Annual Report 2009

Rome, 31 March 2010

CONSOB
Commissione Nazionale per le Società e la Borsa

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Financial market developments A

1 Financial structure and profitability

In the first six months of 2009 an increase was recorded in borrowings for major Italian listed non-financial groups, to 200 billion euro from 209 billion euro in 2008 (+5.2%). Consequently the debt-turnover ratio also increased (from 0.55 to 0.69; Fig.1). Financial leverage (the debt-equity ratio), however, decreased (from 1.14 to 1.10) as a result of the increase in shareholders'equity to 200 billion euro from 183 billion in 2008 (+9%).

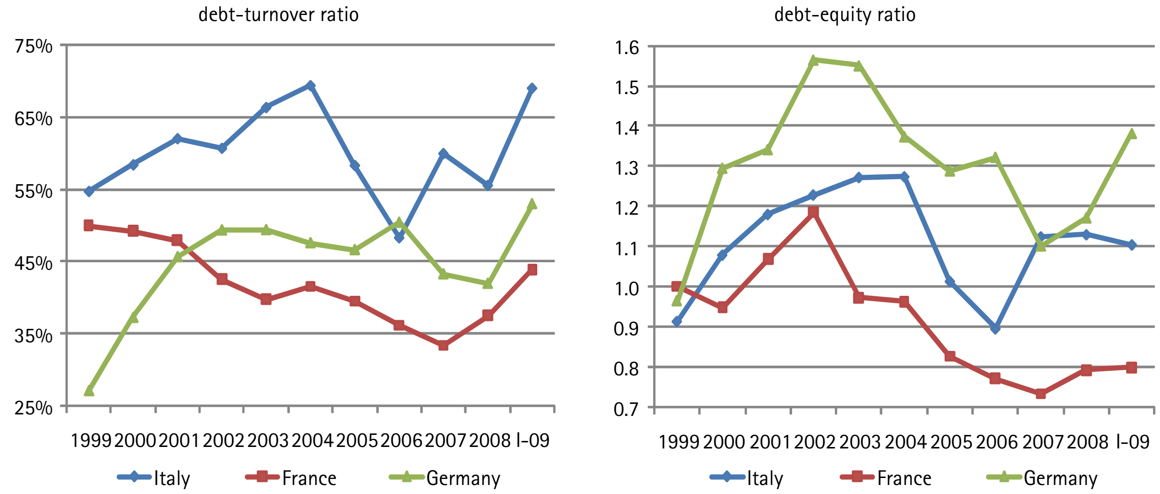
By recalculating the aggregate income statement data for June 2009 as annual percentages, it can be estimated that the aggregate turnover level dropped by 16% year-on-year.

Fig. 1 Borrowing indicators for the major Italian listed non-financial groups

Source: calculations based on reclassified R&S financial statements. The source for 2009 half-year figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs. To calculate indicators for the first half of 2009, turnover was recalculated as an annual percentage. See Methodological Notes.

Financial statement figures, reclassified to standardise comparison between the different countries, show that from December 2008 to June 2009 the total borrowings of the major listed non-financial companies increased in both France (from 341 billion to 406 billion euro; +19%) and Germany (from 466 billion to 532 billion euro; +14%). The financial leverage of listed French groups, however, recorded no significant change, remaining close on 0.80 due to the increase in total shareholders'equity from 430 billion euro in December 2008 to 508 billion euro in June 2009 (+18%; Fig. 2). For the major listed groups in Germany, financial leverage reached a level higher than that recorded in Italy, also because of the decrease in total shareholders'equity from 398 billion euro in December 2008 to 385 billion euro in June 2009 (-3%). The debt-turnover ratio increased, however, for both French and German major listed non-financial groups due to fluctuations in revenue (estimated annual percentages based on June 2009 income statement figures). In fact, turnover increased only slightly in France (+2%) and fell by 10% in Germany.

Fig. 2 Borrowing indicators for the major listed non-financial groups of certain Eu countries

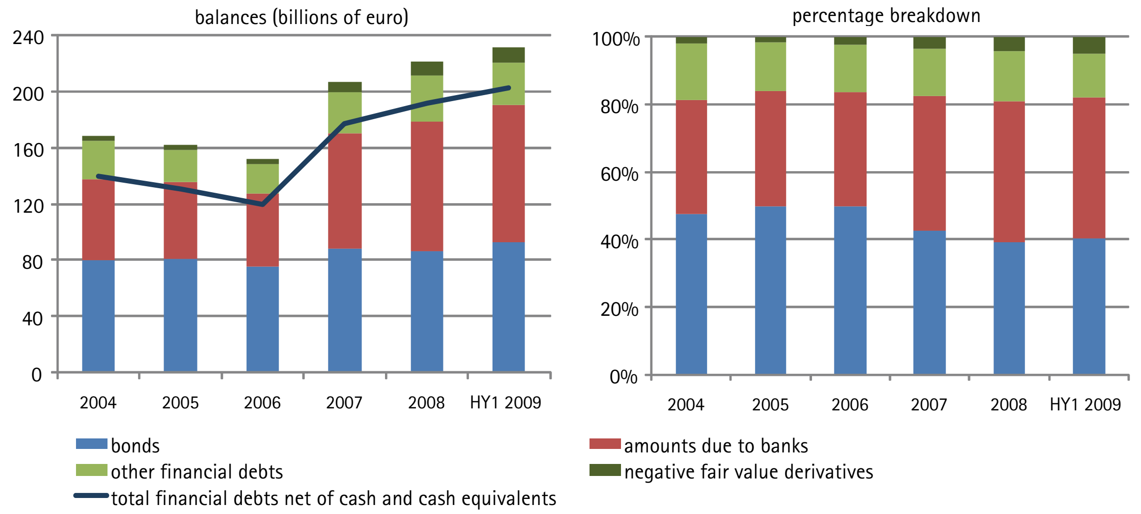


Source: calculations on Worldscope data. For France and Germany the figures relate to the top 30 non-financial companies by level of capitalisation as at March 2009, whereas for Italy the figures refer to the sample of major listed groups indicated in Fig. 1. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs.

Regarding the breakdown of borrowings for the major listed non-financial groups net of cash and cash equivalents, in the first six months of 2009 the balances for bonds increased from 86.6 billion euro to approximately 93.1 billion euro (+7.6%), whilst amounts due to banks increased from 92 billion to 96.8 billion euro (+5% approx.; Fig. 3).

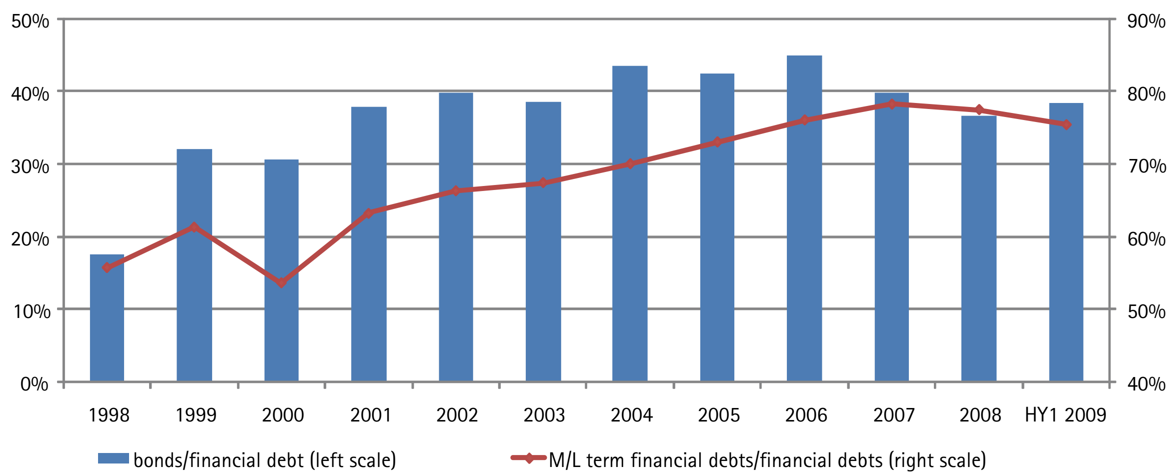
Specifically, following the credit squeeze applied by banks, the stock of medium/long-term bonds of the major listed non-financial groups recorded an increase, to approximately 84.7 billion euro from 76.7 billion at the end of 2008 (+10%). In parallel, the weight of this source of funding on total financial debt increased from 36.7% to around 38.5% (Fig. 4).

Fig. 3 Breakdown of financial debt for the major Italian listed non-financial groups



Source: calculated on consolidated and half-year financial statements prepared in accordance with Ias/Ifrs. See Methodological Notes.

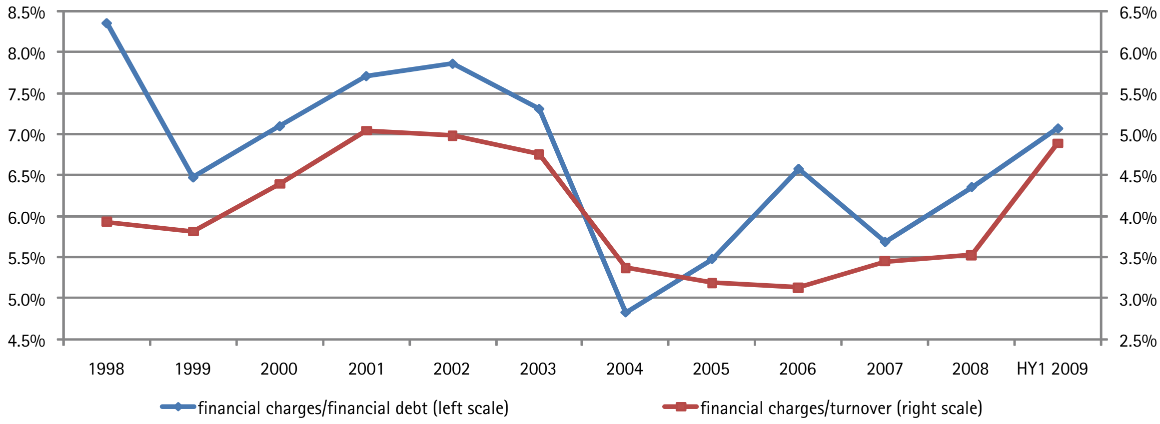
Fig. 4 Weight of bonds and medium-long term debt on the total financial debt of major Italian listed non-financial groups



Source: calculations based on reclassified R&S financial statements. The source for 2009 half-year figures was Worldscope. The figures for bonds refer to bonds with maturity beyond 12 months. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs. See Methodological Notes.

The weight of financial charges on turnover also increased (to around 4.9% for the first half of 2009 from 3.5% in December 2008) and on financial debt (from 6.4% to 7%; Fig. 5).

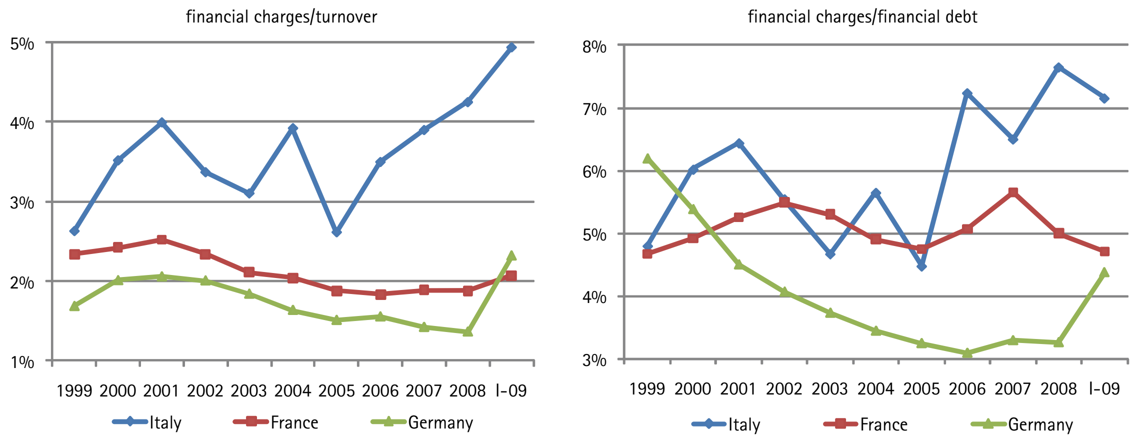
Fig. 5 Incidence of financial charges for major Italian listed non-financial groups



Source: calculations based on reclassified R&S financial statements. The source for 2009 half-year figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs. To calculate indicators for the first half of 2009, financial charges were recalculated as an annual percentage. See Methodological Notes.

By recalculating the income statement data for June 2009 as annual percentages, an increase is seen in the financial charges-turnover ratio in both France (from 1.9% to 2.1%) and Germany (from 1.4% to 2.3%). In both cases the ratio is lower than that recorded in Italy (4.9%; Fig. 6). On the other hand, the incidence of charges on financial debt increased for the major listed non-financial groups in Germany (from 3.3% to 4.4%) and decreased slightly in France (from 5.0 to 4.7%).

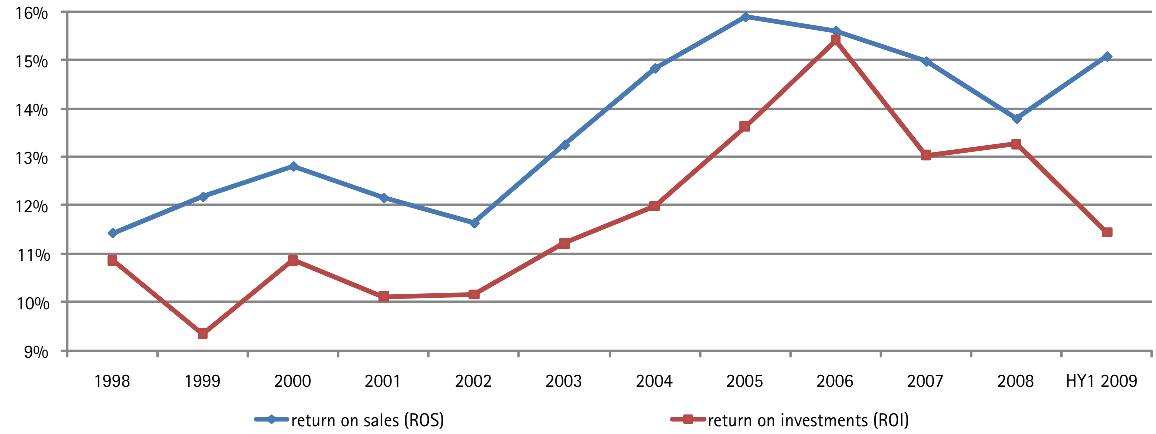
Fig. 6 Incidence of financial charges for major listed non-financial groups in certain EU countries



Source: calculations on Worldscope data. For France and Germany the figures relate to the top 30 non-financial companies by level of capitalisation as at March 2009, whereas for Italy the figures refer to the sample of major listed groups indicated in Fig. 1. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs.

In the first half of 2009 the return on investments (the net operating profit-invested capital ratio) for major Italian listed non-financial groups decreased from 13.3% to 11.4%, unlike the return on sales (net operating profit-turnover ratio) which increased (from 13.8% to around 15.1%; Fig. 7).

Fig. 7 Profitability of the major Italian listed non-financial groups

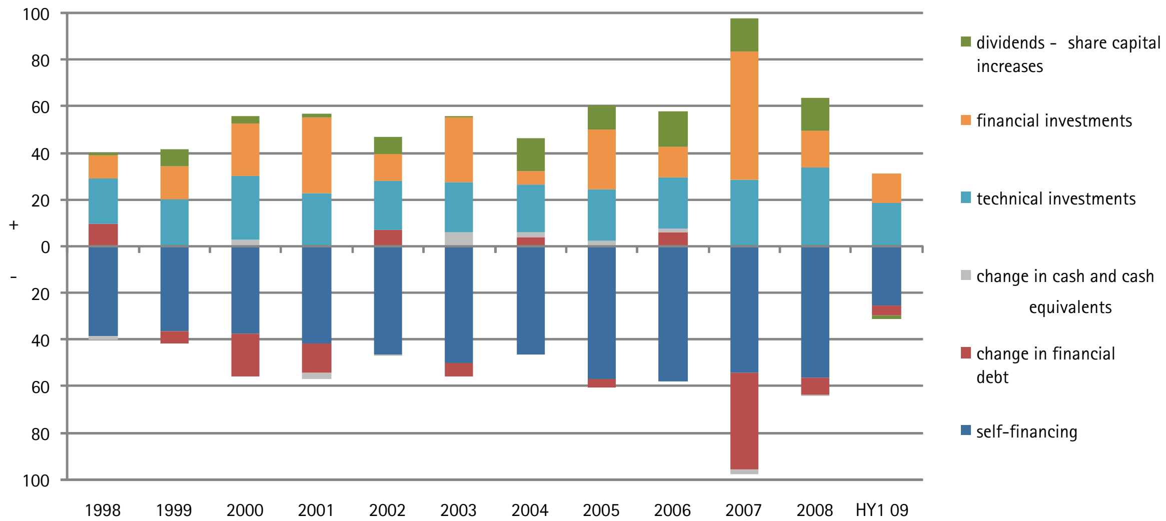


Source: calculations based on reclassified R&S financial statements. The source for 2009 half-year figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with Ias/Ifrs. To calculate indicators for the first half of 2009, net operating profit was recalculated as an annual percentage. See Methodological Notes.

2 Cash flows

In the first half of the year, self-financing remained the key source of funding for the major Italian listed non-financial groups, with a weight of 87% on total inflows (Fig. 8). For the first time in over 10 years, share capital increases exceeded dividends paid (by approximately 1.3 billion euro).

Fig. 8 Uses (+) and sources (-) of funding for major Italian listed non-financial groups
(in billions of euro)

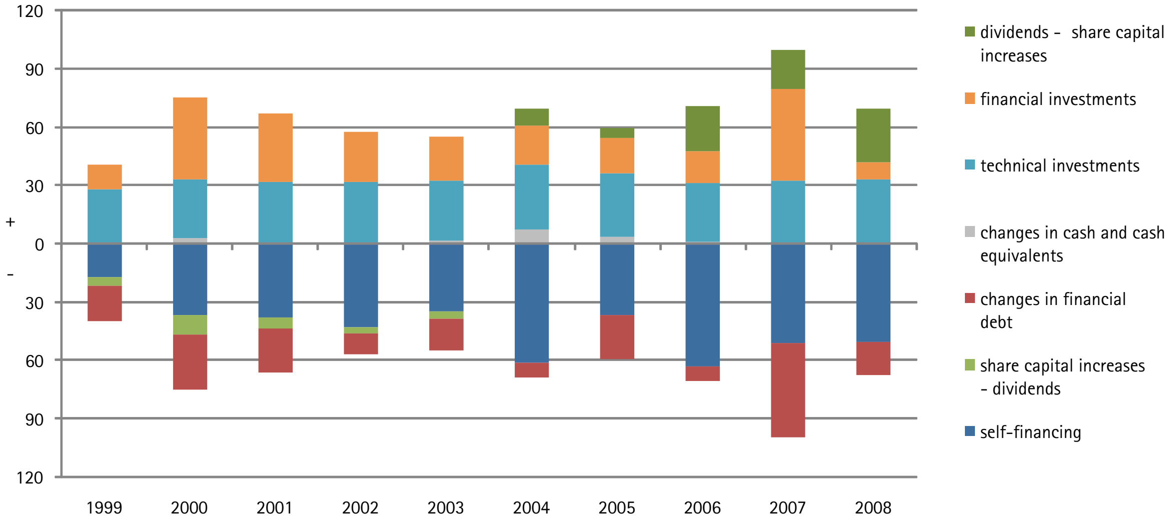


Source: based on cash flow statements and R&S figures. Self-financing is net of investments in net working capital. See Methodological Notes.

Funding was used mainly for technical investments (18 billion euro) and financial investments (12 billion euro).

In 2008, self-financing (totalling 50 billion euro) was also the main source of funding for a sample of approximately 2,000 Italian companies, surveyed by Mediobanca and in part coinciding with the major listed groups. In terms of uses, the total technical investments figure remains high (33 billion euro in 2008 compared to 32 billion euro in 2007), whereas the financial investments total fell from 47.5 billion euro in 2007 to 9 billion euro in 2008 (-80% approx.). Lastly, funding returned to shareholders (dividends net of capital increases) increased from 20 billion to 27 billion euro (+39%) (Fig. 9).

Fig. 9 Uses (+) and sources (-) of funding for large Italian non-financial companies
(in billions of euro)



Source: based on Mediobanca data, "Cumulative data of 2,022 Italian companies", 2009 edition. Self-financing is net of investments in net working capital.

3 Credit quality

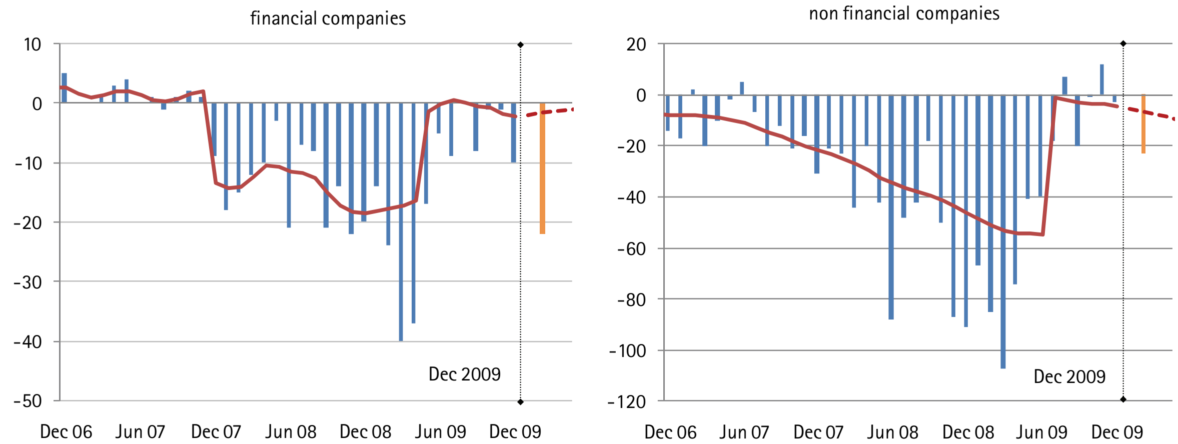
The first few months of 2009 saw numerous downgrades in the ratings of companies in both the financial and corporate sectors. However, the credit quality ratings of issuers improved in the second half of the year, in line with the equity market recovery (see also paragraph 1 below, Chapter II, "Secondary Markets") (Fig. 10).

In fact, in the Usa the difference between the number of rating downgrades and upgrades issued by Moody's peaked in March 2009 for both non-financial companies (107) and financial companies (40). The intensity of downgrading later diminished. In December 2009 the difference between downgrades and upgrades was 3 for non-financial companies and 10 for financial companies.

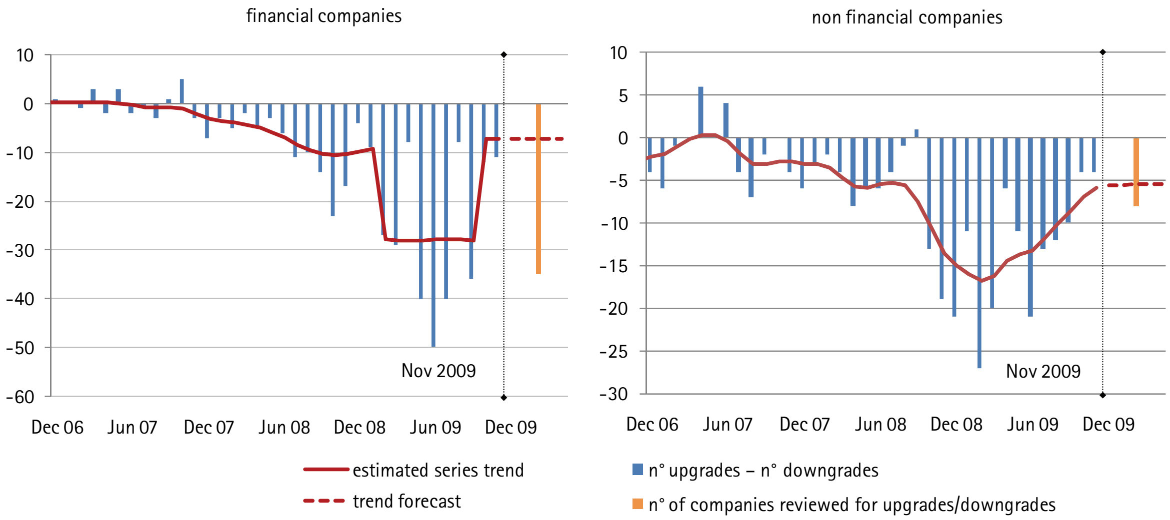
In Europe the difference between downgrades and upgrades gradually decreased from the second half of 2009, in December 2009 dropping to 11 for financial companies (from 50 in June) and to 4 for the corporate sector (against 21 in June).

Fig. 10 Difference between upgrades and downgrades
(monthly figures; September 2002-December 2009)

Usa



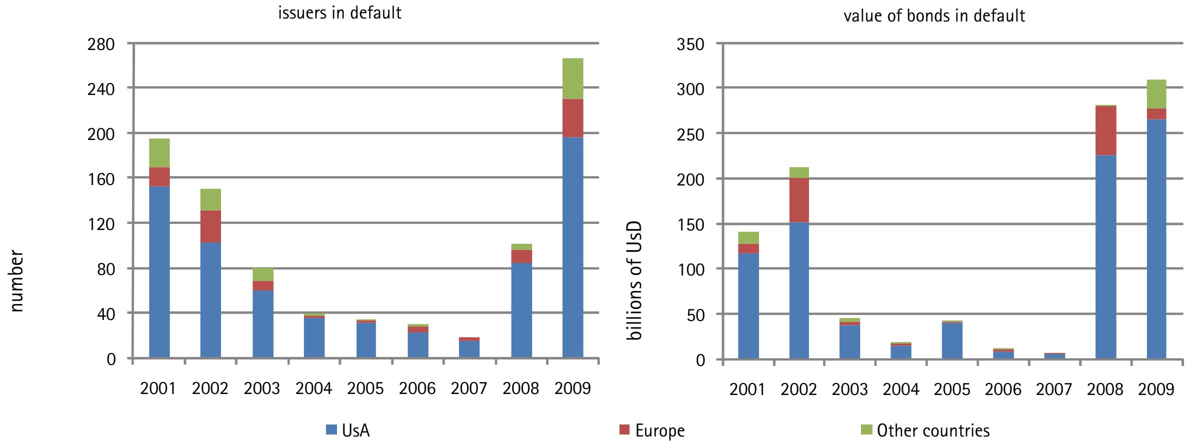
Europe



Source: Moody's. The long-term component is estimated by non-parametric time series analysis methods.

In 2009 the number of bond issuers in default further increased from 101 to 266. There was only a slight increase in value of bonds declared to be in default, however, from 281 to 309 billion euro (+10%; Fig. 11).

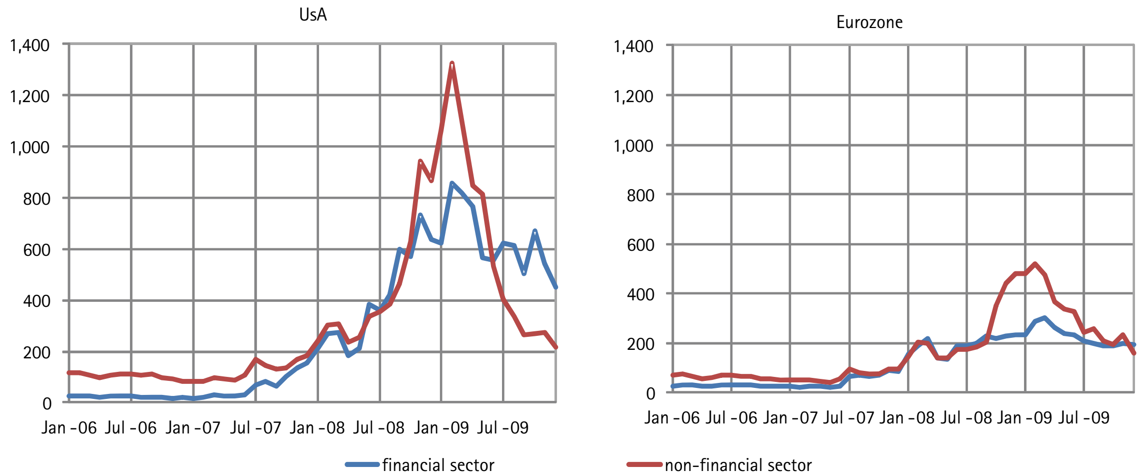
Fig. 11 Corporate bonds in default by geographic area



Source: Moody's.

The performance of the cost of protection against insolvency risk was similar to that recorded for rating changes. In fact, the price performance for credit default swaps (Cds) increased in the first half of 2009, later decreasing in any event to reach higher than pre-crisis levels (Fig. 12).

Fig. 12 Credit default swap prices for 5-year contracts on listed issuers
(basis points; monthly figures January 2006-December 2009)

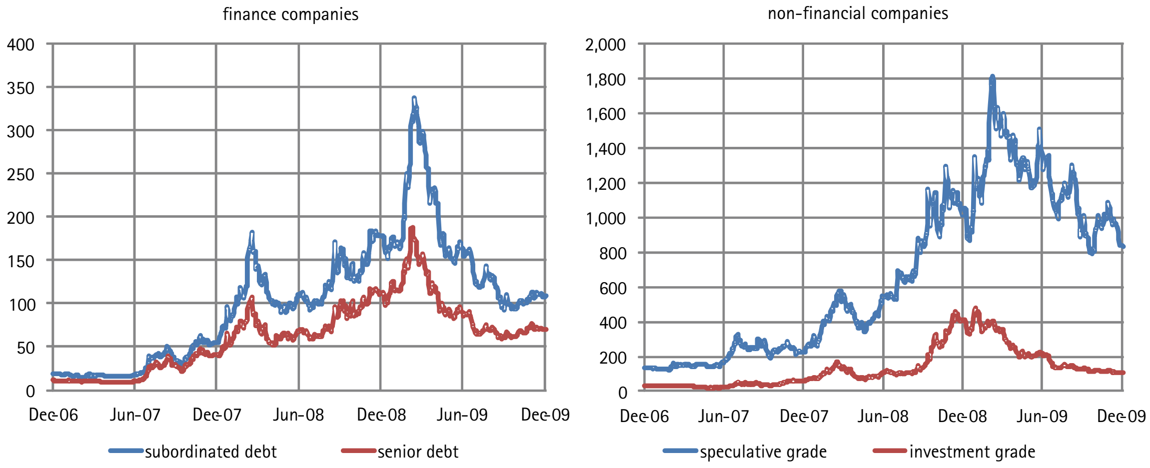


Source: Thomson Reuters-Datastream. Data are calculated on the average Datastream sector benchmarks for 5-year credit default swaps. For example, a price listed at 100 basis points indicates that the contract buyer (i.e. the purchaser of credit risk protection) pays an annual protection fee to the seller of 1% of the nominal value of the underlying bond or credit.

In the Usa, Cds prices in the corporate sector stayed at levels above 1,000 basis points in the first three months of 2009, gradually dropping to 215 basis points in December 2009 (compared to 184 in December 2007). Likewise, Cds prices for financial companies increased by 636 basis points in December 2008 to 816 basis points in March 2009, later falling to 453 in December 2009 (against 153 in December 2007).

In Italy, too, despite having recorded a strong decrease from March 2009, Cds prices reached higher than pre-crisis levels for both financial and non-financial companies (Fig. 13).

Fig. 13 Credit default swap prices for 5-year contracts on Italian listed issuers
(basis points; daily figures 31 December 2006-31 December 2009)



Source: calculations based on Thomson Reuters-Datastream data. For non-financial companies data are calculated as the average of daily credit default swap prices for companies with the same rating, whilst for banks data are the average of daily prices for the major banking groups. For example, a price listed at 100 basis points indicates that the contract buyer (i.e. the purchaser of credit risk protection) pays an annual protection fee to the seller of 1% of the nominal value of the underlying bond or credit.

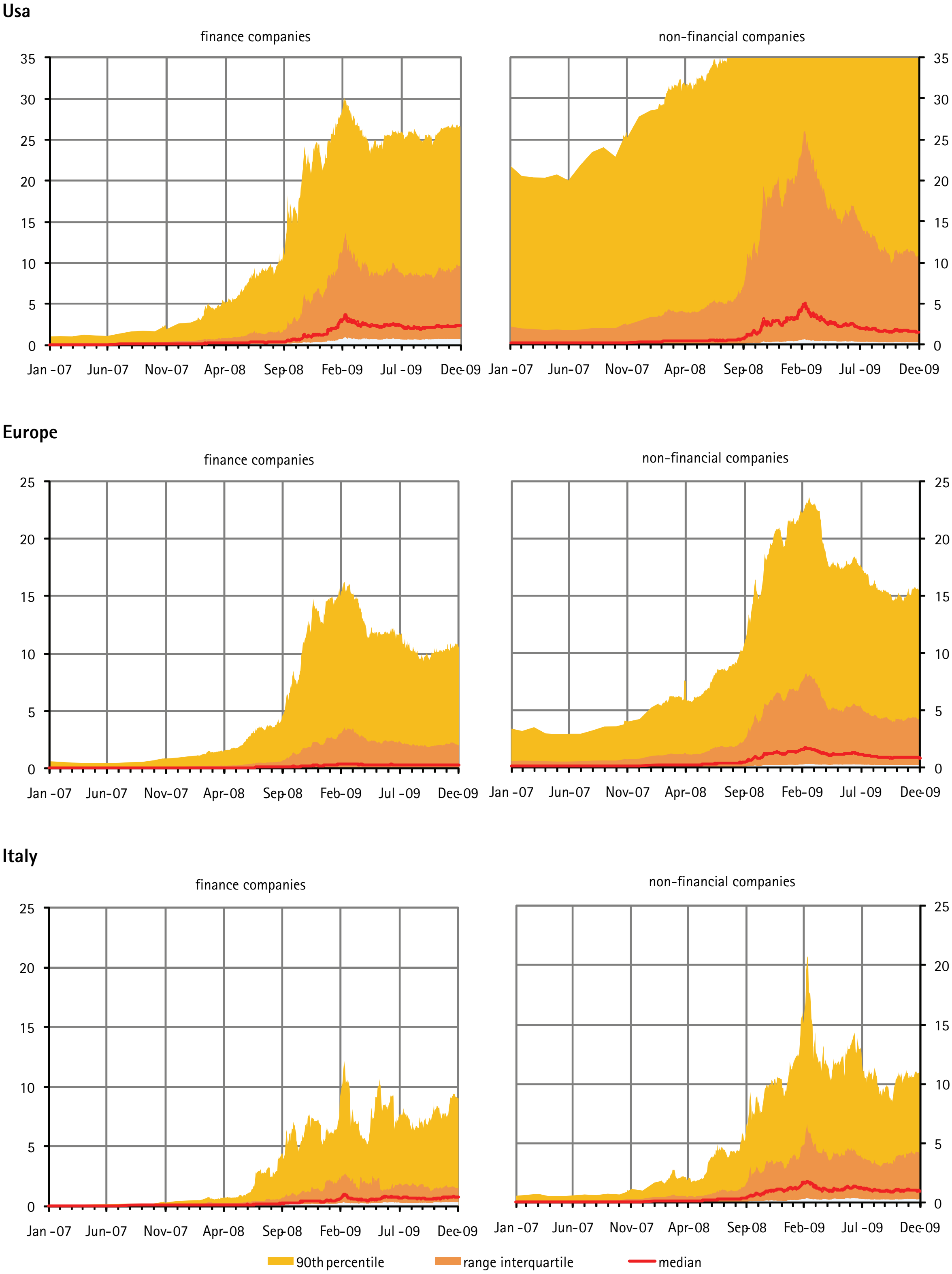
During the year, the gradual improvement in listed company credit quality was also reflected in a decrease in probability of default (PD; estimated via insolvency risk assessment models). However, in December the probability was still higher than that recorded before the crisis.

From March 2009 to December 2009, the mean probability of default of listed Us companies in the financial sector (50th percentile in the PD breakdown) fell from 4% to around 3% (compared to 0.2% in January 2008), whereas in the corporate sector it dropped from 5% to around 2% (against 0.8% in January 2008; Fig. 14).

In Europe, from March 2009 to December 2009, the mean probability of default decreased from 0.4% to 0.3% in the financial sector (compared to 0.1% in January 2008), and from 1.7% to 0.85% in the corporate sector (against 0.2% in January 2008).

In Italy the probability of default for higher-risk financial groups (90th percentile in the PD breakdown) fell from 12% in January 2008 to 9% in December 2009, though settling at values lower than those for the Usa (approximately 26% in December 2009) and Europe (around 11% in December 2009). In the same period an even more significant probability of default was recorded for the higher-risk corporate sector companies (from around 20% in March to 11% in December).

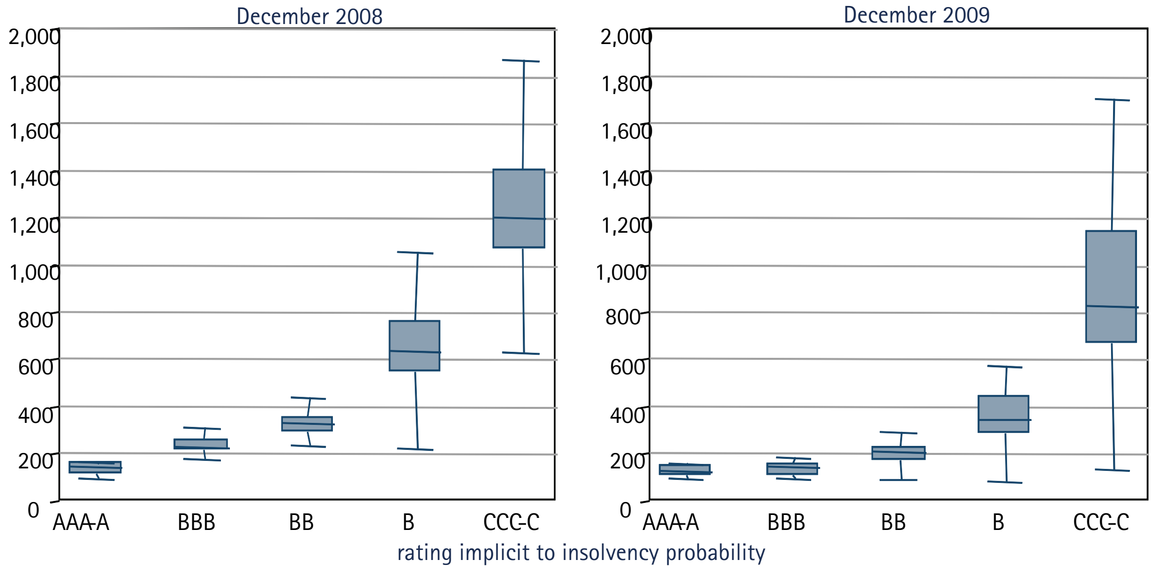
Fig. 14 Default probability spread in listed companies
(daily figures 31 January 2007-31 December 2009)



Source: Moody's KMV - Credit Edge.

Even the theoretical Cds prices for Italian listed non-financial companies, as estimated by Moody's based on insolvency risk assessment models, decreased significantly during 2009, especially for speculative grade companies. Specifically, the mean price for companies in the higher-risk category (with C-CCC ratings) fell by just over 800 basis points in December 2009 (compared to 1,200 basis points in December 2008; Fig. 15).

Fig. 15 Theoretical prices of 5-year credit default swap contracts for Italian listed non-financial companies
(basis points)



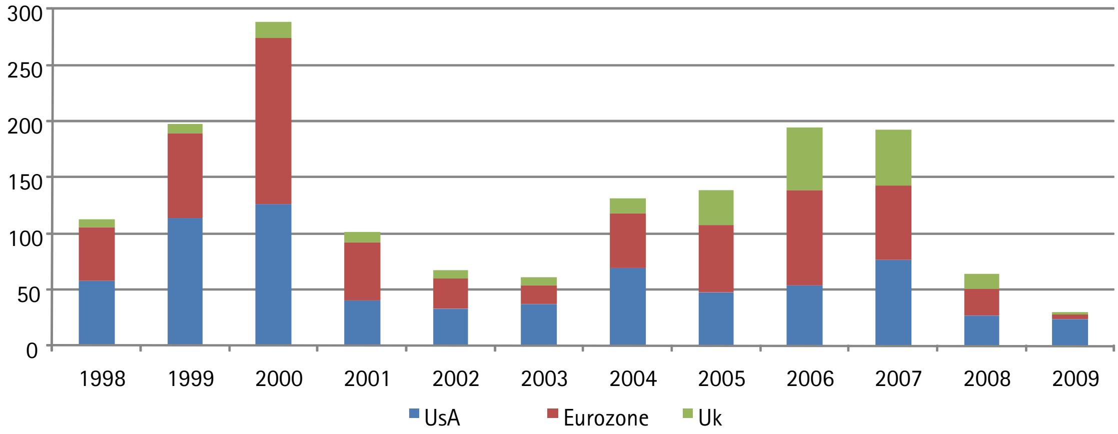
Source: based on Moody's KMV-Credit Edge data. Insolvency probability is estimated using the credit risk assessment model developed by Moody's KMV and the rating allocation implicit to companies is calculated on the basis of the default probability estimated by the model. The chart shows the price spread by credit class group. Specifically, the horizontal line in the box corresponds to the mean, the lower half shows the 1st quartile and the upper half the 3rd quartile. The two horizontal lines above and below the box indicate the range of values for each spread.

4 Equity funding and admissions to listing

In 2009 the flow of new listings on the equity markets again recorded a strong drop, enhancing the trend that began in 2008. In the Usa the total funding gathered from newly-listed companies fell by 27 billion euro in 2008 to 24 billion euro in 2009 (-12%). The decrease in risk capital gained by newly-listed companies in the Euro area (from 23 billion euro in 2008 to 4 billion in 2009; -82%) and in the United Kingdom (from 13 to 2 billion euro; -86%; Fig. 16).

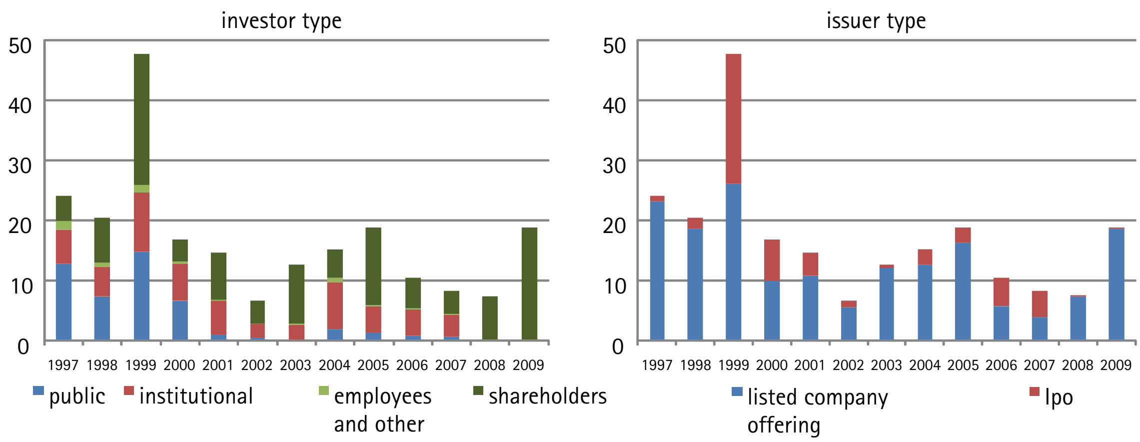
In Italy the total share placements (new security issues and existing security offerings) increased from 7.4 billion to 18.7 billion euro, largely due to the increase in securities offered by companies already listed (from 7.3 billion to 18.6 billion euro) through rights issues (Fig. 17). The total risk capital gathered through public offerings instead remained modest (though increasing slightly from 143 to 160 billion euro; Fig. 18).

Fig. 16 Funding of companies newly listed on the stock exchanges of major industrialised countries
(in billions of UsD)



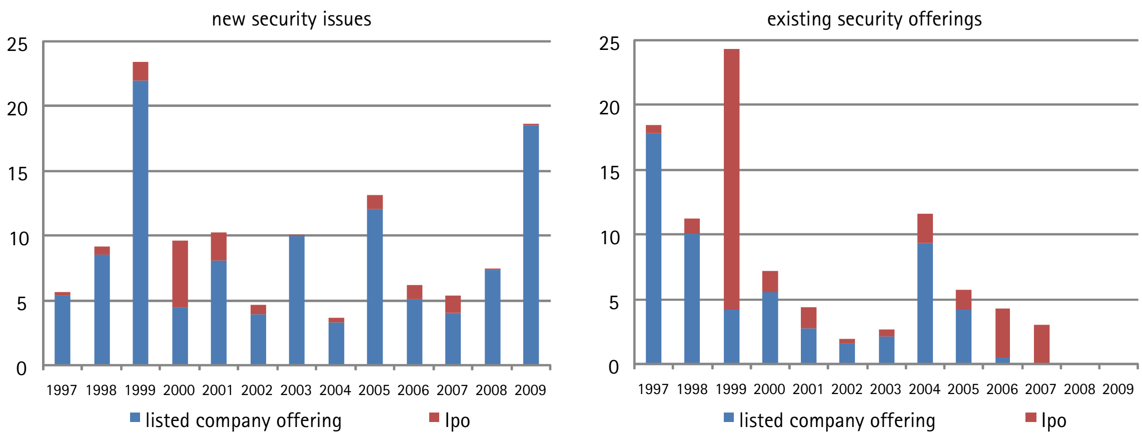
Source: based on World Federation of Stock Exchanges data. The Us figures refer to Nyse and Nasdaq listed companies.

Fig. 17 Overall placements of shares and convertible bonds of Italian listed companies
(issues of new securities and existing security offerings; in billions of euro)



Source: Consob and Borsa Italiana.

Fig. 18 Offering types of shares and convertible bonds of Italian listed companies
(in billions of euro)



Source: Consob and Borsa Italiana.

In 2009, 4 companies were admitted to listing on regulated markets or multilateral trading facilities (Mtfs) (compared to 29 in 2007 and 6 in 2008; Table 1). 3 companies were admitted to listing on the Mtf Aim Italia (Alternative Investment Market, see paragraph 1 below, Chapter II, "Secondary Markets") and just 1 on the Star segment of the Mta market. On the whole, the pre-offering capitalisation of 4 companies was modest (335 million euro), in line with the figure recorded in 2008 (268 million euro).

Table 1 Initial public offerings of shares for admission to listing by Italian companies (amounts in millions of euro)

	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
2007	29	9,770	1,415	3,080	*4,495*	40.2
2008	6	268	128	6	*134*	33.9
2009[3]	4	335	51	93	*144*	36.7

Source: Consob and Borsa Italiana Spa See Methodological Notes. [1] Capitalisation of the companies admitted to listing, calculated on the basis of the public offering price and the pre-offering number of shares. [2] In relation to the post-listing capitalisation, gauged at the public offering price. Percentage values, weighted for the sum total of public offerings. Figures do not include Eni in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004. [3] The figures include offerings for admission to trading on the Aim Italia market.

On average, the percentage share capital of institutional investors in 2 out of the 4 companies halved (from 50% pre-offering to 26% after placement; Table 2).

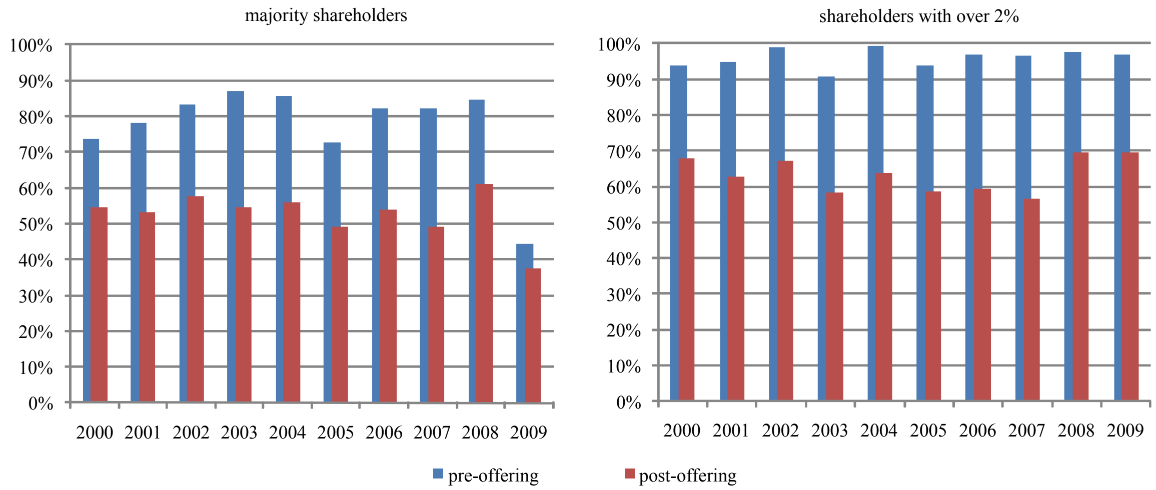
Newly-listed companies'ownership structures are more widely distributed than those recorded for public offerings in 2008. The average pre-offering percentage of voting rights of the majority shareholder, in fact, was 44.5% (85% in 2008), which then decreased to 37.5% after placement (61% in 2008; Fig. 19).

Table 2 Institutional investors'shareholdings in newly listed Italian companies[1]

	Company		Average number of institutional investors[4]	Average pre-offering holding[5]	Average post-offering holding[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
2007	12	41.4	1.7	39.6	21.2
2008	3	50.0	2.7	58.6	32.9
2009[7]	2	50.0	5.5	49.4	25.7

Source: Consob and Borsa Italiana. See Methodological Notes. [1] Institutional investors comprise closed-end investment funds, venture capital companies, commercial and investment banks. Foundations and savings banks are excluded. Data refer 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 public offering date. [3] Percentage of all companies listed on the reference market during the year. [4] Average number of institutional investors holding an equity interest at the public offering date. [5] Average percentage of the share capital held by institutional investors at the public offering date. [6] Average percentage of the share capital held by institutional investors immediately after the public offering. [7] The figures include offerings for admission to trading on the Aim Italia market.

Fig. 19 Ownership structure of newly listed Italian companies
(percentages of share capital with voting rights; average values)



Source: Consob and Borsa Italiana Spa The 2009 figures include offerings for admission to trading on the Aim Italia market. See Methodological Notes.

Most securities of newly-listed companies were allocated to foreign institutional investors (57%, compared to 32% in 2008; Table 3). The demand-supply ratio remained steady at 1 in terms of public placements, whilst institutional placements increased considerably (from 1.1 to 4.0).

Table 3 Italian companies admitted to listing: offering results[1]

	Percentage allocated[2]				Demand-supply ratio[3]	
	public	Italian institutional investors	foreign institutional investors	others[4]	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[5]	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[6]	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
2007	16.4	24.1	58.0	1.5	2.8	4.0
2008	11.8	38.5	31.9	17.8	1.0	1.1
2009[7]	7.0	31.5	56.8	4.8	1.0	4.0

Source: Consob and Borsa Italiana Spa See Methodological Notes. [1] Averages weighted according to the values of the public offerings; percentages. Rounding may cause discrepancies in the final figure. Figures do not include Eni in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004. [2]With regard to allocation to institutional investors, where the breakdown between Italian and foreign investors is not known the figures are estimated. [3]The supply-demand ratio averages are based only on offerings for which both the public and institutional figures are known. [4] These are named parties to which a certain amount of shares is reserved, also as a result of agreements reached prior to listing. [5] The remainder (0.1%) was taken up by the underwriting syndicate for the placement of Cairo Communication shares. [6] The remainder (0.1%) was taken up by the underwriting syndicate for the placement of Trevisan shares. [7] The figures include offerings for admission to trading on the Aim Italia market.

In one case, the newly-listed companies had credit and equity investment relations with the placing agents or sponsors (Table 4).

In 2009 one company was admitted to the Mac market (alternative capital market) with a pre-offering capitalisation of 7.9 million euro (Table 5).

Table 4 Credit and equity investment relations between newly listed-Italian companies and the placing agents[1]

	Companies with credit relations with sponsors or placing agents			Companies with equity investment relations with sponsors or placement agents		
	Number of companies	Percentage of the total newly listed companies[2]	Average share of lending provided by sponsors or placing agents[3]	Number of companies	Percentage of the total newly listed companies[2]	Average share of equity held by sponsors or placing agents [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
2007	13	44.8	26.2	4	13.8	27.9
2008	1	16.7	49.4	--	--	--
2009[5]	1	25.0	18.0	1	25.0	6.9

Source: based on data from statements by the sponsors and placement agents. See Methodological Notes. [1] Credit and equity investment relations as of the public offering date existing between companies admitted to listing and the sponsor, specialist, global coordinator, lead manager, nomad or other intermediaries belonging to the same group. [2] Percentages. [3] As a percentage of total financial debt. [4] As a percentage of the pre-offering share capital. [5] The figures include offerings for admission to trading on the Aim Italia market.

Table 5 Ipos for admission to listing on the Mac market
(amounts in millions of euro)

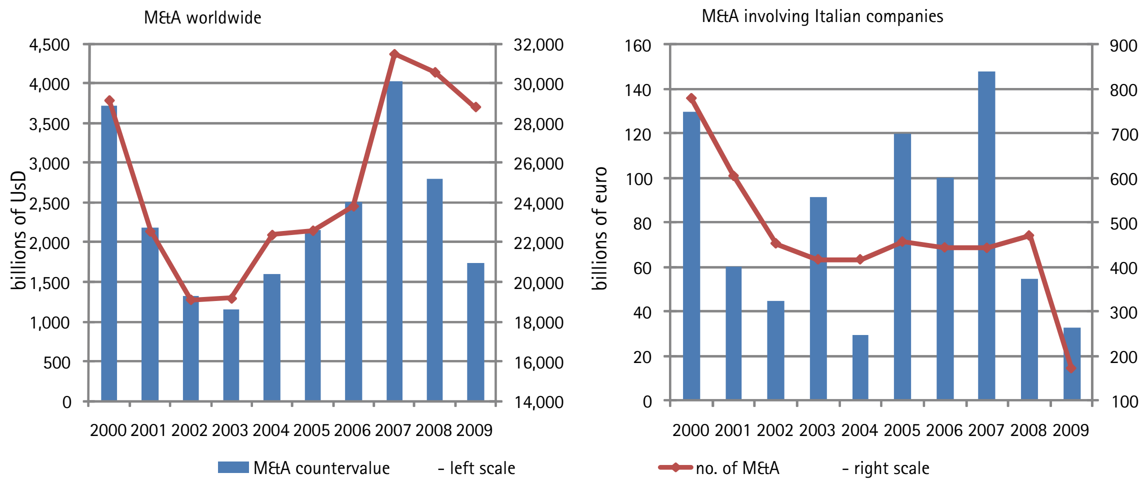
	Number of companies	Pre-offering capitalisation[1]	Ipo value			Incidence on post-offering capitalisation[2]	Majority shareholder's post-offering holding[3]
			subscription	sale	*total*		
2007	3	82.2	12.9	7.4	*20.3*	21.3	59.5
2008	2	72.6	18.7	--	*18.7*	20.5	77.3
2009	1	7.9	0.3	--	*0.3*	3.7	87.7

Source: Borsa Italiana Spa. [1] Capitalisation of the companies admitted to listing, calculated on the basis of the public offering price and the pre-offering number of shares. [2]Post-offering capitalisation-offering price ratio. Percentage values, weighted for the sum total of public offerings. [3] Simple average percentage.

5 Mergers and acquisitions

The effects of the financial crisis led to another significant decrease in the total countervalue of M&A transactions worldwide (from 2,804 billion dollars in 2008 to 1,730 in 2009; -38% approx.; Fig. 20). The number of mergers and acquisitions also fell, though by a lesser extent (from 30,557 transactions in 2008 to 28,807 transactions in 2009; -6%).

Fig. 20 Mergers and acquisitions



Source: KPMG and Thomson Reuters.

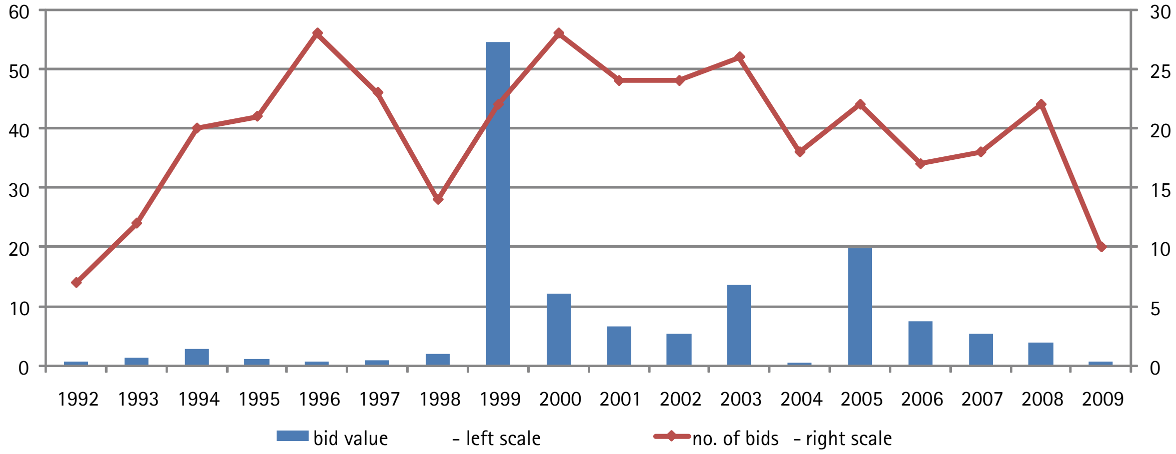
In line with the general trend seen worldwide, Italy saw a heavy decrease in the countervalue of M&A transactions (from 55 to 33 billion euro; -40%). The number of transactions more than halved, from 471 to 172 (the historic low for the last 20 years).

The highest value acquisitions were in the energy industry. Specifically, in 2009 ENEL acquired 25% of Endesa for 9.6 billion euro (completing a transaction that had begun in 2008); Eni acquired 41.6% of the Belgian company Distrigaz for 1.9 billion euro; Snam Rete Gas acquired 100% of Stolgit and Italgas for 4.5 billion euro.

In 2009, takeover bids and exchange tender offers decreased considerably compared to 2008. The total value of takeover bids on listed companies, i.e. 644 million euro, is the lowest in the last 4 years. In addition, the total number of bids (10) is the lowest since 1993 (Fig. 21).

60% of takeover bids completed in 2009 involved the transfer or consolidation of positions of control achieved through unsolicited bids. Approximately 43% of the total value of transactions completed during the year is accounted for by the Banca Popolare dell'Emilia Romagna bid on Meliorbanca shares, which led to delisting of the shares offered. The total number of transfers of control through agreed control package disposals followed by takeover bids was 4.

Fig. 21 Takeover bids and/or exchange tender offers on the securities of Italian listed companies
(in billions of euro)



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

Secondary markets II

1 The current economic trend and equity markets

After the Lehman Brothers crash in September 2008, the real effects of a crisis emerged that in the initial stages seemed to engulf the financial system. Gdp growth for 2009 was negative in the industrialised countries and marked a significant slowing down of the major developing countries. In 2009 global Gdp fell by around 1%. Simulations conducted by leading international organisations suggest a slight recovery in 2010, though not evenly distributed in geographic terms, whilst in 2011 growth is forecast to be more consistent, especially in "export led" countries. For Italy, Gdp fell by around 5% - one of the most serious recessions in post-War years. It is forecast that this decrease will continue, though more slowly, in 2010.

The initial figures for the second half of 2009, however, indicate that Gdp has again taken an upward turn in most industrialised countries, essentially due to the effect of a recovery in foreign demand and international commerce, in turn driven by growth in the main emerging markets. Though it seems that the turning point has been passed, there are still numerous macro-economic risk factors that could strongly affect the degree and timing of the recovery. Specifically, the rise in unemployment and public finance imbalance threaten the growth of home demand in the major industrialised countries, and therefore the strength of the recovery. Significant risks remain, however, from the negative impact – on consumption and the cost of labour - of the process of adjusting real variables such as employment rates and real salaries.

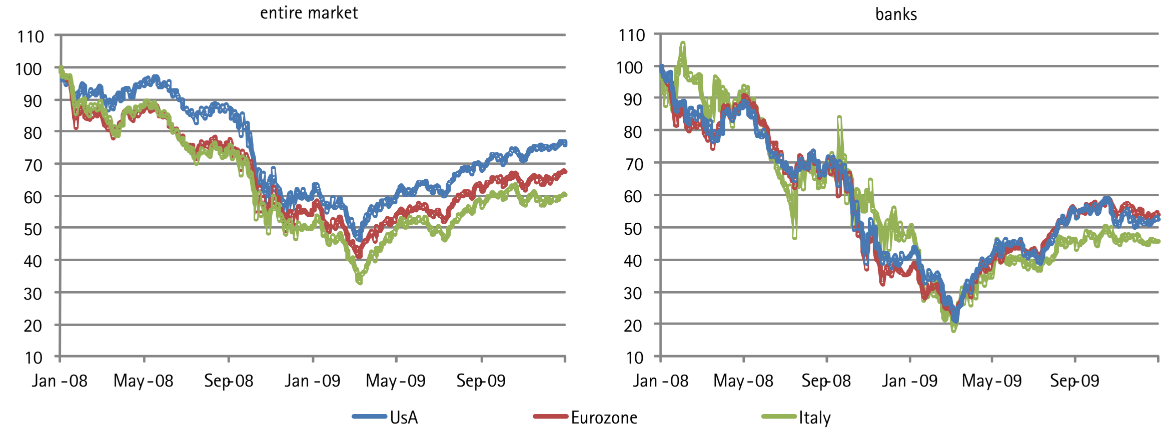
2008 saw an unfolding of the effects of a financial crisis without precedent in post-War history. Equity market prices in the major advanced countries almost halved, and bank securities lost up to 80% of their value.

The impact of the crisis on the financial markets reached peak intensity between the end of 2008 and the beginning of 2009. The events triggered by the collapse of the Us merchant bank, Lehman Brothers, disclosed to the market on 15 September 2008, threw market operators into shock and fuelled a climate of extreme tension and uncertainty.

From mid-March 2009, financial market turmoil was to some extent mitigated and volatility returned to levels similar to those prevalent prior to the Lehman crash.

Overall, in 2009 the equity markets in Italy, Europe and the United States gained around 20%. Bank security prices increased by approximately 28% in Italy and around 50% in Europe, whilst in the United States they continued to drop (-9% approx; Fig. 22).

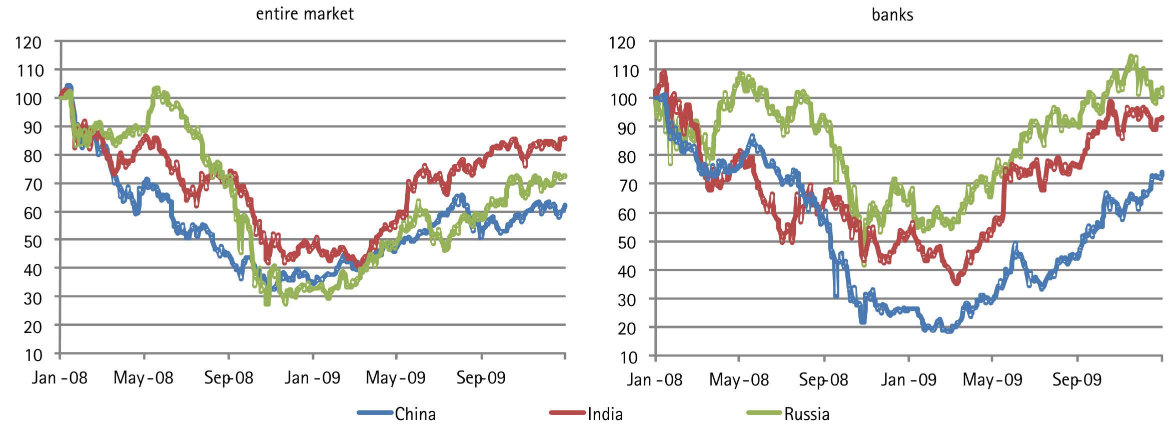
Fig. 22 Share price performance in the major advanced markets
(daily figures 01/01/2008-31/12/2009; 01/01/2008=100)



Source: Thomson Reuters

Emerging countries also saw a net recovery in share prices, from March to December 2009 increasing by 38% in China, 79% in India and 77% in Russia (Fig. 23). The increase in bank share prices was even more significant. From March to December 2009 the share index of the major listed banks in China increased by 58%, whilst it doubled in India and tripled in Russia.

Fig. 23 Share price performance in emerging markets
(daily figures 01/01/2008-31/12/2009; 01/01/2008=100)

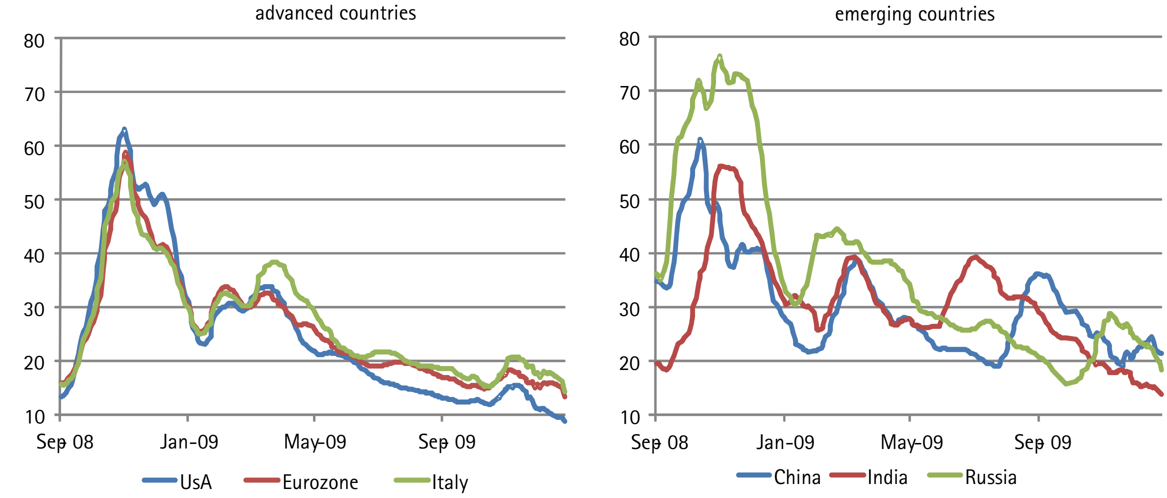


Source: Thomson Reuters.

From the second half of 2009 the equity markets showed greater stability compared to the turmoil that developed after the Lehman crash. In fact, volatility returned to levels close to those recorded in the pre-crisis period (Fig. 24) and the frequency of extremely negative returns decreased (Fig. 25).

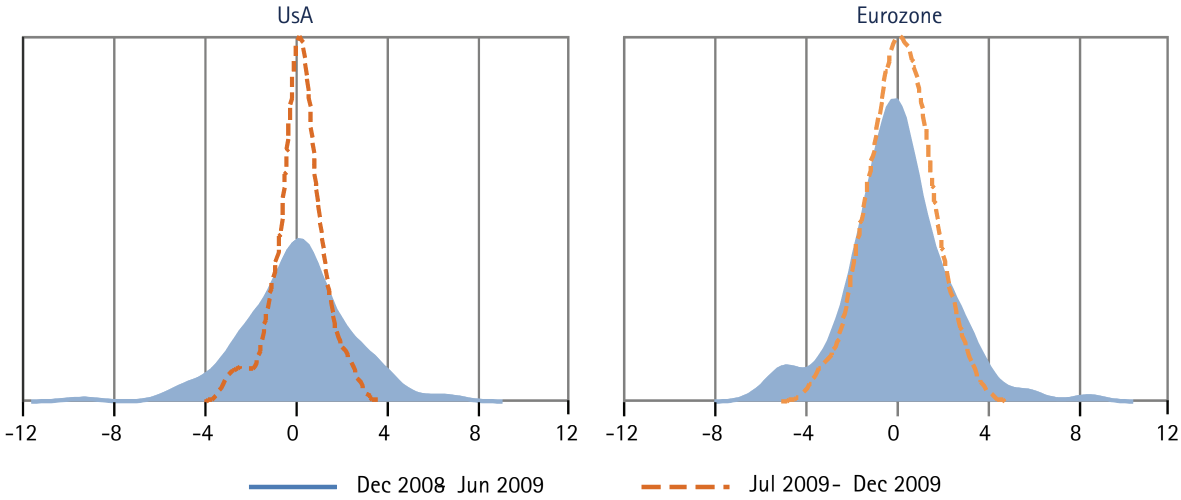
Fig. 24 Actual share index volatility

(percentages expressed on an annual basis - 20-day floating averages on daily figures 05/09/2008-31/12/2009)



Source: calculations on Bloomberg data. Actual volatility is estimated on the basis of intraday share index returns.

Fig. 25 Estimated probable returns spread based on intraday share index performance

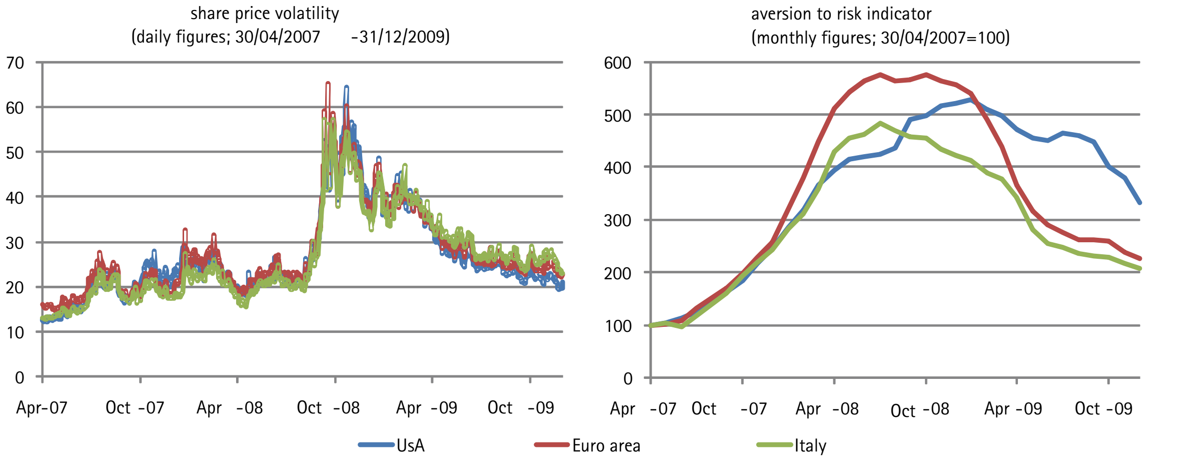


Source: calculations based on Thomson Reuters data. Density functions are estimated via non-parametric methods.

At the end of 2009 investors demonstrated a lower level of risk aversion, pending a further drop in the level of equity market disturbance (Fig. 26). There was also a less evident expectation of negative returns (Fig. 27).

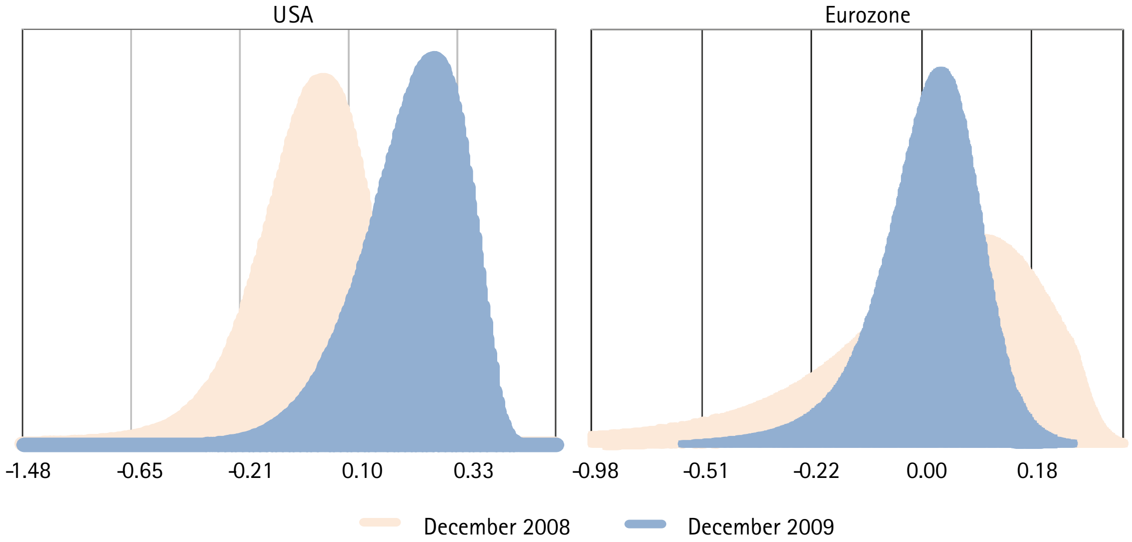
Though 2009 recorded a tendency towards greater stability, in the first few months of 2010 in the Euro area there were strong fears regarding developments in the macro-economic scenario that generated new equity market uncertainties, linked to a disconcerting potential squeeze on monetary policy and public spending. Furthermore, worry spread among investors of an increase in the sovereign risk implicit in credit default swap prices.

Fig. 26 Equity market implicit volatility and aversion to risk



Source: calculations based on Thomson Reuters and Borsa Italiana data. Implicit volatility is deduced from share index prices for 3-month options. The level indicator for aversion to risk is estimated by comparing the historic allocation of returns on shares with that implicit in the index option prices.

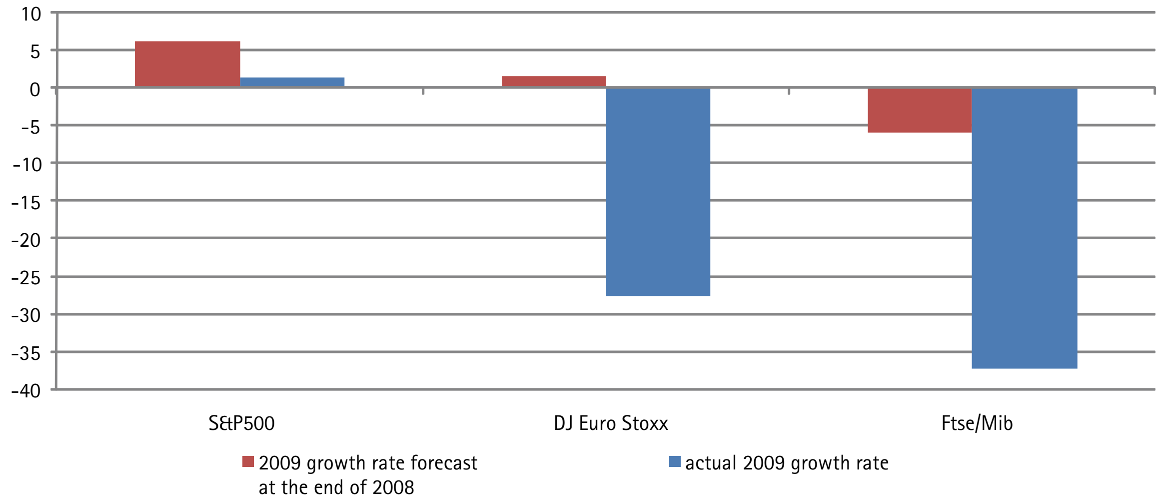
Fig. 27 Probable return spread on shares forecast over a 1-month period



Source: calculations based on Thomson Reuters data. Density functions are estimated on index option prices.

In 2009 the earnings performance of companies on the major share indices completely overturned analysts'forecasts at the end of 2008 (Fig. 28). The growth rates for business earnings, in fact, were mostly negative in the Euro area (-28% approx.), particularly in Italy (-36%). With regard to Us companies listed on the S&P500, the growth rate in earnings (1.3%), though lower than that forecast 12 months earlier (approx. 6%), showed a net improvement on the slump in profitability recorded in 2008 (-23%).

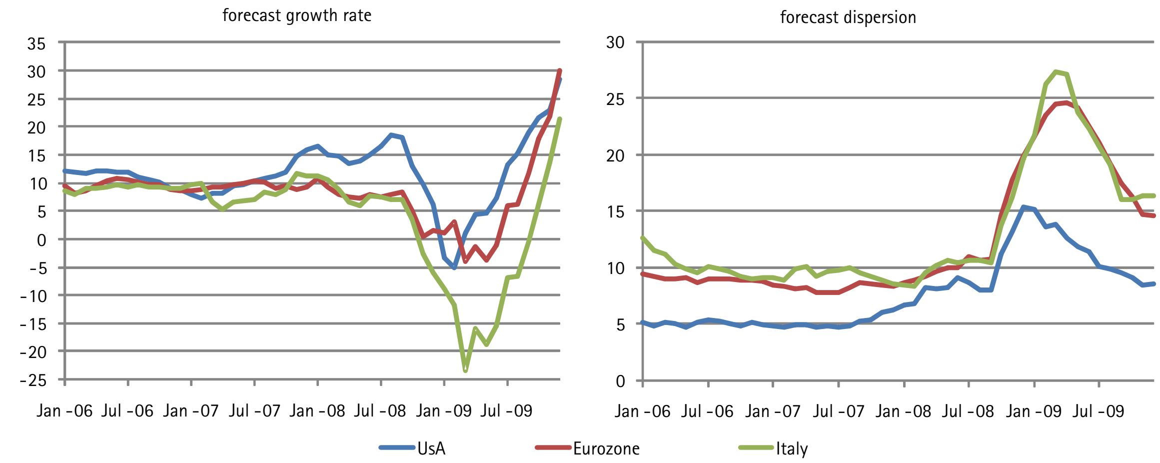
Fig. 28 Forecast and actual growth of 2009 earnings of companies listed on the main share indices



Source: Thomson Reuters and Ibes. Data on 12-month earnings forecasts (before the amortisation of goodwill and other atypical income components) at the end of December 2008 and on actual earnings for 2009 (February 2010 estimate).

During 2009 analysts gradually reviewed their 12-month forecasts upwards for growth rates in business earnings. In December 2009 the average growth rate for companies listed on the major share indices reached around 30% in the Euro area, 28% in Italy and approximately 21% for Us companies listed on the S&P500 index (Fig. 29).

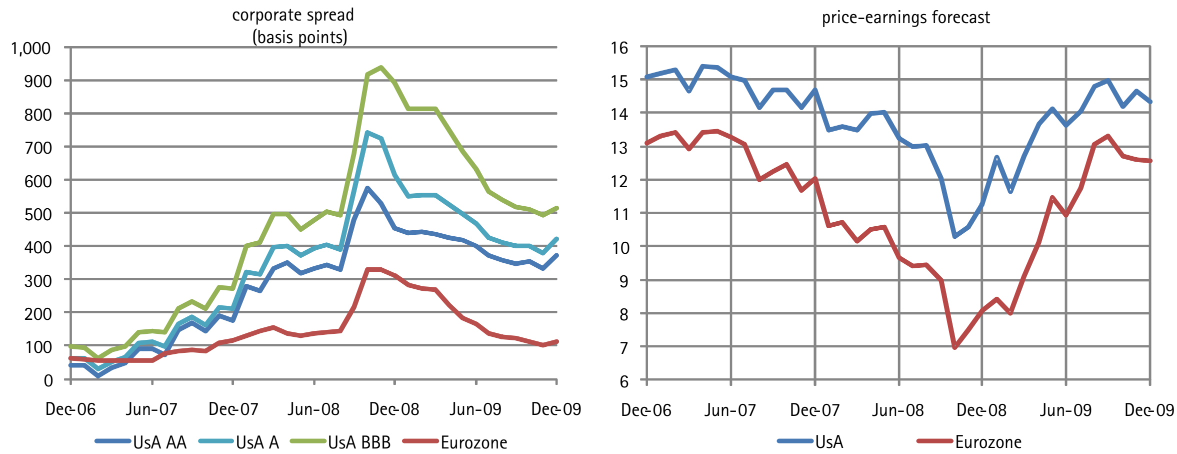
Fig. 29 Analyst forecasts on business earnings
(monthly figures; January 2006-December 2009)



Source: Thomson Reuters and Ibes. Data on 12-month earnings forecasts before the amortisation 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 is estimated on quarterly data. For each quarter the average growth rate forecast per month is indicated. Figures for the Usa refer to companies on the S&P 500 index, for the Euro area those on the Dow Jones Euro Stoxx index and for Italy those on the Ftse/Mib index.

The forecast reduction in spreads on bond debts and the increased price-earnings ratio are further indicators of an improvement in the outlook and expectations of analysts for equity market prospects (Fig. 30).

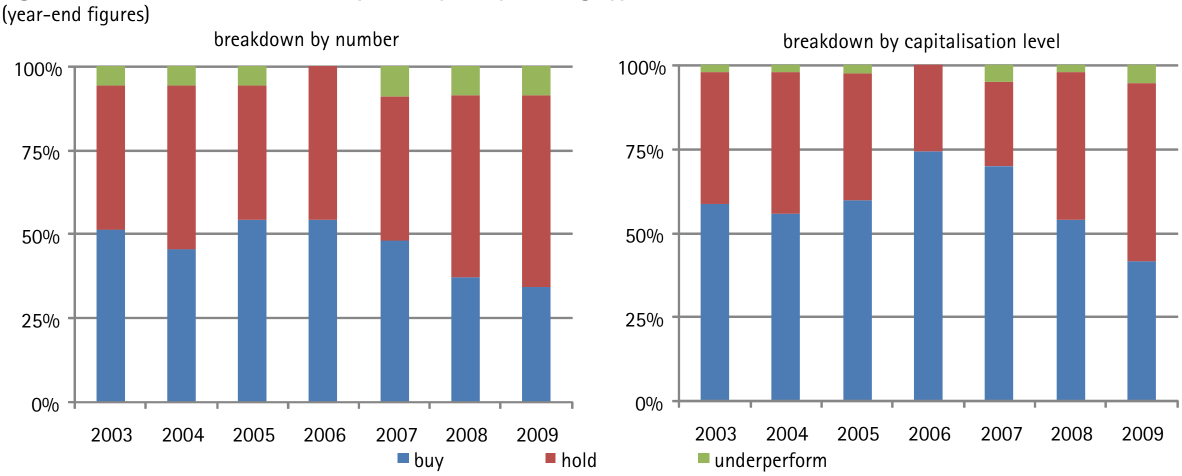
Fig. 30 Price-earnings per share ratio[1] and spreads on bonds issued by non-financial companies with investment grade ratings[2]
(monthly figures December 2006-December 2009)



Source: calculated on Thomson Reuters, Ibes and JP Morgan data. [1] Weighted average (for capitalisation) of the Dow Jones Euro Stoxx and Ftse/Mib share price ratios and the 12-month EPS forecast. 2 Spread (in basis points) between the return on bonds issued by non-financial companies with ratings in the Aaa-Bbb range and that of Government securities in the Euro area.

The 2009 ratings allocated by financial analysts to Italian companies on the Ftse/Mib index deteriorated compared to those of 2008. In fact, the capitalisation weighting of "hold"-rated companies increased, in December 2009 reaching 53% (against 44% for December 2008; Fig. 31). The percentage capitalisation for companies with "underperform" ratings also increased, in the same period, from 2% to around 5%.

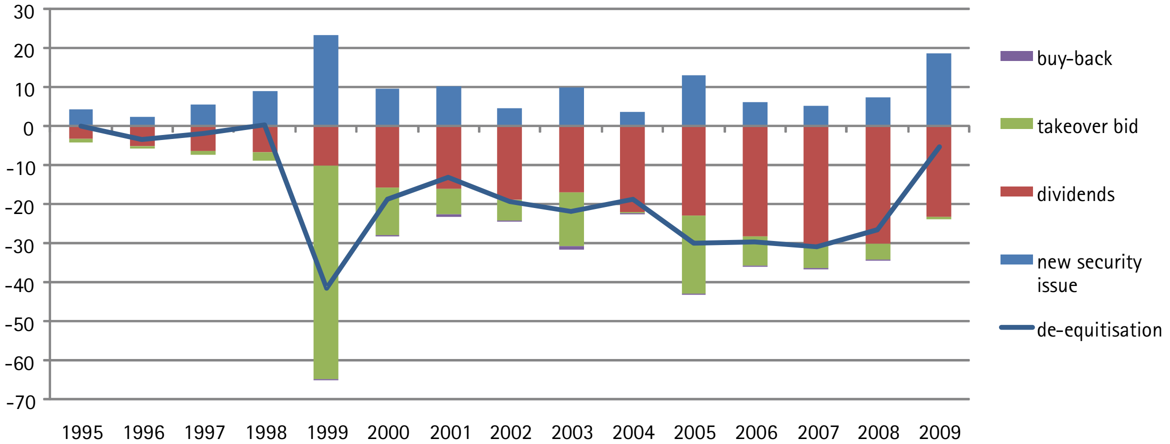
Fig. 31 Breakdown of Ftse/Mib companies by analyst rating type
(year-end figures)



Source: calculations based on Thomson Reuters and Ibes data. The companies Lottomatica, Parmalat, STMicroelectronic, Terna and Unipol, for which complete series of Consensus data are unavailable, have been excluded.

The increase in the price-earnings multiplier acted as driver for risk capital funding and share capital increases (see paragraph 4, Chapter 1, "Listed companies"). Consequently, the difference between funding through share capital increases and funds returned to shareholders (in the form of dividends, buy-backs and takeover bids; an indicator of de-equitisation), though still negative, saw a significant decrease in absolute terms in 2009 (Fig. 32).

Fig. 32 De-equitisation of the Italian market
(in billions of euro)



Source: calculated on Bank of Italy, Borsa Italiana and Thomson Reuters data. The de-equitisation indicator is obtained from the difference between new issues of securities and the sum of dividends, takeover bids and buy-backs. The dividend and buy-back figures for 2009 are estimates.

There were a number of changes to the setup of Borsa Italiana markets in 2009. From June the Expandi market became part of the Mta. Then the Aim (Alternative Investment Market), a multilateral trading facility, was introduced to aid risk capital funding by SMEs.

In 2009 the capitalisation of Italian listed companies increased in both absolute terms (from 368 billion to 457 billion euro) and in terms of Gdp ratio (from 23% to around 30%; +24%; Table 6).

The 39 companies listed on the Expandi Market in June 2009 were admitted to trading on the Mta market, which recorded only one public offering however (see paragraph 4, Chapter 1, “Listed companies”). Overall, therefore, there were 40 new listings on the Mta market, which considering the 11 cancellations increased the total Italian listed companies from 251 to 280.

The number of companies listed on the Mta International segment (reserved for foreign companies already listed on other regulated markets for more than 18 months) remained steady at 36.

11 companies were admitted to trading on Borsa Italiana's Mtfs, i.e. 6 on the Mac and 5 on the Aim. With regard to the Aim, 3 public offerings were recorded (see paragraph 4, Chapter 1, "Listed companies") with a total capitalisation of 619 million euro.

Decreased volatility led to a significant drop in share trading volumes from 1,156 billion euro in 2008 to 562 billion euro in 2009 (-51%). The equity price recovery, on the other hand, led to a decrease in the price-dividend ratio (from 8.4% to 3.5%) and price-earnings ratio (from 13.7% to 6.7%).

Table 6 Indicators of regulated equity markets operated by Borsa Italiana Spa (amounts in billions of euro)

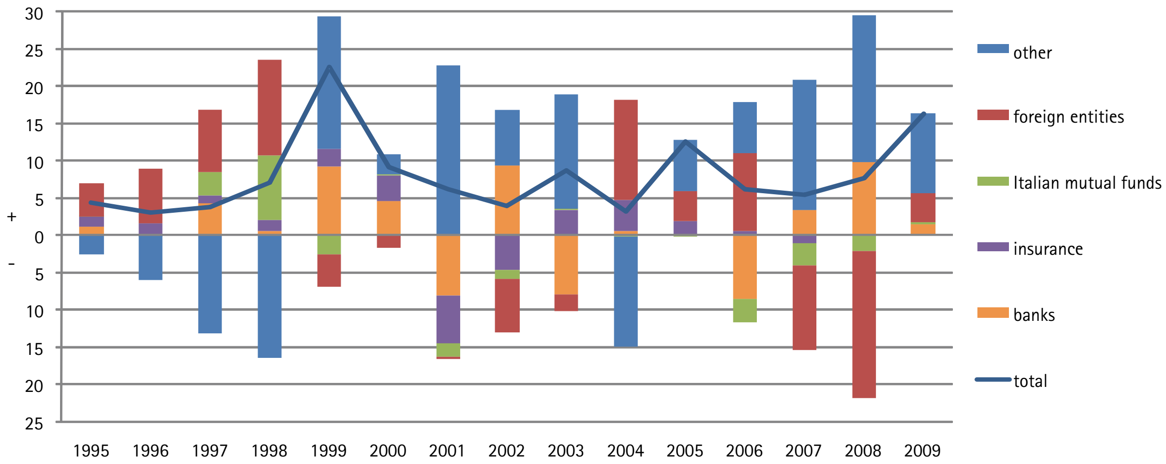
	Stock Exchange[1]									Expandi Market[2]			Nuovo Mercato			
	Capitalisation[3]	Capitalisation[3] (as a % of Gdp)	Share trading volumes[3]	Number of Italian listed companies	Number of Italian newly listed companies	Number of Italian companies delisted	Change in the Mib historical index[4]	Dividend/price ratio[4]	Earnings/price ratio[4]	Capitalisation[3]	Share trading volumes[3]	Number of Italian listed companies	Capitalisation[3]	Volume of trading in shares	Number of Italian listed companies	Change in the NM index[4]
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	42	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[5]
2000	790	67.8	839	237	16	20	5.4	2.1	4.5	6	1	15	22	30	39	-25.5
200•	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	—	—	—	—
2007	723	49.0	1.510	263	19	14	-8.0	4.1	8.4	11	4	38	—	—	—	—
2008	368	23.2	1.156	251	4	16	-49	8.4	13.7	7	1	43	—	—	—	—
2009	457	30.3	562	280	40	11	21	3.5	6.7	—	—	—	—	—	—	—

Source: Borsa Italiana and Thomson Reuters. [1] Since 2005 Mta/Mtax. In 2009 the Expandi Market was incorporated into the Mta. [2] Mac data are included for 2007 and 2008. [3] Data refer to Italian companies only. [4] Year-end percentages. [5] From 17 June 1999 to 30 December 1999.

From January to September 2009, net purchases of Italian listed shares totalled 16 billion euro (in line with the issue of new securities by listed companies; see Chapter 1, "Listed companies"). Data, still provisional, indicate that foreign entities and banks were the leading share buyers, for approximately 4 billion and 2 billion euro, respectively (Fig. 33).

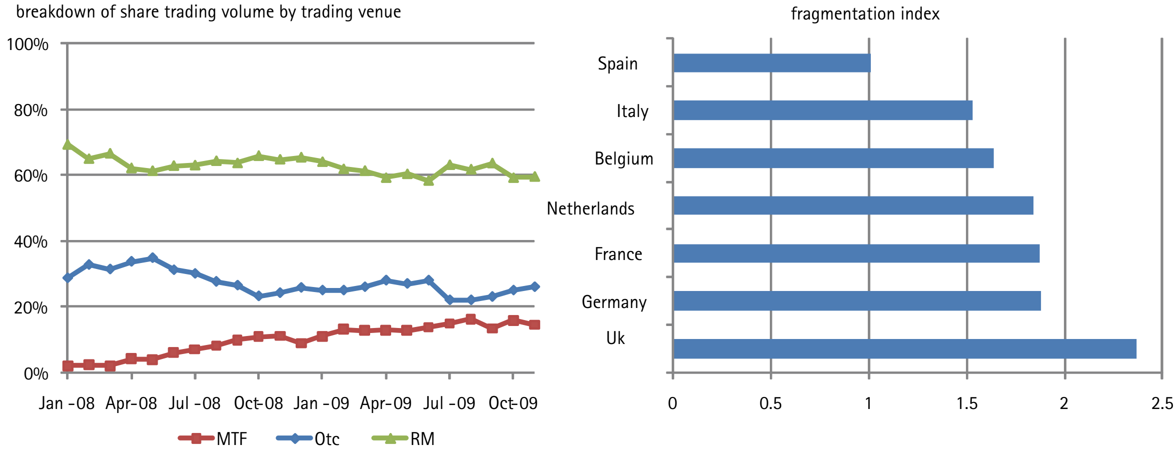
Introduction of the MiFID coincided with an upward trend in trading on Mtfs in the main European countries (whilst trading volumes on the dark pools and systematic internalisers were residual). Specifically, trading on the Mtf recorded a near constant growth, from 2% of total trading in January 2008 to 15% in November 2009 (Fig. 34). Trading on the regulated markets, however, fell by around 10 percentage points (from 69% to around 59%). The weight of Otc transactions also decreased, albeit slightly (from 29% in January 2008 to approximately 26% in November 2009).

Fig. 33 Net purchases of Italian listed shares by institutional sector
(in billions of euro)



Source: Bank of Italy. The "Other" institutional sector includes households, companies, centrally and locally administered organisations, Cassa Depositi e Prestiti and investment companies. In 2009 the "Other" category also includes insurance companies. The 2009 data refer to the period January-September 2009.

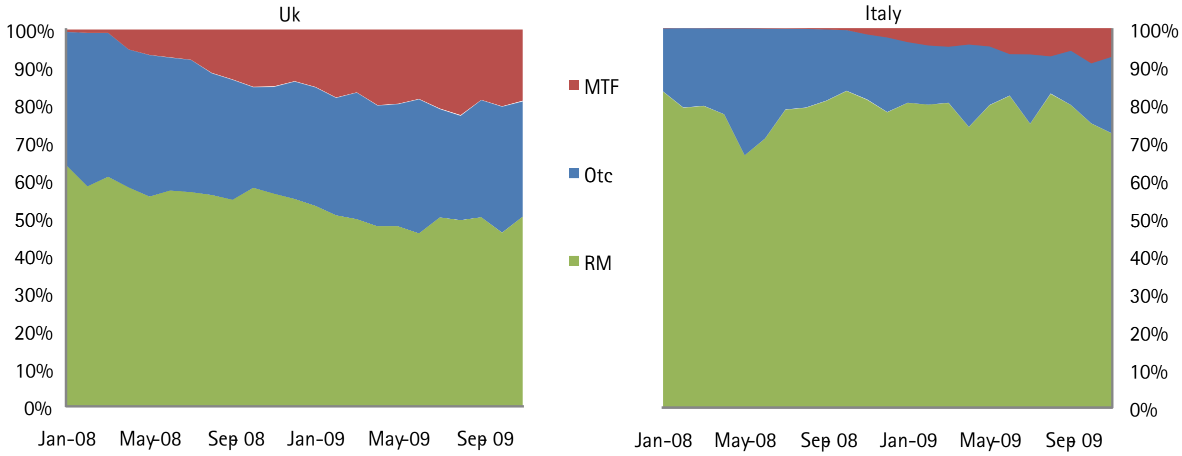
Fig. 34 Fragmentation of share trading in Europe
(monthly figures; January 2008-November 2009)



Source: calculations based on Thomson Reuters and Fidessa Group plc data. RM refers to regulated markets, Mtf to multilateral trading facilities and Otc to over-the-counter. In the left chart, the breakdown of share trading volumes refers to the trading of securities on the Dow Jones Euro Stoxx 600 index. The right chart shows the *Fidessa Fragmentation Index*, produced by Fidessa Group plc, which assumes values of between 1 (if trading is on one market only) and N (if trading is equally distributed among N trading venues, N being the number of trading venues that varies from country to country). The fragmentation index is calculated on the trading of securities listed on the main share indices in each country (Ibex 35, Ftse/Mib, Bel20, Aex, Cac40, Dax, Ftse100).

The share trading fragmentation process, however, did not have the same intensity at European level, the most significant figures coming from the United Kingdom, where the weight of Mtf trading – almost zero in January 2008 – reached 20% in November 2009, compared to a decrease in the weight of Otc and regulated market trading (to 5 and 15 percentage points, respectively; Fig. 35).

Fig. 35 Breakdown of share trading by trading venue



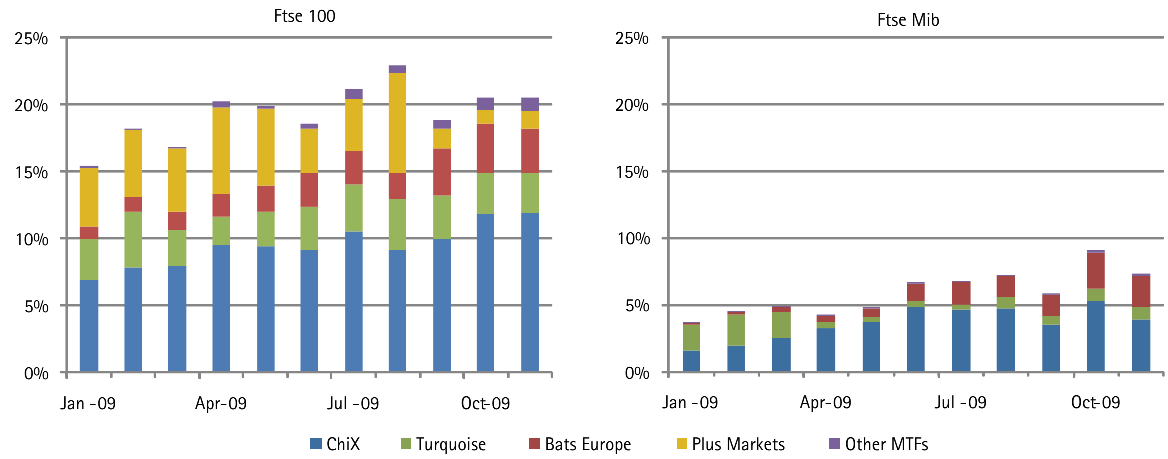
Source: calculations based on Thomson Reuters data. RM refers to regulated markets, Mtf to multilateral trading facilities and Otc to over-the-counter.

Italy, however, is one of the countries whose trading is still largely concentrated on the regulated markets (i.e. Borsa Italiana Spa's Mta market). The share trading fragmentation process began in October 2008 when two Mtfs, Chi-X and Turquoise, started up on the main securities on Borsa Italiana's list, followed by a third Mtf, Bats Trading, in November that year. In the same period, moreover, the Mta adopted the most advanced trading platform (Trade Elect), already in use on the Uk regulated market, the London Stock Exchange.

The Mta's incidence on total Italian share trading decreased mainly in 2009 (from 80% in January to 72% in November). In the same period, the Mtf share of total trading volumes increased by 7 percentage points. Otc trading, on the other hand, seems to be highly changeable, very often influenced by specific corporate dynamics of the issuers whose securities are traded.

Chi-X is the European Union's leading Mtf in terms of trading volumes, with an impact on the total that grew from 4% to around 8% between January and November 2009. Specifically, in the Uk the percentage share trading on the Chi-X increased from 7% to 12%, whilst in Italy the figure rose from 1% to around 4% (Fig. 36). There are many reasons for this leadership position. Like many other Mtfs, Chi-X has a micro-structure similar to the Mta, based on a visible trading book, and attracts order flows through highly favourable commission regimes and the use of a technologically-advanced trading platform. Chi-X commissions are based on a maker-taker regime, i.e. the intermediary places a price-limit order that stays on the book. No trading commission is payable, rather it is the intermediary that is "reimbursed" by Chi-X if the order is completed. Vice versa, intermediaries that "consume cash flow" by placing buy-at-best orders or price-limit orders fulfilled by orders already on the book, pay trading commissions that are in any event lower than those required on regulated markets.

Fig. 36 Mtf percentage of total share trading
(monthly figures; January 2009-November 2009)



Source: calculations based on Thomson Reuters data.

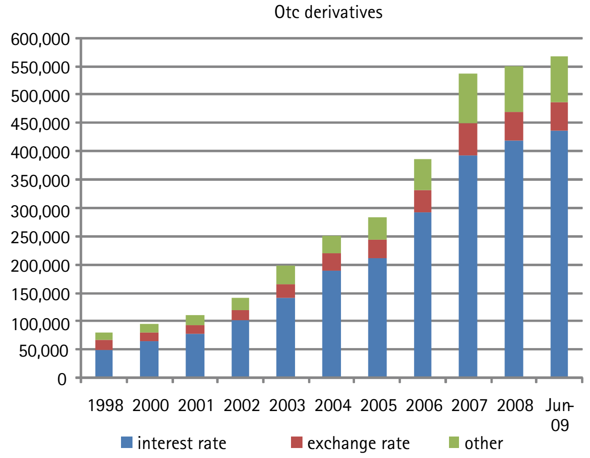
2 The derivatives market

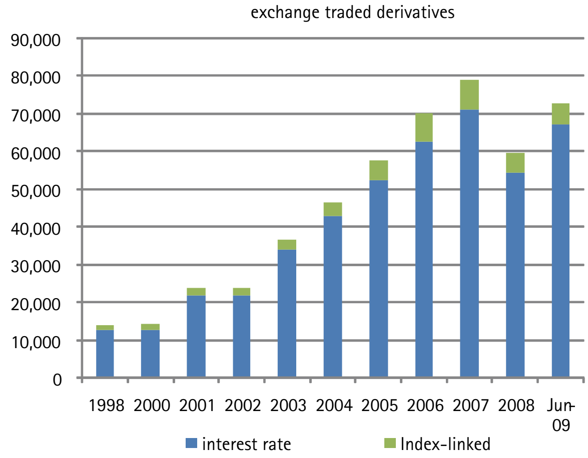
At global level, in the first six months of 2009 the derivatives market did not significantly suffer the effects of the crisis. In fact, in June 2009 the notional turnover of Otc derivatives (interest rates, exchange rates, shares) and commodities recorded levels slightly higher than 2008 year-end figures. The exchange-traded derivatives market also showed signs of recovery (Fig. 37).

The notional value of Otc derivatives (exchange rates, interest rates, shares and commodities) increased by 550,100 billion UsD in December 2008 to around 568,600 billion dollars in June 2009 (+3%). The weight of total derivatives on interest rates remains prevalent (77%), whilst the notional turnover represented by Otc derivatives on exchange rates remains steady at around 9%.

In the first six months of 2009 the total notional turnover of exchange-traded derivatives took an upward turn (from 60 billion to approximately 73 billion UsD; around +22%), most with underlying interest rates (92% of overall totals).

Fig. 37 Notional turnover for derivatives in G-10 countries
(period end balances; in billions of UsD)



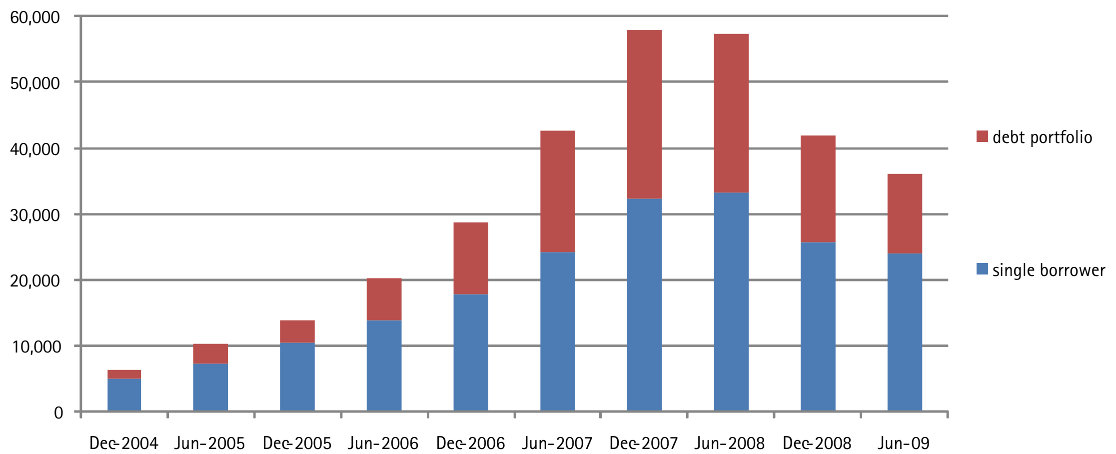


Source: Bank for International Settlements.

The effects of the crisis are still felt, however, on the credit default swap market (Cds). The notional turnover for these financial instruments, in fact, dropped from 41,900 billion UsD in December 2008 to around 36,000 billion UsD in June 2009 (-14%; Fig. 38).

Specifically, the most significant drop recorded was for loan portfolio-based Cds, the balance for which fell from 16,000 billion UsD in December 2008 to approximately 11,900 billion UsD in June 2009 (-26%).

Fig. 38 Notional turnover for credit default swaps in G-10 countries
(period end balances; in billions of UsD)



Source: Bank for International Settlements.

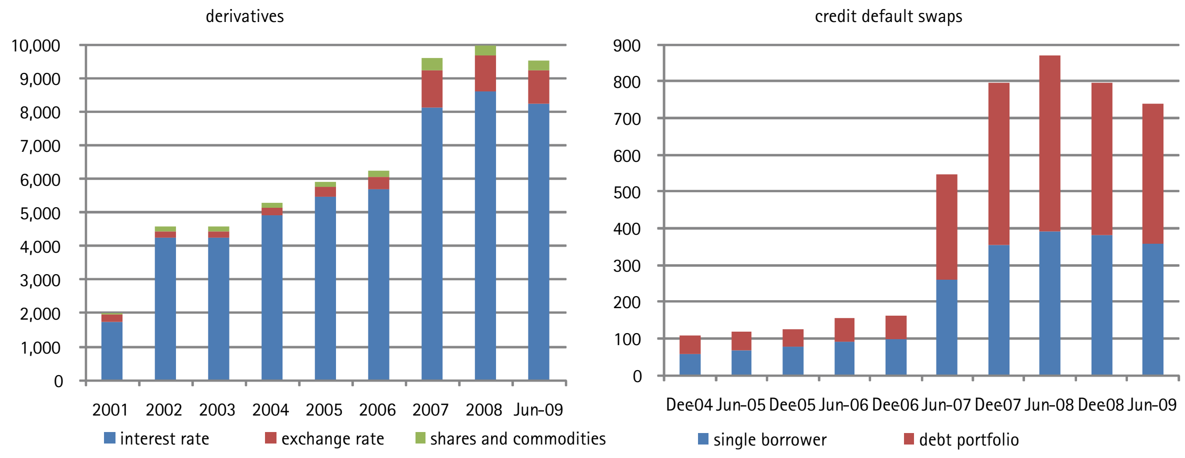
In Italy, unlike at global level, the crisis had quite a strong effect on the derivatives market.

In the first six months of 2009 and for the first time since 2001, Otc derivatives balances decreased from 9,980 billion to around 9,600 billion UsD

(-4%; Fig. 39). In the same period, the notional turnover of Cds fell by 7%, from 796 billion to 739 billion UsD.

The only exchange traded derivatives for the Italian market were those quoted on the Italian Derivatives Market (Idem) operated by Borsa Italiana Spa, with underlying share indices or shares.

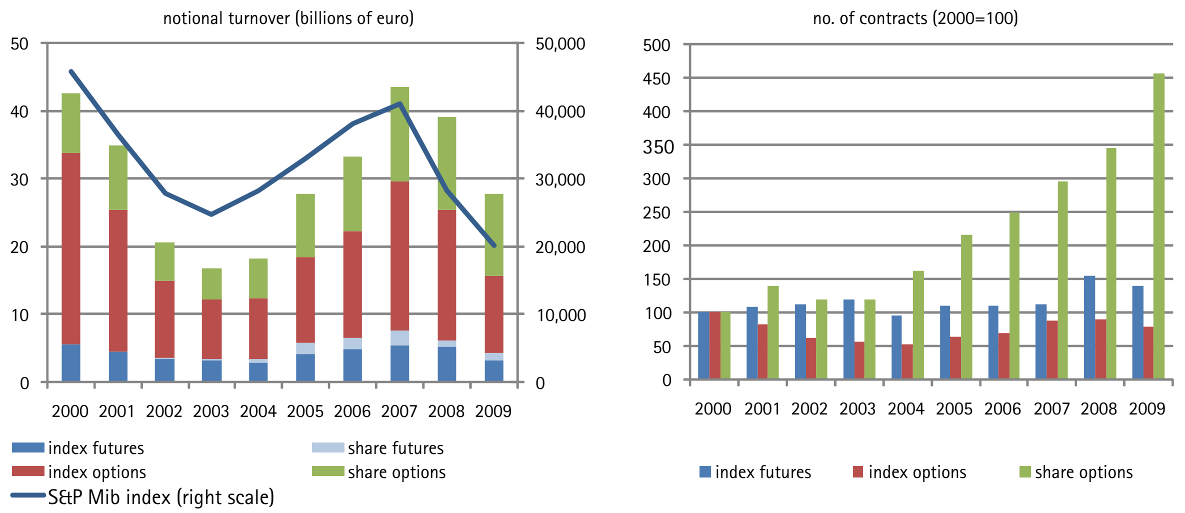
Fig. 39 Notional turnover for Otc derivatives in Italy
(period end balances; in billions of UsD)



Source: Bank of Italy.

In 2009 the notional turnover for open interest contracts on the Idem market (calculated as a daily average) fell by 29%, from 40 billion to 28 billion euro (Fig. 40).

Fig. 40 Notional turnover and number of positions opened in derivatives traded on the Idem market
(average daily percentages)



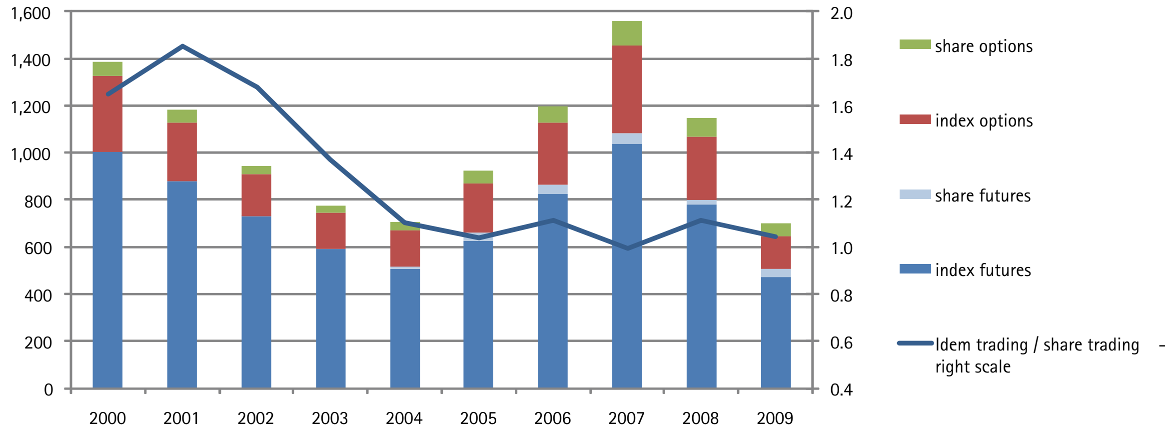
Source: calculations based on Borsa Italiana data. The graph on the notional value of positions opened in the "index futures" category includes index minifutures. The annual values for the S&P/Mib index are the average end of month figures.

In terms of daily average counter-value, most open interest contracts were share options (43%), followed by index options (41%).

Compared to 2008, in 2009 the notional turnover of trading on the Idem market fell from 1,100 billion to around 673 billion euro (-35%; Fig. 41). The derivative-share swap ratio also decreased slightly (from 1.1 to a little over 1.0).

The more consistent trading volumes mainly refer to index futures (70% of the total), followed by index options (21% of the total), whereas trading in share options, index minifutures and share futures was residual.

Fig. 41 Notional turnover for derivatives traded on the Idem market
(in billions of euro)



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

3 The covered warrants and certificates market

In 2009 trading on the SeDeX market (the securitised derivatives market managed by Borsa Italiana Spa) fell from 22 billion to around 10 billion euro (+55%; Table 7).

The decrease in trading was accompanied by a drop in the number of new issues (from 6,148 in 2008 to 4,029 in 2009; -34%), whilst the total number of instruments listed at year end remained essentially unchanged.

The instruments most traded were plain vanilla covered warrants (7.1 million euro countervalue, i.e. 69.5% of the total), followed by investment certificates (2.6 million euro countervalue; 25.6% of the total). 47% of trading was initiated by market makers, 49% by private investors (mainly online traders) and the remaining 4% by arbitrageurs.

The number of issuers also decreased from 25 in 2008 to 9 in 2009 (of which only three are Italian). There are 16 specialists, i.e. intermediaries appointed to ensure market liquidity injection, in most cases also the issuer or from the same banking group.

Table 7 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
2007	4,408	7,609	7,848	88
2008	3,192	6,148	7,364	22
2009	3,289	4,029	3,625	10

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. Includes securities cancelled at the request of the issuer before their original maturity.

2009 saw a continued drop in the weight of plain vanilla covered warrants on the total instruments outstanding (from 54% to around 51%; Table 8), in any event remaining the most widely distributed instruments listed on the Sedex market. The number of leveraged certificate issues increased, however (from 215 in 2008 to 399 in 2009), representing around 12% of the total.

With regard to the distribution of covered warrants based on profit deriving from immediate exercise of the option ("moneyness"), around 57% of the plain vanilla call covered warrants issued in 2009 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; Table 9). For put instruments issued in 2009, 67% percent were deep out of the money at the time of issue (or with a strike price 8% lower than the market price of the underlying instrument). As a result of the improved performance of the financial markets, deep in the money put covered warrants represented an issue quota (12%) lower than that of deep in the money call covered warrants (24%).

Analysis conducted on leveraged certificates shows that the number of instruments withdrawn prior to maturity (274) is significant, of which only 24% were issued prior to 2009. These instruments are characterised by a stop loss mechanism, which is triggered if underlying performance is negative and results in settlement of the instrument and loss of the invested capital.

Table 8 Types of covered warrants and certificates listed on the SeDeX market
(as at 31 December)

Segment and category	2007		2008		2009	
	Number of issues	Incidence on total[1]	Number of issues	Incidence on total[1]	Number of issues	Incidence on total[1]
Covered warrants						
Plain vanilla	2,839	64.4	1,728	53.8	1,672	50.8
Exotic	154	3.5	108	3.4	96	2.9
Certificates						
Leverage	399	9.0	215	6.7	399	12.1
Investment	1,016	23.0	1,149	36.0	1,122	34.2
Total	*4,408*	*100*	*3,192*	*100*	*3,289*	*100*

Source: calculations based on Borsa Italiana data. [1]Percentage values. Rounding may cause discrepancies in the final figure.

Table 9 Distribution of covered warrants listed on the SeDeX market, according to their "moneyness" at issue and on maturity

(percentages)	Degree of moneyness[1]	
	at issue[2]	on maturity[3]
Call		
> 8% (deep out of the money)	57.3	63.7
> 8% to 4% (out of the money)	6.8	3.5
from 4% to 0 (at the money)	6.9	3.0
from 0 to -4% (in the money)	5.4	3.5
< -4% (deep in the money)	23.6	26.3
Total	*100.0*	*100.0*
Put		
< -8% (deep out of the money)	67.1	54.4
from -8% to -4% (out of the money)	10.1	4.4
from -4% to 0 (at the money)	6.6	3.1
from 0 to 4% (in the money)	4.2	3.1
< 4% (deep in the money)	12.0	35.0
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 or maturity of the covered warrants. [2]Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index issued in 2008. [3]Figures relating to plain vanilla covered warrants on Italian shares and S&P/Mib index maturing in 2008.

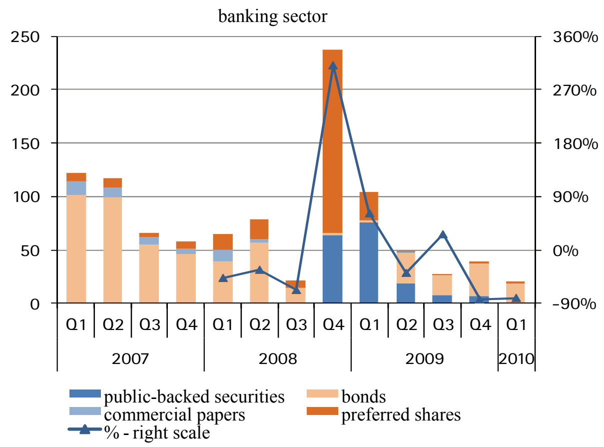
4 The bond market

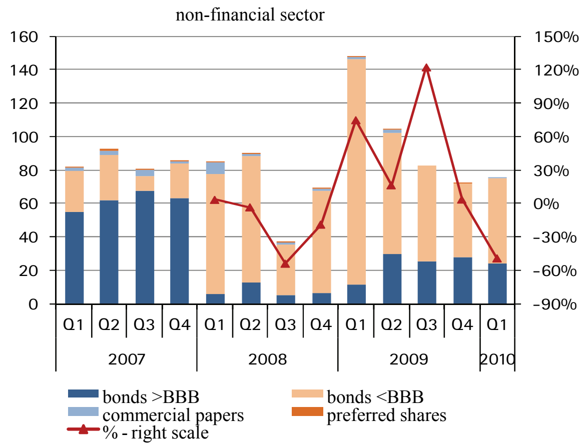
In 2009, the number of bank bond issues on the advanced markets decreased. In the Usa, the countervalue of bank bond issues almost halved, falling from approximately 401 billion euro in 2008 to 220 billion euro in 2009 (-45%; Fig. 42). The only segment recording a growth was the government-backed bank securities, for which issue volumes increased by 71% (from 63 billion to 108 billion euro).

Fig. 42 Private bond issues

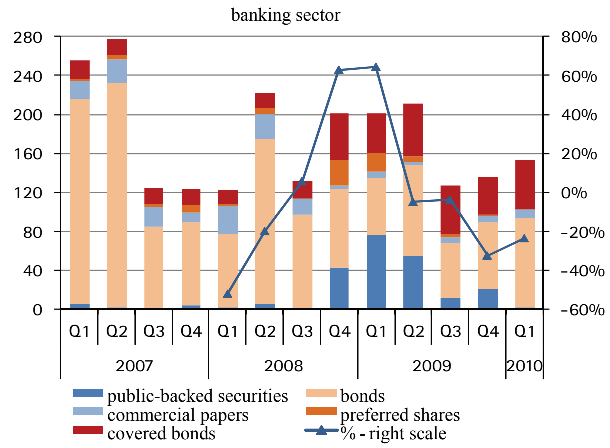
(billions of euro and year-on-year percentage changes)

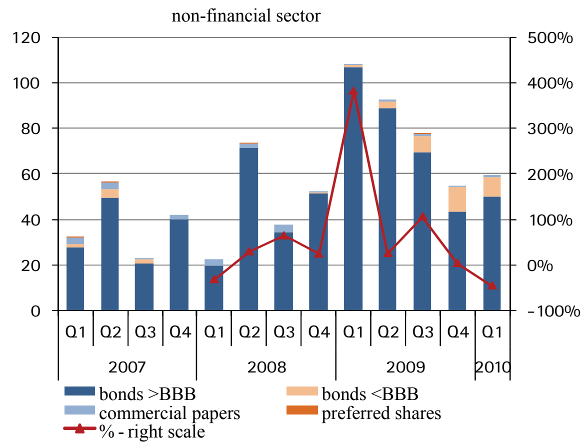
Usa



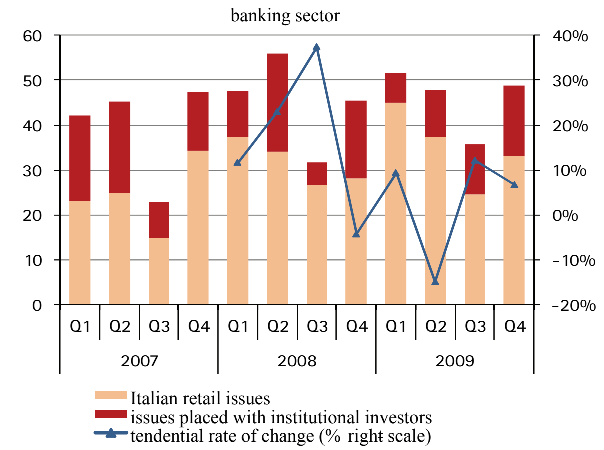


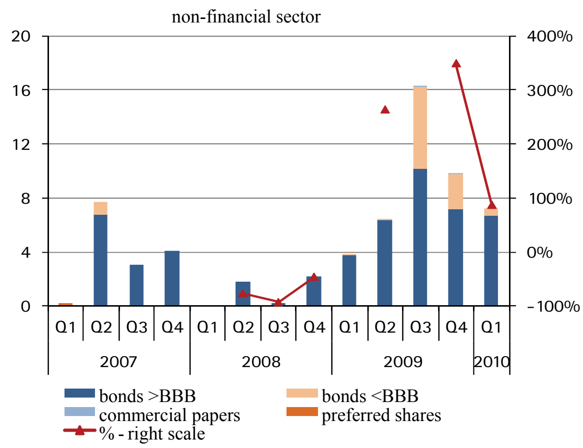
Europe





Italy



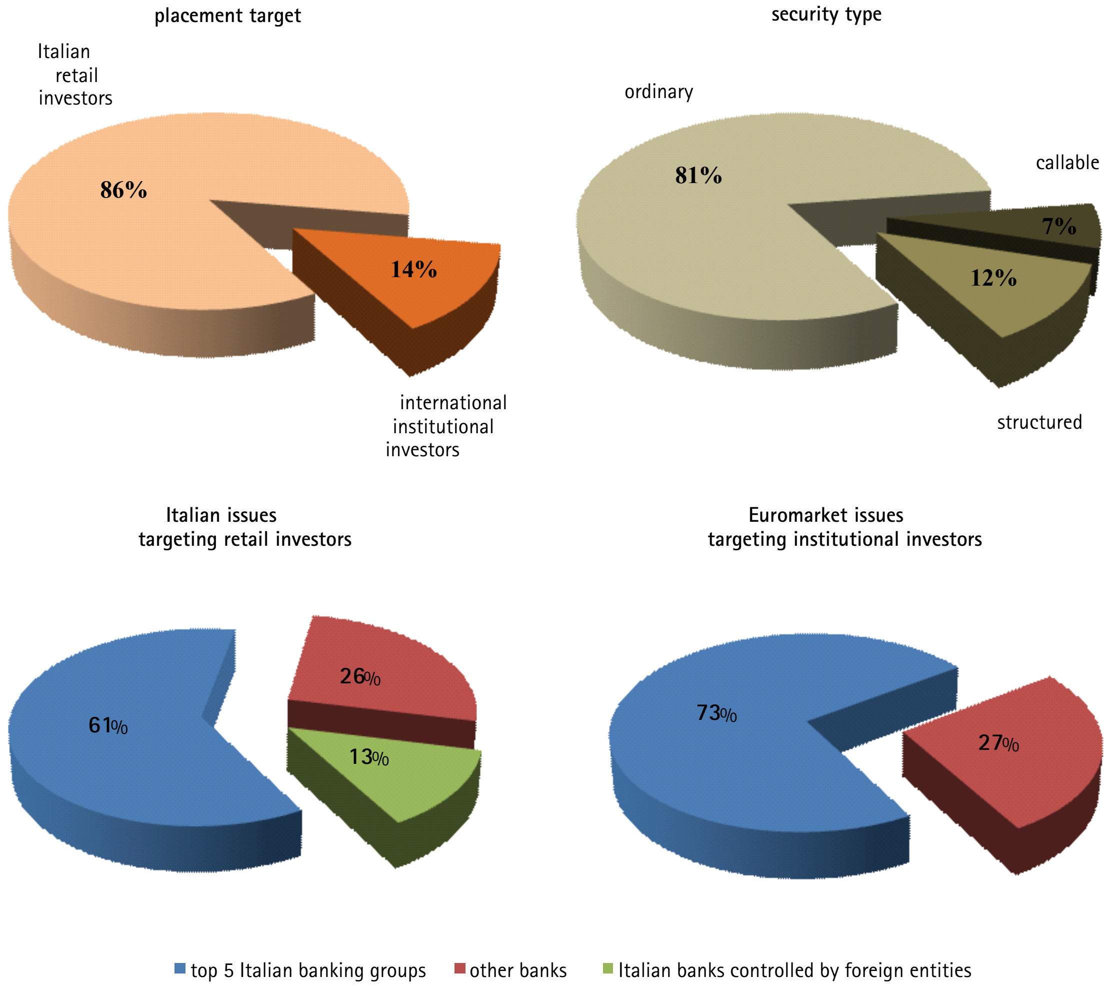


Source: calculations on Dealogic data.

In Europe, the total bank security issues remained steady (680 billion euro in 2008, 677 billion euro in 2009). In this case also, the only segment recording a growth was the government-backed bank bonds, which almost tripled from 53 billion to around 165 billion euro.

In Italy, the total banking sector issues remained steady (181 billion euro in 2008, 184 billion euro in 2009). Specifically, the countervalue of issues decreased for bank securities placed with institutional investors (from 54 billion euro to 44 billion euro; -19%), whilst the bonds targeting retail investors increased (from 127 billion to 140 billion euro; +10%).

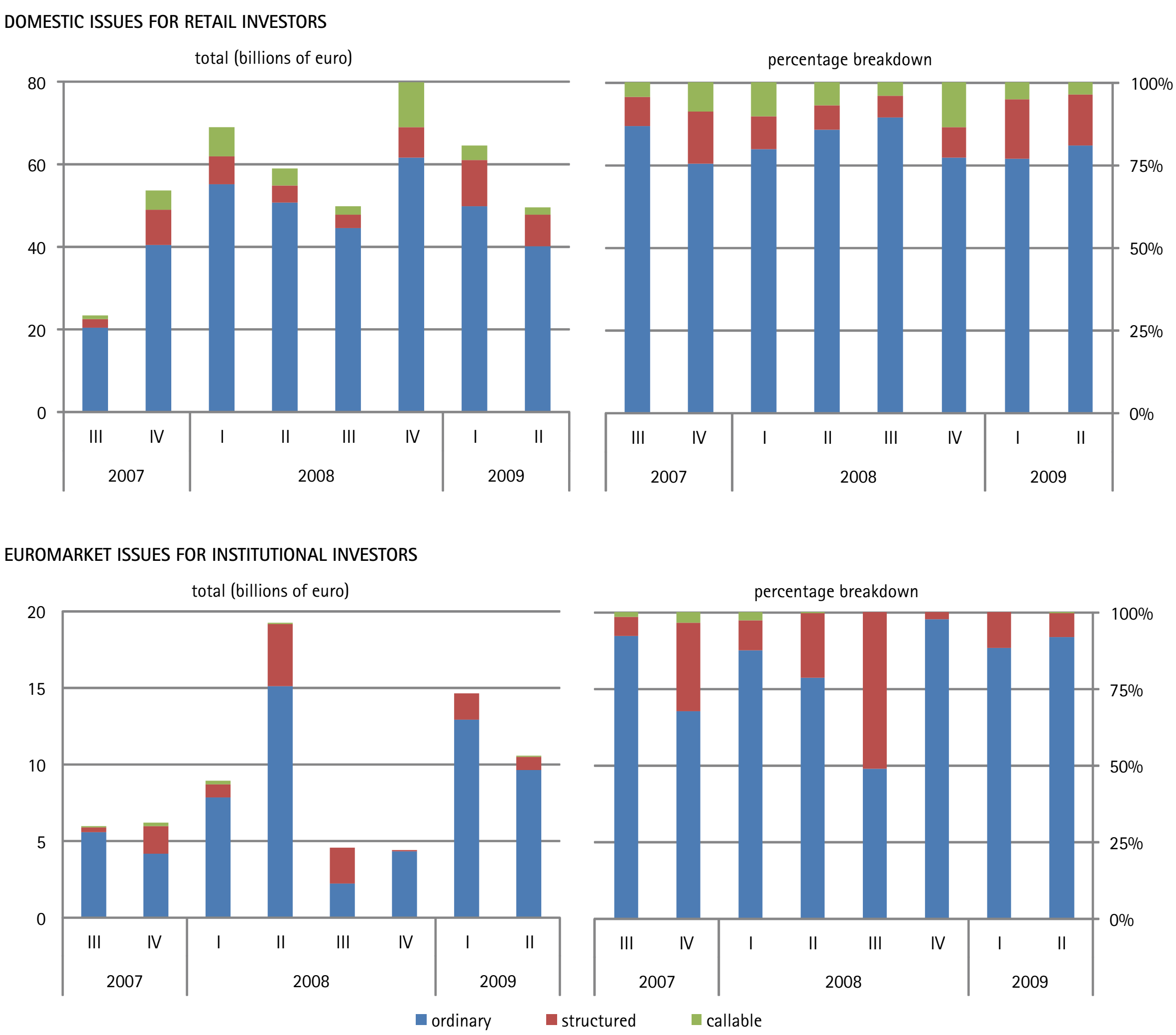
Fig. 43 Summary data on Italian bank bond issues (July '07-June '09)



Source: calculated on prospectuses for domestic issues and Dealogic data for Euromarket issues. Ordinary bonds include step up/step down.

In the period July 2007-June 2009 gross issues of Italian bank bonds were 86% funded on the domestic retail market and the remaining 14% through institutional investors, for which issues involved 81% ordinary securities, 12% structured securities and the remaining 7% bonds with early redemption options (Fig. 43). Over 60% of domestic retail market funding and 73% of institutional investor placements are attributed to the top 5 Italian banking groups (on total assets). Italian banks controlled by foreign groups account for over 10% of domestic retail market funding. The percentage of structured and callable securities placed with retail investors showed a marked decrease only in the more intense moments of the financial crisis (second and third quarters of 2008), later returning to its period average in subsequent quarters (Fig. 44). The percentage of these securities placed with institutional investors, however, shows a more erratic trend.

Fig. 44 Italian bank bond issues in the period July 2007-June 2009



Source: prospectuses for domestic issues and Dealogic data for Euromarket issues. Ordinary bonds include step up/step down.

Instead, with regard to non-financial company bond placements, in the Usa total corporate issues increased by 48% on the 2008 figure (from 280 billion to 416 billion euro) due to the increase in issues of investment grade bonds (from 239 billion to 314 billion euro; +31%) and speculative grade bonds (from 29 billion to 97 billion euro; Fig. 42). In the same period, however, the countervalue of commercial paper issues fell considerably (from 11 billion to 4 billion euro; -61%) and preferred share issues (from 1.4 billion to 0.664 billion euro; -53%).

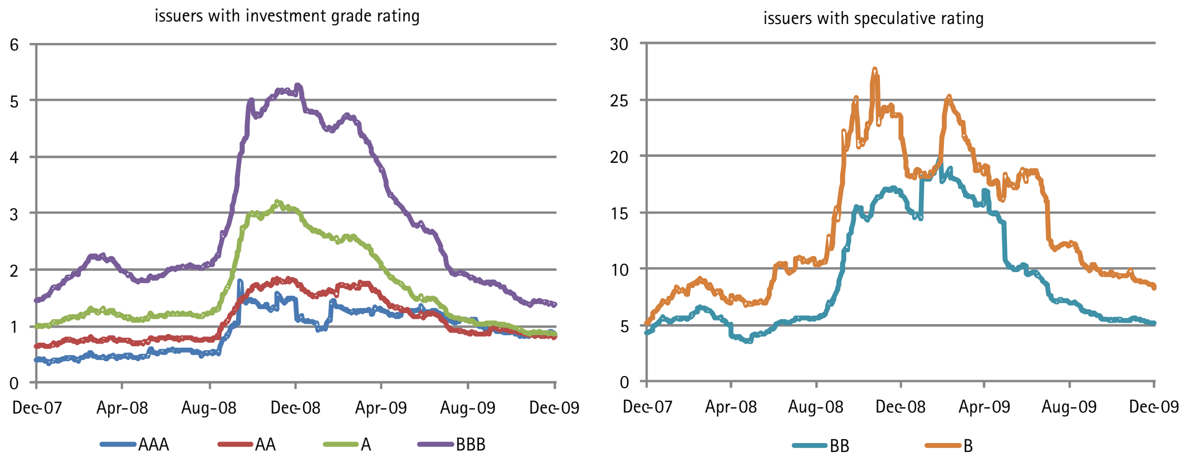
In Europe, too, the total corporate bond issues recorded a strong increase, from 186 billion euro in 2008 to 306 billion euro in 2009 (+80%). The countervalue of corporate issues increased from 186 billion to 334 billion euro (+80%), investment grade issues from 177 billion to 306 billion euro (+73%) and speculative grade issues from 1 billion to 25 billion euro. The countervalue of commercial paper issues decreased, however (from 8 billion to around 3 billion euro; -66%) and preferred share issues (from 550 million to 359 million euro; -35%).

In Italy the increase in corporate bond issue volumes was highly significant, from 4 billion euro in 2008 to 36 billion euro in 2009.

The growth in issues by non-financial companies was also encouraged by the decrease in spreads between the returns demanded by investors and those of government securities (Fig. 45).

Fig. 45 Spreads between the returns on Euro bonds of non-financial companies and the returns on Euro Government securities

(daily figures 31.12.2007-31 December 2009)



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

Moving on to consider secondary market trading, in 2009 the total trading volume for bonds on Italian regulated markets fell slightly compared to 2008 (from 1,636 billion to 1,618 billion euro; -1.1%; Table 10), remaining at levels considerably lower than pre-crisis levels. This downward trend is mainly due to the decrease in countervalue of wholesale government security trading on the Mts market, from 874 billion to 745 billion euro (-15%), whilst trading volumes increased on the Bondivision (from 522 billion to 549 billion euro; around +5%), the Mot (from 177 billion to 229 billion euro; +29%) and the Tlx market (from 63 billion to 95 billion euro; +51%). The wholesale market for bonds other than government securities continues to represent a residual share of the trading volumes.

Table 10 Bond trading volumes on regulated Italian markets[1]
(in billions of euro)

	Mts	Bondvision	Wholesale market for bonds other than government securities	Mot[2]	EuroMot	Tlx[3]	*Total*
2000	2,020	—	..	154	..	—	*2,174*
2001	2,34	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*
2007	1,665	664	9	149	—	25	*2,512*
2008	874	522	1	177	—	63	*1,636*
209	745	549	..	229	__	95	*1,618*

Source: calculations based on Mts, Borsa Italiana and Tlx data. [1]Rounding may cause discrepancies in the final figure. [2]From 2005 includes bonds previously traded on the EuroMot market. [3]Market operating since 20 October 2003.

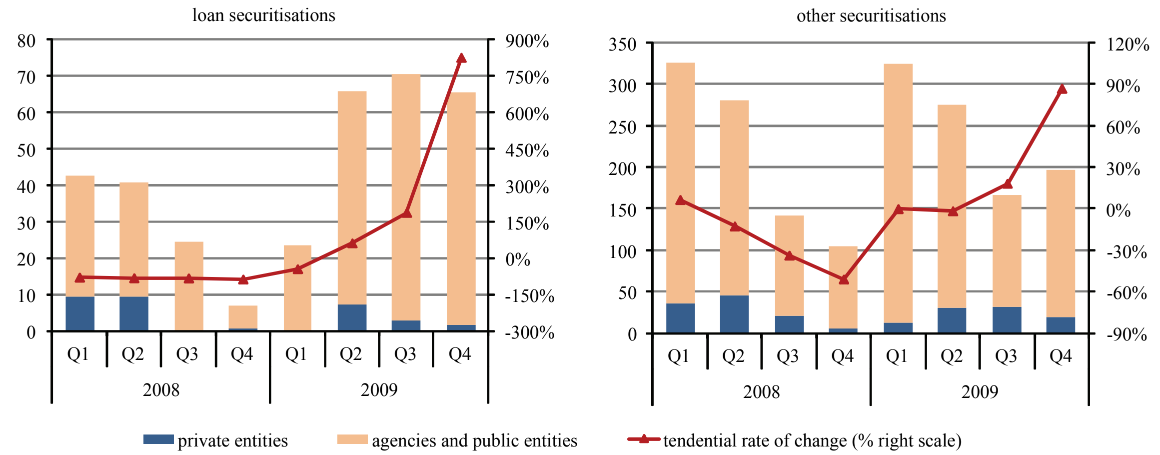
5 The securitisations market

In 2009 there were clear signs of a recovery in the Us securitisations market, whereas in Europe investors'interest in this type of product remains slow.

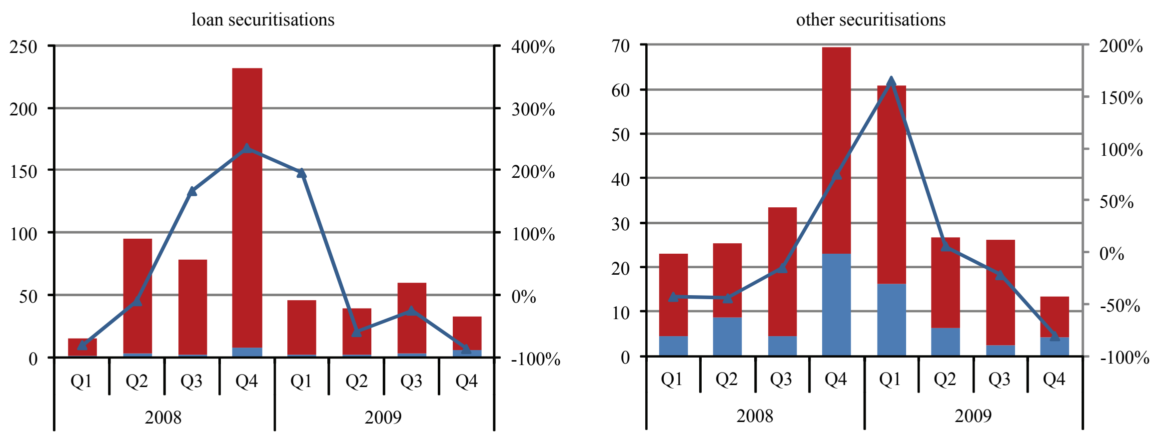
In the Usa, the total loan securitisation issues increased from 115 billion euro in 2008 to 225 billion euro in 2009 (+95%; Fig. 46), mainly due to the recovery in agencies issues. Issues of other securitisation types also increased, though to a lesser extent (from 855 billion to 966 billion euro; +13%).

Fig. 46 Securitisation issues
(billions of euro and year-on-year percentage changes)

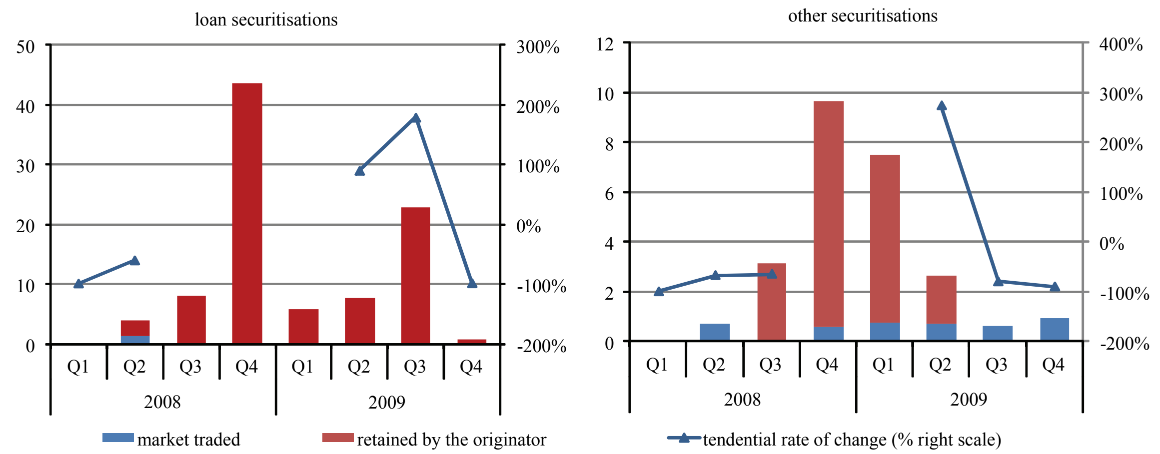
Usa



Europe



Italy

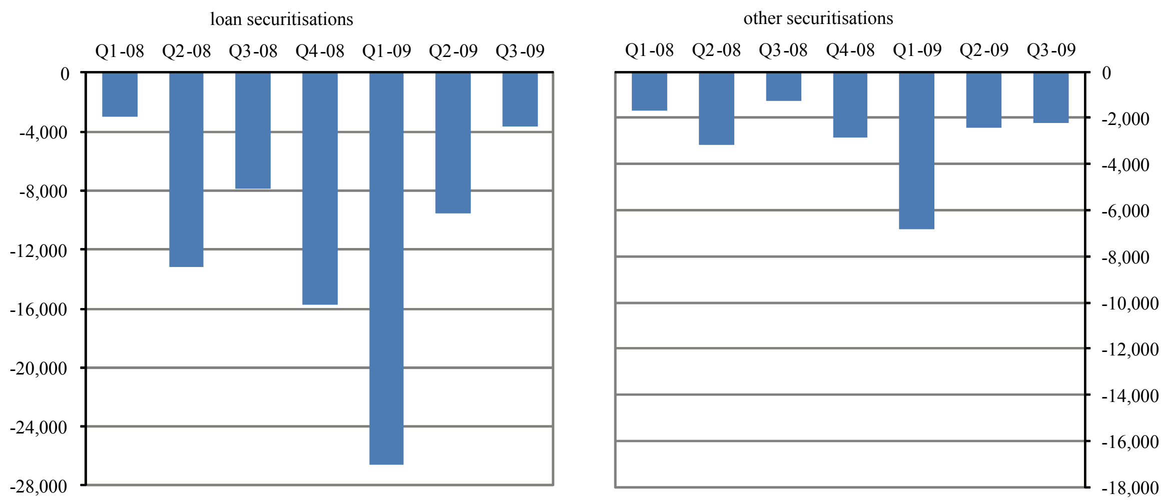


Source: calculations on Dealogic data.

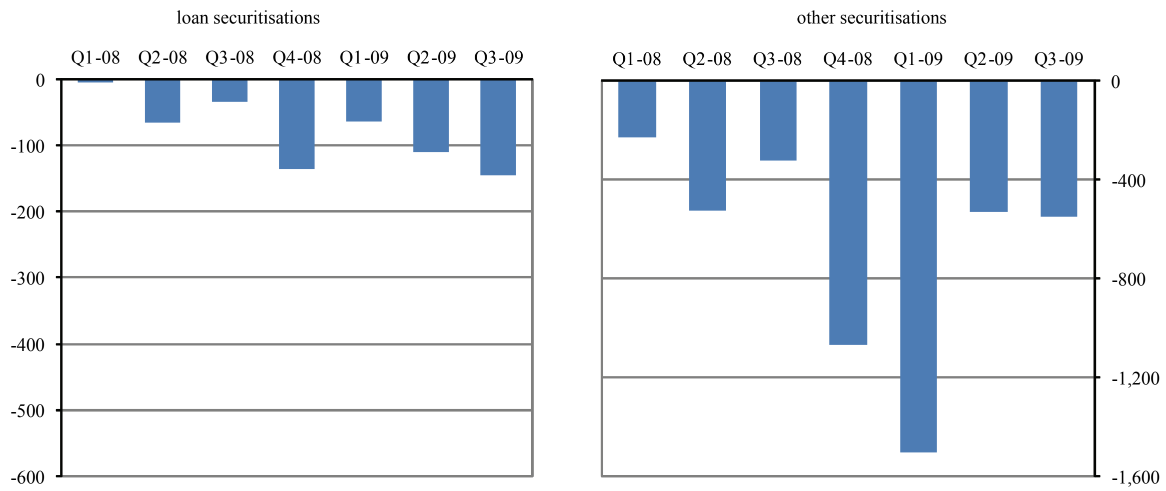
The recovery of the Us securitisations market was accompanied by a gradual decrease in the downgrades of such products in 2009. Based on Moody's data, in fact, the difference between upgrades and downgrades dropped from 26,626 in the first quarter to 3,637 in the third quarter (Fig. 47). The securitisations market also recorded a recovery in value terms and a decrease in loan losses (proportionate to total outstanding loans; Fig. 48).

Fig. 47 Changes in structured product ratings
(difference between the number of upgrades and downgrades)

Usa



Europe

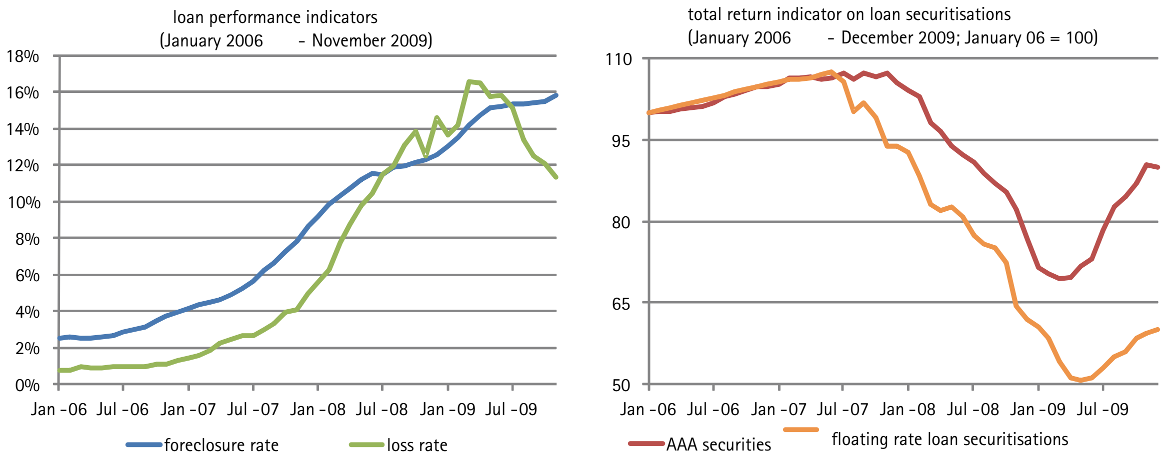


Source: Moody's.

In Europe, however, the total loan securitisation issues decreased from 151 billion euro in 2008 to 127 billion euro in 2009 (-16%). Furthermore, most of the issues were retained by the originators (around 77% of the overall total). The total issues of other securitisation types also saw a strong decrease, dropping from 420 billion to 177 billion euro (-57%). Nevertheless, based on Moody's data, the downgrading of structured securities remains constant (Fig. 47).

The Italian securitisations market also recorded a considerable decrease. The total issues of loan-based structured securities fell from 56 billion to around 37 billion euro (-34%), and other securitisation types from 14 billion to approximately 12 billion euro (-13%).

Fig. 48 Performance of loans and loan securitisations in the Usa
(monthly figures)



Source: Thomson Reuters, Moody's and Merrill Lynch. The foreclosure rate indicates the incidence of foreclosures on outstanding loans. The total return index expresses total ROI from revaluation of capital and from coupon payments.

Intermediaries and households III

1 The major banking groups

The 2009 half year financial statements of the major Italian banking groups continued to reflect the negative effects of the financial crisis.

Net interest income decreased by approximately 3% on the first half of 2008, whilst net commissions fell by around 18% (30% of which relating to investment and asset management services) (Table 11). Despite the decrease in net interest income and commissions, the drop in gross income was limited (around -3%), largely due to the growth in earnings from financial transactions (which increased almost 5 times). Compared to the decrease in operating costs (approx. -7%), operating results fell by around 5%, whereas net profit more than halved due to the increase in loan adjustments (+140%) and adjustments on other financial transactions (which almost doubled).

In the first half of 2009 the weight of revenues from investment services (the sum of net commissions from investment and asset management services and profit on financial transactions) on gross earnings was 18.8% (against 11.7% in 2008) (Fig. 49). This increase was largely attributable to the above-mentioned increased profit on financial transactions (+467.4%).

In the first half of 2009, total direct and indirect deposits of the major Italian banking groups reduced slightly from 3,024 billion to 2,986 billion euro (-1.3%). Direct deposits recorded a slight decrease (-1.2%) compared to an essentially unchanged figure for funding through deposits (+0.1%) and from bonds (+1.3%), and interbank deposits fell considerably (-9.1%) (Fig. 50).

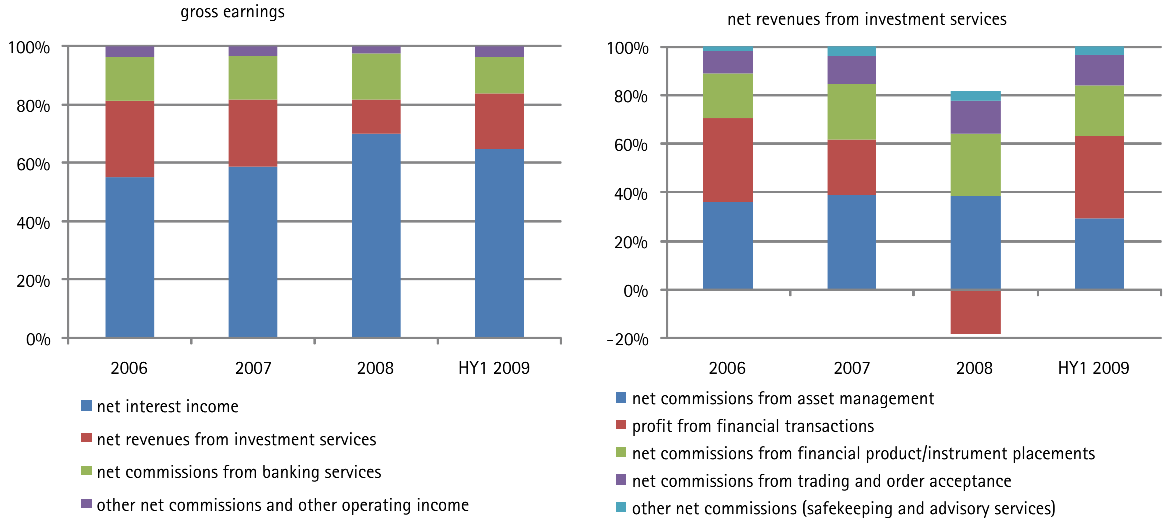
Indirect deposits decreased slightly (-1.4%) largely due to the drop in assets under management (-4.5%), whilst administered savings held steady (+0.7%).

Table 11 Aggregate income statement for the major Italian banking groups

(amounts in millions of euro)	2006	2007	2008	HY 2008	HY 2009	% change HY 2009 / HY 2008
Net interest income (a)[1]	39,016	38,444	45,169	22,374	21,656	-3.2
Net commissions (b = b.1 + b.2 + b.3)	23,414	21,955	20,352	10,971	9,017	-17.8
of which:						
investment and collective management services (b.1)	*12,088*	*11,596*	*9,731*	*5,808*	*4,131*	*-28.9*
security and currency trading and order acceptance	1,711	1,745	1,639	860	806	-6.3
individual portfolio management	1,237	1,062	956	497	362	-27.2
collective portfolio management	4,993	4,444	3,346	2,131	1,351	-36.6
depositary bank	409	347	255	179	111	-37.8
securities safekeeping	220	234	125	78	50	-35.3
placement and distribution of financial and insurance products	3,364	3,442	3,085	1,894	1,296	-31.6
advisory services	154	321	326	170	155	-8.8
from banking services (b.2)[2]	*10,658*	*9,669*	*10,193*	*4,449*	*4,150*	*-6.7*
other net commissions (b.3)[3]	*667*	*688*	*428*	*714*	*737*	*+3.2*
Profit/loss on financial transactions (c)[4]	6,291	3,450	-2,184	377	2,139	+467.4
Other net operating income (d)	1,978	1,628	1,333	808	578	-28.5
Insurance management result (e)	537	526	410	200	210	+5.1
Gross income (f = a+b+c+d+e)	71,235	66,003	65,080	34,730	33,600	-3.3
Operating costs (g)[5]	39,744	36,085	39,158	19,703	18,313	-7.1
Operating result (f-g)	31,491	29,918	25,922	16,124	15,286	-5.2
Net adjustments on loans	-6,194	-5,789	-9,660	-3,215	-7,763	+141.4
Net adjustments on other financial transactions	-454	-479	-2,800	-208	-435	+108.9
Net profit[6]	16,928	18,473	9,229	9,107	3,860	-57.6

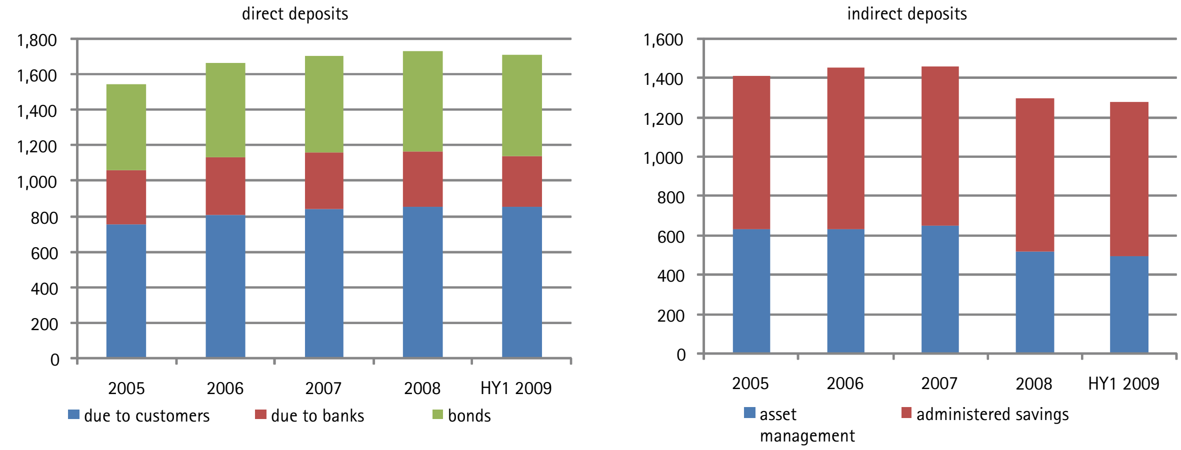
Source: calculations based on consolidated financial statements. Rounding may cause discrepancies in the last figure. See Methodological Notes. Data for years prior to 2008 take into account major banking groups later merged via M&A into groups existing as at the end of 2008, except for HVB (consolidated into UniCredit as from 1 November 2005). [1] Includes dividends on equity investments, gains and losses on equity investments carried at equity and the balance of interest rate hedge transactions. [2] Net commissions for guarantees issued and credit derivatives, collection and payment services, net commissions on current accounts, credit cards and Atm services. [3] Net commissions for servicing on securitisation transactions, factoring and tax collection services. [4] For annual statements from 2005 onwards, 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.

Fig. 49 Breakdown of revenues of the major Italian banking groups



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

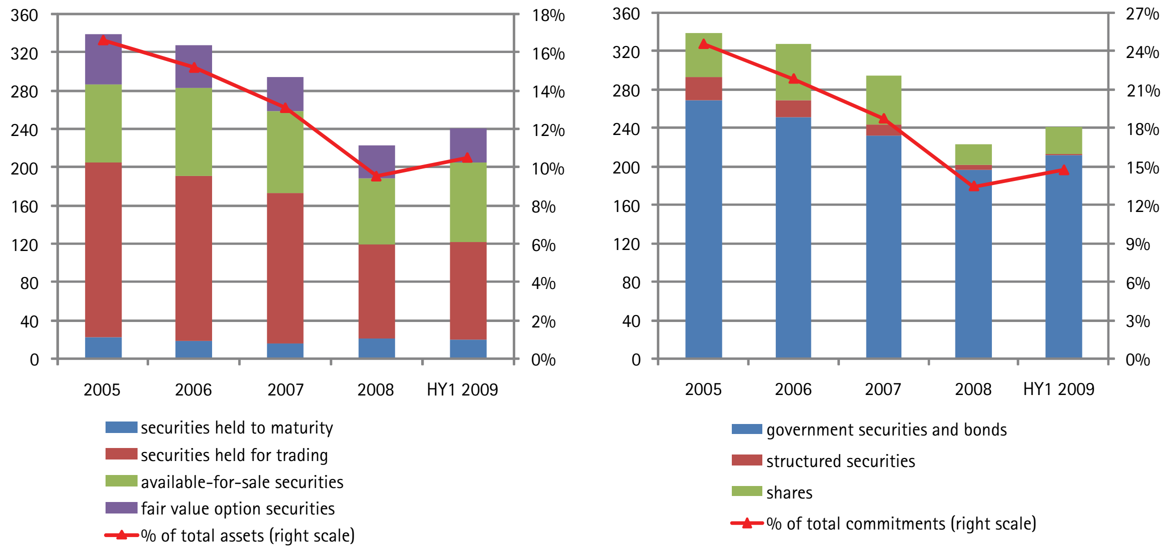
Fig. 50 Deposits for the major Italian banking groups
(period end balances; in billions of euro)



Source: calculations based on consolidated financial statements. See Methodological Notes. Asset management includes technical reserves for insurance and welfare products for group companies. Subordinated and trading liabilities are excluded from direct deposits.

During the first half year of 2009 the total value of securities portfolios of the major Italian banking groups increased by around 17.5 billion euro (+7.9%). The incidence of the securities portfolios on total loans and total assets rose slightly to reach approximately 15% and 10%, respectively (13.4% and 9.6% in 2008). The weighting of debt securities on the total portfolio is 88%, whilst shares account for 11.3% (Fig. 51). The percentage of available-for-sale securities has risen (34.8% against the 31.1% of 2008), whilst decreases were recorded in the weight of securities classed as held-for-trading assets (from 44.1% to 42.0%), fair value option assets (from 15.4% to 14.6%) and held-to-maturity assets (from 9.5% to 8.5%).

Fig. 51 Breakdown of the securities portfolio of the major Italian banking groups
(period end balances; in billions of euro)



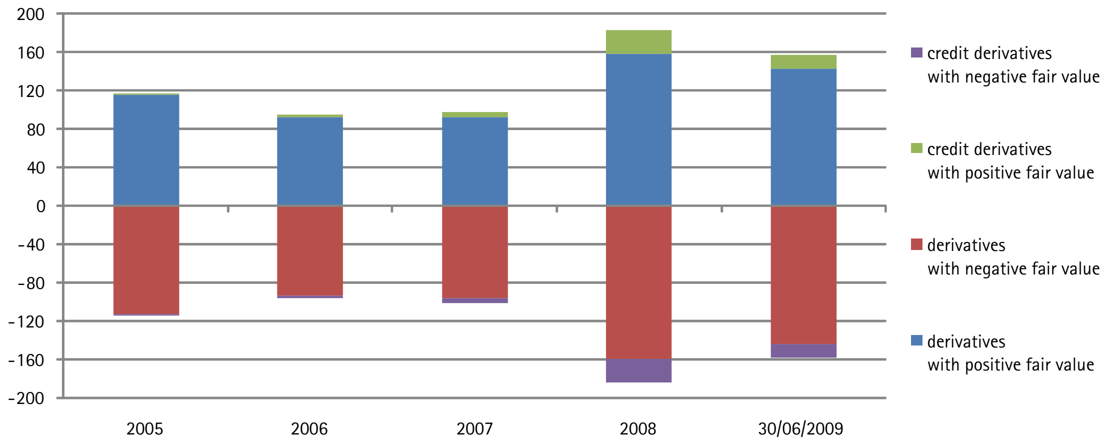
Source: calculations based on consolidated financial statements. See Methodological Notes. Financial assets other than securities (i.e. credit facilities or loans) and assets sold and not cancelled or impaired are excluded. Undertakings for collective investment are included among the Government securities and bonds.

The gross market value of trading derivatives for the major Italian banking groups (i.e. sum of the absolute fair value of positive market value positions and the fair value of those with a negative market value) as at 30 June 2009 recorded a significant decrease from 367 billion to around 316 billion euro (-14%; Fig. 52). At the end of the first half of 2009 the net market value of trading derivatives (the difference between the fair value of positive market value positions and the fair value of those with a negative market value) was around -2.3 billion euro (-1.7 billion in 2008).

The 2009 half year reports do not contain details of the notional turnover for derivatives or structured security exposure. For these aspects the most updated information can be found in the 2008 consolidated financial statements.

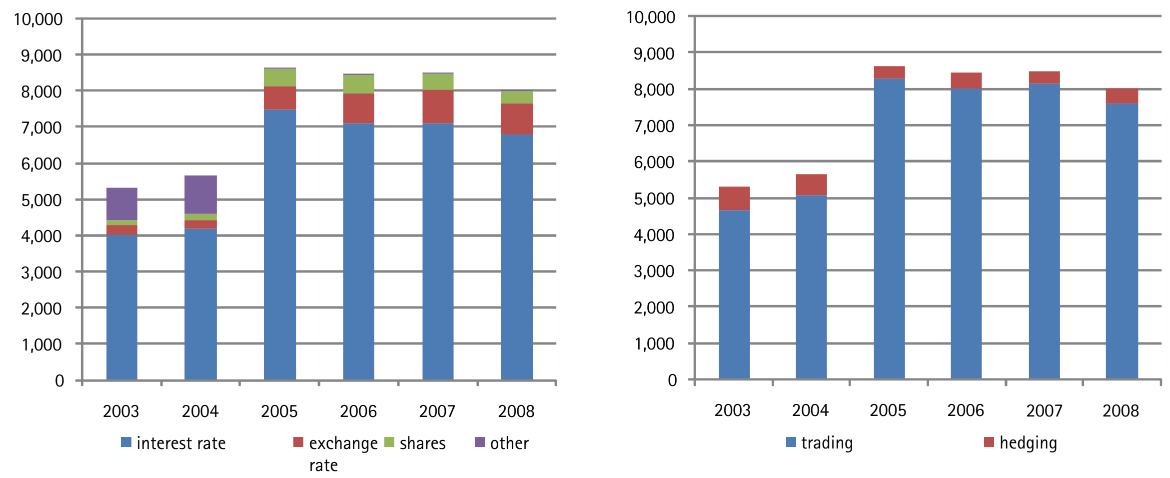
The strong increase in market value of derivative positions of the major Italian banking groups in 2008 was entirely attributable to changes in the underlying totals (mostly linked to interest rates), whilst the notional turnover for derivatives held in portfolio (around 98% for trading) fell from 8,476 billion to 7,998 billion euro (-5.6%) (Fig. 53).

Fig. 52 Fair value of trading derivatives of the major Italian banking groups
(period end figures; in billions of euro)



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

Fig. 53 Notional turnover for derivatives of the major Italian banking groups
(period end balances; in billions of euro)

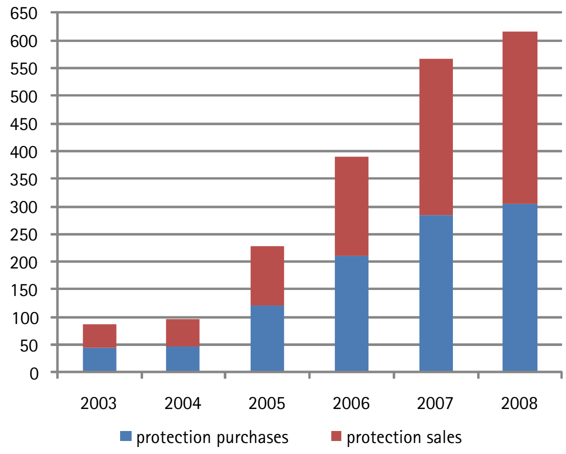


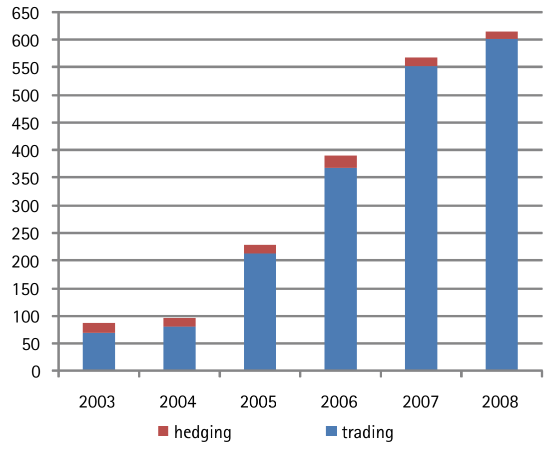
Source: calculations based on consolidated financial statements. See Methodological Notes.

The notional turnover for credit derivatives increased significantly during 2008, however, from 567 billion to approximately 616 billion euro (+8.6%). Protection purchases and sales, on the other hand, were more or less evenly balanced, positions held for trading (albeit a large portion attributable to a single banking group) predominating over hedges (Fig. 54).

2008 saw intense growth in asset disposals by the major Italian banking groups as part of securitisation transactions (from 40 billion euro in 2007 to 120 billion euro), largely relating to loans and trade receivables (Fig. 55). Adding the total for this activity to that for initial transactions by the Italian banks on covered bond issues brings the sum total to around 6 billion euro.

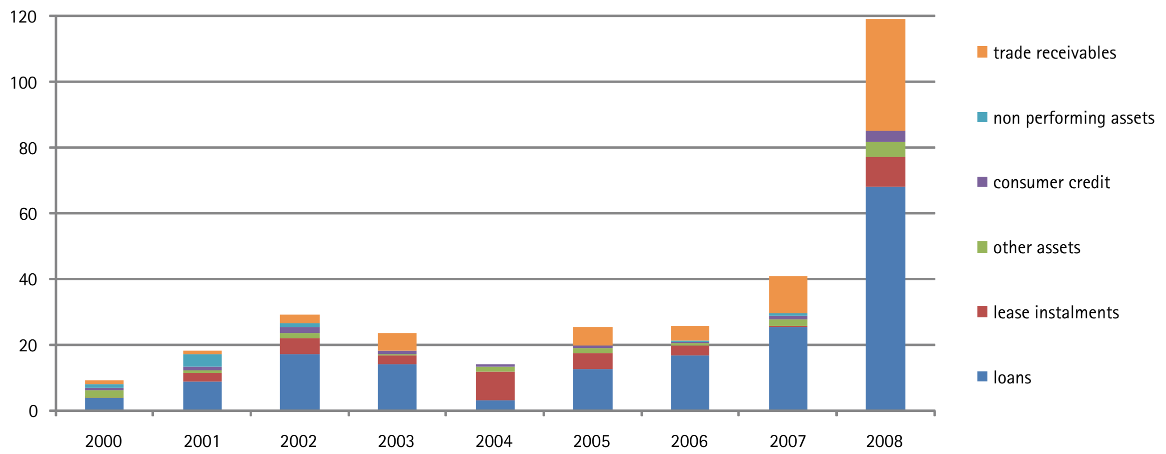
Fig. 54 Notional turnover for credit risk derivatives of the major Italian banking groups
(period end balances; in billions of euro)





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

Fig. 55 Assets disposed of for securitisation purposes by the major Italian banking groups
(in billions of euro)



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

The steep rise in securitisations resulted in a parallel increase in overall exposure of the major Italian banking groups from this type of transaction. Specifically, exposure from securitisations in 2008 increased by around 60 billion euro, from 70 billion to approximately 130 billion (75% of which attributable to a single group). In effect, while off-balance sheet exposure reduced from 13.1 billion to 4.4 billion euro, cash exposure leapt from 56.1 billion to 125.8 billion euro. The increased exposure mainly involved securitisations of own assets referring to both loans and other assets (Table 12).

Table 12 Exposure from securitisations of the major Italian banking groups

(in millions of euro; period end data)		Own				Third party				
		Loans		Other assets		Loans		Other assets		
		impaired	performing	impaired	performing	impaired	performing	impaired	performing	*Total*
2005	Cash	2,574	3,757	864	2,928	--	450	1,126	12,725	*24,424*
	Off-balance sheet	964	202	4	125	--	--	--	--	*1,295*
	Total	*3,537*	*3,959*	*868*	*3,054*	*--*	*450*	*1,126*	*12,725*	*25,719*
2006	Cash	2,272	3,293	412	4,409	78	9,073	579	20,657	*40,772*
	Off-balance sheet	1,043	202	50	66	--	--	--	16,438	*17,799*
	Total	*3,315*	*3,495*	*462*	*4,475*	*78*	*9,073*	*579*	*37,095*	*58,571*
2007	Cash	1,175	14,865	168	8,844	2	8,783	270	21,972	*56,079*
	Off-balance sheet	1,114	248	50	33	--	459	--	11,290	*13,193*
	Total	*2,289*	*15,113*	*218*	*8,877*	*2*	*9,242*	*270*	*33,262*	*69,272*
2008	Cash	209	56,563	1,392	42,150	160	8,109	68	17,195	*125,848*
	Off-balance sheet	--	188	785	34	--	42	--	3,349	*4,397*
	Total	*209*	*56,751*	*2,177*	*42,184*	*160*	*8,151*	*68*	*20,544*	*130,245*

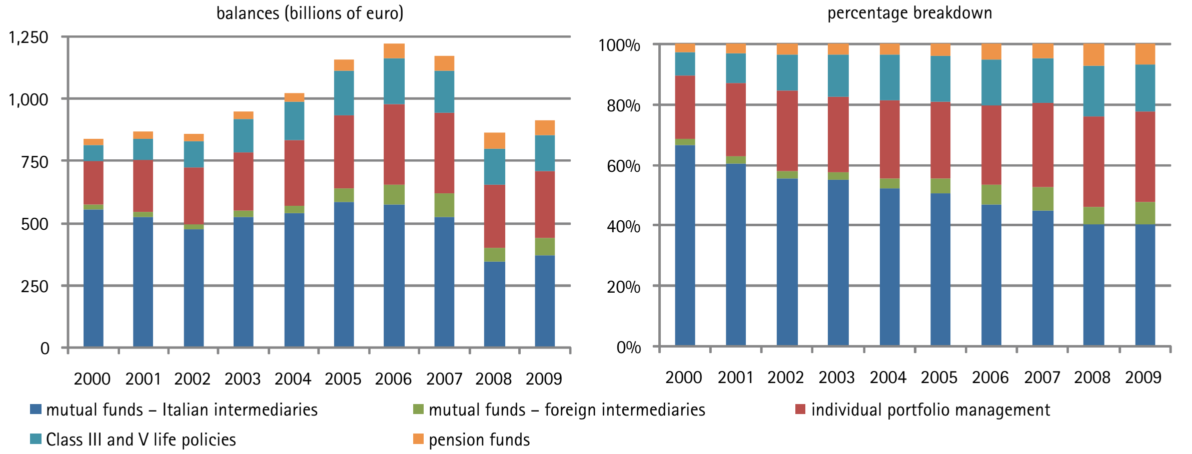
Source: calculations based on consolidated financial statements. See Methodological Notes.

2 Institutional investors

In 2009 investment management product portfolios placed in Italy increased by 6.1%, from around 862 billion to approximately 915 billion euro. This figure can largely be attributed to the increase in fund portfolios promoted by Italian and foreign intermediaries, to 7.1% and 29.0% respectively. The growth in asset management portfolios was more limited, however (+5.6%) (Fig. 56).

Net inflows from investment management products placed in Italy was a positive 6.1 billion euro in 2009 (-145.0 billion in 2008) (Fig. 57). This was due to positive net inflows from investment management (calculated net of undertakings for collective investment; +8.7 billion euro), pension funds (+10.8 billion euro) and mutual funds promoted by foreign intermediaries (+4.1 billion euro). Vice versa, net inflows from Class III and V life insurance policies and mutual funds promoted by Italian intermediaries was negative (-12.8 billion and -4.9 billion euro, respectively).

Fig. 56 Portfolio of investment management products placed in Italy



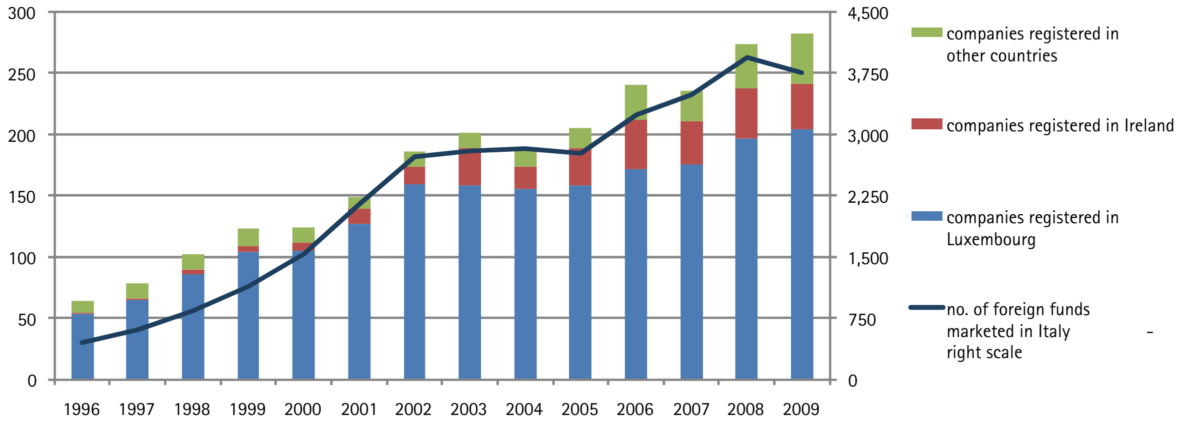
Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Period end data. Data on mutual funds promoted by Italian intermediaries (including Italian companies controlled by foreign intermediaries) comprise Italian open-end funds (harmonised and otherwise) and foreign funds ("roundtrip"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

Fig. 57 Net inflows of investment management products placed in Italy
(in billions of euro)

Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Data on mutual funds promoted by Italian intermediaries include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). The 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 total does not take into account net subscriptions to mutual funds from individual investment management.

Net inflows from funds promoted by non-resident intermediaries once again became positive, after the outflow of resources recorded in 2008 for the first time in several years. However, in 2009 the number of foreign funds marketed in Italy decreased, from approximately 3,935 to around 3,759 (Fig. 58).

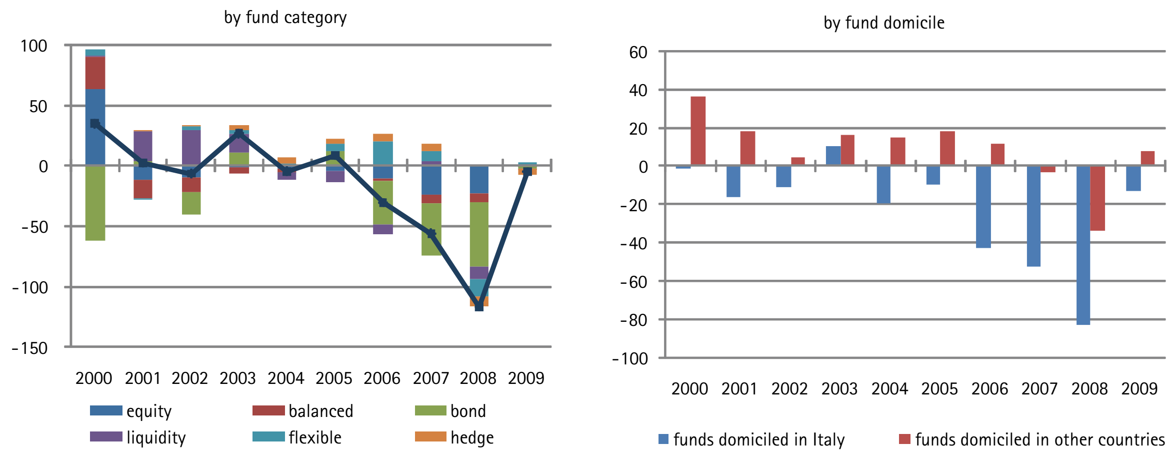
Fig. 58 Number of foreign funds marketed in Italy and the number of foreign companies authorised to market funds, by registered office



Source: prospectuses.

The net outflows for mutual funds promoted by Italian intermediaries in 2009 (-4.9 billion euro) were largely due to outflows from funds domiciled in Italy (-12.9 billion euro), whilst net inflows from funds domiciled in other countries were positive at around 8 billion euro (Fig. 59). Specifically, those recording net inflows were equity funds (1.1 billion euro) and flexible funds (1.3 billion euro).

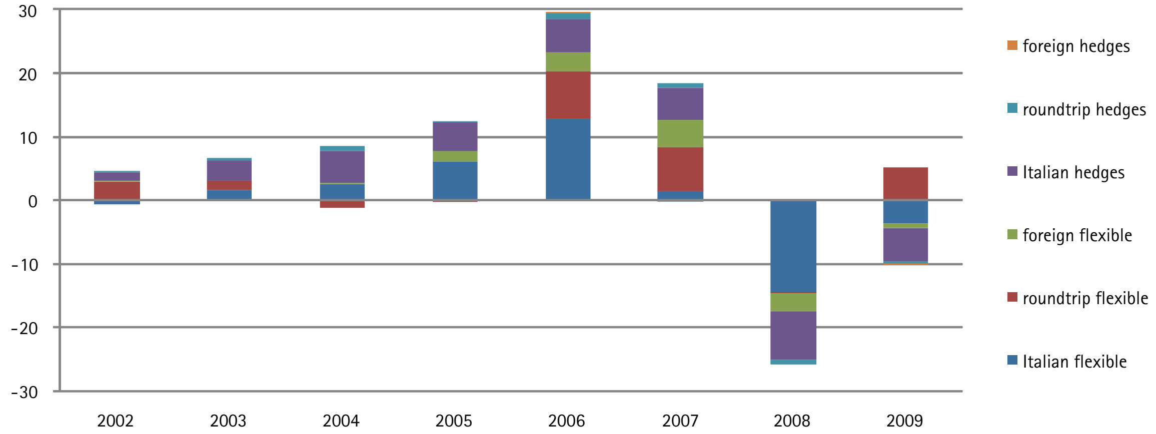
Fig. 59 Net inflows from mutual funds promoted by Italian intermediaries
(in billions of euro)



Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. Data include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Funds of funds are also included. For foreign domicile funds, data refer only to inflows from Italian subscribers until 2004, and thereafter also include inflows from foreign investors.

Net outflows from hedge funds (-5.5 billion euro) is mostly due to outflows on Italian hedges (-5.1 billion euro) and only minimally to foreign funds (-0.4 billion euro). Regarding flexible funds, compared to the positive inflows recorded for roundtrip funds (5.1 billion euro), outflows were recorded for both Italian and foreign flexible funds (-3.7 billion and -0.7 billion euro, respectively) (Fig. 60).

Fig. 60 Net inflows of hedge funds and flexible funds, by fund domicile
(in billions of euro)



Source: calculations on Assogestioni data.

In 2009 the total assets managed by Italian speculative funds fell from 20 billion to around 12 billion euro (-41%) (Table 13). Shareholders'equity, however, decreased from 17 to around 11 billion euro (-34.7%). The number of asset management companies managing Italian open-end speculative funds dropped from 40 to 37 and the number of funds decreased from 248 to 161.

Italian speculative funds are still mainly funds of funds (86% of total assets), though the weight of single manager speculative funds is increasing, which in November 2009 represented 14% of total assets (compared to 8% in December 2008).

Table 13 Summary data on the Italian open-end speculative funds market

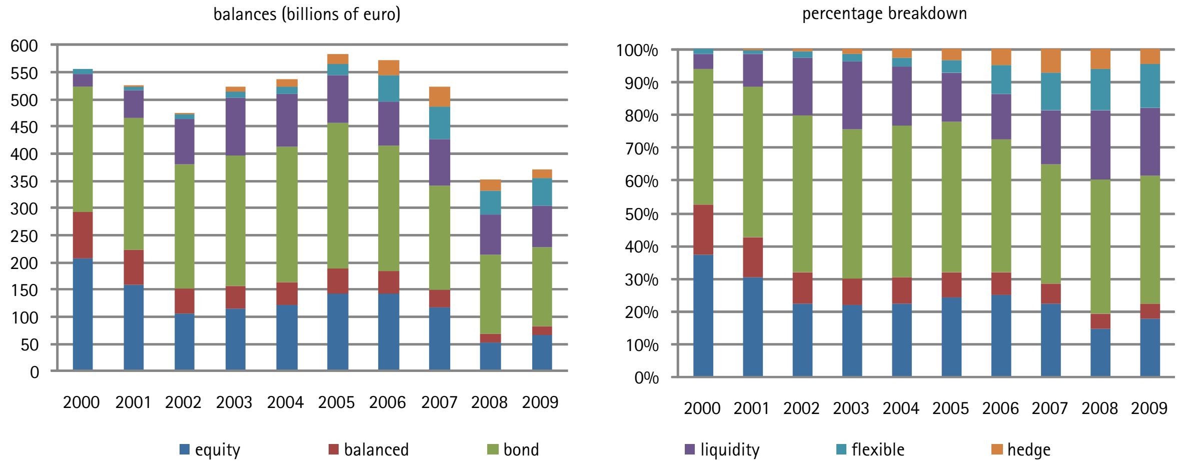
	Number of funds	Total assets (billions of euro)	*Of which funds of funds (percentage weight on total assets)*	Shareholders' equity (billions of euro)	No. of asset mgt companies
2003	80	6.4	*95*	5.8	25
2004	135	12.7	*96*	11.7	27
2005	160	18.5	*95*	17.0	30
2006	200	25.5	*94*	23.6	35
2007	241	32.6	*94*	30.4	37
2008	248	19.6	*92*	16.6	40
2009	161	12.0	*83*	11.0	37

Source: calculations on statistical supervisory indications.

Despite the net outflows, in 2009 mutual fund portfolios promoted by Italian intermediaries increased by 4.9% as a result of the partial recovery of the market and an upward turn in prices. The growth of the portfolios was more marked in the case of equity funds (+26.8%), flexible funds (+10.9%) and liquidity funds (2.9%).

The weight of equity funds on the total assets managed by funds promoted by Italian intermediaries increased from 14.9% to around 18%, and that of that of flexible funds from 12.7% to approximately 13.4% (Fig. 61). On the other hand, the weight of resources managed by bond-linked funds dropped slightly (from 40.8% to 39.4%), as did that of balanced funds (from 4.7% to 4.3%), liquidity funds (from 21% to around 20.6%) and hedge funds (from 6% to approximately 4.6%).

Fig. 61 Shareholders'equity in mutual funds promoted by Italian intermediaries



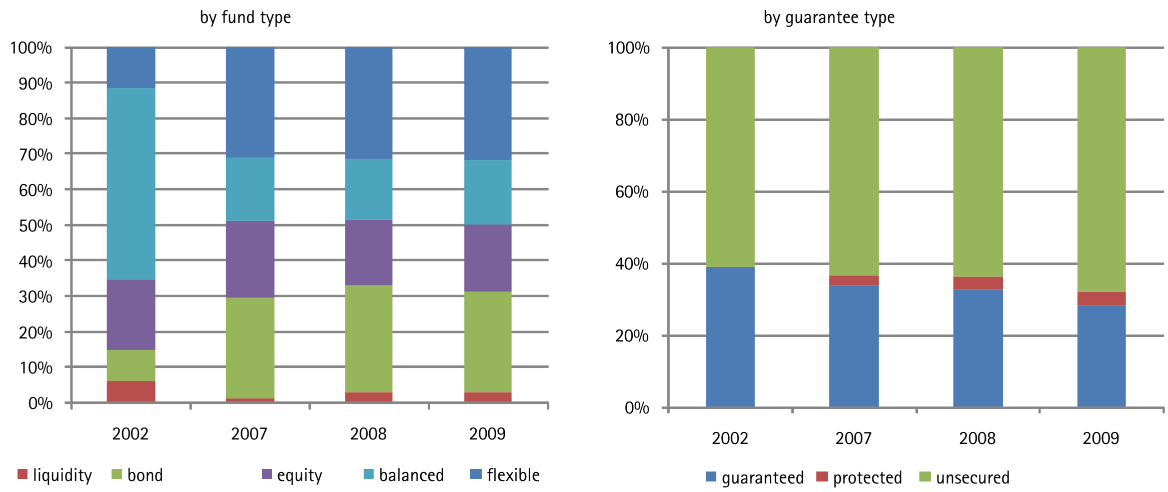
Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. Data include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Funds of funds are also included. For funds placed abroad data refer to total assets.

Developments in the breakdown of the Italian fund portfolios associated with unit-linked policies were somewhat less significant than those recorded for Italian mutual funds. Compared to 2008, in fact, the percentage of portfolios dedicated to Italian balanced and equity funds increased slightly, from 17% to approximately 18% and from 18% to around 19% respectively, whereas the portfolio weighting of Italian bond-linked funds reduced from 30% to around 28%. The share of Italian fund portfolios backed by unit-linked policies decreased, from 32.9% to 28.4% (Fig. 62).

In 2009 the change in the choice of asset allocation of Italian funds led to and increase in the weight on the total Italian equity portfolio (from 3% to 3.4%) and foreign equity (from 13.6% to 16.8%). However, the weight of Italian Government securities and bonds increased (from 52.4% to 50.2%), as did that of foreign bonds (from 31.1% to 29.5%) (Fig. 63). The investment decisions for individual portfolios managed are not directly comparable with those for mutual funds, as around 24% of the portfolio is in turn invested in mutual funds.

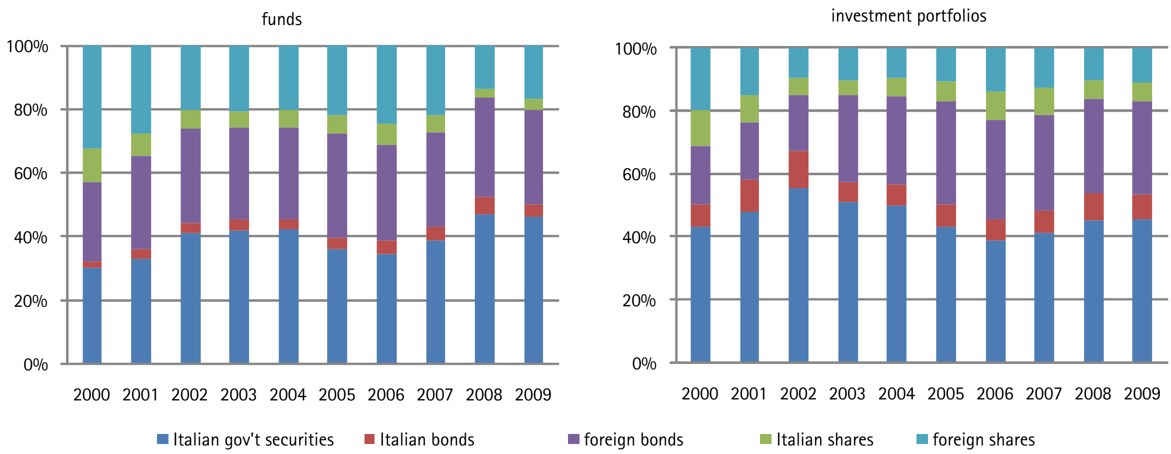
Nevertheless, by breaking down the amount invested in funds according to the average breakdown for the funds themselves, individual portfolios would prove slightly less vulnerable to the share market than mutual funds (16.4% compared to 20.6% for the funds). The share of resources invested in Italian government securities and bonds (51.8%) is also higher than that recorded for mutual funds (50.2%). Almost three quarters of individual investment portfolios are managed by asset management companies, whilst the remainder are managed by banks and investment firms (21.9% banks, 2.2% investment firms).

Fig. 62 Breakdown of fund portfolios associated with unit-linked policies



Source: calculations on Ania data.

Fig. 63 Breakdown of Italian open-end mutual fund portfolios and individual investment portfolios

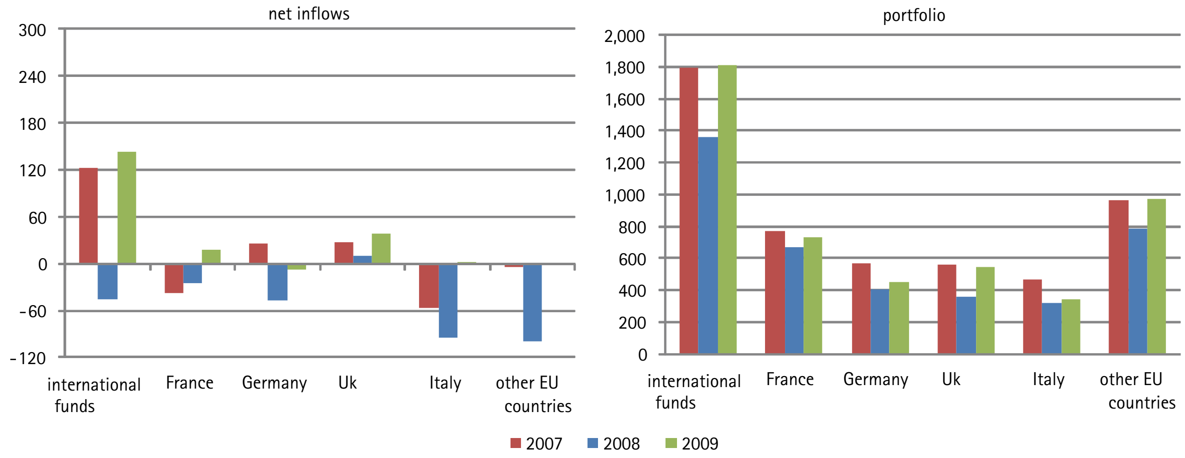


Source: calculations based on Bank of Italy data. The portion of individual portfolios of undertakings for collective investment was allocated to other financial assets according to the breakdown of the Italian mutual fund portfolio for the reference year. The figure for foreign bonds includes foreign public securities and the figures for shares include undertakings for collective investment.

Among the major European countries, in 2009 only Germany and Italy recorded resource outflows in the mutual funds segment (-8.1 billion and -4.9 billion euro, respectively). However, negative results were also recorded in Spain and Belgium (-10.2 billion and -16.8 billion euro, respectively), whilst in the Uk and

France results were positive (37.9 billion and 17.7 billion euro, respectively). For pure cross-border funds, on the other hand, the results once again became positive (i.e. funds domiciled in Ireland and Luxembourg, for which an individual country with at least 80% of the total portfolio cannot be identified (from -46.2 billion to 143.3 billion euro) (Fig. 64).

Fig. 64 Portfolio and net inflows of mutual funds in Europe
(in billions of euro)



Source: Lipper 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 domiciled, as occurs with "roundtrip" funds, or from that of the country of residence of the intermediary. "International funds" are those domiciled 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, Greece, Romania, Slovenia, the Ukraine, Latvia, Lithuania, Bulgaria, Liechtenstein, Estonia, Russia, Slovakia, the Czech Republic, Croatia, Hungary, Turkey and Poland. Funds of funds are excluded. Inflow figures for Italy were obtained from Assogestioni data.

With regard to costs, the data relating to 2008 reports on Italian open-end mutual funds indicate that the average commissions compared to total Aum, which decreased from 1.54% in 2006 to 1.22% in 2007, instead increased slightly to 1.30% (Table 14). This figure is attributable to an increase in management commissions that affected all fund categories.

The higher-risk funds (i.e. those showing a "high" or "very high" risk level in the prospectus) accounted for approximately 17% of total assets managed in 2008 and for around 41% of commission income (Fig. 65). The average commissions on "high" risk funds increased by almost one percentage point. The lower-risk funds (i.e. those showing a "low" or "very low" risk level in the prospectus) instead accounted for approximately 62% of total assets managed and for around a third of total commission income. The average commissions on these funds recorded a slight decrease.

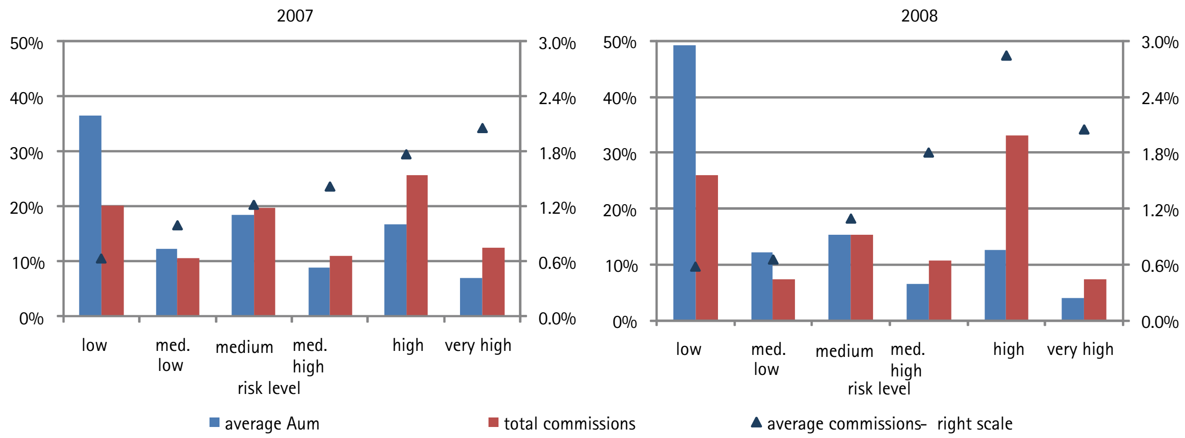
In the first half of 2009 there were further developments in the Italian closed-end real estate funds market (where total assets increased from 42.4 billion to 43.1 billion euro; +1.7%). The weight of investments in property and real property rights on total assets rose from 86.9% to 87.3% (Table 15), as did the level of borrowings (from 86.9% to 87.3%). The number of operative management companies dropped from 51 to 49, whereas the number of funds in operation increased from 226 to 233.

Table 14 Costs of Italian open-end funds[1]

(percentages)	Average weight on total Aum[2]					Percentage breakdown				
	Total depository bank fees	Management commissions	Inducements	Commission paid to other intermediaries	Total	Total depository bank fees	Management commissions	Inducements	Commission paid to other intermediaries	Total
2007										
Liquidity	0.06	0.43	..	..	0.48	11.76	88.08	..	0.16	100.0
Equity	0.11	1.94	0.07	0.21	2.33	4.61	83.22	3.07	9.09	100.0
Bond	0.07	0.83	0.00	0.01	0.92	7.88	90.55	0.35	1.22	100.0
Balanced	0.07	1.07	0.01	0.06	1.21	5.95	88.43	0.76	4.86	100.0
Flexible	0.09	1.28	0.06	0.05	1.47	5.79	87.04	3.86	3.31	100.0
Total	*0.1*	*1.06*	*0.02*	*0.06*	*1.22*	*6.40*	*86.72*	*1.99*	*4.89*	*100.0*
2008										
Liquidity	0.09	0.73	..	..	0.83	11.03	88.80	..	0.16	100.0
Equity	0.11	2.12	0.03	0.30	2.55	4.12	83.12	1.09	11.67	100.0
Bond	0.08	0.98	0.00	0.01	1.08	7.79	90.82	0.43	0.96	100.0
Balanced	0.10	1.65	0.03	0.10	1.88	5.38	87.79	1.64	5.19	100.0
Flexible	0.07	1.33	0.03	0.06	1.50	4.80	88.68	2.31	4.21	100.0
Total	*0.09*	*1.14*	*0.01*	*0.06*	*1.30*	*6.83*	*87.67*	*0.90*	*4.60*	*100.0*

Source: Calculations on financial statements. [1] Rounding may cause discrepancies in the last figure. [2] The total Aum is calculated on the average end of month data.

Fig. 65 Breakdown of total Aum and related commissions on Italian open-end mutual funds by level of risk



Source: calculations on statistical supervisory indications and prospectuses.

Table 15 Italian closed-end real estate funds[1]

(amounts in millions of euro)	Number of asset mgt companies	Number of funds in operation	Shareholders' equity (A)	Total assets (B)	Borrowings ((B-A/B)%	Asset percentage breakdown			
						properties and property rights	financial instruments	securities and liquidity	other assets
2003	11	19	4,434	5,160	14.1	74.7	8.7	10.2	6.4
2004	16	32	8,101	12,326	34.3	86.1	6.1	3.6	4.2
2005	27	64	12,026	18,576	35.3	83.7	8.5	4.8	3.1
2006	34	118	16,291	26,924	39.5	82.0	6.8	6.1	5.1
2007	47	171	21,563	35,866	39.9	85.3	4.7	4.4	5.6
2008	51	226	24,410	42,353	42.4	86.9	4.8	4.5	3.9
June '09	49	233	24,530	43,078	43.1	87.3	4.9	4.2	3.5

Source: Calculations on financial statements. [1] Rounding may cause discrepancies in the last figure.

With regard to Italian private equity funds, the first half of 2009 recorded an increase in total assets (from 5.8 billion to 6.4 billion euro; +10.6%), portfolios (from 5.4 billion to 6.2 billion euro; +14.6%) and equity subscribed (from 14 billion to 14.7 billion euro; +5.4%) (Table 16).

The number of companies in operation increased considerably compared to 2008, from 64 to 72 (+12.5%), whilst the number of funds rose from 115 to 163 (+41.7%). This increase (7 funds in 2008 and 51 as at 30 June 2009) is partly attributable to the setup of "side-pocket funds" following the amendments envisaged in art. 14, subsection 6, Italian Law no. 2 of 29 January 2009, which introduced the option – open until 31 December 2009 – to perform partial spin-offs of speculative funds, transferring liquid assets to a new type of closed-end fund. Net of this phenomenon, the increase was 13 funds set up in 2008 and a further 4 in the first half of 2009.

Table 16 Italian private equity funds

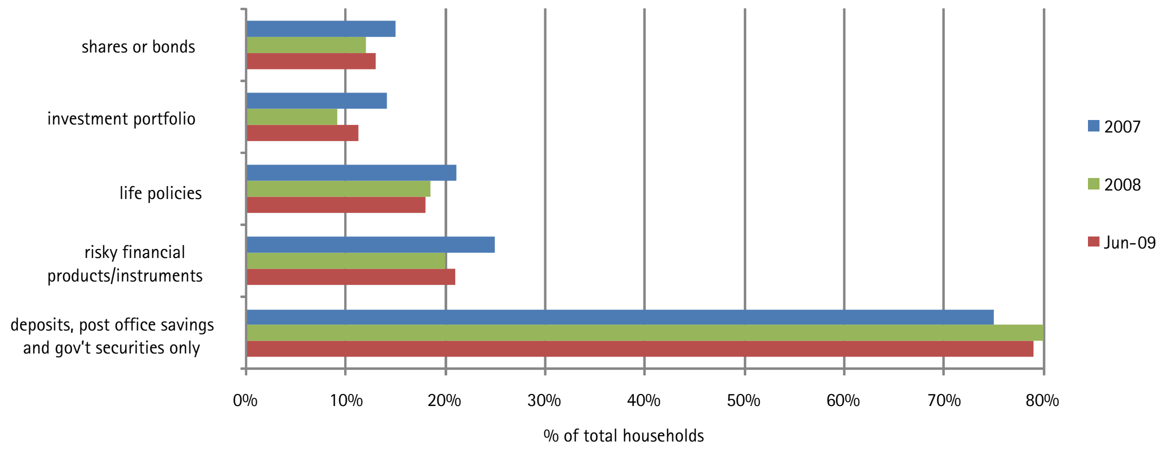
	Number of funds	Total assets (millions of euro)	Equity subscribed (millions of euro)	Shareholders' equity (millions of euro)	No. of asset mgt companies
2003	35	1,470	3,036	1,443	26
2004	47	1,745	4,458	1,697	34
2005	61	2,420	6,422	2,363	43
2006	74	3,450	7,663	3,157	49
2007	95	4,097	12,329	3,910	58
2008	115	5,829	13,961	5,429	64
June 2009	163	6,446	14,715	6,219	72

Source: calculations on statistical supervisory indications.

3 Households

In the first half of 2009 the choice of portfolio for Italian households reflected the improvement in financial market conditions and the diminishing aversion to risk. However, investment decisions still mirror the effects of the crisis, as the level of investment in the financial markets remains lower than that recorded at the end of 2007. In fact, though it has increased slightly (from 20% in December 2008 to 21% in June 2009), the percentage of households that hold at least one "risky" financial product (shares, bonds, portfolios and life policies) remains significantly lower than the December 2007 figure (25%; Fig. 66).

Fig. 66 Financial asset types held by Italian households
(percentage of households with financial assets or asset combinations declared as at period end)



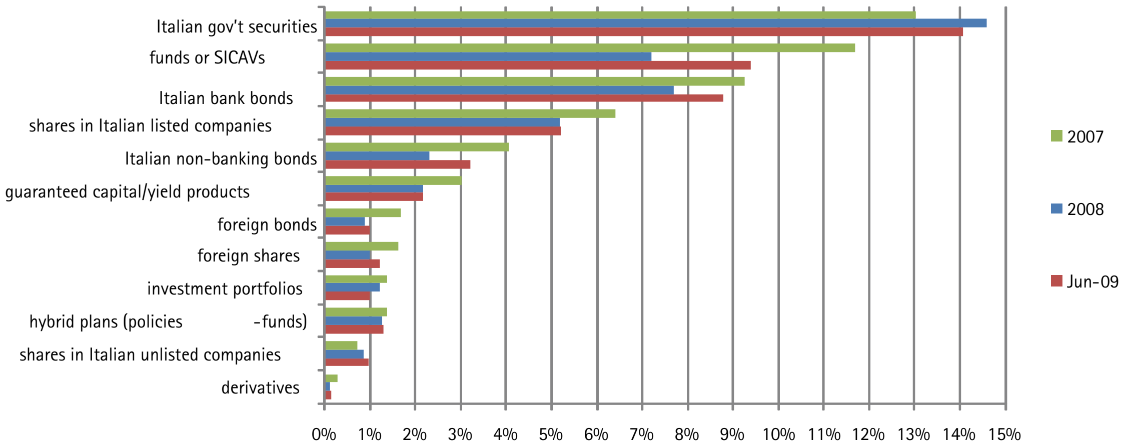
Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological Notes. The percentage of households with only deposits and government securities include those with only unbanked assets. Post office deposits and savings include bank and post office current account deposits, bank and post office savings accounts, non-Euro deposits, repo agreements and certificates of deposit. Investment management includes Italian and foreign mutual funds and SICAVs, accumulation plans, security and fund portfolios, hybrid policy-fund plans and liquidity management services. Life policies include Class III and V policies, capitalisation products, multi-branch policies, supplementary pension schemes and pension funds. Risky financial products or instruments refer to shares, bonds, investment portfolios and life policies.

The percentage of households in possession of investment management products has increased (from 9.2% at the end of 2008 to around 11.3% in June 2009), but remains lower than that recorded at the end of 2007 (around 14%). The increase was slighter in the percentage of households possessing shares or bonds (from 12% to 13%), whilst the dissemination of life insurance policies continues to fall (from 18.5% at the end of 2008 to 18% in June 2009).

The figures for individual financial products confirm these aggregates. From December 2008 to June 2009 the weight of households with funds or Sicav investments on the total increased from 7.2% to approximately 9.4%, though remains lower than the pre-Lehman Brothers crash figure (11.7% in December 2007; Fig. 67).

With regard to the administered savings segment, an increase was recorded in the first six months of 2009 particularly in the percentage of families with Italian bank bonds (from 7.7% to 8.8%) or corporate bonds (from 2.3% to 3.2%).

Fig. 67 Dissemination of financial instruments and products among Italian households
(percentage of households possessing the financial instrument or product indicated)



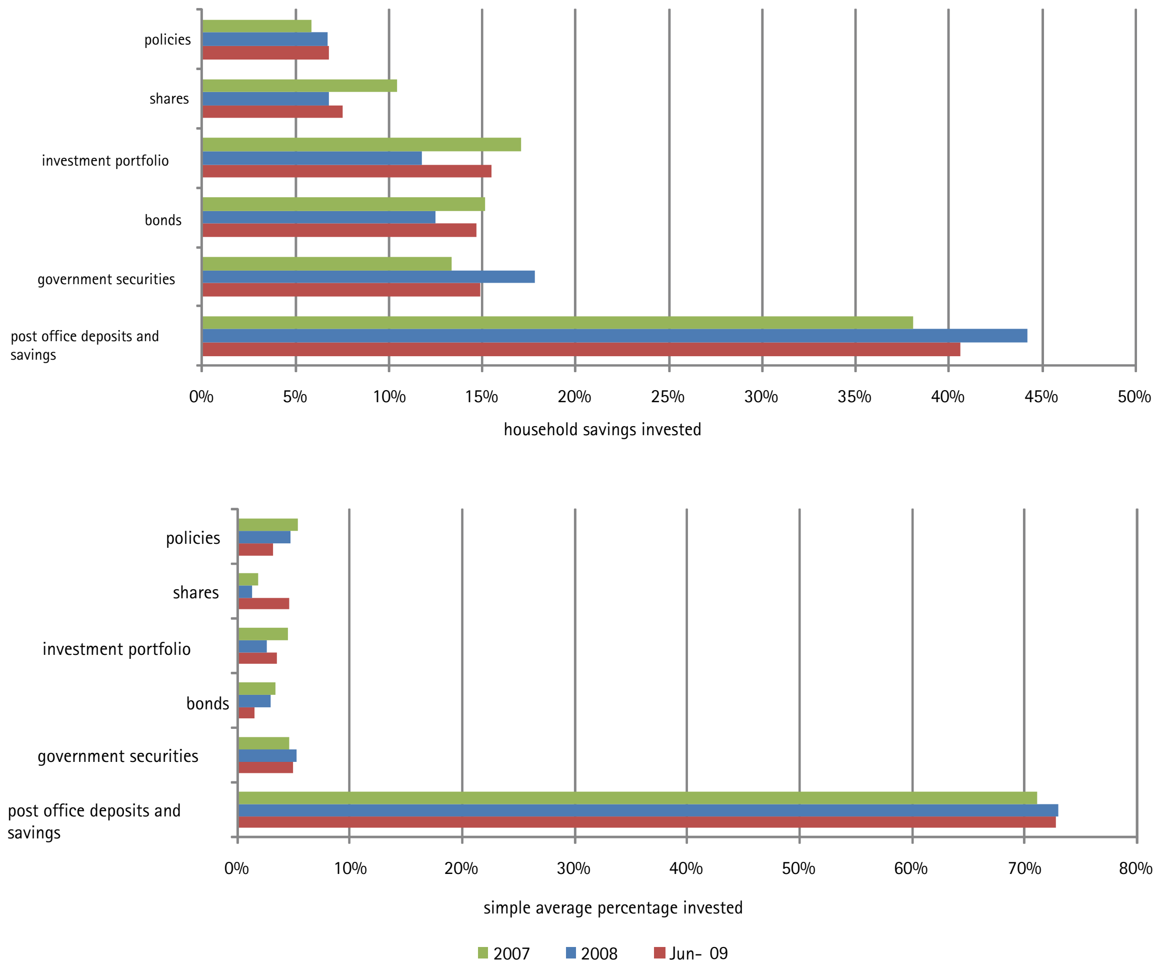
Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological Notes.

The portfolio breakdown figures show trends similar to those obtained by analysing the level of dissemination of financial instruments. In June 2009 Italian households continued to demonstrate a poor level of diversification of the financial assets held. The simple average percentage of savings invested in liquid and low-risk financial assets (deposits, post office savings and government securities) was 78.3% (Fig. 68).

Considering the individual financial instruments in greater detail, in the first half of the year the simple average percentage of savings invested in investment management increased (from 2.6% in December 2008 to 3.5% in June 2009), though not to the level recorded at the end of 2007 (4.5%). The average percentage invested in life policies dropped however, (from 4.7% in December 2008 to 3.2% in June 2009).

The changes in asset allocation of Italian households are even more evident if the overall breakdown of savings is considered in relation to each asset type. From December 2008 to June 2009 the percentage of total savings invested in risky financial instruments increased from 37.9% to 44.5%, although it is still 4 percentage points lower than the end of 2007. Specifically, savings invested in investment management products increased (from 11.8% in December 2008 to 15.5% in June 2009), as did the investment in bonds (from 12.5% to around 14.7%).

Fig. 68 Breakdown of the Italian household portfolio



Source: estimated on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological Notes. Post office deposits and savings include bank and post office current account deposits, bank and post office savings accounts, non-Euro deposits, repo agreements and certificates of deposit. Investment management includes Italian and foreign mutual funds and Sicavs, accumulation plans, security and fund portfolios, hybrid policy-fund plans and liquidity management services. Policies include Class III and V policies, capitalisation products, multi-branch policies, supplementary pension schemes and pension funds. Household savings do not include unbanked sums.

Consob activity B

Supervision of listed companies I

1 Corporate disclosure

2009 saw a considerable increase in supervisory action on corporate disclosures. Over 800 requests for information were received (approximately 670 in 2008) and there were over 260 requests to publish data and information (168 in 2008). 7 investigations into listed issuers and 6 into independent auditors were completed, and 10 reports were sent to the Legal Authorities (Table 17).

The increase in the number of requests for information is essentially due to the increase in requests for confirmation of major shareholdings in connection with the new post-Transparency Directive regulations (see paragraph 3 below). Regarding the publication of data and information, a strong increase was seen in the requests for supplementary information at shareholders'meetings (see paragraph 4) and accounting disclosures (see paragraph 5). There was also a considerable increase in the number of requests for market disclosure through press releases (from 90 to 112), the result of constant monitoring of issuers'disclosures to the public, the related impact on prices and consistency with disclosures from other sources (daily newspapers, specialist press agencies, web sites, etc.). Requests for publication of additional data and information, regarding press releases by issuers, were to a large extent justified by the need to provide more complete information on the financial position of the issuers and significant extraordinary transactions.

With regard to report and investment recommendation publications, as normal supervisory activities addressed the verification of compliance with regulatory provisions on the accuracy of information contained in reports, disclosure of conflict of interest and suitable dissemination methods. Based on examination of the reports broadcast by the media and price performance, as part of its frequent contact with operators, the Commission took action in 4 cases by formally requesting the publication of coverage reports on listed issuers. This action was necessary to restore equality of information on market conditions where indiscretions in the content of the reports were associated with a sensitive change in the market prices of the financial instruments covered.

Table 17 Supervision of corporate disclosures and ownership structures

Type of action	2004	2005	2006	2007	2008	2009
Requests for information – art. 115, Consolidated Law on Finance						
Information acquired from directors, statutory auditors, independent auditors, general managers, parent and subsidiary companies	*51*	*90*	*36*	*59*	*132*	*155*
Requests for data and information	*43*	*213*	*201*	*151*	*392*	*422*
Requests for confirmation of major shareholdings	*21*	*77*	*30*	*44*	*30*	*214*
Requests for information to identify the persons responsible for issue of disclosures in the event of charges of infringement	*12*	*47*	*28*	*48*	*102*	*--*
Requests for ownership structure information	*39*	*13*	*12*	*14*	*12*	*20*
Total	166	440	307	316	*668*	*811*
Requests to publish data and information – art. 114, Consolidated Law on Finance						
Supplements to information for disclosure at shareholders' meetings	*15*	*6*	*11*	*5*	*11*	*38*
Supplements to periodic financial reports	*14*	*--*	*6*	*1*	*21*	*59*
Information for disclosure to the market (press releases)	*82*	*69*	*129*	*100*	*90*	*112*
Monthly disclosures	*8*	*2*	*2*	*1*	*8*	*3*
Quarterly disclosures	*—*	*—*	*—*	*—*	*—*	*20*
Supplements to documentation on mergers and other extraordinary transactions	*1*	*--*	*4*	*3*	*8*	*25*
Supplements to takeover bid documents	*4*	*17*	*6*	*49*	*30*	*10*
Total	124	94	158	159	*168*	*267*
Waiver of disclosure requirements - art. 114, sub. 6, Consolidated Law on Finance	11	2	25	3	*5*	*4*
Delayed disclosures - art. 114, sub. 3, Consolidated Law on Finance	—	—	12	20	*4*	*1*
Requests for immediate publication of coverage reports in the event of rumours	3	8	18	14	*5*	*4*
Reports to legal authorities	--	--	4	--	*5*	*10*
Investigations involving listed companies						
commenced	2	2	2	4	*5*	*5*
completed	2	2	2	1	*5*	*7*
Investigations involving independent auditors						
commenced	5	4	3	5	*5*	*9*
completed	8	3	4	2	*5*	*6*
Written reprimands	--	--	1	1	*--*	*--*
Annual financial statements challenged	4	4	4	3	*2*	*1*

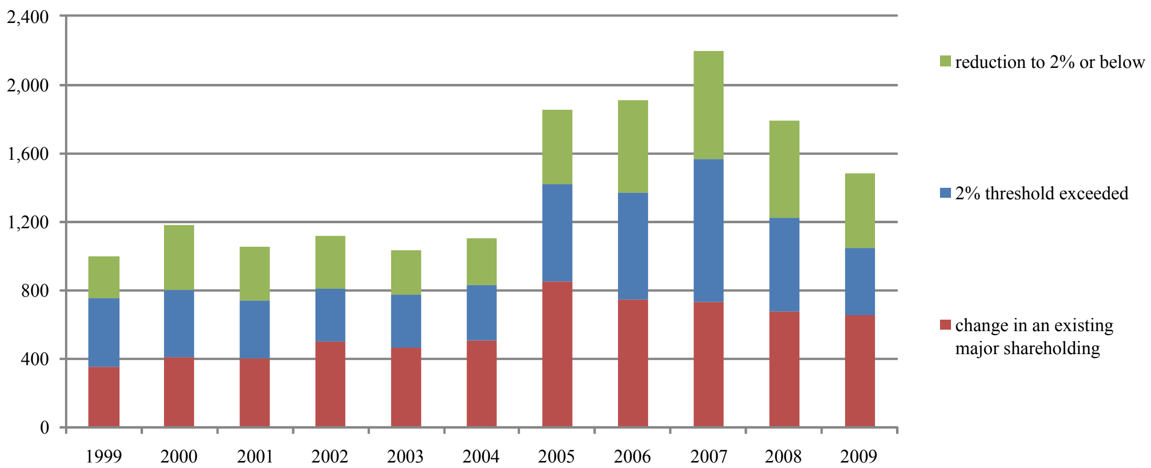
The financial crisis'reflection on the real economy has had considerable effects on Italian listed companies, leading to tension and going concern difficulties that have called for a series of well-organised actions, also of a general nature, on the content of issuers'accounting and financial disclosures.

Consob has reviewed the criteria – in general more strict than those defined in the Consolidated Law on Finance and Issuers'regulation – for identifying issues in financial difficulty or with going concern problems to be made subject to periodic, monthly or quarterly reporting. The review was to ensure clearer, more market-transparent criteria to identify the issuers required to meet such obligations, to standardise requests for public disclosures and to further clarify the degrees to which the obligations are imposed.

As at the end of 2009 a total of 19 Italian listed companies and one issuer registered in a non-Eu country (Us-based) were subject to monthly disclosures. Then during the year a further 20 issuers were required to provide supplementary information in their quarterly financial reports. To guarantee suitable selection process transparency regarding companies subject to monthly or quarterly disclosures, a list of these issuers was published on Consob's web site.

Constant monitoring of majority shareholdings also continued and still represents a highly consistent flow in number terms, albeit to a lesser extent than in the previous 3-year period. In 2009 almost 1,500 communications were issued involving major shareholdings (1,787 in 2008), of which a little under 400 due to having exceeded the 2% threshold, approximately 650 for changes in equity investments already held and over 400 due to having fallen below the 2% threshold (Fig. 69).

Fig. 69 Notices of major shareholdings in Italian listed companies



Consob has continued its supervisory activities regarding related party transaction disclosures of listed companies, in 2009 examining 14 information documents (Table 18) and 18 press releases issued on completion of such transactions (Table 19).

Table 18 Related party transactions disclosed to the market by listed companies in 2009 – information documents

Company	Transaction	Counterparties
Eurofly	Share capital increase in kind	A listed company and the reference shareholder
Beghelli	Signing of a general contractor agreement	A listed company and an affiliate controlled by directors of the listed company
FNM	Business segment outsourcing agreement	A listed issuer and a company under the joint control of the issuer and third party/parties
Tiscali	Debt assignment	A listed company and a subsidiary
IWBank	Merger	Subsidiaries of a listed company
Mariella Burani Fashion Group	Share transfer in kind	A listed company and a 100% controlled subsidiary
Nova Re	Property complex purchase	Companies under joint control
Omnia Network	Waiver of receivables and subscription to share capital increases	A listed company and subsidiaries
RDB	Equity investment	A listed company and a subsidiary
Yorkville	Signing of an SEDA agreement and advisory services agreement	A listed company and its parent
IWBank	Share capital increase	A listed company and a subsidiary
Banca Intermobiliare	Acquisition of a controlling investment	A listed company and an affiliate controlled by directors of the listed company
IWBank	Investment disposal	A listed company and a subsidiary
IWBank	Investment disposal	Subsidiaries of a listed company

On 1 February 2009 the Commission updated the list of issuers or financial instruments widely-distributed among the public.

As at that date there were 90 of widely-distributed issuers (compared to 91 at the previous update of 1 July 2008). 4 issuers were removed from the list (2 following mergers and 2 because the requirements were no longer met) and 3 were added (including Alitalia – Linee Aeree Italiane Spa (under special administration) whose shares gained the status of financial instruments after delisting from the Mta). Supervision of these issuers involved verification of the completeness and accuracy of corporate information, particularly with regard to accounting records and those referring to extraordinary transactions.

Table 19 Related party transactions disclosed to the market by listed companies in 2009 – press releases

Company	Transaction	Counterparties
Sadi Servizi Industriali	Business segment transfer	A listed company and a subsidiary of the listed company
Gabetti Property Solutions	Investment disposal	The parent of a listed company and a major shareholder of the listed company
Mittel	Disposal of an equity investment in a company	A listed company and a subsidiary owned by a director
Unipol Gruppo Finanziario	Acquisition of an equity investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Dada	Acquisition of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Kinexia	Acquisition of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Ternienergia	Signing of a public works contract	A listed company and a subsidiary of the listed company
IMA	Property disposal	A listed company and a subsidiary of a major shareholder of the listed company
Autostrada Torino-Milano	Acquisition of an equity investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Arena	Acquisition of an equity investment in a company	A listed company and a company representing one of the key providers of the listed company
Unipol Gruppo Finanziario	Liability takeover in the issue of a bond debt	A listed company and a subsidiary of the listed company
Atlantia	Issue of a guarantee for a bond loan	A listed company and a subsidiary of the listed company
Cattolica Assicurazioni	Business segment acquisition	A listed company and a subsidiary of the listed company
Unipol Gruppo Finanziario	Bond loan issue	A listed company and a subsidiary of a major shareholder of the listed company.
Banca Generali	Merger between two subsidiaries	A listed company and a subsidiary of a major shareholder of the listed company
Yorkville bhn	Advisory services agreement	A listed company and subsidiaries of a major shareholder of the listed company
Trevisan Cometal	Disposal of an equity investment. Signing of a loan agreement and licence agreements	A listed company and subsidiaries of the listed company
Autogrill	Merger by incorporation of a subsidiary	A listed company and a subsidiary of the listed company

2 Public offerings and extraordinary finance transactions

In 2009 the Commission authorised publication of over 1,200 prospectuses, including over 300 relating to undertakings for collective investment, and examined approximately 150 reports on extraordinary finance transactions by listed issuers (Table 20).

Table 20 Supervision of public offerings, admissions to listing and extraordinary finance transactions

Type	2004	2005	2006	2007	2008	2009
Number of prospectuses concerning:						
Admission to listing of shares[1]	8	19	36	38	17	6
of which: by public offering	*8*	*15*	*26*	*27*	*9*	*1*
Bond loans	4	18	711	1,163	986	748
of which: base prospectuses	–	–	*535*	*870*	*639*	*472*
standard prospectuses	–	–	*143*	*115*	*45*	*36*
registration documents and supplements	–	–	*33*	*178*	*302*	*240*
Issue of covered warrants[3] and certificates	17	37	32	109	99	102
Admission to listing of warrants	--	10	1	3	2	10
Other offerings of listed securities[4]	1	2	--	--	--	--
Offerings of unlisted securities by Italian issuers[5]	5	7	6	18	23	28
Offerings reserved for employees[6]	28	26	--	--	--	--
Rights issues[7]	2	5	23	14	16	23
Undertakings for collective investment[8]	374	374	397	422	428	337
Total	*439*	*498*	*1,205*	*1,767*	*1,571*	*1,254*
Number of reports on extraordinary finance transactions:						
Mergers	34	30	31	15	10	12
Spin-offs	5	3	--	1	2	2
Share capital increases[9]	68	47	49	33	29	51
Purchase/disposal of treasury shares	90	91	44	41	79	15
Amendments to articles of association	302	79	63	101	69	68
Share conversions	4	4	1	2	--	--
Bond issues	7	6	2	2	3	--
Share capital decreases	14	8	4	3	5	6
Total[10]	*524*	*268*	*194*	*198*	*197*	*154*

[1] The figures refer to transactions for which authorisation was granted during the year for filing of the listing prospectus. [2] In one case the public offering 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 offerings other than for admission to listing. [5] Excludes offerings reserved for employees. [6] Includes stock option plans reserved for employees but excludes offerings involving the recognition of foreign prospectuses. [7] Share capital increases in listed companies (including increases with associated warrants and convertible bonds). [8] Includes public offerings 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. The figure also includes the marketing of new foreign Ucits segments. Note that from 1 July 2009 the publication of prospectuses for open-end undertakings for collective investment is no longer subject to approval in advance. Up to and including 2006 the figures also include pension fund offerings which from 2007 no longer fall under Consob supervision. [9] Includes share capital increases 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 as certain reports related to multiple transactions.

The prospectuses approved by Consob in the last 3 years represented around 80% of the total prospectuses used for the Italian marketing of financial instruments covered by the Prospectus Directive 2003/71/EC (shares, bonds, warrants, covered warrants and certificates). The remaining 20% were represented by prospectuses covered by a "European passport" pursuant to the above-mentioned directive and notified to the Commission by other Eu authorities.

International comparison data for the three-year period 2007-2009, published by the Cesr, show that the prospectuses approved in Italy were never used to market financial instruments in other Eu countries, as is the case in France and Spain. Around half the prospectuses approved in the United Kingdom and approximately 2/3 of those approved by the German authority are instead forwarded to other authorities using the European Passport system. Furthermore, in these countries the percentage of prospectuses notified by other authorities out of the total prospectuses used to market financial instruments is on average much higher than that recorded for Italy, in the range of 30-40% (Fig. 70).

The negative performance of the financial markets in 2009 led to a near zero flow of new listings on regulated markets, whilst the number of prospectuses concerning bonds and structured products such as certificates and covered warrants – though down on the 2008 figure – remained high (see the more detailed analysis of this phenomenon later in this paragraph).

Consob approved a total of 38 prospectuses concerning listed issuers (6 admissions to listing of shares, 23 share capital increases through rights issues and 9 bond loans) and 29 relating to unlisted issuers (concerning 9 issuers of widely-distributed instruments, 15 future banks and 5 neither listed nor issuers of widely-distributed instruments, respectively).

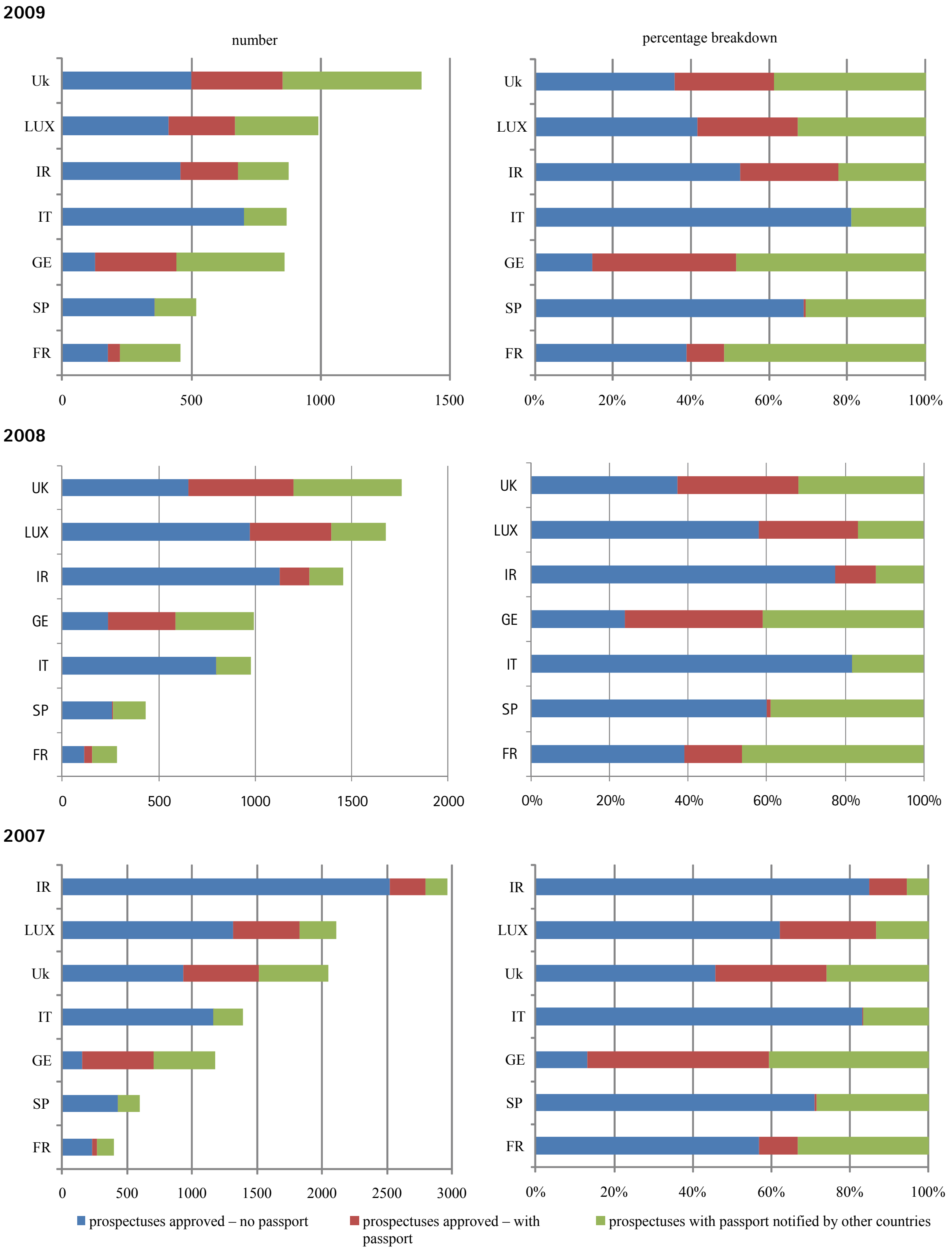
The Commission also approved 2 registration documents in 2009. Pursuant to Directive 2003/71/EC the issuer can choose between preparing a single prospectus or a prospectus formed from separate documents. For separate document prospectuses the required information is divided among a registration document containing information on the issuer, a securities note on the financial instruments offered to the public and a summary note.

During the year a number of listed companies arranged share capital increases. In many cases the increases aimed to overcome temporary financial difficulties or full crises, where capital had decreased to below the legal minimum and therefore there was a need for recapitalisation.

Consob confirmed equivalence in 2 cases pursuant to art. 57 of the Issuers'Regulation. In these cases the documents published under the terms of provisions on corporate disclosures were used to obtain exemption from publication of the offering and/or listing prospectus.

Controls continued during the year over prospectuses concerning securities not representing risk capital, mainly attributable to the placement of bank bonds with retail customers. For these issuers, Consob approved 737 offering documents relating to bond loans, 471 base prospectuses, 27 standard prospectuses and 239 registration documents and supplements. As in previous years, over 90% of funding was obtained from transactions backed by base prospectuses. The simplified prospectus is used by small banks, though the number of securities placed as a result of such documents was considerable.

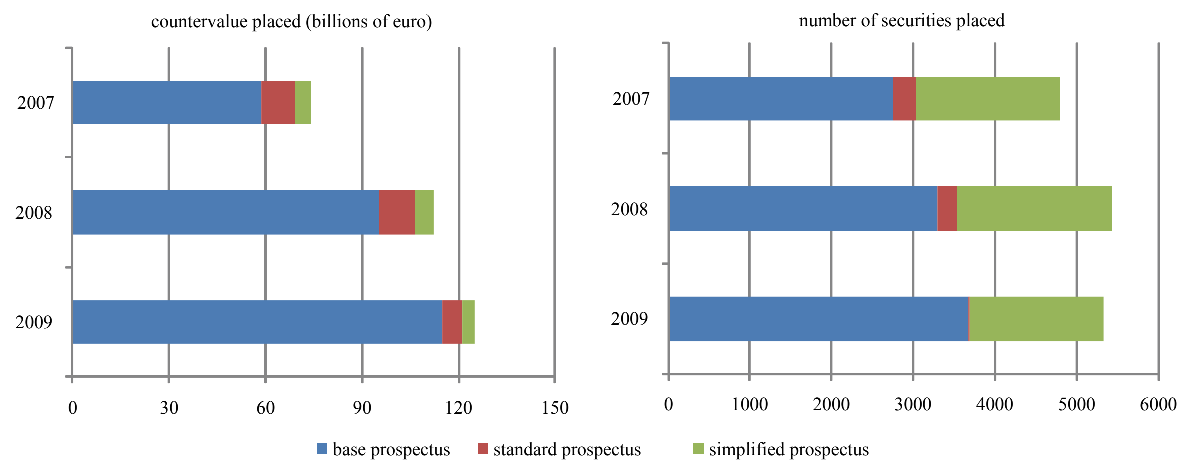
Fig. 70 Passport usage pursuant to the Prospectus Directive (2003/71/EC) in certain Eu countries



Source: calculations on Cesr data.

In 2009 the banks placed bonds worth over 120 billion euro with retail customers, compared to 112 billion euro in 2008 (approx. +7%), whereas the total number of securities placed has tended to remain stead (on average 5,000 securities per year in the period 2007-2009) (Fig. 71).

Fig. 71 Bond issues by Italian banks subject to public offering regulations

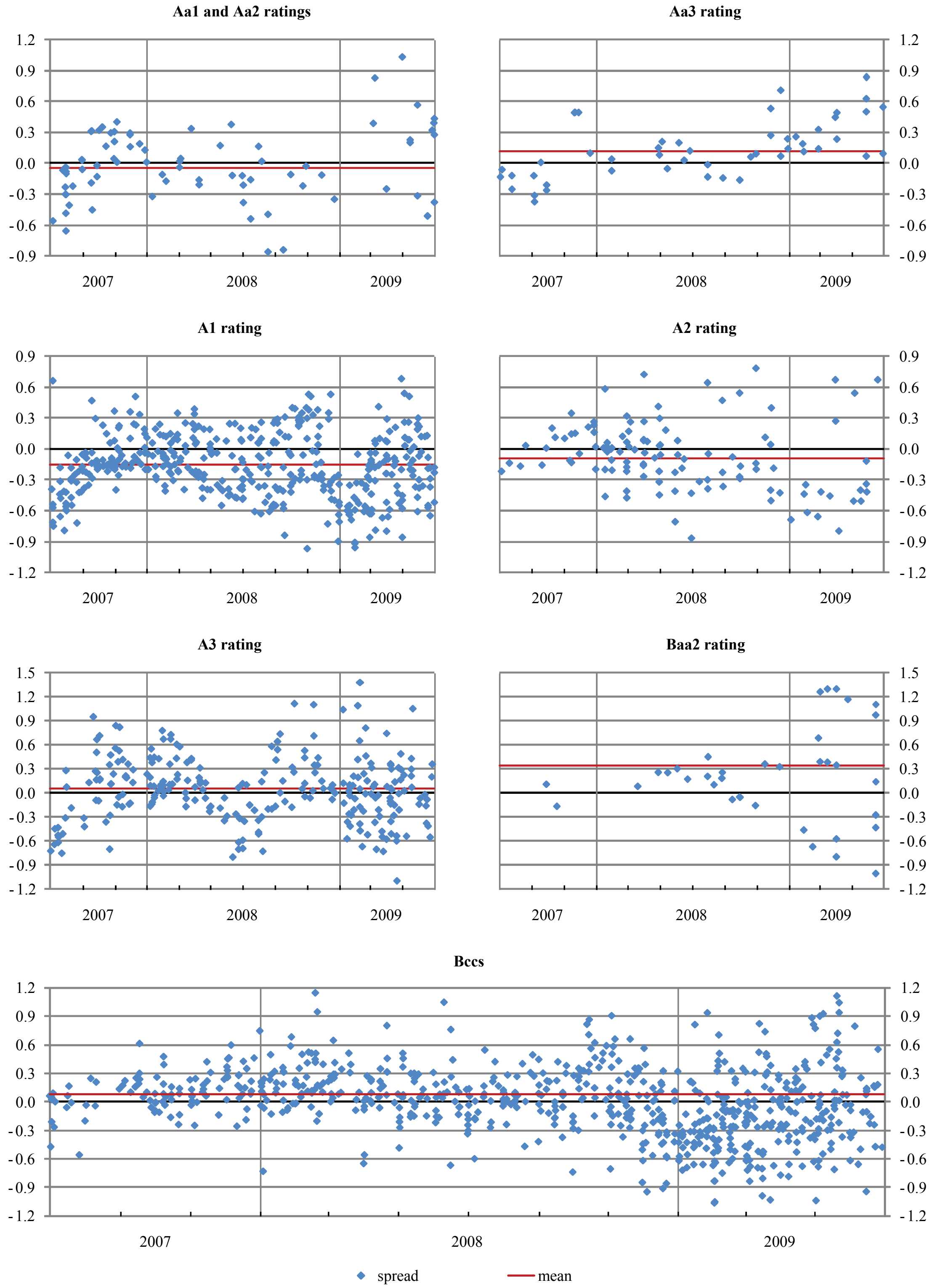


Source: calculations on statistical supervisory indications.

Consob continued its work to improve the information in prospectus concerning non-equity products, particularly with regard to bank and corporate bond offerings with specific complexities associated with the presence of derivatives or subordinate clauses. As part of around 30 investigations, so as to provide investors with suitable information on investment risks required to reach a reasoned opinion on the offering and comparison between different investment proposals, requests were made to include a summary of the product's risk characteristics. Amongst other things, the summary has to contain 2 tables: one referring to the theoretical value of the financial investment at the time of subscription and on illustrating that value at maturity by means of probable yield scenarios.

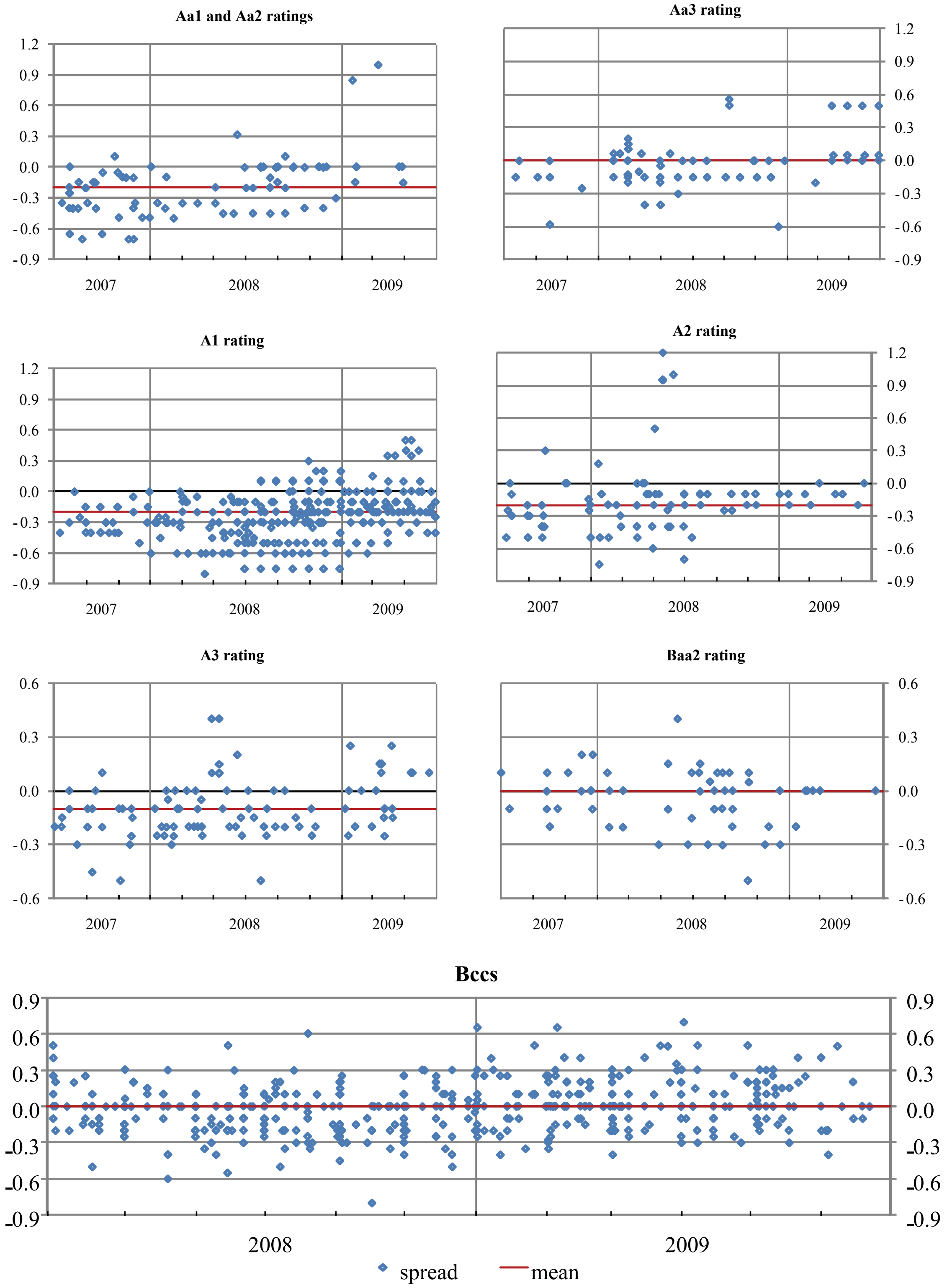
Analysis of the prospectuses and final terms of the more simple and widely-distributed bank bonds among non-professional investors - such as ordinary, fixed rate and floating rate bonds - shows how the returns on such investments are often lower than those on government securities or short-term interbank rates (Euribor). Specifically, the figures on bonds issued in the period 1 July 2007 to 30 June 2009 by the top 15 banking groups (by total countervalue of the bonds placed in that period) and by the cooperative banks (Bccs) show that the returns on securities placed with retail customers are aligned on average with those of Btp or Euribor bonds and are not closely linked to the issuer risk measured according to the rating (Fig. 72 and Fig. 73).

Fig. 72 Spread between bank bond returns on maturity with pre-set coupons (ordinary fixed rate and step up/step down) and Btp bonds with a similar residual life based on issuer risk
(domestic issues for the retail market in the period 1/7/2007-30/6/2009 – percentage values)



Source: calculated on prospectuses and final terms. Data refer to bank bonds issued in the period 1/7/2007-30/6/2009 by the top 15 banking values by the countervalue of bonds placed in the same period and cooperative banks (Bccs).

Fig. 73 Euribor spread on ordinary floating rate bonds based on issuer risk
(domestic issues for the retail market in the period 1/7/2007-30/6/2009 – percentage values)



Source: calculated on prospectuses and final terms. Data refer to bank bonds issued in the period 1/7/2007-30/6/2009 by the top 15 banking values by the countervalue of bonds placed in the same period and cooperative banks (Bccs).

Ordinary fixed rate bonds issued by banks with Moody's Aa1 and Aa2 ratings (i.e. higher to or equal than that of the Republic of Italy, for which the Moody's rating is Aa2) have an average spread compared to Btps that is slightly below zero. This spread, however, reaches around 10 basis points for bonds of Aa3-rated banks, is negative by approximately 15 basis points for A1-rated banks and close to zero for banks with A2 and A3 ratings. This last figure is much the same as that for Bcc issues. Only Baa2-rated banks have an average spread compared to Btps that is significantly higher than zero (around 30 basis points).

For ordinary floating rate bonds with similar or higher credit ratings to those of the Republic of Italy (Aa1 and Aa2) the average spread against the Euribor rate is negative by around 20 basis points, and equal to zero for Aa3-rated bonds. For bonds with lower ratings (A1 and A2) this spread is negative by around 20 basis points, whilst those with A3 ratings are negative by approximately 10 basis points. For securities with Baa2 ratings and those issued by Bccs the spread values are close to zero.

3 Ownership structures and takeover bids

A number of new disclosure obligations for major shareholdings in the capital of listed issuers - introduced from 1 April 2009 as secondary measures to implement the enactment regulations on Directive 2004/109/EC (Transparency) into the Issuers'Regulation (also see Chapter V "Regulatory and interpretative activity and international developments") – led to a need for certain action to be taken on first time application.

Specifically, the more major elements introduced concern the introduction of the new 66.6% significance threshold, elimination of the disclosure obligation of the listed issuer's parent company on transactions involving treasury shares executed by the issuer or its subsidiaries, the separation of disclosure obligation transparency for potential shareholdings from "actual" shareholdings, and subsequent elimination of the aggregation obligation for calculation of the significant threshold.

The new regulatory provisions led to the need to recalculate shareholdings held on the basis of newly introduced criteria and the emergence of potential shareholdings held which, according to previous criteria, were not relevant. Regarding shareholdings already disclosed, and which according to the new regulations were subject (or could have been subject) to change, in addition to interaction with the persons under obligation Consob arranged to issue declarants with special communications reminding them of the need to meet disclosure obligations under the new rules. With reference to application uncertainties of a technical nature, arrangements were also made to publish a special section on the Commission's web site with an FAQ on the disclosure of significant shareholdings.

During 2009 the Commission authorised publication of 24 bid documents (for 18 takeover bids, 4 exchange tender offers and 2 combined takeover-exchange tender offers) of which 14 referred to listed shares and 10 to unlisted bonds and shares (Table 21).

Both mandatory and voluntary takeover bids all aimed at the delisting of securities involved in the bids, as clearly expressed by the bidders, confirming the trend that emerged in 2008.

Table 21 Financial instruments subject to takeover bids and/or exchange tender offers on which documentation was authorised for publication in 2009

	Listed shares			Bonds and warrants	Unlisted shares	*Total*
	Ordinary	Savings	Preference			
Voluntary	--	--	--	8	2	*10*
Unsolicited	9	--	--	–	–	*9*
Mandatory	5	–	--	–	–	*5*
Sell-out procedure	--	–	--	–	–	--
On treasury shares	--	--	--	–	–	--
Total	*14*	--	--	*8*	*2*	*24*
Right to sell out/squeeze-out[1]	7	–	–	–	–	*7*

[1]Additional documents to comply with disclosure obligations regarding mandatory buy-out/right of squeeze out pursuant to art. 108 and art. 111 of the Consolidated Law on Finance.

Following issue of the implementing provisions of art. 108 of the Consolidated Law on Finance (and consequently art. 111), the Commission resolved on 7 procedure cases involving meeting the right to sell-out or squeeze-out, differentiating disclosure obligations according to whether the right-related price was established by Consob or equal to the price of the previous global bid.

Numerous queries were also examined during the year regarding the application of exemptions from mandatory takeover bids as envisaged in art. 106, subsection 5 of the Consolidated Law on Finance. The queries mainly regarded the bail-out exemption listed companies in crisis. 2 opinions were also issued in relation, respectively, to infragroup takeovers and "unsolicited" takeovers.

Again with regard to exemption from mandatory takeover bids, the regulation pursuant to art. 106, subsection 6 of the Consolidated Law on Finance was applied for the first time in 2009. This grants powers to Consob to declare, if justified, exemption from mandatory takeover bids in cases attributed to exemptions as provided by law, but not expressly envisaged in the regulatory implementing provisions.

4 Disclosure to shareholders'meetings

In several cases in 2009 Consob issued requests for the disclosure of information to shareholders'meetings.

There was particular focus on the shareholders'meetings of listed companies called to approve the financial statements as at 31 December 2008.

In a context of severe economic and financial crisis that characterised 2009, issues regarding going concern assumptions and the application of international accounting standards that most take into account market volatility and business outlook deterioration became particularly relevant to the preparation of annual reports and related audits. As illustrated in greater detail in paragraph 5 below, acting jointly with the Bank of Italy and Isvap, in February 2009 Consob issued a recommendation on this issue (and later issued requests for shareholders'meetings to supplement the information provided by several companies for which auditors had expressed a negative opinion, a disclaimer, or a positive but qualified opinion on business continuity problems. Specifically, directors were asked to provide their own opinions on the audit results and all other elements useful to an understanding of the real financial position, and action taken or to be taken to overcome any financial difficulty.

The reports of control bodies of listed issuers to shareholders'meetings called to approve the financial statements as at 31 December 2008 were also analysed. Following this analysis, certain control bodies were asked to supplement their reports pursuant to art. 153, subsection 1 of the Consolidated Law on Finance, regarding any corporate affairs that called for a more suitable, more extensive public disclosure.

5 Financial reporting

Changes in the regulatory framework associated with implementation of the Transparency Directive assigned further powers to Consob – tending to be more incisive and prompt – to guarantee the integrity of financial reporting compared to the power to challenge annual reports (pursuant to art. 157, subsection 2 of the Consolidated Law on Finance). Where any non-compliance is discovered in annual and half-year financial reports to rules governing their preparation, the Commission has the power to ask issuer to disclose the facts to the market and provide a supplementary report to restore information accuracy (art. 154-*ter*, Consolidated Law on Finance).

The Commission approved guidance defining the implementation criteria and forms for the action to be taken – disclosure and dissemination to the market of supplementary information or financial statements challenge – in cases where non-compliance of the annual or half-year reports was confirmed in relation to rules governing their preparation. It was decided in general to opt for the first of these actions as standard, reserving the exercise of powers of challenge to residual cases, i.e. where the numeric balances recorded in the financial statements were unreliable as a whole due to overall unreliability of the accounting system or the errors were such that, if corrected, they would indicate a deficit position attributable to the provisions of art. 2446 and 2447 of the Italian Civil Code. The powers of challenge, if considered necessary, will also be triggered should an issuer fail to comply with the requirements of art. 154-*ter*, subsection 7, or repeats the error discovered in the annual or half-year report in the next financial report.

The Commission exercised its powers under art. 154-*ter*, subsection 7 of the Consolidated Law on Finance against 2 issuers with shares listed on Borsa Italiana Spa's Mta market.

With regard to its powers of challenge pursuant to art. 157, subsection 2 of the Consolidated Law on Finance, the Commission exercised these powers against one issuer in relation to the separate and consolidated financial statements as at 31 December 2007.

In 2009 application of the risk-based approach to the supervision of corporate disclosures continued in implementation of articles 118-*bis* of the Consolidated Law on Finance and 89-*quater* of the Issuers'Regulation, based on the sampling model that selects companies with the stronger risk profiles in terms of the transparency and accuracy of financial reporting. This group of issuers was integrated with a random sample including one fifth of listed companies (half of these, however, were taken from the series of companies with the highest capitalisation and highest trading volumes). Definition of the sampling criteria for selection of the issuers according to the risk-based model is reviewed annually. The parameters identified for 2009 were first of all based on particularly serious indications of the accuracy and completeness of financial reports emerging from current investigations, auditors'negative or qualified opinions, reports from legal authorities, other supervisory authorities or company control bodies. Companies then included in the sample were those whose economic and financial figures indicated financial difficulties, or auditors'disclaimers or qualified opinions were associated with significant going concern uncertainties regarding the issuer, or were characterised by anomalies in the breakdown of revenues, profits or price performances.

Consob also issued recommendations of a general nature bringing listed companies'attention to the correct application of international accounting standards in relation to items in the financial statements and the valuation models for accounting items more sensitive to the effects of the financial crisis and deterioration of the economic situation. Financial reporting, in fact, has to constantly and suitably represent the risks and uncertainties to which a company is exposed, available assets to meet them and their real capacity to generate income, in a clear, complete and prompt manner.

Specifically, in February 2009 Consob published a joint paper with the Bank of Italy and Isvap on "*Information to be provided in financial statements on going concern assumptions, financial risks, asset impairment testing and uncertainties regarding the use of estimates*".

Albeit without introducing additional disclosure obligations, it was considered appropriate to sensitise the various persons involved in preparing accounting documents to the need to strictly apply the rules and international accounting standards, particularly with reference to: i) the application of going concern assumptions; ii) description of the financial risk measurement methods and management and the degree of exposure to such risks; iii) verification of asset impairment; iv) uncertainties regarding the use of estimates.

Again in February 2009, Consob issued a "*Recommendation on information to be included in the financial reports and press releases of listed real estate companies*".

Given the heightening of risks associated with difficulties in obtaining funds to complete ongoing building initiatives, the slowing down of property disinvestment opportunities and falling prices, Consob reviewed all listed companies in this sector, regardless of their inclusion in the supervisory sample pursuant to art. 89-*quater* of the Issuers'Regulation. Specifically, they were subjected to further study of the breakdown of the real estate portfolio, breakdown of funding sources, analysis of the loan agreement covenants, indications of any reviews of forecast results or changes to business plans. From the studies conducted a need emerged for a stronger, more standardised disclosure of the representation of business activities conducted, characteristics of the assets managed and related financing methods. From this point of view, the related Recommendation again including no content of an independent nature, but aimed to provide a useful reference for the sector, identifying examples of disclosures on certain key variables, considered to be of particular relevance to transparency and comparability of the equity, financial and economic performance of the companies affected.

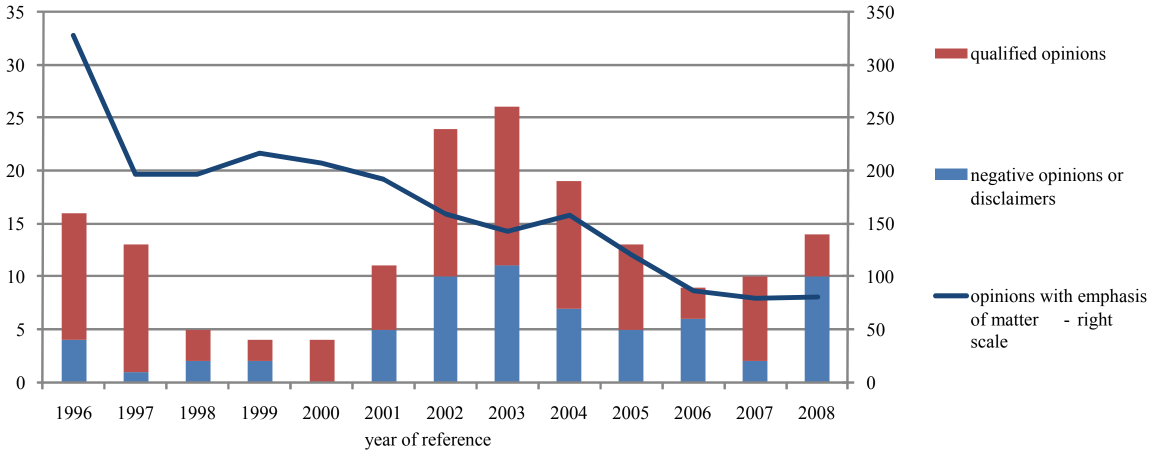
6 Supervision of independent auditors and internal control bodies

Independent auditors entered on the special list held by Consob examined 283 company financial statements and 275 consolidated financial statements for FY 2008 of issuers with shares listed on Italian regulated markets.

In one case the auditor expressed a negative opinion, and in 9 other cases a disclaimer. In a further 4 cases a qualified opinion was expressed. Audit reports with emphasis of matter were issued in 81 cases.

Overall there was a marked increase in the number of companies received a negative opinion or a disclaimer from the auditor (from 2 in 2007 to 10 in 2008), whereas the number of companies with a qualified opinion decreased (from 8 to 4). The number of companies receiving audit reports with emphasis of matter, however, remained stable (from 80 to 81; Fig. 74). Nevertheless, in reference to cases of reports with emphasis of matter, 21 regarded going concern. Even with an opinion without qualification, the emphasis of matter is an important signal, in that it indicates some uncertainty that gives rise to significant doubts over the company's continuation as a going concern.

Fig. 74 Independent auditor opinions on financial statements of companies listed on Italian regulated markets



Source: independent auditor reports. Data refer to different types of opinion or query that can also relate to the same issuer. See Methodological Notes.

As at 31 December 2009, there were 22 independent auditors registered on the special list, the same as the previous year.

With regard to audit assignments completed for the 2008 audit, examination of the data gathered from companies included in the special register showed a slight increase in the number of companies subject to audit obligations pursuant to the Consolidated Law on Finance (from 1,961 for the 2007 audit to 2,295), whereas the distribution of assignments to independent auditors on the special list essentially remained unchanged. The top 4 companies in terms of turnover cover approximately 94% of the Italian statutory audit market, equal to the figure for the previous year.

In 2009, independent auditor supervision was conducted through systematic preventive quality control action and subsequent enforcement in specific cases.

With regard to the quality controls, to verify the existence and correct application of the internal control procedures envisaged in art. 162, subsection 1 of the Consolidated Law on Finance, 3 investigations were launched in 2008. For these companies, Consob has already formulated specific recommendations on the action to be taken to remedy shortcomings discovered during the investigations and the related implementation deadlines.

Follow-up action was also taken in relation to a further 3 independent auditors subject to verification in 2007-2008, regarding the assessment of organisational remedies adopted by the companies to correct shortcomings emerging during investigations.

In 2009 a further 8 investigations were launched on independent auditors, 2 of which were completed during the year. The aim of the supervision concentrated on assessing the adequacy and correct application of quality control procedures pursuant to Document no. 220, recommended by Consob, on "Quality control of independent auditing". These reference regulations, in fact, dictated by the profession at domestic and international level, envisage the setup of a procedures system covering all the areas of major importance for audit quality assessment.

The organisational setup and quality control procedures adopted by the selected independent auditors were then assessed to verify application adequacy, effectiveness and efficiency. The controls also covered relations with companies in the respective international networks, also with the aim of rebuilding the process of local implementation of guidelines and standards issued by the networks at global level. Lastly, for the smaller independent auditors, controls also included examination of the working papers for certain specifically selected assignments.

On the other hand, with regard to enforcement in specific cases, in 2009 letters of notice were issued to 2 independent auditors, pursuant to art. 163 of the Consolidated Law on Finance, after confirmation of audit irregularities concerning the 2006 and 2007 financial statements of a listed issuer and the 2007 annual report of an issuer of widely-distributed financial instruments.

In the aforementioned Communication of February 2009, amongst other things the Commission drew companies'attention to the problems associated with the assessment of going concern assumptions (see paragraph 5 above). In relation to audit of the financial statements as at 31 December 2008, independent auditors were called upon to comply with the rules of Document no. 570 on "Going concern" (recommended by Consob in November 2007), which governs auditor assessment of the suitable use of going concern assumptions and provides useful indications on the correct application of this principle in the specific context of the financial crisis.

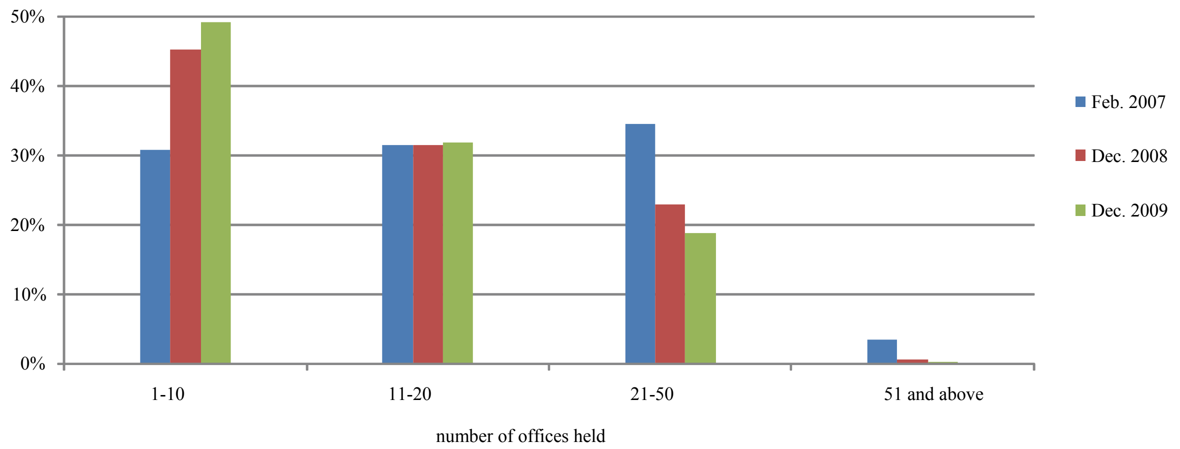
In 2009 Consob's supervision activities continued in relation to plurality of offices for members of internal control bodies of listed companies and issuers of widely-distributed securities.

Specifically, in Communication no. 9062092 of 3 July 2009, clarification was provided on application of the plurality of office calculation model for members of the internal control bodies of companies adopting the single-track governance system.

To manage disclosure obligations introduced by the regulatory provisions, an IT system was developed via which the members of internal control bodies, after issue of credentials, inform Consob electronically of details of the administration and control offices held and verify their position regarding the limit envisaged in the rules.

A comparison of the data prior to entry into force of the regulations on plurality of administrative and control offices (February 2007) and the 2 annual declarations made in June 2008 and June 2009 shows an increase in the number of persons holding at least one office of control in a listed issuer and a decrease in the average number of offices per person. Specifically, prior to entry into force of the regulations, the members of internal control bodies of listed issuers held an average of 19.2 offices, whilst in 2008 this value dropped to 14.4, further decreasing to 12.5 in 2009. The percentage of the total members of internal control bodies holding up to a maximum 10 offices increased from 30% to 50%, whilst the percentage of those holding 21-50 offices dropped from 35% to under 20% (Fig. 75).

Fig. 75 Breakdown of members of internal control bodies of Italian listed companies by the number of offices held



II Markets supervision

1 Market abuse

In 2009 Consob completed 13 investigations into market abuse, formulating criminal allegations in 7 cases and issuing an equal number of reports to the legal authorities (Table 22). In detail, 1 case of insider trading, 2 cases of information-based manipulation, 3 cases of action-based manipulation and 1 combined information-action manipulation case were discovered.

The remaining 6 investigations, for which no report was issued, concerned alleged cases of insider trading.

Table 22 Results of investigations into market abuse

	Reports of alleged offences[1]		Investigations without reports of alleged offences[2]	*Total*
		of which alleged insider trading		
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*
2007	10	3	3	*13*
2008	6	2	4	*10*
2009	7	1	6	*13*

[1] In 1997 and in 10 cases in 1998 the reports were submitted under Article 8.3 of Italian Law 157/1991, later 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 entry into force of the Consolidated Law on Finance.

In the case of insider trading reported to the legal authorities, the information consisted in the intention of 2 persons of issuing consistent orders to buy a security to an intermediary (Table 23).

Table 23 Type of inside information involved in reports of alleged insider trading submitted to the Legal Authorities

	Change of control – Takeover bid	Financial performance Financial position	Share capital transactions. Mergers – Spin-offs	Other	of which alleged front running	*Total*
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*
2007	1	1	1	--	--	*3*
2008	1	--	--	1	1	*2*
2009	--	--	--	1	--	*1*

The 2 cases of information-based market abuse involved the privatisation process of an airline.

The alleged cases of action-based market manipulation were, in one instance, through "marking the close" transactions and in two through "improper matched orders".

The combined information/action-based cases of manipulation concerned the conduct of a major shareholder of a listed company to bring investors'attention to the company in order to sustain the share prices.

A total of 12 natural persons were reported to the Legal Authorities for alleged insider trading and market manipulation (Table 24).

Consob also began administrative proceedings against these persons and against 4 companies as jointly liable (pursuant to art. 6, subsection 3, Italian Law 689/1981) in accordance with corporate administrative liability regulations (art. 187-*quinquies*, Consolidated Law on Finance).

Table 24 Alleged market abuse offenders reported to the Legal Authorities

	Authorised intermediaries[1]	Institutional insiders [2]	Others [3]	Foreign operators	*Total*
Insider trading					
1997	11	12	41	17	*81*
1998	17	31	34	32	*114*
1999	21	26	56	48	*151*
2000	24	11	149	34	*218*
2001	20	6	53	30	*109*
2002	14	1	69	21	*105*
2003	2	12	35	20	*69*
2004	--	8	7	4	*19*
2005	--	1	2	--	*3*
2006	--	7	--	--	*7*
2007	--	11	1	--	*12*
2008	--	2	1	--	*3*
2009	--	2	--	--	*2*
Market manipulation					
1997	3	21	--	--	*24*
1998	7	2	--	2	*11*
1999	10	5	34	2	*51*
2000	1	2	1	1	*5*
2001	4	1	1	2	*8*
2002	18	2	--	4	*24*
2003	6	--	1	--	*7*
2004	4	2	6	1	*13*
2005	--	1	7	--	*8*
2006	--	6	2	--	*8*
2007	1	4	2	--	*7*
2008	--	--	5	--	*5*
2009	2	1	10	1	*14*

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

All the administrative proceedings mentioned are still in progress. With regard to administrative proceedings launched in previous years for market abuse, please see paragraph 2, Chapter IV "*Sanctions and precautionary measures*".

The number of requests for data and information issued to intermediaries, listed companies, public administrations and foreign supervisory authorities in 2009 totalled 268 (Table 25). 15 requests were issued in support of foreign supervisory authority investigations into cases of alleged market abuse.

Table 25 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*	
				of which hearings				*of which on behalf of foreign authorities*
1997	220	37	49	--	22	11	*339*	*–*
1998	324	14	50	--	10	17	*415*	*–*
1999	416	22	48	10	--	21	*507*	*–*
2000	492	33	11	--	4	30	*570*	*–*
2001	247	30	93	7	10	33	*413*	*156*
2002	154	28	52	19	1	24	*259*	*36*
2003	185	15	55	29	3	27	*285*	*38*
2004	146	13	23	7	2	11	*195*	*101*
2005	140	9	47	42	--	23	*219*	*63*
2006	161	11	44	31	4	7	*227*	*38*
2007	176	12	93	51	5	16	*302*	*70*
2008	115	57	66	38	15	35	*288*	*43*
2009	78	53	93	47	17	27	*268*	*15*

[1] Banks, investment companies, asset management companies and stockbrokers.

In 2009 Consob brought parallel civil proceedings in a new criminal case of market abuse (market manipulation; Table 26). The Commission had sent a report to the relevant legal authority indicating the results of its investigations. The charges formulated by the Public Prosecutor in the indictments describe events ascribed to the alleged offenders in terms that are generally in line with the results of Consob investigations.

Table 26 The Commission's parallel civil proceedings in criminal cases regarding insider trading and market rigging of financial instruments (market manipulation)

Year	Proceedings	Offence[1]	Outcome as at 31 December 2009
2004	2	Market rigging	2 plea bargains 1 conviction
2005	6	Insider trading and market rigging	4 convictions[2] 2 plea bargains 3 non-suits
2006	9	Insider trading, market manipulation	4 convictions[3] 6 plea bargains 2 acquittals[4] 1 dismissal as time-barred
2007	12[5]	Insider trading, market manipulation	3 convictions 5 plea bargains[12] 2 dismissals as time-barred 1 non-suit[13] 1 acquittal
2008	5	Insider trading, market manipulation	1 conviction 1 plea bargaining 1 dismissal as time-barred 1 acquittal
2009	1	Market manipulation	

[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 under Article 185 of the Consolidated Law on Finance. [2] In one case the competent Court of Appeal reduced the amount of compensation for damages payable to Consob, though confirming the first instance sentence. In one case the Court of Cassation, declaring territorial non-competence, repealed the first and second instance sentences and ordered forwarding of the papers to the Public Prosecutor's Office of the Court considered competent. [3] One conviction was pronounced as a result of fast-track proceedings. [4] In one case, 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. In another case, the sentence was acquittal due to lack of evidence pursuant to Art. 530, subsection 2 of the Italian Code of Criminal Procedure. [5] In one case, following the re-opening of preliminary investigations, proceedings were closed in 2008. [6] As part of the sentence in question, the Judge ordered that proceedings papers be forwarded to Consob for possible charging of administrative offences pursuant to Art. 187-bis of the Consolidated Law on Finance.

In 2009, 2 first instance proceedings were concluded on market abuse offences: one in which Consob had brought parallel civil proceedings, and in which liability of the offenders was confirmed, also ordering compensation for damages in favour of Consob, and the other resulting in acquittal.

2 Consob measures on short selling

Since September 2008 Consob has adopted a series of measures banning short selling, the degree of restrictions on which depended on the intensity of share market turmoil at that time.

The ban originally introduced in September 2008 envisaged that the sale of bank and insurance company shares, or of their related holdings, and share sales of companies subject to share capital increases had to be supported by both seller availability and ownership of the securities at the time of the order and until the transaction settlement date. For all other shares, the sale only required availability of the securities. The methods remained unchanged for the extensions of the ban until 31 January and until 31 May 2009, also because of the persisting financial market turmoil and comments from a number of participants in the Consob consultation, launched on the 2008 resolution to gather observations and comments the effectiveness of the aforementioned measures.

When the prevailing market situation spread further, the ban was extended to 31 July 2009, though with less restrictive terms. The Commission removed the ban at the end of July, except for certain limitations envisaged for companies subject to share capital increases, strongly calling upon all operators to fully comply with securities trading rules and delivery deadlines established in current legal and regulatory provisions. In October 2009 the Commission envisaged the option of waiving the ban on short selling for the securities of companies with share capital increases in progress on justified request from the issuers. Lastly, with effect from 1 December 2009, it was decided to remove the restrictions completely (without prejudice to the effectiveness of the measure referring to companies subject to share capital increases resolved by 30 November).

In addition to gradually changing the extent of the ban on short selling, Consob conducted intense control over the reasons behind failure to promptly deliver shares at the settlement stage of market contracts (i.e. "fails"), to identify any infringement of the ban and potential market abuse. The Commission also launched a number of sanction proceedings involving charges of failure to comply with the obligation to act with due diligence and fairness to ensure market integrity. As most cases of confirmed infringements involved operators not based in Italy, the Commission called for international cooperation with the relevant foreign supervisory authorities.

3 Regulated markets, multilateral trading systems and systematic internalisers

On several occasions during the year, pursuant to Article 63, subsection 2 of the Consolidated Law on Finance, the Commission approved amendments to the Market Regulation organized and operated by Borsa Italiana and related Instructions.

Pursuant to article 67, subsection 2 of the Consolidated Law on Finance the Commission recognised the New York market Nyse-Liffe on which precious metal derivatives are traded.

Recognition of the Nyse-Liffe market followed the conclusion of an investigation to verify, amongst other things, that the information on financial instruments, pricing methods, contract settlement, and the market and intermediary supervisory rules were equivalent to those required under current Italian regulations and in any event able to guarantee suitable investor protection. As a result of the recognition, Italian intermediaries and banks now have remote access to that market.

The controls performed during the year on a regulated market management company were also significant. Specifically, the investigation analysed the organisational setup of the company, particularly with regard to the support and control departments for trading system management. Procedures implemented by the company to control correct conduct and compliance with regulatory measures by operators admitted to trading (especially by market makers) and the procedures to identify and manage conflict of interest were also verified.

Among the new elements of not for the regulated markets was the closure of the Tlx market. In March the Commission approved amendments to the Tlx Spa articles of association due to the decision to transform the market management company into a securities investment management company. As a result of the investigation into the transformation plan, on 15 December 2009 the Commission authorised the company, under the new name EuroTlx Sim spa, to manage a multilateral trading system and accepted the application to cease regulated market operations. The company arranged for the official transfer to the EuroTlx of all financial instruments traded on the Tlx market as at 31 December 2009.

With regard to systematic internalisers, 2009 was characterised by business consolidation activities by those already in operation. Consob continued its series of meetings with individual internalisers to study and acquire further knowledge about the activities conducted. On receipt of clarifications, 3 parties declared the winding-up of internaliser business, having considered that they did not meet the operating requirements to qualify as an internaliser under the current regulations. In 2009 no new reports of business startup were received.

At the end of September, approximately 4,800 financial instruments, most of which government securities and treasury bonds or bonds issued by group companies were traded on the 18 systematic internalisers. In this respect, concentration of trading on to 3 systematic internalisers was confirmed, which account for around 50% of trading in the aforementioned financial instruments.

As part of application clarification given in its Communication of April 2009, the Commission decided it would be useful to establish a standardised format for the content of information internalisers were required to send to Consob on admission to trading of financial instruments, or when such trading ceased.

At the end of 2009, 8 multilateral trading systems (Mtfs) were in operation. A new system was established in June by a regulated market management company, focusing on the trading of bonds and other debt securities already listed on an Eu regulated market.

4 Trading transparency supervision

In the second half of 2009 the Commission began intense monitoring of compliance with post-trading transparency obligations, the publication methods for post-trading used by licensed parties in accordance with Market Regulation, and on the distribution channels'possession of information on clarity, access and reliability requirements envisaged in both Eu regulations and Italian regulations and guidelines.

Given the increasing fragmentation of trading and the multiple channels now used to disclose information to the public, the supervisory approach is mainly based on comparison of the information published by intermediaries with that available to the authority through the transaction reporting system, to identify any inconsistency between information available to the public and that reported to Consob.

The supervision of pre- and post-trading transparency obligations has also involved verification that the information published through the different channels was reliable and well-structured so as to offer comparative analysis of the prices recorded at the various trading venues and that the format used was understandable and easy to consolidate.

Data gathered on 42 information publication channels showed that most channels are characterised by easy access to the information, with minimum information content (Isin code, transaction date/time, price, currency and quantity) available in accessible formats. Regarding the type of post-trading information published, it emerged that almost all parties under obligation did not provide additional information to that envisaged and only a limited number of parties published information over and above the minimum requirements (typically the name of the security traded, a brief description or the amount traded). With reference to the time that information stays published on the channels, most parties under obligation make post-trading information available for a period of between 1 and 3 months. Around one third retain publication for over a year.

Lastly, still with regard to trading transparency and the channels used, in cooperation with the Italian Banking Association (Abi), Consob verified service continuity of the proprietary web sites and information distribution systems managed by the intermediaries. This given the obligation of information publication channels to have suitable emergency systems indicating the methods used to continue meeting obligations if there should be a system crash.

The survey targeted the managers of channels used to disseminate post-trading information as authorised in the list held by Consob. The information analysed was provided by 58 parties licensed by the Commission, around 59% of the total, which guaranteed representation of approximately 63% of persons using such channels. In general terms, the monitoring confirmed compliance with regulatory measures and with guidance provided in the Communication of 1 October 2009.

In 2009 Consob formulated a number of application clarifications regarding the post-MiFID Market Regulation provisions. After extensive consultation, in fact, in April 2009 the Commission adopted a supplementary communication to that issued on 21 January 2008 as a result of regulatory amendments required on implementation of the MiFID. The new communication incorporated and updated the previous communication on transaction reporting, systematic internalisers and reports to Consob from regulated market management companies.

In a later communication in October 2009, Consob rearranged all market-related application clarifications into a single document providing a coordinated version of the previous two communications (those of January 2008 and April 2009) which systematically covered the transaction reporting system, publication and consolidation of pre-trading and post-trading information, the startup and winding-up of systematic internalisers, essential business continuity measures and reporting by regulated market management companies.

5 Clearing, settlement and central depository services

In 2009 Consob approved the Bank of Italy's amendments to the Cassa di Compensazione e Garanzia Spa operating rules.

In July, Cassa di Compensazione e Garanzia was authorised by the Uk Financial Services Authority (Fsa) to provide central counterparty services to the Uk markets as a recognised overseas clearing house (Roch). The authorisation process lasted several months and was completed with full cooperation between the Fsa, Consob and the Bank of Italy.

Work continues on the introduction of a single settlement platform – Target 2 Securities – promoted by the European Central Bank. During the year a number of legal aspects were discussed of relations between the Eurosystem and national central depositories, such as the governance structure in the development stage of the project and the tariff arrangements. In mid-year the parties signed a Memorandum of Understanding agreeing to proceed with the initiative.

1 Banks, investment companies, stockbrokers and insurance companies

As normal, in 2009 the supervision of intermediaries made use of information obtained from meetings with corporate officers and from formal requests for data and information.

Specifically, 52 meetings were held with bank officers (including 18 formally called pursuant to art. 7, subsection 1, paragraph a) of the Consolidated Law on Finance) and 45 with investment company officers (of which 11 formally called). In addition, 52 formal requests were issued for data and information.

13 investigations were launched against 3 investment companies, 9 banks and 1 asset management company (Table 27).

Table 27 Investigation of intermediaries

	Investigations		Investigations launched					Investigations concluded				
	Launched	Concluded	Investment companies[1]	Banks	Asset Management co.s \Sicavs	Stockbrokers	Financial salesmen	Investment companies[1]	Banks	Asset Management co.s \Sicavs	Stockbrokers	Financial salesmen
2003	10	14	1	9	--	--	--	5	8	1	--	--
2004	3	6	--	2	1	--	--	--	5	1	--	--
2005	12	9	4	2	6	--	--	1	4	4	--	--
2006	5	9	3	2	--	--	--	5	2	2	--	--
2007	9	9	4	2	3	--	--	2	4	3	--	--
2008	18	14	8	3	6	1	--	8	2	3	1	--
2009	13	15	3	9	1	--	--	3	8	4	--	--

[1]Includes trusts and Italian branches of Eu investment companies.

As illustrated in greater detail below, investigations into banking intermediaries were largely to obtain information on the organisational and procedural solutions adopted in adaptation to the MiFID, with particular reference to the distribution of illiquid products to retail customers (also in view of the communication issued on this topic in March 2009, see paragraph 4, Chapter V "*Regulatory and interpretative activity and international developments*"). In 4 cases the methods adopted for Otc derivative trading with Local Authorities was also verified. Another case assessed the consistency and compliance of interconnection system procedures with the rulings envisaged in provisions of the Market Regulation operated by Borsa Italiana Spa, the suitability of operating measures to transactions suspected of market abuse and the monitoring procedures for intraday customer exposure.

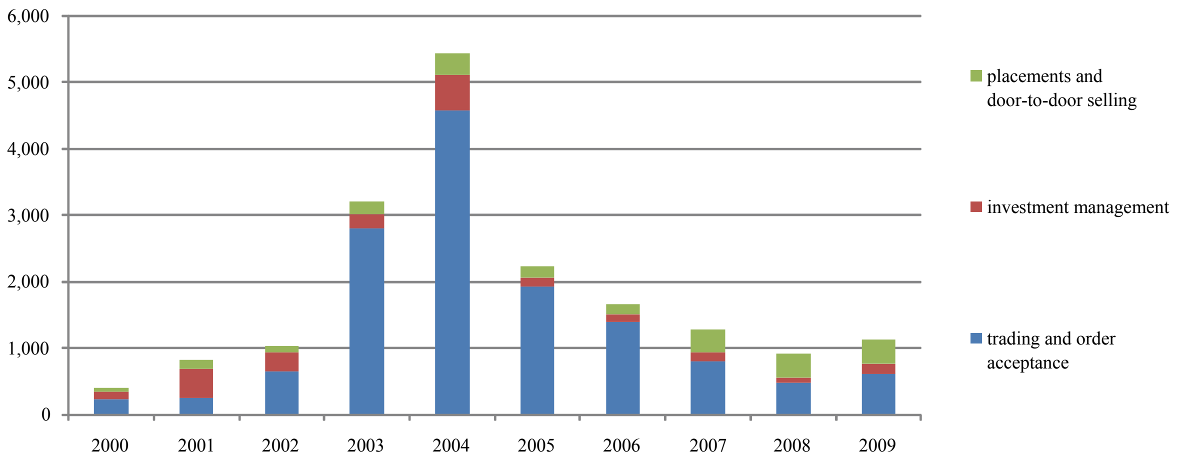
Regarding the 2 investment companies the methods for identifying and managing conflict of interest, the procedures for assessing suitability and appropriateness of customer-ordered transactions and the pricing of illiquid securities placed were verified. There was also a general investigation of one investment company to verify the procedures adopted for the provision of investment services, conducted jointly with the Bank of Italy in accordance with respective duties.

A hedge fund management company that had seen difficulty in meeting redemption requests regarding one of its funds, in turn invested in off-shore hedge funds, was also investigated.

Lastly, 6 requests were issued to the Bank of Italy to extend current investigations into 4 banks and 2 investment companies pursuant to art. 10, subsection 2 of the Consolidated Law on Finance.

Supervisory activities were also triggered by complaints received in relation to the provision of investment and asset management services, which increased slightly in 2009 compared to 2008 (Fig. 76).

Fig. 76 Number of investment service complaints received by Consob



From the results of investigations into banking intermediaries it emerged that the organisational setup and standards of conduct do not yet match the customers'interests. In fact, there are still a number of substantial differences between the adjustments required under the new regulations and the practices adopted by operators. Amongst other things, this phenomenon can be seen in the sales policies adopted and the incentive systems for front office personnel, with subsequent distortion effects on the suitability assessment.

Specifically, in the cases examined, the sales policies clearly focused on the products to be distributed rather than on the quality of the service provided, and sales campaigns were conducted in support of specific product types with no prior assessment of customers'financial powers and awareness.

It also emerged that front office personnel incentive systems targeted income margins and the volume of products place, a fact that generates potential conflict of interest with customers.

The focus on product sales objectives is seen in the methods adopted to conduct the suitability assessment. In effect, these were unsatisfactory as they were still anchored to synthetic baseline logic that does not allow full assessment of all the characteristics of the investor and the financial instrument concerned.

In this context unsuitable transactions were identified, instrumentally attributed to "customer initiative", i.e. ongoing customer "profiling", used to assess to what extent transactions in the security offered in the intermediary's sales campaigns were suitable and to be recommended.

In the light of evidence obtained, in February 2010 Consob ordered 2 banks to call Board of Directors'meetings to examine and remove the critical points discovered (pursuant to art. 7, subsection 1, paragraph *b)* of the Consolidated Law on Finance).

In addition to this action, a particularly important supervisory initiative concerned a bank's placement of a compulsory-conversion bond loan, with warrants associated with ordinary shares. The offering, initially launched as a rights offering only, was later also opened to retail customers.

At the time of the offering to retail investors, given the complexity of the security's financial composition and the low level of liquidity, Consob considered it appropriate to intensify control over compliance with the rules of conduct envisaged under current regulations at placement stage.

The investigations conducted showed significant shortcomings in the operating procedures used and significant irregularities in the intermediary's distribution of its own bonds regarding the prevalence of unsuitable transactions, following their instrumental classification as "customer initiative" transactions, customer "re-profiling" to assess the suitability of transactions in the securities offered and failure to assess the illiquid profile of the actual securities.

The Commission therefore issued an injunction order against the intermediary pursuant to art. 51, subsection 1 of the Consolidated Law on Finance.

With regard to investment company supervision, as already mentioned, in 2009 a total of 45 meetings were held with the related corporate officers, 11 of which formally called. At these meetings arrangements were made to obtain elements of information on the solutions adopted and/or in progress to remedy the organisational and operating setups to match the MiFID reference framework.

There was a particular focus on the methods for providing placement services, also through door-to-door sales) given the importance given to distribution (rather than to "production") by the investment companies for the provision of investment services. In this context it is crucial that the efficiency of the service model based on a combination of placement and advisory services is verified in order to raise its quality.

As part of its cooperation with the Italian Ministry of the Economy and Finance, Consob issued 7 opinions during the year.

In 2009 the Commission also cooperated with the Italian Ministry of Economy and Finance (Mef) to prepare the annex to the ministerial regulation defining the criteria and principles required for the stipulation of loan agreements, also involving derivative components, by local and regional authorities. This annex contains the methodological instructions for preparing information so as to offer agreement transparency, i.e. representation of the probable yield scenarios in table format, based on the time horizon considered in the agreement. The approach partially changes that adopted by the Commission for the transparency supervision model for asset management, financial and insurance products.

In 2009, as part of the new management format in relation to the bankruptcy proceedings for which the statement of liabilities was filed on 1 February 1998, the National Investor Compensation Fund intervened in one case of asset management company insolvency. The new management format is applied alongside the special management, which also involves the Italian Ministry of Economy and Finance, of prior insolvency cases (Table 28).

As at 31 December 2009, 116 intermediaries were included in the Investment Company Register held by Consob (113 at the end of 2008), including 5 trusts. During there were 13 new entries and 10 cancellations were recorded.

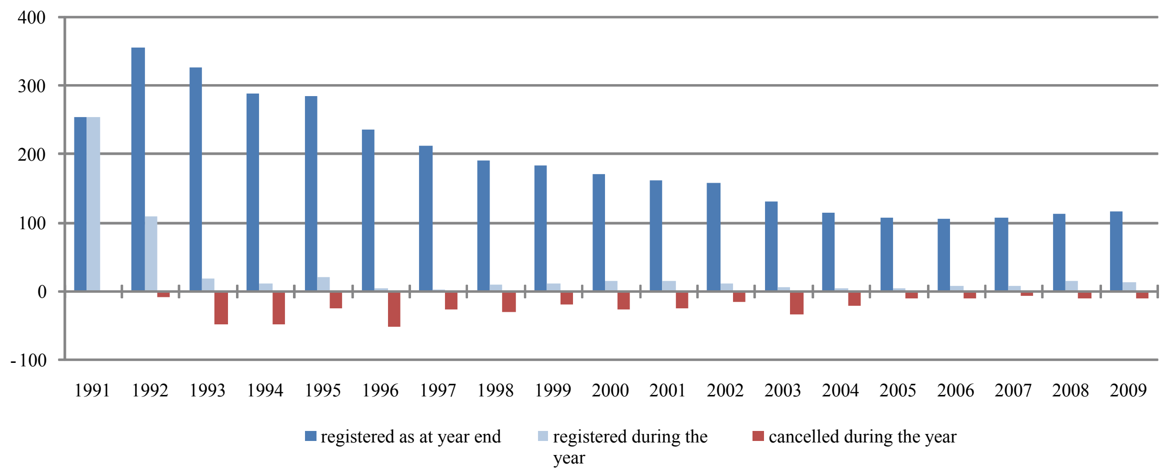
New entries were largely due to post-MiFID regulatory changes. In fact, 10 entries refer to mono-activity intermediaries providing advisory services and Mtf management services.

Table 28 National Investor Compensation Fund intervention
(as at 31 December 2008; amounts in thousands of euro)

	Insolvencies[1]			
	Investment companies	Stockbrokers	Asset management companies	*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
2007	1	--	--	1
2008	--	1	--	1
2009	--	--	1	1
Total insolvencies	*16*	*9*	1	*26*
of which: with statement of liabilities filed	*16*	*9*	--	*25*
Number of creditors admitted	2,592	1,011	--	*3,603*
Amount of claims admitted [2]	28,277	43,609	--	*7,1836*
Fund intervention [3]	8,393	10,471	--	*19,134*

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 by the bodies responsible for the bankruptcy proceedings.

Fig. 77 The Investment Company Register



With regard to cancellations from the register, most were due to intermediary crisis (6), followed by justified transition to other operating models (transformation of banks into asset management companies) (Table 29).

Table 29 Investment companies: cancellations from the Register [1]

	Reasons								
	Crisis of the intermediary [2]	Mergers and spin-offs	Voluntary liquidation - Change in activities	Transformation into a bank	Transformation into an asset mgt. co.	Transformation from a trust into an investment company	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*
2007	1	2	1	1	1	--	--	--	*6*
2008	--	2	1	6	2	--	--	--	*11*
2009	6	--	--	3	1	--	--	--	*10*

Source: Consob. [1] The figure refers to the total number of delisting resolutions, and also includes measures relating to the special trusts section of the Register. [2] Includes Ministry of the Economy and Finance decrees, Consob measures, bankruptcies and companies placed in compulsory administrative liquidation. [3] Includes one investment company that transferred business to another company in the same group. [4] In 3 cases the investment company was merged into a bank. [5] In all 3 cases the investment company was merged into an asset management company. [6] As of the entry into force of Italian Legislative Decree No. 415/1996 (Art. 60).

Supervision continued in 2009 on the transparency of financial products issued by insurance companies. During the year 969 prospectuses were filed with Consob (1,136 in 2008), including initial filings and subsequent updates, for unit-linked, index-linked and capitalisation financial products (Table 30).

In accordance with the risk-based model, an initial selection was made of 328 prospectuses (around 30% of the total; 215 in 2008) with potential critical points in relation to cost representation, the financial structure of the products, probable yield scenarios and the time horizon. As a result of reports issued, updates to the prospectuses were arranged in 70 cases.

Table 30 Enforcement on insurance products in 2009

Type of contract	Prospectuses filed	Prospectuses subject to supervision	Geographic breakdown of supervisory action					
			Investment unbundling	Financial structure and risk	Revaluation mechanisms	Yield scenarios	Other	*Total*
unit linked	537	153	80	89	--	35	54	*258*
index linked	255	154	120	63	--	112	15	*310*
capitalisation	177	21	12	2	14	--	4	*32*
Total	*969*	*328*	*212*	*154*	*14*	*147*	*73*	*600*

Again in 2009 the monitoring of credit risk exposure associated with the issue of index-linked products allowed investors to receive more prompt, updated disclosure of critical situations, with particular reference to the insolvency of Icelandic intermediaries and Lehman Brothers.

Specifically, supervision sought to guarantee information transparency on investor protection initiatives launched by numerous insurance companies with the aim of reimbursing – by different methods – the premium originally paid on maturity of the product or, in certain cases, a later date. These initiatives involved almost all index-linked financial and insurance products for a total countervalue of approximately 2.5 billion euro, including 800 million euro relating to products guaranteed by the SPV of an Italian group, 1.3 billion euro attributable to products with underlying Lehman Brothers securities and 400 million euro referring to index-linked products with underlying Icelandic bank securities.

In 2009 Consob and the Bank of Italy continued work on the implementation of the Memorandum of Understanding signed in October 2007 pursuant to art. 5, subsection 5-*bis* of the Consolidated Law on Finance.

Specifically, in September 2009 an agreement was signed governing the mutual exchange methods for statistical data acquired during their respective supervision of investment and asset management services. This agreement renewed and supplemented a previous MoU signed in February 2001. The two authorities have refined and improved the methods for their necessary cooperation in terms of supervision, also and above all for the purposes of improved mutual assessment of the investigations conducted. In this context, periodic coordination meetings were also held in relation to ongoing supervisory initiatives. Lastly, Consob and the Bank of Italy agreed to jointly examine the guidance prepared by the financial intermediaries'associations on issues governed by the Joint Regulation of 29 October 2007.

2 Asset management companies

In 2009 the asset management sector was affected by reorganisations implemented mainly through mergers or the extension of business operations. Specifically, following elimination of the exclusive business purpose of hedge fund management companies (pursuant to art. 1, subsection 1, Bank of Italy Rules of 21 June 2007), a number of traditional asset management companies incorporated their hedge fund management companies through mergers. At the same time, certain hedge funds requested extension of their business operations to include traditional funds.

During the year the Commission issued 106 requests for data and information to Italian asset management companies and held 118 meetings, 31 of which formally called with corporate officers. In addition, 41 opinions were issued to the Bank of Italy, largely in relation to the aforementioned mergers or extension of business operations.

The effects of the financial crisis continued to spread through the entire Italian asset management sector in 2009 also. Tradition open-end mutual funds and hedge funds recorded strong outflows, which ceased only at the end of the year when weak signs of a recovery emerged.

In this context, supervisory activities aimed to confirm liquidity risk and, in more general terms, the risks accepted by Italian funds also in relation to the cross-border nature of asset management. Specifically, issuer risk exposure was monitored of traditional open-end fund managers to emerging and Eastern European Countries (for a total of 30 countries) and a number of countries with a very high public deficit. A special focus was placed on small asset management companies, particularly penalised by redemption flows, verifying that the decrease in Aum had not jeopardised fund management efficiency.

These controls involved 13 asset management companies and 2 SICAVs, making use of documentation received in compliance with periodic disclosures and information obtained during formally-called meetings with corporate officers of the operators involved.

With regard to hedge funds, mainly comprising funds of funds, supervision initially focused on measures adopted by the asset management companies to face liquidity difficulties, such as the use of "gates" to spread redemptions or "side pockets" to transfer illiquid positions to new ad hoc closed-end funds. Critical points were then examined in connection with real awareness of the degree of risk in target funds by hedge fund of fund managers and insufficient breakdown of the investment process, with particular regard to the capture and analysis of data on investment decisions made (i.e. due diligence).

In view of the results, the Commission considered it appropriate to formulate a number of guidelines to define suitable internal procedures on the orderly, correct research and the selection of target funds, in compliance with regulatory rationale on correct conduct and consistent with the specific features of such business activities (Communication no. 9079688 of 4 September 2009; see Chapter V "*Regulatory and interpretative activity and international developments*").

The Madoff affair continued to occupy the Commission in 2009.

Specifically, in relation to an open-end fund management company, exposure to activities attributed to Bernard L. Madoff Investment Securities LLC was discovered in violation of due diligence and correctness obligations. The Commission therefore ordered an urgent 60-day suspension of the board of directors of the asset management company and the appointment of a commissioner to take over the management, pursuant to art. 53, subsections 1 and 6 of the Consolidated Law on Finance. When further evidence emerged during investigations, Consob then proposed winding-up of the asset management company's board of directors and internal control bodies and that the company be place under special administration pursuant to art. 56, subsection 1 of the Consolidated Law on Finance. This procedure was consequently implemented by decree of the Ministry of Economy and Finance in June. For 3 hedge fund management companies, rather, meetings were called with the boards of statutory auditors pursuant to art. 7, subsection 1, paragraph *b)* of the Consolidated Law on Finance.

The real estate sector crisis led to difficulties in disinvestment of a real estate fund portfolio due to mature on 31 December 2008. During the first half of 2009 Consob was committed to monitoring initiatives adopted by the asset management company for the orderly completion of the fund liquidation process in the interests of investors.

This affair drew attention to 2 significant issues in terms of correct conduct: the valuation method for real estate fund assets and the conduct of asset management companies in proximity to the liquidation stages of the real estate portfolio.

An investigation was therefore launched into 17 asset management companies managing "retail" real estate funds to verify that suitable systems were in place to control valuations provided by independent experts.

The investigation triggered debate among the interested parties (asset management companies, independent experts and related professional associations), which further studied the aspects highlighted with a view to defining self-regulation initiatives.

In addition, jointly with the Bank of Italy, the Commission took further action to steer asset management companies into formalising stricter and more complete rules and procedures for property valuations, to ensure due transparency and allow the necessary ex-post verification. These profiles become particularly significant also in view of the fact that in the period 2012-2018 around 52% of Italian real estate funds will mature, with assets estimated at 22 billion euro. This fact raises the problem of cash flow risk in relation to the assets held in portfolio. In 2010 supervision will therefore specifically focus on the liquidation procedures adopted by asset management companies whose funds are close to their "natural" maturity.

In reference to closed-end (or private equity) funds, verification continued of the adoption of suitable internal procedures to monitor conflict of interest originating from the specific business features. In this respect a formal meeting was called with the board of directors and internal control bodies of one asset management company against which an investigation had been launched.

In 2009 an analysis conducted jointly with the Bank of Italy was completed in relation to assessment of the conditions for transfer to a central depository of dematerialised open-end funds, in a similar manner to conditions in force for all other financial instruments.

The results of this analysis emphasised the need to seek more efficient solutions for aspects of the subscription, conversion and redemption processes for units of open-end funds. A series of action was also ordered that operators (including the production and distributor companies) are now implementing (Box 1).

Examination of the composition of asset management company boards of directors and compliance with director independence requirements also continued in 2009.

Specifically, the board of directors composition of the top 17 banking and insurance asset management companies (whose total assets of 178 billion euro account for around 84% of the total assets managed of Italian harmonised funds;) was analysed. A comparison with the composition of boards of directors recorded in 2008 shows that the total number of directors has decreased by 3, from 154 to 151 (Table 31).

Table 31 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*
2008									
Office held in the parent company	Chairman		1						*1*
	Deputy Chairman								*--*
	Managing director								*--*
	Director		3	3	1	3			*10*
	Executive director		1						*1*
	Independent director								*--*
	Director General		3			1			*4*
	Deputy Director General	1	2						*3*
	Manager		7	1		1			*9*
Office held in other group companies		7	42	5	12	6			*72*
No office held in other group companies		3	30	6	11			4	*54*
Total		*11*	*89*	*15*	*24*	*11*	*--*	*4*	*154*
2009									
Office held in the parent company	Chairman		1						*1*
	Deputy Chairman								
	Managing director								
	Director	1	3		1	3	1		*9*
	Executive director		2	1		1			*4*
	Independent director								
	Director General		3						*3*
	Deputy Director General			1					*1*
	Manager		5			1			*6*
Office held in other group companies		6	40	4	6	3		5	*59*
No office held in other group companies		5	32	2	23	1			*68*
Total		*12*	*86*	*8*	*30*	*9*	*1*	*5*	*151*

Source: prospectuses. Figures relating to the top 20 banks and insurance company-owned asset management companies by portfolios managed. Period end data. Where directors hold office in both the parent company and other group companies, representation of the office held in the parent company is considered prevalent. On the concept of executive director, reference was made to art. 2381 of the Italian Civil Code. For the concept of independent director reference was made to the definition in Assogestioni's protocol of independence.

Box 1

Central depository system for the dematerialisation of open-end fund units

In recent years the negative trend in Italian mutual fund deposits has brought to light certain structural limits in the sector, mostly attributable to the ownership structures of the asset management companies, controlled by banking groups, and the vertical integration of fund production and distribution.

Consob has participated in debate on this issue since January 2008, proposing the extension of the central depository system – as envisaged for other financial instruments – to the dematerialisation of open-end fund units to encourage the creation and development of "open" distribution platforms and therefore allowing multiplication of the points of access to asset management services and the choice of distributor intermediaries based on the quality of service provided.

In July 2008, as members of a working party on asset management that also involved the leading professional associations, Consob and the Bank of Italy pointed out the need to analyse the legal, economic and operating aspects of the proposed system, to define firm regulatory and operating measures to build and assess the impact of such a regime on persons operating in the fund production and distribution process.

In October 2009 the document summarising the results of the analysis was published, formulating a number of operating proposals. Specifically, the need was emphasised to create more efficient and competitive conditions in the asset management industry with regard to fund processing. The existence of many systems, procedures and jargon adopted by parties to the fund unit distribution process, in fact, hinders the establishment of new commercial relations between them and causes malfunction of the management methods and timing of orders received from subscribers.

A next step towards a system infrastructure accompanied by a central depository system for the dematerialisation of open-end fund units is an operating solution that it is hoped will bring greater efficiency to the industry.

A central depository system – without implying listing of the funds – would in fact be instrumental to the operation of a system infrastructure to interconnect the information flows between distributor intermediaries, management companies and depository banks, would fully automate the execution of subscription and redemption transactions and related registration, thereby mitigating operating risks. In this way a single entry point would be compatible with upholding placement tradition, and therefore the management companies would be free to identify intermediaries through which their fund distribution process is channelled.

The stronger system access level would simplify sales decisions on product mix expansion, offering a wider range of investors, characterised by different levels of sophistication and, in this manner, help maximise added value to the investor from the advisory services, in line with MiFID requirements.

The management company would be able to make use of a common infrastructure for its fund processing stages and concentrate more on taking the production process steps of the service to a higher "added value" level for the financial system and investors, i.e. product policy and portfolio management.

Investors would also benefit from the setup of a more competitive system, able to count on higher product quality in terms of management or pricing policy and faster fund unit portability should they decide to contact distributors that better respond to their needs.

In any event, the needs emerging from the analysis conducted were that: i) the system infrastructure has implicit functional flexibility to handle the different operating characteristics of the industry; ii) the governance structures and pricing system of a central depository guarantee the different components of the industry; iii) the central depository system is also for the dematerialisation of units or shares of foreign Ucits marketed in Italy.

Implementation of the proposed action calls for operator initiative, according to a gradual approach that takes into account the market situation and the sector's progress in terms of fund processing efficiency and competitiveness. For this purpose the leading professional associations began planning the preparation of an operational plan, for completion by June 2010, regarding definition of the linguistic terms to be used, the procedures and standardisation methods. Application of the plan is expected by the end of 2011.

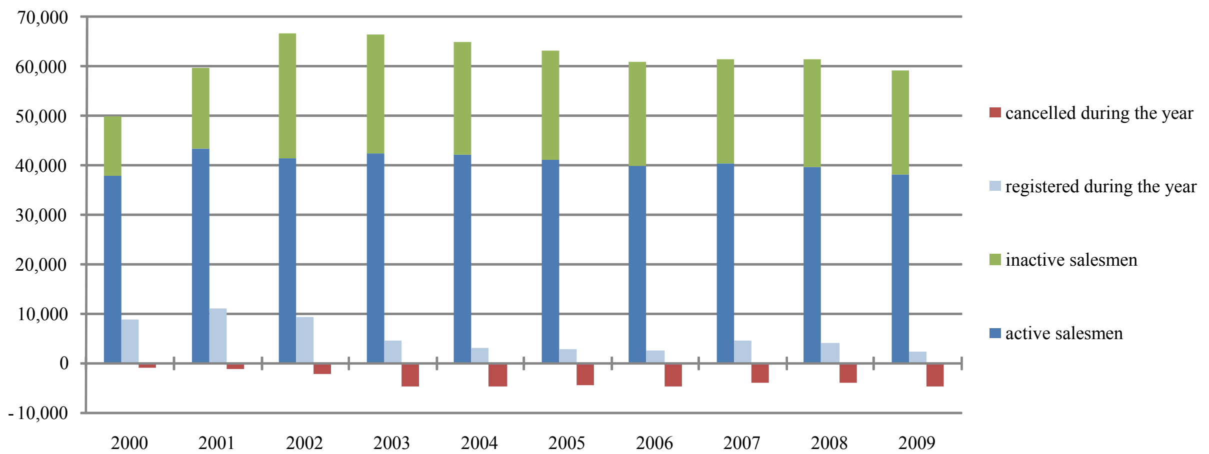
3 Financial salesmen

As normal, the supervision of financial salesmen in 2009 was based on complaints received from investors, the results of investigations into intermediaries and from reports from the legal and police authorities, reports from the intermediaries themselves and from the Authority for the Register of Financial Salesmen. A total of 524 reports were received in 2009 (compared to 353 the previous year), of which 40 from the Authority for the Register of Financial Salesmen.

Consob issued 580 requests for data and information (546 in 2008) and launched 185 administrative sanction proceedings (see Chapter IV "*Sanctions and precautionary measures*"). The Commission also examined 7 complaints submitted by interested parties against the measures adopted by the Authority for the Register of Financial Salesmen.

With regard to changes in the register of financial salesmen - which from 1 January 2009 is no longer operated by Consob, but rather by the Authority for the Register of Financial Salesmen - 2009 recorded a decrease in the number of persons registered from 61,431 to 59,077 (38,039 of which are active) (Fig. 78).

Fig. 78 Register of financial salesmen



Sanctions and precautionary measures IV

1 Disciplinary measures

In 2009 the Commission adopted 138 disciplinary measures against 155 proceedings concluded for confirmed infringement of the provisions of the Consolidated Law on Finance and implementing rules. This figure is essentially in line with that of the previous year (when 136 measures were adopted as a result of 156 sanction proceedings).

The total financial penalties inflicted increased significantly, however, from approximately 6.5 million euro in 2008 to just under 21 million euro, mainly relating to the supervision of market abuse and of the disclosure of significant equity investments and shareholders'agreements.

As a result of confirmed cases of insider trading, assets were first seized and later confiscated for a total value of 20.9 million euro (around 5.5 million euro in 2008).

Additional prohibitive sanctions (loss of integrity requirements and ban on holding the position of director, manager or controller of a listed company) were inflicted for a total 152 months (18 months in 2008) upon confirmed market abuse offenders.

2 Disciplinary measures on market abuse

In 2009 the Commission inflicted disciplinary measures for market abuse offences in a total of 17 cases (5 in 2008), of which 11 for insider trading and 6 for market manipulation.

The financial penalties concerned - totalling just over 9.2 million euro (2.1 million euro in 2008) - were inflicted upon 23 persons in total (6 in 2008), including 20 natural persons and 3 legal entities, the latter sanctioned under art. 187-quinquies of the Consolidated Law on Finance (corporate liability; Table 32).

The natural persons sanctioned were also subject to additional compulsory prohibition orders under art. 187-*quater* of the Consolidated Law on Finance (temporary loss of integrity requirements and temporary ban on holding the position of director, manager or controller of a listed company) for a total of 152 months and for a minimum 2 months to a maximum 15 months per person. Furthermore, these same offenders were subject to confiscation of personal assets, equally compulsory under the terms of art. 187-*sexies* of the Consolidated Law on Finance, totalling approximately 20.9 million euro.

Table 32 Disciplinary measures for market abuse offences
(amounts in thousands of euro)

		number of cases	number of persons involved	amount of fines	amount of confiscated assets	number of persons subject to additional penalties	additional penalties (months)
2007	Insider trading[1]	8	8	5,358	39,893	8	63
	Manipulation[2]	3	9	30,207	--	5	54
	Total	*11*	17	*35,565*	*39,893*	13	117
2008	Insider trading[1]	5	6	2,052	5,478	6	18
	Manipulation[2]	--	--	--	--	--	--
	Total	*5*	6	*2,052*	*5,478*	6	18
2009	Insider trading[1]	11	16	7,490	20,893	14	130
	Manipulation[2]	6	7	1,729	14,6	6	22
	Total	*17*	*23*	*9,219*	*20,908*	20	152

[1] Offence sanctioned under art. 187-*bis*, *quater*, *quinquies* and *sexies*, Consolidated Law on Finance. [2] Offence sanctioned under art. 187-*ter*, *quater*, *quinquies* and *sexies*, Consolidated Law on Finance.

3 Measures regarding intermediaries and financial salesmen

9 investigations concerning investment service-related infringements were completed in 2009 (7 in 2008) with the infliction of sanctions, of which 1 bank, 4 investment companies, 2 asset management companies and 2 stockbrokers.

The related financial penalties, totalling around 1.9 million euro (2.9 million in 2008), were inflicted upon 44 corporate officers (103 in 2008). Infringements discovered through supervisory activities, including investigations, regarded both procedural and conduct-related non-compliance (Table 33 and Fig. 79).

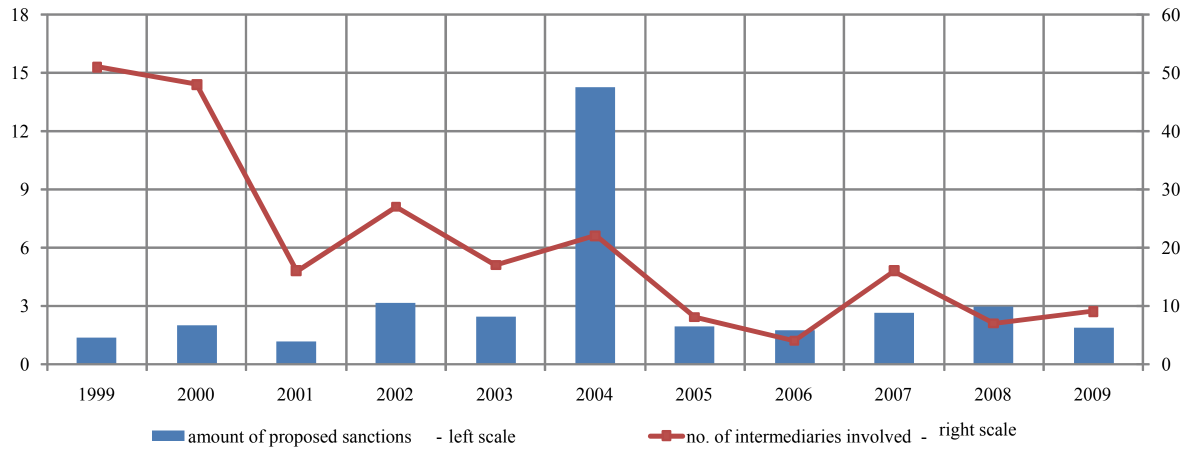
The more significant irregularities concerned: i) failure to comply with primary and secondary regulations requiring intermediaries to have adequate resources and internal procedures to guarantee the orderly and correct provision of investment services, to track the methods, timing and characteristics of conduct during the provision of such services, and to guarantee suitable internal control of activities performed by the sales networks; ii) unsuitable procedures to identify and manage conflict of interest; iii) lack of suitable procedures allowing full assessment of the suitability of customer-ordered transactions; iv) lack of suitable procedures to guarantee adequate awareness of the products marketed.

Table 33 Financial penalties proposed to the Ministry of the Economy and Finance or imposed directly by Consob on investment service intermediaries[1]
(amounts in thousands of euro)

	Number of intermediaries involved					Number of persons fined					Total penalties[2]				
	Banks	Investment companies	Stockbrokers	Asset management companies	*Total*	Banks	Investment companies	Stockbrokers	Asset management companies	*Total*	Banks	Investment companies	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*
2007	6	7	--	3	*16*	79	62	--	55	*196*	1,035	814	--	809	*2,659*
2008	5	1	--	1	*7*	85	13	--	5	*103*	*2,807*	29	--	109	*2,945*
2009	1	4	2	2	*9*	16	6	2	20	*44*	156	380	415	945	*1,896*

[1] From 2006 the figures refer to sanctions inflicted directly by Consob. For previous years the figures refer to sanctions proposed to the Ministry of the Economy and Finance. [2] Rounding may cause discrepancies in the last figure.

Fig. 79 Financial penalties proposed to the Ministry of the Economy and Finance or imposed directly by Consob on investment service intermediaries[1]
(millions of euro)



[1] From 2006 the figures refer to sanctions inflicted directly by Consob. For previous years the figures refer to sanctions proposed to the Ministry of the Economy and Finance.

With regard to financial salesmen, 74 disciplinary measures were imposed in 2009 (93 in 2008), including 43 disqualifications from the register, 25 fixed-term suspensions (from a minimum one month to a maximum four months), 1 financial penalty and 5 written reprimands. In addition, 43 reports were sent to the legal authorities (42 in 2008) for criminal events emerging during the investigations and 23 precautionary measures were adopted involving fixed-term suspensions (20 in 2008) (Table 34).

Table 34 Disciplinary sanctions and precautionary measures regarding financial salesmen

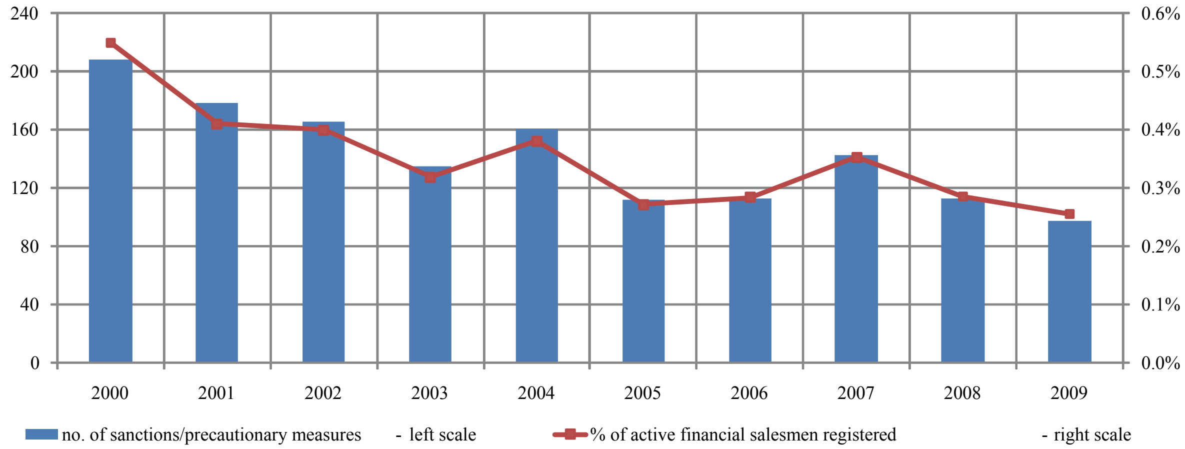
	Disciplinary sanctions					Precautionary measures	Reports to legal authorities
	Reprimand	Disqualification from the register	Fixed-term suspension from the register	Financial penalty	*Total*	Fixed-term suspension from business activities[1]	
1997	8	39	5	--	*52*	64	58
1998	11	86	73	--	*170*	76	137
1999	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
2007	5	64	44	3	*116*	26	51
2008	4	44	43	2	*93*	20	42
2009	5	43	25	1	*74*	23	43

[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.

The irregularities most frequently committed by financial salesmen concerned: i) acquisition of investor funds, often associated with the acceptance of payment means non-compliant with those permitted under sector regulations; ii) communication or transmission to the investor of untruthful information or documents (more often than not to conceal appropriation-related conduct); iii) failure to execute customer instructions or even the execution of unauthorised transactions together with falsification of investor signatures, iv) abusive use of access passwords to customer accounts.

The total disciplinary measures adopted were once again lower in 2009 than in the previous year, as a result of the decrease in the number of fixed-term suspensions from the register. The disciplinary and precautionary measures continued to involve a low percentage of active financial salesmen (Fig. 80).

Fig. 80 Disciplinary sanctions and precautionary measures regarding financial salesmen



4 Issuer-related measures

A total of 38 disciplinary measures were adopted by the Commission in 2009 (30 in 2008) for the infringement of issuer regulations regarding public offerings, takeover bids, corporate disclosure, major shareholdings and shareholders'agreements (Table 35).

Table 35 Administrative sanctions proposed by Consob to the Ministry of the Economy and Finance or imposed directly by Consob on public offerings, corporate disclosure and voting proxy[1]
(amounts in thousands of euro)

	Number of cases						Number of persons fined					Amount of the penalties					
	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings and shareholders'agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings and shareholders'agreements	Voting proxy	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings and shareholders'agreements	Voting proxy	*Total*
2001	27	--	6	3	--	*36*	35	--	5	4	--	545	--	160	238	--	*943*
2002	14	--	12	11	--	*37*	24	--	18	43	--	1,404	--	400	300	--	*2,104*
2003	3	1	5	22	--	*31*	7	5	7	13	--	702	464	216	359	--	*1,741*
2004	4	--	2	1	--	*7*	7	--	2	1	--	1,023	--	57	10	--	*1,090*
2005	5	--	3	2	--	*10*	13	--	9	1	--	1,120	--	52	20	--	*1,192*
2006	2	3	4	4	--	*13*	20	22	14	5	--	2,071	2,995	817	445	--	*6,328*
2007	3	1	11	39	--	*54*	20	2	18	43	--	2,417	40	976	1,641	--	*5,074*
2008	--	2	18	10	--	*30*	--	3	18	10	--	--	179	923	408	--	*1,510*
2009	3	1	17	17	--	*38*	11	8	17	18	--	1,283	2,655	297	5,840	--	*10,075*

[1] From 2006 the figures refer to sanctions inflicted directly by Consob. For previous years the figures refer to sanctions proposed to the Ministry of the Economy and Finance.

Specifically, disciplinary measures inflicted in cases of confirmed unlawful conduct in relation to market disclosures, totalling 17, involved 14 internal dealing offences and 3 infringements of public disclosure regulations pursuant to art. 114, subsection 5 of the Consolidated Law on Finance.

For these disciplinary measures the Commission inflicted financial penalties for a total of approximately 10 million euro (1.5 million in 2008). The increase in sanctions associated with failure to disclose shareholders'agreements and major shareholdings was particularly significant.

The number of reduced payments on sanctions regarding public offerings, corporate disclosure and voting proxy also increased (Table 36 and Fig. 81).

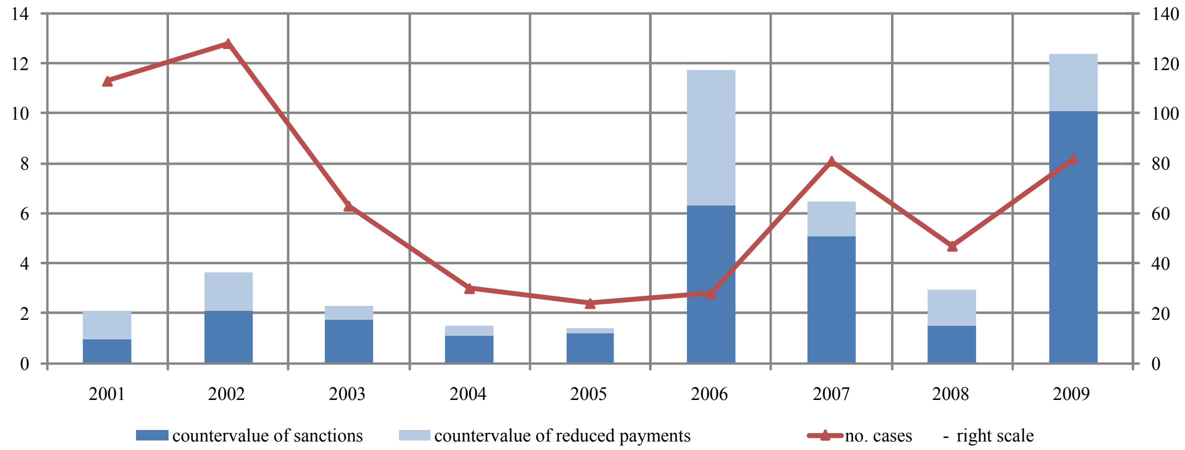
Again with regard to Consob investigations into alleged infringement of regulations on the public offering of financial products, in 2009 the number of precautionary measures (3) and prohibition orders (10) increased compared to the previous year (Table 37). This increase is mainly the result of supervision of unlawful web-based offerings.

Table 36 Reduced payments on infringement of regulations on public offerings, corporate disclosure and voting proxy
(amounts in thousands of euro)

	Number of cases						Number of persons						Amount of reduced payments					
	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings and shareholders'agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings and shareholders'agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major shareholdings 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*
2007	4	1	1[1]	21	--	*27*	21	4	1	23	--	*49*	217	42	10	1,105	--	*1,374*
2008	3	--	--	14	--	*17*	27	--	--	18	--	*45*	327	--	--	1,081	--	*1,408*
2009	--	--	--	44	--	*44*	--	--	--	53	--	*--*	--	--	--	2,320	--	*2,320*

[1] This figure refers to one payment made in 2007 but regarding an infringement confirmed in 2006. For sanction proceedings instigated in 2007 the reduced payment formula is no longer envisaged.

Fig. 81 Administrative sanctions regarding public offerings and corporate disclosure[1]
(millions of euro)



[1] From 2006 the figures refer to sanctions inflicted directly by Consob. For previous years the figures refer to sanctions proposed to the Ministry of the Economy and Finance.

Specifically, 8 out of the 86 web sites inspected on receipt of reports were blocked (6 out of 44 inspected were blocked in 2008). In this same context, 4 precautionary measures and 2 prohibition orders (attributable to the phenomenon of offerings of innovative financial products with pre-established returns and durations that exclude any option for the subscriber to intervene in relation to underlying decisions or further management of the cash payment made on subscription) were adopted.

Table 37 Precautionary measures and prohibition orders in relation to public offerings

	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*
2007	--	1	--	*1*
2008	2	1	--	*3*
2009	5	3	--	*10*

[1] In 2006 one precautionary suspension was adopted that was later withdrawn. In 2008, one case of suspension later in the year generated a prohibition order, also recorded in the table.

V Regulatory and interpretative activity and international developments

1 Regulation of issuers

After extensive public consultation, in 2009 the Commission completed the regulatory framework to implement Directive 2003/71/EC on prospectuses for public offerings or admission to listing on a regulated market of financial instruments (the Prospectus Directive), adopting amendments to the Issuers'Regulation by Resolution no. 16840 of 19 March.

At that time the timing for approval of public offering and/or listing prospectuses by Consob was also reviewed.

In addition, the Commission clarified the content of investigations to approve prospectuses involving shares in Communication no. 9025454 of 24 March 2009 (Box 2).

The Commission also intervened in exchange tender offers involving bonds promoted simultaneously in several Eu countries.

Following amendments to art. 106, subsection 3, paragraph *b)* of the Consolidated Law on Finance required pursuant to Italian Law no. 33 of 9 April 2009, art. 46 of the Issuers'Regulation on global takeover bids was also amended. Specifically, a 5% threshold was set for purchases against payment within twelve months by persons already in possession of more than 30% but without holding the majority of voting rights at shareholders'meetings, exceeding which gives rise to a mandatory takeover bid.

In March 2010, Consob completed its approval process for the new regulations on related party transactions executed directly or through subsidiaries by companies making use of the risk capital market (Italian companies with shares listed on regulated markets or widely distributed among the public, according to the definition in art. 2325-*bis* of the Italian Civil Code).

The new approved regulations consolidate into a single document the transparency obligations and principles regarding procedures that listed companies and issuers of widely-distributed financial instruments have to adopt to ensure correct conditions for the entire process of implementing related party transactions.

With regard to transparency to the public, the regulations envisage a considerable tightening of the current rules (mainly contained in art. 71-*bis* of Consob's Issuers'Regulation), calling for market disclosure of transactions (defined as significant) that exceed specified amount thresholds.

Box 2

Completeness, consistency and ease of understanding controls for prospectus approval

Directive 2003/71/EC adopted a maximum harmonisation approach, not only regarding the rules governing the prospectus, document content and exemptions, but also with regard to procedures and timing that European supervisory authorities have to meet in exercising prospectus-related controls. For this purpose the Eu legislation also identified the purpose of the controls as verification of the completeness of the prospectus and information consistency and ease of understanding.

By Communication no. 9025420 of 24 March, in 2009 Consob clarified the content and extent of controls to be completed for the approval of prospectuses, also for comparison with practices adopted by other Eu authorities. Such comparison was particularly important in reference to aspects not fully covered by Eu regulations (e.g. the number and type of documents requiring attachment of the original draft of the prospectus at the time of filing and the nature of controls performed on any press reports published).

The Communication pointed out that Consob is not required to verify the truth of the information contained in the prospectus, as such controls are expected of the persons assuming liability for the prospectus.

The Commission's tasks include control of the completeness of the information, i.e. confirmation that the information complies with requirements imposed by Eu law and the suitability of each element of the information to full represent the event/data to which it refers.

With regard to consistency, it should be specified that the controls, first and foremost to guarantee consistency of the information between the various sections of the document, is also extended to the attachments to the initial disclosure or which parties to the transaction are authorised to provide during the investigation, or submitted by other authorities, particularly those responsible for prudential supervision of issuers in specific sectors. Excluded from the consistency controls, however, is examination of the correspondence between financial statements data included in the prospectus with corporate accounts, review of the correspondence between accounting data reprocessed for inclusion in the prospectus, confirmation of the legal nature of transactions described in the prospectus submitted for approval with regard to regulations other than those referring to public offerings and/or listings, or compliance of the articles of association and financial instruments with corporate law, or compliance of the issuer's financial statements with regulations on their preparation. This type of controls, in fact, would imply verification of the truthful nature of the data and information in the prospectus, all of which is incompatible with the investigation deadlines established in the Directive and with its basic mission.

Lastly, with regard to ease of understanding, Consob verifies that the summary note is easily understood, also by an investor that does not have the conceptual and linguistic tools needed to understand the technical and specialist jargon. The remaining sections of the prospectus have to include information that is easily analysed and understood, as envisaged in art. 94, subsection 2 of the Consolidated Law on Finance, to avoid duplication of information, also by means of the technique of referring back to sections already containing that information.

With reference to periodic reporting, in implementation of art. 154-*ter* of the Consolidated Law on Finance, it is envisaged that the interim and annual management reports contain information on the more significant individual related party transactions, on other related party transactions completed during the reporting period that have significantly affected the company's financial position or results, and on any change or development in related party transactions described in the latest annual financial statements that have had a significant effect on the company's financial position or results.

For the procedural and substantial transparency and correctness profiles, the adopted regulations confirm the baseline decision to assign a central role to the independent directors in ensuring that the transactions executed are in the interests of the company. Directors are independent when they at least satisfy the requirements of the Consolidated Law on Finance (art. 148, subsection 3) or those established under any sector regulations applying to the business activities of the company.

The regulations define a general (less complex) procedure for "less significant" related party transactions. This general procedure involves a non-binding opinion by a committee composed of non-executive and unrelated directors, the majority of which independent.

A special, stricter procedure is envisaged for the "more significant" related party transactions (those exceeding the thresholds envisaged for transparency obligations). In such cases, in addition to the general procedure, independent directors must be involved in the negotiations, receiving a rapid, extensive flow of information and with the option of requesting clarification and formulating opinions for the executive directors. The resolution is carried by the entire board of directors on the binding opinion issued by the independent directors, who may make use of expert external advisors at the expense of the company. If the board of directors intends to proceed contrary to the opinion of the independent directors, the transaction must be approved by the shareholders'meeting, for which the decision - in addition to requiring a majority as prescribed in the Italian Civil Code - also requires a vote in favour by the majority of unrelated shareholders (the "whitewash" mechanism).

Where transactions are decided by the shareholders'meeting, without prejudice to application of the aforementioned procedures for submission of the proposal, for the more significant transactions with a negative opinion from the independent directors, application of the whitewash mechanism is required to avoid the result of voting being determined by shareholders that are related parties to the transaction (though the option remains for procedures envisaging a minimum attendance of unrelated shareholders not exceeding 10%).

Simplified procedures are envisaged for newly-listed companies (in the first two years of stock exchange listing), smaller companies (i.e. with balance sheet assets and revenues not exceeding 500 million euro) and for companies with widely-distributed shares. Without prejudice to the transparency rules, these companies may apply the regulations for less significant transactions also for those that are more significant. Furthermore, certain transactions can be fully or partially exempt from application of the rules, as decided by the company.

In 2009 a number of amendments to the Issuers'Regulation entered into force in relation to rules for undertakings for collective investment and financial products issued by insurance companies (unit-linked, index-linked and capitalisation policies). The main new elements refer to simplification of the format and content of documents for compulsory issue to investors.

Specifically, the simplified prospectus for Italian open-end undertakings for collective investment and the summary format for financial insurance products are now composed of a limited number of pages divided into two sections, subject to independent updating. The first section focuses on the subscription, switch and redemption methods and on company-product information. The second section provides information of a general nature, the financial structure and cost profiles, also to allow investors a better understanding of the risk-return profile, and at the same time facilitate the task of offerors or placing agents of complying with information transparency during distribution of this type of product.

For transparency purposes, the key information on the financial structure of the product is broken down according to a "three pillar" risk-based approach to the information: i) a financial investment table and, for certain products, probable yield scenarios for the financial investment; ii) the degree of risk and, where relevant, the degree to which this deviates from the benchmark; iii) the recommended investment time horizon.

In accordance with the principles outlined in the regulations for undertakings for collective investment and financial insurance products, an examination was launched in 2009 regarding potential extension of the risk-based approach for transparency to other non-equity instruments. In this context, a consultation paper was issued, "*Recommendation on the offering or listing prospectus for the trading of non-equity financial products other than undertakings for collective investment units or shares and financial products issued by insurance companies: presentation methods and information content on the risk-return profile and costs*".

2 Regulation of ongoing corporate disclosure

In April 2009, in implementation of the enactment decree for the Transparency Directive (2004/109/EC) and after extensive market consultation, by Resolution no. 16850 the Commission made important amendments to the Issuers'Regulation, introducing standardised disclosure obligations for listed issuers and related shareholders and specific rules to guarantee Europe-wide public access to regulated information. The rules on periodic financial reporting and ongoing disclosure obligations were also changed in reference to ownership structures. Regarding the system for disseminating regulated information, new rules were introduced to the regulations governing the dissemination, storage and filing stages, in implementation of regulatory powers delegated to Consob under art. 113-*ter* of the Consolidated Law on Finance.

On the issue of dissemination, the regulations envisage dissemination of information by interested parties through an Sdir, a "system for the dissemination of regulated information", or by their own means.

Regarding storage, a system is envisaged based on a number of operators, authorised by Consob and meeting specific requirements, each of which is expected to cover all regulated information tasks on behalf of issuers choosing that operator.

Lastly, with reference to filing, this is envisaged through a Consob link to authorised storage devices or through the Teleraccolta system.

For the storage devices it was considered appropriate to first arrange a preliminary recognition of parties interested in using the device by requesting the submission of a non-binding statement of interest. During 2009, however, no applications were received for authorisation to manage the dissemination services for regulated information, nor any statement of interest in the storage devices.

By Resolution no. 17002 of 17 August 2009, to take into account amendments to the Consolidated Law on Finance on disclosure of information pursuant to Italian Legislative Decree no. 101 of 17 July 2009, the Commission introduced a transitional regime for the publication of notices or corporate disclosures of regulated companies. According to this regime, compulsory publication in national daily newspapers was temporarily restored, until 31 March 2009 as envisaged in the Issuers'Regulation, prior to amendments made in April in implementation of the Transparency Directive.

With regard to the rules for periodic disclosures, the aim of the amendments to the Issuers'Regulation is to standardised its provisions to the new type of documentation envisaged in the Consolidated Law on Finance after implementation of the Transparency Directive (annual financial statements, half-year and interim management reports) and to align the model for the declaration issued by appointed directors and the manager charged with preparing corporate accounting documents for the separate, consolidated and abridged half-year financial statements with European regulations (model attached to the Regulation).

In terms of ownership structure, implementation of the Transparency Directive offered an opportunity to fully review current rules on ownership transparency so that, in addition to the adjustments imposed by Eu provisions, the rules can be streamlined without reducing the level of market transparency already guaranteed under Italian regulations.

The Commission also reviewed the regulations on potential shareholdings (in compliance with Eu provisions and the current system in Italy, referring only to the physical settlement of derivatives).

Specifically: i) separate rules were envisaged for disclosure obligations regarding "actual" shareholdings, with subsequent elimination of the aggregation obligation for significant threshold calculations; ii) the significance thresholds were extended (for potential shareholdings also, the 2% threshold under Italian law was introduced as the minimum for ownership transparency purposes and the 15%, 20% and 30% thresholds were added); iii) significance was retained (unlike in the European provisions) also for instruments offering the right to buy (compared to the previous system now limiting the obligation to persons with an actual or potential investment purchases of more than 2%); iv) lastly, two separate obligations were envisaged for buy and sell investments without the netting option on the buying or selling rights.

Regarding significant equity investments held through derivatives, in 2009 a position paper was published containing a number of preliminary ideas regarding extension of the transparency regime to positions involving cash-settled derivatives with underlying shares of issuers listed on Italian regulated markets. This extension could be adopted under the powers assigned under art. 120, subsection 4, paragraph *d-ter)* allowing Consob to issue a regulation identifying "*cases in which derivative holdings give rise to disclosure obligations*", already partly implemented as described above.

3 Market regulation

Following a public consultation launched in the second half of the previous year, 2009 saw the completion of procedures for the recognition of two market practices on supporting market liquidity and on treasury share purchases for stockpiling purposes (Resolution no. 16839 of 19 March).

After extensive consultation, the Commission adopted Communication no. 9034169 of 16 April 2009 explaining a number of topics governed by the Market Regulation and supplementing Communication no. 8005271 of 21 January 2008, issued as a result of post-MiFID regulatory changes. The new communication incorporated and updated the previous communication on transaction reporting, systematic internalisers and reports to Consob from regulated market management companies.

Specifically, with regard to transaction reporting, the Communication envisaged the introduction of Alternative Instrument Identifiers (i.e. as alternatives to Isin codes) and the option for intermediaries of making use of Italian multilateral trading systems to submit reports to the Commission.

Regarding systematic internaliser activities, a model was introduced to standardise the content of disclosures for submission to Consob on admission to trading of new financial instruments, or for "cease trading" notifications.

In a later communication (no. 9085378 of 1 October 2009), a coordinated version of the previous two communications (those of January 2008 and April 2009) was adopted which systematically covered the transaction reporting system, publication and consolidation of pre-trading and post-trading information, the startup and winding-up of systematic internalisers, essential business continuity measures and reporting by regulated market management companies.

By Communication no. 9053316 of 8 June 2009, Consob also provided clarification regarding information to be represented in prospectuses and disclosure obligations important to investors in relation to bond loans characterised by liquidity support activities and issuer buy-back obligations based on pre-established criteria.

4 Regulation of intermediaries

The examination and validation of guidelines proposed by financial intermediaries'associations continued in 2009 in relation to matters covered by the Intermediaries'Regulation, as amended post-MiFID.

On 2 March 2009 Communication no. 9019104 was issued on "*The duty of the intermediary to act with due correctness and transparency on distribution of illiquid financial products*". The Communication forms part of the "level 3" measures for the Intermediaries'Regulation, by which Consob provides detailed interpretative guidance for the firm application of the regulatory system adopted on implementation of the MiFID.

The text covers the distribution to retail customers of illiquid products (bank bonds, financial insurance products and derivatives) and recommends that intermediaries adopt firm transparency measures. It also prescribes the monitoring of pricing, and requires that intermediaries have in-depth knowledge of the illiquid products distributed and of the target customers in order to fully assess suitability and appropriateness.

With specific regard to the transparency recommendations, intermediaries are asked to provide customers with information on the correct value and implicit and explicit costs of the illiquid product distributed. It goes on to recommend that operators inform their customers of the characteristics of the product distributed, presenting comparisons with simpler, well-known products that facilitate reasoned decision-making.

In terms of interpretation of the current rules on investment suitability assessment, the intermediary is called upon to have full knowledge of the customer's preferences, particularly regarding the investment time horizon, so as to provide the most suitable advice. In this respect the need is emphasised that, during the process of assessing transaction suitability, the investor's holding period is expressly and independently compared with the duration of the illiquid product distributed in order to guarantee compatibility between the two variables.

Regarding the conditions for acceptance by managers (individual or collective investments) of research reports on known investments from traders as a soft commission service, following a consultation conducted on MiFID Level 3 guidance the Commission provided the first interpretative guidelines on the Intermediaries'Regulation (Communication no. 9003258 of 14 January 2009). The document covers the profiles relating to research reports as an element of the investment process, the conditions for acceptance of the report as a specific form of soft commission, best execution profiles and consistency with the trader's specialist subject.

As a result of supervisory activities conducted during the year on hedge funds (see Chapter III above, "*Supervision of intermediaries*"), the Commission also formulated guidelines to define suitable internal procedures for the orderly and correct research and selection of target funds, in compliance with the rationale behind current regulations on correct conduct and consistent with the specific business activities performed (Communication no. 9079688 of 4 September 2009).

Regarding offering prospectus formats for open-end undertakings for collective investment, closed-end funds and financial products issued by insurance companies, in March 2009 provisions were issued that changed the offering prospectus in accordance with the terms illustrated previously (see paragraph 1 above). A further change to the regulations on prospectuses concerned overcoming the need for prior approval of open-end fund prospectuses, in line with the procedure already in place for financial products issued by insurance companies. In this way, supervision of open-end fund prospectuses will be conducted after their publication, and therefore at the time of launching the fund offering.

In January 2010 the Regulation containing the implementing rules of the Consolidated Law on Finance in relation to financial advisors, natural persons and financial advisory companies, which in addition to an extensive market consultation followed a complete definition of the primary regulatory framework.

The regulations for new professional operators authorised to provide investment advisory services are driven by the aim of encouraging the development of advisory services (an essential access channel to the financial market by investors) and of increasing competition between the various market operators, all in a regulatory context that guarantees equivalent conditions among service providers and a high level of investor protection.

VI International relations

1 International cooperation

Consob continued its international cooperation activity in 2009 with the supervisory authorities of Eu member states and of other countries.

The number of requests for information issued to other foreign authorities has fallen considerably compared to 2008 (Table 38). This figure can be attributed to the decrease in requests for verification of compliance with the ban on short selling after the ban was removed (see Chapter II "*Markets supervision*"). However, there was an increase in the number of requests for information received by Consob from foreign supervisory authorities (59 compared to 48 in 2008), mainly regarding the verification of integrity and professionality requirements.

In December Consob signed a cooperation agreement with the German supervisory authority, BaFin (*Bundesanstalt für Finanzdienstleistungsaufsicht*), for the coordinated control of the Italian bank branch of Hypo-und Vereinsbank AG (HVB AG).

2 Activities within the European Union

2009 saw the continued participation of Consob in European Commission activities for the preparation and approval of directive and regulation proposals and in negotiations on opinions regarding the setup of a new European supervisory architecture for the financial sector.

In September the European Commission adopted a legislative package comprising 4 proposed regulations with the aim of redesigning the entire European financial supervision framework. The reform is based on conclusions formulated in the Larosière Group's report. The European Commission had assigned this group with the task of assessing options for reform of the European supervisory architecture, and the group presented its recommendations in February. On 2 December 2009, Ecofin (the European Council of Ministers of the Economy) reached a political agreement on the legislative package. The next step will be by the European Parliament, expected to pronounce on the proposals according to the co-decision procedure envisaged in the Treaty of Lisbon. The aim of the European Commission and the Council is to put the new supervisory system into operation from 2011.

Table 38 Exchange of information between Consob and foreign Supervisory Authorities

Subject	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Information requests issued to foreign authorities										
Insider trading	32	24	24	11	8	12	16	18	25	23
Market manipulation	1	4	--	4	8	6	12	9	27	14
Unauthorised public offerings and investment services	3	10	9	5	2	4	5	1	2	3
Transparency and corporate disclosure	1	--	--	6	9	10	5	1	2	1
Major shareholdings in listed companies and authorised intermediaries	--	1	1	3	1	2	4	3	2	2
Integrity and professionality requirements	19	14	34	21	7	4	--	9	--	--
Infringement of rules of conduct	2	--	--	1	2	--	1	--	--	3
Transaction reporting (art. 25, MiFID)	—	—	—	—	—	—	—	—	1	1
Short selling	—	—	—	—	—	—	—	—	42	6
Direct requests to a remote member (art. 57, MiFID)	—	—	—	—	—	—	—	—	11	2
Suspect transaction reports	—	—	—	—	—	—	—	—	1	6
Total	*58*	*53*	*68*	*51*	*37*	*38*	*43*	*41*	*113*	*61*
Information requests from foreign Authorities										
Insider trading	5	20	13	17	18	18	17	18	18	5
Market manipulation	--	1	1	2	3	4	14	2	3	2
Unauthorised public offerings and investment services	1	2	7	4	3	9	9	3	2	8
Transparency and corporate disclosure	2	--	--	--	--	4	3	--	1	1
Major shareholdings in listed companies and authorised intermediaries	--	--	2	1	--	4	--	1	1	--
Integrity and professionality requirements	53	49	80	70	44	31	46	37	18	36
Infringement of rules of conduct	--	--	--	--	--	--	--	3	2	2
Transaction reporting (art. 25, MiFID)	—	—	—	—	—	—	—	—	1	--
Short selling	—	—	—	—	—	—	—	—	--	--
Direct requests to a remote member (art. 57, MiFID)	—	—	—	—	—	—	—	—	--	--
Suspect transaction reports	—	—	—	—	—	—	—	—	2	5
Total	*61*	*72*	*103*	*94*	*68*	*70*	*89*	*64*	*48*	*59*

The new supervisory architecture is based on 2 pillars: i) the setup of a European Systemic Risk Board (Esrb) for macro-prudential supervision and, where necessary, the issue of warnings on financial system stability and non-binding recommendations; ii) the setup of a European System of Financial

Supervision (Esfs) dedicated to safeguarding the solidity of individual finance companies and to protecting investors, composed from the national authorities and from 3 new European Supervisory Authorities (Esas).

Qualifying as legal entities, the Esas will come from the transformation and enhancement of the current Level 3 Committees (Cesr – *Committee of European Securities Regulators*, Cebs – *Committee of European Banking Supervisors* and Ceiops - *Committee of the European Insurance and Occupational Pensions Supervisors*) and will include the Eba – European Banking Authority, the Eiopa – European Insurance and Occupational Pension Authority and the Esma – European Securities and Markets Authority.

In addition, Consob was involved in negotiations on the proposed Directive on alternative investment fund managers and contributed to the final approval of the proposed amendment to the UCITS Directive. Directive 2009/65/EC, or "UCITS IV", was formally approved on 13 July 2009 and entered into force on 7 December 2009. The deadline for its implementation by Eu member states is 30 June 2011.

The Commission participated in negotiations on the proposed amendment of the Prospectus Directive and Transparency Directive, and in the work to prepare the regulation on rating agencies. This regulation (1060/2009/EC), finally approved on 16 September 2009 and entering into force on 7 December 2009, became directly applicable in Eu member states.

During the year proposed amendments were approved for the fourth and seventh Directives on reducing certain disclosure and consolidated reporting obligations of medium-sized companies.

Amendments were also made to measures on the final version of the regulation on payment systems and the regulation on securities and financial guarantees.

In 2009 the European Commission established further principles on the issue of remuneration for directors of listed companies, supplementing previous recommendations, and launched an information consultation with governments of the leading member states prior to publication of a proposed Directive on the market infrastructure.

Lastly, the European Commission launched a public consultation on the potential review of the Market Abuse Directive, identifying certain areas for improvement in the current regulations.

During the year, Consob provided technical support to the Ministry of the Economy for Aurc meetings (Audit Regulatory Committee) and attended meetings of the Egaob (European Group of Auditors'Oversight Bodies), the Group of Experts set up by the European Commission to coordinate the public bodies responsible for controlling statutory and independent auditors at European level.

3 Activities within the Committee of European Securities Regulators (Cesr)

During 2009 the work of the Cesr working parties continued on problems linked to the financial markets crisis. This activity ended with the drafting of numerous in-depth reports and the definition of common action plans.

Specifically, Consob participated in the Post-Ecofin Task Force, responsible for the preparation of documents, common positions and opinions for the European Commission with a view to transformation of the Cesr into a new European Authority. The Group examined the Commission's regulatory proposals and began discussions with the European institutions to strengthen the role of the new financial markets authority (Esma). The work of the Task Force will continue in 2010.

The Investment Management Expert Group (Imeg), led by Consob's chairman, worked intensively to comply with the mandate from the European Commission as part of the review process for the Eu regulations on undertakings for collective investment, which led to approval of the UCITS IV Directive in June 2009 (as already mentioned in paragraph 2).

Based on the group's technical opinion, in 2010 the European Commission will adopt level 2 implementation measures for the new Directive on harmonised mutual funds. These measures will guarantee alignment between the regulations applying to asset management companies and investment companies in accordance with the MIFID, at the same time taking into account the specific features of the collective management sector.

During the year, the Cesr Expert Group also completed work on the rules for the Key Information Document (KID), due to replace the simplified prospectus for harmonised funds, in response to the European Commission's request for technical support.

The Cesr has indicated the information content standards for the KID in relation to investment objectives and strategies, risk-return, cost and past performance profiles. Regarding information on the risk-return profile, the Cesr suggested adopting a synthetic qualitative benchmark (based on quantitative methodologies), accompanied by a written description of the main limits of the benchmark and a presentation of the significant risks not covered by the methodology implicit in the benchmark build.

With regard to fund risk management and monitoring, the rulings proposed by the Cesr are taken from the guidelines approved in February 2009 and prepared by the Operational Task Force (Otf), a group forming part of the IMEG dedicated to technical and operational aspects of the harmonised application of European asset management regulations.

Consob was also an active participant in Cesr working parties to analyse and study the MiFID and Prospectus Directive. The Institute took part in the work of the Review Panel (the standing committee on Cesr standards implementation by Eu member states) to map the supervisory and enforcement powers attributed to Eu member state supervisory authorities, in implementation of the MiFID.

The work of CesrFIN, the standing committee on financial reporting, and the enforcement sub-committee Eecs (European Enforcers Coordination Sessions) also continued in 2009 to establish instruments to guarantee effective coordination of financial reporting enforcement activities at European level.

On the issue of market abuse, Consob contributed to the Cesr work to prepare a third set of guidance on the operation of the Market Abuse Directive (MAD, 2003/6/EC) published in May 2009.

In relation to rating agencies, the European Commission asked the corresponding Cesr working party, of which Consob is a member, to provide a technical opinion on the equivalence assessment for the regulation systems in certain countries (Japan, Australia, the United States and Canada) given the new European regime on this issue. The opinion is due for submission by the end of April 2010.

The Institute also participated in the work of Cesr-Tech and joint Cesr-European Central Bank activities on clearing and settlement.

In 2009 the Cesr set up a new Task Force on mutual recognition, chaired by Consob.

The Task Force conducted an economic analysis of the advantages and disadvantages of mutual recognition with third countries and significant regulatory aspects that could form the basis and conditions for establishing contact with such countries. A position paper was published on completion of this task. The Task Force's activities will continue in 2010.

The work of the joint Task Force of the Level 3 committees (Cesr, Cebs, Ceiops) on the delegation of duties among European supervisory authorities also continued.

4 Activities within the International Organization of Securities Commissions (Iosco) and other international bodies

In 2009 Consob took part in the Iosco (International Organization of Securities Commissions) Technical and Executive Committees and participated in the related standing committees, working parties and task forces.

The Institute took over joint presidency with the Fsa, the Uk supervisory authority, of the Task Force on Unregulated Entities set up by the Technical Committee to coordinate control initiatives on unregulated entities. On completion of the Task Force's work, Iosco published a report containing 6 principles that the various national laws should observe in the regulation of hedge funds.

The Iosco Technical Committee also set up a Task Force on supervisory cooperation with a view to encouraging coordination of the supervision of intermediaries and markets operating on a cross-border basis.

Consob participated in the work of other Iosco Task Forces set up in 2008 to overcome the financial markets crisis and to coordinate general regulatory measures in support of G-20 goals. The work of the Task Forces formed the basis for the publication of new international standards encouraging further convergence of national regulations in their respective areas of competence.

The Institute took part in the Implementation Task Force (Itf) – which assesses the implementation status of Iosco Objectives and Principles on Securities Regulation issued in 1998 – and assisted in initiatives of the Task Force on Credit Rating Agencies – whose goal is to improve and coordinate international supervision of rating agencies and encourage compliance with the Iosco Code of Conduct. In 2009 the Task Force was transformed into Standing Committee no. 6, which will work to encourage regulatory convergence on credit rating agencies.

The Task Force verified the level of adoption of the new Code of Conduct by rating agencies, publishing its results in March 2009 and at the same time informing the G20 and the Financial Stability Forum (now the Financial Stability Board). The work of the Task Force will continue to improve rating agency supervision at international level.

During the year the Commission's involvement continued in the Iosco Technical Committee's standing committees on accounting transparency and profiles (Standing Committee 1), secondary markets (Standing Committee 2), intermediaries (Standing Committee 3), cooperation difficulties (Standing Committee 4) and collective investment undertaking entities (Standing Committee 5).

Consob participated in Iosco's Screening Group – to screen applications submitted by supervisory authorities to sign the multilateral agreement on cooperation and information exchange – and in the work of the Joint Forum – a group composed of representatives of the supervisory authorities for the banking, financial and insurance sectors to study issues of common interest.

March 2009 saw the official launch of the cooperation project between financial supervisory authorities on both sides of the Mediterranean (the Mediterranean Partnership), of which Consob is a member. The task of the Joint Forum (composed of the Algerian, Egyptian, French, Italian, Moroccan, Portuguese, Spanish and Tunisian authorities) is to establish harmonised working methods and adopt common operating procedures to facilitated cross-border cooperation and to reach agreements that are mutually recognised by the signatory authorities.

The Institute also participates in the International Forum of Independent Audit Regulators (Ifiar) - a group aiming to facilitate cooperation between the relevant audit regulators – and chairs the Steering Group on Corporate Governance, which coordinates and steers the work of the Organisation for Economic Cooperation and Development (Oecd) on corporate governance, including problems related to privatisation and insolvency procedures.

The Steering Group on Corporate Governance examined the critical points emerging from the financial crisis in corporate governance models, with particular focus on the issues of remuneration, risk management, the role of the board of directors and shareholder protection. The Steering Committee is in the process of launching initiatives as support to the Financial Stability Board for its peer review on corporate governance.

Lastly, Consob takes part in the work of the newly-established Oecd Task Force on related parties, with the task of examining the current regulatory systems on this issue and proposing policy options to improve the control and transparency of related party transactions.

Consob's internal management and external relations VII

1 Financial management

The current expenditure budget for 2009 recorded a decrease on the annual figures for 2008, largely due to the lower amount set aside to the Provision for risk to cover potential compensation for damages (included among unclassifiable expense) and costs for the purchase of goods and services, given the increase in personnel costs (Table 39). Capital expenditure (4 million euro) also increased, fully attributable to IT equipment purchases.

Table 39 Summary table of revenues and expenditure
(millions of euro)

Items	2003[1]	2004[1]	2005[1]	2006[1]	2007[1]	2008[1]	2009[2]
Revenues							
Previous year surplus[3]	11.6	11.7	15.3	12.8	24.0	29.7	11.5
State funding	23.3	26.7	24.4	13.1	10.7	9.8	7.9
Supervisory fees	41.6	49.2	46.9	75.2	75.1	75.0	87.8
Sundry revenues	4.9	3.5	3.7	7.5	9.9	17.2	9.9
Total revenues	*81.4*	*91.1*	*91.3*	*108.6*	*119.7*	*131.7*	*117.1*
Expenditure							
Current expenditure							
Members of the Commission	1.3	2.2	2.0	2.2	2.6	2.6	2.6
Staff	43.2	44.6	48.0	55.1	60.2	70.6	74.0
Goods and services	18.9	19.4	19.4	20.8	23.0	23.3	18.7
Renovation and expansion of fixed assets	4.6	4.3	4.3	4.1	4.1	4.0	4.2
Unclassified expenditure	0.4	5.2	4.6	0.1	0.1	19.1	13.6
Total current expenditure	*68.4*	*75.7*	*78.3*	*82.3*	*90.0*	*119.6*	*113.1*
Capital expenditure	1.7	2.6	1.5	1.9	1.7	2.0	4.0
Total expenditure	*70.1*	*78.3*	*79.8*	*84.2*	*91.7*	*121.6*	*117.1*

[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 2008 surplus is recorded among 2009 revenues.

Net of surplus from the previous year, the total revenues in 2009 amounted to 105.6 million euro, including 87.8 million euro (83.2%) from fees (mainly in reference to the public offering, issuer, intermediary and independent auditor categories; Table 40).

Table 40 Fees by category of supervised entity
(millions of euro)

	Investment companies and stockbrokers	Banks	Independent auditors	Financial salesmen	Market entities [3]	Issuers	Undertakings for collective investment [4]	Public offerors	Trading on the Mta and Expandi markets	Other	*Total fees*
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[1]	1.2	12.5	6.0	13.6	5.2	14.7	9.2	10.0	—	2.8	*75.2*
2007[1]	1.0	10.4	.5	12.9	4.8	13.1	8.3	16.3	—	2.8	*75.1*
2008[1]	1.1	11.3	6.3	11.7	4.7	12.7	7.1	18.4	—	1.7	*75.0*
2009[2]	1.3	13.1	9.0	5.0	5.1	14.7	8.5	29.0	—	2.1	*87.8*

[1] Annual accounts. [2] Final budget. [3] Includes Borsa Italiana Spa, Tlx Spa, Mts Spa, Cassa di Compensazione e Garanzia Spa and Monte Titoli Spa.
[4] Includes the supervisory fees paid by asset management companies for individual portfolio management services.

The total budget for expenditure in 2010 will be 117.8 million euro, up 11 million euro on the initial budget for 2009. This increase is essentially due to the higher personnel costs (+9.26 million euro, 98% of which is linked to the organisation completion programme), leasing and management costs for the new premises in Rome and Milan (+2.43 million euro) and to higher capital expenditure (+0.4 million euro), in addition to organisation completion also linked to expenditure for the upgrading and enhancement programme for the Commission's IT system. The total effect of these costs was mitigated, however, by containment action on other current expenditure items.

Revenues totalling 113.3 million euro are expected in 2010, including 1 million euro from the State fund, 107.9 million euro from fees and 4.4 million euro from other revenues. Added to these are 5.1 million euro presumed administration surplus from 2009. Revenues from fees recorded a necessary increase of 25.2 million euro compared to 2009, due to the decrease in the State fund (-7.5 million euro), the lower surplus available for use in 2009 (-4.5 million euro) and other revenue items (mainly interest income; -2.0 million euro) and to the increase in expenditure budgeted for 2010 (+11 million euro).

2 Human resource management

In 2009 a total of 29 staff were recruited for the Rome and Milan offices. In the same year, staff leaving comprised 4 permanent staff and 3 with fixed-term contracts. Compared to 2008, the Commission's actual staff numbers increased by 22 (Tables 41 and 42).

As at 31 December 2009 the Institute's workforce totalled 578 staff (531 permanent and 47 with fixed-term contracts).

In accordance with the "Recruitment Plan" approved by the Commission for the recruitment of 86 new resources, 6 competitive selection procedures were published during 2009 to recruit a total of 63 permanent staff as managers, assistants and operators for the Rome and Milan offices.

The programme to complete Consob's organisation, launched in 2009, continued in the first few months of 2010 with publication of a further 2 competitive selection procedures to recruit 4 permanent staff as assistants and operators and 2 selection notices for the recruitment of 6 fixed-term resources as managers.

Staff training continued, with an increase in related costs and the number of training hours.

Table 41 Staff[1]

	Permanent employees				Employees on fixed-term contracts	*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*
2007	200	266	13	*479*	56	*535*
2008	198	295	13	*506*	50	*556*
2009	231	287	13	*531*	47	*578*

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

Table 42 Breakdown of staff by grade and business unit[1]

	Executive	Manager	Office staff	Other	*Total*
Divisions					
Issuers	14	61	35		*110*
Intermediaries	2	28	42		*72*
Inspectorate	2	17	19		*38*
Markets	6	21	35		*62*
Legal Studies	3	4	4		*11*
Economic Studies	2	12	18		*32*
External Relations	4	2	11		*17*
Legal Services	4	19	15		*38*
Administration and Finance	3	8	36	12	*59*
Resources	6	14	18		*38*
Computer Systems	4	9	14		*27*
Other offices [2]	11	21	41	1	*74*
Total	*61*	*216*	*288*	*13*	*578*

[1] As at 31 December 2009. Fixed-term employees are classified according to the equivalent permanent grades. [2] Includes offices not coordinated by the Divisions. "Other" includes general services staff.

3 External relations and investor education

During the year Consob continued its relations with the public and with investors, enhancing its communication tools.

The Commission's web site was confirmed as the central communications tool for Consob external relations. The high number of visitors to the web site confirms how important this tool is for operators, who obtain information on regulation and related obligations, and for investors, who obtain useful indications on financial products (Table 43).

To improve its web site, Consob has introduced Rss feeds allowing more frequent users to receive real-time updates to news and recently adopted measures directly on their PC. To allow readers more rapid access to the vast amount of information available on the web site, the new Sipe system was created in the recently-published "Interactive" section

Numerous support requests have been received through the Sipe system from the public and investors in relation to the many new regulations introduced during the year, and reports on various corporate transactions and affairs regarding market operators (Table 44).

Table 43 Visitors to Consob's website

Sections	2003	2004	2005	2006	2007	2008	2009
Home page (What's new)	953,900	1,563,957	2,040,414	2,674,672	2,130,146	1,802,657	1,872,681
Investors	144,333	156,023	158,124	303,315	343,988	188,489	172,552
Operators	70,573	69,071	101,098	358,795	367,472	509,550	308,741
Press[1]	—	—	—	—	—	12,021	12,052
Consob	118,407	157,075	229,123	—	846,986	1,126,879	1,454,345
Issuers	2,214,855	2,567,876	2,811,214	3,936,630	2,791,044	2,878,956	3,679,389
Intermediaries and markets	189,417	234,561	289,627	889,495	1,690,854	1,435,906	1,020,29
Consob Decisions/Bulletin	387,879	421,345	519,469	596,785	695,790	734,231	968,085
Legal framework	430,937	501,071	727,141	955,965	2,116,752	2,394,500	1,905,754
Publications and press releases[2]	451,318	495,005	521,198	634,400	750,300	—	—
Links	27,122	29,087	14,098	17,980	9,716	8,925	209,465
Site search engine	223,459	245,013	275,192	276,195	313,236	255,997	1,745,657
Integrated automatic supervision systems (Saivap - Saivic)[3]	—	—	—	—	—	946,569	14,917
Help and site map	64,543	72,354	89,210	25,125	26,300	58,050	43,893
English version	132,605	136,357	141,498	428,925	296,892	273,761	844,559

[1] Until 2007, figures for the press were included under "Home Page". [2] In 2008 the figures were included under "Consob". [3] Figures are available from 2008 and refer to access to the Saivap and Saivic systems. From June 2009, however, available data regard access to the Sipe system, and from October 2009 regard access to the Saivia system. [4] Figures are available from June 2009 when the new interactive section was published.

Table 44 Applications for documentation and information on Consob 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*
2007	185	1,463	*1,648*	50	470	995	133	*1,648*
2008	193	2,545	*2,738*	60	900	1,675	103	*2,738*
2009	175	2,640	*2,715*	80	1,100	1,470	65	*2,715*

Consob continues to closely watch complaints, which are a valuable source of information for investigations and supervisory activities.

In 2009, during the consultation procedures on regulatory and European measures of interest to retail investors, Consob continued its cooperation with consumer associations, which participated in meetings and prepared responses to the consultations on aspects most relevant to investors.

Further meetings were organised with corporate officers of intermediaries and other supervised entities to provided clarification to operators on new, important regulatory measures.

Consob participated in the hearing held by the 10th Commission on "Industry, commerce and tourism" of the Italian Senate, where the examination of a number of bills on financial education is still in progress.

Attention was focused on the need to implement means of coordination at national level that involve public and private entities in the development of initiatives to improve financial education among the general public.

With regard to conciliation and arbitration procedures, in implementation of Italian Legislative Decree no. 179 of 8 October 2007, the Conciliation and Arbitration Chamber was set up on Consob premises and in July and October the Commission appointed the five panel members.

From November, the Conciliation and Arbitration Chamber began a coordinated examination of legal and regulatory provisions governing its activities and launched the formalities necessary to guarantee its full operation. Based on its finding, the Chamber then began preparation of the Articles of Association and Code of Ethics for conciliators and arbitrators, to which actual management of disputes is entrusted. The Articles of Association and the Code were both adopted in February 2010.

4 Computer systems

In 2009 Consob's computer systems were subject to a series of upgrades for the strategic and methodological development of Ict sector operations, following assessments completed on the network setup.

Strategic guidelines for Ict development were defined by identifying and standardising the reference application platforms, architecture, processes and methodologies used in the Institute's Ict organisation and security protection. These guidelines form the basis for the "Systems Plan – Ict Strategy 2010-2012", which based on existing technology structures defines the reference Ict model for the technologies and applications, data and operating processes, environments for communication with Consob's internal and external bodies and for protection of the database managed by the Institute.

In 2009 activities preliminary to the operational implementation of the Systems Plan led to definition of the Central Information System as the IT platform for the centralised management of data, processes, architecture and security, facilitating relations between Consob and the persons involved in institutional and supervisory activities.

During the year considerable action was taken in the area of IT services and the technology architectures/infrastructures, implementing new application systems and enhancing existing systems.

Specifically, the Teleraccolta system for issuer and intermediary information flows, along with the disclosure and transparency system (on major shareholdings, corporate bodies and share capital, ownership structures, etc.) were subject to developments also in relation to changing regulatory conditions.

In addition, the new functions for the Transaction Reporting System, preparation of the new Markets Control Station system and preparation of the infrastructures for implementation of the Service Delivery Network architecture characterised developments in the existing applications and architectures.

During 2009 work continued to implement the Integrated Systems to complete the range of services and functions via which Consob interfaces and interacts with external entities. With regard to supervised entities, tools have been implemented to simplify the transmission and sharing of information flows to and from Consob.

Specifically, the Sitrap system was created (the automatic integrated system for the supervision of non-equity product transparency) via implementation of the Saivia module, dedicated to financial products issued by insurance companies, and the implementation of the first version of Sipe (the integrated system for external relations).

Maintenance and updating of the Saivic system (automatic integrated system for the supervision of director and internal control offices) continued during the year, the updated version of which encourages input from the members of control bodies who, to verify their compliance with limits on plurality of office, used the system in continuous communications mode.

Methodological notes C

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 were obtained by Consob as part of its institutional supervisory activities.

Figures 1, 3, 4, 5, 7, 8

Major listed groups are represented by a "closed" sample of groups for which a complete series of financial statements since 1998 is available and assessed in Mediobanca's R&S yearbook. 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 2008 financial statements indicated in brackets): Enel (since 2005 Terna has been considered separately as it is no longer consolidated with Enel), Eni (Snam Rete Gas, Saipem), Telecom Italia (since 2003 consolidates TI Media), Exor (formerly Ifi; consolidated Ifil, incorporated in 2009, and Fiat, considered since 2004 as it is no longer consolidated in Exor; consolidates in Juventus), Edizione (consolidates Autogrill, Benetton, and since 2007 Atlantia, formerly Autostrade, which is considered separately until 2006), Aurelia (Autostrada TO-MI, Sias), Italmobiliare (Italcementi), Luxottica, A2A (formerly AEM), Fininvest (Mondadori, Mediaset), Edison, Erg (Erg Renew, formerly Enertad), Acea, Pirelli & C. (Pirelli RE), Cofide (Cir, L'Espresso, Sogefi), Buzzi Unicem, Tenaris (until 2000 data referred to Dalmine, delisted in 2003), Impregilo, Intek (until 2006 data referred to Gim, in 2007 merged into Intek; it consolidates KME Group, formerly SMI and Ergy Capital since 2008), RCS MediaGroup (Dada), Finmeccanica (Ansaldo STS), Caltagirone (Cementir, Vianini Industrie, Vianini Lavori, and since 2004 Caltagirone Editore), Indesit Company (formerly Merloni), Bulgari, Davide Campari, SNIA (since 2004 Sorin has been considered separately as the result of a spin-off from SNIA). In order to maintain consistency in the time series of the Telecom Group financial statements, the Seat Pagine Gialle group was also considered (previously consolidated into Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (particularly Fininvest, Edizione and Aurelia).

Tables 1, 2, 3, 4 and Figure 19

Per la trattazione delle offerte finalizzate all'ammissione a quotazione vengono adottati i seguenti criteri:

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 public 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 public offering;
- the overall total of the offering also takes into account shares sold under agreements in force prior to the listing;
- 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 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 for 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 included are credit relations existing as at the public offering date between the sponsors or placement agents handling the operation, or persons controlling or controlled by them, in listed companies or their subsidiaries.

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 was account taken of the figures for credit facilities granted but not used.

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

Figures 49, 50, 51, 52, 53, 54, 55 Tables 11 and 12

Data refer to the following Italian banking groups: Intesa SanPaolo, UniCredit, MPS, BNL, Mediobanca, UBI, Banco Popolare and Banca Popolare di Milano. This sample approximately represents 2/3 of the entire Italian banking system in total assets terms. For years prior to 2009 figures include the leading banks later becoming part of the banking groups considered further to mergers and acquisitions, with the exception of HVB, which is included only since its consolidation with UniCredit (1 November 2005).

Figure 49

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 profit on financial transactions (i.e. from the 2005 financial statements, prepared according to IAS/IFRS standards, the net result from trading, hedging, assets and liabilities carried at fair value and profit/loss from the disposal or buyback of loans and financial assets and liabilities) and net commissions from investment services and collective management (including foreign currency trading, consulting, security depository and management services, bank depository services and the placement of insurance products and services). Net commissions from banking services include net commissions on guarantees issued and credit derivatives, collection and payment services, and net commissions on current accounts, credit cards and ATM cards. "Other net commissions" include net commissions for securitisation transaction servicing, factoring and tax collection services.

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 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.

Figg. 66, 67 and 68

Multifinanziaria Retail Market 2007 is a sample survey conducted by GFK Eurisko Srl, which at the end of 2007 gathered questionnaires from a sample of about 2,500 households in which the financial head of the household was aged between 18 and 74 (bank employees, insurance company employees and financial advisors were excluded from the survey). The financial head of the household was the person with the highest earnings (if no earners the most senior male, and if no males the most senior female). Statistics indicated in the figures are estimates relating to the entire sample population as inferred by the sample data after the application of weights established by GFK Eurisko Srl.

Figure 68

GfK Eurisko survey provides data concerning household savings (the total value of investments in deposits, Gov.t securities, shares, corporate bonds, life policies, pension funds, investment management and post office products) and investments in different financial assets. Since data on savings and investments are provided at regular intervals, the average of the furthest points of the interval has been considered (for the last open interval of the data on savings, the lower point value has been considered).

Two different approaches are used in gauging investments in different financial assets.

According to the first method, punctual value of each investment is multiplied by the punctual value of each family savings, in order to estimate the monetary value of the investment in each financial asset. The average of the monetary value of the investment in different financial assets for the whole sample is equal to the weighted average of the monetary amount invested by each family (weights are provided by GfK Eurisko). The average portfolio is estimated for the whole sample summing up the average of the monetary values of the investments in different products; percentage quotes of each financial asset derive from such figure.

According to the second method, GfK Eurisko weights are multiplied by the punctual value of each family investment in order to estimate the simple average of investments in each financial asset type.

Figure 74

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 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.

Table 41

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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