows of asset management products placed in Italy

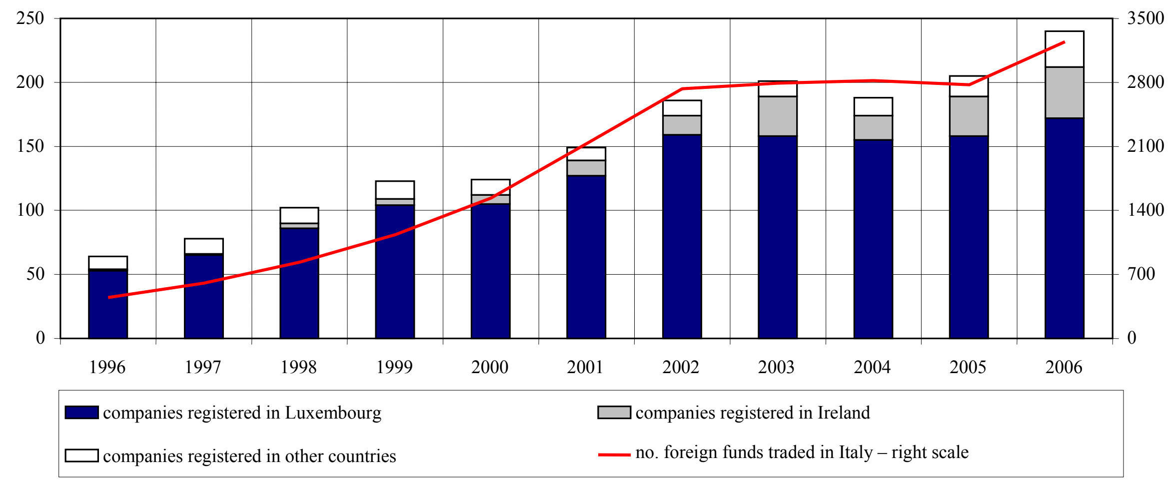


Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Data relating to mutual funds promoted by Italian intermediaries include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Data relating to life policies refer to "direct Italian business" (i.e. excluding reinsurance business and that performed by foreign companies operating in Italy). Data relating to pension funds for the period January-September do not include contributions to pre-existing funds. The total does not take into account net subscriptions to mutual funds by individual portfolios.

In the first nine months of 2006 the strong increase continued in net inflows of mutual funds promoted by foreign intermediaries (approx. +20 billion euro), compared with strong outflows of funds promoted by Italian intermediaries. In addition, numbers have increased for foreign funds traded in Italy (from 2,773 to 3,244; +17%) and the number of foreign operators (almost all with registered offices in Luxembourg and Ireland) authorised to trade such products (Fig. 55).

Figure 55

Number of foreign funds traded in Italy and the number of foreign firms authorised to trade funds, by registered office

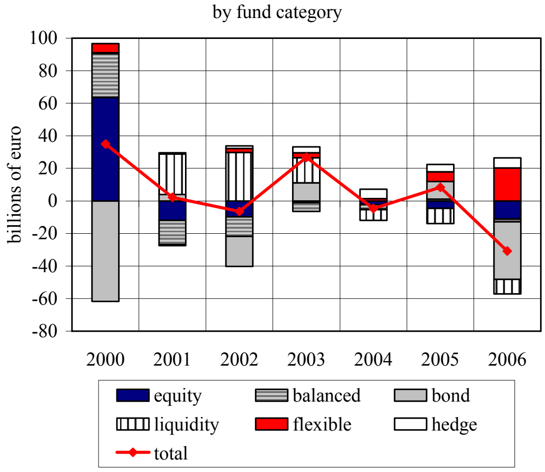


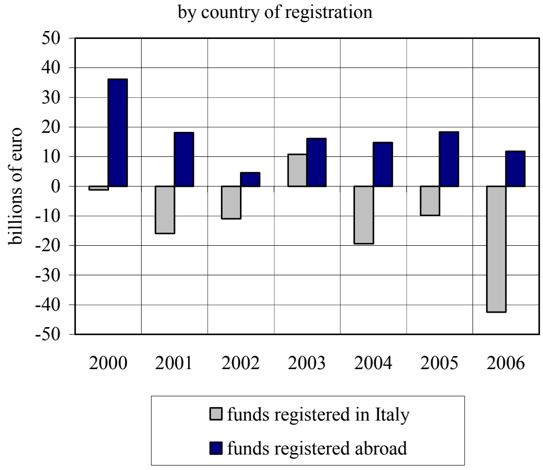
Source: prospectuses.

Data for 2006 show that net inflows of mutual funds promoted by Italian intermediaries was negative by around 31 billion euro, a value that records 2006 as the absolute worst year for the Italian asset management sector (Fig. 56). Nevertheless, as happened almost always in recent years, with respect to a negative net inflow of Italian funds (approx. -42 billion euro), a positive net inflow was recorded for funds placed abroad ("roundtrip" funds).

Figure 56

Net inflows of mutual funds promoted by Italian intermediaries





Source: Assogestioni. Data relating to Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Data also include subfunds. For funds placed abroad, data refer only to inflows from Italian subscribers until 2004, and thereafter includes only inflows from foreign investors.

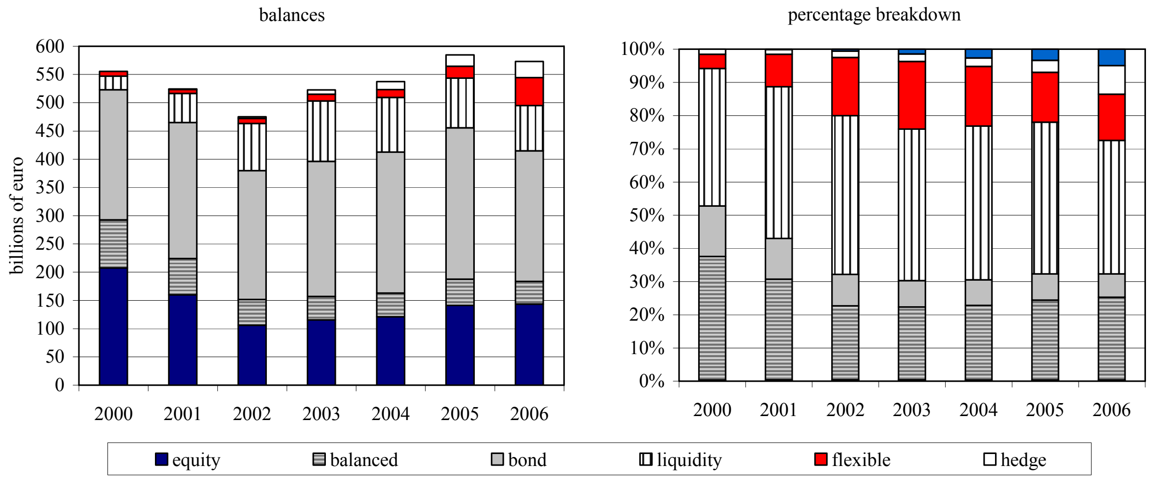
Net positive results are again recorded for subscriptions to flexible and hedge funds, whilst most of the negative inflows for 2006 are attributable to the loss of resources to bond, equity and liquidity funds.

Despite the positive trend of the financial markets, the strong outflow of resources has led to a reduction in shareholders' equity of funds promoted by Italian intermediaries, from 585 to 573 billion euro (-2%) (Fig. 57).

Financial market and stock exchange developments have led to a number of changes in the choice of asset allocations for Italian funds. The August 2006 data show a considerable increase in the weight of foreign shares to the detriment of foreign bonds, whereas the overall total of government securities and Italian bonds has remained stable at around 40% of the total portfolio (lower, however, than the 2002-2004 percentages). The investment decisions relating to individual portfolios are not easily comparable with those of mutual funds, as around 41% of their portfolio is in turn invested in mutual funds.

Figure 57

Shareholders' equity in mutual funds promoted by Italian intermediaries

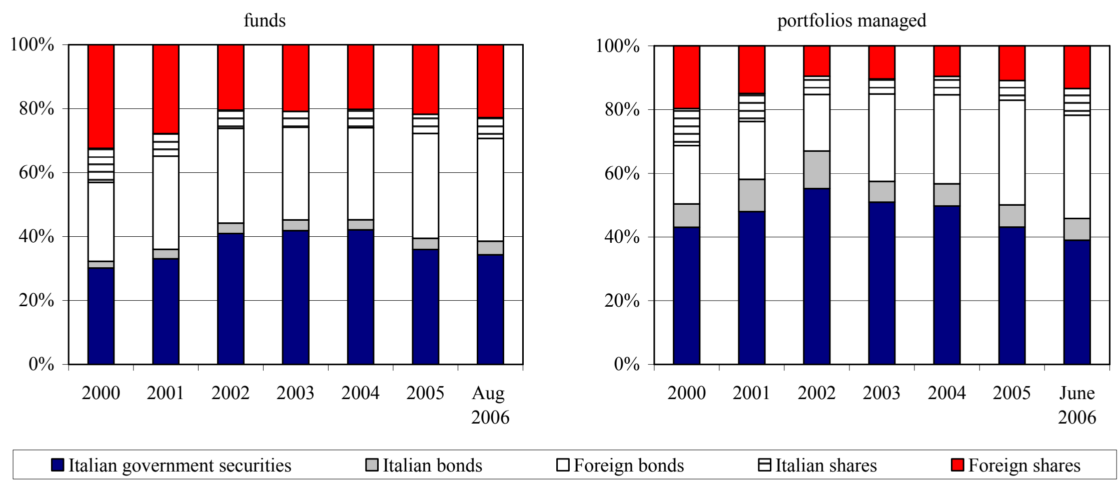


Source: Assogestioni. Data relating to Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Data also include subfunds. For funds placed abroad data refer to total assets.

However, a breakdown of the portion invested in funds according to the average portfolio composition would show that individual portfolios are less exposed to the share market. The share portion of the portfolio, in fact, is around 21%, compared with around 29% for mutual funds (Fig. 58).

Figure 58

Breakdown of the Italian open-end mutual fund portfolio and individual portfolios managed

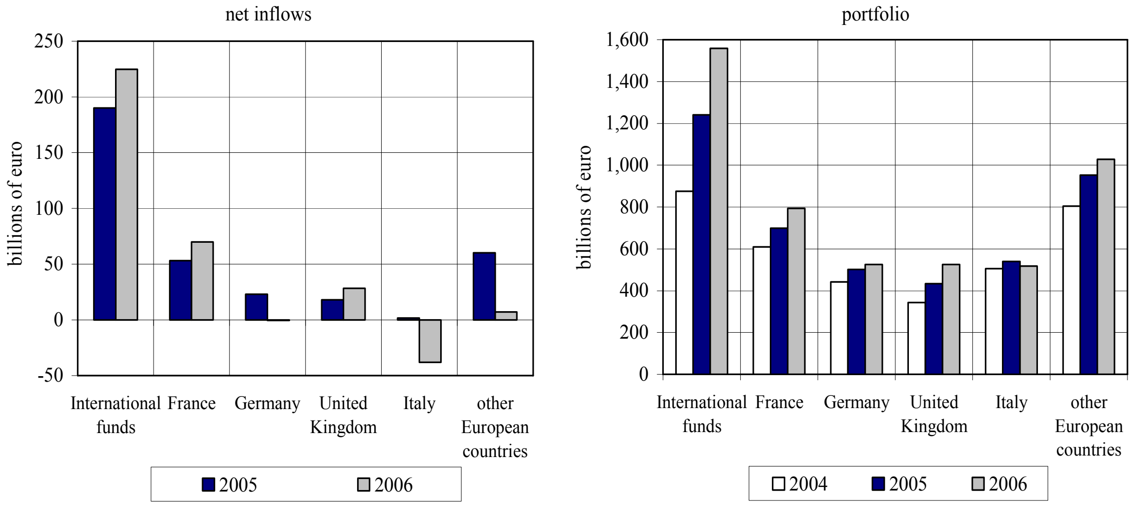


Source: based on Bank of Italy data. The portion of individual portfolios invested in UCITS was allocated to other financial assets according to the composition of the Italian mutual fund portfolio for the reference year.

Within the European market framework, the data on net inflows of Italian funds in 2006 clearly indicate a difficult situation for the home sector, even if in Germany and other European countries (i.e. Spain, Greece and Portugal) net inflows are practically zero or negative. The conspicuous outflow of resources forced the Italian asset management market down from second place in Europe in 2004 (below France) to fourth place in 2006 (just behind Germany and the United Kingdom) (Fig. 59). A strong increase, however, is recorded for international funds, i.e. funds established in Luxembourg and Ireland and sold cross-border to several European countries, the portfolio of which has doubled in two years.

Figure 59

Portfolio and net inflows of mutual funds in Europe



Source: FERI FMI. The funds are classified on the basis of the country in which the major share of the portfolio is held. This classification criteria may differ from that of the country in which the fund is established, as occurs with “roundtrip” funds, or from that of the country of residence of the intermediary. “International funds” are those established in Ireland and Luxembourg, for which an individual country with at least 80% of the total portfolio ("pure cross-border") cannot be identified. The “other European countries” are Switzerland, Spain, Belgium, Sweden, Austria, The Netherlands, Denmark, Finland, Norway, Portugal and Greece. The portfolio data refer to the month of November, whereas inflows relate to the period December-November in each year. Data do not include subfunds.

With regard to costs, data relating to 2005 cashflow statements for Italian open-end mutual funds indicate that average commissions continued to increase, from 23% of the average total managed in 2004 to 1.44% (Table 20), essentially due to the increase in management and incentive commissions. Increased commissions have affected all fund categories except flexible funds.

42% of the total commission income on Italian open-end funds in 2005 was generated from funds indicating a “high” or “very high” risk level in the prospectus, funds accounting for only 24% or thereabouts of the total average managed for the year (Fig. 60).

Table 20

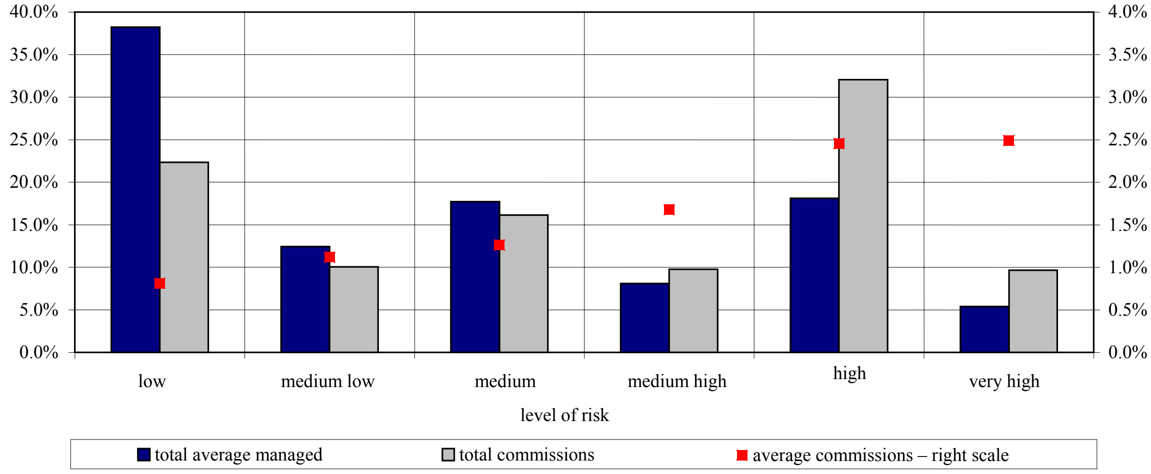
Costs of Italian open-end funds
(percentages)

	Average weight of total managed assets[1]						Percentage breakdown[2]					
	Total depositary bank fees	Management commissions	Operating fees and other expenses	Incentive commissions	Commission paid to other intermediaries	Total	Total depositary bank fees	Management commissions	Operating fees and other expenses	Incentive commissions	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*
						2005						
Liquidity	0.10	0.73	..	..	..	0.83	12.0	87.8	..	..	0.1	100.0
Equity	0.14	2.01	0.04	0.33	0.05	2.57	5.3	78.2	1.7	13.0	1.9	100.0
Bond	0.09	0.99	..	0.02	..	1.10	8.6	89.5	0.1	1.5	0.3	100.0
Balanced	0.11	1.51	0.03	0.06	0.02	1.72	6.3	87.5	1.7	3.3	1.2	100.0
Flexible	0.10	1.35	0.18	0.14	0.01	1.79	5.8	75.4	10.3	7.9	0.6	100.0
Total	*0.11*	*1.21*	*0.02*	*0.09*	*0.01*	*1.44*	*7.3*	*84.2*	*1.5*	*6.0*	*1.0*	*100.0*

Source: Consob calculations based on cashflow statement data. [1] The total managed is calculated on the average end of month data. [2] Rounding may cause discrepancies in the last figure.

Figure 60

Breakdown of total Italian open-end mutual funds managed and related commissions in 2005 by level of risk



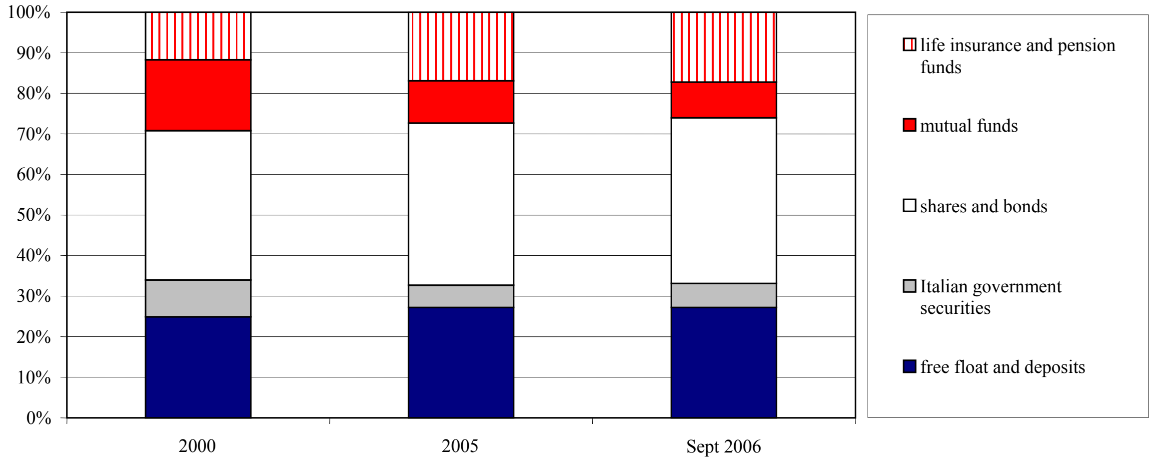
Source: calculations based on statistical supervisory indications and Consob archive on the prospectuses of mutual funds.

4. Households

As at the end of September 2006 the breakdown of financial assets for Italian households was similar to that of the end of 2005. However, the downward trend continued in the portion invested in mutual funds (from 10 to 9%; Fig. 61).

Figure 61

Breakdown of financial assets for Italian households



Source: calculations based on Bank of Italy data (Financial Accounts). The shares and bonds aggregate includes foreign securities. Households include non-profit making family services organisations.

Between 2000 and 2006 the weight of Italian free float, deposits and government securities on the total financial assets for households dropped slightly from 34% to approximately 33%. The reduction in holdings of Italian government securities (from 9%

to around 6%) was almost completely offset by the increase in free float and deposits (from 25% to approx. 27%). The breakdown of high-risk financial assets (corporate bonds and Italian bank bonds, Italian shares, foreign securities, Italian and foreign mutual funds, life insurance and pension funds) instead showed a significant change.

The quota of Italian and foreign shares dropped from 26% to around 25% and the weight of listed shares reduced from 13% to 12%. The quota of corporate bonds (Italian and foreign) increased from 4% to 6%, whilst the portion of bank bonds increased from 7% to 10%.

The absolute value of household investments in mutual funds (Italian and foreign) has reduced from 457 billion euro in 2000 to 291 billion euro in 2006, and the quota of financial assets has dropped from 17% to 19%. The portion of life insurance and pension funds has instead increased considerably, from 12% in 2000 to 17% in 2006. In particular, the technical reserves quota to cover class III and class V life policies has almost tripled (from 2% to around 6%).

B

CONSOB ACTIVITY

I – SUPERVISION OF LISTED COMPANIES

1. Corporate disclosure

In 2006 the Commission presented almost 300 requests for information to corporate officers and major shareholders of Italian listed companies and approximately 150 requests for the publication of data and information (Table 21). The Commission also exercised its powers to challenge the financial statements of 4 listed issuers (see also paragraph 4 below).

Table 21

Supervision of corporate disclosures and ownership structures

Type of action	2002	2003	2004	2005	2006
Requests for information pursuant to Articles 115 subsection 1, and 115 subsection 2 of the Consolidated Law on Finance					
Information acquired from directors, statutory auditors, independent auditors, general managers, parent and subsidiary companies	*36*	*82*	*51*	*90*	*36*
Requests for data and information	*100*	*317*	*43*	*213*	*201*
Requests for confirmation of major holdings	*23*	*49*	*21*	*77*	*30*
Requests for information to identify the persons responsible for issue of disclosures in the event of charges of infringement	*52*	*31*	*12*	*47*	*28*
Total	211	489	127	427	295
Requests to companies for information on their shareholding structure pursuant to Article 115 of the Consolidated Law on Finance	31	33	39	13	12
Requests to publish data and information pursuant to Article 114 of the Consolidated Law on Finance					
Supplements to information for disclosure at shareholders' meetings	*69*	*18*	*15*	*6*	*11*
Supplements to periodic financial reports	*1*	*--*	*14*	*--*	*6*
Information for disclosure to the market (press releases)	*25*	*46*	*82*	*69*	*129*
Monthly disclosures	*9*	*6*	*8*	*2*	*2*
Supplements to merger documentation and other extraordinary transactions	*2*	*1*	*1*	*--*	*4*
Supplements to takeover bids	*3*	*4*	*4*	*17*	*6*
Total	109	75	124	94	158
Waivers of disclosure requirements pursuant to Article 114 of the Consolidated Law on Finance	5	10	11	2	25
Delayed disclosures pursuant to Article 114 of the Consolidated Law on Finance	—	—	—	—	12
Requests for immediate publication of research reports in the event of rumours	3	10	3	8	18
Reports to legal authorities	1	--	--	--	4
Inspections	2	4	2	2	2
Written reprimands	3	3	--	--	1
Annual accounts challenged	--	4	4	4	4

In approximately 40 cases, requests for publication of data and information were triggered by rumours and press indiscretions in relation to specific listed issuers, often associated with anomalous price performances. The Commission also invited unsupervised persons involved in the aforementioned cases to disclose comments or details of press indiscretions to the public in order to restore conditions of information equality to the market. In cases in which non-resident persons were involved, however, the cooperation of foreign supervisory authorities was requested.

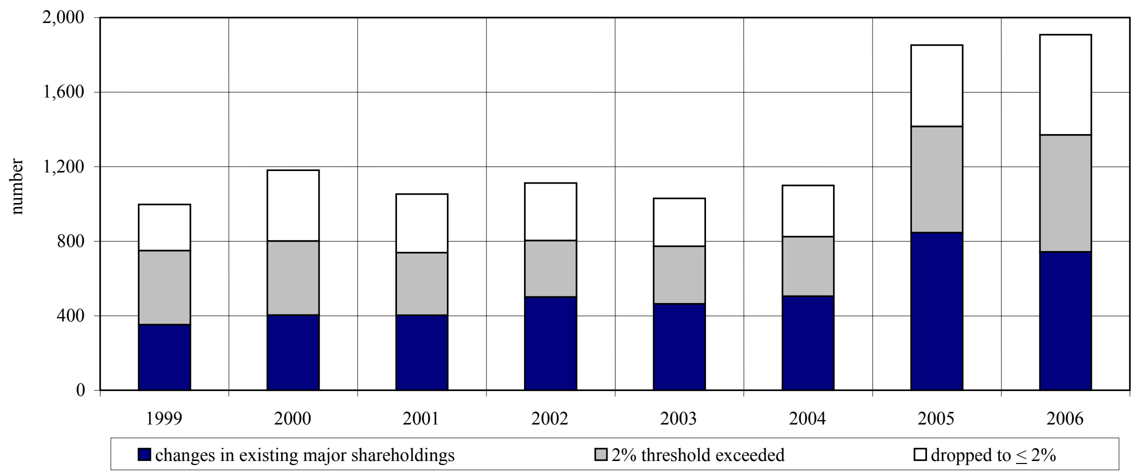
In 2006 the Commission examined 25 justified claims from listed issuers for the waiver of publication of inside information and 12 reports of delayed disclosure of inside information. With regard to the justified claims, in several cases Consob accepted the claimant's justification after assessing that the information, concerning events subject to significant change, would have been disclosed without a reasonable degree of certainty and, therefore, could have misled the market. In relation to the reports of delayed public disclosure of inside information, however, the Commission instead requested immediate disclosure of the information in 3 cases.

The Commission intervened in 18 cases by asking intermediaries to publish research reports containing recommendations with regard to listed issuers so as to restore conditions of information equality to the market due to indiscretions on the content of said reports.

Particularly intense supervision was carried out on the disclosure of ownership structures, given a very high number of notices of major shareholdings in listed companies (approximately 1900; Fig. 62).

Figure 62

Notices of major shareholdings in Italian listed companies



In around 34% of cases the 2% threshold in share capital was exceeded, in approximately 29% of cases the shareholding had dropped below this threshold and in around 37% of cases notice was related to changes in existing major shareholdings. Of the latter, 12% concerned notices of changes in share ownership or chain of control, or update notices of shareholdings in response to explicit requests from Consob as part of their supervisory duties (around 5% of the notices).

The Commission intervened in 12 cases to request information from companies regarding their shareholding structures. Given particularly intense trading on the shares of 2 listed companies, from the second half of 2005 and for the first few months of 2006 the Commission requested constant updates on changes in shareholdings exceeding 1% of the share capital, even if legal provisions on this subject require mandatory notification only of changes exceeding the 5%, 7.5% and 10% thresholds and thereafter in multiples of five.

Supervision activities on corporate disclosures, as usual, also included information on related party transactions. In 2006 the Commission examined 11 information documents and 2 press releases in relation to this type of transaction (Table 22).

Table 22

Related party transactions disclosed to the market by listed companies in 2006

Company	Transaction	Counterparties
	Information documents	
Ferrovie Nord Milano	business segment disposal	listed company and direct or indirect subsidiaries
Perlier	reserved share capital increase without option rights, and with settlement possible by share transfer	listed company and direct or indirect controlling bodies
Bastogi	corporate transaction on conclusion of which the issuer holds 82% of share capital in another company	listed company and a member of its board of directors
Mittel	purchase of shares held by beneficiaries of a stock option plan	listed company and its directors and managers
Chl	reserved share capital increase without option rights	listed company and a company contractually linked to major shareholders of the issuer
Sicc	disposal of controlling shareholding	listed company and its managing director
Asm	business segment transfer	listed company and a subsidiary
Isagro	shareholding purchase	listed company and a company in the group with a major shareholding in the issuer parent company
Beghelli	sale of land	listed company and companies in which bare ownership quotas are held by directors of the issuer
Mediolanum	shareholding disposal	listed company and a subsidiary
Banca Popolare di Verona e Novara	merger by incorporation	subsidiary and investee company of the listed company
	Press releases	
Lottomatica	merger by incorporation	listed company and a 100% controlled subsidiary
Stefanel	part disposal of a real estate unit	subsidiary 100% controlled by the listed company and a related company

During 2006 the Commission twice updated the list of issuers of significant quantities of financial instruments widely distributed among the public (on 1 January and 1 July 2006). In July 2006 there were 86 issuers of widely distributed financial instruments (mainly cooperative and savings banks) (Table 23).

Table 23

Issuers of widely distributed financial instruments
(as at 1.7.2006)

Financial instruments	Number of issuers
Ordinary shares	69
Ordinary shares and convertible bonds	9
Cooperative shares	1
Ordinary and preference shares	2
Ordinary and savings shares	1
Preference shares	1
Convertible bonds	1
Non-convertible bonds	2
Total	*86*

2. Disclosure in public offerings and extraordinary finance transactions

In 2006 the Commission authorised approximately 1200 prospectuses concerning admissions to listing or public offers for publication (Table 24). The strong increase in the number of prospectuses examined is essentially attributable to the entry into force of the legal provisions requiring that bank bonds are subject to public offering (see details provided later in this section).

The Commission also examined almost 200 reports on extraordinary transactions and amendments to bylaws.

In 2006, publication was authorised for 36 prospectuses for the listing of new companies (including one prospectus relating to a share capital increase with option rights and the listing of an Italian company on an EU regulated market), 23 prospectuses concerning share capital increases on option to shareholders of companies already listed and 6 prospectuses relating to shares offered in unlisted companies (mainly cooperative banks and credit societies). The Commission also examined 8 prospectuses concerning offers aimed at admission to listing and 2 prospectuses concerning public offers of shares for which the original application from the issuer had been withdrawn or had lapsed.

A number of cases examined for authorisation to publish the prospectus involved issuers subject to management and coordination by the parent company (scenario pursuant to articles 2497 to 2497-*septies* of the Italian Civil Code.

The importance of this issue was emphasised by the entry into force of article 14, Italian Law 262/2005, amending Art. 62 of the Consolidated Law on Finance and empowering Consob to establish conditions, under its own regulations, for which shares in companies subject to management and coordination by other companies cannot be admitted to listing. Pending the exercise of this regulatory power, in examining applications for admission to listing of companies subject to management and coordination, the Commission arranged to request explicit inclusion in the prospectus of information on: (i) the means by which the parent company exercised centralised control over the issuer prior to listing; (ii) the extent to which such control was changed following admission to listing of the subsidiary; (iii) the capacity of the latter to perform its business activities with independent decision-making powers.

Table 24

Consob's supervisory activities on public offerings, admissions to listing and extraordinary finance transactions

Type	2002	2003	2004	2005	2006
Number of prospectuses concerning:					
Admission to listing of shares [1]	14	14	8	19	36
of which: by public offer	*6*	*4*	*8*	*15*	*26*
Bonds	21[2]	28	4	18	711
of which: base prospectuses	—	—	—	—	*535*
full prospectuses	—	—	—	—	*143*
registration documents and supplements	—	—	—	—	*33*
Issue of covered warrants [4]	102	26	17	37	32
Admission to listing of warrants	6	8	--	10	1
Other offers of listed securities [5]	1	1	1	2	--
Offers of unlisted securities by Italian issuers [6]	3	2	5	7	6
Offers reserved for employees [7]	39	35	28	26	--
Offers on option to shareholders [8]	23	10	2	5	23
UCITS and pension funds [9]	520	268	374	374	397
Total	*729*	*392*	*439*	*498*	*1,205*
Number of reports on extraordinary finance transactions:					
Mergers	43	44	34	30	31
Spin-offs	6	10	5	3	--
Increases in share capital [10]	58	66	68	47	49
Purchases/sales of own shares	78	93	90	91	44
Amendments to bylaws	81	85	302	79	63
Share conversions	1	3	4	4	1
Bond issues	5	9	7	6	2
Reductions in share capital	8	13	14	8	4
Total[10]	*280*	*323*	*524*	*268*	*194*

[1] The figures refer to transactions for which authorisation was granted during the year for the filing of the listing prospectus. [2] In one case the public offer and admission to listing were simultaneous. [3] The number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants. [4] Public or private offers other than for admission to listing. [5] Excludes offers reserved for employees. [6] Includes stock option plans reserved for employees but excludes offers involving the recognition of foreign prospectuses. [7] Share capital increases in listed companies (including those with associated warrants and convertible bonds). [8] Includes public offers of Sicav mutual fund units and shares, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies and offers of pension funds. [9] Includes increases in capital approved but not yet implemented (or implemented at a later stage). [10] The total number of reports does not coincide with the sum of individual transactions since certain reports related to multiple transactions.

In 2006 the Commission examined a number of particularly complex extraordinary transactions, comprising leverage buyouts, which in the light of new European regulations also led in some cases to the obligation of drafting listing prospectuses.

Again in relation to extraordinary transactions, a particularly significant examination involved the proposed merger by incorporation of Autostrade Spa in Abertis Infraestructuras Sa.

Under different aspects, Consob supervised mergers involving a number of leading banks.

In 2006, Consob was strongly committed to a relatively new area of business for the Commission, linked to the entry into force of provisions governing the public offers of financial products and instruments other than shares issued by banks. These new tasks generated an enormous investigative workload, given the large number of issuers and financial instruments affected by the new provisions.

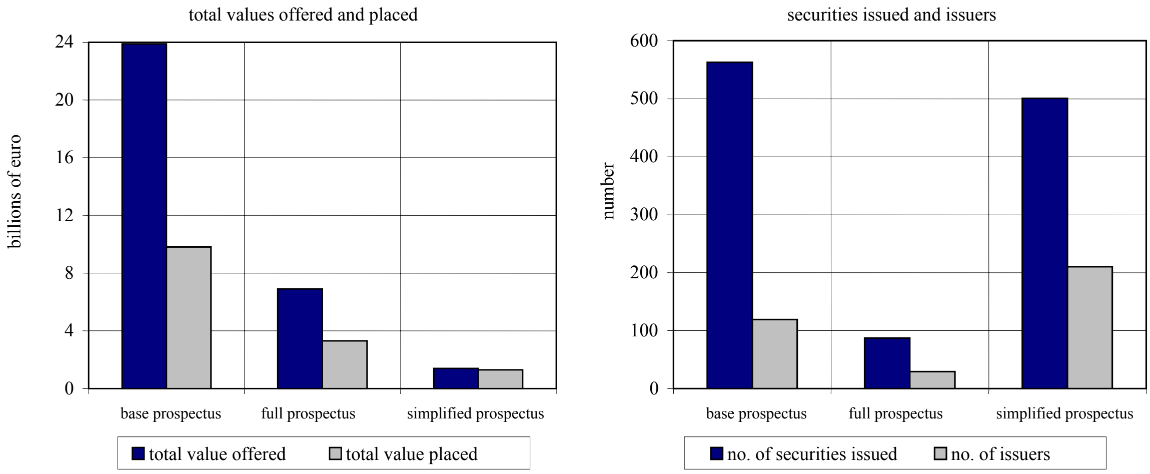
As a result, in 2006 the Commission authorised publication of 711 documents relating to the placement of bank bonds and covered warrants represented by full prospectuses (143 documents) or base prospectuses (including registration documents and related supplements) (568 documents), for approximately 150 issuers. Most of the documents concerned public offers only (around 87% of the total. 3% involved admission to listing and 10% both public offer and admission to listing). The scope of application of the new provisions marginally affects covered warrants since, as in the past, the public offer of such products is typically by means of a simultaneous offer and listing on the stock market.

Around 200 banks instead made use of the simplified prospectus, which is not subject to prior examination by Consob, for the placement of less than a 50 million euro total of plain vanilla bonds.

In the period May to December 2006, Italian banks placed bonds for approximately 9.8 billion euro by means of the base prospectus, for 3.3 billion euro by the full prospectus and 1.3 billion euro by the simplified prospectus. The total number of securities issued was over 1,100 (of which almost half by means of the simplified prospectus) (Fig. 63).

Figure 63

Bond issues by Italian banks subject to public offer regulations
(data for the period May-December 2006)



Source: supervisory report statistics.

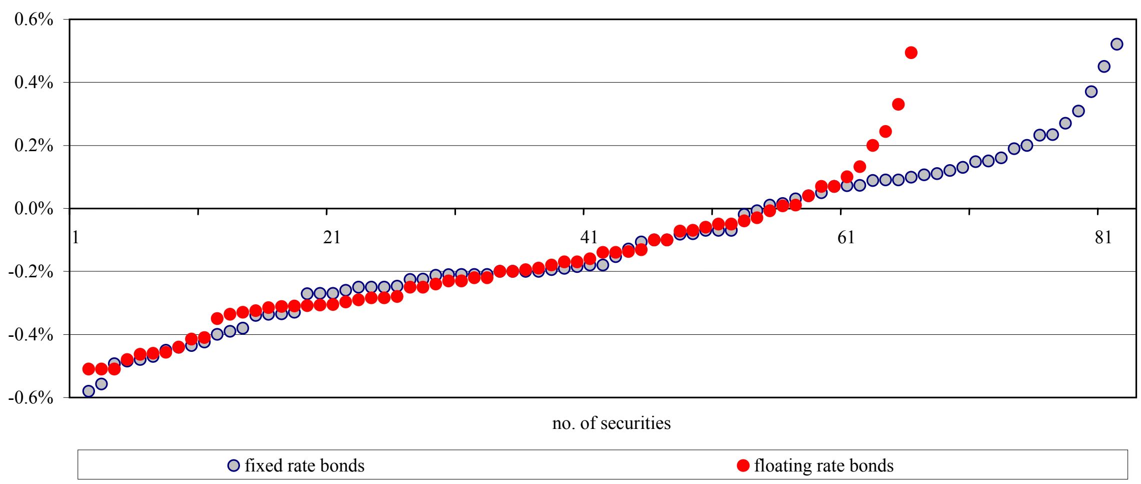
The gross value of bond issued by banks for which a prospectus was published in the period concerned (14.4 billion euro) was nevertheless just a fraction of the gross figure for total issues as funding by means of bonds with placement reserved to institutional investors remains very high (see Chapter II "Markets", Section A, paragraph 4). Furthermore, a number of large Italian banking groups used the "European Passport" for bond placement by means of base prospectuses approved by Authorities in other countries.

As part of its prospectus supervision activities, the Commission systematically invited banks to use samples to illustrate their bond performance in different scenarios and to compare the yield to maturity of their bonds with those of government securities with a similar residual life.

On a sample of 150 ordinary (or plain vanilla) bonds issued in 2006 by small-medium sized banks, composed of 83 fixed rate bonds and 67 floating rate bonds, it emerges that 54 out of the 83 fixed rate bonds offered a yield to maturity less than that of the Italian BTP bond with a similar residual life, and 55 out of the 67 floating rate bonds, assuming the first coupon maturity remains at a constant rate, offered a yield to maturity less than that of the CCT with a similar duration (Fig. 64).

Figure 64

Difference in yield to maturity of ordinary bonds issued by a sample of small-medium sized Italian banks and yield to maturity on government securities with a similar residual life



Source: prospectuses and final terms. For floating rate bonds it is assumed that the first coupon rate remains constant.

With regard to the supervision on takeover bids, in 2006 Consob authorised the publication of documents for 22 different financial instruments, including three bond loans (Table 25).

Table 25

Financial instruments subject to takeover bids and/or share swaps whose offer document was authorised for publication in 2006

	Listed shares			Bonds and warrants	Unlisted shares	*Total*
	Ordinary	Savings	Preference			
Voluntary	2	2	--	3	--	*7*
Unsolicited	1	--	--	--	--	*1*
Mandatory	9	--	--	--	--	*9*
Residual	5	--	--	--	--	*5*
For own shares	--	--	--	--	--	--
Total	*17*	*2*	--	*3*	--	*22*

Worth mentioning among the more significant investigations were those relating to takeover bids launched by Abn Amro Bank and Bnp Paribas, respectively, on Banca Antonveneta and Banca Nazionale del Lavoro which concluded the takeovers commenced in 2005.

Particularly important was the supervision during the takeover bid on FullSix shares which led to Consob's discovery of an undisclosed shareholders' agreement.

3. Disclosure to shareholders' meetings and financial reporting

In several cases in 2006 Consob issued requests to integrate information to be disclosed at shareholders' meetings, both for companies representing specific critical profiles and for significant extraordinary transactions.

Particularly complex was the action taken by Consob on a construction company and a company in the food and beverage sector in order to integrate information disclosed to shareholders and the market.

As part of its normal supervision on the correctness of the financial reports of listed companies, the Commission challenged the annual financial statements of four companies pursuant to Article 157, subsection 2 of the Consolidated Law on Finance.

With regard to international accounting standards, specific monitoring activity was performed in 2006 on the methods of application of the new accounting rules.

Specifically, meetings were arranged with certain issuers and independent auditors in order to discuss a number of main topics related to IAS/IFRS application, especially during the transition from national legislation to the new accounting standards. Among the questions considered, the newest and most significant related to working control, joint control and business combination accounting methods, all aspects emerging from numerous and consistent corporate reorganisations.

In one specific case, profiles were examined in relation to impairment testing ("Impairment of Assets", IAS 36). In this respect, it should be mentioned that impairment testing, with the formalities and details required under IAS 36, constitutes an important new element in the Italian accounting system, but a new element for which there is no consolidated guidance from legal theory and interpretation practices to help directors actually apply the regulations imposed by this standard.

In 2006 Consob continued to carefully supervise the financial position of listed football clubs.

Specifically, the effects of the introduction of the IAS/IFRS international accounting standards on the financial statements of football club, the first companies subject to application of the new standards, were analysed for the financial period July 2006-June 2007.

In 2006 Consob ordered certain companies in evident crisis to disclose monthly updates on the main financial parameters. As also specified in a Commission Communication in November 2006, this relates to situations in which the protection of public savings requires that the formulation of well-informed investment options are supported by more extensive information than that normally provided by listed companies. A manifest crisis situation is confirmed when independent auditors have expressed an adverse opinion, or have found it impossible to express an opinion on the financial or half-year statements of the issuer, or when the issuer has recorded losses leading to the reduction of share capital by over one third or to below the legal limit.

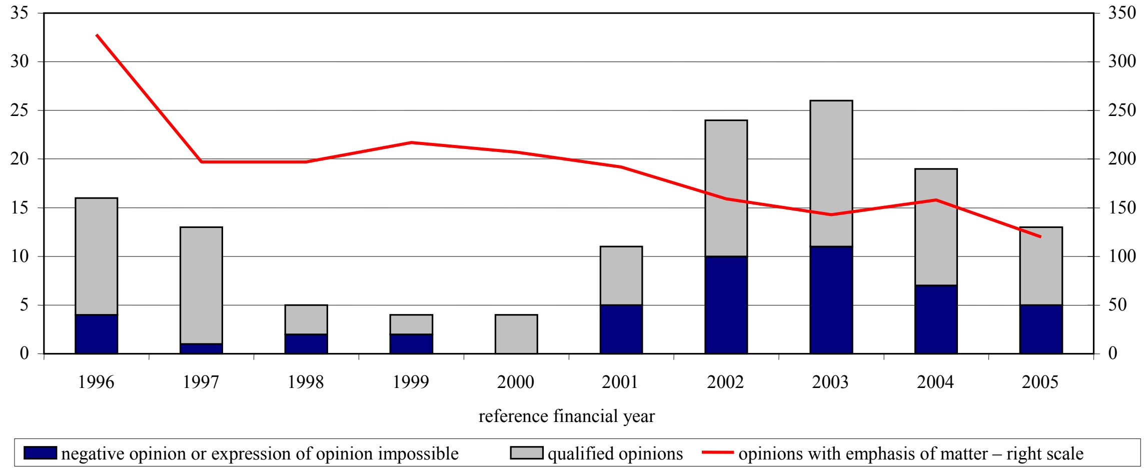
The Commission examined several requests for waiver of monthly reporting obligations, and accepted such claims only in cases where, based on the above-mentioned parameters, the crisis situation proved to have been stably overcome.

4. Independent auditors

Independent auditors on the special list examined 272 company financial statements and 251 consolidated financial statements for FY 2005 of issuers listed on Italian regulated markets. Data on independent auditor opinions show a reduction, as compared to 2004, in the number of cases in which expression of an opinion proved impossible and in cases of qualified opinion (respectively, 5 compared to 7 in 2004 and 8 compared to 12 in 2004; Fig. 65). However, there were no adverse opinions on 2005 financial statements (whereas there had been one case on 2004 statements).

Figure 65

Independent auditor opinions on financial statements of companies listed on Italian regulated markets



Source: independent auditor reports. The data refers to different types of opinion or queries that can also relate to the same issuer. See Methodological Notes.

Cases in which it is impossible to express an opinion are mainly due to the existence of uncertainty regarding business continuity. In one case the impossibility of expressing an opinion also derived from limitations to the auditing process.

In other cases, the independent auditors, though expressing positive opinion on the financial statements formulated queries due to disagreement with the valuation of specific accounting items or with imposed limitations to the auditing process.

At the end of 2006 the number of independent auditors on the special list held by Consob was unchanged with respect to 2005 (21 firms). During 2006 Consob investigated one independent auditing firm that had applied for inclusion in the special list in order to confirm possession of the requirements pursuant to article 161 of the Consolidated Law on Finance. In addition, the Commission launched 2 investigations involving the suspension of a partner in an independent auditing firm (see paragraph 2 of Chapter IV "Sanctions and precautionary measures”).

During the year the Commission received documentation relating to audit assignments conferred under the Consolidated Law on Finance. Data analysis showed a slight increase in the number of companies subject to mandatory audit, from 1,885 (in 2004) to 1,989 (in 2005), whilst sector concentration with regard to mandatory audit remained basically unchanged.

II – MARKETS SUPERVISION

1. Market abuses

In 2006, the Commission concluded 13 investigations into anomalies it had detected during its supervision of markets (Table 26).

Table 26

Results of investigations into market abuse

	Reports of alleged offences [1]	- of which alleged abuse of inside 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*
2006	7	2	6	*13*

In 1997 and in 10 cases in 1998 the reports were submitted 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 respective outcomes of 18 investigations, 3 investigations and 1 investigation concluded without submission of a report to the public prosecutor. Following the entry into force of the Consolidated Law on Finance and until May 2005, Consob was in any event required to submit reports to the public prosecutor on every investigation and assessment performed. As of May 2005, Consob is no longer obliged to submit reports for cases in which no alleged offence is formulated. [3] Of which 9 cases where investigations were closed before the entry into force of the Consolidated Law on Finance.

In 7 of these investigations, Consob submitted a report formulating alleged offences to the Legal Authorities (4 in 2005). Specifically, 2 cases of abuse of inside information and 5 cases of market abuse (2 cases of information based manipulation, 2 cases of trade based manipulation and 1 case of mixed manipulation).

In the two reports issued to the Legal Authorities alleging insider trading offences, the inside information abused regarded facts concerning listed companies and involved a significant change in the composition of the board of directors and a commercial agreement (Table 27).

The total parties reported to the Legal Authorities for alleged abuse of inside information and market abuse numbered 7 and 8, respectively (Table 28).

Table 27

Type of inside information involved in reports of alleged abuse of inside information submitted to the Legal Authorities

	Change of control – Takeover bid	Financial performance Financial position	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*
2006	--	--	--	2	--	*2*

Table 28

Alleged market abuse offenders reported to the Legal Authorities

	Authorised intermediaries [1]	Institutional insiders [2]	Others [3]	Foreign operators	*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*
2006	--	7	--	--	*7*
			Market abuse		
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*
2006	--	6	2	--	*8*

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Shareholders, directors and executives of listed companies. [3] Secondary insiders and "tippees" (pursuant to Article 180, subsection 2 of the Consolidated Law on Finance).

With regard to the investigations reported to the courts in relation to the facts occurred after the entry into force of the new market abuse regulations, in 3 cases Consob also launched disciplinary proceedings involving a total of 9 persons, 5 natural persons and 4 legal; the second kind of proceedings were also initiated pursuant to art. 187-*quinquies* of the Consolidated Law on Finance which governs corporate administrative responsibility.

For the 6 cases that did not lead to formulation of an alleged offence (including 4 relating to alleged abuse of inside information and 2 alleged market abuse), pursuant to the new regulations no report was submitted to the Legal Authorities. Nevertheless, 3 reports were submitted on cases in which the Legal Authorities had requested details.

Further to the receipt of proceedings papers from the Legal Authorities requesting investigation into possible administrative responsibility (as per art. 9, subsection 6 of Italian Law 62/2005), Consob launched another 7 disciplinary proceedings against natural persons which, as at the date of entry into force of the new market abuse regulations, were pending conduct proceedings which were later decriminalised. These proceedings were still pending at the end of 2006.

In 2006, Consob issued over 200 requests for data and information to intermediaries, listed companies, government departments and foreign Authorities as part of their supervisory activities on market abuse (Table 29).

Table 29

Requests for data and information on market abuse

	Requests addressed to:					
	Authorised intermediaries [1]	Listed companies and their parent companies or subsidiaries	Private individuals	Government departments	Foreign authorities	*Total*
1997	220	37	49	22	11	*339*
1998	324	14	50	10	17	*415*
1999	416	22	48	--	21	*507*
2000	492	33	11	4	30	*570*
2001	247	30	93[2]	10	33	*413*[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]
2006	161	11	44[12]	4	7	*227*[13]

[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. [12] Includes 31 hearings. [13] Of which 38 on behalf of foreign authorities.

In addition, Consob brought civil proceedings in parallel with 13 criminal proceedings for alleged insider trading and market manipulation (Table 30).

Table 30

Consob intervention in criminal proceedings for insider trading and market manipulation offences

	Number of cases	Offence [1]	Outcome as at 31 December 2006
1996	1	Insider trading	Plea bargain
1997	1	Insider trading	Dismissal due to limitation of actions [2]
	1	Insider trading	Acquittal
	1	Insider trading	Plea bargain
1998	1	Insider trading and market manipulation	Dismissal due to limitation of actions
1999	1	Insider trading and market manipulation	Plea bargains for 4 defendants; conviction for 2 defendants
2000	1	Insider trading and market manipulation	Dismissal due to limitation of actions [3]
	1	Market manipulation	Dismissal due to limitation of actions [4]
2001	3	Market manipulation	1 conviction; plea bargains in the other 2 cases
	2	Insider trading	1 conviction; 1 dismissal due to limitation of actions
2002	2	Insider trading	1 pending; 1 dismissal due to 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]
2006	13	Insider trading, manipulation and obstructing supervisory duties	Pending [7] 2 convictions[8] 6 plea bargains 1 acquittal[9] 2 non-suits[10]

[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 rigging: Article 5, Italian Law No. 157/1991, then Article 2637 of the Italian Civil Code, now market manipulation under Article 185 of the Consolidated Law on Finance. [2] Proceedings are still pending for other alleged offences. [3] The proceedings were already proposed in 1998, but following re-opening of the preliminary investigation phase it was necessary to resubmit the case in 2000. [4] In these proceedings Consob brought parallel civil proceedings. [5] One of these proceedings was also initiated for false corporate disclosure and obstruction of the duties of public supervision authorities (Article 2638 of the Italian Civil Code). [6] During 2005, Consob again brought parallel civil proceedings, except for one case. [7] During 2006, Consob again brought parallel civil proceedings, except in 2 cases. [8] An appeal was lodged against one conviction. [9] In these proceedings, the judge also ordered forwarding of papers for the application of any administrative sanctions possible under the terms of art. 187-*bis* of the Consolidated Law on Finance. [10] In particular, one sentence ordered that no offence had been committed, and another as the fact did not constitute an offence.

Insider trading and manipulation offences which jeopardise Consob's opportunity to best implement its institutional aims have a direct impact on Consob's subjective right to exist and/or operate effectively (as a legal person under public law). The Commission is therefore fully within its rights to bring civil proceedings to achieve compensation for damages suffered.

In this respect, in compliance with the general principle of art. 74 of the Italian Penal Code which legitimises exercise of civil action in criminal proceedings as «the person damaged by the offence», art. 187-*undecies*, subsection 2 of the Consolidated Law on Finance specifically states that damage caused to market integrity is to be settled in favour of Consob as the supervisory authority acting in the name of the public interest and market integrity.

In other words, the Consolidated Law on Finance, far from identifying a new and different type of damage, clarifies certain criteria, e.g. offensive nature of the fact, personal standing of the offender and the extent of the product or profit gained from the offence, that the judge may use in quantifying as a penalty the extent of damage caused by the offenders as part of any discretionary assessment.

In the last few months of 2006 the Court of Milan pronounced 3 sentences ordering compensation of non-pecuniary damage caused to Consob by market abuse offences.

In 2006, sentences pronounced included 6 convictions for market abuse, 7 plea bargains, 2 acquittals and 2 non-suits (Table 31).

Table 31

Outcome of reports submitted to Legal Authorities on insider trading and market manipulation

	Dismissal	Partial dismissal	Indictment	Plea bargain	Conviction	Acquittal	Non-suit	Dismissal due to 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*
2006	--	--	16[5]	7	6[6]	2[7]	2[8]	--	*33*

[1] An appeal was lodged against the first instance sentence. [2] A number of the accused were acquitted. Appeal was lodged against one sentence, but upheld by the Supreme Court. [3] One sentence acquitted one of the accused and ordered that papers be forwarded to Consob for possible application of financial penalties pursuant to 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 a number of the accused also ordered that papers be forwarded to Consob for possible application of financial penalties pursuant to Article 187-*bis* of the Consolidated Law on Finance. [5] In 2 cases Consob did not bring civil proceedings. [6] An appeal was lodged against the first instance sentence in 2 cases. In 1 case, sentence was pronounced by the Supreme Court. [7] The judge pronounced sentence of acquittal as no criminal offence had been committed and also ordered that papers be forwarded to Consob for possible application of financial penalties pursuant to art. 187-*bis* of the Consolidated Law on Finance. Another sentence was issued by the Supreme Court to the effect that according to law the fact was not a crime. [8] The sentences were issued to the effect that no criminal offence had been committed and as the fact did not constitute an offence.

Consob brought civil proceedings in parallel with criminal proceedings instigated before the Court of Milan against certain members of companies or bank employees, Italian and foreign branches of an Italian asset management company and legal persons accused under Italian Law 231/2001, the conduct of which as described in the accusations were all considered attributable to a single case of information manipulation dealt with as part of the Parmalat case. In relation to the Parmalat affair, criminal proceedings currently at trial stage were brought before the same Court against company members, auditors and consultants of the Parmalat group, accused of market manipulation, falsification of financial statements and obstruction of supervisory duties, in which Consob again brought parallel civil proceedings.

Of particular importance was the order issued on 16 March 2006, by which Criminal Section III of the Court of Milan decided to also include among the key insiders a person who was a member of the board of directors of a company other than the issuer of the securities subject to insider trading.

In so doing it became generally allowed that a person (extraneous), albeit without the personal standing required by law for a given offence, be classified along with the "qualified" person (intraneous) in committing the same offence, with the result that the person extraneous becomes criminally responsible under art. 110 of the Italian Penal Code.

2. Management of regulated markets and alternative trading systems

In 2006, pursuant to Articles 63, subsection 2 of the Consolidated Law on Finance, the Commission approved amendments to the Regulation on markets organized and operated by Borsa Italiana and related Instructions.

In February Consob approved a number of amendments to the Regulation on markets organized and operated by Borsa Italiana and related Instructions with regard to: (i) extension of the cross-order functions to the MTA, MOT and SeDeX markets; (ii) introduction of the combined "tailor-made" proposals; (iii) requirements for the admission to listing of covered warrants, certificates and structured bonds; (iv) introduction of specific regulations on the procedure for admission to trading of financial instruments already listed on another market; (v) regulation regarding the suspension and expulsion of issuers and certain amendments resulting from transposition of the market abuse directive.

At a later stage, Consob approved amendments to the Regulation Instructions with regard to: (i) regulations on adjustments to non-regulated transactions in the event of payment of dividends; (ii) adjustment of option contracts on shares and share futures in the event of payment of extraordinary dividends; (iii) regulations on voluntary buy-in for transactions not guaranteed by a central counterparty.

Consob then approved further amendments to the Regulation on markets organized and operated by Borsa Italiana with regard to: (i) regulations on financial analyses; (i) transposition of the directive on prospectuses and UCITS reporting obligations; (iii) regulations on specialists; (iv) the SeDeX and TAH (trading after hours) markets in relation, respectively, to the new definition for certificates and restrictions to trading on the after hours market of certain types of covered warrants and certificates.

In June 2006 Consob approved amendments to the Regulation Instructions on markets organized and operated by Borsa Italian with regard to: (i) regulations on futures block traders on the S&P/MIB index; (ii) introduction of long-term share options; (iii) market maker obligations on options. Further amendments to the Instructions concerned the updated format of price sensitive notifications following Consob's adoption of a specific communication on this subject. Lastly, in December 2006, Consob approved other amendments to the Instructions on extended conditions of illiquidity on shares underlying futures and options for which Borsa Italiana may arrange the closure and liquidation of the related open positions.

Following a change in the ownership structure of regulated market management company Tlx Spa, which saw the admission of a second shareholder with the role of market maker, amendments were made to the company's bylaws, with particular reference to clauses concerning the circulation of shares, corporate governance rules and the admission of new shareholders.

Consob then approved amendments to the Regulation and Instructions on the regulated market organized and operated by Tlx Spa as a result of admission of the new market maker.

Previously, Consob had approved amendments to the Regulation and Instructions for the Tlx market after implementation of the new trading platform "Click XT" for the Tlx and Euro Tlx markets. Further amendments were approved with reference to the extension to shares, share certificates and other equity securities of the option (already permitted for bonds) of admission to trading of such instruments in the absence of an application from the issuer.

The Commission also carefully supervised the alternative trading systems.

Supervision was performed with regard to ordinary control of individual ATS activities. Nevertheless, specific controls were performed on a system managed by a person without intermediary authorisation in order to verify the adequacy of the operating methods. The ATS, failing to adapt its own procedures to regulation standard, decided to suspend its trading activities.

3. Clearing, settlement and central depository services

As part of supervisory activities on behalf of the Cassa di Compensazione e Garanzia Spa, for its services as central counterpart, and Monte Titoli Spa, for its services as central depository, Consob agreed with the Bank of Italy's approval of certain amendments to the operating regulations for these companies.

In March, amendments were approved in relation to the Regulation on the guarantee systems for financial instrument transactions of the Cassa di Compensazione e Garanzia, and to the Regulation on settlement service operations (Express II) and accessory activities of Monte Titoli, motivated by the need to respects its commitment to the Antitrust Authority on conclusion of the latter's investigation during 2005 into the Borsa Italiana Spa, Euronext and Mts Spa merger.

III − SUPERVISION OF INTERMEDIARIES

1. Banks, investment firms and stockbrokers

2006 saw a further reduction in the number of complaints received by Consob regarding the provision of investment and asset management services (from over 2,000 in 2005 to approximately 1,500; Fig. 66). As in recent years the disputes between intermediaries and customers mainly concerned the trading service, specifically prior information on the characteristics of financial instruments (Table 32).

Figure 66

Number of investment service complaints received by Consob

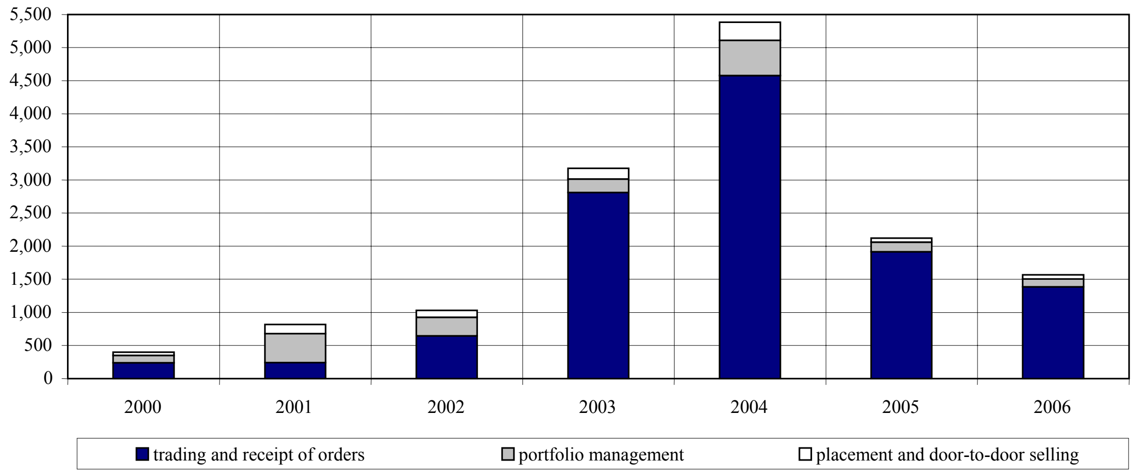


Table 32

Type of investment service complaint lodged by investors

	Subject of the complaint														
	Trading and receipt of orders					Portfolio management				Placement and door-to-door selling					
	Prior information on financial instruments	Fees	Unsuitable transactions without customers' prior consent	Execution of orders	Other	Prior information on the service	Compliance with contract/management rules	Unsatisfactory rates of return	Other	Allotment of quantity ordered	Description of products/services	Execution of instructions	Suspected unauthorised 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*
2006	881	4	27	156	317	11	33	35	40	11	29	7	--	17	*1,568*

In 2006, after incisive enforcement action against intermediaries that had placed bond of issuers later declared to be in default, the Commission's supervisory activities concentrated on sensitising operators with a view to the adoption of virtuous conduct in their relations with investors.

From this point of view, ongoing general supervision of qualified persons was flanked by initiatives targeted to specific areas of activity. Specifically, given the weight of certain trading channels in the distribution of financial products and investment services, attention was focused on sales networks. In this sector, supervision basically concerned general internal control procedures, especially in relation to approved person supervision.

This supervisory action involved inspections focused on verifying that, with regard to door-to-door selling and the provision of receipt/transmission of orders services by approved persons, the procedures adopted by intermediaries guaranteed compliance with obligations of fair representation to the investor on the nature and risks of a transaction, on adequate assessment of investments and compliance with intermediary rules on conflict of interest. Again with regard to door-to-door selling, particular attention was also paid to the implementation of sales network controls.

Another important area involving specific supervision initiatives concerned the trading of unlisted derivatives with non-financial companies by a number of leading Italian banking groups.

Investigations were carried out through requests for information and details from the persons directly involved and from companies responsible for accounting audit, and through inspections, i.e. inspection requests from the Bank of Italy (pursuant to art. 10, subsection 2 of the Consolidated Law on Finance). Inspections led to charges of infringement of regulations on the provision of investment services and therefore to the launch of sanction proceedings and specific initiatives, such as meetings called with the relevant control bodies, to guarantee that appropriate corrective measures were adopted by the intermediaries.

Overall, in 2006 the above-mentioned supervisory activities led to the Commission's launch of 5 investigations against intermediaries (3 investment firms and 2 banks; Table 33). In 2 cases, pursuant to art. 10, subsection 2 of the Consolidated Law on Finance, the Bank of Italy asked Consob to perform investigations on certain elements under Consob's responsibility. Excluding investigations into listed companies in relation to profiles other than the observance of intermediary regulations, 9 inspections were concluded in 2006 (7 of which launched in 2004), involving 2 asset management companies (see paragraph 2 below), 5 investment firms and 2 banks. Of the 5 inspections into investment firms, 3 also concerned compliance with regulations on anti-money laundering, based on the memorandum of understanding signed with the Italian Exchange Control.

Table 33

Investigation of intermediaries and listed companies

	Investigations			*Investigations launched*							*Investigations concluded*						
	Approved	Launched	Concluded	Investment firms [1]	Banks	Asset Management co.s \SICAVs	Stockbrokers	Approved persons	Listed companies	*Total*	Investment firms [1]	Banks	Asset Management co.s \SICAVs	Stockbrokers	Approved persons	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*
2006	6	5	9	3	2	--	--	--	2	*7*	5	2	2	--	--	2	*11*

[1] Includes trust companies. [2] Of which two suspended. [3] Of which one EU investment firm. [4] Of which six under Article 8 of Italian Law 157/1991. [5] Of which one under Article 8 of Italian 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 into a company issuing a takeover bid against a listed company.

The Commission continued to develop risk-based models to define supervisory plans and to identify intermediaries that could represent a greater risk to the pursuance of institutional objectives, also taking into account the different level of concentration that characterises the various investment services and the group links existing between different types of intermediaries (Box 2).

Box 2

Concentration in the investment services sector

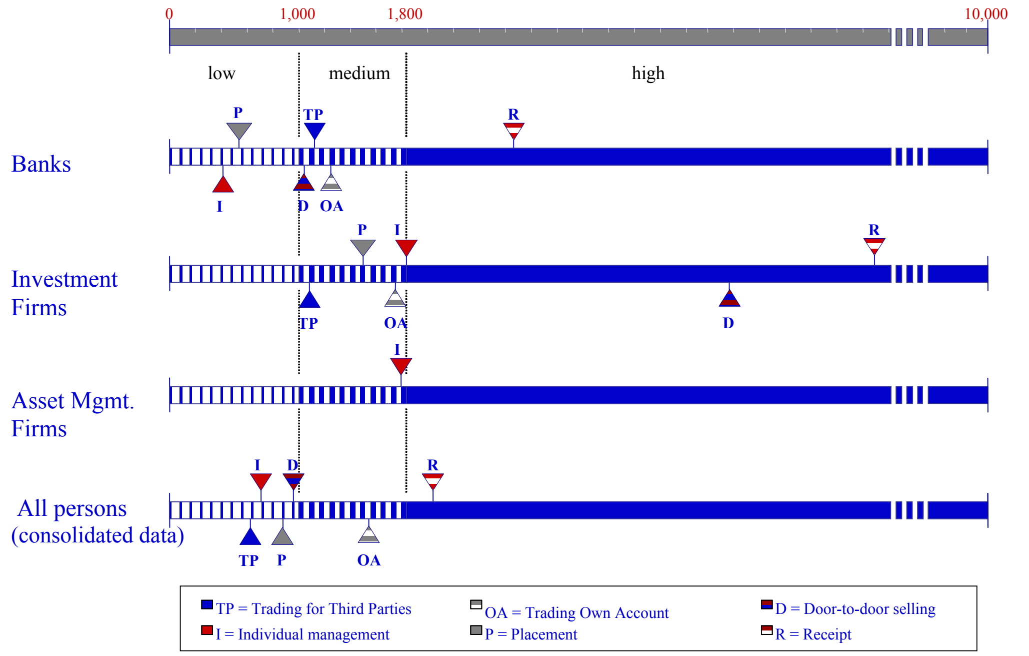
Transaction volume data in the first half of 2006 indicate an average reduction in the concentration of different services in the investment sector. The only significant exceptions are trading services on own account and the receipt and transmission of orders. In overall terms, however, the concentration remains higher in the investment firm sector than in banks, as among the investment firms there are numerous figures characterised by very limited business activity that co-exist with small numbers of entities so large that they could compete with the leading banking intermediaries.

With regard to individual services, the high level of concentration in the receipt and transmission of orders is due to the presence of certain intermediaries specialised in mediation between institutional investors on derivative transactions for particularly significant notional values. In relation to trading on own account, the high concentration can be linked to the greater absorption of regulatory capital generated by the provision of this service, which leads to the presence of large entities in this sector.

With reference to individual management services, there is a significant difference between the level of concentration of banks alone and the level of concentration for investment firms and asset management companies. Analysing just the banks, the level of concentration is very low, but very high when analysing just investment firms or just asset management companies. An explanation for this phenomenon could lie in the different configuration of the production-distribution process applied in the various intermediary categories. Management activity in investment firms and asset management companies is performed entirely “inside” dedicated organisations and the strong presence of scale economies in “production” explains the high level of concentration. Investment firms and asset management companies, however, depend largely on the banking system for distribution. For banks, on the other hand, the commercial phase plays a predominant role and is consolidated in the establishment and maintaining of relations with customers that is often function to or derives from other business relations. The banks therefore tend to focus on distribution aspects and frequently delegate actual management tasks to others (often investment firms within the group). In this way, even the smaller banks, normally unable to exploit scale economies in the “production” phase, manage to compete in the provision of individual asset management services (other than exploit any economies of scope with respect to other investment services).

The low level of placement service concentration, particularly with regard to banks, is reflected in both the “upstream” concentration in the capillary distribution networks of the banks (branches and approved persons) and in the increasing relevance of distribution activity in the strategic plans of Italian intermediaries. The focus placed by many intermediaries on this activity explains why 80% of commission income collected by banks and investment firms comes from distribution.

Level of concentration in investment services
(Herfindal index x 10,000; first half-year 2006 data)



Source: calculations on statistical supervisory indications.

In 2006 the Commission submitted its proposals to the Ministry of the Economy and Finance on amendments to the bylaws and operating regulations of the National Investor Compensation Fund resolved by the Fund's management committee in 2006. Consob also informed the Ministry of its opinion on the interpretation of statutory measures in reference to the launch of expulsion proceedings from the compensation system due to failure to pay a financial sanction imposed by the Fund on one of its members. The compensation fund intervened in a total of 23 insolvency cases (Table 34).

Table 34

National Investor Compensation Fund intervention
(as at 31 December 2006; amounts in thousands of euro)

	Insolvencies [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	--	--	--
2006	4	--	4
Total insolvencies	*15*	*8*	*23*
of which: with statement of liabilities filed	*12*	*8*	*20*
Number of creditors admitted	1,538	874	*2,416*
Amount of claims admitted [2]	32,138	37,378	*69,516*
Fund intervention [3]	8,084	10,777	*18,861*

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 challenged.

With reference to management of the List of Investment Firms, in 2006 the number of registered firms again diminished (from 108 at the end of 2005 to 106; Fig. 67), reconfirming the trend established over many years.

New registrations doubled, however (8 in 2006 against the 4 of 2005), though almost all newly registered investment firms were authorised for one investment service only ("single service" investment firms). Cancellations from the List, the number of which was in line with that of previous years, were instead for reasons different from those in the past. In particular, certain cancellations were due to the imposition of compulsory administrative liquidation measures on very small intermediaries, not members of banking or insurance groups, as a result of exceptionally serious misconduct (Table 35).

Figure 67

Number of registered investment firms

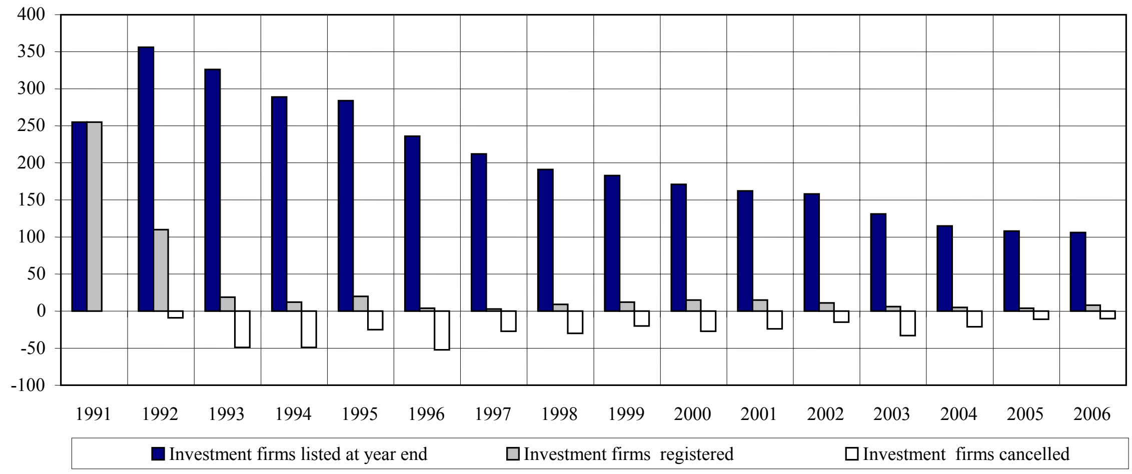


Table 35

Investment firms: cancellations from the List [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 investment firm	Non-operational [6]	Failure to provide authorised 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*
2006	4	3	2	--	--	--	--	1	*10*

Source: Consob. [1] The figure refers to the total number of delisting resolutions, and also includes measures relating to the special trust companies section of the List. [2] Includes Ministry of the Economy and Finance decrees, Consob measures, bankruptcies and companies placed in compulsory administrative liquidation. [3] Includes one investment firm that transferred business to another company in 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).

2. Asset management companies

During 2006, the supervision of asset management companies focused on the definition of operational structures for the correct and orderly provision of services. Supervisory activities concentrated on transparency and correct conduct profiles, with particular reference to the investment decision-making process (from the formulation of general investment strategies to their implementation, via the assessment of reports to the board of directors and control of the risk profile of funds), the management of conflict of interest and procedures, including internal audit, in support of management operations.

The most critical profiles brought to light by supervisory activities concerned the organisational and technical capacity of asset management companies in relation to the extent of the range of funds offered and their degree of independence in defining production and trading strategies with respect to the logistics of their respective banking groups. Nevertheless, with regard to the first of these problems, in recent years there has been a clear tendency for asset management companies to rationalise and review their overall services (Box 3).

With particular reference to Italian companies managing open-end funds, the Commission's activity involved 13 requests for information and details, also extended to independent auditors, in 7 meetings called with the relevant control bodies and several meetings with asset management company members.

In particular, the Commission launched monitoring activity to verify the observance of correct conduct regulations by medium and large-sized open-end fund management companies, concentrating on a sample of cases which at the end of 2006 represented approximately 16% of the total assets managed.

The investigations, relating to the 2-year period 2004-2005, revealed certain critical areas that can be summarised as follows: a) poor formalisation of investment indications (strategic and tactical) in the operating authority and line control of the company on the observance of legislative and regulatory restrictions; b) manual-intensive nature of operating methods in certain phases of order management; c) incomplete control by internal audit and incomplete control of audit results by members of the company control bodies; d) incomplete internal procedures or their inadequate updating in relation to legislative and operating practice developments. On these aspects, in 4 cases the independent auditors were called upon to obtain additional data. In 2 cases investigations were launched and in 1 case the company control bodies were called upon to force the asset management companies concerned to examine the critical profiles emerging from supervisory activities and to introduce organisational resources and procedures necessary to overcome these problems.

Box 3

Liquidation, merger and establishment of new Italian open-end investment funds in the period 2002-2005

In the period 2002-2005 the scenario of Italian open-end investment funds offered to the public has seen an intense transformation of the products, with funds being liquidated or merged and the establishment of many new funds. The total of liquidated or merged funds and newly established funds is equal to 58% of the average funds in existence between the start of 2002 and the end of 2005. The product turnover rate was therefore very intense.

Turnover rate of new Italian open-end investment funds in the period 2002-2005

	Merged/liquidated funds	New funds	Turnover rate (%)
Equity	195	73	55.9
Balanced	41	45	61.0
Flexible	21	45	90.4
Bond	124	73	50.7
Liquidity funds	10	6	40.5
Total	*391*	*242*	*58.0*

Note: the turnover rate is calculated on the ratio between the sum of merged/liquidated funds and new funds and the average number of funds in existence in the period.

Overall, the total number of funds reduced by 12.7%, from 1,166 at the start of 2001 to 1,017 at the end of 2005. This change is mainly concentrated, however, in the 2-year period 2004-2005. The reduction is in part due to mergers between asset management companies that led to rationalisation of the product range and to the elimination of duplicates. However, there are equally significant cases of rationalisation not dependent on concentrations, which have generally led to a reduction in the equity and bond-related funds and an increase in flexible funds. The downward trend in the number of funds traded is also attributed to the current difficult position of the Italian industry (Chapter III “Intermediaries and households”, Section A, paragraph 3).

The Commission continued its market supervision of closed-end investment funds given the continued increase of this sector of asset management. The action taken translates into requests for information issued to 12 companies managing investment funds offered to the public and their respective independent auditors. The audits concerned corporate governance rules and investment decisions in situations of potential conflict of interest.

2006 also saw a multiplication in the initiatives for authorisation of asset management companies dedicated to the management of speculative funds, given the new opportunities offered by legislation on this subject. The preliminary investigations for the mandatory submission of opinion to the Bank of Italy focused mainly on the assessment of internal mechanisms adopted to monitor financial leverage and to confirm that fund financing arrangements, even if through the asset management group banks, were made under market conditions.

Supervisory activities on the correct conduct of private equity management companies also concerned the management of closed-end investment funds, specialised in shares of unlisted small/medium-sized companies, with particular regard to the identification of measures suitable for preventing and handling conflict of interest inherent to the characteristics of activities performed.

In one case, sanction proceedings were launched against members of an asset management company of one of the leading Italian banking groups due to the absence of conflict of interest control procedures, the inadequacy of the investment decision-making process and internal audit failings. Given the characteristics typical of private equity funds, frequently called upon to operate in the presence of situations of potential conflict of interest, supervisory activities also made use of support from relevant industrial associations in order to promote self-regulatory initiatives.

Supervisory action continued with regard to asset management company governance and the possession of independence requirements by directors.

Analysis of the composition of boards of directors of the top 20 banking and insurance asset management companies as at 31 December 2006 (representing around 90% of total Italian harmonised funds managed) shows that the total number of directors has increased by 12 with respect to 2005 (from 201 to 214), essentially due to an increase in the number of non-executive and non-independent directors. The number of executive directors has gradually reduced. The mean ratio was 1 executive director to every 11 directors in 2005 and 1 in 12 in 2006. The number of independent directors is low (on average 1 independent director in 7 in 2006 and 1 in 6 in 2005) if compared to indications recommended by the Codes of Conduct for listed companies (1 in 3). In addition, there is a tendency not to always apply the same concept of independence defined in industrial association independence protocols (the absence of operating authority and business or professional relations with the asset management company or group companies). In certain cases, for example, directors reported as independent hold other offices in companies of the same group (11 cases).

The number of directors with office held in the parent company or other companies in the group remains high (67% in 2006, compared with 69% in 2005) (Table 36).

Table 36

Office held by directors of asset management companies in other companies of the same group
(number of directors)

		Office held in the asset management company							
		Managing director	Director	Executive director	Independent director	Chairman	Chairman, executive director	Chairman, independent director	*Total*
2006									
Office held in the parent company	Chairman		2						*2*
	Deputy Chairman		2		1	2		1	*6*
	Managing director		2			1			*3*
	Director		6		2	3			*11*
	Executive director			1		2	1		*4*
	Independent director								*--*
	Director General	2	6			1			*9*
	Deputy Director General		2	1					*3*
	Manager	1	8			1			*10*
Office held in other group companies		8	56	12	8	9	2		*95*
No office held in other group companies		2	37	4	19	5		4	*71*
Total		*13*	*121*	*18*	*30*	*24*	*3*	*5*	*214*
2005									
Office held in the parent company	Chairman		3						*3*
	Deputy Chairman		2		1	3		1	*7*
	Managing director		2			1			*3*
	Director		10		2	1			*13*
	Executive director			1		3	1		*5*
	Independent director								*--*
	Director General	1	6			1			*8*
	Deputy Director General		2	1					*3*
	Manager		8			1			*9*
Office held in other group companies		9	47	12	8	10	2		*88*
No office held in other group companies		2	28	4	20	4		4	*62*
Total		*12*	*108*	*18*	*31*	*24*	*3*	*5*	*201*

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

Lastly, the Commission carefully monitored the performance and risk levels declared in prospectuses for flexible funds, also due to the increasing flow of subscriptions to such products (also see Chapter III “Intermediaries and households”, Section A, paragraph 3) (Box 4).

Box 4

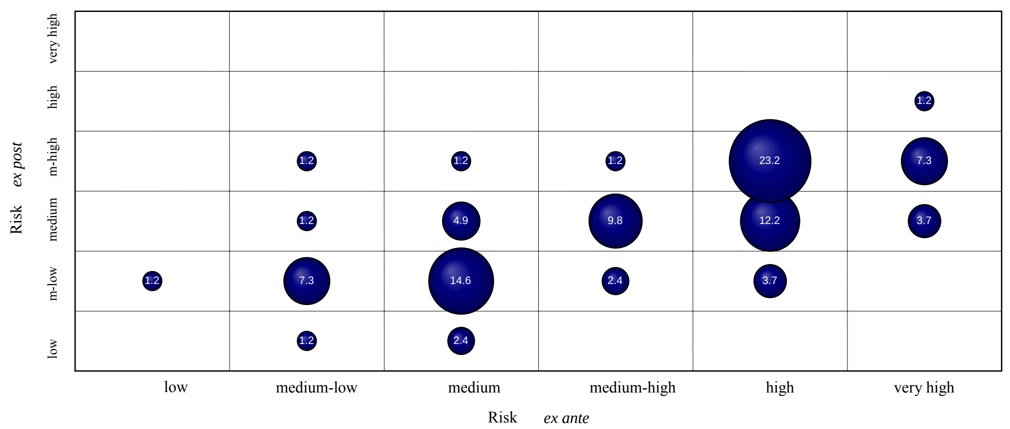
Investment risk in flexible funds

Flexible funds involve maximizing the return within the sphere of a risk level defined *ex ante*, with no investment restriction whatsoever on the kind of financial instrument or reference market. In compliance with Consob regulations on transparency, asset management companies include both a quality risk-level indicator (according to a six-level scale from “low” to “very high”) and a quantity indicator in prospectuses concerning Italian flexible funds. With regard to this disclosure obligation, most asset management companies include the Value at Risk (VaR) which indicates the maximum potential loss over a pre-established period (calculated according to a given statistical model) in terms of a range of confidence. In particular, of 89 flexible funds in operation at the start of 2006, 82 indicated a VaR over a 1-month period in the prospectus.

Based on the VaR included in the prospectus an *ex ante* volatility indicator can be determined for the return on flexible funds (*ex ante* risk) for comparison with the actual volatility calculated on *ex post* returns (*ex post* risk). Grouping the 82 flexible funds into six risk categories based on the *ex ante* and *ex post* volatility (using the same matrix for the association of a quality risk level to a certain VaR level as adopted for preliminary investigation of the prospectuses), it is therefore possible to compare the level of risk declared in the prospectus with the actual risk level.

Based on volatility calculated on historic returns in 2006, it can be seen that the actual risks tends to be systematically lower than that declared in the prospectus. For example, approximately 23% of the funds declare a “high” *ex ante* risk, whereas *ex post* risk can be classified as “medium-high”. Around 15% declare a “medium” risk which, *ex post*, is classifiable as “medium-low”. In general, less than 20% of funds have an *ex post* risk equal to or higher than the declared *ex ante* risk.

Breakdown of flexible funds by *ex ante* and *ex post* risk categories
(percentages)



3. Approved persons

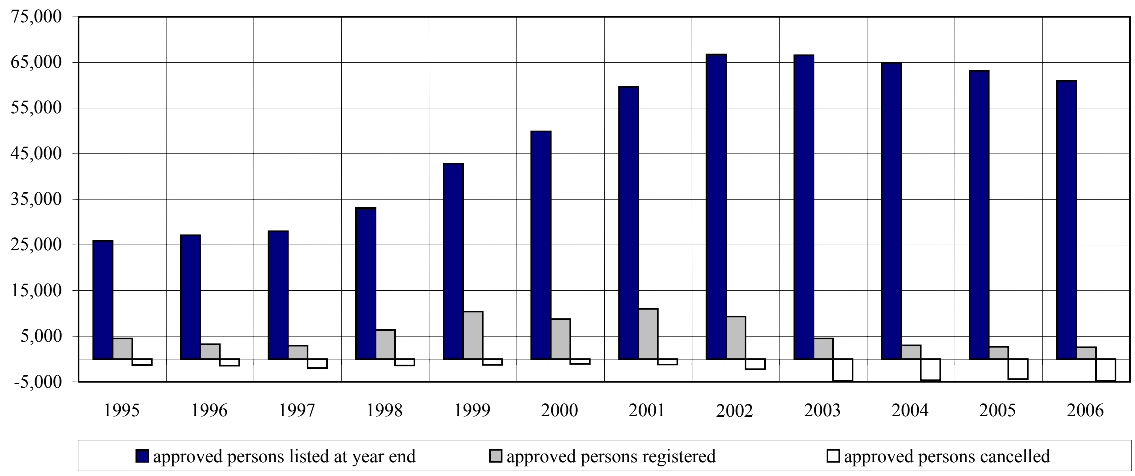
As in the past, supervisory action with respect to approved persons originated from complaints filed by investors, from the outcome of inspections on intermediaries, from the reports received from the legal authorities or police and from the intermediaries.

The overall total of complaints and reports examined by the Commission in 2006 was 351 (378 in 2005), of which 148 did not contain sufficient elements to launch sanction proceedings against the approved persons concerned. The reduction in the number of reports is also due to a reduced number of persons registered on the List (from 63,188 at the end of 2005 to 60,920; -3.6%) (Fig. 68).

In 2006, Consob imposed numerous disciplinary sanctions and precautionary suspensions from business activities (see Chapter IV "Sanctions and precautionary measures") and issued 60 reports to the Legal Authorities with regard to alleged offences related to the business activities of approved persons.

Figure 68

Changes in the List of approved persons



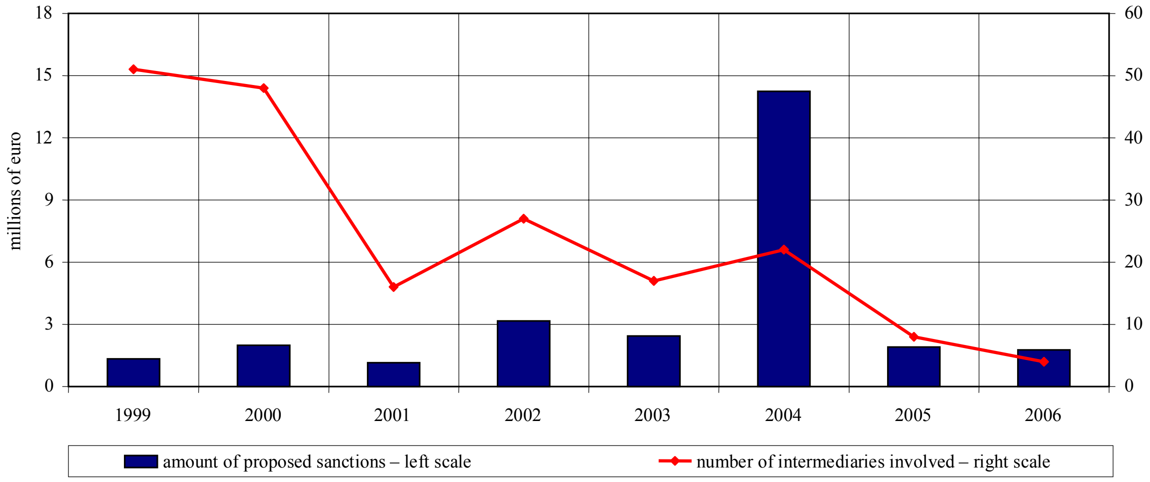
IV – SANCTIONS AND PRECAUTIONARY MEASURES

1. Measures regarding intermediaries and approved persons

The Commission, in 2006, decided 5 sanction proceedings, involving a total of 4 intermediaries, in relation to infringement of regulations on investment services. The total penalties imposed were approximately € 1.8 million (Fig. 69). These measures involved a total of 96 company members, most of them directors and members of the board of statutory auditors (Table 37).

Figure 69

Financial penalties proposed to the Ministry of the Economy and Finance or imposed directly by Consob on intermediaries



Note: 2006 figures relate to sanctions imposed directly by Consob, whilst those for previous years relate to sanctions proposed to the Ministry of the Economy and Finance.

Table 37

Administrative sanctions proposed to the Ministry of the Economy and Finance or imposed directly by Consob on intermediaries[1]
(amounts in thousands of euro)

	Number of intermediaries involved					Number of persons fined					Amount of the penalties				
	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*
2006	1	1	--	2	*4*	32	16	--	48	*96*	680	296	--	787	*1,763*

Note: 2006 figures relate to penalties imposed directly by Consob, whilst those for previous years relate to sanctions proposed to the Ministry of the Economy and Finance. [1] Rounding may cause discrepancies in the last figure.

The infringements investigated regarded both procedures and conduct.

With regard to the approved persons, in 2006 the Commission imposed 82 disciplinary sanctions: 49 expulsions from the Register and 22 fixed period suspensions; furthermore the Commission added 31 suspensions from business activities as a precautionary measure: 25 were 60-day suspensions and 6 were 1-year suspensions (Table 38). The Commission also issued 60 reports to the Legal Authorities for criminal offences emerging during the course of investigations. Overall, with respect to 2005, the number of disciplinary sanctions decreased slightly, whereas the number of precautionary measures increased (from 24 in 2005 to 31 in 2006). The incidence of total disciplinary sanctions and precautionary measures on the total number of approved persons entered on the Register remains stable at around 0.3% (Fig. 70).

Table 38

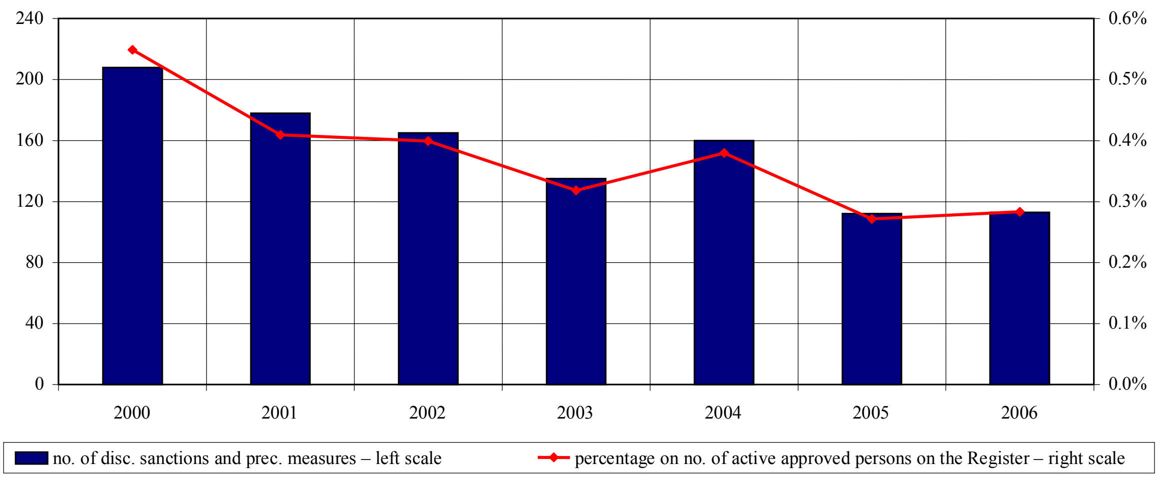
Disciplinary sanctions and precautionary measures regarding approved persons

	Type of measure						
	Disciplinary sanctions					Precautionary measures	Reports to the legal authorities
	Reprimand	Expulsion from the register	Fixed-term suspension from the register	Administrative sanction	*Total*	Fixed-term suspension from business activities[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
2006	6	49	22	5	*82*	31	60

[1] The figures for 1997 and 1998 include measures adopted under Article 45, subsection 4 of Italian Legislative Decree 415/1996 and, from 1 July 1998 onwards, under Article 55 of the Consolidated Law on Finance.

Figure 70

Disciplinary sanctions and precautionary measures regarding approved persons



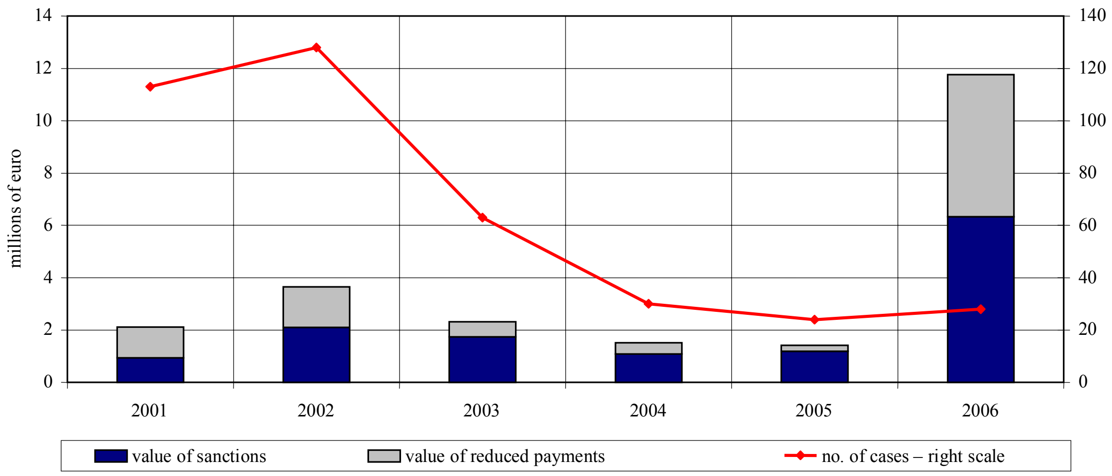
2. Measures regarding issuers and independent auditors

In 2006 the Commission concluded a great many sanctions proceedings in relation to infringement of regulations on corporate disclosure, major holdings and takeover bids.

The total financial penalties imposed by Consob and the reduced payments came to € 11.7 million, significantly higher than the average for the previous 5 years (approx. € 2 million; Fig. 71); these sanction procedures mainly concerned infringement of regulations on takeover bids (Tables 39, 40).

Figure 71

Administrative sanctions regarding public offers and corporate disclosure



Note: 2006 figures relate to penalties imposed directly by Consob, whilst those for previous years relate to sanctions proposed to the Ministry of the Economy and Finance.

Table 39

Administrative sanctions proposed by Consob to the Ministry of the Economy and Finance or imposed directly by Consob on public offers, corporate disclosure and voting proxy
(amounts in thousands of euro)

	Number of cases						Number of persons fined						Amount of the penalties					
	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*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*
2006	2	3	4	4	--	*13*	20	22	14	5	--	*61*	2,071	2,995	817	445	--	*6,328*

Note: 2006 figures relate to penalties imposed directly by Consob, whilst those for previous years relate to sanctions proposed to the Ministry of the Economy and Finance.

Table 40

Reduced payments to settle charges of infringement of regulations on public offers, corporate disclosure and voting proxy
(amounts in thousands of euro)

	Number of cases						Number of persons						Amount of reduced payments					
	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offers	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*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*
2006	4	4	2	5	--	*15*	6	72	2	16	--	*96*	124	4,714	144	449	--	*5,431*

Again on matters governing public offers, enforcement action taken by Consob led to the adoption of 6 precautionary measures and prohibition orders in relation to unauthorised public offers (Table 41).

Table 41

Precautionary measures and prohibition orders in relation to public offers

	Precautionary suspension	Prohibition order	Annulment	*Total*
2001	3	3	--	*6*
2002	2	6	--	*8*
2003	9	2	2	*13*
2004	9	7	3	*19*
2005	5	6	--	*11*
2006[1]	2	3	1	*6*

[1] In 2006 one precautionary suspension was adopted that was later withdrawn.

A number of unauthorised public offers in 2006 concerned public offers of shares in future cooperative banks by their respective organising committees (who in certain instances offered the shares to friends and relatives). A number of these offers also involved the use of mass communications tools, i.e. the press or the Internet.

In general, the Commission's activity has involved operations that were both completed and uncompleted or not yet implemented at the time supervisory investigations were launched. Different action was taken depending on whether the public offer was already completed or still in progress. In the first instance, as there were no grounds for the adoption of precautionary measures or prohibition orders, sanction proceedings were launched immediately (a number of these still in progress at the end of 2006). In order to protect investors, precautionary suspensions of offers not yet completed were imposed; once infringement of regulations on public offers had been confirmed, prohibition orders and sanction proceedings followed.

With regard to independent auditors, in 2006 the Commission adopted disciplinary sanctions against a partner of the independent auditors Deloitte & Touche Spa in relation to audits on the company and consolidated financial statements as at 31 December 2002 of Giacomelli Sport Group Spa, and on the company financial statements of subsidiaries Giacomelli Sport Spa and Longoni Sport Spa. Specifically, pursuant to Article 163, subsection 1, paragraph a) of the Consolidated Law on Finance, the Commission ordered Deloitte & Touche Spa not to use the services of the partner responsible for audit of the financial statements in question for a period of two years.

3. Internet enforcement activities

During 2006, supervision activities on the Internet were intense; moreover the quantitative methods for identifying anomalies were further improved. Supervision involved the examination of 83 internet sites (432 in 2005) and gave rise to 27 enforcement measures (498 in 2005), in addition to 7 reports to the legal authorities (264 in the previous year). Overall, in the period 2000-2006, supervision has involved approximately 1,100 web sites and led to over 650 enforcement measures (Table 42).

Table 42

Internet supervisory activities

	No. of web sites examined for:				Enforcement measures	Reports to other authorities						
	Web Spidering	Press reviews	Reports to Consob operations units	*Total*	Precautionary measures/prohibition orders[1]	Legal 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*
2006	49	1	33	*83*	27	7	--	--	--	--	5	*12*

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

Among the enforcement measures triggered by the Internet supervision activity, there were a number of suspensions and prohibition orders for public offers to invest in financial instruments organised without authorisation to publish the related prospectus (see paragraph 2 above). As is normal, following the adoption of these measures the web sites involved in the offences were shut down.

The reports to the Legal Authorities regarding possible criminal offences mainly concerned allegedly illegal investment services and/or promotions and fraud, as in previous years.

In particular, one report to the Legal Authorities regarding a web site suspected as being used for illegal provision of investment services led to the arrest of the webmaster and confiscation of funds illegally managed on behalf of unwitting investors.

Another report to the Legal Authorities concerned an alleged manipulation of unlisted securities on an ATS already suspended indefinitely by Consob. Specifically, manipulative conduct was repeatedly employed by a number of strongly interrelated persons to wilfully steer prices upwards on certain issuers' shares, also with the aim of obtaining financing from banks which were to accept those shares as guarantee.

V – REGULATORY AND INTERPRETATIVE ACTIVITY AND INTERNATIONAL DEVELOPMENTS

1. Regulation of public offerings

In 2006 the Commission made certain amendments to the Regulation on Issuers related to the repeal, under the terms of Italian Law 262/2005, of art. 100 of the Consolidated Law on Finance and to the subsequent application of provisions on public offers issued by banks of financial products other than shares or financial instruments conferring the right to buy or subscribe shares.

However, the rules about the public offer of continued and repeated issues of certificates of deposit backed by deposit guarantee systems and the public offer of the money market instruments issued by banks with a less than 12-month maturity were deemed inapplicable. A partial exemption option was then introduced by regulations on public offers in relation to continuous, repeated issues of plain vanilla bank bonds with a total offer price, calculated over a period of twelve months, of less than 50 million euro.

Other amendments involved the rules on public announcements which, for public offers of financial instruments (other than equity securities) issued on a continuous and repeated basis by banks, were assimilated into those for UCITS. Lastly, partial exemption was introduced on obligations pursuant to articles 96 and 97, subsection 3 of the Consolidated Law on Finance for public offers involving financial instruments other than equity securities issued continuously and repeatedly by co-operative banks and banks which, pursuant to Article 2409-*bis*, subsection 3 of the Italian Civil Code, may provide in their bylaws for audit to be conducted by the board of statutory auditors.

In 2006 Consob issued opinions on certain interpretative questions of particular importance on the option of immediate application of a number of provisions of the EU directive on prospectuses (Directive 2003/71/EC) in the event of delayed transposition to national law.

In particular, further to a request on the immediate application of the definition of “qualified investor” as required under art. 2, subsection 1, paragraph e) of the Directive, which deviates from the concept of art. 31, subsection 2 of the Regulation on Intermediaries, the Commission resolved that, for certain categories of person indicated in the directive, there is a sufficient degree of prescriptiveness and detail in the definition to avoid the need for further specification and therefore that it was immediately applicable. For other categories of person, however, the Commission excluded immediate application of the EU regulations, on the basis that special intervention by Italian legislation was necessary.

A further series of issues concerned the need to provide information on the price in prospectuses concerning share offers for admission to listing and implemented using the open price technique.

An additional coordination problem between national and EU regulations on public offers arose in reference to public offers concerning the subscription of shares in future banks.

2. Regulation of ongoing corporate disclosure

Following amendments made in 2005 to the Regulations on Issuers and Markets as a result of transposition of EU regulations on market abuse, in 2006 the Commission issued a communication containing recommendations and clarification on the public disclosure of significant events and obligations for the prevention of market abuse.

With regard to public disclosure of significant information, pursuant to art. 114, subsection 1 of the Consolidated Law on Finance and to financial analysis matters, Consob had already formulated numerous communications, also further to the request of the operators, containing clarification on application of the legal and regulatory provisions and had adopted a number of recommendations to guarantee transparent and correct conduct of the supervised persons. In order to regulate the various interventions, in 2003 the Commission had issued a specific communication, reserving the right to periodically update the content. Therefore the above-mentioned communication of 2006 (with replaced the previous communication of 2003), Consob incorporated and coordinated both the interpretative clarification on transposition regulations of the directive and the indications provided in the previous communication, reviewed in the light of updates to the Consolidated Law on Finance and the Regulation on Issuers, into a single document.

The 2006 communication discussed questions relating to: i) the concept of “inside information”, in reference to both information that could give rise to the offence of insider trading and information requiring immediate disclosure to the public; ii) rules on delayed communication of inside information; iii) the list (examples only) of persons who, given their confidentiality obligations, could receive inside information on a selective basis; iv) the nature of documents included in the definition of recommendation for the purpose of applying rules of correct and transparent conduct in relation to conflict of interest in financial analyses; v) rating agency use of inside information provided by issuers and on rating agency-issuer interaction; vi) regulations concerning registers of persons with access to inside information; vii) application of reporting rules with regard to sale or purchase of shares by directors of the issuer, shareholders with a holding in excess o 10% of voting rights and by issuer controlling bodies.

3. Regulation of financial reporting and independent auditors

Pursuant to article 9, Italian Legislative Decree 38/2005, in 2006 the Commission processed financial statements for companies issuing financial instruments listed on Italian regulated markets and companies with financial instruments widely distributed to the public, as indicated in art. 116 of the Consolidated Law on Finance, other than banks and insurance companies.

In enactment of Legislative Decree 38/2005, further action was taken to reorganize regulatory provisions on IAS/IFRS international accounting standards. A communication was issued on “alternative measurement of operating results" and indications were provided on the preparation of press releases for financial reporting purposes. Lastly, the Regulation on Issuers was amended with regard to provisions on the disclosure of annual accounts on fees and shareholdings of members of the administrative and control bodies.

With regard to international developments, as part of the collaboration between CESR (Committee of European Securities Regulators) and the European Commission, initiatives continued in 2006 to improve and harmonise financial reporting in Europe.

Specifically, through CESR-Fin, the standing committee for financial reporting, CESR handled the development of EECS (European Enforcers Coordination Sessions) and of the database of the decisions made on the enforcement and supervision of financial reporting. In addition, through special working groups, CESR-Fin continued to study issues regarding the transition of IAS/IFRS standards to national regulations in EU countries.

As part of IOSCO activities, 2006 also saw the completion of the project to create a database of decisions made on enforcement to facilitate data communications and exchange. The database became operative on 19 January 2007 and will be an authoritative data source for IOSCO members.

With regard to audit, in December 2006 the Commission established that independent auditors included in the special List and in the Independent Auditors Register set up by the Ministry of Justice (in the latter case, firms involved in audit assignments conferred by issues of widely distributed securities pursuant to art. 116 of the Consolidated Law on Finance) should adopt the new auditing principles of the Italian accounting profession as of 2006 financial statements.

The new auditing principles provided by the accounting profession in collaboration with Consob led to the introduction also in Italy of the audit risk model. This new approach implies that the independent auditor applies audit procedures to acquire a level of understanding of the company and of the context in which it operates that is sufficient to identify and assess the risk of significant errors in the financial statements, and to establish the nature, extent and timing of audit procedures to be performed in relation to the risks identified.

4. Regulation of markets

In 2006 the Commission approved a number of amendments to the Regulation on Markets in order to simplify the rules about implementation and transparency of off-market transactions.

The Commission also issued a communication on the reporting of "suspect transactions" by intermediaries and regulated market management companies (the related provisions, contained in the Regulation on Markets further to transposition of the market abuse directive, entered into force on 1 April 2006).

At international level, the European Commission's adoption of the implementation measures for the markets in financial instruments directive, MiFID (Directive 2004/39/EC) was particularly important (Box 5).

Box 5

Implementing measures for Directive 2004/39/EC with regard to markets

In 2006, level 1 regulations defined in the MiFID directive were completed with the European Commission's issue of the related implementation measures (level 2). The implementation measures are contained in Regulation no. 1287/2006 and, amongst other things, include the transaction reporting system and the pre- and post-trading transparency system.

With regard to transaction reporting, level 2 regulations fully implement the reporting system pursuant to art. 25 of MiFID. The aim of these provisions, in particular, is to provide a detailed definition of the methods and procedures to follow in reporting financial transactions, the format and content of such reports and the criteria for identifying the competent Authority for the most liquid market. In relation to transaction reporting methods and procedures, the EU Regulations provide that reports must be in electronic format and must observe certain conditions (security and confidentiality of the data reported, mechanisms to identify and correct reporting transmission errors, reporting source authentication mechanisms, and precautionary measures for data recovery in the event of system failure). With regard to the format and content of the reports, the Regulation establishes that these must contain the significant data – specified in Table 1, Annex 1 of the Regulation – according to the type of financial instrument.

In relation to the reporting dataset, the regulation includes the option for member states to request additional data with respect to that identified in Table 1, Annex 1 when: (i) such data are deemed necessary to allow the competent authority to monitor investment firm activities; (ii) the financial instrument concerned in the report has specific characteristics for which Table 1 data prove insufficient; (iii) the trading methods are specific to the trading platform on which the transaction took place and which has characteristics different to those included in Table 1. In addition, member states may request that the report also contains an indication of the customer on whose behalf the investment firm performed the transaction.

With regard to pre- and post-trading transparency, the EU Regulation specifies the information that must be disclosed for each share admitted to trading and traded on a managed system, according to the type of system managed (continuous trading and book system, quota-driven system, periodic auction system), by regulated market management companies and MTF managers. If the system does not fall into one of the above categories (e.g. a hybrid system), the regulated market management company or MTF manager must maintain a pre-trading transparency level sufficient to guarantee that adequate information is disclosed regarding both order and listing fees and the trading interest payable per share. The Regulation goes on to provide the conditions under which member states can waive pre-trading transparency requirements.

Also provided in the Regulation are details required for the correct, standard application of pre-trading transparency in relation to systematic internalisers. The Regulation first of all discusses the definition of systematic internaliser, intended as an intermediary that satisfies the following requirements: (i) the activity performed must play an important commercial role in the firm and be conducted according to non-discretional rules and procedures; (ii) the activity must be performed by personnel, or via an automated system, dedicated to this task regardless of whether the personnel or system in question are used solely for this purpose; (iii) the activity must be accessible to customers on a regular or continuous basis. The Regulation then defines when shares admitted for trading on a regulated market have a liquid market (if subject to daily trading, with a float of not less than 500 million euro and if one of the following conditions is satisfied: (i) the average number of transactions per day of the share in question is not less than 500; (ii) the total average value traded per day of the share in question is not less than 2 million euro). In order to determine the standard market size for liquid shares, the shares are grouped into categories based on the average value of orders completed. Lastly, the Regulation defines retail orders (an order is greater than that normally considered by a retail investor if it exceeds 7,500 euro).

With regard to the post-trading transparency system, the Regulation establishes that, for transactions relating to the shares admitted for trading on regulated markets and completed by managed systems, investment firms, regulated market management companies and MTF managers must disclose the following: (i) date and time of the trade, financial instrument identification code, price, quantity and trading venue; (ii) an indication, if applicable, as to whether the trade was determined by factors other than the current market price; (iii) an indication, if applicable, as to whether it was an agreed transaction; (iv) any change whatsoever in information disclosed previously. The delayed publication of disclosures on transactions completed may be authorised, for a period not exceeding that specified in Table 4, Annex II of the Regulation, provided that: (i) it is a transaction between an investment firm trading on its own behalf of for a customer of that firm; (ii) the size of the transaction is equal to or greater than the minimum permitted size specified in Table 4.

5. Regulation of intermediaries and asset management

Following the transposition of related EU regulations, in 2006 amendments to the Regulation on Issuers entered into force with regard to mutual fund prospectus formats.

The prospectus format contains an indication of data on the commissions payable to placement agents. The decision to increase transparency on placement agent fees pursues the aim of acquainting the investor with the fact that the service/advisory activities provided to him during the "selling" phase do not end on payment of the subscription fee, but continue during the period of investment in the fund with the retrocession of a predominant portion of the management and/or incentive commission fees by the asset management company.

The importance of the decision made by Consob is confirmed by the attention given by the European Commission to problems associated with the methods used for distributing funds in the "*White paper on enhancing the single market framework for investment funds*" dated 15 November 2006. This paper aims to improve transparency in the overall costs of funds, by means of specific indication of the distribution costs, to increase competition among those participating in the distribution process to the benefit of the end investors. This conclusion is supported by the results of a study completed at the request of the European Commission and which showed that the cost differences between European share funds are mainly due to their distribution, and that increased competition among placement agents could result in a consistent reduction in overall costs borne by investors (approximately 40-60 base points).

The topic of fund distribution costs was also debated by IOSCO. The Organization's Technical Committee conferred joint mandate on Standing Committees 3 and 5 to consider the topic of cost transparency every time funds are sold to unsophisticated investors.

At international level, in 2006 the CESR working group on managed savings was strongly committed to mandates received from CESR and the European Commission (for details, see Chapter VI "International Relations").

As illustrated in the previous paragraph, in 2006 the European Commission approved the MiFID directive implementation measures, the part relating to regulations on intermediaries being contained in the aforementioned EC Regulation no. 1287/2006 and Directive no. 2006/73/EC (Box 6).

In compliance with the path designed by the Lamfalussy Process, CESR had already commenced comparative activities with national Authorities to process interpretative and application guidelines harmonised with the new regulatory framework (level 3). Specifically, CESR launched consultations on the application of MiFID regulations and of the related implementation measures in terms of best execution, of inducements, of required record keeping and of cross-border provision of investment services and activities.

Box 6

Implementing measures for Directive 2004/39/EC with regard to intermediaries

With reference to definitions of investment services and accessory services, level 2 measures (Directive 2006/73/EC) further clarify the scope of consulting services, focusing on the provision of customised recommendations on individual financial instruments. This provision emphasises a significant difference with respect to current Italian law, according to which the release of individual advice on financial instruments, as part of investment services, is considered an integral part of the investment services provided in the presence of defined terms. Therefore, specific authorisation is required for this activity, if elements of customised recommendation are involved, according to the principles of EU regulations, so that it cannot be considered an integral part of another investment service. With regard to research activities into investments and financial analysis or other forms of general recommendations on financial instrument transactions, the level 2 directive includes specific provisions on conflict of interest that can arise if such a service is provided.

Directive 2006/73/EC offers a more detailed identification of the obligations related to organizational rules and to rules of conduct that investment firms must fulfil in providing investment services to customers.

With regard to execution-only services (i.e. only those for which the investment firm is exempt from investor profile assessment), there are limits to their provision both in terms of the type of financial instruments and in the methods for establishing customer relations.

The level 2 directive provides further details on the structure of best execution-related obligations, including application of the principle of portfolio management services and the receipt and transmission of orders.

Lastly, the execution measures provide that intermediaries may not receive sums of money as part of the provision of investment services from persons other than customers (i.e. “inducements”) unless there is a direct benefit for the customer, in enactment of the level 1 regulation which requires that investment firms observe the principles of honesty, fairness and correct conduct in the interest of the customer.

VI – INTERNATIONAL AFFAIRS

1. International cooperation

During 2006, Consob's international cooperation involved numerous commitments linked to technical assistance and the exchange of information with supervisory authorities of other countries.

With regard to technical assistance, Consob maintained relations with the National Securities Commission of the Republic of Moldova in accordance with an agreement drawn up in 2005.

In 2006 there was a considerable increase in requests for information issued to the corresponding foreign Authorities for supervisory purposes. Likewise, the number of requests received from foreign Authorities also increased (Table 43).

Table 43

Exchange of information between Consob and foreign Supervisory Authorities

Subject	1998	1999	2000	2001	2002	2003	2004	2005	2006
Information requests from Consob to foreign Authorities									
Insider trading	17	43	32	24	24	11	8	12	16
Market manipulation	2	--	1	4	--	4	8	6	12
Unauthorised public offers and investment services	7	4	3	10	9	5	2	4	5
Transparency and disclosure	--	--	1	--	--	6	9	10	5
Major holdings in listed companies and authorised intermediaries	--	--	--	1	1	3	1	2	4
Integrity and professionalism requirements	12	10	19	14	34	21	7	4	--
Infringement of rules of conduct	--	--	2	--	--	1	2	--	1
Total	*38*	*57*	*58*	*53*	*68*	*51*	*37*	*38*	*43*
Information requests from foreign Authorities to Consob									
Insider trading	2	3	5	20	13	17	18	18	17
Market manipulation	1	3	--	1	1	2	3	4	14
Unauthorised public offers and investment services	3	3	1	2	7	4	3	9	9
Transparency and disclosure	1	--	2	--	--	--	--	4	3
Major holdings in listed companies and authorised intermediaries	--	--	--	--	2	1	--	4	--
Integrity and professionalism requirements	30	44	53	49	80	70	44	31	46
Infringement of rules of conduct	--	--	--	--	--	--	--	--	--
Total	*37*	*53*	*61*	*72*	*103*	*94*	*68*	*70*	*89*

Specifically, there was an increase in requests for cooperation on market manipulation cases (12 from Consob to foreign authorities, compared with 6 in 2005, and 14 from foreign authorities to the Commission, against 4 in 2005). This increase is mainly due to the effects of transposition of the Market Abuse Directive in EU member states.

2. Activities within the European Union

In 2006, Consob activity in the EU involved participation in the debate on the definition of implementation measures for directives previously adopted and on the adoption of new directives. Consob was involved in the debate on amendments to the EU legislative framework in relation to investment funds, and also offered specialised support to the Ministry of the Economy and Finance at meetings of the European Securities Committee (ESC) and other international groups, together with support in the transposition of directives already adopted at European level into national law.

Among the major European commitments, it is important to mention the debate at European Council level on the proposed directive on shareholder rights, as envisaged in the *"Action Plan on Company Law and Corporate Governance"* of the European Commission.

Worthy of mention as part of European Council activities is the Working Group on directive proposals regarding the acquisition of major holdings in authorised intermediaries (banks, insurance companies and investment firms).

This legislation envisages new criteria for the regular activities of the various European supervisory authorities in prudential assessment procedures for acquisitions or increases in equity investments, with the aim of minimising authority discretion in assessing the suitability of a potential acquirer. Specifically, the proposal in question, which reviews and standardises measures contained in Directives 2004/39/EC (MiFID – on financial instrument markets) and 2006/48/EC (on the taking up and pursuit of the business of credit institutions), together with Directives 92/49/EC, 2002/83/EC and 2005/68/EC, envisages the minimisation of discretion available to individual national Authorities and the setting of new methods and criteria for decision-making on the authorisation of acquisitions, in favour of observance of defined deadlines by which the procedure must be completed. Special cooperation rules are envisaged in cases where the potential acquirer is subject to supervision in another member state. A critical aspect of the proposed directive on acquisitions consists in the lack of legislative and procedural coordination with governance established in Directive 2004/25/EC (on takeover bids), a procedure which Consob considers essential in guaranteeing respect for market rules when shareholdings in listed intermediaries are to be acquired.

During 2006, Consob participated in meetings called by the European Commission on the transposition to national law of certain directives, i.e. MiFID, Takeover Bids and Transparency.

In November 2006 the European Commission published the "*White paper on enhancing the single market framework for investment funds*", containing a series of proposals to modernise European legislation on investment funds. The European Commission is expected to formalise this directive (amending Directive 85/611/EEC) by the end of 2007.

Lastly, Consob participated in the EGAOB (European Group of Auditors' Oversight Bodies), a group established in December 2005 by decision of the European Commission after amendment to the eighth directive on statutory audits (2006/43/EC).

3. Activities within the Committee of European Securities Regulators (CESR)

With regard to the involvement in CESR activity, in 2006 Consob strongly contributed to the Investment Management Expert Group, chaired by Lamberto Cardia.

Among the main activities of this Group there are the final adoption of the opinion on investments harmonised investment funds can make (which later led to the European Commission's decision to issue a level 2 directive) and the preparation of level 3 guidelines to be adopted by individual member states in the national implementation of EU measures to guarantee coordination of supervisory methods. Specifically, the Group published a public consultation paper containing the level 3 guidelines on the admissibility of investments in hedge fund indices. The proposed guidelines refer to the admissibility requirements established at level 2.

The Expert Group also prepared level 3 guidelines to simplify notification procedures for cross-border marketing of units by the funds. The CESR has therefore approved the rules to be observed by the Authorities in order to guarantee deadlines for the completion of controls attributed under EU regulations to the host country authority. In addition, indications were provided on the possible use of self-certification by funds intending to market their own units.

Important activities performed within the CESR framework also include participation in tasks to complete opinions for the European Commission on the Transparency Directive and to define Supervisory Authority evaluations for the implementation of a European network of Officially Appointed Mechanisms (OAM, i.e. archiving systems for information published by issuers).

Consob participated in CESR-Tech work on implementation of the data exchange system between European supervisory authorities of data relating to transactions on securities admitted for trading on regulated markets pursuant to art. 25 of the MiFID directive.

This regulation requires that, by the end of the day following completion of the transaction, intermediaries notify the originating-country Authority of data regarding transactions on securities admitted for trading on regulated European markets. The

Authority in the country of origin of the intermediary must then analyse data and forward relevant data to the supervisory authority responsible for the most liquid market for that security. Pursuant to art. 14 of MiFID enforcement Regulation 1287/2006, the competent Authorities must coordinate their information exchange processing and implementation procedures. CESR-Tech has therefore proposed the establishment of a central data exchange hub managed by CESR.

During the year, Consob was involved in the work of the Expert Groups on the MiFID Directive. The Groups provided support to the European Commission in defining level 2 measures, later published in August 2006 (Directive 2006/73/EC and Regulation 1287/2006), and provided assistance to the Commission on the possible extension of transparency obligations envisaged by the directive to markets other than share markets.

The work completed in 2006 by CESR-Pol (Standing Committee on cooperation and the exchange of information for supervisory purposes) was mostly oriented towards cooperation between the Authorities and the preparation of level 3 measures on the market abuse directive.

Specifically, in 2006 the CESR published guidelines on the market abuse directive to clarify certain grey areas emerging in practice from the application and interpretation of level 1 regulations. By means of illustrative examples, the CESR indicated how the definition of insider information should be interpreted. This also included a mutual recognition principle on lists of insiders.

In 2006, the activities of CESR-Fin (Standing Committee on Financial Information) continued, with special focus on the enforcement of accounting standards.

Particularly important was the creation of an enforcement decision database in relation to the application of IAS/IFRS standards, which became active in August 2005 and was gradually enhanced during 2006. The database constitutes a source for the analysis of decisions and practical queries encountered during supervisory activities on financial data.

In 2006, the Review Panel (standing committee for verification that CESR standards are implemented by Member States) published its final report on the application of standards with regard to cold calling (telephone contact unsolicited by the customer) and standard no. 1 on financial data regarding the standardised application of International Financial Reporting Standards (IFRS) in the European Union. Consob is among the Authorities that have adopted these standards.

The Review Panel also published its report on the application of CESR guidelines on transitional measures for the UCITS (Undertakings for Collective Investment in Transferable Securities) directives issued in February 2005.

The Review Panel's verification results show that guidelines on funds authorised in the period 2002-2004, umbrella funds and the companies managing funds via cross-border marketing are for the most part now operative, whilst guidelines on availability of a simplified prospectus have still not been implemented. Nevertheless, the report confirms that in many countries application has not been enforced through the issue of regulatory measures, but rather through everyday supervisory practices, the efficiency of which cannot easily be verified by the Review Panel.

In June 2006 the Econet Group was established; a new group with the aim of improving analysis of the financial market economy and of potential risks in pursuing supervisory authority objectives, and with the aim of promoting the use of methodologies for regulation impact analysis in line with the "better regulation" proposals defined by the European Commission.

4. Activities within the International Organization of Securities Commissions (IOSCO) and other international organizations

In 2006 Consob participated in Standing Committees of the IOSCO Technical Committee. During the IOSCO Annual Conference held in Hong Kong, Consob was again elected in the Organization's Executive Committee. In addition, it should be mentioned that the Committee of Chairmen has adopted a resolution on the seizure of funds relating to crimes committed on world markets, also in the name of cooperation.

Worth mentioning among the activities completed are the Group's work on issuers regarding international transparency principles for public offers and admissions to listing of bonds on a multinational basis. The Working Group on markets, on the other hand, has produced a report on information exchange mechanisms between supervisory authorities, and between authorities and market management companies, in order to better understand market trends, particularly in relation to anomalous price performance. The Working Group on intermediaries produced a report on compliance and a consultation paper on conflict of interest in public offers of financial instruments. Work also commenced on information provided to customers at the point of sale of financial instruments, particularly with regard to related distribution costs. The Working Group on cooperation with off-shore countries continued to monitor international activity of the "boiler rooms" (centres using telephone or e-mail inducement to purchase illiquid securities), whilst the Working Group on management completed work on the governance structure of investment fund management companies, publishing a paper containing governance principles with particular reference to the powers and duties of independent control bodies. The group was also involved in the mandate to define adequate procedures to valuate financial instruments included in hedge fund portfolios.

The work of the Implementation Task Force continues to play an important role in IOSCO, evaluating the implementation status of Iosco Objectives and Principles on Securities Regulation and cooperating with the International Monetary Fund and World Bank.

The corporate governance task force (established by the Technical Committee) has instead completed its report on independent directors of listed companies.

During 2006 Consob participated in Joint Forum activities for the completion of tasks concerning business continuity. On this issue, work continued on credit risk management in financial groups, transparency of financial risk and the adequacy of investment products offered to customers.

Consob participated in the Financial Stability Forum (established to promote stability in financial systems, improve financial market operations and to limit the propagation of financial shocks to other countries) in relation to verification tasks on the status of cooperation from off-shore centres.

Lastly, Consob became a founder member of IFIAR (International Forum of Independent Audit Regulators). This Forum, members of which are the supervisory authorities responsible for audit control, aims to facilitate the exchange of know-how and experience on matters of independent auditor supervision and to promote cooperation between the relevant competent authorities.

VII − CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

1. Financial management

Net of surplus from the previous year, Consob's total revenues in 2006 amounted to €89.8 million (Table 44), including €73.1 million (81.4%) from fees (mainly in reference to the issuer, approved person and financial intermediary categories; Table 45).

With regard to expenditure, current items increased, essentially due to staff costs. Capital expenditure (€ 8.5 million) also increased, mainly due to IT equipment purchases.

The 2007 budget was approved in December. Total revenues for the year are forecast as € 90.7 million, including € 11 million of State funding for that year, € 72 million of fees and € 7.7 million of sundry Commission revenues. In addition to the above are € 22.5 million from the estimated surplus for 2006.

Table 44

Summary table of revenues and expenditure
(millions of euro)

Items	2000[1]	2001[1]	2002[1]	2003[1]	2004[1]	2005[1]	2006[2]
Revenues							
Previous year surplus[3]	50.7	74.0	12.3	11.6	11.7	15.3	12.8
State funding	31.0	31.0	23.7	23.3	26.7	24.4	13.1
Own revenues							
Investigation fees [4]	3.0	1.5	–	–	–	–	–
Examination fees [4]	3.0	1.5	–	–	–	–	–
Supervisory fees	31.8	27.4	39.9	41.6	49.2	46.9	73.1
Trading fees [4]	5.2	3.6	–	–	–	–	–
Sundry revenues	4.2	11.6	3.8	4.9	3.5	3.7	3.6
Total revenues	*128.9*	*150.6*	*79.7*	*81.4*	*91.1*	*91.3*	*102.6*
Expenditure							
Current expenditure							
Members of the Commission	1.2	1.4	1.4	1.3	2.2	2.0	2.5
Staff	33.7	45.8	42.2	43.2	44.6	48.0	61.4
Goods and services	14.2	16.4	18.7	18.9	19.4	19.4	24.7
Renovation and expansion of fixed assets	2.4	3.8	4.7	4.6	4.3	4.3	5.2
Unclassified expenditure	0.1	4.9	1.1	0.4	5.2	4.6	0.3
Total current expenditure	*51.6*	*72.3*	*68.1*	*68.4*	*75.7*	*78.3*	*94.1*
Capital expenditure	3.6	66.8	2.8	1.7	2.6	1.5	8.5
Total expenditure	*55.2*	*139.1*	*70.9*	*70.1*	*78.3*	*79.8*	*102.6*

[1] Annual accounts. [2] Final budget. [3] The surplus is the difference between total revenues and total expenditure plus differences deriving from management of residual amounts and value adjustments to investments (not shown in the table). The 2005 surplus is included in 2006 revenues. [4] Further to the amendment of Article 40, subsection 3 of Italian Law 724/1994, as from the 2002 financial year only one type of fee is envisaged, the "supervisory fees".

Table 45

Fees by category of supervised person
(millions of euro)

	Investment firms and stockbrokers	Banks	Independent auditors	Approved persons	Market entities [3]	Issuers	UCITS [4]	Supervision of public offers	Trading 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[1]	0.8	8.1	3.7	9.3	4.0	10.8	5.8	2.7	—	1.7	*46.9*
2006[2]	1.2	11.8	5.7	13.6	5.2	14.4	9.1	9.1	—	3.0	*73.1*

[1] Annual accounts. [2] Final budget. [3] Includes 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 total expenditure forecast for 2007 (net of the commitments brought forward from 2006 and included in capital account expenditure) is €112.7 million, comprising €100.7 million on current account and €12 million on capital account. The current expenditure for 2007 are expected to increase, compared to the same final budget figure for 2006, amounting to €6.6 million, essentially because of the higher costs related to the completion of legal staffing requirements. Capital expenditure forecast for 2007 instead reflects costs for the general IT system upgrading and expansion programme, together with the aforementioned set-up of the new library.

In December 2006, Consob established the fee manual for 2007, identifying the categories of supervised persons required to pay fees and the fee amounts, pursuant to Article 40 of Italian Law 724/1994.

The related measures contain certain amendments to the previous manual, forced by new regulations on financial markets introduced in 2006. In particular, the schedule now includes: (i) an introduction to supervisory fees charged to insurance companies; (ii) elimination of the set-up fees charged to open-end pension fund managers; (iii) the introduction of a fixed supervision fee for each public offer issued by banks, pursuant to art. 33, subsection 4 of Regulation no. 11971/1999.

2. Human resource management

During 2006, 42 members of staff were recruited: 25 permanent and 17 with fixed-term contracts. In the same year, 17 permanent staff terminated their employment (voluntary resignation) and 6 fixed-term contract staff became permanent pursuant to art. 2, subsection 4-*duodecies*, Italian Law 80 of 14 May 2005. Therefore, compared to 2005, the Commission's actual staff numbers increased by 19 (Tables 46 and 47).

Table 46

The staff [1]

	Permanent employees				Fixed-term employees	*Total*
	Managerial staff	Operations 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*
2006	195	214	14	*423*	36	*459*

See Methodological Notes. [1] As at 31 December.

Table 47

Breakdown of staff by grade and organizational unit [1]

	Managerial staff		Operations staff	General services staff	*Total*
	Senior managers	Junior managers			
Divisions					
Issuers	10	56	25	--	*91*
Intermediaries	5	29	53	--	*87*
Markets and Economic Consultancy	7	26	34	--	*67*
Administration and Finance	4	8	33	15	*60*
Legal Services	4	16	9	--	*29*
External Relations	5	7	4	--	*16*
Resources	2	10	15	--	*27*
Other offices [2]	11	24	47	--	*82*
Total	*48*	*176*	*220*	*15*	*459*

See Methodological Notes. [1] As at 31 December 2006. Fixed-term employees are classified according to the equivalent permanent grades. [2] Includes offices not coordinated by the Divisions.

In 2006 contractual agreements were finalised regarding amendments to regulations on “Legal treatment and remuneration of staff”, “Supplementary pension fund for staff members recruited since 28 April 1993” and “Rules governing part-time contracts”.

With regard to training, a total of 25,092 hours were devoted to training activities in 2006 (22,135 in 2005, approx. +13%), corresponding to a per capita average of 55 hours (50 in 2005).

3. External relations and investor education

Offering its own contribution in terms of technical know-how and supervisory experience, in 2006 Consob maintained intense relations with other public Institutions in the preparation and approval of important changes to legislation, aimed at enforcing EU regulations on investments services and markets and a number of new elements introduced by Italian Law 262 of 28 December 2005, coordinated as necessary with pre-existing legislation (particularly the Consolidated Laws on Finance and Banking).

The Commission was also strongly committed to providing government authorities with the elements necessary to launch numerous parliamentary hearings and question times on matters relevant to the Commission's work.

Consob's external communication activities also aimed to satisfy the disclosure requirements of investors and the market operators.

The Commission's web site was confirmed as the central communications tool for Consob activities.

During the year, therefore, there was a constant focus on improving the quantity and quality of information available on the web site. Worthy of mention are the new elements in the "Register of approved persons" section, now fully integrated with Consob's internal database, which contains a search engine allowing one-step searches for all available updates regarding an individual approved person.

The constant increase in the number of site visitors confirms its central importance for operators and investors (Table 48).

Table 48

Visitors to Consob's website

Sections	2002	2003	2004	2005	2006
Home page (What's new)	829,385	953,900	1,563,957	2,040,414	2,674,672
Investors	102,159	144,333	156,023	158,124	303,315
Operators [1]	—	70,573	69,071	101,098	358,795
Consob	121,688	118,407	157,075	229,123	
Issuers	1,014,943	2,214,855	2,567,876	2,811,214	3,936,630
Intermediaries and markets	262,218	189,417	234,561	289,627	889,495
Consob decisions	416,423	387,879	421,345	519,469	596,785
Legal framework	555,583	430,937	501,071	727,141	955,965
Publications and press releases	438,993	451,318	495,005	521,198	634,400
Links	30,148	27,122	29,087	14,098	17,980
Site search engine	242,315	223,459	245,013	275,192	276,195
Help and site map	63,927	64,543	72,354	89,210	25,125
English version	200,237	132,605	136,357	141,498	428,925

[1] Section added in 2003.

One of Consob's traditional means of communications remains the "Consob Informs" newsletter, useful to both operators and journalists for in-depth awareness of activities carried out by the Commission.

Other initiatives include the now customary Public Administration Forum, an event useful for direct encounters with the general public. At this event, Consob promotes its institutional image and receives important indications of the expectations and information needs of investors.

As part of its external communications activities, investor education is of strategic importance.

Pending the implementation of new initiatives to illustrate the far-reaching changes within the new regulations for financial markets, comparison and cooperation with other European authorities continues through participation in a working party established within the CESR. The objective of the working party is the implementation of common dedicated investor education activities, specifically on cross-border investments.

Lastly, Consob has continued to respond to requests for information received on a daily basis (Table 49), also through its "telephone helpline" which every day satisfies a range of information needs of investors and market operators.

Table 49

Applications for documentation and information on Consob's activities

	Applicants			Subject of applications				
	Institutional investors and market operators	Investors, students etc.	*Total*	Resolutions, communications, prospectuses	Integrated 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*
2006	153	1,306	*1,459*	145	20	1,216	78	*1,459*

4. Developments in information technology

During 2006, the upgrading of hardware platforms and software to the most recent technological standards continued.

According to art. 25 of the MiFID Directive, implementation of the Transaction Reporting system is in progress. This system will allow Italian intermediaries to notify Consob their transactions on financial instruments admitted to listing on an EU regulated market.

With regard to telecommunications channels, the network link to the Milan headquarters has been doubled, bringing the overall data transmission speed to 200 Mbit/s. This doubling-up was a preliminary to activation of disaster recovery procedures, which will allow data duplication in remote offices so as to minimise disaster impact.

The new document management system has been purchased and is currently being tested. This will offer greater integration with current applications and improved access to documents that constitute the Commission's information legacy.

C

APPENDIX AND METHODOLOGICAL NOTES

LIST OF STATISTICAL TABLES

Table A.1

Ownership structure of newly listed Italian companies
(percentages of share capital with voting rights)

	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*
Average 2005	*72.8*	*94.0*	*49.0*	*58.7*
		2006		
Ansaldo Sts	*100.0*	*100.0*	*40.0*	*40.0*
Antichi Pellettieri	*88.5*	*91.5*	*53.5*	*56.3*
Arkimedica	*49.7*	*88.5*	*34.4*	*51.9*
Ascopiave	*100.0*	*100.0*	*60.0*	*60.0*
Banca Generali	*77.4*	*98.2*	*60.4*	*67.5*
Bolzoni	*65.6*	*95.6*	*51.0*	*63.7*
Cobra	*71.7*	*99.6*	*51.2*	*63.7*
Cogeme Set	*99.1*	*99.1*	*63.9*	*63.9*
Eems	*82.4*	*95.2*	*45.6*	*51.3*
Elica	*69.9*	*92.8*	*54.6*	*52.8*
Gas Plus	*100.0*	*100.0*	*72.2*	*72.2*
Kerself	*48.8*	*97.1*	*31.3*	*47.7*
Marazzi Group	*64.7*	*97.5*	*60.0*	*69.6*
Nice	*98.4*	*98.4*	*63.5*	*63.5*
Noemalife	*65.9*	*85.5*	*50.2*	*61.4*
Piaggio	*92.2*	*97.4*	*60.8*	*60.8*
Pierrel	*100.0*	*100.0*	*60.0*	*60.0*
Poltrona Frau	*75.0*	*100.0*	*52.1*	*59.4*
Polynt	*100.0*	*100.0*	*31.0*	*31.0*
Saras	*100.0*	*100.0*	*63.7*	*62.5*
Valsoia	*80.0*	*98.0*	*69.5*	*85.3*
Average 2006	*82.4*	*96.9*	*53.8*	*59.3*

Source: Consob. See Methodological Notes.

Table A.2

Takeover bids and/or share swaps of Italian listed companies[1]
(amounts in millions of euros)

	Voluntary		Unsolicited [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*
2006	2	878	--	--	--	--	10	6.046	5	480	--	--	*17*	*7.404*

Source: Consob archive of offer documents and Borsa Italiana Spa notices. [1] Share swaps are valued at the market prices for the day preceding announcement of the transaction. Rounding may cause discrepancies in the final 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.3

Concentration of ownership of the Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(as 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
2006	27.5	15.2	57.3	32.2	15.7	52.1

Source: Consob ownership transparency archive. See Methodological Notes. [1] As a percentage of capitalisation of the ordinary share capital of all companies listed on the Stock Exchange/MTA and MTAX (formerly the Nuovo Mercato). Rounding may cause discrepancies in the final figure.

Table A.4

Types of control of the Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(as at 31 December)

	Companies subject to majority control		Companies subject to working control		Companies subject to shareholders' agreement		Companies not subject to control	
	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
1997	122	48.1	28	12.4	27	6.3	28	33.2
1998	128	32.3	31	21.7	24	7.4	35	38.6
1999	148	55.0	31	16.7	29	10.8	32	17.5
2000	141	51.4	34	18.5	24	9.6	38	20.5
2001	135	49.7	37	22.5	21	11.4	39	16.4
2002	142	46.0	37	28.4	20	10.2	32	15.4
2003	130	40.2	25	25.5	28	15.3	36	19.0
2004	134	32.7	22	27.2	26	15.1	37	25.0
2005	124	22.8	28	30.6	24	16.5	44	30.1
2006	128	22.8	25	29.1	26	22.3	44	25.8
				Mtax				
2000	14	51.1	8	32.4	13	14.6	4	1.9
2001	15	42.0	7	36.3	9	12.7	13	9.0
2002	12	43.4	9	33.2	10	13.3	12	10.1
2003	10	18.5	10	33.3	3	2.0	18	46.3
2004	9	19.1	8	23.4	6	8.5	14	49.0
2005	10	17.8	6	21.8	5	9.6	15	50.8
2006	11	17.1	6	24.3	2	8.1	16	*50.5*

Source: Consob ownership transparency archive. See Methodological Notes. [1] Rounding may cause discrepancies in the last figure. [2] Percentage ratio between capitalisation of ordinary share capital of companies attributable to each control model and the capitalisation of ordinary share capital of all companies listed on the Stock Exchange/MTA and MTAX (formerly the Nuovo Mercato).

Table A.5

Major holdings in the Italian companies listed on the Stock Exchange/Mta and Mtax[1]
(as at 31 December)

	Declarant								
	Foreign parties	Insurance companies	Banks	Foundations	Institutional investors	Limited companies	State and local authorities	Natural persons	*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*
2006	6.7	1.6	3.8	4.4	0.1	10.4	9.8	6.1	*42.7*
					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*
2006	6.7	0.1	--	--	0.8	10.4	0.1	29.8	*47.9*

Source: Consob ownership transparency archive. See Methodological Notes. [1] Holdings of more than 2 percent of the voting capital. Percentage ratio of the market value of holdings calculated in relation to ordinary share capital and the capitalization of ordinary share capital of all companies listed on Italian Stock Exchange/Mta and Mtax (formerly the Nuovo Mercato). Rounding may cause discrepancies in the final figure.

Table A.6

Italian listed companies with shareholders' agreements
(as at 31 December 2006)

Company	Type of agreement	Expiry	Share covered by the agreement [1]	Number of participants
Acsm	Global	29.10.2009	60.5	2
Actelios	Blocking	04.08.2009	73.2	2
Aeroporto di Firenze	Global	30.10.2008	20.0	3
Alerion Industries	Global	18.03.2009	53.1	21
Anima sgr	Blocking	26.10.2007	9.6	2
Apulia Prontoprestito	Global	06.12.2008	85.1	2
Arkimedica	Global	31.07.2009	68.3	10
Assicurazioni Generali	Voting	13.09.2007	8.1	3
Azimut	Global	07.07.2007	22.7	784
Banca Carige	Blocking	07.05.2009	55.0	2
Banca Generali	Global	01.10.2008	66.8	2
Banca Intesa	Global	15.04.2008	43.5	23
Banca Italease	Global	05.05.2008	44.1	6
Banca Lombarda e Piemontese	Global	31.12.2007	46.9	304
Banca Popolare di Spoleto	Global	30.06.2007	77.0	3
Banca Profilo	Global	31.05.2008	30.0	3
Banco di Sardegna	Global	30.03.2007	100.0	2
Brioschi	Global	16.04.2008	65,8	2
Bulgari	Global	17.07.2008	51.7	3
Capitalia	Global	03.07.2008	31.0	23
Cassa di Risparmio di Firenze	Global	11.04.2009	37.6	3
Cit	Global	Indefinite	58.0	3
	Global	06.09.2008	43.0	3
Csp	Global	15.06.2007	60.7	7
Dada	Global	10.11.2008	57.6	6
	Blocking	Indefinite	15.4	2
Datalogic	Global	2006 Financial statements	62.7	18
Dmail Group	Global	30.06.2007	37.3	4
Ducati Motor Holding	Global	26.03.2009	29.8	7
Edison	Global	12.05.2008	88.6	4
	Global	06.07.2008	71.2	7
Enertad	Global	15.10.2009	67.7	2
Esprinet	Global	19.04.2009	51.0	5
Euphon	Global	10.01.2007	33.4	3
	Global	23.03.2007	27.7	3
Eurofly	Blocking	31.12.2007	49.2	3
Exprivia	Global	2007 Financial statements	59.1	2
Gemina	Global	2006 Financial statements	43.4	7
Gim	Global	2006 Financial statements	60.5	20

--- Cont. ---

--- Table A.6 cont. ---

Company	Type of agreement	Expiry	Share covered by the agreement [1]	Number of participants
Hera	Voting	05.11.2009	7.2	5
	Voting	08.03.2008	7.7	29
	Voting	31.12.2008	58.1	144
	Blocking	31.12.2008	51.0	144
	Voting	31.12.2008	5.4	163
	Voting	31.12.2008	20.4	163
I Viaggi del Ventaglio	Blocking	29.12.2007	15.5	2
Igd	Global	11.02.2008	60.4	2
Immobiliare Lombarda	Voting	01.12.2008	56.9	3
Interpump	Global	2007 Financial statements	19.3	8
Iride	Global	30.10.2009	58.3	4
Italjolly	Global	10.11.2009	74.5	*3*
La Doria	Global	30.06.2008	70.0	*7*
Linificio e Canapificio Nazionale	Global	26.04.2009	67.8	2
M&C Management e Capitali	Global	02.02.2009	44.9	11
Marcolin	Global	15.12.2007	71.2	9
Mediobanca	Global	30.06.2007	52.7	47
Mediolanum	Global	13.09.2007	51.0	4
Nice	Blocking	19.05.2007	64.0	3
Permasteelisa	Global	31.07.2009	26.1	3
Pirelli & C.	Global	15.04.2007	46.2	10
Premafin	Global	31.10.2008	44.7	5
Premuda	Global	31.12.2007	45.0	3
Rcs	Global	15.03.2009	63.5	16
Rdm Realty	Blocking	04.12.2008	16.7	2
Rgi	Global	30.04.2007	52.5	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
Stefanel	Global	27.01.2008	14.1	2
Tamburi Investment Partners	Global	06.10.2008	40.9	15
Telecom Italia	Global	17.10.2009	23.2	6
Trevisan Cometal	Global	2006 Financial statements	16.8	3
Valsoia	Voting	2006 Financial statements	64.5	2
Zucchi	Global	23.02.2009	54.0	20

See Methodological Notes. [1] As a percentage of the ordinary share capital.

Table A.7

Shareholders' agreements in companies with control over Italian listed companies
(as at 31 December 2006)

Listed company	Controlling company covered by the agreement	Type of agreement	Expiry	Share covered by the agreement[1]	Number of participants
A.S. Roma	Compagnia Italpetroli	Voting	29.03.2007	50.8	3
		Global	21.06.2007	100.0	6
Aeroporto di Venezia	Marco Polo Holding	Global	24.05.2008	100.0	5
Autostrade	Schemaventotto	Global	31.12.2007	100.0	5
Cogeme Set	Tms-Ekab	Global	24.09.2009	100.0	5
Credito Emiliano	Credito Emiliano Holding	Blocking	20.07.2007	72.9	229
Datalogic	Hydra	Global	03.03.2007	100.0	4
Edison	Delmi	Global	06.07.2008	100.0	7
	Delmi	Voting	06.07.2008	14.0	3
	Transalpina di Energia	Global	12.05.2008	100.0	4
	Transalpina di Energia	Global	06.07.2008	35.6	7
Gefran	Fingefran	Global	15.10.2009	54.0	3
Gemina[2]	Investimenti Infrastrutture	Global	15.11.2008	100.0	4
Greenvision-Bioera	Greenholding[3]	Global	02.04.2009	10.0	2
Gruppo Coin	Financiere Tintoretto	Global	30.11.2009	100.0	6
Immsi[4]	Omniapartecipazioni[5]	Voting	2006 Financial statements	100.0	2
	Omniainvest	Voting	31.10.2008	89.7	4
Impregilo	Igli	Global	12.06.2008	100.0	4
	Tesir	Global	12.06.2008	100.0	2
Intek	Quattroduedue Holding	Voting	30.06.2007	100.0	4
Isagro	Manisa	Global	02.12.2007	100.0	12
Lottomatica[6]	B&D Holding di Marco Drago e C. Sapa	Global	08.11.2008	100.0	46
Marazzi Group	Finceramica	Global	21.12.2007	100.0	2
Mariella Burani F.G.[7]	Burani Private Holding	Global	21.12.2009	85.4	4
	Burani Designer Holding	Global	12.12.2009	61.6	2
	Burani Designer Holding	Global	12.12.2009	91.7	5
	Burani Designer Holding	Global	12.12.2009	97.7	6
	Burani Designer Holding	Global	17.12.2009	92.1	5
	Burani Designer Holding	Global	22.12.2009	30.3	5
Piaggio & C.	Omniainvest	Voting	31.10.2008	89.7	4
	Omniapartecipazioni[5]	Voting	2006 Financial statements	100.0	2
Reply	Alika	Global	09.11.2007	51.0	4
Sabaf	Giuseppe Saleri	Global	22.05.2008	100.0	6
Sirti[8]	Technology systems holding	Global	16.12.2009	100.0	3
	Albrida	Global	14.09.2009	100.0	2
	Global technology systems	Global	16.12.2007	100.0	2
	Technology systems holding	Global	16.12.2007	60.0	2
Telecom Italia	Olimpia[9]	Global	04.10.2007	67.2	2
Trevi Fin. Industrial	Trevi Holding Aps	Voting	31.12.2007	8.0	2
Unipol	Finsoe	Global	15.04.2007	84.1	2
	Finsoe	Global	07.02.2009	60.7	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] Investimenti Infrastrutture does not exercise control over Gemina. [3] Greenholding controls 51% of Greenvision Ambiente and 57.7% of Boera. [4] Control over the company is held by Roberto Colaninno, via Omniaholding, which controls Omniainvest, which in turn controls Omniapartecipazioni. [5] The agreement also contains agreements concerning the listed company. [6] Via the 100% holding in De Agostini Spa, B&D controls Lottomatica. [7] 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. [8] The agreements concern the parent company and its group members. [9] Agreements notified pursuant to Article 122 of the Consolidated Law on Finance even if at the time of notification the company did not consider that it controlled the listed company.

Table A.8

Distribution of Italian listed companies by number of shareholders' meeting participants
(2002-2006)

	Number of participants					Average number of participants[1]
	< 50	50-100	100-500	> 500	*Total*	
Mib30 and Midex						
2002 shareholders' meetings	18	5	21	5	*49*	178
2003 shareholders' meetings	19	6	20	5	*50*	184
S&P/Mib and Midex						
2004 shareholders' meetings	21	6	20	4	*51*	190
2005 shareholders' meetings	28	3	26	6	*63*	164
2006 shareholders' meetings	21	17	24	5	*67*	179
Star						
2003 shareholders' meetings	36	1	--	--	*37*	16
2004 shareholders' meetings	39	1	1	--	*41*	21
2005 shareholders' meetings	42	--	--	1	*43*	15
2006 shareholders' meetings	52	2	--	--	*54*	13

Source: Minutes of shareholders' meetings to approve the financial statements of the companies listed on the Mib30 (S&P/Mib from 2004), Midex and Star segment. [1] Arithmetic mean.

Table A.9

Share of voting rights held by major shareholders and institutional investors in shareholders' meetings of Italian listed companies
(percentages)

		Major shareholders[1]			Minor institutional investors[1]		
		Mean	Min	Max	Mean	Min	Max
Mib30 and Midex							
2002 shareholders' meetings	Percentage of total share capital with voting rights	49.7	17.5	71.2	2.9	--	9.7
	Percentage of share capital represented at shareholders' meetings	89.2	50.6	100.0	5.8	--	26.7
2003 shareholders' meetings	Percentage of total share capital with voting rights	52.4	24.1	83.7	2.2	--	8.0
	Percentage of share capital represented at shareholders' meetings	90.7	58.6	99.6	4.3	--	16.1
S&P/Mib and Midex							
2004 shareholders' meetings	Percentage of total share capital with voting rights	52.3	17.1	81.5	2.4	--	6.3
	Percentage of share capital represented at shareholders' meetings	89.4	49.0	99.9	4.5	--	14.5
2005 shareholders' meetings	Percentage of total share capital with voting rights	52.0	22.0	78.0	2.5	--	9.7
	Percentage of share capital represented at shareholders' meetings	88.3	58.3	99.9	4.6	--	16.6
2006 shareholders' meetings	Percentage of total share capital with voting rights	48.4	4.0	84.7	2.5	--	9.9
	Percentage of share capital represented at shareholders' meetings	84.2	25.2	99.7	5.3	--	48.7
Star							
2003 shareholders' meetings	Percentage of total share capital with voting rights	58.9	19.8	76.5	1.1	--	8.6
	Percentage of share capital represented at shareholders' meetings	93.8	7.7	100.0	1.9	--	12.1
2004 shareholders' meetings	Percentage of total share capital with voting rights	59.2	--	77.4	0.5	--	4.8
	Percentage of share capital represented at shareholders' meetings	92.6	--	100.0	1.0	--	10.6
2005 shareholders' meetings	Percentage of total share capital with voting rights	57.1	14.0	76.5	0.9	--	4.0
	Percentage of share capital represented at shareholders' meetings	94.0	37.0	100.0	1.7	--	9.4
2006 shareholders' meetings	Percentage of total share capital with voting rights	58.3	19.6	79.3	0.7	--	5.2
	Percentage of share capital represented at shareholders' meetings	95.6	57.5	100.0	1.4	--	8.6

Source: Minutes of shareholders' meetings to approve the financial statements of the companies listed on the Mib30 (S&P/Mib from 2004), Midex and Star segment. [1] Major (minor) shareholder means an entity with a holding of more (less) than 2% of the voting capital (Article 120 of the Consolidated Law on Finance).

Table A.10

Share of voting rights held by minor institutional investors in shareholders' meetings of Italian listed companies
(arithmetic means; percentages)

		Italian asset management companies	Italian pension funds	Italian banks and insurance companies	Foreign funds	Foreign banks and insurance companies	*Total*
Mib30 and Midex							
2002 shareholders' meetings	Percentage of total share capital with voting rights	0.5	0.8	0.4	1.5	0.1	*2.8*
	Percentage of share capital represented at shareholders' meetings	1.0	0.7	0.7	3.0	0.4	*5.8*
2003 shareholders' meetings	Percentage of total share capital with voting rights	0.2	0.2	0.5	1.2	0.1	*2.2*
	Percentage of share capital represented at shareholders' meetings	0.4	0.4	1.0	2.3	0.2	*4.3*
S&P/Mib and Midex							
2004 shareholders' meetings	Percentage of total share capital with voting rights	0.2	0.2	0.6	1.2	0.2	*2.4*
	Percentage of share capital represented at shareholders' meetings	0.4	0.4	1.0	2.3	0.2	*4.5*
2005 shareholders' meetings	Percentage of total share capital with voting rights	0.2	0.1	0.5	1.4	0.2	*2.5*
	Percentage of share capital represented at shareholders' meetings	0.4	0.2	0.9	2.7	0.3	*4.6*
2006 shareholders' meetings	Percentage of total share capital with voting rights	0.1	0.1	0.5	1.6	0.2	*2.5*
	Percentage of share capital represented at shareholders' meetings	0.2	0.3	0.9	3.4	0.5	*5.3*
Star							
2003 shareholders' meetings	Percentage of total share capital with voting rights	0.1	--	0.1	0.8	0.1	*1.1*
	Percentage of share capital represented at shareholders' meetings	0.1	--	0.2	1.4	0.2	*1.9*
2004 shareholders' meetings	Percentage of total share capital with voting rights	--	--	0.1	0.3	0.1	*0.5*
	Percentage of share capital represented at shareholders' meetings	0.1	--	0.2	0.6	0.1	*1.0*
2005 shareholders' meetings	Percentage of total share capital with voting rights	0.1	--	--	0.8	--	*0.9*
	Percentage of share capital represented at shareholders' meetings	0.2	--	--	1.5	--	*1.7*
2006 shareholders' meetings	Percentage of total share capital with voting rights	--	--	0.3	0.4	--	*0.7*
	Percentage of share capital represented at shareholders' meetings	0.1	--	0.5	0.8	--	*1.4*

Source: Minutes of shareholders' meetings to approve the financial statements of the companies listed on the Mib30 (S&P/Mib from 2004), Midex and Star segment. [1] Minor shareholder means an entity with less than 2% of the voting capital (Article 120 of the Consolidated Law on Finance).

METHODOLOGICAL NOTES

Instructions

Symbols used in tables in the Report and the Appendix have the following meanings:

-- quantity identified as nil;

— the phenomenon does not exist;

.... the phenomenon exists but the figures are unknown;

.. the figures are below the significance threshold.

Sources: unless otherwise stated, data included in the tables was obtained by Consob as part of its institutional supervisory activities.

Figures 1, 3-5 and 7-8

Major listed groups are represented by a "closed" sample of 30 groups for which a complete series of financial statements from 1998 to 2005 is available and assessed in Mediobanca's R&S 2006 yearbook. At the end of 2005, these groups included around 50 listed companies representing roughly 80% of the total capitalisation of listed non-financial companies. This analysis therefore covers almost the entire share list panorama of the Stock Exchange with regard to the services and industry sectors. The groups considered are as follows (with the main listed companies consolidated as of the 2005 financial statements indicated in brackets): Enel (Terna being considered separately as no longer consolidated in Enel as of 2005), Eni (Snam Rete Gas, Saipem), Autostrade, Telecom, Ifi (Ifil, Juventus; Fiat considered separately as no longer consolidated as of 2004), Edizione Holding (Autogrill, Benetton), Aurelia (Autostrada TO-MI, Sias), Italmobiliare (Italcementi), Luxottica, Alitalia, Aem, Fininvest (Mondadori, Mediaset), Edison-Italenergia, 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 (Sorin considered separately as a spin-off from Snia as of 2004). In order to maintain consistency in the time series of the Telecom Group financial statements, the Seat Pagine Gialle group was also considered (the first consolidated into Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (particularly Edizione Holding and Aurelia, for Fininvest).

Figures 2 and 6

For France, the top 30 companies in capitalisation terms were taken into consideration, as listed in the Cac40 index and for which a complete series of financial statements is available for the period 1999-2005. For Germany, the top 30 capitalised companies on the Dax100 index were considered, with complete financial statements for 1999-2005. For Italy, the major Italian listed non-financial groups were considered as listed in the Methodological Note for figures 1, 3-5, 7-8.

Figures 20, 21, Table 5, Tables A.3, A.4 and A.5

The data source is Consob's ownership transparency archive consisting of the notices issued in accordance with Article 120 of the Consolidated Law on Finance (based on which all persons holding more than 2% of voting capital in an Italian listed company must notify the fact in writing to the company and to Consob, which then discloses the information to the market).

A major holding is considered to be a holding of more than 2% of voting capital (art. 120, 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.4

The types of control are defined as follows:

- majority control: when a single shareholder holds more than 50% of voting rights exercisable at 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;
- shareholders' agreement: when the sum of the voting rights held by parties to a shareholders' agreement is more than 50% of total voting rights exercisable at the ordinary shareholders' meeting or permits working control.

Tables 1, 2, 3, 4 and Table A.1

The following criteria are adopted in dealing with public offerings for admission to listing:

- offerings made by foreign companies are excluded;
- data regarding the amounts of offerings refer to the results of placements, including any shares allotted to institutional investors as part of an overallotment at the close of the offering. Note, therefore, that data are independent of the fact that, after stabilisation by the placement agents, the greenshoe option may not be exercised, either wholly or in part, in the 30 days following the offering;
- data on ownership structure development are taken from the 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 the proportional distribution of the shares sold in accordance with that specified in the prospectus;

- determination of the percentage held by the controlling shareholder is based on a substantial approach which takes into account all shares held by members of the same family, those held by companies owned by the same person and those not conferred to any shareholders' agreements by parties to such agreements. In the absence of a controlling shareholder, the largest shareholder is indicated;
- own shares are deducted from the share capital of the issuer for the purpose of calculating percentages held by major shareholders and capitalisation.

Table 4

Data include the holdings of sponsors and placement agents handling the operation, or persons controlling or controlled by them, in listed companies and/or their controlling companies.

Also credit relations, existing at the offering date, between the sponsors and the placement agents handling the operation, or persons controlling or controlled by them, and listed companies or their subsidiaries are included.

Credit relations do not include transactions relating to trade receivables, or any for which determination of the credit actually allocated is not possible. Only in certain particularly important cases, figures for credit facilities granted but not used were taken into account.

The equity relations do not include options held by the above-mentioned persons for the purchase or subscription of shares.

Table 6, Tables A.6 and A.7

Information on shareholders' agreements is obtained from disclosures required in force of 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 acquisition by acting in concert must be notified to Consob within five days of stipulation, under penalty of invalidation.

Only agreements covering more than 5 per cent of share capital are considered.

Figure 24

The indicator-building procedure is based on the work of M. Kumar and A. Persuad (2002), "Pure contagion and investors' shifting risk appetite: analytical issues and empirical evidence", *International Finance*, Vol. 5, pp. 401-426 and on the application methodology proposed by M. Misina (2005) "Benchmark Index of Risk Appetite", *Bank of Canada Working Paper*. Specifically, the main components were extracted from the series of extra returns on individual shares in the share index, and volatility was then estimated on the main components according to the Garch model (1,1). The range relationship is calculated between volatility estimated for month *t-l* and volatility of the main components extracted from extra returns for month *t*.

Figures 45-52 and Table 19

Data refer to the following Italian banking groups: Banca Intesa, Unicredito-HVB, San Paolo IMI, Capitalia, MPS, BNL, Mediobanca, BPU, BPVN and Banca Antonveneta. This sample essentially represents 2/3 of the entire Italian banking system in total assets terms. Data for 2000 include major banks later converging into the banking groups considered.

Figure 45

Net interest income includes the balance of interest rate hedge transactions, dividends on holdings and profits and losses of holdings carried as equity. Revenues from investment services include profits/losses on financial transactions and net commissions from investment services and collective management (including foreign currency trading, advisory services, safekeeping and administration of securities, depository bank services and the placement of insurance products and services). Revenues from banking services include net commissions for guarantees granted and credit derivatives, collection and payment services, tax collection services and servicing on securitization transactions, net commissions on current accounts, credit cards and ATM cards.

Figure 46

Revenues from asset management comprise net commissions from individual and collective asset management and depository bank commissions. Revenues from placement services comprise net commissions from the placement of securities and other financial and insurance products (including door-to-door sales). Revenues from trading for customers comprise the net commissions from securities and foreign exchange trading and from the acceptance of orders. Other revenues essentially comprise net commissions from advisory services and from the safekeeping and administration of securities.

Figure 65

The types of opinion issued by independent auditors are described below.

1) *Qualified opinion*. Auditors are required to express a qualified opinion where they find: significant failures to comply with rules governing financial statements; significant disagreement with directors regarding accounting standards; errors in their application or inadequate information; significant limitations in performing the audit due to technical obstacles or restrictions imposed by the directors; a situation of significant uncertainty not adequately described in the financial statements or of seemingly unacceptable action taken by the directors.

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 financial statements, significant disagreement with the directors regarding accounting standards, errors in their application or inadequate information, are such as to cast doubt on the reliability and on the information content of the financial statements as a whole.

3) *Disclaimers due to serious limitations to the audit* Auditors must issue a disclaimer where the possible effects of limitations encountered in performing the audit are sufficient to deprive them of elements needed to express an opinion.

4) *Disclaimers due to uncertainty* When faced with one or more situations of uncertainty such as to cast doubt on the reliability of the financial statements as a whole or on business continuity, auditors must issue a disclaimer when they consider that the action taken by the directors is based on highly questionable assumptions.

Tables 46 and 47

Senior management comprises the following grades: Director-General, Chief Executive Officer, Central co-manager, General Manager, Manager and Co-manager. Junior management comprises 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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