Annual Report 2011

Rome, 31 March 2012

CONSOB

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

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Boxes

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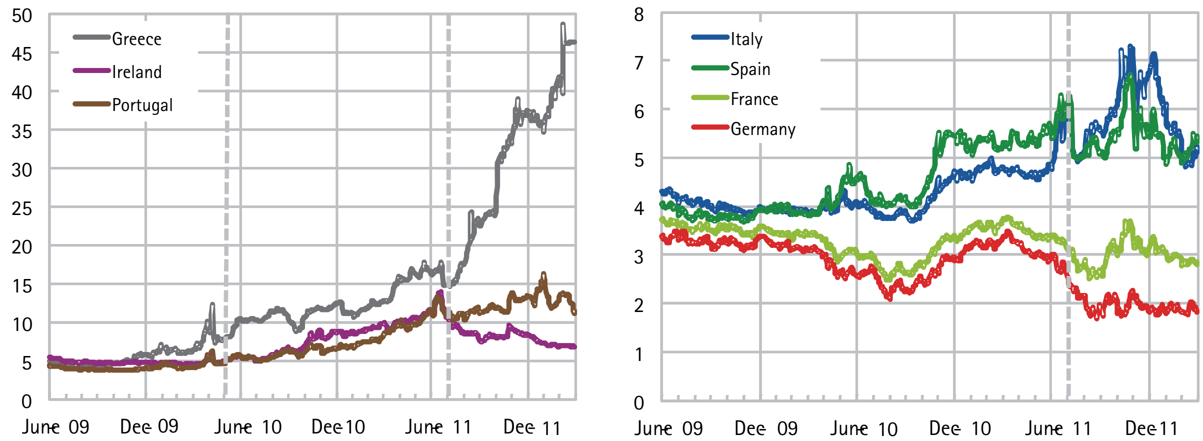
Financial market developments A

The economic outlook I

1 The sovereign debt crisis in the euro area

During 2011 the euro area registered an exacerbation of the sovereign debt crisis. Beginning in July, the climate of rising uncertainty about the ability of the peripheral countries, in particular Greece, to quickly restore their public finances, increased the perception of sovereign risk for other countries. Spanish and Italian government bonds and then French and Belgian bonds, starting at the beginning of November, showed significant spread increases compared to German Bonds, whose yields, in the meanwhile, fell by more than 100 basis points (the so called 'flight to quality'). In the first months of 2012 some signs of normalization were observed. Since mid March, however, tensions on Italian and Spanish bonds have begun to emerge once again (Figure 1).

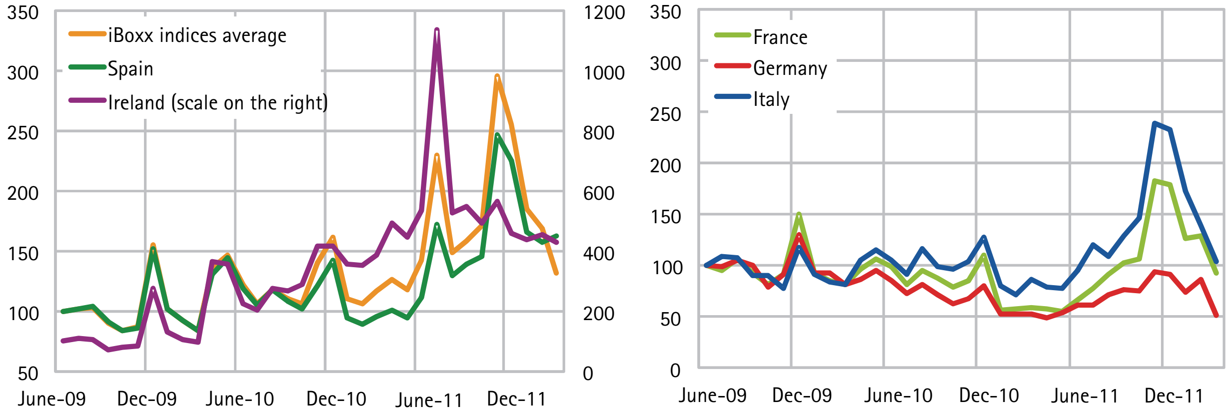
Figure 1 Government bond 10-year yields in the euro area
(percentage values; daily data from 30/06/2009 to 30/03/2012)



Source: calculations based on Thomson Reuters data.

Along with the rise in government bond yields, there was a significant reduction in the level of market liquidity, which, although more severe in the peripheral economies, has also involved other eurozone countries in a contagion spiral. Nevertheless, signs of tension easing have emerged in the early months of 2012 (Figure 2).

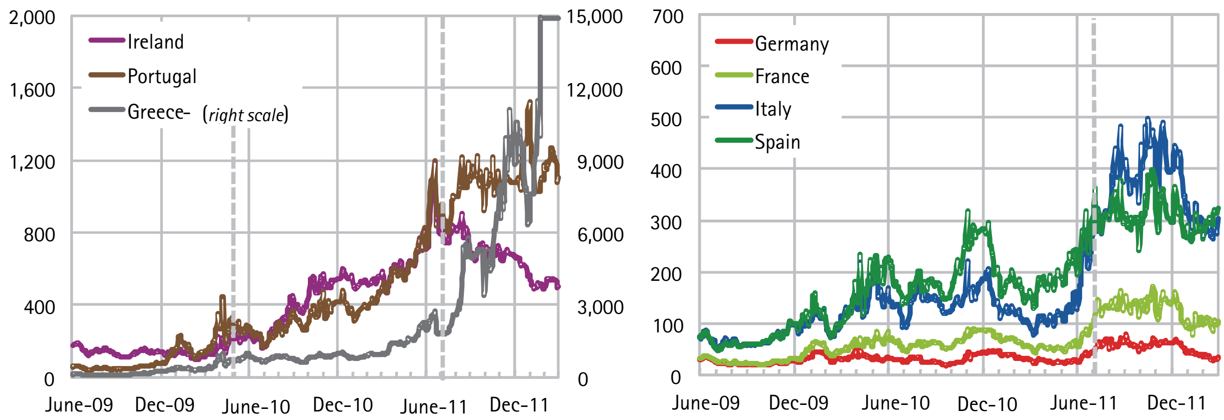
Figure 2 Government bond market liquidity indicators in the euro area
(monthly data from June 2009 to March 2012; June 2009 = 100)



Source: calculations based on Thomson Reuters data. The liquidity indicator is calculated, for each country, as the *relative quoted spread* average of the *iBoxx sovereign* bond index components. An increase in the indicator reflects a wider *bid-ask spread*, and therefore signals a reduction in the government bonds market liquidity level (*illiquidity index*).

Tensions on the bond market were also quickly factored in the quotes and the volatility of sovereign credit default swaps (CDS), which showed a significant rise in mid 2011 (Figure 3 and Figure 4). Ireland, however, was an exception because over the same period the perception of its sovereign risk was still benefiting from persisting prospects of positive growth (see paragraph 2).

Figure 3 Five-year sovereign *credit default swap* premiums in the euro area
(basis points; daily data from 30/06/2009 to 30/03/2012)

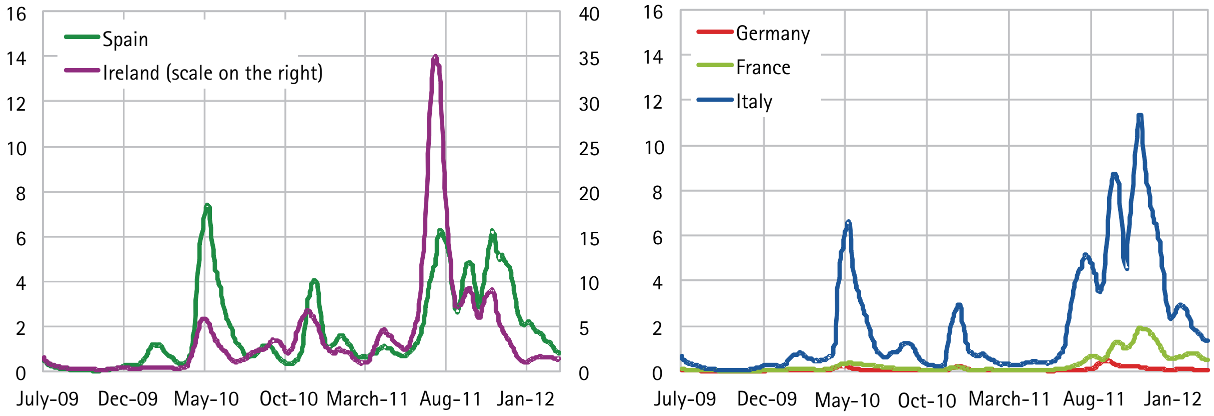


Source: calculations based on Thomson Reuters data.

Rising fears about short-term solvency of the countries hit the hardest by the contagion brought about an inversion of the yield curve on government bonds (Figure 5). In particular, for Portugal the differential between the yields of the 10-year and the 2-year government bonds became negative at the start of 2011 only to rise to slightly above zero in early 2012.

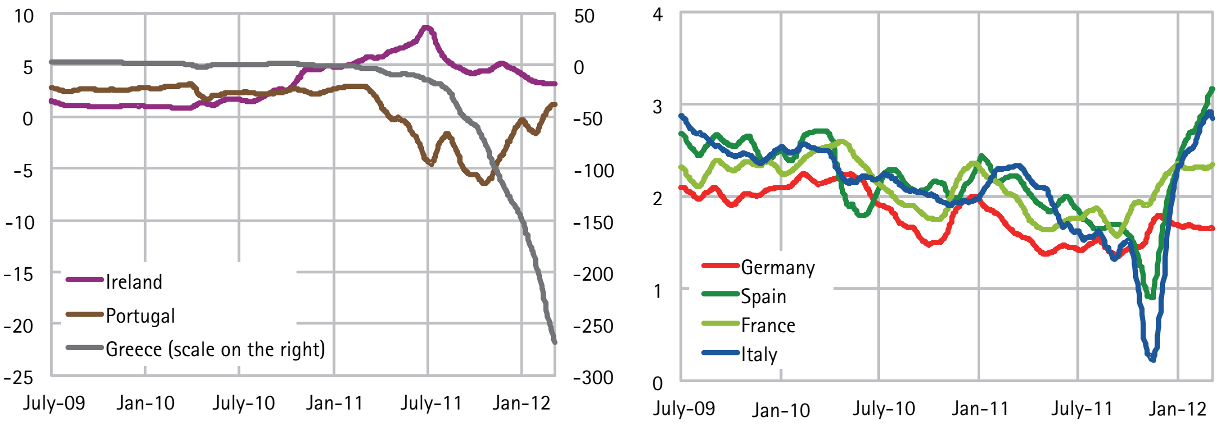
For Greece, the significant contraction of the differential, beginning at the start of 2011, shows no sign of reversal. Among the non-peripheral economies, Italy experienced an inversion of the yield curve, with a differential around zero, in late 2011, and a subsequent normalization in the first months of 2012.

Figure 4 Credit default swap volatility for sovereign bonds
(annualised percentage values; daily data from 01/08/2009 to 30/03/2012)



Source: calculations based on Thomson Reuters data. Volatility is estimated by a multivariate GARCH Model 20-day moving average .

Figure 5 Yield-to-maturity differentials for 10- and 2-year government bonds for selected euro area countries
(percentage values; daily data from 31/07/2009 to 30/03/2012)



Source: calculations based on Thomson Reuters data. 20-day moving average of yield-to-maturity differentials for 10- and 2-year government bonds.

The perceived insolvency risk, implicit in government bond yields and CDS quotes (except for Ireland, Greece and Spain), has significantly contrasted with official ratings (Figure 6). Most of the announcements by credit rating agencies, which, especially in the second half of 2011 and in early 2012, downgraded countries in difficulty several times, were released, therefore, in a context in which the market and the players had already perceived the deterioration of sovereign risk.

Figure 6 Government bond official and implicit ratings for some countries in the euro area
(monthly data from February 2009 to March 2012)

Source: Moody's data.

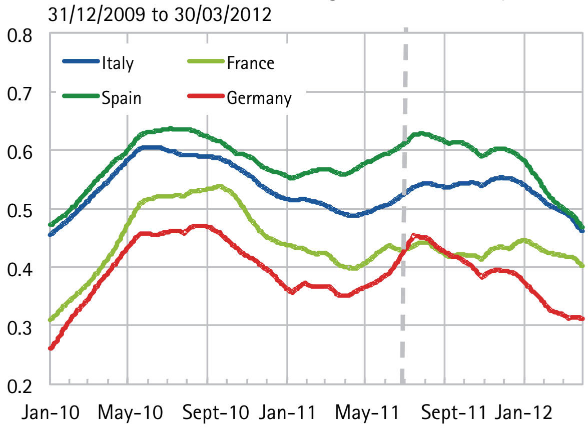
The contagion and tensions in the financial markets were fuelled by worsening growth prospects for the advanced economies, which further increased fears about the sustainability of the public finances in the most vulnerable countries and the uncertainties concerning the international institutions' response to the crisis.

The spreading of contagion from peripheral countries to other countries in the euro area may be represented by the correlation between the respective CDSs quotes and each country's contribution to the level of systemic risk (Figure 7). Specifically, the correlation trend indicates that the interdependence with countries in greater difficulty was higher for Spain and Italy, rather than for France and Germany, even if, since the beginning of 2012, it showed a significant drop compared to the levels reached in the previous months.

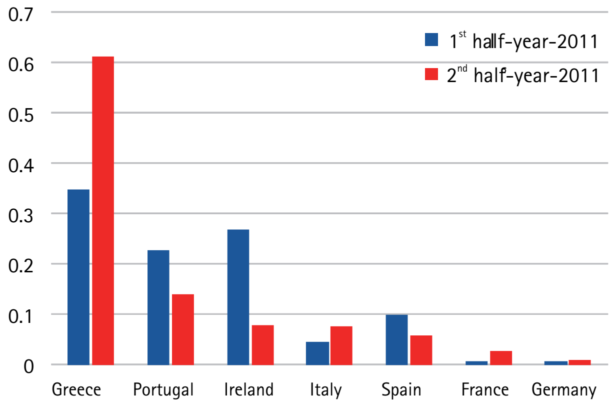
The average correlation with CDS quotes for Portugal, Ireland and Greece shows a growing trend for all the non-peripheral countries considered (Germany, France, Italy and Spain) until August 2011 and, except for France, a significant drop in early 2012, when it returned to the beginning of previous year's level. The correlation remains higher for countries exposed the most to the sovereign debt crisis, i.e., Spain and Italy, thus indicating a more intense interdependence with the peripheral economies.

Figure 7 Credit default swaps on sovereign debt: co-movements and contribution to systemic risk of core eurozone countries

Dynamic correlation of sovereign CDS quotes between core euro zone countries and Greece, Portugal and Ireland. Daily data from 31/12/2009 to 30/03/2012



Single countries contribution to the level of systemic risk



Source: calculations based on Thomson Reuters data. The left graph shows the average correlation, estimated according to the Engle model (2002), of sovereign CDS quotes between core countries in the euro zone and Greece, Portugal and Ireland. The graph on the right shows the factor loading estimates, normalized to 1, of the main component of the sovereign CDS quotes.

In the second half of 2011, in addition, among the peripheral counties, Greece's weight increased significantly in the systemic component, which explains the trend of the CDS quotes in the euro area countries, whilst that of Portugal and Ireland decreased. Furthermore, also Italy's and France's contributions grew.

Until now, the International Monetary Fund (IMF) has participated on several occasions in providing loans to bail out some peripheral countries, in particular Greece. In order to facilitate a reduction in Greek public deficit down to 120 percent of GDP by 2020, international institutions have called for debt restructuring with the involvement of private investors through a voluntary agreement, reached in the first ten days of March 2012. Regardless of this precedent, which brought about a loss for private creditors estimated at an overall 70 percent of principal and interest, it was decided that any decisions regarding Greece had to be considered unique and exceptional and that any future involvement of private investors in the resolution of the sovereign crisis shall be based on IMF procedures.

Apart from actions in support of the peripheral countries, during the year the European institutions, in coherence with the process of reform of European economic governance begun in 2010, defined measures aimed at strengthening the control over the stability of the Member States' public finances (the 'six-pack' and 'fiscal compact' agreements). Additional areas of activity concerned the strengthening of the crisis management mechanisms introduced in 2010, i.e., the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) (Box 1).

Box 1

The reform of economic governance in the euro area

During the year, the process of reform of European economic governance started in 2010 continued. At the meetings among the heads of state and euro area governments on 26 October and 9 December 2011, an agreement was reached, even if not unanimously, on a package of measures making the supervision of Member States' public finances more rigorous.

Specifically, the so-called 'six-pack' requires mandatory implementation into national legislation, at a constitutional level or equivalent, of budget rules coherent with those set by the European Stability and Growth Pact (SGP). These rules must provide for an automatic correction mechanism of any deviations whose conformity with EU regulations will be assessed by the European Court of Justice. In addition, the European Commission has submitted regulatory proposals for euro-area countries that provide for increased coordination during preparation of budget programmes, which must be submitted to the Commission prior to their approval by their respective national parliaments, according to a common calendar, and reinforced surveillance powers by the Commission for those countries that receive financial assistance or are having financial difficulties.

Furthermore, with the fiscal compact, signed last March 2, by 25 Member States and which will come into force in January 2013, under the condition that it receives ratification from at least twelve nations, establishes that structural deficits cannot exceed 0.5 percent of GDP and that the ratio of government debt with GDP must decrease each year by a total of 1/20 of the difference between its actual level and the 60 percent threshold. Nevertheless, attenuating circumstances and waivers have been provided for that enable Member States to use fiscal policy during downturns in the business cycle or in response to exogenous shocks.

On 23 November 2011 the European Commission submitted a proposal for consultation on the introduction of Stability Bonds, that is, joint issuance of bonds by Member States to finance their respective needs. The proposal provides for different solutions, depending on how these *Stability Bonds* replace all or part of the national issuance of debt and whether they are covered by joint or separate guaranties. The debt should be structured so as to be given the highest possible rating. This feature together with the high level of liquidity would permit the reduction of aggregate interest expense on government debt for euro-area countries.

Another theme discussed by European institutions on several occasions concerns the strengthening of the crisis management mechanisms instituted in 2010, such as the European Financial Stability Facility (EFSF), which will remain active to finance programmes until mid 2013, and the European Stability Mechanism (ESM), with its effective operational date anticipated to July 2012 instead of 2013. The ability for the EFSF to act was strengthened through two options, which may be used simultaneously. The first makes it possible the concession of partial guarantees on new issues of government bonds from the euro area countries. The second establishes the constitution of special purpose vehicles (*co-investment funds*, CIF), which could purchase government bonds on the primary and secondary markets, using financial resources provided by private investors and the EFSF; the latter would bear the initial losses that might occur on the CIFs' investments. Overall, the lending capacity of the EFSF and the ESM will amount to 500 billion euro. Nevertheless, verification of the adequacy of the allocated resources is under way as there is a legitimate fear that these funds are insufficient to cover refinancing requirements that could involve, apart from the peripheral countries, even other European nations stricken by financial contagion. In the event that the ECB and the European Commission were to resort to emergency conditions, the ESM could also decide with a qualified majority of 85 percent of voting rights, rather than unanimously (as established previously).

Moreover, as far as resources are concerned, the possibility of increasing the IMF's lending ability for the support of countries in difficulty is being discussed. European Union countries appear ready to provide additional resources up to 150 billion euro, whilst the United Kingdom has subordinated its participation, for 30 billion, to the involvement of *extra*-EU countries that are members of the fund.

Finally, the European Council, with its decision of 26 October 2011, requested a significant capital strengthening to the European banks, as detailed by the European Banking Authority (EBA) in an official recommendation addressed to them. Finally, to mitigate the banks' funding difficulties, the European Commission has provided for the possibility of granting national public guarantees for newly issued liabilities, establishing uniform rules for all EU nations in terms of access, costs and conditions for the banks (see Box *'Public guarantees on Italian bank bonds'* in Chapter III *'Secondary markets'*).

By the second half of 2011, given the deterioration of the macroeconomic scenario, the European Central Bank (ECB) suspended its attempt to normalize its initial *stance* on monetary policy, and opted instead to implement some liquidity support programmes through a series of unconventional measures (so called *Long Term Refinancing Operations - LTRO*). These measures increased the ECB's balance sheet so much as to par that of the United States' Federal Reserve (Fed). Nevertheless, the differences in the composition of assets and liabilities in the balances of the two central banks remain significant, given the different policy instruments used to sustain the real economy (Box 2).

Box 2

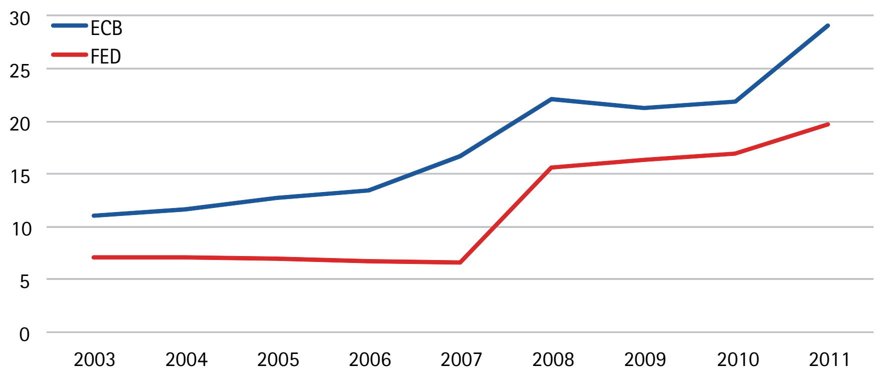
Measures adopted by the European Central Bank and the Federal Reserve and effects on their balance sheets

Since the beginning of financial markets turbulence in August 2007, the ECB and the Fed have used traditional monetary policy instruments in an innovative way, introducing unconventional measures at the same time. This increased their balances both in relative and absolute terms.

Specifically, since 2008, total assets at the ECB have doubled, reaching approximately three trillion euro in 2011 (roughly 30 percent of the euro area GDP), whilst the Fed's assets have tripled, reaching roughly three trillion dollars (about 20 percent of US GDP).

The two central banks dealt with the crisis using different policy instruments, taking the structure of their respective markets and the roles of banks and lending in the economy into consideration. The Fed undertook actions to ensure the direct disbursement of credit to households and firms and launched plans to buy public and private bonds through issuing money (so called quantitative easing). Instead, the ECB opted for providing liquidity to banks in order to limit the credit contraction, sterilising its unconventional monetary policy measures (so called 'credit easing').

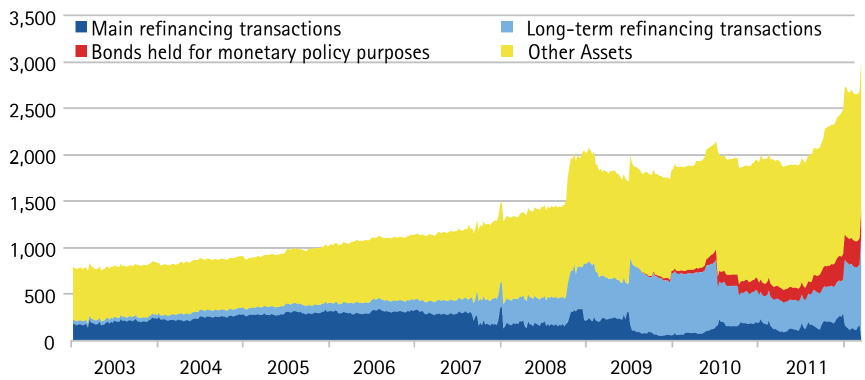
Total ECB, Fed assets-to-GDP ratio
(percentage values)



Source: ECB and FED data.

Indeed, beginning in October 2008, the ECB conducted all of its refinancing transactions through fixed rate auctions with full allotment; it extended the types of activities eligible for open market refinancing operations and increased both the number and frequency of long-term refinancing operations, thus increasing assets. The change in the composition due to maturity of the refinancing transactions, which in 2007 made up about 70 percent of all main refinancing transactions (at one week) did not affect the size of the balance, whilst at the start of 2012 these were nearly exclusively made up of long-term financing transactions (even after the two 36 month operations carried out in December 2011 and February 2012).

Composition of ECB assets
(weekly data; values in billions of euro)



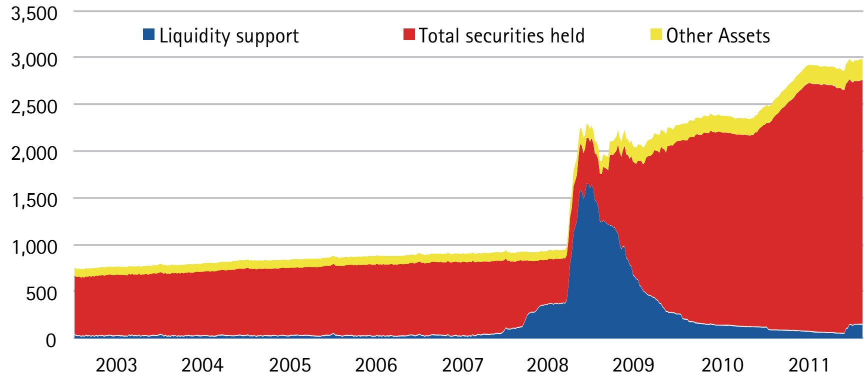
Source: ECB data.

Starting in 2009 the ECB also intervened directly in some bond markets. The first intervention involved covered bonds, among the primary funding instruments for euro area banks: overall, during the period May 2009 – February 2012, the ECB bought 68 billion euro worth of covered bonds, through two purchasing programmes: the Covered Bond Purchase Programme, concluded in June 2010 with purchases totalling 60 billion, and the Covered Bond Purchase Programme 2, announced on 3 November 2011 for a sum of 40 billion euro). The second intervention involved government bonds through the Securities Markets Programme: this measure - initiated on 10 May 2010 to guarantee liquidity and breadth to the government bonds segments involved in the crisis and protect the proper operation of the monetary policy transmission mechanism - sustained bonds purchase for approximately 219 billion euro on 5 March 2012.

The Fed injected liquidity, through the direct financing of banks and dealers, especially during the 2007-2008 crisis: in that period, actually, it introduced the term auction facility (TAF), which provided 1 month liquidity through an auction mechanism assisted by a vast category of guaranties. the term securities lending facility, which enables treasury bonds to be had in exchange for private issued bonds. The primary dealer credit facility, which enables very short-term loans to be discounted when backed by suitable guaranties. In addition, the monthly repurchase agreements (repos) increased from about 30 billion dollars, registered on average up to the first half of 2007, up to 130 billion dollars in May 2008. Liquidity support was halted in 2009, with interbank and monetary markets returning to normal: the amount of loans provided with the TAF, having achieved a maximum of 500 billion dollars at the start of 2009, was nearly zeroed out in April 2010. Starting in 2009, the variations in the bond portfolio were the greatest on the size and composition of the Fed's balance sheet. After having sold Treasury bonds for 300 billion dollars, in order to compensate the liquidity offered through liquidity support programmes between June 2007 and September 2008, beginning in 2009, in agreement with the United States Treasury and coherent with the quantitative easing policy, the Fed began to buy medium- to long-term Treasury securities, federal agency debt securities and mortgage-backed securities issued by federal agencies, bringing its total portfolio to over 2.5 trillion dollars in January 2012. In September 2011 the Fed initiated its 'twist' operation, with the objective of extending the maturity of its government bond holdings, by buying 400 billion dollars of government securities with a maturity ranging from 6 to 30 years and selling 400 billion dollars of short-term government debt. As of January 2012, the bond portfolio held by the Fed represents nearly the whole of its assets.

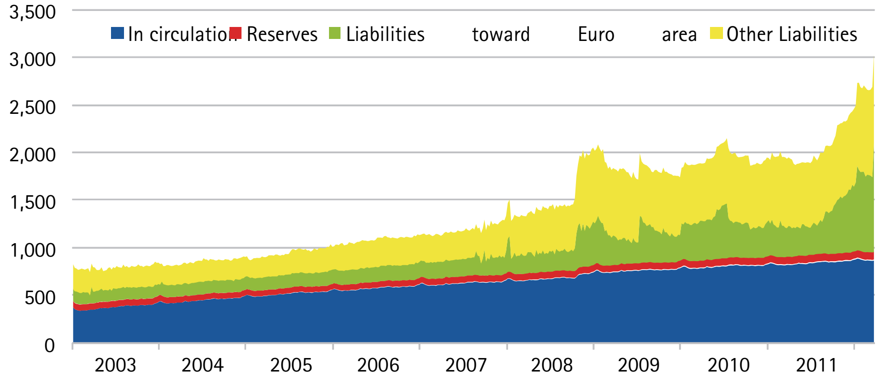
However, the main difference between the two central banks lies in the composition of the liabilities. In brief, the ECB, in order not to issue additional liquidity into the system, always sterilised its unconventional monetary policy measures through fine-tuning fixed-term deposit operations, which take place weekly. The Fed, instead, financed its liquidity support and bond purchase programmes through a significant increase of its reserves, i.e., its monetary base.

Composition of Fed assets
(weekly data; values in billions of euro)



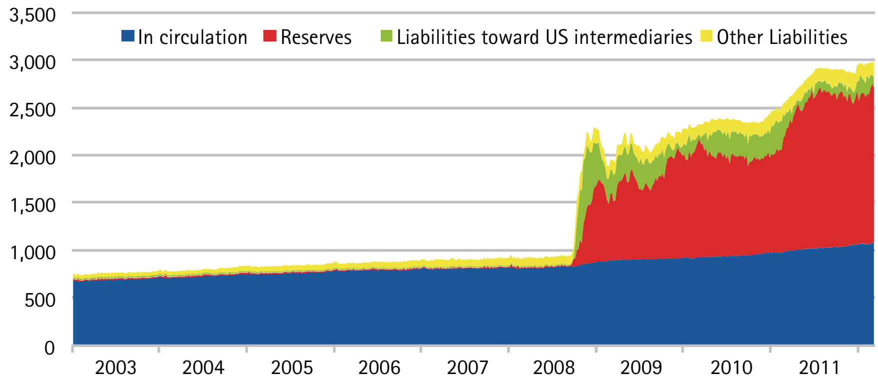
Source: Fed data.

Composition of ECB liabilities
(weekly data; values in billions of euro)



Source: ECB data. The 'Liabilities toward euro area intermediaries' indicate liabilities in euro toward euro area banks and includes current accounts, *overnight* deposits, fixed-term deposits, temporary *fine-tuning operations*, deposits linked to haircuts and other liabilities.

Composition of Fed liabilities
(weekly data; values in billions of euro)

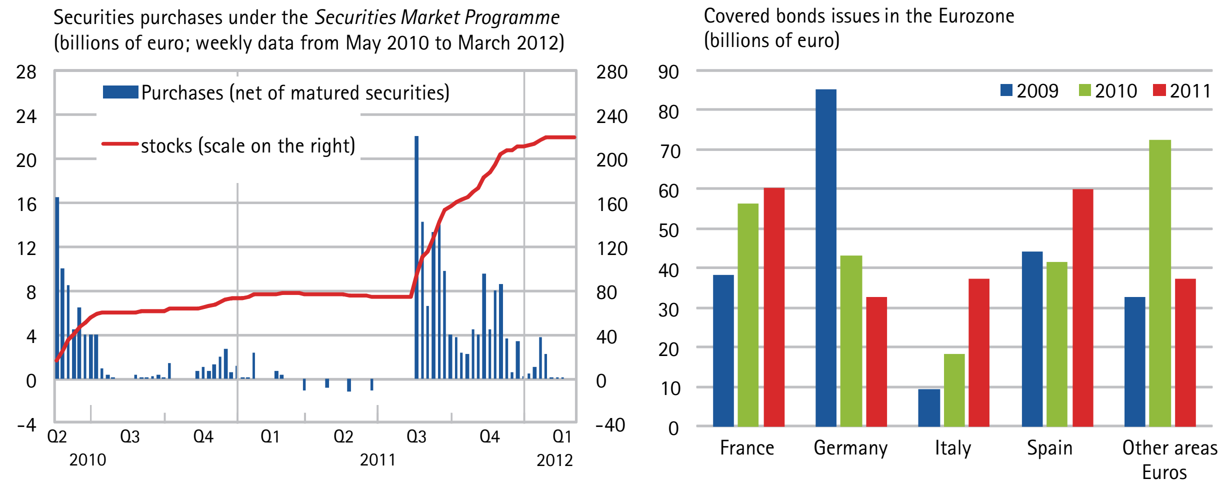


Source: Fed data.

As well as reducing the interest rate on primary refinancing operations several times, bringing it down to one percent from 1.50 percent set in July 2011, the ECB reactivated its *Securities Market Programme* in August, buying government securities on the secondary market for a total of 219 billion euro (Figure 8).

In order to lessen the short-term funding tensions for European banks, the ECB launched a new primary and secondary market purchase programme of bank issued covered bonds for 40 billion euro (to expiry by the end of 2012). In addition to the existing refinancing operations it set up 12 and 13 month refinancing operations, with a fixed rate and full allotment auction mechanism, at least until July 2012.

Figure 8 Securities purchases under the ECB *Securities Market Programme* and eurozone covered bond issues



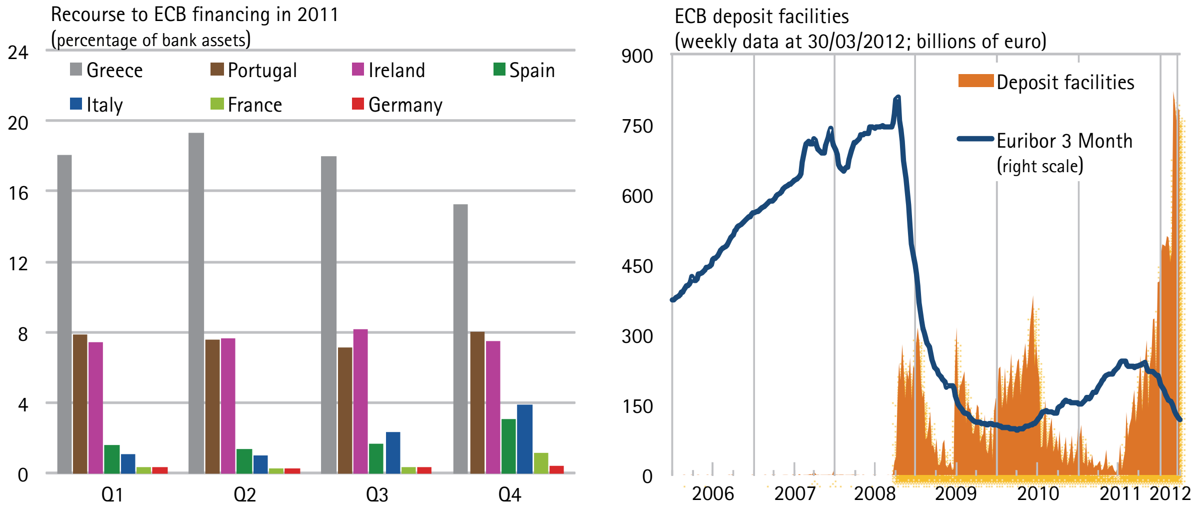
Source: ECB and Dealogic data.

In December 2011 and February 2012, two refinancing auctions were held, during which the ECB granted loans for an overall amount of roughly one trillion euro (with a net increase in liquidity of about 500 billion euro).

Finally, the ECB lowered its obligatory reserve coefficient from two to one percent in January 2012 whilst broadening the group of eligible guarantees for refinancing operations.

In 2011, recourse to Eurosystem financing was noticeable especially for those banks from countries most exposed to the sovereign debt crisis (Figure 9). After the Greek banks, which in the fourth quarter had access to ECB financing for an amount equal to 16 percent of their total assets, Irish and Portuguese banks are the largest recipients of funds (about 8 percent of their assets), followed by Italian (4 percent) and Spanish (3 percent) banks.

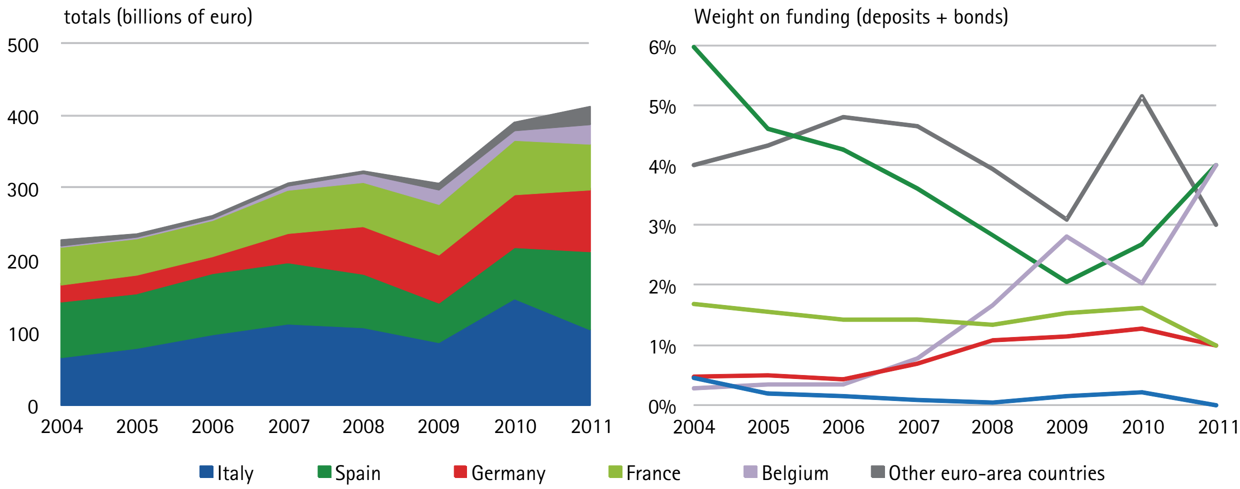
Figure 9 Reliance to Eurosystem financing by banks in some European countries, ECB deposit facilities and Euribor 3-month rate



Source: ECB, central banks and Thomson Reuters data.

Due to interbank market tensions, highlighted by banks' higher propensity to deposit their excess liquidity at the ECB (Figure 9), in 2011 short-term collateralized funding increased, even if the overall funding (deposits and bonds) figures grew only in Spain and Belgium (Figure 10).

Figure 10 Banks collateralized funding operations (repos) in some eurozone countries
(period end totals; as at January 2012)

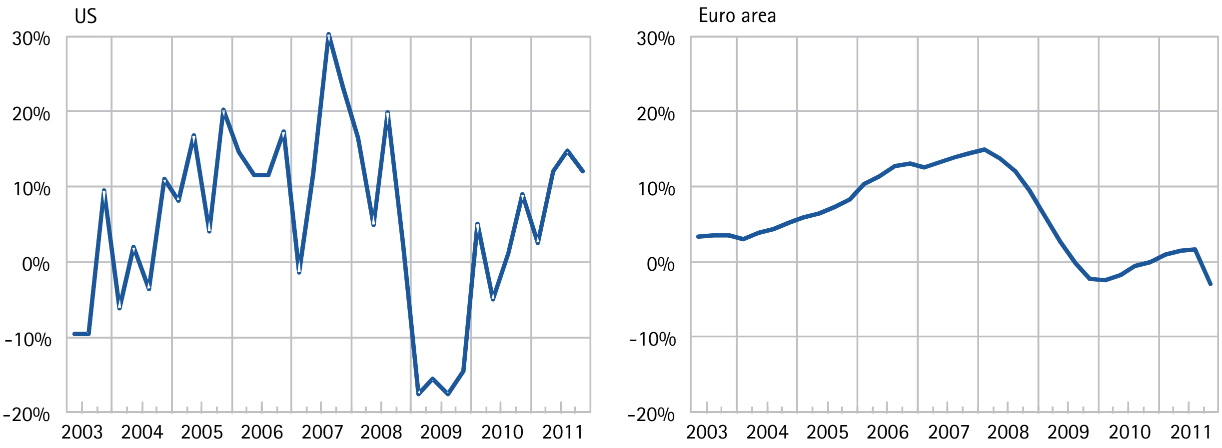


Source: ECB data.

The unconventional ECB measures should have a positive effect on the supply of credit, loosening the growing rigidity of criteria for granting loans to non-financial companies and households that had already emerged in early 2011 and increased in the second half of that year.

In the third quarter of 2011, in particular, employment growth rates in non-financial companies were negative in the euro area, whilst they remained broadly positive in the US, even though in contraction (Figure 11).

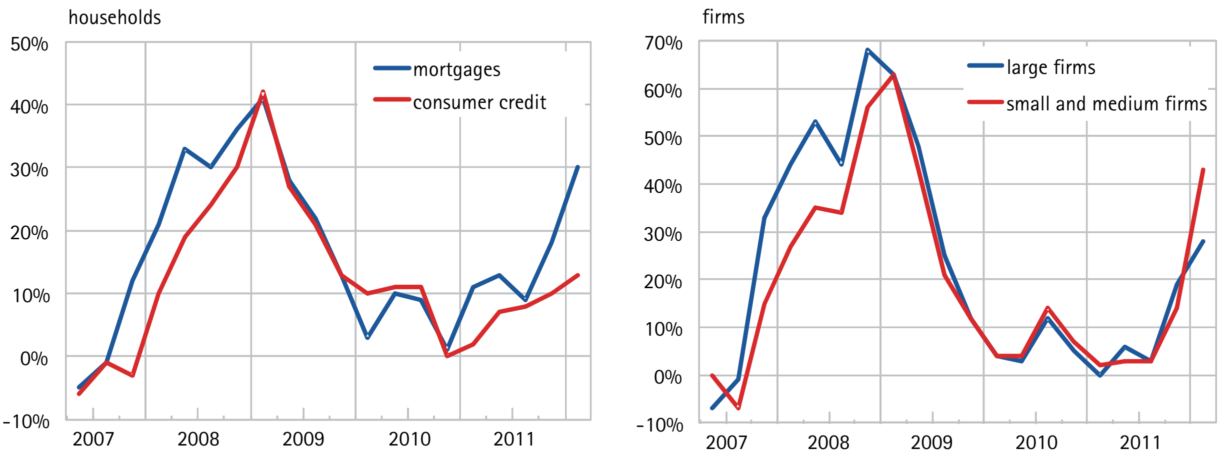
Figure 11 Growth rate of bank loans to non-financial companies
(quarterly data from Q2 2003 and Q4 2011)



Source: ECB and Fed data.

On the basis of the *Bank Lending Survey* results, conducted by the European Central Bank on a sample of eurozone banks, the number of banks that tightened loan granting criteria greatly exceeded the number of banks that loosened those same parameters. This phenomenon is even more evident in the process of granting mortgages to households and loans to small and medium firms (Figure 12).

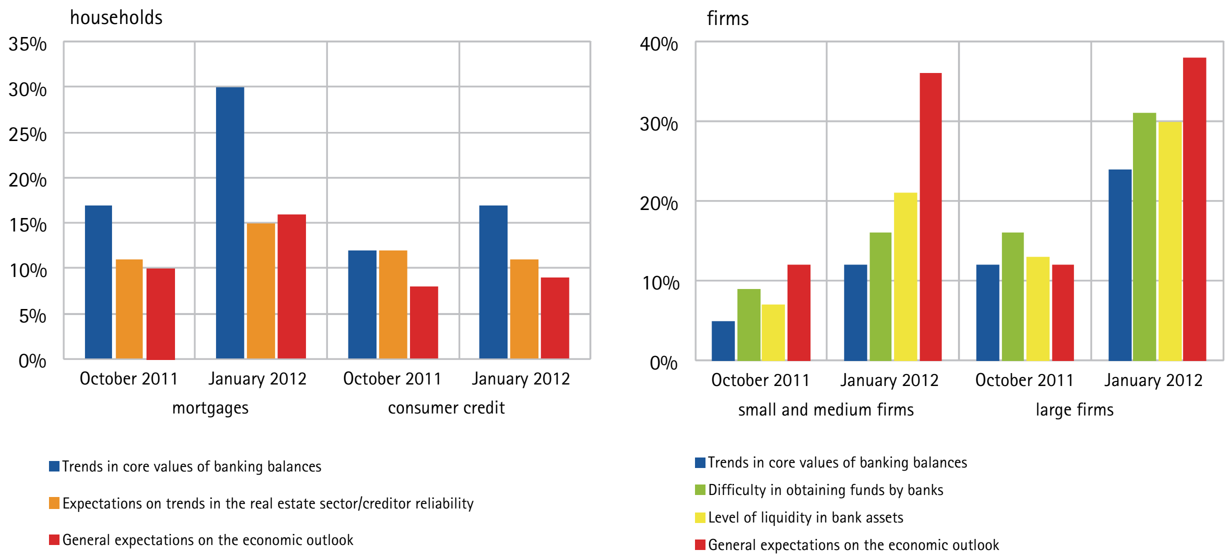
Figure 12 Indicators of restrictions in credit availability and conditions for eurozone households and firms
(monthly data from April 2007 to January 2012)



Source: ECB data. The indicator of bank credit restrictions is calculated as the percentage share of banks that have shifted to more selective lending criteria, net of (the share of) banks that have loosened their criteria.

The credit rationing for firms can mostly be traced back to deterioration in macroeconomic expectations, funding difficulties and reduction in bank assets liquidity. For households, and especially for residential mortgages, a worsening of expectations in the real estate sector has also been noted (Figure 13).

Figure 13 Main factors limiting credit availability and conditions for eurozone households and firms



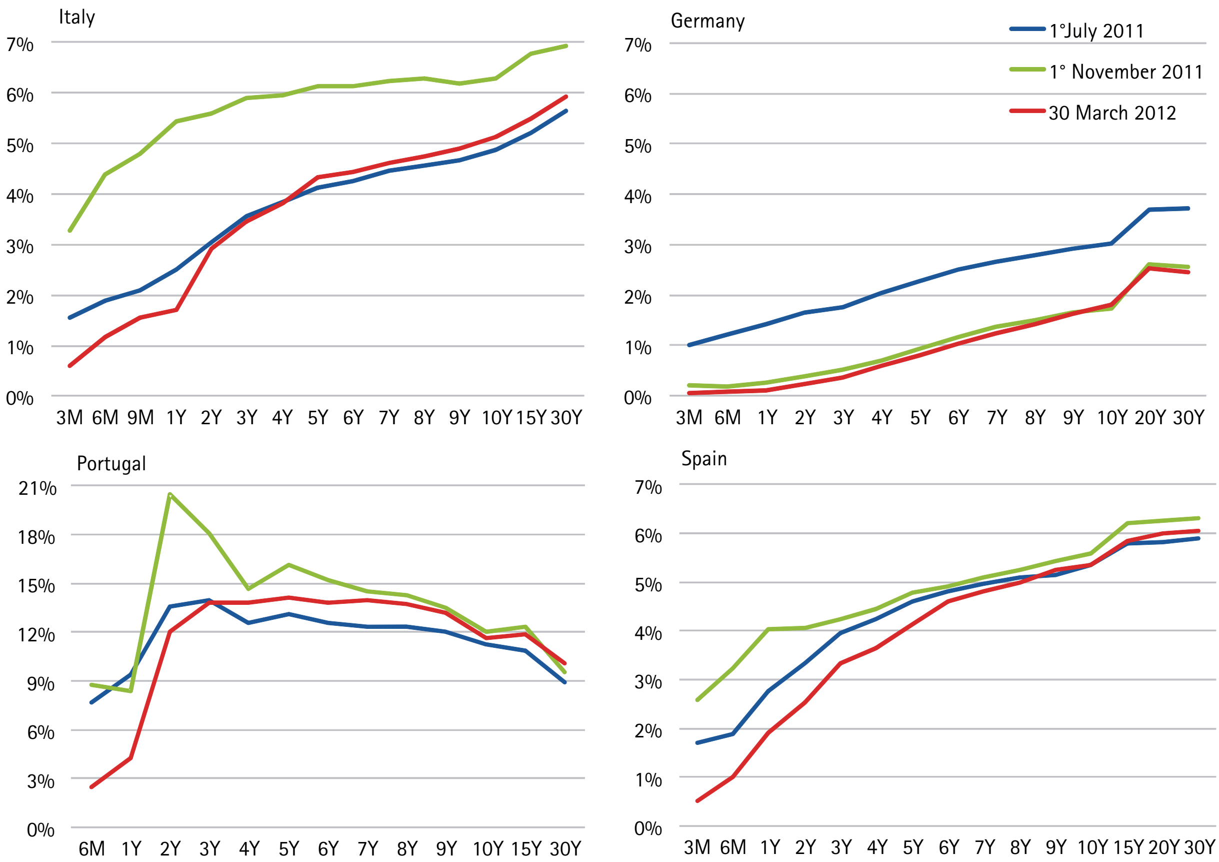
Source: *ECB Lending Survey* data.

Overall, the secondary market for government bonds has benefited from direct ECB interventions and, probably, also from purchases stemming from banks' excess liquidity (carry trade).

The most recent financial market trends seem to indicate that the initiatives taken by the European institutions and the fiscal consolidation policies undertaken in euro area countries contributed to ease the tensions that threatened to spiral out of control in July 2011. Italy's and Spain's sovereign rate curves, which were the first to suffer the re-pricing of the sovereign risk contagion of the peripheral countries, have shown a partial downward shift compared to July 2011 (Figure 14).

For the Italian government bonds, in particular, yield decreases were more sensible on the short term segment of the curve, whilst now (as of 30 March 2012) the 10-year BTP – Bund spread oscillates around 330 basis points, from 550 b.p. in the early days of November 2011.

Figure 14 Euro area interest rate curves



Source: Thomson Reuters.

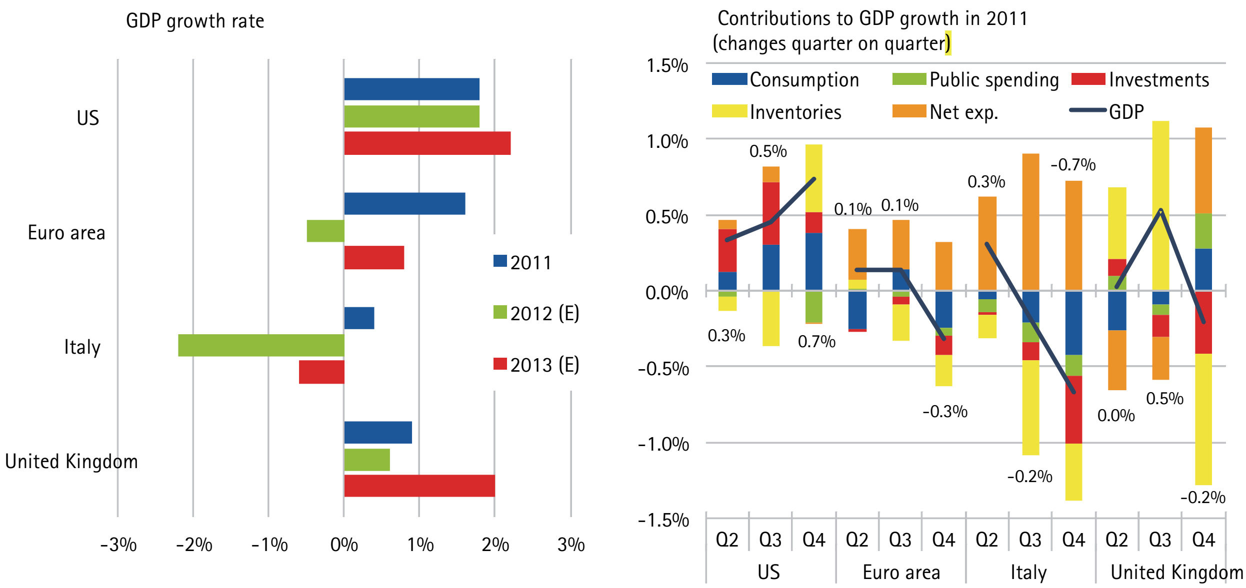
2 Trends in real economy

The start of normalization in eurozone financial market conditions is a fundamental premise for the sustainability of public finances and economic recovery. Nevertheless, strong uncertainties and a high risk of downward trends remain for economic activity in the area: IMF estimates, published in January 2012, indicate that the eurozone had just a 1.6 percent growth rate in 2011, leading to a negative growth rate (-0.5 percent) in 2012, with an expected increase by only 0.8 percentage points in 2013 (Figure 15).

Specifically, in the fourth quarter of 2011 the euro area showed a 0.3 percent contraction of GDP mainly due to consumption dynamics and the negative contribution of inventories.

A 0.4 percent slowdown in 2011 is estimated for Italy and -2.2 percent in 2012. Business activity was already down in the last two quarters of last year, due to the continued contraction of consumption and investment, notwithstanding the positive contribution of net exports.

Figure 15 Economic performance of selected advanced economies



Source: IMF, European Commission and Thomson Reuters data.

As for the advanced economies outside the euro area, the United Kingdom grew by 0.9 percent in 2011, whilst the United States' GDP grew by 1.8 percent, thanks to domestic consumption performance and inventory turnover. Japan, instead, suffered from the March 2011 tsunami, and the consequent nuclear plant disaster) with its GDP contracting by 0.9 percent (Figure 16). Prospects for 2012 are different for the three countries, as GDP growth estimates are negative for the United Kingdom (-0.6 percent), stable for the United States (+1.8 percent) and positive for Japan (+1.7 percent).

Looking more closely at Japan, the central bank's recent operations have enabled a weakening of the yen, contributing to a stronger exports performance and to containment of deflation, whilst reconstruction should help sustain domestic demand. Public finances, however, remain in a critical condition and the trade balance has been in deficit since the second quarter of 2011.

The main emerging economies are still experiencing a sustained growth, although slowing down since 2010, due to progressive weakening of the foreign trade demand component (Figure 16). In addition, for some countries, such as China, the pace of development until now does not appear to be sustainable over the medium term without far-reaching structural reforms (Box 3). Even if inflation seems to have slowed down, it seems it will remain high, compared to the developed economies.

Box 3

Outlook for the Chinese economy

After nearly thirty years of extraordinary economic performance, marked by an average annual GDP growth of 10 percent, China is currently the number two economy in the world and number one for its level of manufacturing exports.

Given the world economy expected slowdown, the IMF report, China Economic Outlook, published on 6 February 2012, lowered China's expected growth rate to around 8.2 percent for 2012 (+9.2 in 2011). Indeed, whilst internal demand continues to expand at a high rate, net exports have already begun to contribute negatively to GDP growth (-0.5 percent in 2011). Furthermore, forecasts predict a fall in inflation, even if there remain significant factors potentially leading to its rise, such as food supply restrictions as well as other exogenous shocks (i.e., bad weather).

Among those elements that could slow growth, ignoring cyclical conditions, there are also those structural factors that both the IMF and the World Bank have indicated as requiring timely action (the latter in its report, China 2030, published on 27 February 2012). Actually, these institutions have highlighted that the growth rates seen in the Chinese economy over the last few years are unsustainable, particularly with respect to environment and social issues, unless significant structural reforms aimed at full development of a market economy are put into place.

Among the different interventions suggested there is liberalisation of manufacturing and distribution, which today are controlled by public companies, privatisation of the banking sector and agricultural reform. It is furthermore hoped that investments be made in education and research as well as in clean, renewable energy.

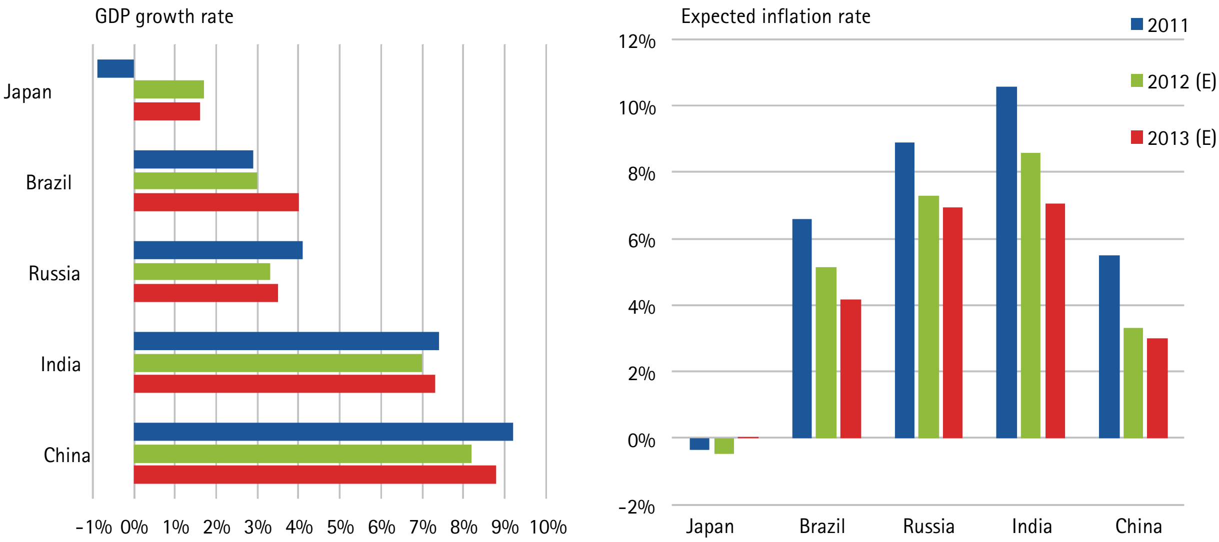
The growing inequality in terms of social security and wealth distribution requires reforms that protect workers' rights and that significantly extend public healthcare and other essential public services.

The importance of legislative changes in the tax system and the methods of allocation of public resources to local administrations should also be underlined, in order to contain waste of resources and corruption.

Finally, greater integration with the global economy is suggested, including a return to the Doha multilateral trade negotiations along with the integration of the Chinese financial sector with that of the rest of the world.

The necessity to undertake urgent reforms has been acknowledged by the Chinese prime minister, who, in March 2012, lowered the 2012 growth objective to 7.5 percent, having also considered the global economic slowdown, while announcing an increase in public expenditure for education and new regulations for expropriation of rural land. Finally, the Chinese prime minister indicated that the yuan is by now near equilibrium in currency markets, a fact that will enable it to gain greater flexibility.

Figure 16 Economic performance of Japan and BRICs



Source: IMF, European Commission and Thomson Reuters data.

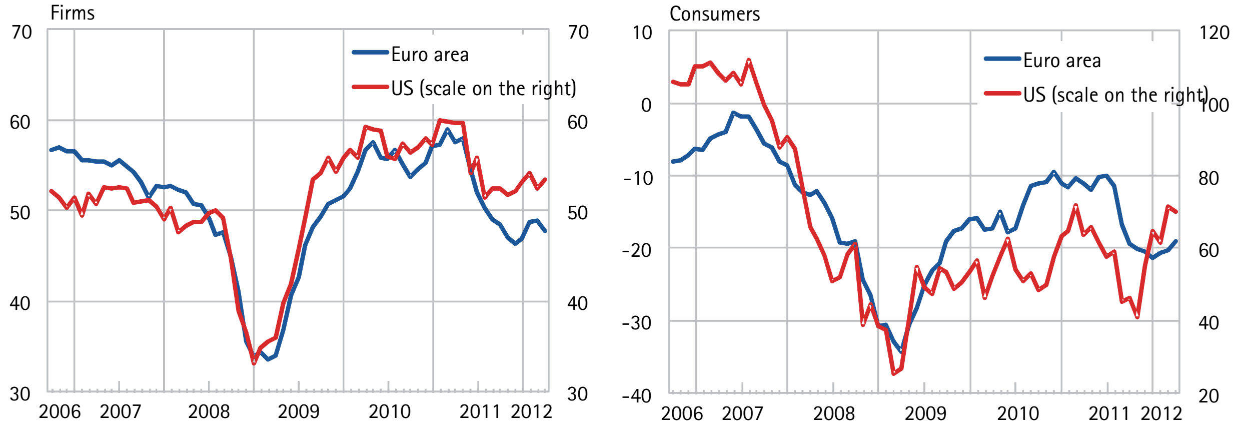
In 2011, the prolonged weakness of advanced economies, the exacerbation of the European sovereign debt crisis and the consequent turbulence on financial markets have brought about a progressive deterioration in households and firms confidence. Especially in the euro area, public finance consolidation measures undertaken by different European governments have contributed to reducing the available income, weakening domestic consumption and feeding pessimism about any possibility of recovery.

Nevertheless, since the second half of the year, first in the United States and then in Europe, the performance of the main economic indicators signalled a trend reversal, partly due to expectations, which were then realised, of a debt restructuring in Greece (Figure 17).

Consumer confidence indicators prepared by the European Commission and the *US Conference Board* indeed indicate a generalised improvement in expectations of households. Even the PMI composite indicators, used as a standard for firms, have bounced back from the lowest levels reached between July and November. Nevertheless, in the euro area, the PMI values are still below the 50 point threshold that separates recovery from recession expectations.

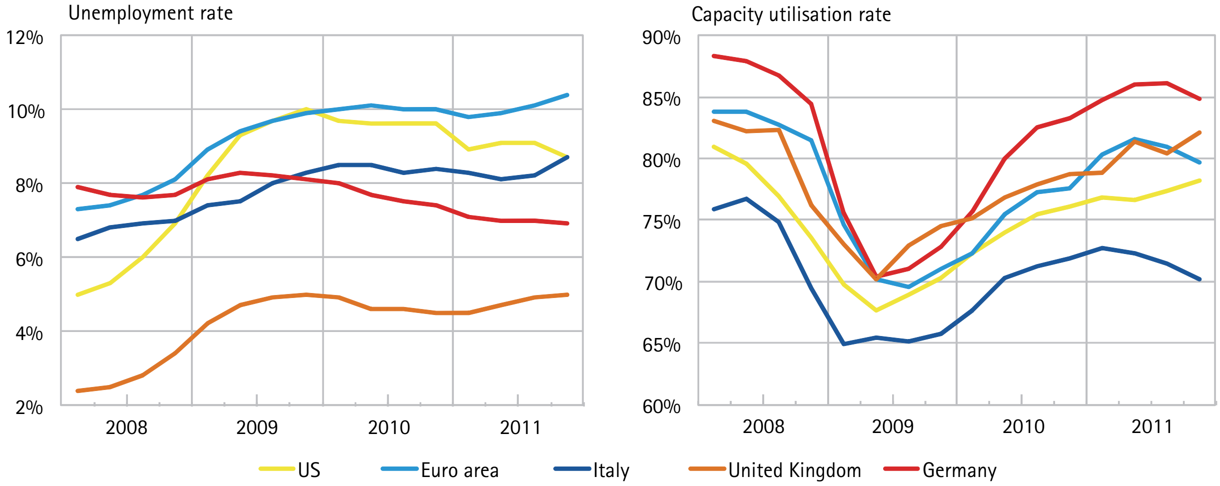
Unemployment levels remain high in most advanced economies. Job market conditions in the euro area have weakened with the worsening of the economic activities: the only exception has been Germany, whose unemployment rate has actually fallen since mid 2010. In the United States, unemployment has been fluctuating around a level slightly above 8 percent (Figure 18).

Figure 17 Firm and consumer confidence levels
(monthly data from September 2006 to March 2012)



Source: Thomson Reuters, Markit Economics, European Commission and US Conference Board.

Figure 18 Unemployment rate and capacity utilisation
(quarterly data)



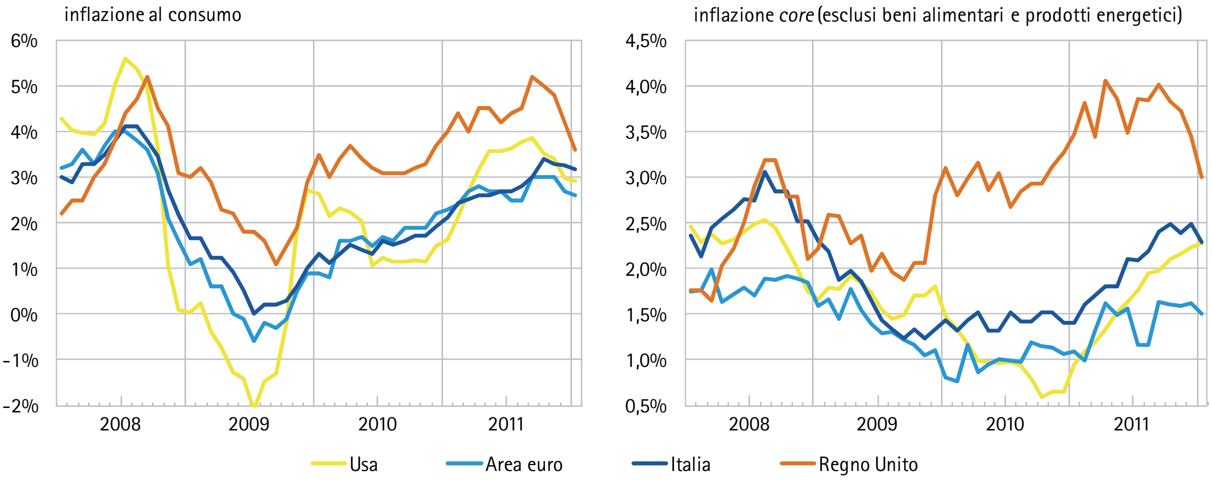
Source: Thomson Reuters.

Since the end of 2010 the eurozone inflation rate has remained stable above 2 percent, mainly due to price rises in energy and food products, in line with the increases in world commodity prices (Figure 19).

In Italy, inflation increased by 3.2% year on year in January 2012, mostly because of increases in energy and food prices of energy and food products. Core inflation, net of energy and food prices, was at 2.3 percent.

In the United States, the rise in the consumer price index stopped at 2.9 percent in January 2012, a significant drop compared to the highest point (3.9 percent) reached in September 2011 thanks to a drop in energy and food prices. In the United Kingdom, while decreasing since mid 2011, inflation has remained relatively high, reaching 3.6 percent (2.9 % in terms of core inflation) in January 2012.

Figure 19 Inflation
(monthly data from January 2008 to January 2012)



Source: Thomson Reuters.

3 Public finance in advanced economies

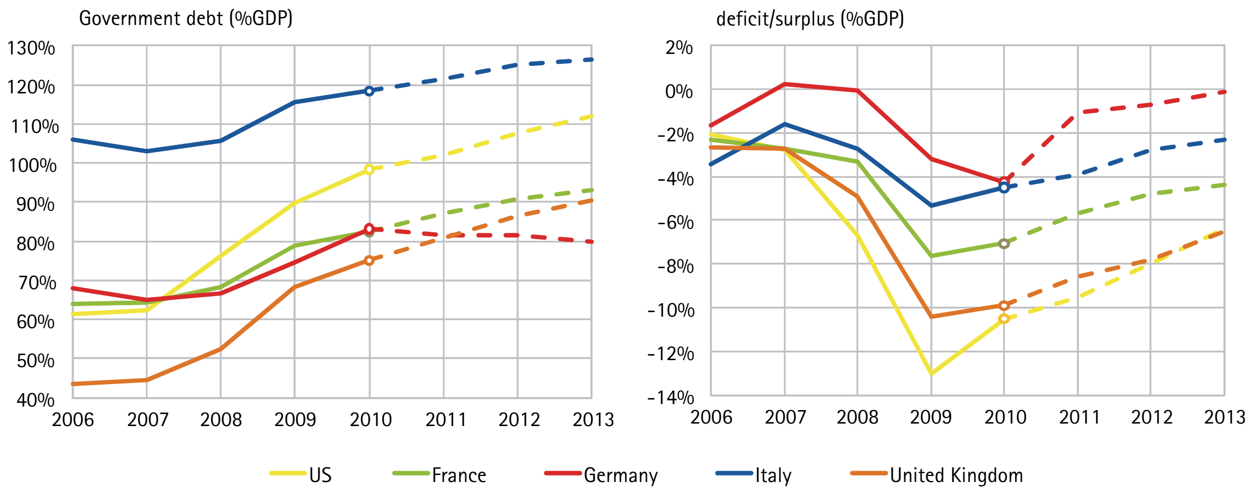
Since mid 2011, several euro-area governments, including Italy, have applied rigorous policies for consolidation of their public finances. The prospects of a growth slowdown, which in some cases has already led to recession, risk in any case harming the pursuit of the objective of public finance consolidation, at least within the scheduled times.

It has been estimated that the Government debt to GDP ratio will rise moderately for the next two years in the eurozone countries and that – with the exception of Germany – public finances will remain in deficit (Figure 20).

In 2011, the deficit to GDP ratio in Germany was one percent: much better than predicted because of more favourable revenue dynamics. In Italy the deficit has reached 4.8 percent of GDP; nevertheless, thanks to three corrective bills approved by Parliament in 2011 (for a total of 48.8 billion euro in 2012, 75.7 billion in 2013 and 81.3 in 2014) a balanced budget should be achieved in 2013.

The public finance scenario in the United States is even more uncertain. Government debt to GDP ratio has surpassed the 100 percent threshold, and public sector borrowing requirements (PSBR) are expected to steadily exceed tax revenues both in 2012 and 2013. The 2010 November elections have led to a political stalemate, increasing uncertainties about the sustainability of the United States federal budget over the long term.

Figure 20 Deficit and government debt in advanced economies



Source: *World Economic Outlook*, International Monetary Fund, January 2012.

The prospect of a negative spiral triggered by a business contraction and the deterioration of public finances has fed back into fears for the eurozone persistent vulnerability and, in particular, for those countries most exposed to the sovereign debt crisis, such as Spain and Portugal (Box 4).

4 Commodities markets and balance of payments

Following the global economy slowdown, in early 2011, the rise in oil price came to an abrupt halt, only to start rising again in September,. A similar trend was observed in gold and commodities prices in general (Figure 21).

According to the analysis of the United States *Commodity Futures Trading Commission*, central banks accommodating monetary policies and the consequent increases in liquidity might have fuelled speculative demand for oil, pushing the price upwards. Gold price performance may be, at least in part, explained by its role as a store of value during recessions, given its appeal for diversifying investment risk.

Box 4

Vulnerability factors for Spain and Portugal

In the second half of 2011 growth in Spain slowed until becoming negative in the last quarter, due to the impact of the sovereign debt crisis on the financial sector and on credit supply conditions, reductions in public spending and the worsening of the job market conditions, which turned out to be more serious than predicted. In addition, based on the latest European Commission estimates, which have not taken into account the recessive impact of the fiscal consolidation measures in progress, the Spanish economy should shrink by one percent in 2012.

In 2011 the deficit to GDP ratio rose to 8.5 percent, surpassing a 6 percent estimate, mainly due to business activity deceleration and excess spending by the regions and social security agencies.

Spain has nevertheless undertaken to reduce its deficit to 5.3 percent of GDP in 2012, in order to achieve the target of 3 percent in 2013. This commitment makes further public finance consolidation measures indispensable, which would be added to the corrective measures already implemented, amounting to, respectively, 3.6 points of GDP in 2011 and 2.6 and 2.1 points of GDP in the next two years. The new budget measures, besides the possible recessive effects, risk being in any case insufficient to again establish sustainability in Spanish public finance, because in the medium term it will have to face an increase in spending due to the ageing of the population, among the oldest in the euro area.

Even for Portugal the greatest fears are linked to slowing growth, which however in 2011 was less than expected due to positive performance of exports and a more favourable consumption. A real GDP drop of 3.3 percent is anticipated for 2012, with negative effects on unemployment, which in the final quarter of 2011 reached 14.3 percent. At the end of 2011 the deficit was 4 percent of GDP, well below the planned objective (5.9). Nevertheless, this result was due to a substantial transfer of resources from the banking system pension funds to the public social security system, amounting approximately to 3.5 percent of GDP.

In order to bring the 2012 deficit to 4.5 percent of GDP, Portugal will have to implement additional fiscal consolidation measures for approximately 6 percent of GDP; two thirds of these measures concern expenditures and will require a reduction in pensions and public sector salaries.

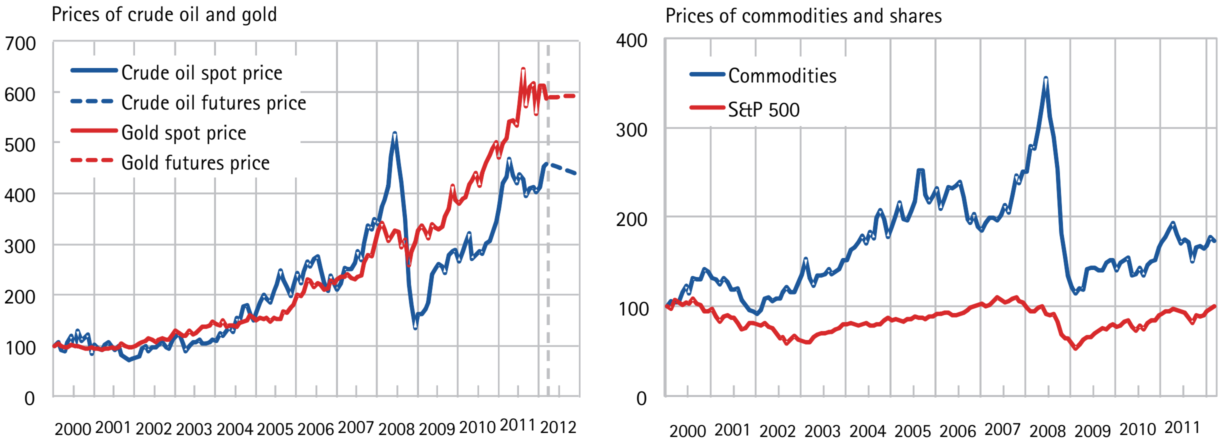
Even though it complied with the agreed reorganisation measures (as also reported by the experts from the European Commission, ECB and the IMF last February), it will be difficult for Portugal to issue medium- to long-term debt in 2013, also considered its credit downgrade to speculative grade by Standard & Poor's.

Gold and crude oil future prices at the moment show a stable trend for the nearer expiration dates.

As for oil, this sentiment may be linked to weak growth prospects in advanced economies, which, as highlighted by the International Energy Agency in its latest report of November 2011, will contribute negatively to the growth of global demand.

However, the price of crude oil might be pushed upwards by a supply-side fall due to geopolitical tensions in Syria and Libya and the anticipated embargo on Iran by the European Union. In addition, over the medium term, the pressures exerted by emerging economies will be significant, with an estimated increase in global demand for energy products by 90 percent over the next 25 years.

Figure 21 Prices of crude oil, gold and commodities
(monthly data from January 2000 to March 2012; January 2000 = 100)

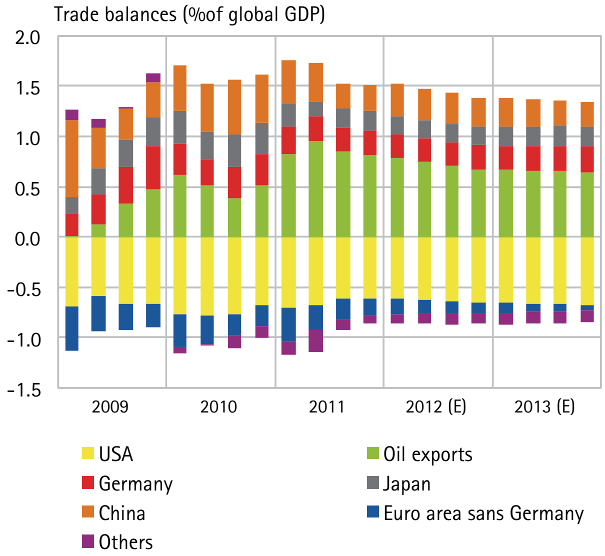


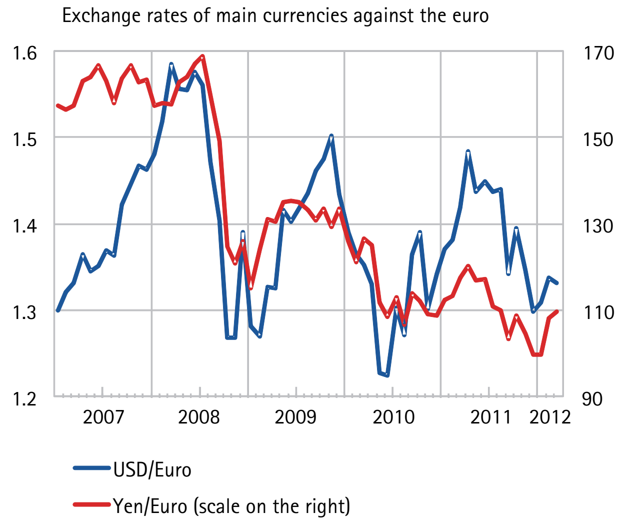
Source: calculations based on Thomson Reuters data.

Since the second half of 2011, with the exacerbation of the sovereign debt crisis, the euro weakened against the main foreign currencies. Only in early 2012, the single currency began to regain value. This trend, due mainly to easing of tensions in the euro area, is also due to the decision by the Fed to keep its standard interest rate unchanged (if necessary even until 2014) and by the accommodating monetary policy of the Japanese Central Bank (Figure 22).

The financial account of the balance of payments, which represents cross border financial operations with countries outside the eurozone, is basically in equilibrium with an average balance, for the period 2007-2011, between -1 and +1 percent of GDP (Figure 23). During 2011 the euro area was characterised by net inflows of portfolio investments and net outflows of direct investments, in line with previous years. The contribution from reserve assets and financial derivatives was marginal, while the residual component 'other investments' resulted broader than the previous year (facing a corresponding change in assets composition in eurozone banks).

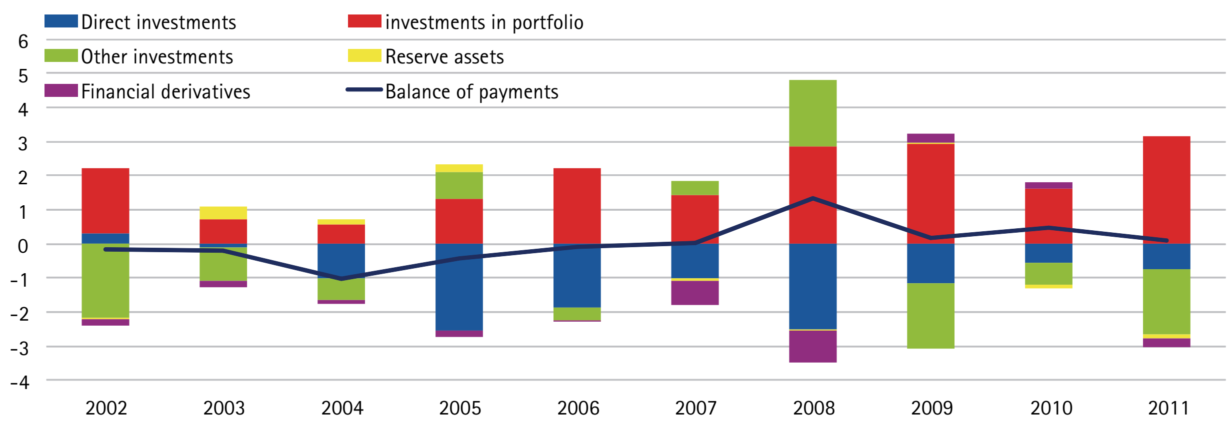
Figure 22 Currency markets and trade imbalances
(monthly data from January 2007 to March 2012)





Source: Thomson Reuters and OECD data.

Figure 23 Balance of payments for the eurozone: breakdown by investment type
(values as a percentage of GDP)

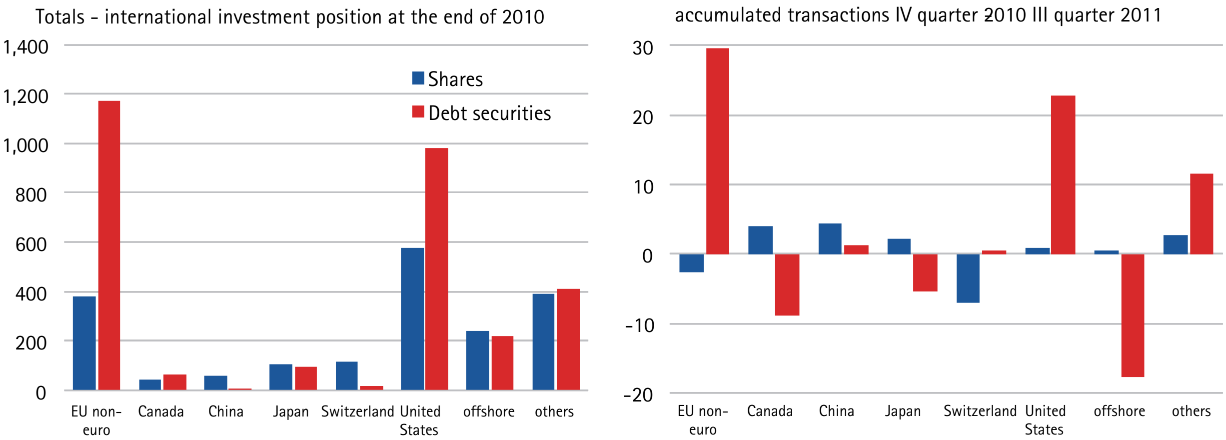


Source: ECB data

In 2010 the euro area international investment position was characterised by a high concentration of investments toward the European Union non-euro Member States (United Kingdom, in particular) and toward the US.

The accumulated transactions for the investment portfolio over the period between the fourth quarter of 2010 and the third quarter of 2011 confirm the prevalence of significant flows toward the non-euro Member States and the US and highlight a significant reduction in investments in securities issued by residents in offshore financial centres (Figure 24).

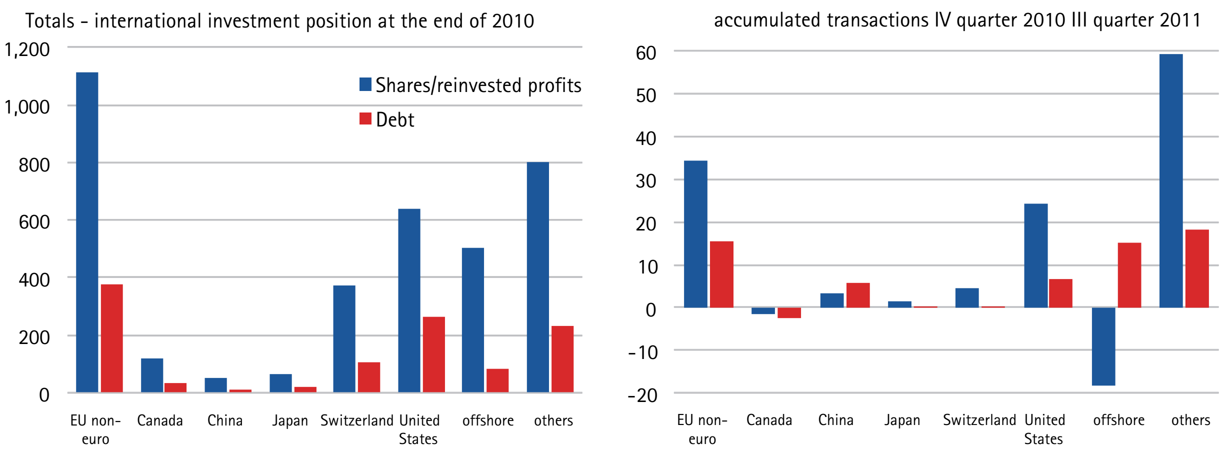
Figure 24 Geographic breakdown of portfolio investments
(billions of euro)



Source: ECB data

Even the accumulated transactions on direct investments for the same period (IV quarter 2010 – III quarter 2011) show the prevalence of flows toward the non-euro EU Member States and the US, apart from toward the 'other' category (Figure 25).

Figure 25 Geographic breakdown of direct investments
(billions of euro)



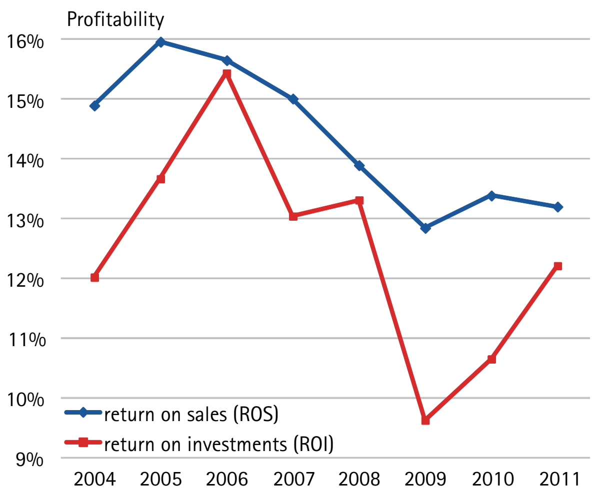
Source: ECB data

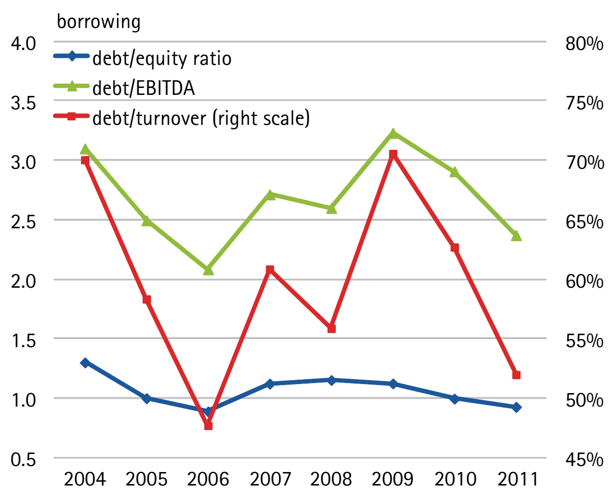
1 Financial statements of non-financial companies

In 2011, the major Italian non-financial listed groups exhibited a limited growth in revenues, in a context characterized by weak signs of recovery and expectations still not reflecting the full impact of the euro area sovereign debt crisis on businesses (Italy began to be affected by the crisis at the end of May 2011).

Based on preliminary balance sheet data for 2011, the return on investment (ROI) increased from approximately 10.7 to 12.2 percent year on year, while the return on sales (ROS) was substantially stable (from approximately 13.4 to 13.2 percent; Figure 26). At the end of 2011, the leverage ratio (financial debt to net equity ratio) amounted to roughly 1, in line with the end of 2010; the financial debt to turnover ratio dropped instead (from 63 to 52 percent) as did the debt to EBITDA ratio (from 2.9 to 2.4), confirming a trend that had already been noted in 2009.

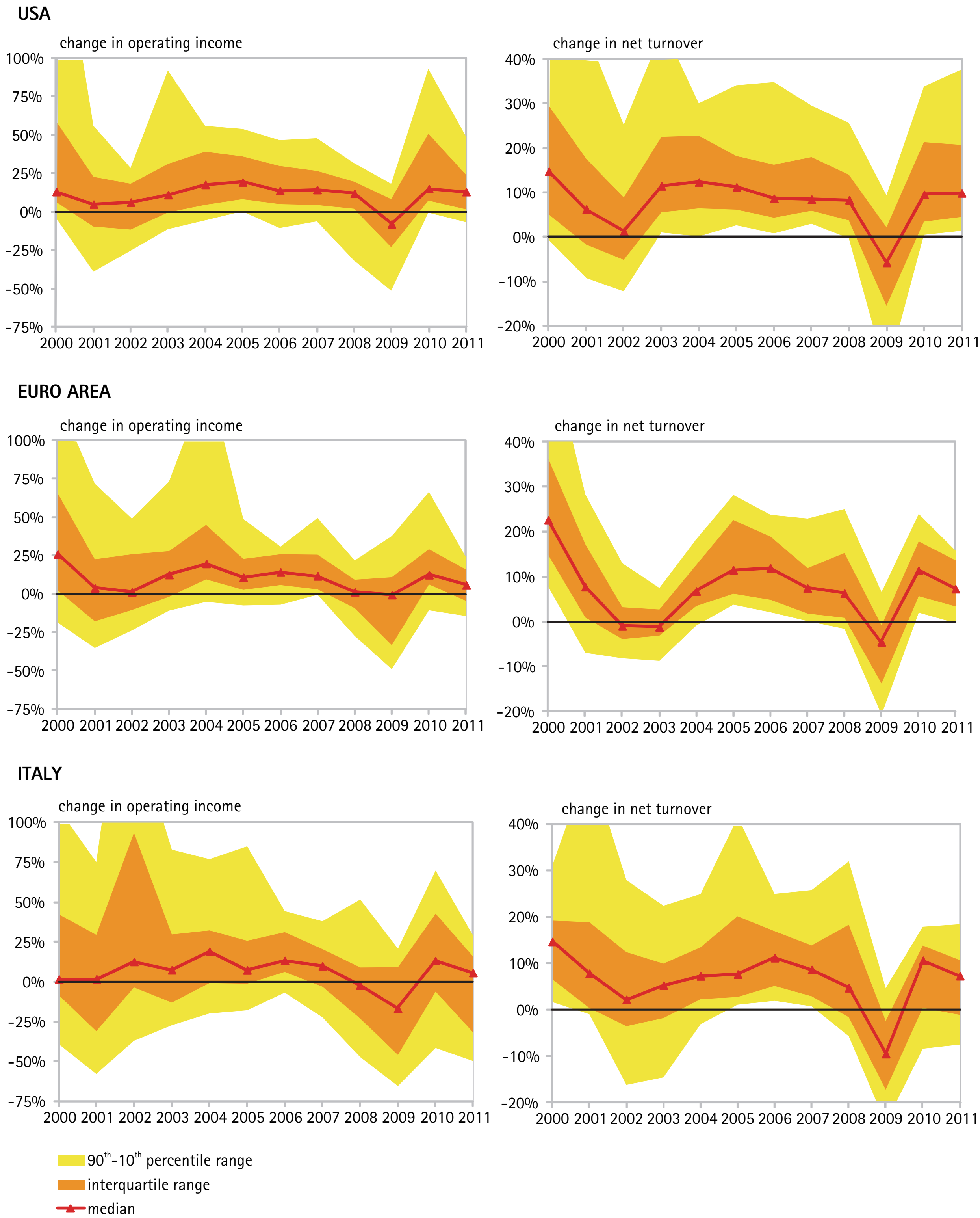
Figure 26 Profitability and borrowing indicators for major Italian non-financial listed groups





Source: reclassified R&S financial statements. The 2011 figures are preliminary. (*Source Worldscope). See Methodological notes.

Figure 27 EBIT and turnover performance for major non-financial listed companies in advanced economies

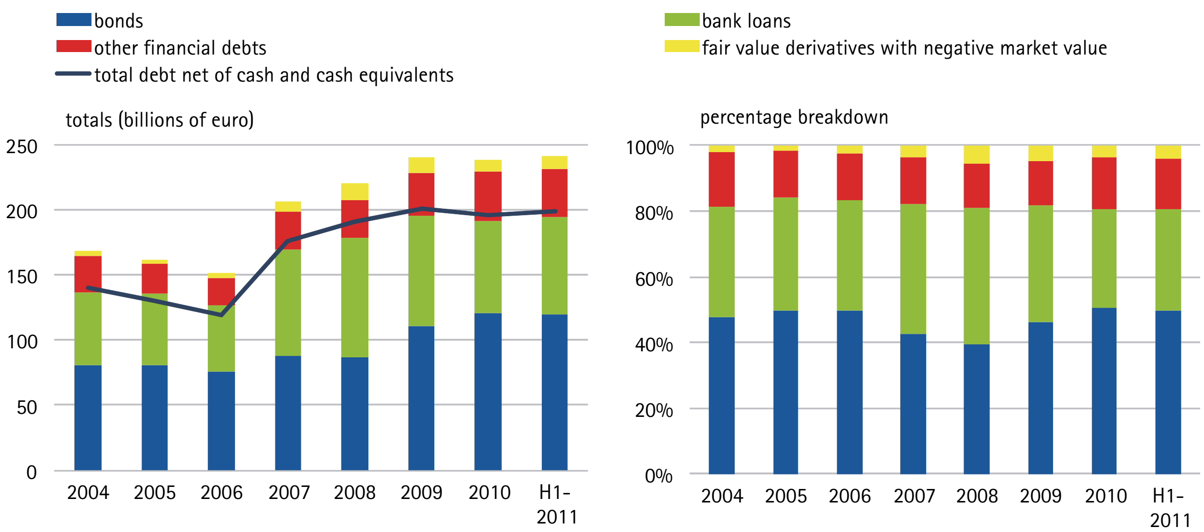


Source: Worldscope data on S&P 100 companies (US), Dow Jones EuroStoxx 50 (euro area) and major listed Italian groups (a sample of which is in Figure 26). Annual changes in EBIT were calculated only when values were both positive. Annual changes in turnover were calculated based on previous year restated figures..

EBIT and turnover performance for the major Italian listed companies in 2011 was partially not in line with that of eurozone and US companies (Figure 27). Profitable Italian companies were approximately 62 percent of the sample, compared to 65 percent in Europe and 80 percent in the US. The gap is even wider in terms of turnover growth (in this case, roughly 67 percent for Italian companies, compared to approximately 90 percent in Europe and 95 percent in the US).

The overall debt of Italian companies net of cash, increased from 196 billion euro in December 2010 to 199 billion euro in June 2011 (+1.5 percent; Figure 28). The composition of debt was not significantly different compared to the end of 2010: bonds and bank debt still represented, approximately 50 and 30 percent of total debt respectively, with other debts share slightly declining (from approximately 15.7 to 15.3 percent). Finally, *fair value* derivatives with a negative market value (4 percent approximately) were substantially stable.

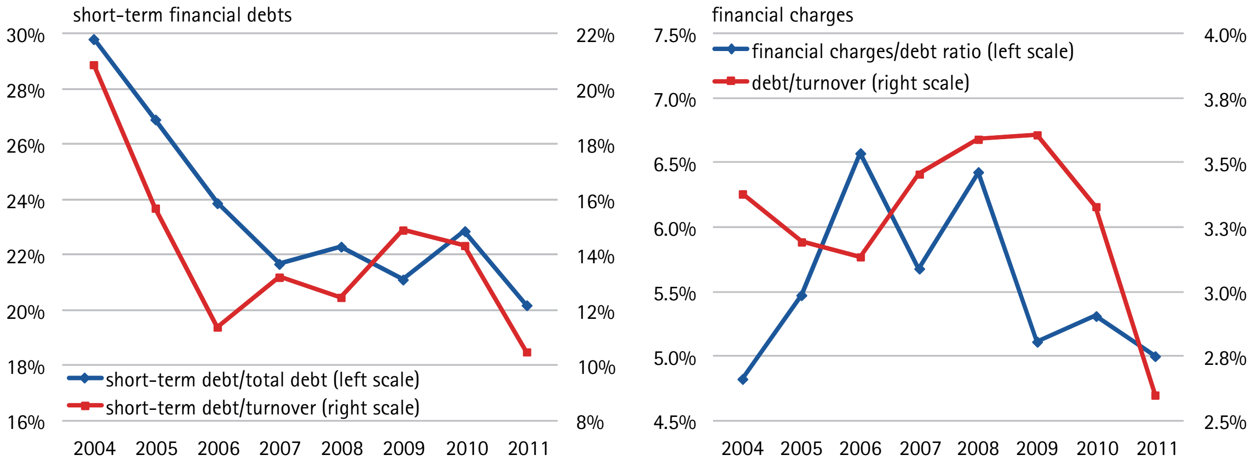
Figure 28 Breakdown of financial debt for major Italian non-financial listed groups



Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

In 2011, the short-term debt to total debt ratio was down to about 20.2 percent from 22.9 percent as of December 2010. Even the short-term debt to turnover ratio decreased, from approximately 14.3 to 10.5 percent (Figure 29). The average cost of debt to capital ratio (the ratio between financial charges and financial debt) decreased slightly from approximately 5.3 percent at the end of 2010 to approximately 5.0 percent at the end of 2011, whilst the incidence of financial charges on turnover decreased from 3.3 to 2.6 percent over the same period.

Figure 29 Incidence of short-term debt and financial charges for major Italian non-financial listed groups

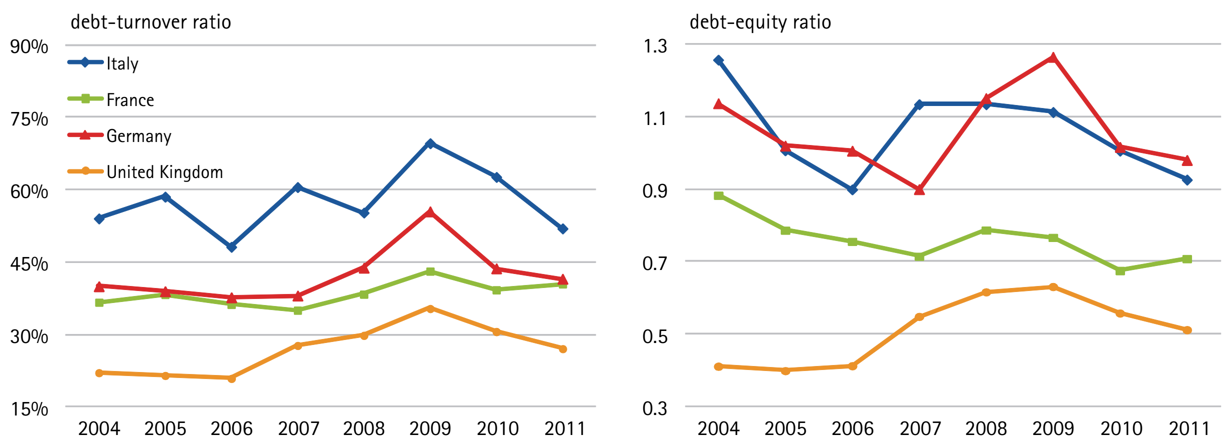


Source: reclassified R&S financial statements. The 2011 figures are preliminary. (*Source Worldscope). See Methodological notes.

In Europe, the level of borrowing by the major Italian non-financial listed companies, although declining in 2011, remained rather high compared to other major listed companies in the advanced countries (Figure 30).

Based on reclassified financial statement data for a consistent comparison across different countries, the average debt to turnover ratio for non-financial companies in 2011 was approximately 40 percent in France and Germany, and 27 percent in the United Kingdom. Moreover, the average debt to net equity ratio for French and English companies was lower, than that for German and Italian companies.

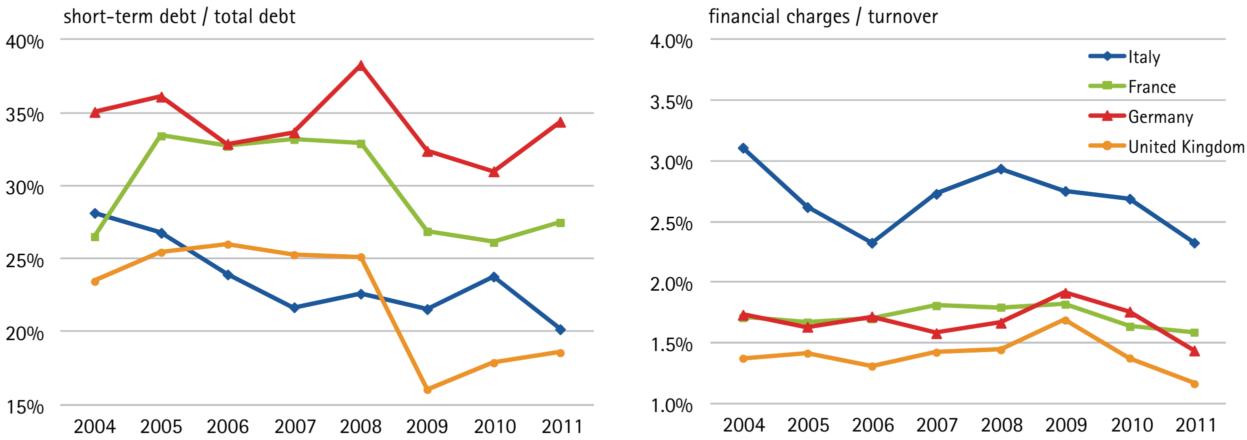
Figure 30 Leverage for major non-financial listed groups of some EU countries



Source: Worldscope data. For France, Germany and the United Kingdom, figures concern the major 30 non-financial companies by market capitalisation as of March 2012, whereas for Italy the figures refer to a sample of major listed groups indicated in Figure 26. The 2011 figures are preliminary.

The incidence of short-term borrowing on total debt for Italian companies was lower than that for French (27 percent) and German (34 percent) companies. The ratio of financial charges over turnover of Italian companies, instead, continues to be higher than those reported for the major European countries (from 1.2 percent in the United Kingdom to 1.6 percent in France; Figure 31).

Figure 31 Incidence of financial charges for major listed non-financial groups in some EU countries



Source: Worldscope data. For France, Germany and the United Kingdom figures concern the major 30 non-financial companies by level of capitalisation as at March 2012, whereas for Italy the figures refer to the sample of major listed groups indicated in Figure 26. The 2011 figures are preliminary.

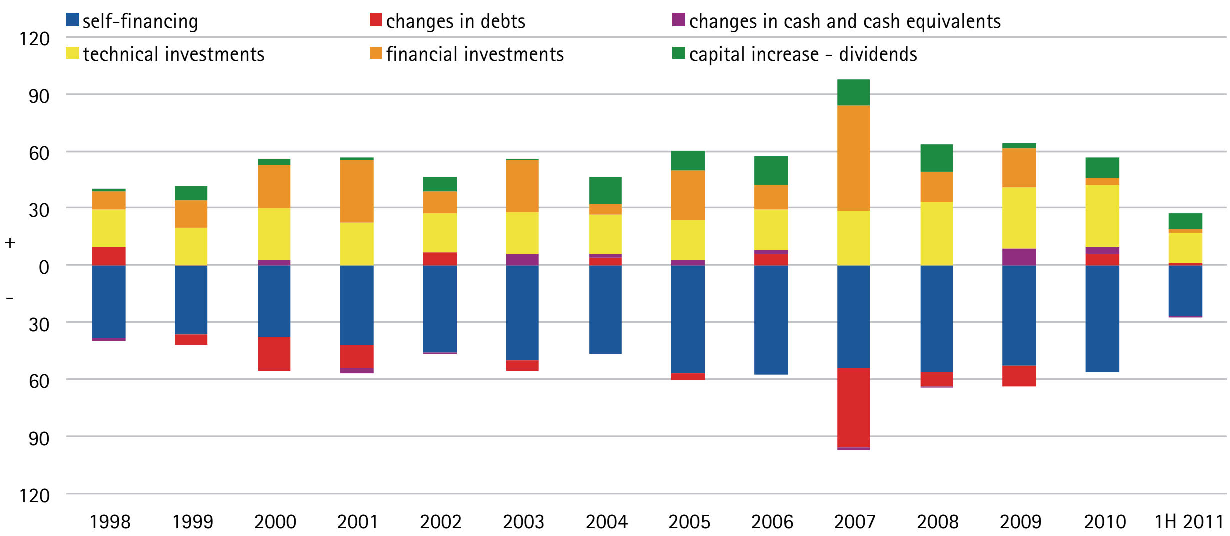
According to cash flow statements, self-financing was still the main source of liquidity for major Italian non-financial listed groups (approximately 27 billion euro in the first half year of 2011, equal to 97.4 percent; Figure 32).

In the first half of 2011, financial resources were mainly invested in tangible assets (15.9 billion euro approximately) or used for dividend pay outs (roughly 8.6 billion euro, net of capital increases), whilst financial investment absorbed just 1.8 billion euro (6.6 percent of all loans).

Self-financing was the principal source of liquidity for a sample of roughly 2,000 large Italian non-financial companies (partly overlapping with the largest listed groups sample), surveyed by Mediobanca. Total self-financing (net of investments in net working capital) increased from about 49 billion in 2009 to 61 billion euro in 2010, representing almost the only cash flow entry (Figure 33).

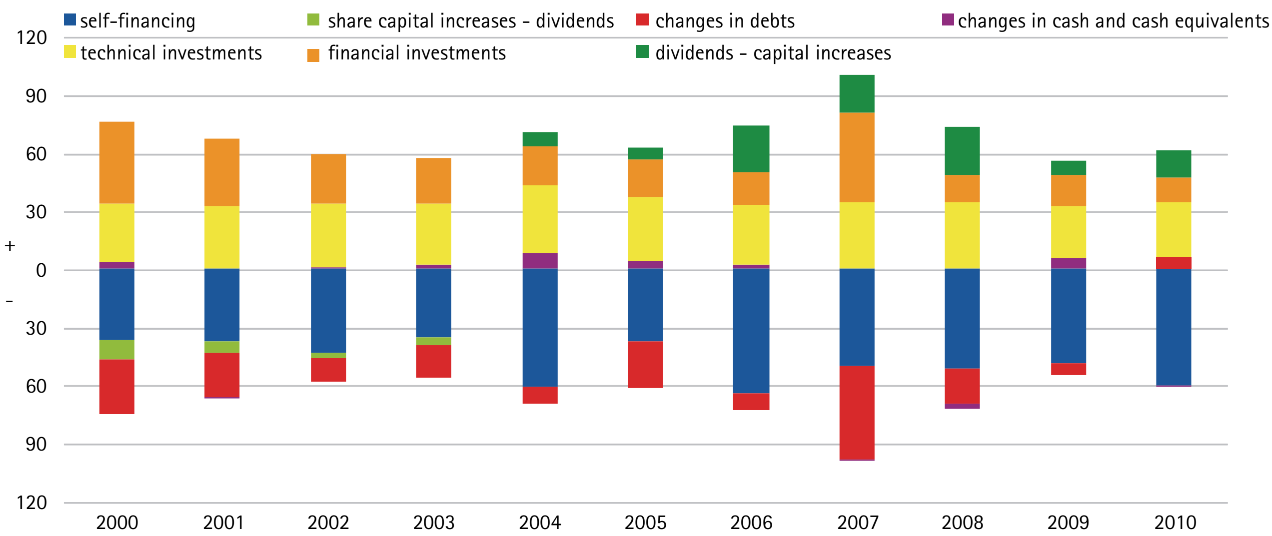
In 2010, the resources allocated to shareholders nearly doubled (dividends net of capital increases) increased from 7.6 billion euro in 2009 to 14 billion euro (+84.2 percent). Tangible assets rose slightly (28.2 billion euro against 26.7 billion in 2009, +5.8 percent), whilst financial assets decreased from 16 billion euro in 2009 to 12.5 billion euro in 2010 (-21.5 percent).

Figure 32 Uses (+) and sources (–) of financial resources of major Italian non-financial listed groups
(billions of euro)



Source: Cash flow statements and R&S data. Self-financing is net of investments in net working capital. See Methodological notes.

Figure 33 Uses (+) and sources (–) of financial resources for large Italian non-financial companies
(billions of euro)



Source: Mediobanca, 'Cumulative data from 2,030 Italian companies,' 2011 edition. Self-financing is net of investments in net working capital.

2 Ownership structure and corporate governance

Records on the ownership structure and control of Italian listed companies confirm that control by a single party is still the most common model. At the end of 2011 more than two thirds of companies were controlled, either by law or *de facto*, by a single shareholder (in 175 out of 261 listed companies; Table 1).

In most cases (123 companies), the controlling shareholder exercises de jure control, holding more than half of the ordinary capital in companies, which, overall, represent more than a fifth of total market capitalisation. For a restricted group of companies (52 cases), instead, the majority shareholder, although holding, less than 50% of voting rights, is able to exert a dominant influence on the company. This is typical of the largest companies by capitalisation, which represent more than 45 percent of total market capitalisation.

These data appear to be in line with those for ownership structures reported in the past three years. There are, however, two trends that arise from a medium-term comparison. On the one hand, the weight, in terms of capitalisation in 2011 of *de jure* controlled companies fell (from 31.2 to 22.7) compared to 1998, even though the number of the companies with this type of control is still substantially stable. On the other hand, the incidence of *de facto* control by a single shareholder has increased, compared to 1998, in terms of both market values (from 40.8 to 45.7 percent of the overall capitalisation) and frequency (from 34 to 52 companies).

Table 1 Models of control for listed companies
(situation at 31 December)

	De jure controlled companies		De facto controlled companies		Companies controlled by a shareholders' agreement[2]		Cooperative companies		Non-controlled companies[3]		total	
	number	*Pctg*[1]	number	*Pctg*[1]	number	*Pctg*[1]	number	*Pctg*[1]	number	*Pctg*[1]	number	*Pctg*[1]
1998	122	*31.2*	34	*40.8*	28	*8.3*	10	*3.1*	22	*16.6*	216	*100.0*
2008	137	*17.4*	55	*48.8*	57	*13.4*	8	*5.2*	32	*15.2*	289	*100.0*
2009	135	*16.5*	50	*38.3*	57	*15.1*	8	*4.4*	29	*25.7*	279	*100.0*
2010	129	*20.6*	45	*43.2*	51	*12.0*	8	*3.4*	38	*20.8*	271	*100.0*
2011	123	*22.7*	52	*45.7*	50	*11.6*	8	*3.2*	28	*16.8*	261	*100.0*

Source: Consob. [1] Percentage ratio between the capitalisation of the company's ordinary shares as referred to each control model and the capitalisation of ordinary shares of all listed Italian companies. [2] Classified in one of the following categories: *i)* listed companies, not controlled by a sole shareholder, on whose capital as of 31 December there existed a shareholders' agreement regarding at least 20 percent of capital; *ii)* listed companies controlled by an unlisted company, not controlled by a single shareholder, on whose capital as of 31 December there existed a shareholders' agreement regarding a majority interest in the company. [3] Residual category that includes those companies not assimilable to any of the preceding control models.

The survey results also confirm the importance of coalitional control structures in listed companies whose *governance* is defined by shareholders' agreements concerning the same listed company or the unlisted company that controls it. Although slightly less than in the past three years, companies with coalitional control represent nearly a fifth of all of the listed issuers and nearly 12 percent of market capitalisation.

From a comparison over the medium-term it emerges how these companies increased notably compared to 1998 both numerically (from 28 to 50) and in terms of market capitalisation (from 8.3 to 11.6 percent).

The weight of the cooperative companies listed on the Italian stock exchange remains constant, amounting to 8 companies (at the end of 2011), operating in the financial sector and representing nearly 3 percent of market capitalisation. This number was unchanged in the past three years, whilst their reduced importance in terms of capitalisation depends on the particularly negative performance of financial sector stocks.

For more broadly traded companies, by which is meant those that fall into the residual category of the so-called uncontrolled companies, the comparison over time exhibited a positive trend over the medium term, (negative if one considers only last year).

Specifically, the number of uncontrolled companies increased (from 22 to 28) compared to 1998, while remaining stable in terms of market capitalisation (from 16.6 in 1998 to 16.8 percent in 2011). Nevertheless, this category shrank compared to 2010 data (38 companies representing 20.8 percent of the market capitalisation), in part attributable to changes in control structure involving high capitalisation companies.

Overall, the evidence still confirms the prevalence of centralised control models, although with more open ownership structures (i.e. companies controlled by shareholders' agreements) than in the past and more uncontrolled companies, which at the end of 2011 accounted for more than a quarter of market capitalisation.

The data on significant shareholding, (i.e. greater than two percent of ordinary shares with voting rights), are in line with the traditional proprietary concentration in the Italian stock market, which did not undergo significant changes either in the short or medium term (Table 2).

In 2011, actually, the average stake held by the most important shareholder was approximately 45 percent of ordinary shares with voting rights, practically unchanged in the past three years and marginally decreasing compared to 1998 (-1.9 percentage points).

The overall average stake held by other major shareholders increased from 14 percent in 1998 to 17.4 percent approximately.

More diffuse shareholders, i.e. with stakes below the ownership transparency threshold of 2 percent, represented 38 percent of capital. The 2011 data confirmed the moderately positive trend of insignificant shareholdings compared to the previous three year period with current values nearing the higher figures reported in 1998.

Table 2 Ownership concentration in listed companies[1]
(situation at 31 December)

	Primary shareholder	Other major shareholders	Market[2]
1998	46.7	14.1	39.2
2008	45.5	18.3	36.2
2009	45.7	17.0	37.4
2010	44.9	18.0	37.1
2011	44.8	17.4	37.7

Source: Consob [1] Simple average of the ordinary capital share with voting rights of all Italian listed companies. Rounding may cause discrepancies in the last figure. [2] Simple average of the ordinary capital share not held by major shareholders.

The data for equity stakes in Italian listed companies in 2011 confirmed the trend, already noted in the previous three year period, indicating that there are ever fewer companies in which institutional investors have major shareholdings.

Companies with at least one institutional investor as a significant shareholder represented 37.5 percent of all issuers. This figure was not only lower than in the previous three year period, but also lower than in 1998, when companies with significant institutional investors represented 41 percent of the total (Table 3). The average stake held in these companies is between 6 and 7 percent in all periods observed. The most recent evolution, however, exhibited a reduction of about one percentage point compared to the previous year.

Table 3 Relevant equity stakes held by institutional investors[1]
(situation as at 31 December; data in percentages)

	1998	2008	2009	2010	2011
Companies with Italian or foreign institutional investors with major shareholdings[2]	41.0	48.8	50.5	43.9	37.5
Average stake held by major Italian or foreign institutional investors[3]	7.1	7.2	6.8	7.1	6.1
Companies with Italian or foreign institutional investors with major shareholdings[2]	26.0	13.8	11.8	8.5	4.6
Average stake held by major Italian or foreign institutional investors[3]	3.9	5.7	4.4	5.1	4.9
Companies with foreign institutional investors with major shareholdings[2]	25.0	41.5	44.1	39.1	33.7
Average stake held by major foreign institutional investors[3]	7.5	6.6	6.6	6.9	6.2

Source: Consob. [1] Institutional investors holding at least a 2 percent stake in the ordinary capital with voting rights. [2] Ratio between the number of companies in which institutional investors hold a major stake and the total of the listed Italian companies in each of the years considered. [3] Simple average of the ordinary capital held by institutional investors in companies where the latter hold stakes.

With regard to the nationality of institutional investors, the number of companies with Italian investors as large shareholders declined steady in the period considered.

In 1998, Italian investors were present in about one company in four, whilst in 2011 they held relevant stakes in less than 5 percent of issuers: nearly half the figure for 2010. The average stake was 4.9 percent: practically unchanged in the past three years.

Instead, the presence of large foreign institutional investors in the capital of listed companies showed a trend reversal. According to current data, large foreign investors have shares in one out of three companies, with a broader presence of these investors compared to 1998. However, their presence, which in the previous three year period involved about 40 percent of the market, is decreasing. The average stakes fell slightly during the entire period considered, in particular over the last two years.

As for the participation of institutional investors in shareholders' meetings of Italian listed companies, during 2011 an average of 86 institutional investors took part to shareholders' meetings (compared to an average of 133 participating shareholders overall; Table 4). Data on share capital represented in shareholders' meetings showed a dissimilar behaviour by Italian and foreign investors. Whilst the average share of Italian investors represented in shareholders' meetings was 0.3 percent of the capital, foreign investors reached 5.7 percent, with a mean of 0.6 percent.

Table 4 Attendance of institutional investors to shareholders' meetings of listed companies in 2011

		Number of participants		Share capital stake represented in the shareholders' meeting	
		total	institutional investors	Italian institutional investors share	foreign institutional investors share
All listed companies	Average	133	86	0.3	5.7
	Min	1	0	0.0	0.0
	Max	3,522	1,483	6.4	61.9
	Mean	20	7	0.0	0.6
FtseMib and MidCap	Average	343	238	0.6	14.1
	Min	3	6	0.0	0.0
	Max	3,522	1,483	3.6	61.9
	Mean	139	98	0.0	10.2

Source: minutes of shareholders' meetings for approval of financial statements of Italian companies held in 2011. Cooperative companies not included.

In the larger companies (those included in the FtseMib and MidCap indexes) a broader participation of institutional investors was observed (on average 238 participating shareholders compared to an average of 343 overall). Foreign funds showed greater activism in this case, representing an average 14.1 percent of capital at shareholders' meetings (compared to 0.6 percent represented by Italian institutional investors). However, the mean values indicate that there are still many large listed Italian companies whose shareholders' meetings are nearly deserted by institutional investors.

Regarding boardrooms, it has been noted that there is a correlation between share indexes membership and board composition. Companies with higher capitalisation, included in the FtseMib and MidCap indexes, are characterized by larger boardrooms, including independent directors and minority interests representatives.

In particular, the average boardroom is composed by 12.73 members for FtseMib index companies, and 13.07 for issuers on the Ftse MidCap index, while the overall market average for 2010, is 10 members (Table 5). In addition, independent directors in the boards of these companies (either pursuant to the code of conduct, or according to the independence criteria requested by the Italian law) are about 40 percent (respectively 41.0 and 39.7 percent for companies on the FtseMib and MidCap indexes). Companies with lower capitalisation, such as those included in the Star index and those not included in any index, usually have smaller boards of directors, where independent directors are about 35.9 percent.

Table 5 Board composition of listed companies relative to company size in 2010
(situation as of 31 December 2010)

Index	number of companies	*proportion*[1]	average number of members on the board of directors	percent average of independent directors[2]	percent average of elected board members from minority interests
FtseMib	37	*82.1*	12.73	41.0	14.4
Ftse MidCap[3]	46	*12.2*	13.07	39.7	5.3
Star[3]	69	*3.2*	9.59	35.9	3.4
Others	116	*2.6*	8.15	35.9	6.0
total	*268*	*100.0*	*10.00*	*37.3*	*6.4*

Source: reports on operations from Italian listed companies published in 2011 for the 2010 fiscal year. [1] Percentage ratio between the capitalisation of the company's ordinary capital as referred to in each index and the capitalisation of the ordinary capital of all listed companies. [2] Ratio between the number of independent board members pursuant to the code of conduct or, for companies that do not adhere to it, pursuant to the TUF, and the overall number of members of the management body. [3] Companies in the Star and MidCap indexes are included in the Star category only.

The presence of minority board members is greater for companies in the FtseMib index, where they are approximately 14 percent compared to an overall average of 6.4 percent. This evidence may also be explained by the greater openness of the ownership structure of the companies with higher capitalisation, as well as the presence and the activism of the institutional investors. In addition, the FtseMib index is made up by a majority of privatised companies, for which a list vote, introduced by the privatisation law of 1994, reserves one fifth of the board to minorities. For other companies, specifically those in the Star index, the percentage of minority board members is much more contained instead.

The gender composition of boardrooms at the end of 2011 showed that 7.4 percent of seats are assigned to women, with about half of all companies having both genders represented in their boards (Table 6). Over the last four years, one can see a positive trend both in the number of women who sit in boardrooms and in the number of companies where both genders are represented.

Table 6 Presence of women on the boards of directors of listed companies
(situation at 31 December)

	women members on administrative bodies		companies in which there is at least one woman in the board of directors	
	number	*proportion*[1]	number	*proportion*[2]
2008	170	*5.9*	126	*43.8*
2009	173	*6.3*	129	*46.4*
2010	182	*6.8*	133	*49.6*
2011	193	*7.4*	135	*51.7*

Source: Consob. [1] Percentage weight out of the total members in management bodies. [2] Percentage weight out of the total of listed Italian companies.

The presence of women is higher in companies with lower capitalisation, or those in the Star index and those not included in other indexes (FtseMib and MidCap).

Specifically, the frequency with which at least one woman sits in boards of directors was 58.8 percent for Star index companies (Table 7). Moreover, the proportion of women on total board members is greater in Star index issuers or in companies not included in indexes, even though they are characterised by smaller bodies. Companies with greater capitalisation, and specifically those included in the FtseMib index, are characterised by fewer women directors instead, both in terms of percentage of companies in which both genders are represented in the management bodies and in terms of the relative proportion of the women directors.

From this point of view regard, it should be recalled that Law 120 of 12 July 2011 introduced the so called 'gender quotas' for the composition company boards for listed companies (as well as publicly controlled companies). Specifically, the law imposes to comply with the composition criterion for company boards, according to which the least represented gender should make up at least a third of the board. for the criterion will be applied gradually: upon the first board renewal, the quota for the least represented gender is to be at least a fifth of the board of directors. In addition, allotment criteria is to be applied over three legislatures. The law will come into force next August.

Table 7 Board composition of listed companies relative to company size in 2011
(situation as at 31 December 2011)

index	number of companies	*proportion*[1]	average number of members of the board of directors	average percentage of the companies in which there is at least one woman	percent average of women in Boards of Directors
Ftse Mib	38	*84.0*	12.53	47.4	5.2
Ftse MidCap[2]	42	*10.4*	13.21	50.0	5.7
Star[2]	68	*3.2*	9.57	58.8	8.1
Others	113	*2.4*	8.19	49.6	8.9
total	*261*	*100.0*	*9.99*	*51.7*	*7.6*

Source: Consob. [1] Percentage ratio between the capitalisation of the company's ordinary capital as referred to each index and the capitalisation of the ordinary capital of all listed Italian companies. [2] Companies in the Star and MidCap indexes are included in the Star category only.

As for interlocking, i.e. holding positions in several listed companies, it involves at least one board member in most of the listed companies. On this issue, recent legislation prohibits, among other things, the assumption of management, surveillance and control positions in competing banking, insurance and financial companies or groups (Article 36 of Legislative Decree 201/2011 converted into Law 214 of 22 December 2011).

At the end of 2011, for companies operating in the financial sector (banks, insurance companies and other listed intermediaries) evidence showed that in barely one case out of ten (4 companies out of 42) there were no interlocking positions; in the non-financial sector, nearly one company in three is not involved in this phenomenon (67 cases out of 219) (Table 8). Therefore, overall, the presence of at least one director with a seat in other listed companies concerns 190 companies out of 261, representing nearly 75 percent of the companies and 96 percent in terms of capitalisation. This phenomenon is particularly significant for 40 companies, which represent one fourth of overall market capitalisation, where more than half of the directors seat on the boards of other issuers.

Table 8 Interlocking in listed companies
(situation as at 31 December 2011)

share of the members of boards of directors holding more than one post	non-financial companies		finance companies	
	number	*Pctg*[1]	number	*Pctg*[1]
0%	67	*3.9*	4	*0.1*
< 25%	64	*20.4*	20	*14.6*
From 25% to 50%	56	*34.1*	10	*1.8*
From 50% to 75%	29	*16.0*	7	*6.9*
> 75%	3	*1.0*	1	*1.2*
total	*219*	*75.4*	*42*	*24.6*

Source: Consob. [1] Percentage of the total capitalisation of the sector.

Finally, the evidence on the distribution of alternative administration and control systems confirm the scarcity of dualistic and monistic systems (Table 9). The companies that adopted alternative systems were just ten, unchanged since 2010.

Specifically, there were three companies that adopted the monistic system, whilst seven were organised using the dualistic model. Among the dualistic companies, which overall represented 8 percent of market capitalisation, some have a large capitalisation.

Table 9 Board systems adopted by listed companies
(situation as at 31 December 2011)

model	number of companies	*proportion*[1]
traditional	251	*91.8*
dualistic	7	*8.1*
monistic	3	*0.1*
total	*261*	*100.0*

Source: Consob. [1] Percentage ratio between the capitalisation of the company's ordinary capital belonging to each capitalisation model and the capitalisation of the ordinary capital of all listed Italian companies.

3 Credit quality

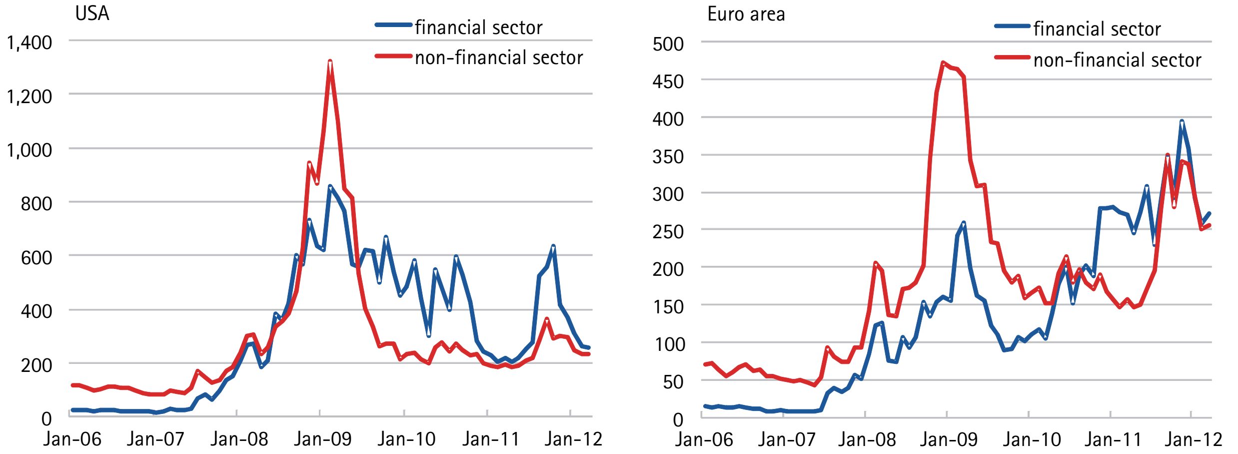
In 2011 the frequent downgrading of listed companies' ratings in the euro area signalled a worsening of the issuers' risk profile, especially in the banking sector.

At the same time as the rating agencies were notifying their downgrades, from December 2010 to the end of 2011 the average quote for five-year credit default swaps (CDSs) in the euro area rose significantly, from 279 to 357 basis points for financial sector companies and from 167 to 338 basis points for non-financial sector companies (Figure 34). However, in the first quarter of 2012 the quotes declined to 250 basis points for both sectors.

In the US, CDS quotes began to rise again in June 2011, when the sovereign debt crisis in Europe began to intensify, only to decline to December 2010 levels at the end of March 2012.

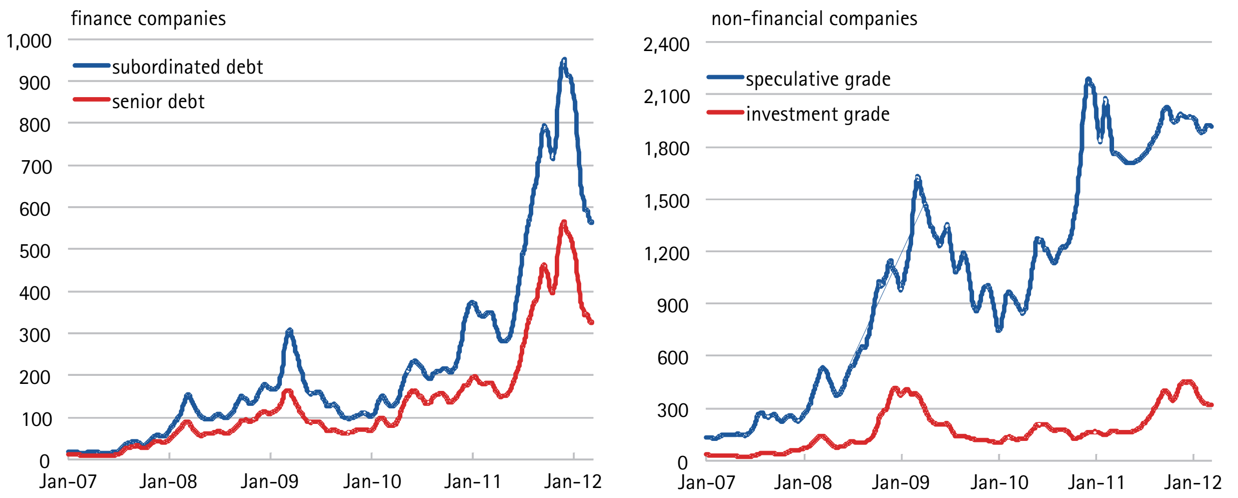
The upward trend in CDS prices was even stronger for Italian companies, and in particular, for banks' subordinated debt and for speculative debt in the corporate sector (Figure 35).

Figure 34 Five-year credit default swaps on US and eurozone listed issuers
(basis points; monthly data from January 2006 to March 2012)



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

Figure 35 Five-year credit default swaps on Italian listed issuers
(basis points; daily data from 24/01/2007 to 30/03/2012)

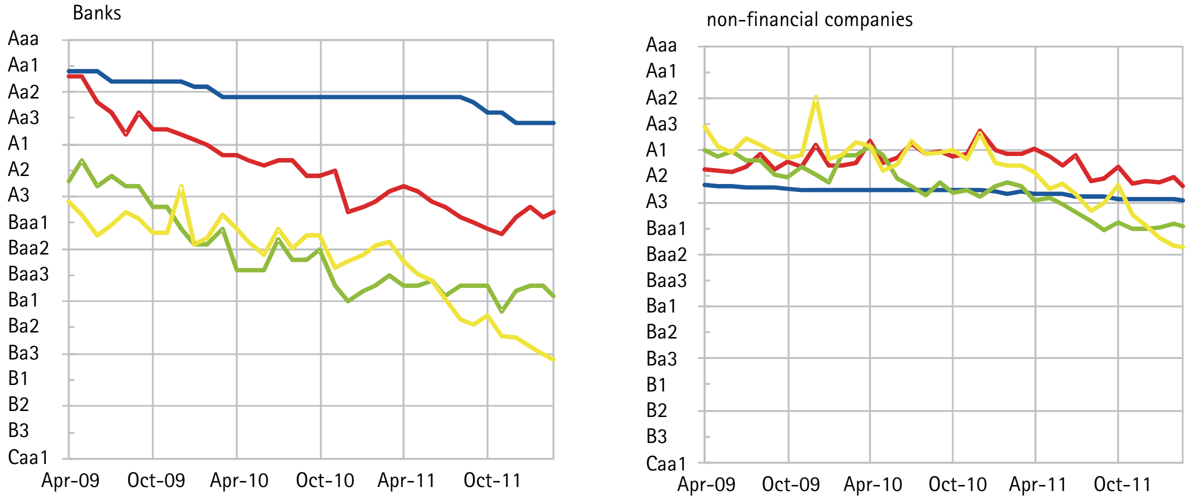


Source: calculations based on Thomson Reuters data. 20-day moving average. For non-financial companies prices are calculated as the average of daily credit default swap prices for companies with the same rating, while for banks prices are calculated as the average of daily prices of major banking groups. For example, a price quote of 100 basis points indicates that the contract buyer (i.e. the purchaser of credit risk protection) is willing to pay an annual protection fee to the seller of 1% of the nominal value of the underlying bond or credit.

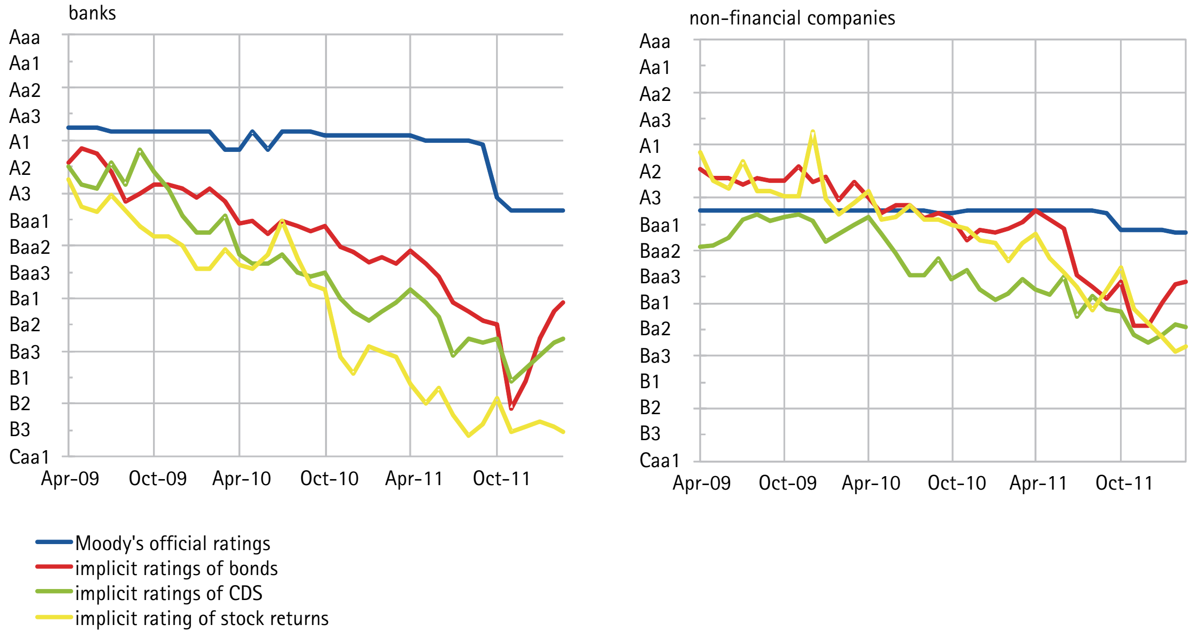
The implicit rating in CDS prices for equities and for the bond spread for main Italian and eurozone companies (which have a Moody's rating and are included, respectively, in the FtseMib and the Dow Jones EuroStoxx 50 indexes) appeared to be persistently misaligned with official ratings in 2011, especially for banks (Figure 36).

Figure 36 Average values of official and implicit ratings for main European listed companies
(monthly data from June 2009 to March 2012)

EURO AREA



ITALY



Source: Moody's data. The data refer to main listed Italian groups included, respectively, in the FtseMib and the Dow Jones EuroStoxx 50 indexes and provided with a Moody's rating.

In particular, for Italian banks the implicit rating based on share prices turned out to be lower than that based on performance of CDS and the bond spreads already in 2009, signalling a greater capacity of the equity market to react to signs of worsening credit quality. For European banks, except for the implicit credit rating based on bond yields, implicit ratings are more aligned.

Implicit ratings for top eurozone non-financial sector companies did not diverge significantly from official ratings, whilst for Italian companies an increasing misalignment began in April 2011.

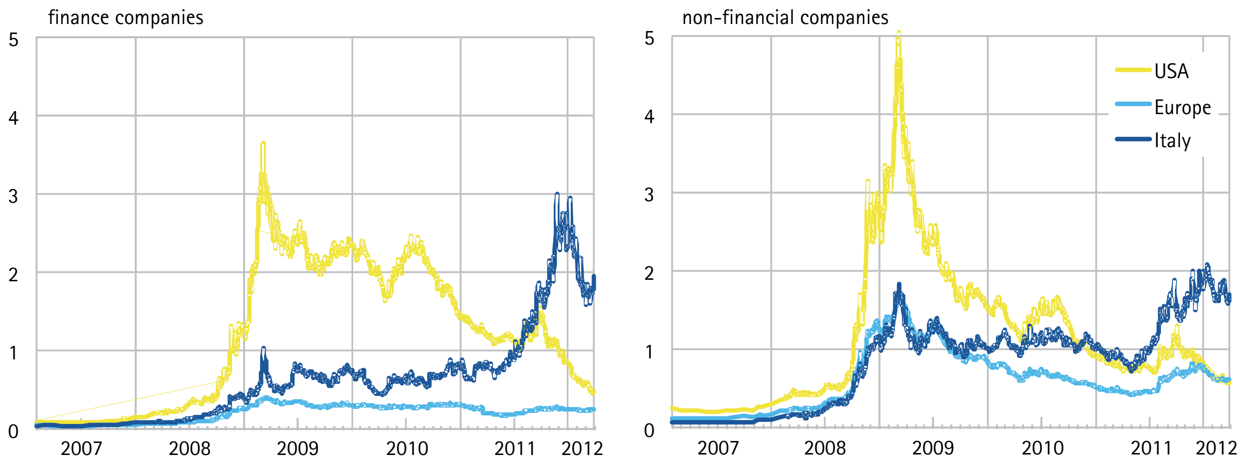
The probabilities of default estimated using analytic insolvency risk assessment models reflected only partially the evidence on CDS price trends for euro-area and US companies (Figure 37).

After having increased in early 2011, the mean expected default probability values for American companies dropped significantly in the second half of the year to reach, in early 2012, levels lower than 1 percent.

In Europe, expected mean default probability values were stable at around 0.3 percent for financial companies, whilst they rose slightly for companies in the non-financial sector in 2011.

The probability of expected insolvency increased significantly for Italian financial companies, reaching about 3 percent at the end of 2011, and dropping by about one percentage point in early 2012; corporate companies performed similarly, although with values slightly under 2 percent.

Figure 37 One-year expected mean default probability values for listed companies
(basis points; daily data from 31/01/2007 to 30/03/2012)



Source: Moody's KMV - Credit Edge.

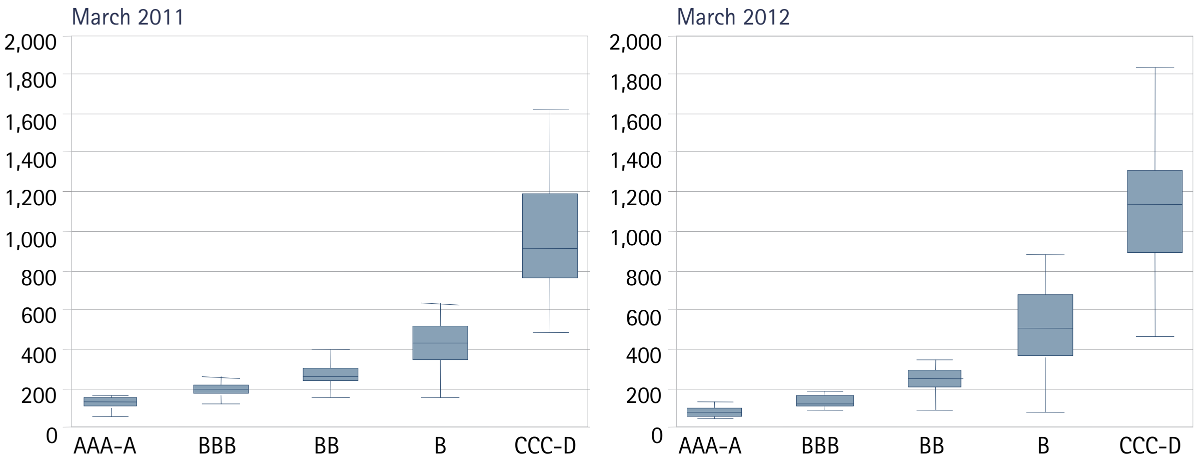
The comparison between current average CDS quotes for banks in major European countries and theoretical average quotes, estimated by Moody's based on analytic insolvency risk assessment models, shows that during 2011 the misalignment between the market assessment of credit risk and the implicit risk profile based on financial statement data was deeper for Italian banks than for Spanish banks (Figure 38). In particular in Italy, in late 2011, actual CDS prices sometimes exceeded theoretical prices, signalling an over-reaction phenomenon, realigning only in early 2012. For Spanish banks, instead, actual quotes were lower than theoretical prices beginning in August 2011, indicating an underestimation of insolvency probabilities by the market, as could be inferred from fundamental financial statement data.

Figure 38 Theoretical prices for 5-year credit default swaps for banks in some euro-area countries
(basis points; daily data from 18/03/2011 to 30/03/2012)

Source: Moody's KMV-Credit Edge data. The values implicit in the CDS spread were estimated using the credit risk assessment model developed by Moody's KMV.

In March 2012, theoretical CDS prices for non financial listed companies, as estimated by Moody's, showed a worsening insolvency risk compared to March 2011, especially for companies in the speculative grade rating class (Figure 39). Specifically, the average quote for companies with an implicit rating of CCC-D increased from approximately 900 to slightly less than 1,200 basis points.

Figure 39 Theoretical prices for 5-year credit default swap contracts for Italian listed non-financial companies
(basis points; rating implicit to probability of insolvency)

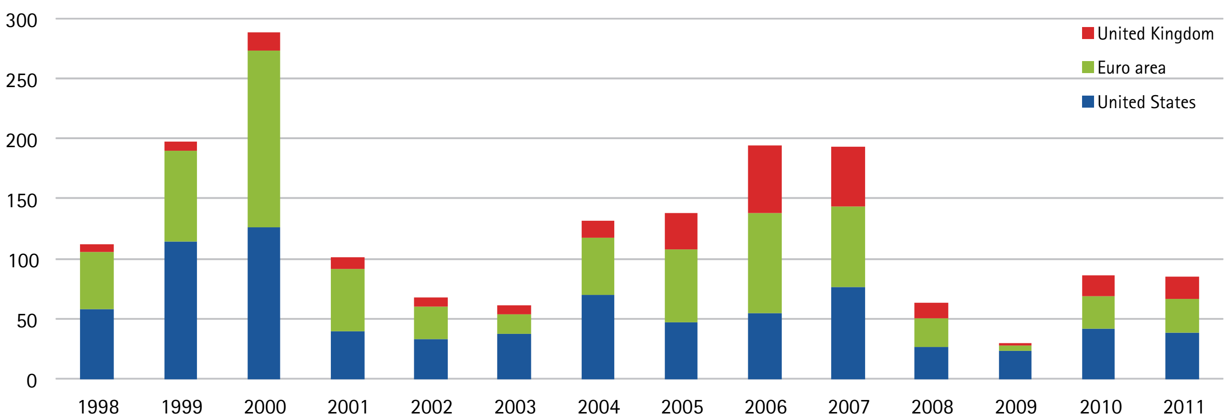


Source: Moody's KMV-Credit Edge data. Insolvency probability has been estimated using the credit risk assessment model developed by Moody's KMV and is used for assigning an implicit rating. The Figure shows the theoretical price spread by credit rating class. For each class, the horizontal line in the 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 2011, new Initial Public Offers (IPOs) in advanced countries were stable compared to the previous year (Figure 40): the total amount of funds gathered by newly listed companies roughly 85.2 billion dollars in 2011, and 86.1 in 2010.

Figure 40 Funding of newly listed companies on stock exchanges of advanced economies
(billions of US dollars)

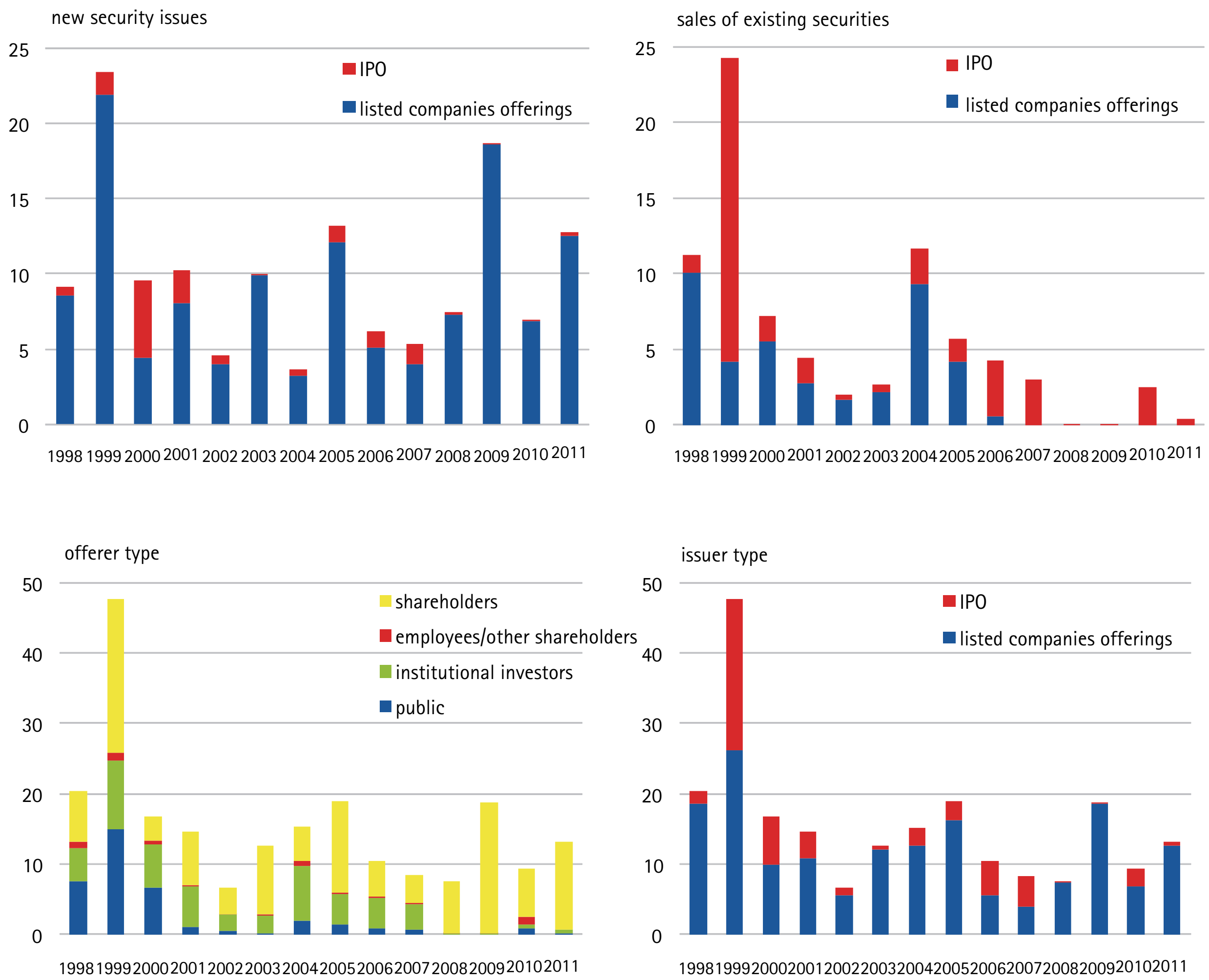


Source: World Federation of Stock Exchanges and London Stock Exchange data. The US figures refer to NYSE and NASDAQ listed companies.

Specifically, the data show a modest funding increase in the United Kingdom (from 17.6 to 18.9 billion; + 6.8 percent approximately) and in the euro area (from 26.4 to 27.4 billion; + 3.6 percent approximately), with a contraction of funding in the United States (from 42 to 39 billion dollars approximately; -7.3 percent).

In 2011, equity placements on Borsa Italiana increased by approximately 40 percent (13.1 billion euro compared to 9.4 billion euro in 2010; Figure 41).

Figure 41 Overall share placements and convertible bonds for Italian listed companies
(issues of new securities and existing security offerings; in billions of euro)



Source: Borsa Italiana.

However, newly issued equity, may be entirely attributed to already listed companies (12.5 billion euro approximately). Vice versa, to the total value of new IPOs plunged from 2.5 billion euro in 2010 to approximately 0.6 billion in 2011. Reserved capital increases overwhelmingly confirmed themselves as the main source of funding for Italian listed companies, also reflected by their share on total capital increases (from 73 in 2010 to 96 percent approximately in 2011).

There were 5 initial public offerings of Italian companies in 2011, one of which took place on the MTA market and 4 on the AIM Italia market (Table 10). Total pre-IPO market capitalisation, almost entirely ascribable to just one company gone public on the MTA ('Salvatore Ferragamo'), was approximately 1.5 billion euro.

The equity sold by 'Salvatore Ferragamo' amounted to 379 million euro, while the equity placed on AIM Italia amounted to 60 million euro.

Table 10 Initial public offerings by Italian companies[1]
(amounts in millions of euro)

	number of companies	pre-offer capitalisation[2]	IPO value			*weight on post-offer capitalisation*[3]
			subscription	sales	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	4	335	51	93	144	*36.7*
2010[4]	8	8,229	46	2,630	2,676	*32.3*
2011	5	1,554	60	379	439	*27.2*

Source: CONSOB and Borsa Italiana SpA. See Methodological notes. [1] Beginning in 2009 IPOs have been included on Aim Italia. [2] Capitalisation of the companies admitted to listing, calculated on the basis of the public offering price and the pre-offering number of shares. [3] 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. [4] The data include the Enel Green Power offer IPO tranche for the general public and employees in Spain (approximately 71 million euro).

Companies involved in IPOs so far have failed to attract many institutional investors. Only one company had institutional investors among its shareholders prior to listing. Their stake, 30.7 percent before listing, dropped to 27.6 afterwards (Table 11).

Table 11 Institutional investors' shareholdings in newly listed Italian companies[1]

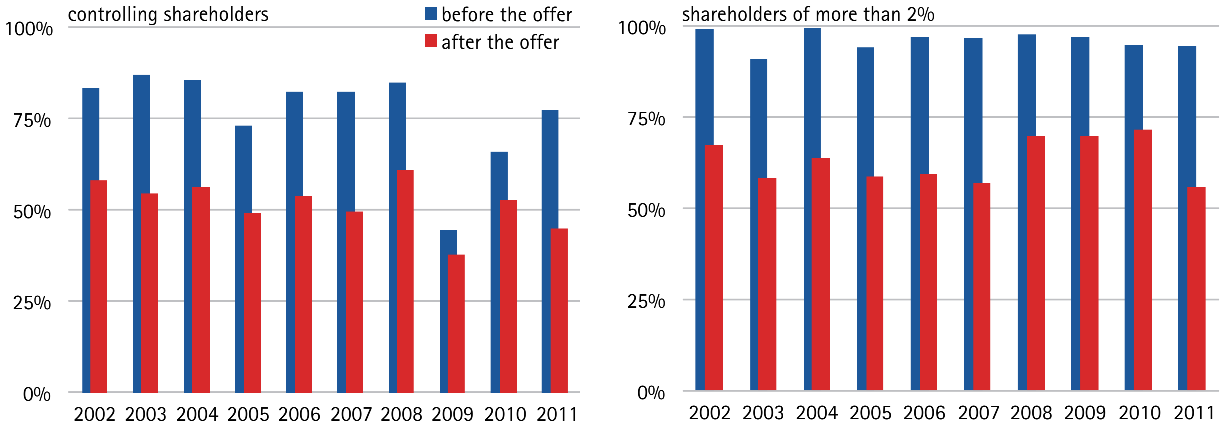
	companies		average number of institutional investors[4]	average share pre offering[5]	average share post offer[6]
	number[2]	*proportion*[3]			
1995	6	*54.5*	2.3	27.7	8.5
1996	6	*50.0*	3.7	47.3	23.2
1997	2	*20.0*	1.5	40.9	7.1
1998	4	*25.0*	4.3	48.3	18.9
1999	9	*33.3*	2.0	27.5	10.2
2000	18	*40.9*	2.7	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	2	*50.0*	5.5	49.4	25.7
2010	2	*25.0*	1.5	17.0	13.3
2011	1	*20.0*	2.0	30.7	27.6

Source: CONSOB and Borsa Italiana SpA. See Methodological notes. [1] Institutional investors comprise closed-end investment funds, venture capital companies, commercial and investment banks. Foundations and savings banks are excluded. The data refer only to companies with this investor category among its shareholders, taking into account both direct investments and those in issuer controlling companies. Beginning in 2009 IPOs have been included on Aim Italia. [2] Number of companies, listed during the year, in which institutional investors held an interest on the IPO date. [3] Percentage of all companies first listed during the year. [4] Average number of institutional investors holding an equity interest on the public offering date. [5] Average share capital percentage held by institutional investors on the public offering date. [6] Average share capital percentage held by institutional investors immediately after the public offering.

In 2011, shareholders diluted their stakes following the initial placement. While the average control stake prior to the offer was higher in 2011 than in 2009 and 2010, it fell by about 30 percent after the IPO (Figure 42). Instead, stakes held by the shareholders with more than 2 percent of pre-offering voting rights remained stable; however, in this case as well, they decreased after the IPO.

In 2011, the new shareholders following an IPO were mostly represented by Italian and foreign institutional investors, underwriting approximately 93 percent of the overall equity issued (compared to 24 percent in 2010) but in line with previous years (Table 12). The ratio between supply and demand was stable compared to 2010 for public offerings, while increasing slightly for institutional offerings.

Figure 42 Ownership structure of newly listed Italian companies
(percentages of share capital with voting rights; average values)



Source: CONSOB and Borsa Italiana SpA. Since 2009, IPOs have also included Aim Italia firms. See Methodological notes.

Table 12 Newly listed Italian companies: IPO outcome[1]

	shares assigned[2]				*supply-demand 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	7.0	31.5	56.8	4.8	*1.0*	*4.0*
2010[7]	75.8	12.5	11.7	--	*1.0*	*1.4*
2011	6.8	25.3	67.6	0.3	*1.0*	*1.9*

Source: CONSOB and Borsa Italiana SpA. See Methodological notes. [1] Percentage averages weighted according to public offering values. 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. Beginning in 2009 IPOs have been included on Aim Italia. [2] With regard to allocation to institutional investors, when 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 pre-listing agreements. [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 data include the Enel Green Power offer IPO tranche for the general public and employees in Spain.

No intermediary involved in managing the 2011 IPOs had a participation in the companies involved, while two of the newly listed companies had received credit lines from the intermediary's group, with an overall debt owed to the intermediary's group at around 24 percent of the company's gross financial liabilities (Table 13).

Table 13 Credit and equity relations between newly listed Italian companies and their placing agents[1]

	companies with credit relations with sponsors or placing agents			companies with participatory relations with sponsors or placing agents		
	number of companies	percent of total of the IPO[2]	average share of lending by sponsors or placing agents[3]	number of companies	percent of total of those admitted to listing[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	1	25.0	18.0	1	25.0	6.9
2010	1	12.5	9.3	--	--	--
2011	2	40.0	23.9	--	--	--

Source: sponsor statements and prospectus data. See Methodological notes. [1] Credit and equity relationships as of the public offering date existing between companies admitted to listing and the sponsor, specialist, global coordinator, lead manager or NOMAD of the public offering and other intermediaries belonging to the same group as the above. Beginning in 2009 IPOs have been included on Aim Italia. [2] Percentages. [3] As a percentage of total financial debt. [4] As a percentage of the pre-offering share capital.

Table 14 IPOs for admission to listing on the MAC market
(amounts in millions of euro)

	number of companies	pre-offering capitalisation[1]	IPO value			*proportion of capitalisation post offer*[2]	controlling shareholder share post offer[3]
			subscription	sales	*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
2010	2	125.2	0.4	6.0	*6.4*	*5.1*	46.7
2011	3	48.1	1.0	--	*1.0*	*2.0*	56.1

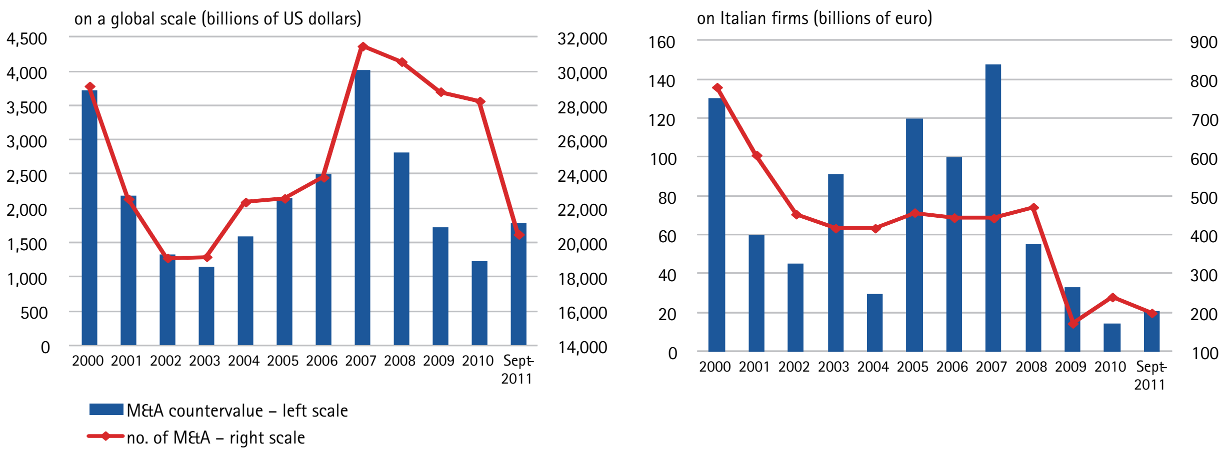
Source: Borsa Italiana SpA. [1] Capitalisation of companies admitted to trading, calculated on the basis of the public offering price and the pre-offering number of shares. [2] Post-offering capitalisation-offering price ratio. Percentage values, weighted by the sum total of public offerings. [3] Simple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

During 2011 three companies were admitted to listing on the MAC market. These companies capitalised an overall 48.1 million euro before the offer and sold equities for one million euro. These values are lower than those for 2010, but higher than those for 2009 (Table 14).

5 Mergers and acquisitions

During 2011, the negative trend of the global mergers and acquisitions market continued. In the first nine months of the year, overall operations at a global level declined from 28,256 to 20,479, although the overall value rose from 1.219 to 1.785 billion US dollars , returning to the 2009 levels (Figure 43).

Figure 43 Mergers and acquisitions



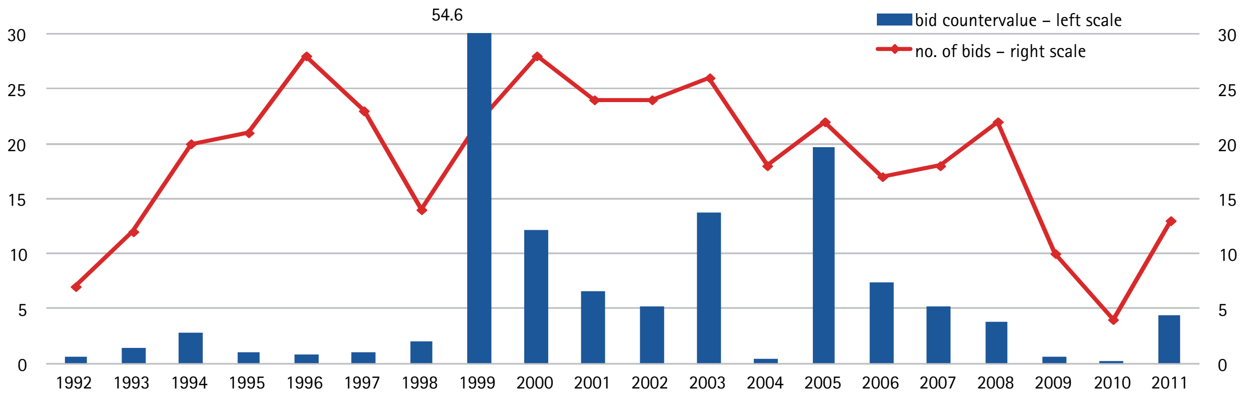
Source: KPMG, Thomson Reuters and Bloomberg.

A similar trend was observed in Italy: the number of operations declined from 240 in 2010 to 199 in 2011, whilst their value rose from 14.6 to 21 billion euro (+44 percent compared to 2010).

In 2011, the total value of takeover bids on Italian listed companies amounted to 4.3 billion euro, the highest in the last four years; in addition, the number of offers (13) tripled that of 2010 (Figure 44).

About 90 percent of takeover bids total value in 2011 may be attributed to the hostile takeover bid for Parmalat launched by Sofil, a French company controlled by the Lactalis Group (57 percent of total takeovers value), and to the friendly tender offer for Bulgari shares launched by LVMH on (31 percent of total takeovers value).

Figure 44 Takeover bids and/or equity swaps on Italian listed companies
(billions of euro)



Source: Borsa Italiana and prospectus data. Share swap prices are valued at the market prices for the day preceding announcement of the bid.

Secondary markets III

1 The equity markets

In 2011, the intensification of the sovereign debt crisis, the deterioration of growth forecasts for advanced economies and investors' increased risk aversion resulted in a sharp fall in share prices in many advanced countries, increased volatility and a reduction in liquidity.

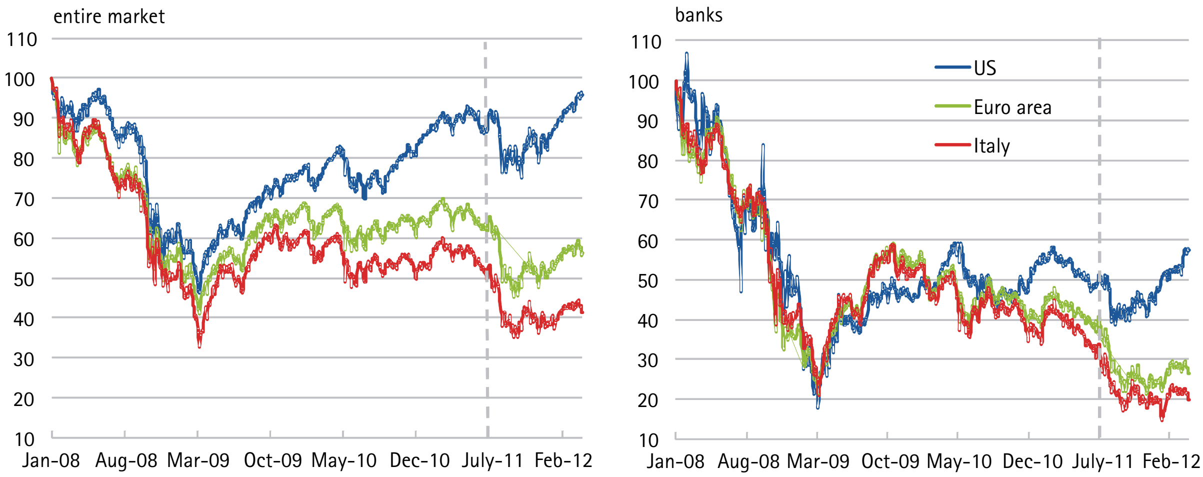
The crisis intensified its impact on equity markets and main advanced economies particularly from July 2011, when tensions on sovereign debt propagated from peripheral to core countries and, in particular, to Italy and Spain (see Chapter I *'The economic outlook'*), acquiring systemic relevance. The ensuing uncertainty penalised share prices, especially those in the banking sector, due to the large exposure of many large European banks to government securities of peripheral countries.

From January to December 2011, the Dow Jones EuroStoxx 50 share index (whose components represent the most important listed companies in the eurozone) fell by approximately 18 percent (-6 percent in 2010; Figure 45). In Italy, as far as the main Italian listed companies are concerned, the FtseMib index dropped even further by -26 percent (-13 percent in 2010). The decline of the S&P500 index (whose components represent the most important US listed companies) was much smaller instead (-1.1 percent as compared with +13 percent in 2010). The decline in share prices took place particularly in the second half of 2011. In the second half of the year, indeed, the Dow Jones EuroStoxx index fell by approximately 19 percent (while it was substantially stable in the first part of the year); the FtseMib fell by 25.2 percent (-1.2 percent in the first half of 2011).

In the first months of 2012, developments in the European economic governance reform, the restructuring of the Greek Government's debt and interventions by the European Central Bank (see Chapter I *'The economic outlook'*) seemed to have helped advanced countries stock markets to recover. . However, uncertainty surrounding the sustainability of the public debt in Spain fuelled new tension on the eurozone equity markets in March,.

The transmission of the sovereign debt crisis to the banks (see Box '*Transmission of sovereign risk to the banking sector*' in Chapter IV *'Intermediaries and households'*) brought about a major shares sell-off, particularly in the financial sector. In 2011, the bank sector share index fell by 39 percent in the eurozone and by 47 percent in Italy, while in the USA the reduction was more limited (-14 percent). Bank prices also fell more markedly during the second half, (the eurozone bank shares index fell by 37 percentage points (-2 percent in the first half of 2011) and Italian banks shares declined by 40 percentage points (-11 percent during the first half of the year).

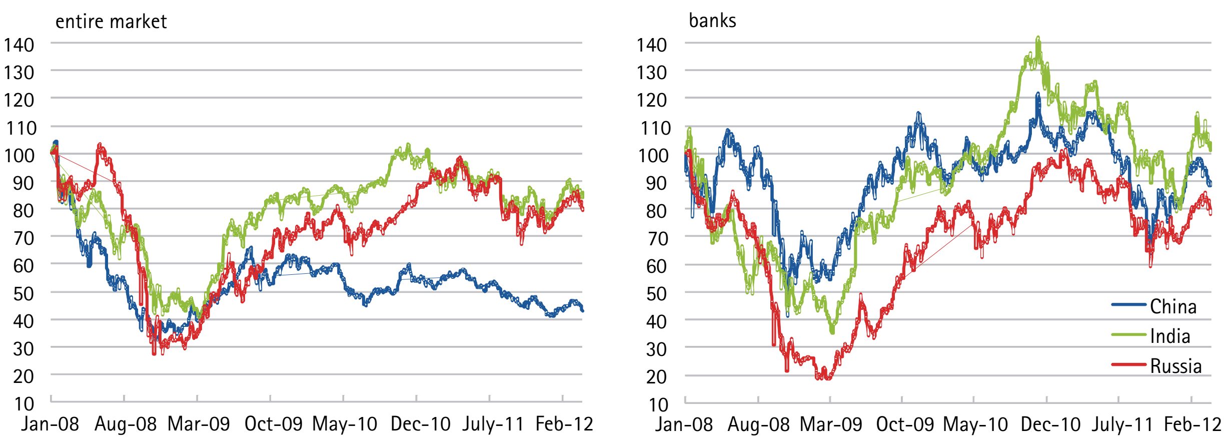
Figure 45 Stock performance in major advanced markets
(daily data from 01/01/2008 to 30/03/2012; 01/01/2008=100)



Source: Thomson Reuters.

The worsening outlook worldwide and prospects of a growth slowdown hit also share prices in emerging economies, which dropped by 18 percent (Russia) and by 24 percent (China and India; Figure 46). In early 2012, indexes however increased (on average by more than 10 percent - figure at end February), before decreasing (by 7 percent for China and Russia).

Figure 46 Stock performance in emerging markets
(daily data from 01/01/2008 to 30/03/2012; 01/01/2008=100)

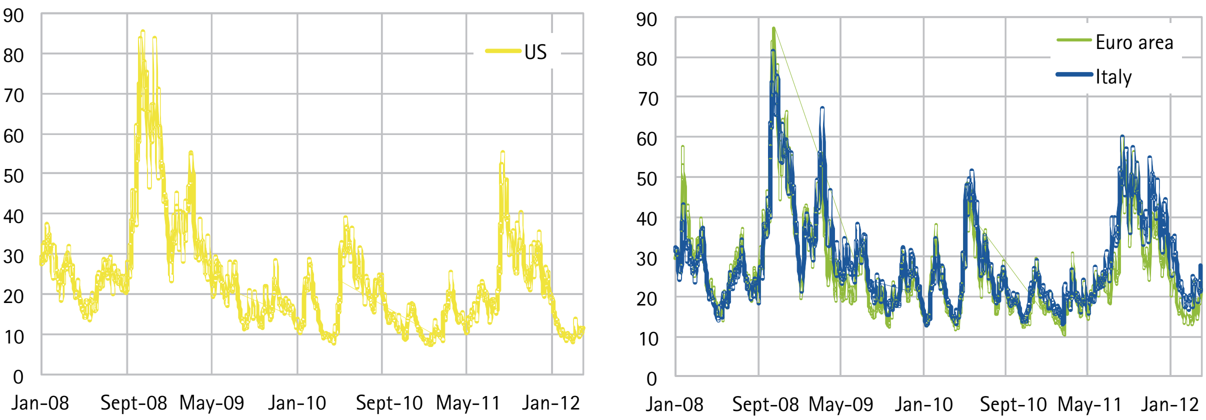


Source: Thomson Reuters.

In 2011, the decline in banks share prices was particularly relevant in emerging countries too (-22 percent in China, -35 in India and -29 in Russia) and was only partially offset by the rises recorded during the first quarter of 2012.

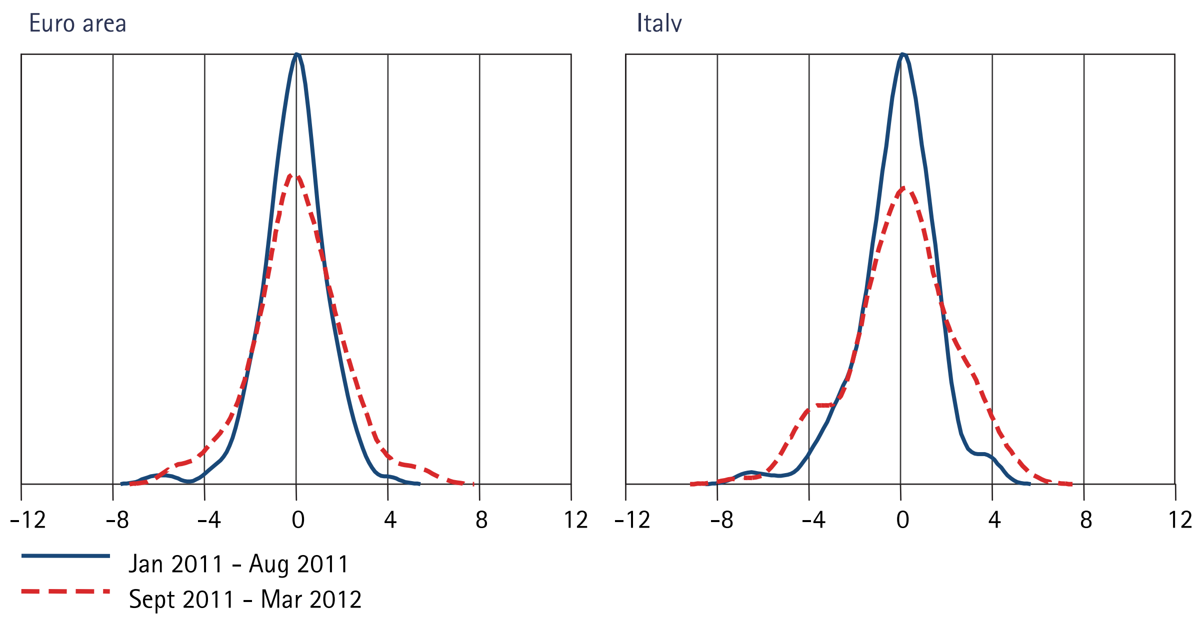
The development of the crisis in the eurozone brought about an increase in volatility, particularly from the second half of 2011 (Figure 47), with a consequent increase in the frequency of negative share yields (Figure 48).

Figure 47 Daily stock index volatility
(daily data from 01/01/2008 to 30/03/2012; percentage figures on an annual basis)



Source: calculations based on Thomson Reuters data. Volatility forecasts are obtained by applying EGARCH models to the series of daily returns of stock indexes (S&P500 for the USA, Dow Jones EuroStoxx for the eurozone and FtseMib for Italy).

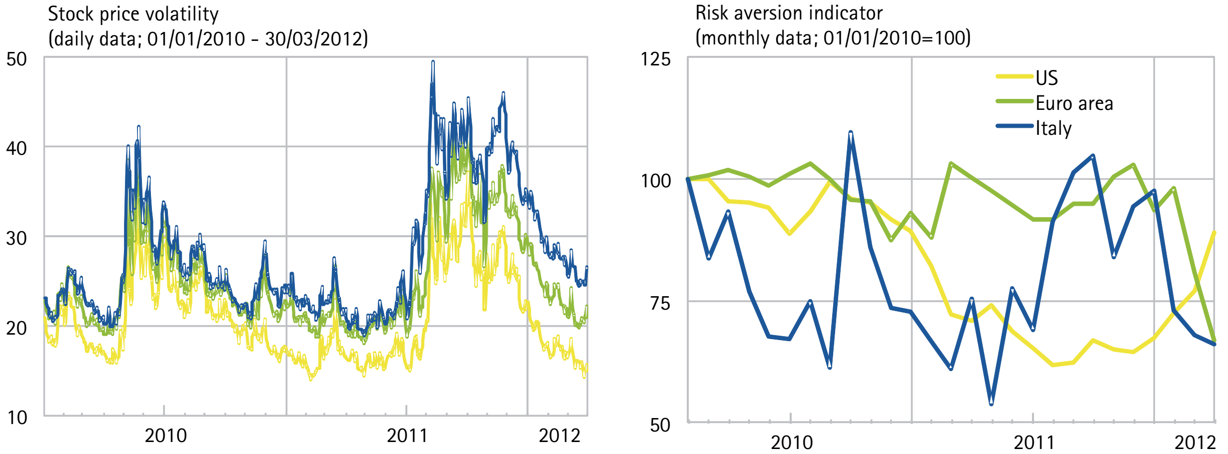
Figure 48 Distribution of stock index daily returns



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

In 2011, the trend in implied volatility for bonds and main share indexes increased reflecting investors' uncertainty about future market dynamics, both in the USA and in the eurozone (Figure 49); in the first months of 2012, however, volatility has declined to levels seen at the beginning of last year.

Figure 49 Equity market implicit volatility and risk aversion



Source: Thomson Reuters and Borsa Italiana data. Implicit volatility is deduced from stock index 3-month option prices. The risk aversion indicator is estimated by comparing the historic allocation of stock returns with that implicit in index option prices.

Similarly, the investors' risk aversion indicator for Italy, after rising through the year, dropped during the first few months of 2012, settling at January 2011 levels . A similar dynamic was also seen in the trend of the risk aversion indicator with reference to the Italian equity market.

In Europe, the crisis has also resulted in a major reduction in liquidity on the equity markets, which in any case stand at higher levels than those recorded in 2008, after the Lehman default; this reduction, which is particularly evident in Italy, came to a halt during the first few months of 2012 (Figure 50).

The 2011 trend of advanced economy share indexes reflected the contagion of the sovereign debt crisis, therefore revealing a greater role played by the systemic components common to all markets in the price formation process, with respect to the idiosyncratic components.

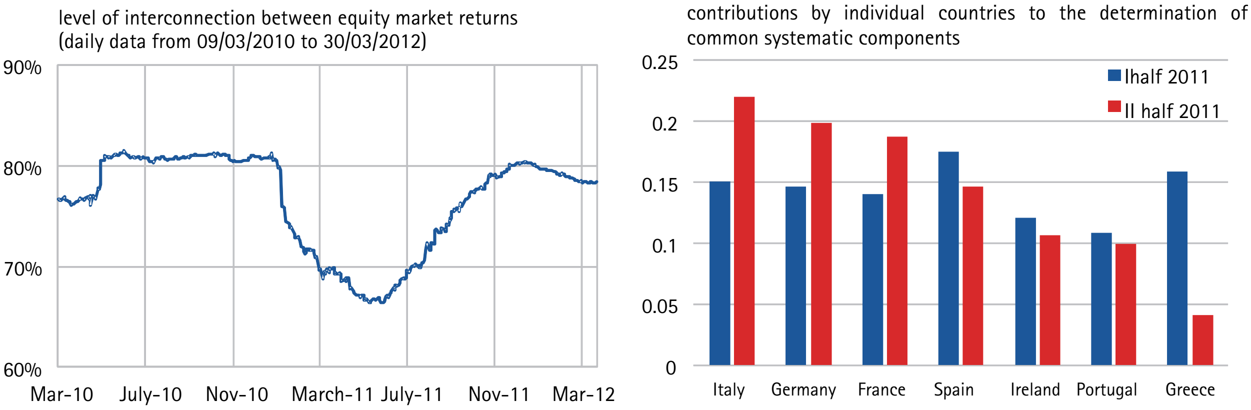
More specifically, the level of interconnection between the returns of the equity markets has increased and return to the levels recorded in 2010 (Figure 51).

The contribution of each eurozone country's market in determining the common systematic components in the formation of share prices changed during the year. During the first half, the most significant contributions referred to Spain and Greece, whilst in the second half they referred to Italy, Germany and France, due to the progressive misalignment of share trends of the peripheral countries with respect to those of the core countries.

Figure 50 Equity market liquidity indicator
(daily data from 01/08/2008 to 30/03/2012)

Source: calculations based on Thomson Reuters data. Listed companies included in the StoxxEurope50 and FtseMib indices were considered. The data refer to the results of the main components (first factor) analysis applied to the historic series of price impact indicators (Ahimud, 2002), of implied volatility, of the bid-ask spread indicator and the volatility indicator (range estimator). The indicator ranges from 0 (which reveals a high liquidity level) to 1 (low liquidity level).

Figure 51 Level of interconnection of main eurozone country equity markets



Source: calculations based on Thomson Reuters data. The left graph reports the variance of share yields explained by the first main component estimated on the share yields of Ibex35, Dax30, FtseMib, Cac40, Ftse/Athex20, Psi20 and Iseq. The graph on the right reports the estimates, normalised to the unit, of the factor loading of the first main component applied to the share yields of Ibex35, Dax30, FtseMib, Cac40, Ftse/Athex20, Psi20 and Iseq.

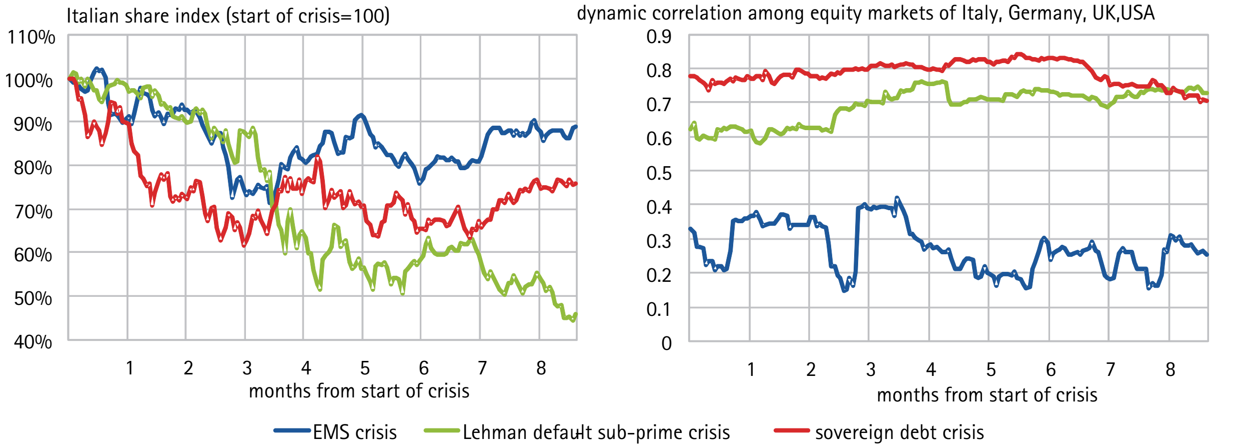
The reactivity of the equity markets to macroeconomic shocks and the role played by the systemic component are also connected with financial integration, which has grown significantly since the introduction of the euro.

The relationship between the market share yields for Italy, Germany, the United Kingdom and the USA, estimated with reference to the time frame corresponding to the 9 months following the intensification of the sovereign debt, is significantly greater than the relationship estimated with respect to the 1992 European Monetary System (EMS) and, albeit to a lesser degree, that related to the so-called 'sub-prime' crisis of 2007 (Figure 52).

In 2011, the actual growth rate of earnings of companies on the S&P500 was positive (+15.1 percent) and exceeded forecasts at end 2010

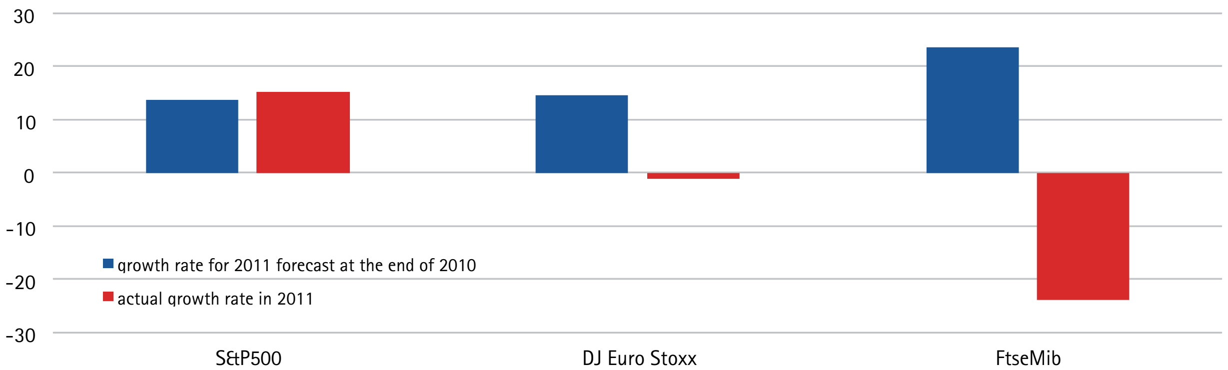
(+13.4 percent) (Figure 53). In the eurozone, on the other hand, despite the fact that late 2010 forecasts were positive (+14.6 percent), the earnings of companies included on the Dow Jones Stoxx Europe dropped by around one percent; the divergence between actual and forecast earnings growth for companies in the FtseMib is even greater (respectively -24 and +23 percent).

Figure 52 Italian equity market: performance and level of international interconnection in periods of crisis



Source: calculations based on Thomson Reuters data. The dynamic correlation was estimated by applying the Engle method (2002) to the residue Capm calculated with respect to the Msci share indexes of Italy, Germany, the UK and the USA. The following periods have been considered: from July 1992 to February 1993 for the EMS crisis, from July 2008 to February 2009 for the Lehman default - sub-prime crisis, from July 2011 to February 2012 for the sovereign debt crisis.

Figure 53 Forecast and actual earnings growth for listed companies included in the main share indices in 2011



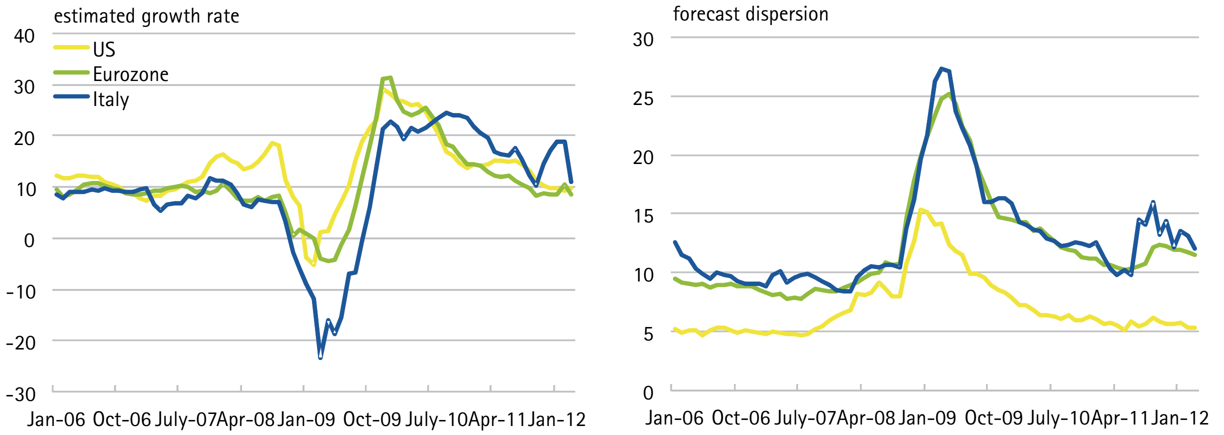
Source: Thomson Reuters and Ibes. Data relative to 12-month earnings forecasts (before goodwill amortisation and other atypical income components) as of 31 December 2010 and to actual earnings for 2011 (March 2012 estimate).

The deterioration of the macroeconomic outlook resulted in a progressive worsening of earnings growth forecasts for companies included in share indexes of the main advanced countries.

More specifically, earnings growth forecasts over a one-year time frame, for companies included on the S&P500 dropped from approximately +13 percent in December 2010 to +10 percent in December 2011 (Figure 54). During the same time frame, earnings growth forecasts for companies in the Dow Jones EuroStoxx 50 dropped from +14.5 percent to approximately +9 percent. For companies on the FtseMib, for which forecast growth was recorded of 23 percent at the start of the year, the forecast growth rate in December 2011 stood at 17 percent. The dispersion of the forecasts by financial analysts for companies of the eurozone continues to stand at levels that are distinctly higher than those recorded in the USA.

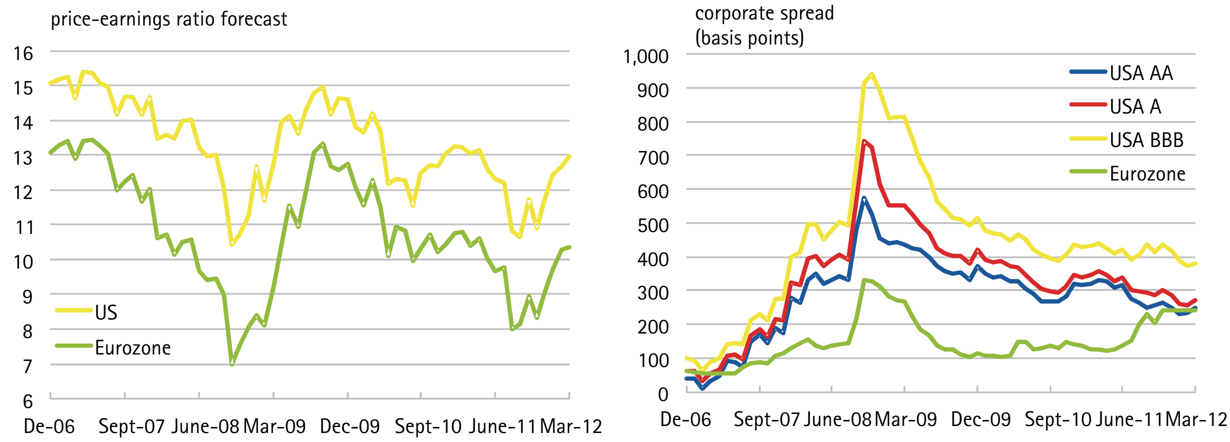
The downgrading of the earnings growth forecasts for companies in the eurozone has entailed an increase in the ratio of price over profits forecast for the second half of the year. Spreads of bonds of non-financial US companies with investment grade ratings have remained stable or declined slightly, whilst those relating to European corporate securities have risen (Figure 55).

Figure 54 Analysts' company earnings forecasts over a 12-month period
(monthly data from January 2006 to March 2012)



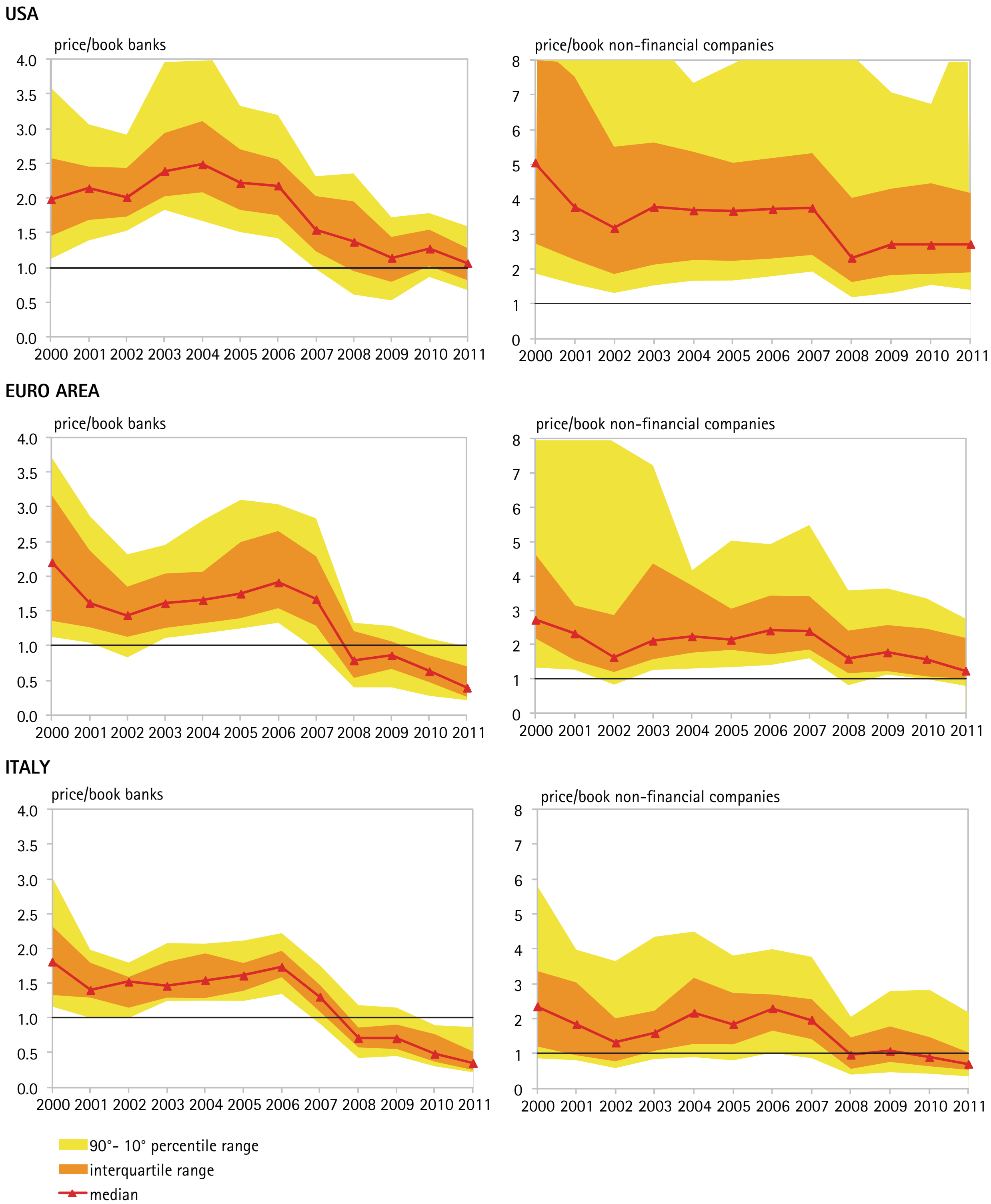
Source: Thomson Reuters and Ibes. Data on 12-month earnings forecasts before the amortisation of goodwill and other atypical income components. The dispersion is based on the ratio between the standard deviation of forecasts by individual financial analysts and the average forecast. Figures for the USA refer to companies on the S&P 500 index, for the eurozone those on the Dow Jones EuroStoxx index and for Italy those on the FtseMib index.

Figure 55 Price-earnings per share[1] ratio and spreads on bonds issued by non-financial companies with investment grade[2] ratings
(monthly data from December 2006 to March 2012)



Source: Thomson Reuters, IBES and JP Morgan data. [1] Weighted average (for capitalisation) of the Dow Jones EuroStoxx and FtseMib share price ratios and the 12-month earnings per share forecast. [2] Spread (in basis points) between the yield on bonds issued by non-financial companies with ratings in the AAA-BBB range and that of Government securities in the eurozone.

Figure 56 Stock exchange multipliers of listed companies

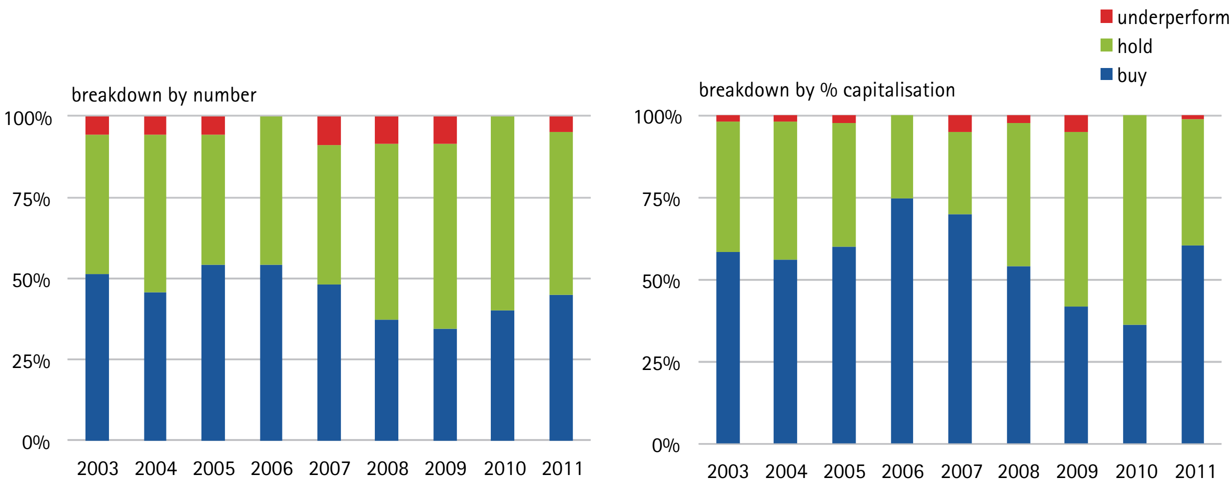


Source: Worldscope data. The banks are those of the S&P 1500 Bank index (USA), Dow Jones EuroStoxx 50 Bank (eurozone) and listed Italian banks; the non-financial companies are those of the S&P 100 index (USA), Dow Jones EuroStoxx 50 (eurozone) and the main Italian listed groups (sample as per Figure 26 of the previous chapter 'Listed companies').

Faced with the shares trend, the price to book value (P/B) multiplier of the banking segment showed a general worsening in 2011 with respect to 2010; more specifically, a clear under-estimation was seen in almost all Italian and European bank securities, with the P/B ratio values far below one, whilst for US securities, the median of the multiple remained just above one. The worsening of the ratio of the market value and book value of shares has also involved Italian and European non-financial companies; in Italy, in particular, around three quarters of the main industrial companies have recorded a P/B ratio of less than one (Figure 56).

The distribution of analysts' opinions for companies included in the Italian share index at the end of 2011 stands out for an increase in the weight of the buy ratings compared to the previous year (from 40 to 45 percent); the companies to which these ratings referred account for a total of 60 percent of the index (as compared with 40 percent at end 2010; Figure 57). In 2011, 5 companies (one percent of the index capitalisation) received an 'underperform' rating, which in 2010 had not been assigned to any company.

Figure 57 Breakdown of FtseMib companies by analysts' ratings
(period end data)



Source: Thomson Reuters and IBES data. The companies Lottomatica, Parmalat, STMicroelectronic, Terna and Unipol are not included, as no complete series of consensus data was available for them.

The low Price to Book ratio, which for Italian listed companies is amongst the worst in Europe, has resulted in an increase in the cost of equity, removing all incentive from share capital increases. To succeed, in fact, these operations should be carried out at prices that incorporate another major discount with respect to the already depressed share trends (the very much 'diluted' increases). Given the negative outlook, therefore, in 2011 the difference between resources collected by increasing risk capital and resources returned to shareholders (in the form of dividends, buy back and takeover bids) continued to be negative, settling at 10 billion euro. More specifically, despite the increase in the amount of issues of new securities (from 7 billion euro in 2010 to 12.7 billion in 2011), the number of takeover bids has increased substantially, as has dividends distributed (approximately 22 billion euro; Figure 58).

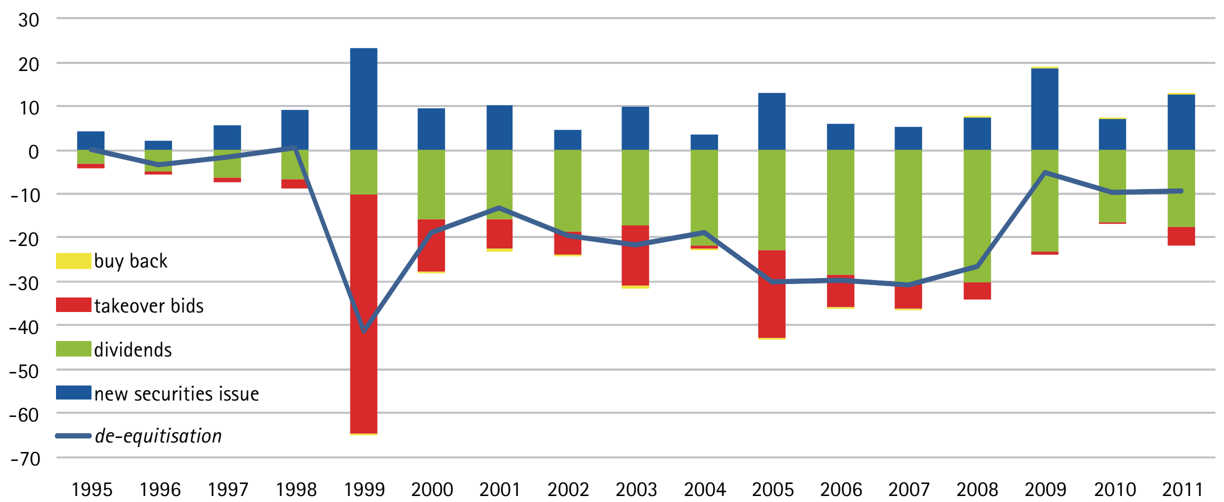
Considering the situation of the Italian equity market in greater detail, in 2011 a reduction was recorded in the level of capitalisation of domestic companies, of 22 percentage points (from 425 billion euro in 2010 to 332 billion in 2011) and a reduction in the related weight on the GDP from just over 27 to approximately 21 percentage points (Table 15).

The number of domestic companies listed on the stock exchange has dropped from 271 to 261, against 11 cancellations and one new listing. The number of companies listed on the multilateral trading facilities (MTFs), Mac and Aim Italia, has instead risen from 19 to 24.

The size of trades has also reduced, going from 715 to 684 billion euro. The dividend/price ratio has instead increased (from 3.6 to 4.8 percent) as has profit/price (from 6.4 to 10.8 percent).

The distribution of trade involving European share indexes included on the Stoxx Europe 600 index by trading platform shows a continuous, significant reduction in the weight of regulated markets compared to MTFs.

Figure 58 Resources collected (+) and distributed (–) to shareholders of listed Italian companies
(billions of euro)



Source: calculated on Bank of Italy, Borsa Italiana and Thomson Reuters data. The de-equitisation indicator is the net result of the issue of new securities minus the sum of dividends, take-over bids and buy backs. Dividends and buy backs for 2011 are estimated.

Table 15 Indicators for equity markets operated by Borsa Italiana SpA
(cash amounts in billions of euro)

	Borsa[1]								Expandi market			Nuovo Mercato			Aim Italia and Mac	
	Capitalisation[2]	Capitalisation[2] (% of GDP)	Share trading volumes[2]	Number of Italian listed companies	Number of Italian newly listed companies	Number of Italian companies delisted	Dividend/price ratio[3]	Earnings-price ratio[3]	Capitalisation[2]	Share trading volumes[2]	Number of Italian listed companies	Capitalisation[2]	Share trading volumes	Number of Italian listed companies	Number of listed companies (Mac and Aim Italia)	Capitalisation (Mac and Aim Italia)
1996	199	20.3	81	213	14	18	2.1	6.9	3	..	31	—	—	—	—	—
1997	310	30.2	174	209	14	18	1.7	4.6	5	1	26	—	—	—	—	—
1998	484	44.8	423	219	25	15	1.6	3.9	4	2	20	—	—	—	—	—
1999	714	64.4	503	241	28	6	1.5	3.4	5	1	17	7	4	6	—	—
2000	790	67.8	839	237	16	20	2.1	4.5	6	1	15	22	30	39	—	—
2001	575	47.3	637	232	13	18	2.8	6.0	5	..	12	13	21	44	—	—
2002	447	35.7	562	231	11	12	3.8	5.9	5	..	13	6	10	44	—	—
2003	475	36.6	567	219	9	21	3.4	6.4	5	..	11	8	14	41	—	—
2004	569	42.2	641	219	7	7	3.4	6.0	5	..	13	7	19	37	—	—
2005	669	47.2	893	257	13	12	3.0	5.2	7	1	18	—	—	—	—	—
2006	768	52.1	1,076	258	17	16	3.4	6.0	10	2	26	—	—	—	—	—
2007	723	49.0	1,510	263	19	14	4.1	8.4	11	4	36	—	—	—	3	0.1
2008	368	23.2	1,156	251	4	16	8.4	13.7	7	1	39	—	—	—	4	0.1
2009	457	30.3	562	280	40	11	3.5	6.7	—	—	—	—	—	—	11	0.6
2010	425	27.2	715	271	2	11	3.6	6.4	—	—	—	—	—	—	19	0.6
2011	332	20.6	706	261	1	11	4.8	10.8	—	—	—	—	—	—	24	0.6

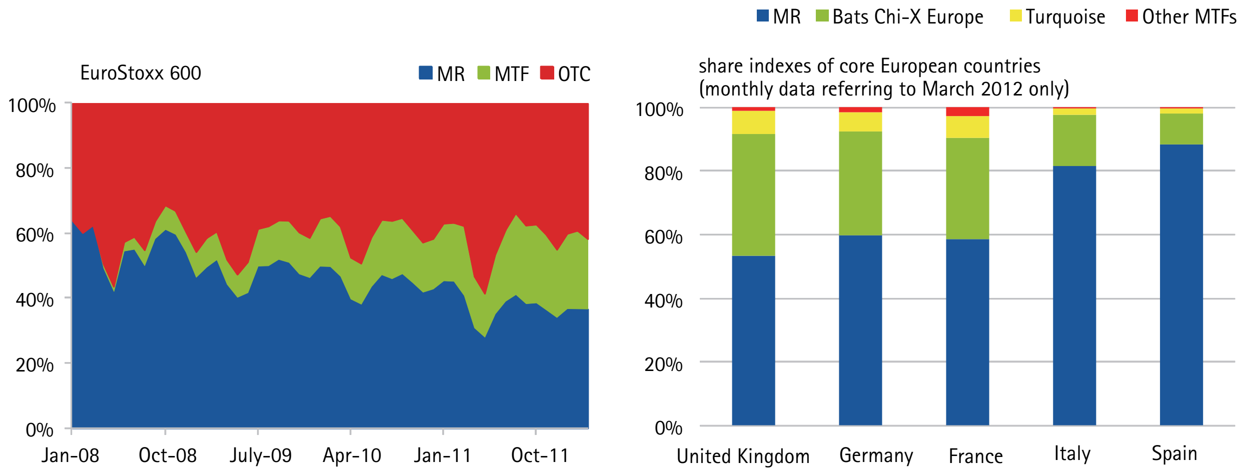
Source: Borsa Italiana and Thomson Reuters. [1] Since 2005 Mta/Mtax, since 2010 also includes Miv. In 2009, the Expandi market was incorporated into MTA. [2] Data relating to domestic companies only. [3] Year-end percentages.

The share of trade relating to regulated markets went from 64 percent in January 2008 to 37 percent in March 2012, whilst that relating to MTFs grew until setting at 22 percent in March 2012 (Figure 59). The share of bilateral over the counter (OTC) trade has instead remained stable at 40 percent.

The degree of share trading fragmentation varied greatly in Europe, being the highest in the United Kingdom, Germany and France, and lower in Italy and Spain. More specifically, in March 2012, the volume of trading carried out in MTFs, with respect to the total trade on the MTFs and regulated markets, was 47 percent for German companies belonging to the Dax30 and approximately 41 percent for French companies included in the Cac40. The volume of trading conducted on MTFs for companies belonging to the FtseMib and Spanish companies on the Ibex35, were less significant (respectively 18.5 and 11.5 percent; Figure 59).

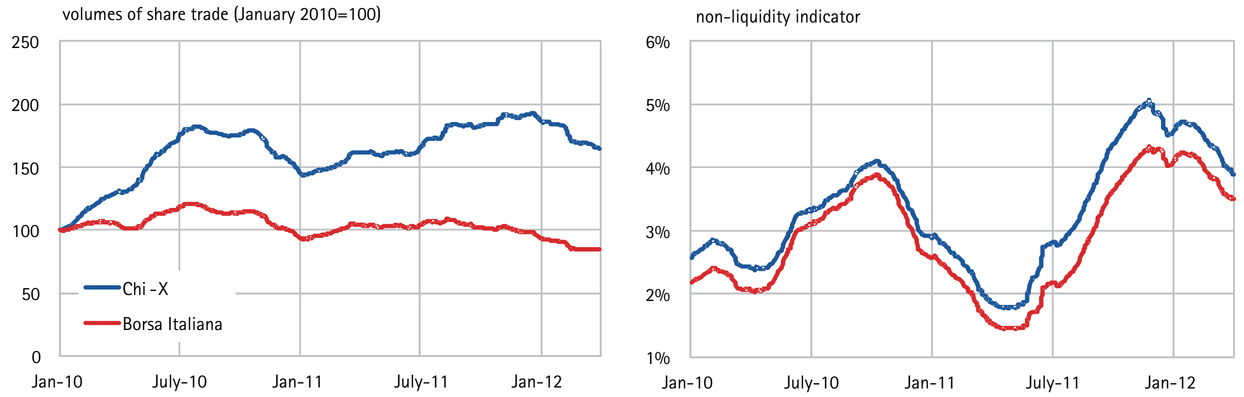
As for Italian shares included on the FtseMib, despite the fact that in 2011 trading volume on Chi-X increased substantially, Borsa Italiana remained the most liquid market (Figure 60).

Figure 59 Fragmentation of share trading in Europe
(monthly data from January 2008 to March 2012)



Source: calculations based on Thomson Reuters data. MR indicates regulated markets, MTF is Multilateral Trading Facilities (including dark pools) and OTC is Over The Counter. The graph to the left shows the distribution of the volume of share trade in relation to the trading of securities included on the Dow Jones EuroStoxx 600 index. The graph to the right shows the distribution of the volume of share trade according to trading venues; the indexes considered are the Ftse100 for the UK, Dax30 for Germany, Cac40 for France, Ibex35 for Spain and FtseMib for Italy.

Figure 60 Volume of traded shares and indicator of non-liquidity for Borsa Italiana and Chi-X companies included in the FtseMib index
(daily data from 01/01/2010 to 30/03/2012)



Source: Thomson Reuters and Fidessa Group plc data. 20-day moving averages The graph to the right states the trend of the related quoted spread calculated on bids and asks noted during market closure. As the indicator increases, the liquidity level decreases.

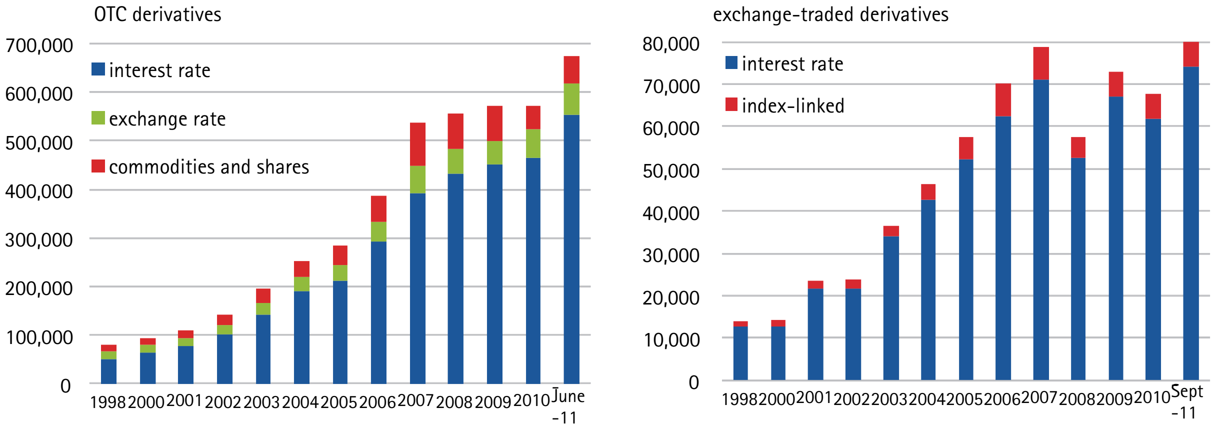
2 The derivatives market

According to data reported by the Bank for International Settlements (BIS) for advanced economies, in the first half of 2011 the derivatives markets recorded strong growth after years of relative stability. The notional value of the OTC derivatives on financial instruments (interest rates, exchange rates, shares and commodities increased by around 18 percent (from approximately 571,000 to 675,000 billion US dollars from December 2010 to June 2011; Figure 61). In the first half of 2010, on the other hand, the total notional value of OTC derivatives had dropped by approximately 3 percent (from 568,500 to approximately 552,500 billion dollars).

The increase mainly refers to interest rate derivatives (82 percent of OTC derivatives on financial instruments), with a notional value that has increased by approximately 19 percent (from 465,000 to 554,000 billion dollars from December 2010 to June 2011). The amount of derivatives on exchanges and other underlying assets rose by approximately 14 percent.

From December 2010 to September 2011, a significant recovery took place in the exchange-traded derivatives markets, on which the notional value of contracts rose by approximately 18 percent (from 68,000 to 80,500 billion dollars from December 2010 to September 2011). This increase was mainly linked with interest rates (+10 percent) and shares trading (+ 6 percent).

Figure 61 Gross notional value of derivatives in main advanced economies
(period end balances; in billions of USD)



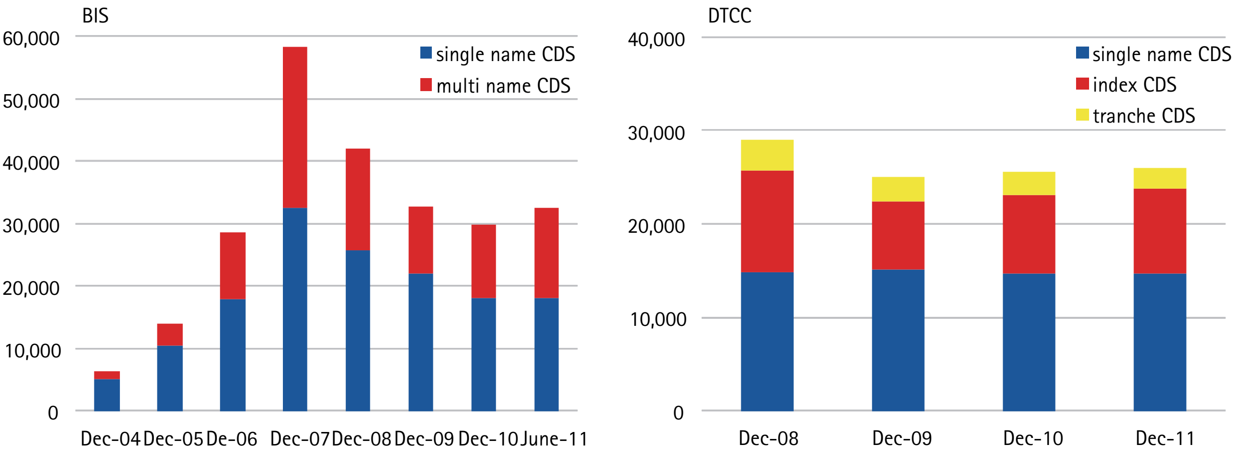
Source: Bank for International Settlements.

According to the BIS statistics, in first half of 2011 the credit default swap (CDS) market also grew substantially. The gross notional value of the CDSs has, in fact, gone from 30,000 to 32,500 billion dollars from December 2010 to September 2011 (approximately +8.4 percent; Figure 62). In June 2011, the weight of the single name CDSs (i.e. relating to a single debtor) was 56 percent, down on that recorded in December 2010 (61 percent).

According to Depository Trust & Clearing Corporation (DTCC) data, which partially differ from those by BIS, approximately 80 percent of the multiname CDSs referred to several debtors consisted of Index CDS (i.e. CDS on a basket of reference entities) whilst the remaining portion consisted of standardised tranches of index CDS.

From 2008 to 2011, the weight of CDS on sovereign issuers on the global CDS market grew in terms of both gross and net notional value.

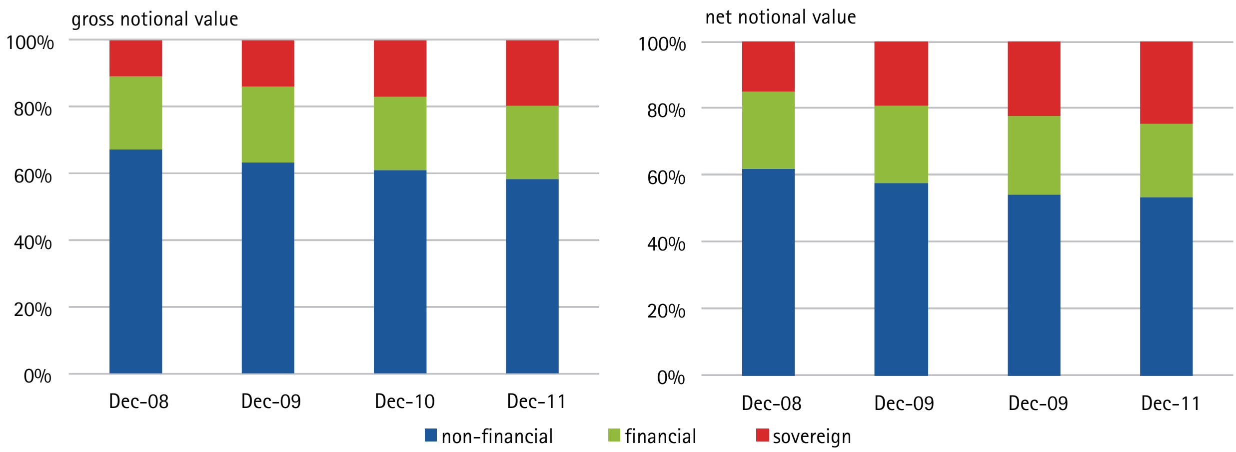
Figure 62 Gross notional value of credit default swaps
(period end balances; in billions of USD)



Source: Bank for International Settlements and Consob processing of DTCC data

According to DTCC data, the share of sovereign CDS gross notional value increased from 11 percent in December 2008 to approximately 20 percent in December 2011, with that referring to the net notional value rising from 15 to 25 percent (Figure 63). In the same period, on the other hand, the share of corporate CDS fell from 67 to approximately 58 percent in terms of gross notional value and from 62 to 53 percent in terms of net notional value. The share relating to the financial segment, on the other hand, remained stable at around 22 percent.

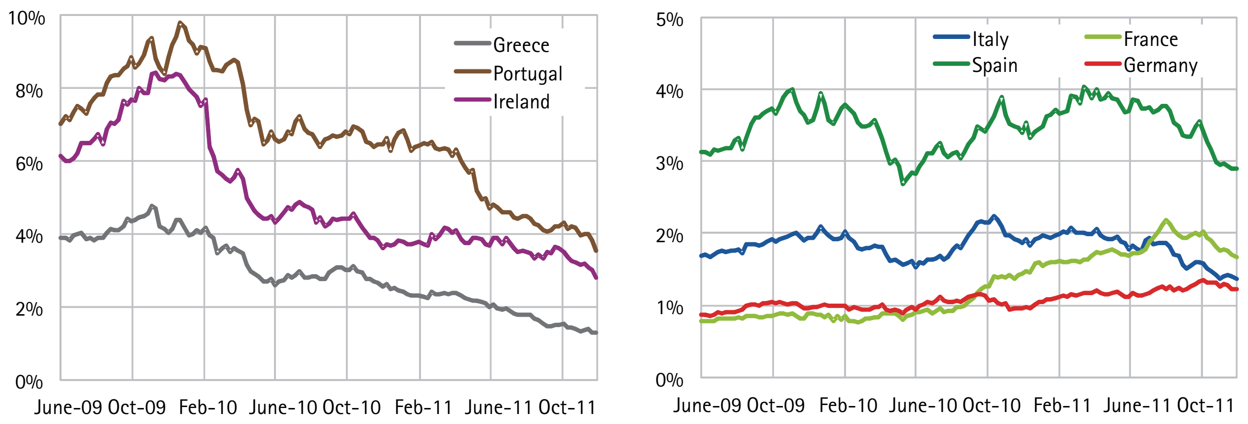
Figure 63 Percentage breakdown of notional value of credit default swaps by reference entity



Source: DTCC data.

Although the share of sovereign CDSs increased overall, in 2011 the net notional value of the CDSs fell in relation to the underlying debt for countries worst struck by the sovereign debt crisis (Figure 64). More specifically, this ratio dropped, from December 2009 to December 2011, from 4.1 to 1.3 percent for Greece, from 9.2 to 3.5 percent for Ireland and from 8.3 to 2.8 percent for Portugal. Among the other eurozone countries reduction were recorded for Italy and Spain (respectively approximately 2 to 1.4 percent+ and 3.6 to just under 3 percent) and slight increases were seen for France (from less than one to 1.7 percent) and Germany (from one to 1.2), also by virtue of the increased net notional value.

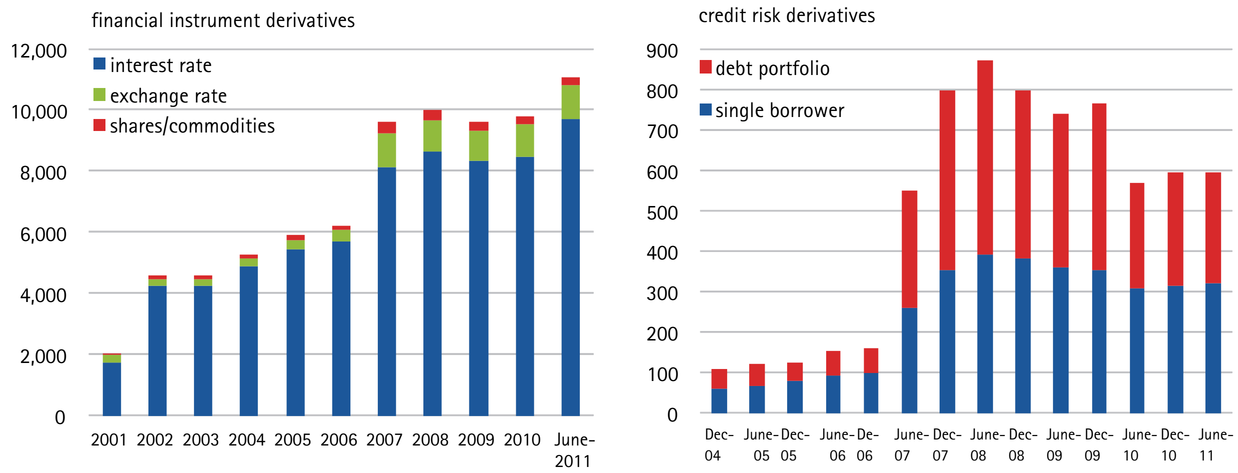
Figure 64 Ratio of net notional value of credit default swaps to public debt for some eurozone countries
(percentage figures; weekly data from June 2009 to December 2011)



Source: Bank for International Settlements and DTCC.

In the first half of 2011, the Italian over the counter derivatives market also recorded a significant recovery: the total gross notional value rose from approximately 13 percent (from just under approximately 10,000 billion dollars in December 2010 to just over 11,000 billion in June 2011; Figure 65).

Figure 65 Notional turnover for OTC derivatives in Italy
(period end balances; in billions of USD)

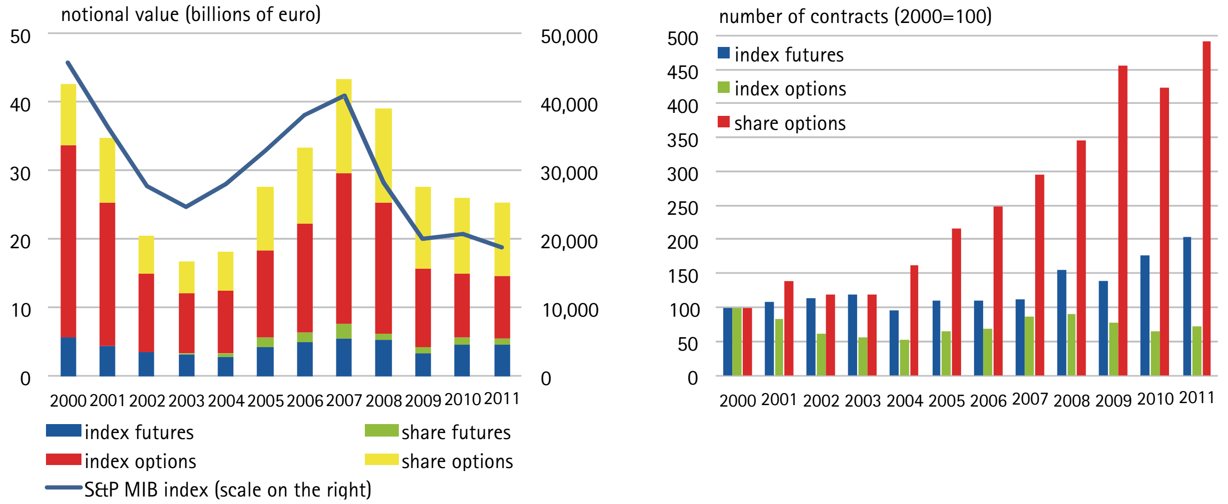


Source: Bank of Italy.

In line with international trends, it was the interest rate derivatives market that grew above all (from 8,500 to 9,700 billion US dollars; approximately +15 percent). The notional value of derivatives on shares and commodities also grew, albeit to a lesser extent (from 239 to 271 billion US dollars; 13.4 percent). The gross notional value of derivatives on credit risk, on the other hand, remained stable at around 590 billion US dollars.

In 2011 the notional turnover of open interest contracts on the IDEM market (calculated as a daily average) fell by approximately 3% (from 26 to 25 billion euro; Figure 66). In terms of daily average value, a large portion (approximately 42 percent) of open contracts continued to be stock options.

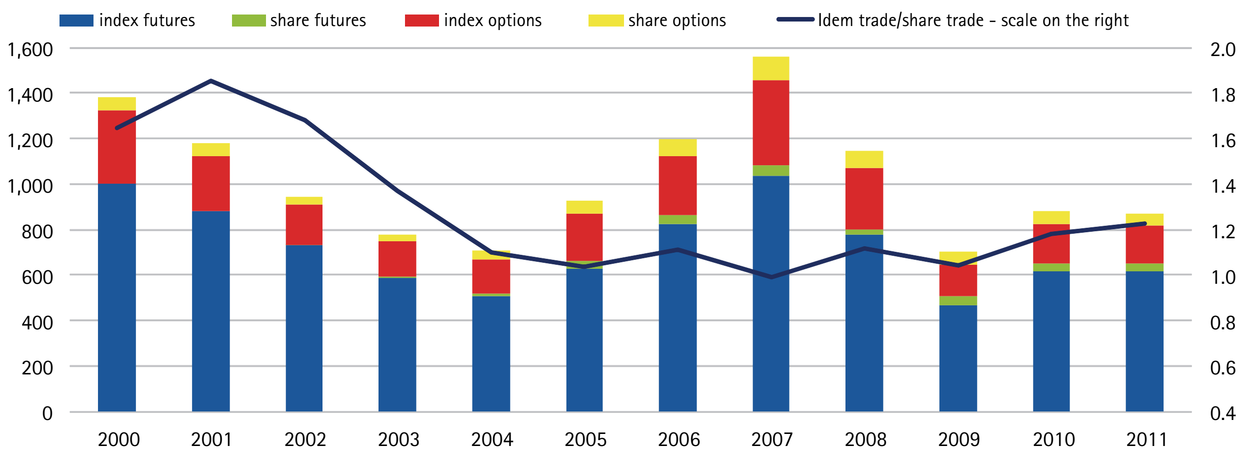
Figure 66 Notional turnover and number of open positions in derivatives traded on the IDEM market
(average daily percentages)



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 2011, derivatives trading on the Idem dropped by approximately 2 percent compared to 2010 (from 883 to approximately 869 billion euro); Figure 67). The ratio of derivatives to shares traded remained stable at around 1.2. Derivatives trading mainly involved index futures and options, in line with previous years.

Figure 67 Notional turnover for derivatives traded on the IDEM market
(billions of euro)



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

3 The covered warrant and exchange-traded funds market

In 2011, trading on the SeDeX market, the securitised derivative market managed by Borsa Italiana on which covered warrants and certificates are traded, fell slightly.

More specifically, the number of available instruments increased (+16 percent) , it being the net balance of new issues (+36 percent), less matured and revoked instruments during the year (approximately +22 percent; Table 16).

Table 16 Covered warrants and certificates listed on the SeDeX market
(cash amounts in billions of euro)

	number of issues			counter-value of trade
	in place[1]	new[2]	past-due[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
2010	3,343	3,508	3,454	12
2011	3,880	4,769	4,232	11

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 revoked at the request of the issuer before their original maturity.

As usual, the most commonly issued instruments were plain vanilla covered warrants, which account for 56 percent of the total, followed by investment certificates (almost 29 percent); whilst leverage certificates and structured/exotic covered warrants amount to less than 16 percent of all issues (Table 17).

An analysis of ‘moneyness’, namely the distribution of covered warrants on the basis of profit deriving from the immediate exercise of the option, shows that almost 64 percent of plain vanilla call covered warrants issued in 2011 were deep out of the money. At maturity, 72 percent of call covered warrants were deep out of the money.

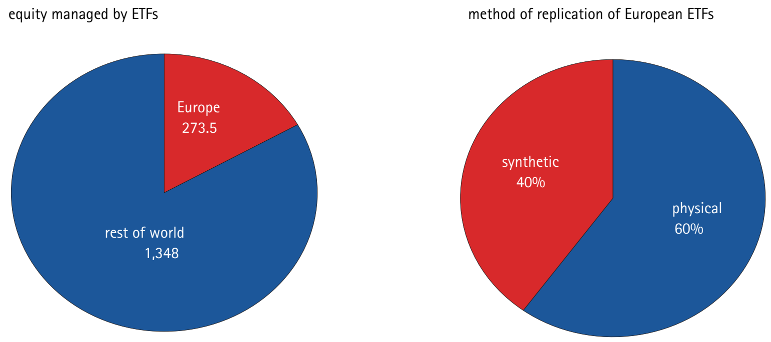
Box 5

Exchange-traded funds

Exchange-traded funds (ETF) are mutual funds listed on the stock exchange that replicate market index trends. These products provide investors with portfolio diversification tools typical of mutual funds but which, at the same time, are very liquid, as they are traded on regulated markets.

Most of the ETFs are called 'physical' as the index is replicated by directly investing in the securities comprising it. In recent years, however, 'synthetic' ETFs have gained popularity, where the index is replicated through the use of derivatives. Financial innovation and the degree of complexity of these products are growing rapidly in recent years, applying to synthetic ETFs more complex structured products such as those using leverage mechanisms to multiply the performance of the reference index directly or inversely ('leveraged ETFs' or 'inverse ETFs'. This is still a relatively modest phenomenon, but it is growing rapidly.

Some characteristics of the ETFs
(billions of US dollars)



Source: Edhec-Risk Institute.

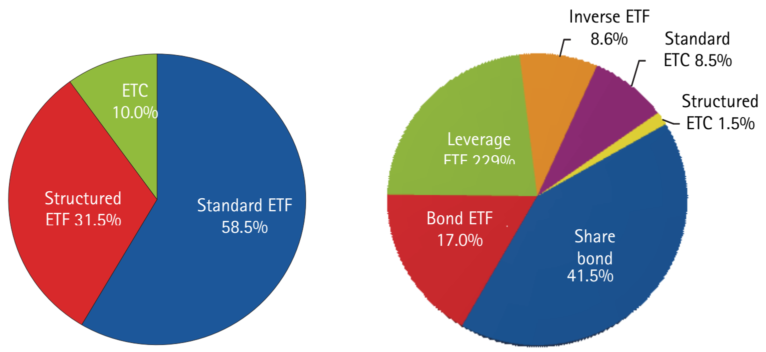
On a global level, assets managed by the ETFs at the end of November 2011 (more than 1,600 billion dollars of which 273 refers to the European market) account for more than 5 percent of the total assets managed by funds, but, in the last 10 years, the ETF industry has shown a growth rate of around 40 percent per year, against a growth rate for the mutual fund industry of just 5 percent. In Europe, ETFs synthetically replicating the index account for approximately 64 percent of the total, although in terms of the volume managed, they actually account for around 40 percent of the market. It is also estimated that approximately 20 percent of this equity pertains to small investors.

In Italy, assets managed by ETF (exchange-traded funds) and exchange-traded commodities (ETC), funds investing in commodities, listed on the EtfPlus market, increased from 0.5 billion euro in 2003 to more than 18 billion in 2011. In terms of trading volume on the Italian market, the ETCs are a rather marginal phenomenon: in 2009, 90 percent of the counter-value traded on the Borsa Italiana platform specifically given over to exchange-traded products referred to ETFs, with only the remaining 10 to ETCs. Structured ETFs in particular, namely those using derivatives to replicate the index, accounted for 31.5 percent of total turnover.

Assets managed by ETFs and ETCs admitted for trading on the EtfPlus market

	amount (bln euro)	percentage change
2003	0.5	--
2004	1.6	220
2005	4.0	150
2006	7.6	90
2007	10.3	36
2008	10.5	2
2009	14.6	39
2010	19.8	36
2011	18.6	-6

Etf Plus market: breakdown of ETFs according to turnover



Source: calculations based on Borsa Italiana data. Data at 31.12.2009

Although ETFs have various benefits for investors, they have some critical issues connected with the complexity and increasing risks characterising them. Innovation in how they are managed and the index replicated have, in fact, resulted in counterparty and liquidity risks, the intensity of which, for investors and the financial system, is not easily quantified given the complexity of the products.

In physical ETFs, the counterparty risk is substantially managed by the widespread practice of security loans, typically used to improve fund performance. In synthetic ETFs, on the other hand, the counterparty risk is connected with the guarantees backing the derivatives used, which are often inadequate or flawed by conflicts of interest.

The liquidity risk arises from the potential rapid, disordered request to redeem units of ETFs by investors, by virtue, for example, of systemic shocks, which the ETF managers would transfer to the bank counterparties of the contracts stipulated for the purpose of replicating the index. For the banks involved, this would entail exposure to liquidity risks that have a very different nature to those typical of traditional bank deposits and are more difficult to manage because they are connected to the financial asset price trend. The ETFs therefore entail a significant systemic risk because they result in an increased inter-connection between financial intermediaries and markets.

Table 17 Types of covered warrant and certificate listed on the SeDeX market
(situation as of 31 December)

segment and category	plain vanilla		exotic		leverage		investment		*total*	
	number of issues	*incidence on total*[1]	number of issues	*incidence on total*[1]	number of issues	*incidence on total*[1]	number of issues	*incidence on total*[1]	*number of issues*	*incidence on total*[1]
2007	2,839	*64.4*	154	*3.5*	399	*9.0*	1,016	*23.0*	*4,408*	*100.0*
2008	1,728	*53.8*	108	*3.4*	215	*6.7*	1,149	*36.0*	*3,192*	*100.0*
2009	1,672	*50.8*	96	*2.9*	399	*12.1*	1,122	*34.2*	*3,289*	*100.0*
2010	1,846	*52.2*	100	*3*	438	*13.1*	959	*28.7*	*3,343*	*100.0*
2011	2,176	*56.1*	92	*2.37*	511	*13.2*	1,101	*28.4*	*3,880*	*100.0*

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

Additionally, at the time of issue, approximately 67 percent of put instruments issued in 2011 were deep out of the money, whilst at term, the figure stood at 37 percent (Table 18).

Table 18 Distribution of covered warrants listed on the SeDeX market, according to their 'moneyness' at issue
(percentages)

	level of moneyness[1]	
	at issue[2]	at term[3]
Call warrant		
> 8 percent (deep out of the money)	63.79	72.04
from 8 percent to 4 percent (out of the money)	8.11	5.02
from 4 percent to 0 (at the money)	7.11	4.64
from 0 to -4 percent (in the money)	6.58	3.65
< -4 percent (deep in the money)	14.42	14.67
total	*100.0*	*100.0*
Put warrant		
> -8 percent (deep out of the money)	66.83	37.24
from -8 percent to -4 percent (out of the money)	10.42	5.87
from -4 percent to 0 (at the money)	7.78	4.55
from 0 to 4 percent (in the money)	5.39	4.55
> 4 percent (deep in the money)	9.58	47.80
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] Data relating to plain vanilla covered warrants on Italian shares and S&P/Mib index issued in 2011. [3] Data relating to plain vanilla covered warrants on Italian shares and S&P/Mib index expired in 2011.

In recent years, we have witnessed the rapid diffusion of a particular kind of mutual funds that replicate market indexes trends, both in the USA and Europe; these are known as exchange-traded funds (Box 5).

In Italy, ETFs have been traded since September 2002, on a specific segment of the MTA and, as from 2007, on the EtfPlus market. In 2007, alongside the ETFs, exchange-traded commodities (ETC) were also introduced, namely specific funds that invest in commodities. In 2011, more than 500 ETFs were listed on EtfPlus.

The ETFs and ETCs admitted for trading on the EtfPlus market are issued by non-Italian residents. From 2003 to today, the counter-value traded has gone from 1.5 to almost 86 billion euro, whilst the number of contracts stipulated has gone from approximately 54 thousand to more than 3.6 million (Table 19).

Table 19 Exchange-traded funds listed on EtfPlus
(cash amounts in billions of euro)

	number of contracts	counter-value of trade
2003	54,219	1.5
2004	133,037	3.2
2005	359,564	8.7
2006	774,066	17.4
2007	1,336,807	31.8
2008	1,415,816	48.1
2009	2,460,748	54.4
2010	3,446,671	78.5
2011	3,626,767	85.8

Source: Borsa Italiana.

4 The bond market

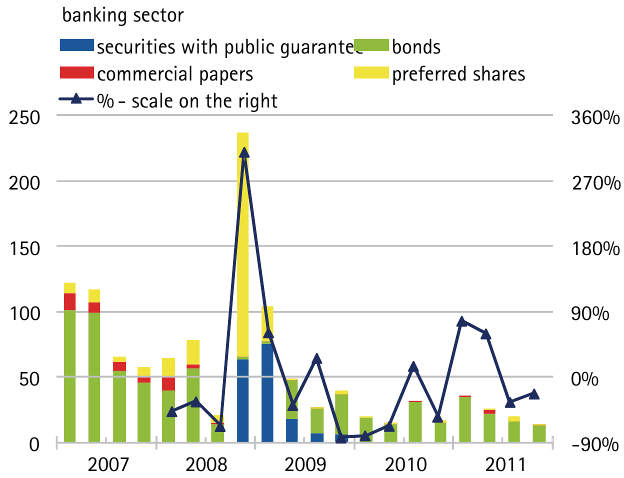
In 2011, bond deposits recorded discontinuous trends. The first part of the year recorded a significant increase in issues in all advanced economies, whilst the second part of the year, following renewed tension on the financial markets, stood out for a more difficult use of the bond market, and in particular for European banks (Figure 68).

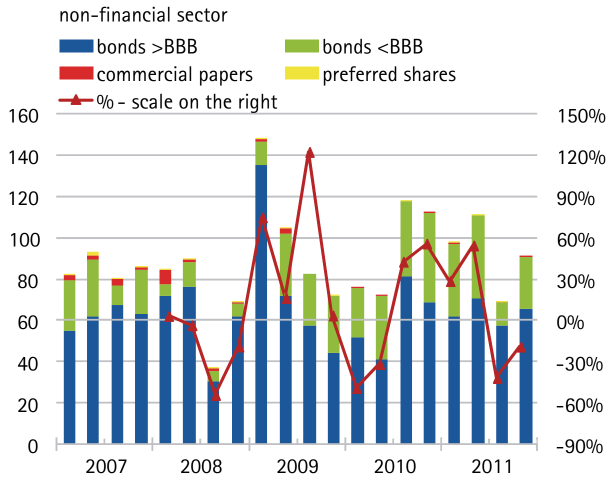
The latter did, however, record a peak in issues in the second half of the year, also following measures, in various countries, coming into effect to support the credit system (mainly in the form of public guarantees on bank bonds, Box 6).

Figure 68 Gross bond issues of private companies

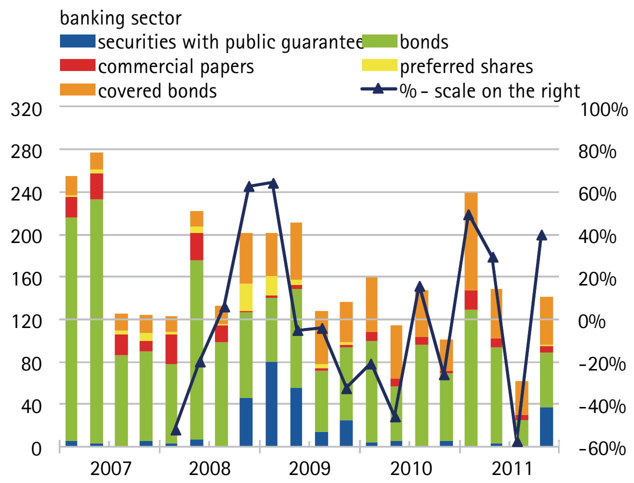
(billions of euro and percentage changes with respect to the same period of the previous year)

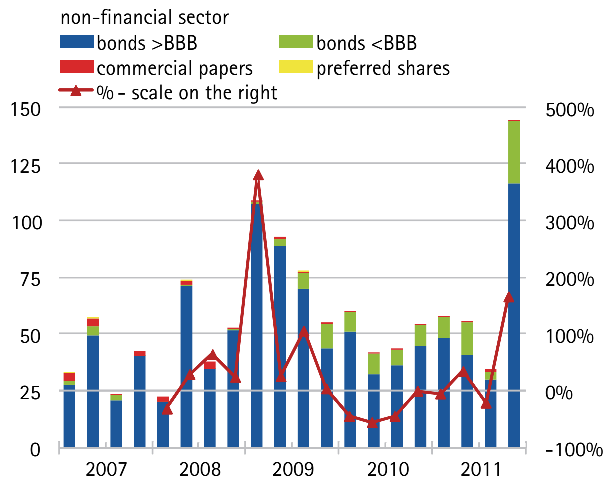
USA



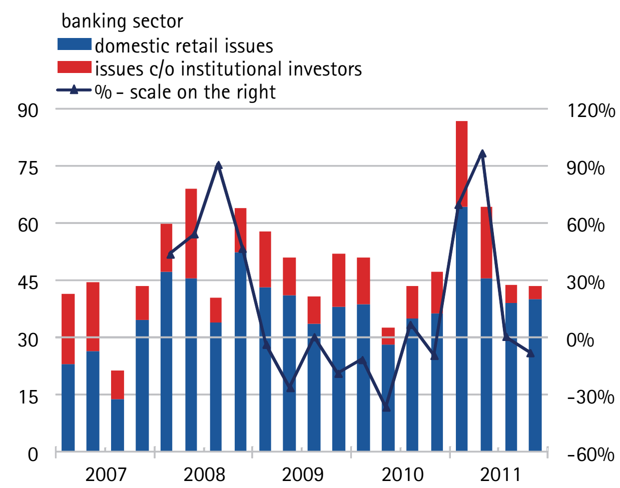


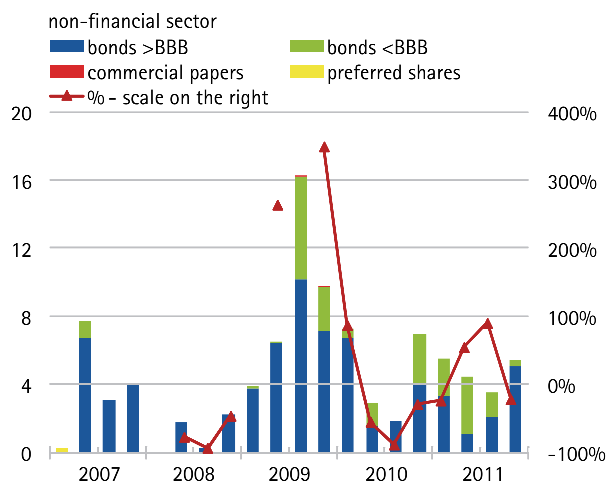
EUROPE





ITALY





Source: processing of Dealogic, Consob and Kler's data. Data for Europe refers to the listing of companies with registered office in Italy, France, Germany, Spain, Holland and the UK and to their subsidiaries (even if with registered office in other countries). The data for the USA and Europe refers to listing with institutional investors.

Box 6

Public guarantees on Italian bank bonds

Law Decree no. 201 of 6 December 2011 ('Urgent measures for the growth, balance and consolidation of the public accounts') authorised the Ministry for the Economy, up until 30 June 2012, to grant a State guarantee for Italian bank liabilities ranging from 3 months to 5 years or, as from 1 January 2012, to 7 years, for guaranteed bank bonds and issues subsequent to the date of the decree. Guarantees are given on the basis of the assessment by the Bank of Italy of the suitability of capitalising the applicant bank and its capacity to cope with the commitments made.

Guarantees can only be given on the bonds of banks with registered office in Italy, which *i)* were issued subsequent to the date on which the decree came into force (6 December 2011); *ii)* provide for the redemption of capital in a lump sum at term; *iii)* are fixed rate and held in euro; *iv)* represent a non-subordinate debt in redeeming capital and paying interest; and *v)* are not structured securities or complex products nor incorporate a derivative component.

The decree also contains some limits to the concession of guarantees by the State. More specifically, liabilities calculated as regulatory capital cannot be backed by guarantees and the overall volume of bonds with a term in excess of 3 years backed by guarantees cannot exceed one third of the total nominal value of the bonds issued by the bank and guaranteed by the state. The amount of the guarantees granted to each bank is limited to that strictly necessary to restore its medium/long-term financing capacity and cannot exceed the regulatory capital, including tier 3 capital.

Beneficiary banks also have specific expenses for the issue of guarantees that vary according to the type of bonds, maturity and risk associated with the issuer.

More specifically, for bonds with a maturity equal to or greater than one year, commissions will include a fixed part (0.4 percentage points on the amount issued) and a variable part, directly related to the issuer risk and inversely to the sovereign risk, measured according to the average list prices of the respective 5-year CDSs in the three previous years.

For bonds with maturity of less than one year, commission will apply of which the fixed part is higher (0.5 percentage points on the amount issued), whilst the variable part is connected with the issuer bank rating (0.20 percentage points for banks with ratings of A+ or A and 0.30 for banks with rating A- or without rating).

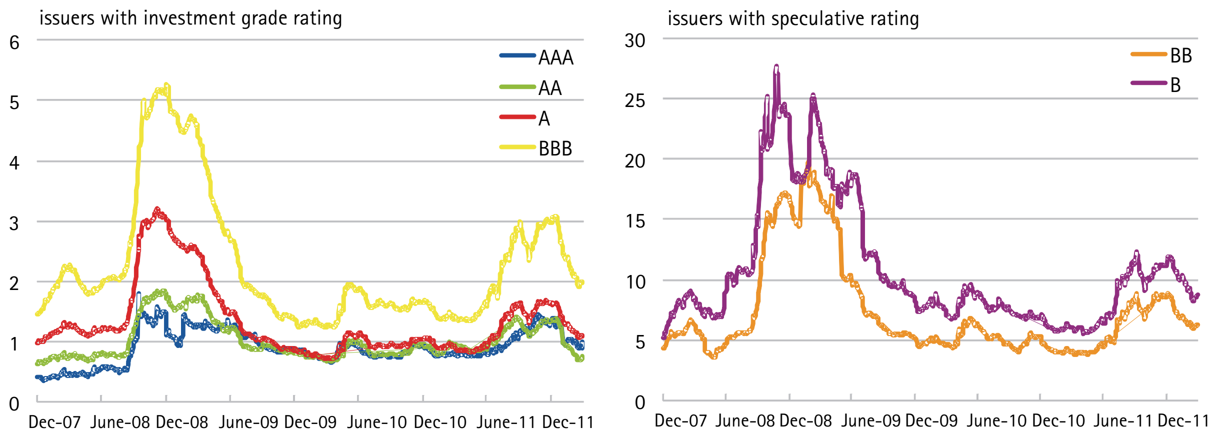
For bonds issued by banks for which no credit default swap (CDS) contracts have been negotiated, the risk metric is determined on the basis of the spreads of the CDSs associated with a sample of banks defined by the European Commission and belonging to the same ratings class, whilst for bonds issued by banks without ratings, the risk metric is determined on the basis of the spreads of the CDSs associated with a sample of banks defined by the European Commission and belonging to the lowest available ratings class.

As of 31 January 2012, approximately 60 billion euro of state-backed bank bonds had been issued, listed on the MOT, of which around 40 billion were due within the first quarter of 2012.

In Europe, non-financial companies bond issuances also increased in the fourth quarter (more than 165 percent with respect to the same period in 2010), whilst in the USA and Italy, it fell (respectively by 19 and 22 percent).

Spreads for non-financial companies euro-denominated bond increased significantly until December 2011, when they reached the level of 135 basis points for the AAA-AA rating range, 165 basis points for companies with A ratings and 298 for companies with BBB ratings (Figure 69). At the end of 2011, the spread for companies with speculative rating increased even further, to 855 and 1,114 basis points respectively for companies with BB and B ratings. From December 2011 to March 2012, spreads fell by an average of 35 percent for companies with investment grade ratings and by 24 percent for companies with speculative grade ratings.

Figure 69 Differentials between returns on euro bonds issued by non-financial companies and returns on government bonds
(daily data from 31/12/2007 to 30/03/2012)



Source: processing of Merrill Lynch and Thomson Reuters data. The returns of government securities refer to German securities.

The volume of bonds traded on regulated Italian markets remained stable at around 1,700 billion euro (Table 20). Wholesale trading on the electronic market for government securities (MTS) and on the MOT bond market managed by Borsa Italiana dropped slightly, from 880 to 868 billion euro and from 228 to 204 billion respectively.

Table 20 Bond trading volumes on Italian markets[1]
(billions of euro)

	MTS	Bondvision	Wholesale market for bonds other than government securities	Mot[2]	EuroMOT	Tlx[3]	other multilateral trading systems[4]	*total*
2000	2,020	—	..	154	..	—	—	*2,174*
2001	2,324	18	12	136	1	—	—	*2,491*
2002	2,205	100	24	159	2	—	—	*2,490*
2003	2,160	176	23	142	4	2	—	*2,507*
2004	1,949	339	31	147	4	8	—	*2,478*
2005	1,596	448	19	123	—	7	—	*2,193*
2006	1,634	555	17	122	—	13	—	*2,341*
2007	1,665	664	9	149	—	25	—	*2,512*
2008	874	522	1	177	—	63	—	*1,636*
2009	745	549	..	229	—	95	—	*1,618*
2010	880	560	..	228	—	94	—	*1,762*
2011	868	562	..	204	—	84	25	*1743*

Source: calculations based on Mts, Borsa Italiana and Tlx data. [1] Rounding may cause discrepancies in the last figure. [2] From 2005 includes bonds previously traded on the EuroMot market. [3] From 2010, multilateral trading system EuroTLX. [4] Includes BondVision Corporate, ExtraMot and Hi-Mtf.

5 The securitisation market

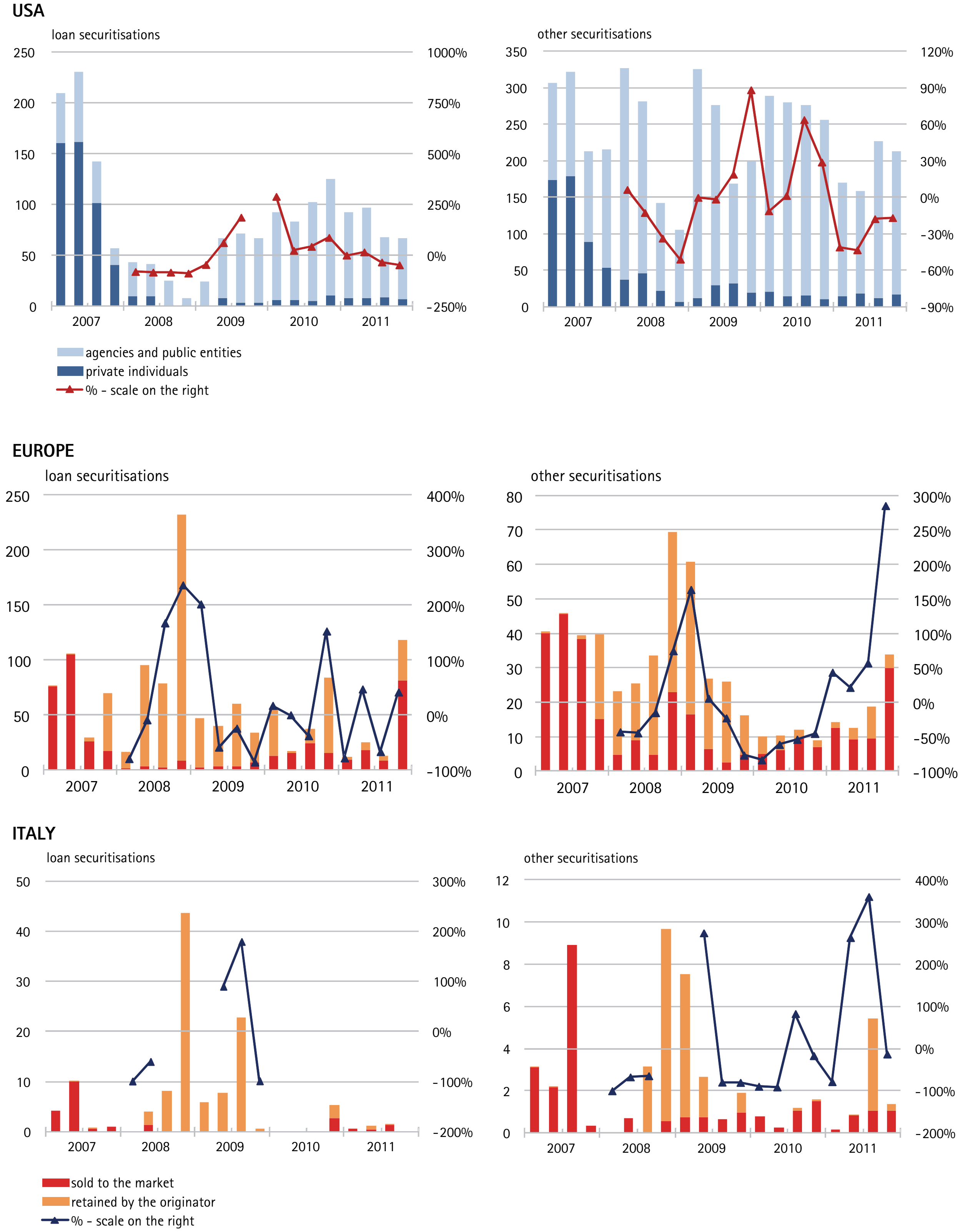
In 2011, issues of loan securitisations in the USA kept falling, particularly in the third and fourth quarters, settling at 323 billion euro at year end, from the 400 recorded at end 2010 (Figure 70). Other securitisations instead decreased by more than 30 percent, during the same period, going from 1,103 to 770 billion euro.

In Europe, too, loan securitisation decreased by approximately 13 percent, recording, however, a strong increase during the last quarter of the year. Issues of other kinds of securitisation instead almost doubled in 2011 (+93 percent with respect to 2010), mainly due an increase in securitisations sold to the market.

In Italy, there still was little interest in both securitisation connected to loans and other assets. in 2011, indeed, the first kind fell by 12 percent (from 2.6 billion euro in 2010 to 2.3 in 2011) and the second by 13 percent (from 3.6 to 3.1 billion).

Figure 70 Gross securitisation issues

(billions of euro and percentage changes with respect to the same period of the previous year)

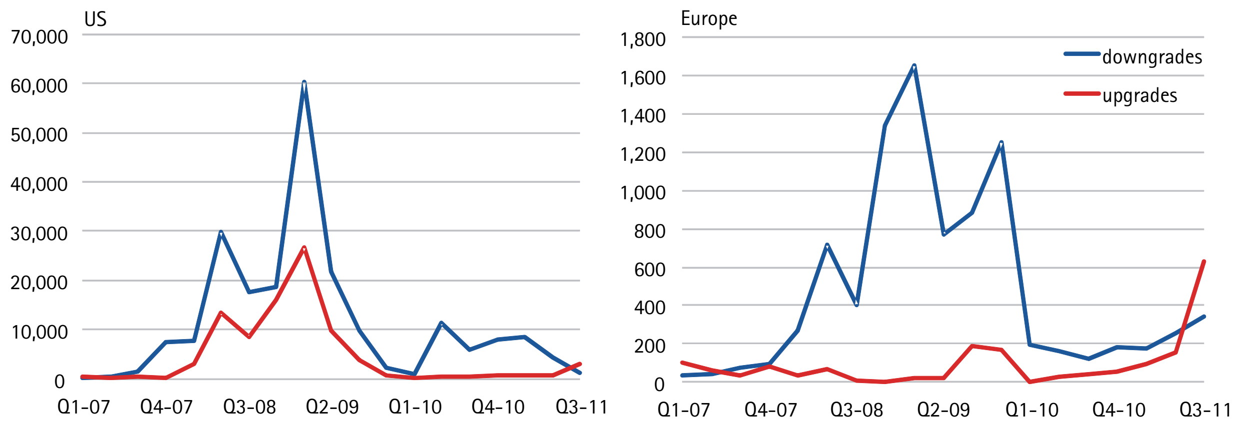


Source: Dealogic data. Data for Europe refers to companies with registered office in Italy, France, Germany, Spain, Holland and the UK and to their subsidiaries (even if with registered office in other countries).

During the first nine months of the year, structured products ratings were significantly upgraded, particularly during the third quarter, both in the USA and Europe (Figure 71).

The increase in the total number of upgrades, however, is above all due to the major increase in the upgrades of collateral debt obligations (CDOs). The number of downgrades in the loan securitisation sector, on the other hand, remained particularly high both in Europe and the USA.

Figure 71 Changes in ratings of structured products
(quarterly data)



Source: Moody's.

IV Intermediaries and households

1 The major banking groups

During 2011, the European banks operated in a rapidly evolving macroeconomic context, with a substantially positive first half of the year, marked by a good performance in the financial markets, and a second half characterized by a sharp deterioration in the overall economic situation, in the wake of the widening sovereign debt crisis in the euro area.

In Europe the Italian banks were particularly penalized by an increase in the perception of the domestic sovereign risk (Box 7), which is also reflected in the related credit default swaps (CDSs) price trend.

The strong link between sovereign risk and banking risk had a significant impact on the profitability of Italian banks. In the first six months of 2011, when, on the whole, more relaxed conditions were seen on the financial markets, the income statements for the major groups had showed signs of recovery compared with the corresponding period of 2010. In the third quarter, instead, the renewed tensions in the euro area determined a contraction in the profit margins of Italian credit institutions.

In particular, net banking income for the major 8 banking groups showed moderate growth in the half year (+2.1 percent) deriving mainly from the good performance of profits from financial transactions (+72.9 percent), compared with a substantial stability in net interest income (-0.1 percent) and a slight drop in net commissions (-1.5 percent). The moderate reduction in operating costs (-0.6 percent) together with a considerable contraction in adjustments of loans (-14.6 percent) and other financial transactions (-15.2 percent) led to a good trend in net profit for the period (+6.1 percent; Table 21).

In the third quarter profitability instead fell significantly. The evidence that emerges from the figures for the first nine months of the year in relation to the major 7 banking groups show a reduction in net profit of 17.7 percent compared with the same period of 2010, owing mainly to an increase in write downs of financial transactions (+467 percent); net interest income (-0.3 percent) and net commissions (-0.8 percent) also fell slightly.

Table 21 Aggregate income statement for major Italian banking groups
(millions of euro and percentage changes compared with the same period of the previous year)

	2007	2008	2009	2010	30 June 2011	*change %*[1]	30 Sept. 2011[2]	*change %*[3]
net interest income (a)[4]	38,745	45,432	40,331	37,672	18,581	*-0.1*	25,850	*-0.3*
Net commissions (b = b.1 + b.2 + b.3)	22,021	20,417	18,888	20,174	10,277	*-1.5*	14,129	*-0.8*
of which: investment and collective management services (b.1)	*11,596*	*9,731*	*7,982*	*8,603*	*4,694*	*-1.5*	....	
security and currency trading and order receipt	1,745	1,639	1,551	1,499	800	*-5.3*	....	
individual portfolio management	1,062	956	691	690	337	*8.0*	....	
collective portfolio management	4,444	3,346	2,636	2,837	1,638	*2.7*	....	
depositary bank	347	255	108	118	61	*4.7*	....	
securities safekeeping	234	125	128	106	44	*-39.4*	....	
placement and distribution of financial and insurance products	3,442	3,085	2,687	3,146	1,712	*-2.5*	....	
consulting	321	326	182	204	102	*-19.4*	....	
banking services (b.2)[5]	*9,677*	*10,206*	*10,496*	*7,239*	*3,386*	*-2.6*	....	
other net commissions (b.3)[6]	*748*	*479*	*410*	*4,332*	*2,195*	*0.3*	....	
profit/loss on financial transactions (c)[7]	2,797	-2,173	3,899	2,562	2,530	*72.9*	2,201	*14.8*
other net operating income (d)	1,628	1,337	1,051	958	356	*-33.0*	166	*-47.0*
insurance management result (e)	526	410	468	613	285	*-19.7*	335	*-36.6*
net banking income (f = a+b+c+d+e)	65,718	65,422	64,636	61,979	32,028	*2.1*	42,345	*-0.1*
operating costs (g)[8]	36,235	39,348	37,178	37,130	18,258	*-0.6*	20,494	*-18.7*
operating result (f-g)	29,482	26,074	27,458	24,849	13,770	*5.9*	21,851	*27.2*
net adjustments on loans	-5,953	-10,507	-16,358	-13,965	-5,957	*-14.6*	-8,746	*-7.8*
net adjustments on other financial transactions	-482	-2,799	-1,649	-523	-240	*-15.2*	-1,547	*467.5*
net profit[9]	17,947	8,194	6,136	6,524	4,028	*6.1*	3,838	*-17.7*

Source: calculations on consolidated financial statements and interim reports. Rounding may cause discrepancies in the last figure. See Methodological notes. The data take into account major banking groups merged later into existing groups via mergers and acquisitions, except for HVB (consolidated into UniCredit as from 1 November 2005). [1] Percentage change in the first half of 2011 compared with the first half of 2010. [2] The data at 30 September 2011 do not include the BNL group. [3] Percentage change for the first nine months of 2011 compared with the first nine months of 2010. [4] Includes dividends on equity investments, gains and losses on equity investments carried at equity and the balance of interest rate hedging transactions. [5] Net fees for guarantees issued and credit derivatives, collection and payment services, net fees on current accounts, credit cards and ATM services. [6] Net fees for servicing on securitisation transactions, factoring and tax collection services. [7] The item includes net result of trading, hedging and assets and liabilities assessed at fair value, plus profits from the disposal or buyback of financial assets and liabilities. [8] Administrative expenses plus value adjustments on tangible and intangible fixed assets. [9] Including profit pertaining to minority shareholders.

With reference to the composition of revenues, the reduction in the proportion of net interest income continued, falling in the first half of 2011 to less than 60 percent; this performance reflects the trend in interest rates which, starting in the last months of 2008 and as a result of the ECB's expansive monetary policy, remained at extremely low levels. The contribution of revenues from investment services was, instead, more marked, exceeding 20 percent of total revenues in the half-year thanks to a greater proportion of gains on financial transactions, facilitated by the good performance of the markets in the first half of the year (Figure 72).

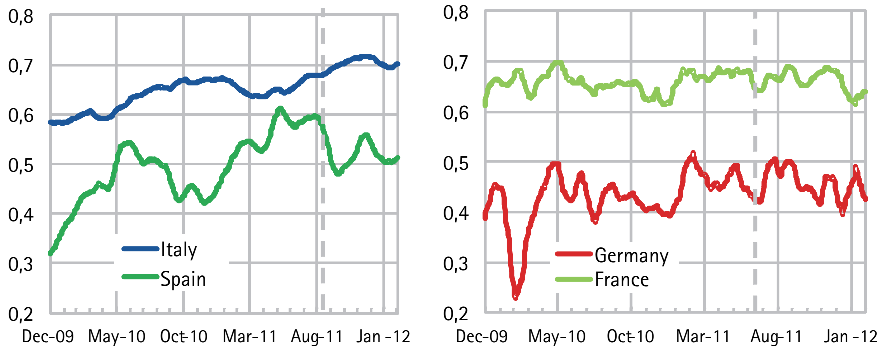
Box 7

Transmission of sovereign risk to the banking sector

Between July and August 2011 the worsening of the sovereign debt crisis in the euro area and the contagion from the peripheral countries (Ireland, Greece and Portugal) to other countries, first and foremost Spain and Italy, were reflected in the perception of credit risk of European banking institutions, determining a significant increase in the prices of the related credit default swaps (CDSs) and a sharp drop in share prices.

The correlation between sovereign CDS prices and banking CDS prices gives us a picture of the transmission of sovereign risk to credit institutions and enables us to see the differences between countries.

Dynamic correlation between sovereign credit default swap prices and bank share prices
(daily data from 31/12/2009 to 29/02/2012)



Source: calculations based on Thomson Financial Datastream data. 6-month moving average. The dynamic correlation is estimated using Engle's model (2002).

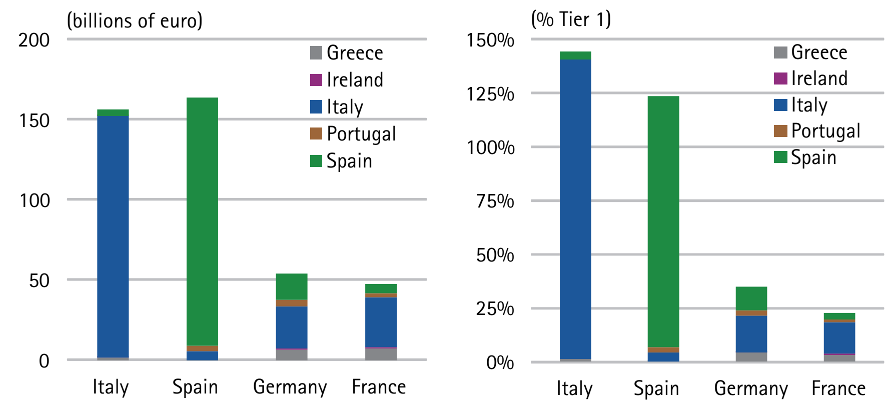
In particular during 2011 the correlation recorded limited oscillations for German and French banks, returning in the early months of 2012 to levels equal to or lower than those recorded before July. Vice versa the correlation between sovereign CDSs and banking CDSs increased for Italian financial institutions, remaining at higher levels than those recorded by the correlation for Spanish banks (which in February 2012 returned to the levels found in the middle of the previous year).

There are many channels through which the sovereign debt crisis is transmitted to domestic banks. The banks typically hold considerable amounts of government securities in their portfolios both for investment reasons and to use them as collateral in repurchase (repo) operations with private or central counterparties or with the ECB. Tensions on the secondary market for government securities, therefore, entail, on the one hand, a deterioration in the quality of bank assets and, on the other, an increase in the cost of funding through an increase in margins on guarantees in repo transactions. The creditworthiness of banks, moreover, is also determined by the implicit public guarantee which is affected by the credit standing of the country to which they belong.

An analysis of direct investments in government securities shows that the market trends are substantially in line with the banks' exposure to domestic sovereign risk. As of 30 September 2011 the direct exposure to Italian public debt of Italian banking groups, involved in the recapitalization plan of the European Banking Authority (EBA), amounted to 151 billion euro (approximately 140 percent of Tier 1 capital). The exposure to sovereign debt of the other European countries in difficulty (Greece, Ireland, Spain and Portugal) was, instead, very limited at 5.5 billion euro (compared with the 28 billion ascribable to the major German banks and the 17 of French banks). If we consider the entire public debt of EU countries, Italian banks are therefore characterised by a moderate exposure to foreign public debt (just 44 billion euro compared with the 118 of German banks and 105 of French banks); this is true also in comparison with Spanish banks.

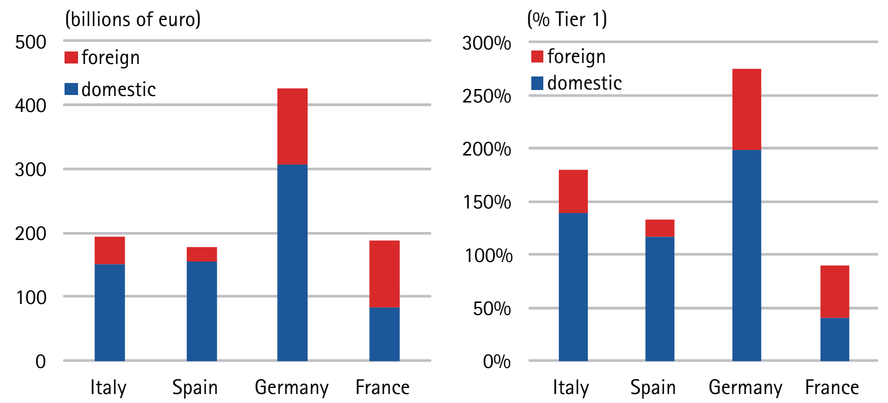
Although it is significant for all the credit institutions considered, the proportion of exposures to public debt of EU countries to Tier 1 is higher for German banks (275 percent), followed by Italian (180), Spanish (133) and French (89) banks. For the German and French banks of the EBA sample, in addition, the exposure to public debt of countries in greatest difficulty amounts respectively to 35 and 23 percent of Tier 1.

Net direct exposure of major European banks to public debt of some EU countries
(data as of 30 September 2011)



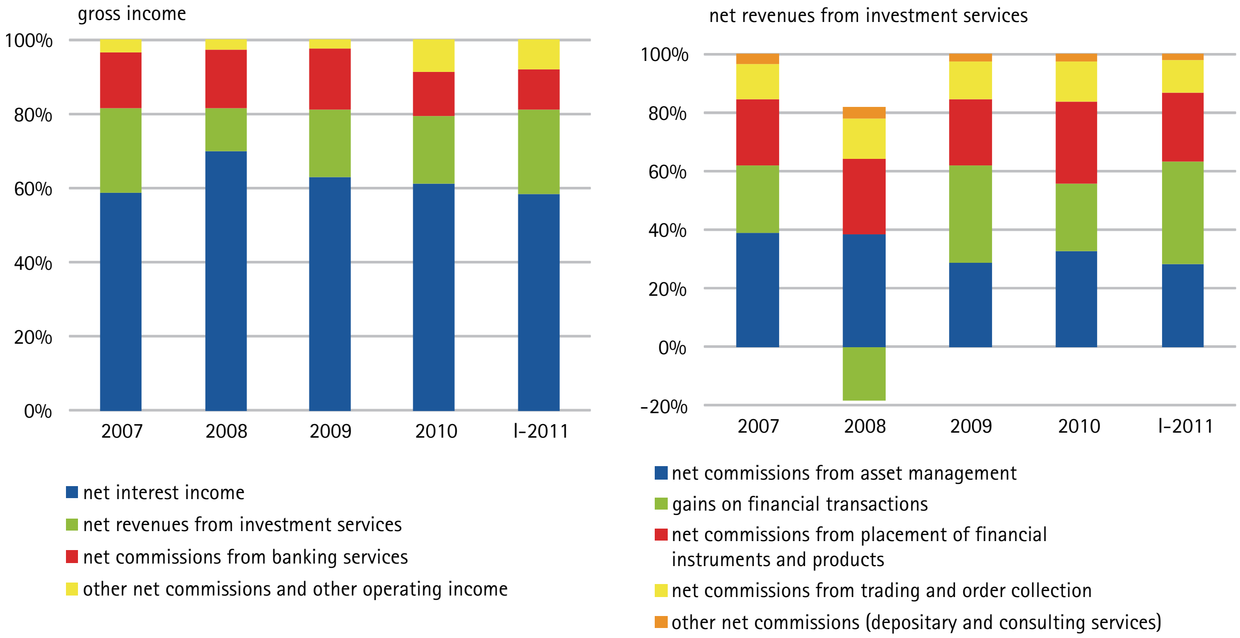
Source: calculations on EBA data, 2011 EU Capital Exercise. See Methodological notes.

Net direct exposure of major European banks to public debt of all EU countries



Source: calculations on EBA data, 2011 EU Capital Exercise. See Methodological notes.

Figure 72 Revenue breakdown for major Italian banking groups



Source: calculations on consolidated financial statements and interim reports. See Methodological notes

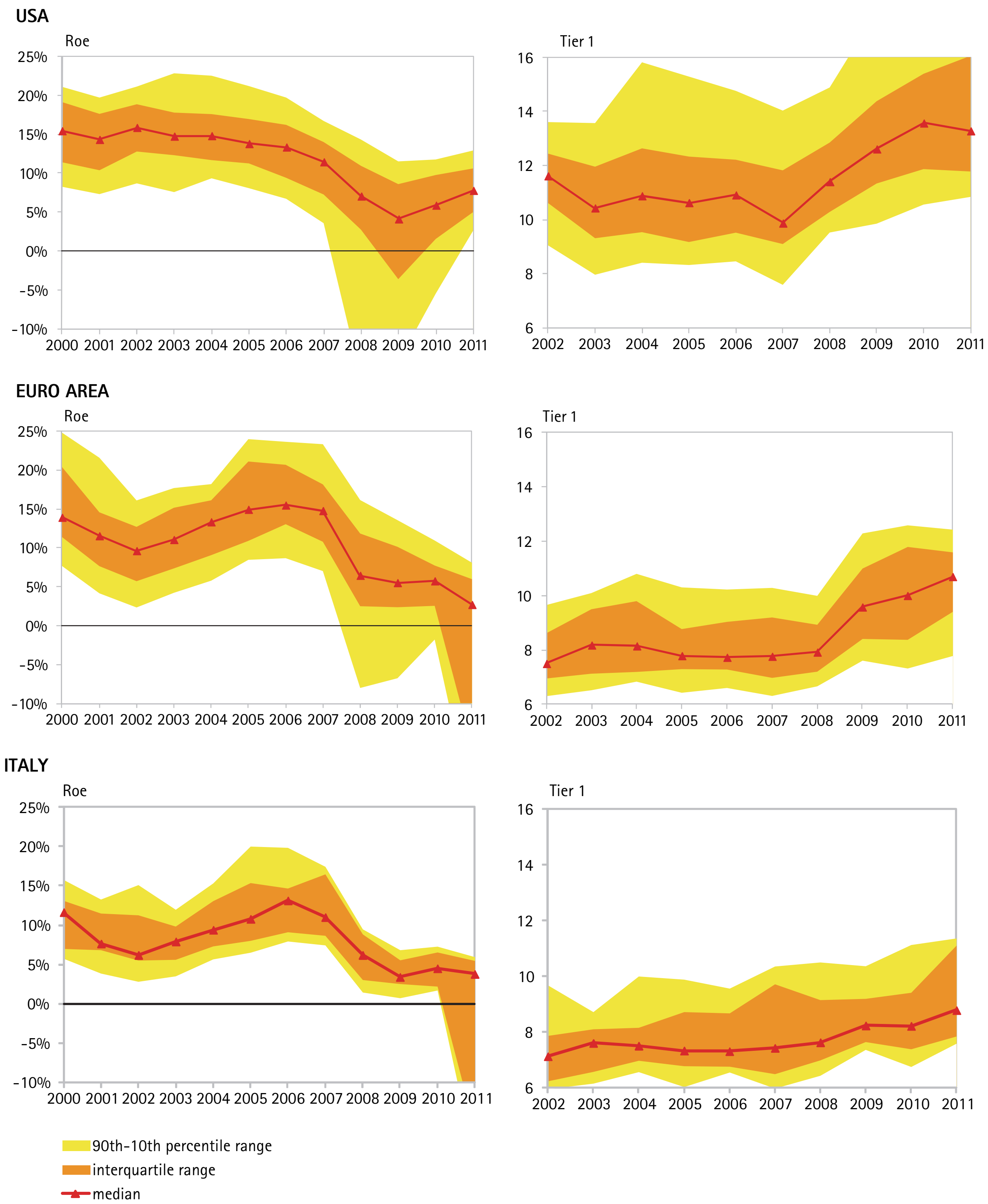
In international comparisons, listed Italian and European banks showed a significant worsening of profitability compared with 2010.

As regards ROE, approximately 40 percent of credit institutions recorded negative returns in 2011, with the mean was down compared with 2010 both for Italian banks (from 4.5 to 3.8 percent) and for those of the euro area (from 5.7 to 2.7 percent), as they were affected by the significant decline in profitability recorded by Greek and Portuguese banks (Figure 73). US banks, instead, show signs of improvement in profitability in the period considered: approximately 80 percent recorded growth in ROE, the mean figure for which reached levels close to 8 percent.

The Tier 1 ratio for Italian banks in 2011 was lower than that of European and US financial institutions (with mean figures respectively at 8.8, 10.7 and 13.3). The figure was, however, up considerably, thanks to the capital increases carried out by several listed Italian banks in the early months of the year. These operations preceded the recommendation by the European Banking Authority (EBA) of 8 December 2011, which asked the major Italian banks to strengthen their capital assets by a total of 15 billion euro.

In the European context, the Italian credit institutions showed a number of weak points, in relation to lower profitability and capital assets, mitigated however by more stable profits and less financial leverage (Box 8).

Figure 73 Profitability and capital adequacy of listed banks



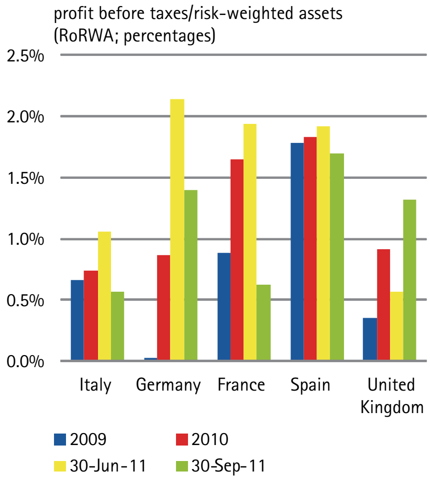
Source: calculations on Worldscope data for banks included in the S&P 1500 Bank index (USA), Dow Jones Euro Stoxx Bank (eurozone) and on listed Italian banks.

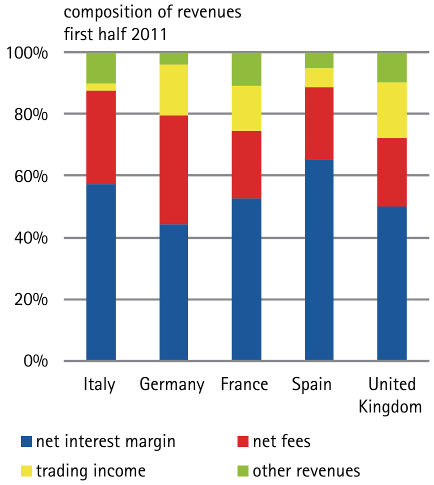
Box 8

Profitability and capital adequacy for major Italian and European banking groups

In the first half of the year, the risk-weighted profitability of major Italian banks was still lower than the average for large banks in the euro area (in particular in Germany, France and Spain), but higher than that of British banks. The major German banks, in particular, recorded a good performance after reporting low margins in the years 2008-2009. In the third quarter of the year the return on risk-weighted assets declined for all the banks considered, with the exception of British banks, in the wake of the deterioration of the overall macroeconomic situation.

Profitability and revenue breakdown for major European banking groups



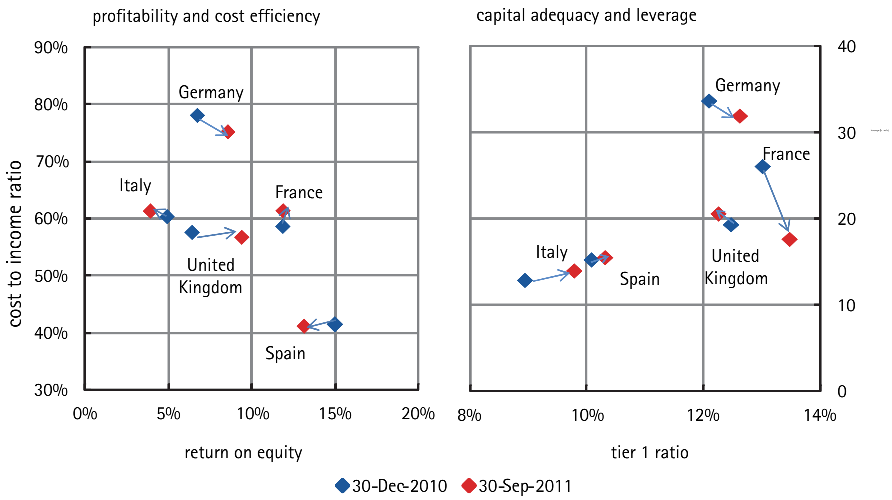


Source: calculations on consolidated financial statements and interim reports. Annualised data. See Methodological notes.

As regards the revenue breakdown for major European banking groups, Italian and Spanish banks were characterized by a very similar structure, with a greater proportion of total revenues from the more stable components of net banking income, that is net interest income and net commissions; German, French and British banks recorded a more significant contribution to revenues from trading activities.

Analyzing the trend in profitability and efficiency of the major banks of the aforementioned European countries, the average ROE (minus extraordinary components) rose in Germany and the United Kingdom, while it remained substantially stable in France and fell for major Spanish and Italian groups. The major German banking groups also showed an increase in operating efficiency with a reduction in the ratio of operating costs to net banking income (cost-to-income ratio).

Profitability and capital assets of major European banking groups
(first half 2011)



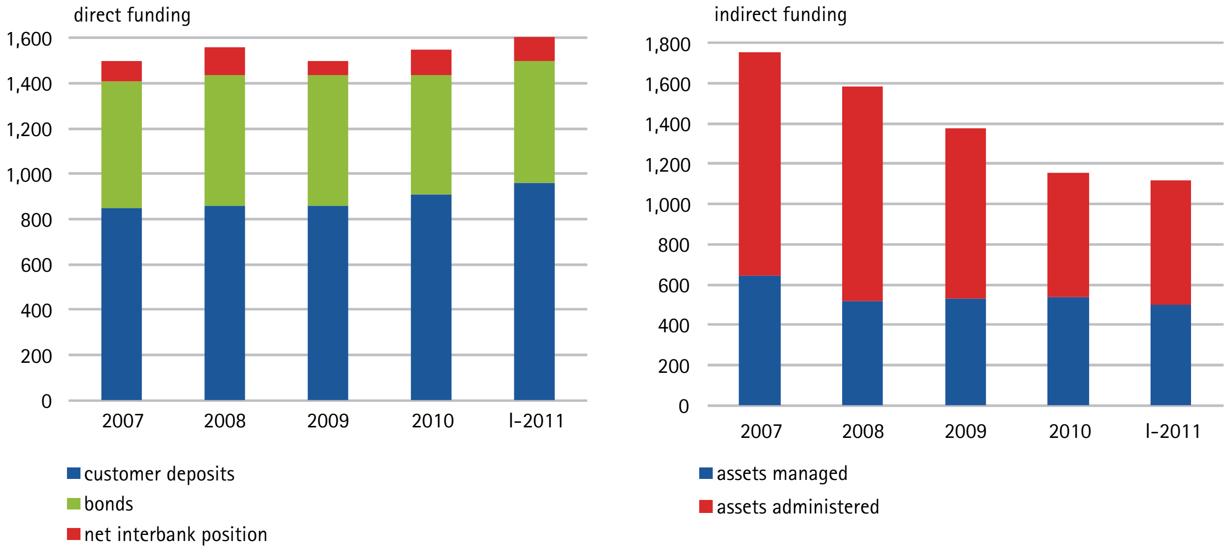
Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

The level of capitalization of the large European banking groups also increased in all the countries considered with the exception of the United Kingdom. In particular, in the first 6 months of 2011 the average Tier 1 for the largest 5 Italian banks grew significantly, approaching the 10 percent threshold, only slightly less than those of the large Spanish banks; the major French, British and German banks showed, instead, an average Tier 1 of more than 12 percent. Although they have a lower level of capitalization, the Italian and Spanish banks are characterized by less financial leverage than the major German and French groups.

On the funding side, the major Italian banks showed a slight increase in direct funding in the first six months of the year, attributable to growth in customer deposits by almost 54 billion euro (+6 percent) and in bond funding by almost 7 billion (+1 percent), while interbank funding declined (-40 billion corresponding to a contraction of 6 percentage points; Figure 74). Indirect funding (administered and managed investments), instead, fell slightly in the managed investments component (-7 percent).

The funding structure of the major Italian banking groups was different from the rest of Europe for the greater proportion of bond funding (35 percent, compared with figures between 25 and 31 percent for European banks), financed to a great extent by placement on the domestic market for retail investors (approximately 80 percent of total bond funding in the two years 2010-2011).

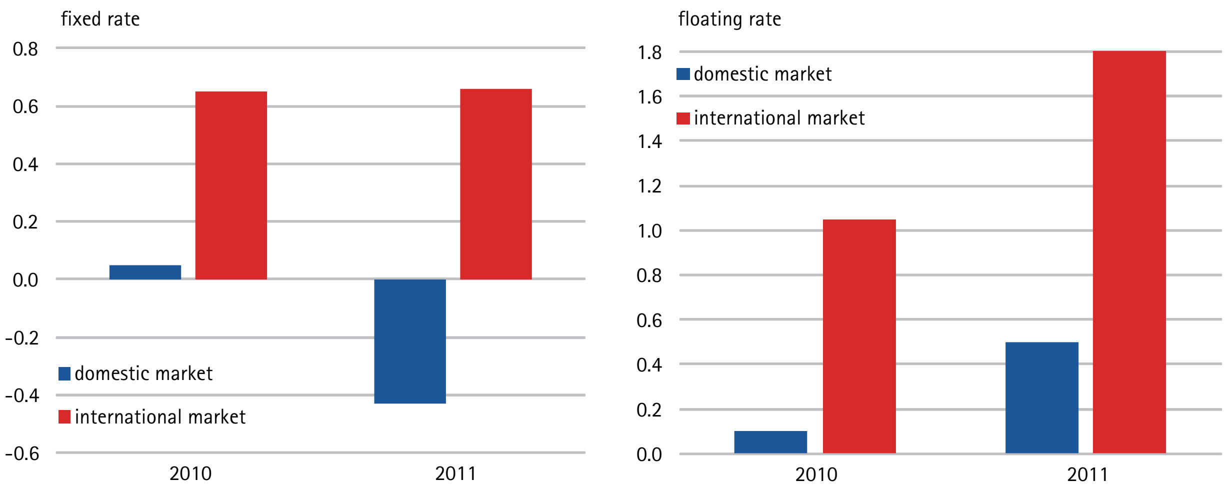
Figure 74 Funding structure of major Italian banking groups
(period end balances; billions of euro)



Source: calculations on consolidated financial statements and interim reports. 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.

The yields offered to retail investors, to whom domestic placements are destined, and those offered to institutional investors continue to be significantly different. The mean spread between yield-to-maturity of fixed-rate bonds and those of BTPs with a similar maturity was substantially zero in 2010 and negative by more than 40 basis points in 2011 for domestic issues, while in the same period institutional investors obtained a yield of more than 60 basis points compared with that of BTPs (Figure 75).

Figure 75 Yields spread of domestic banking issues offered to retail investors and on the Euromarket offered to institutional investors
(difference between yields to maturity of fixed-rate bonds and BTPs and between floating-rate bonds and Euribor; percentages)

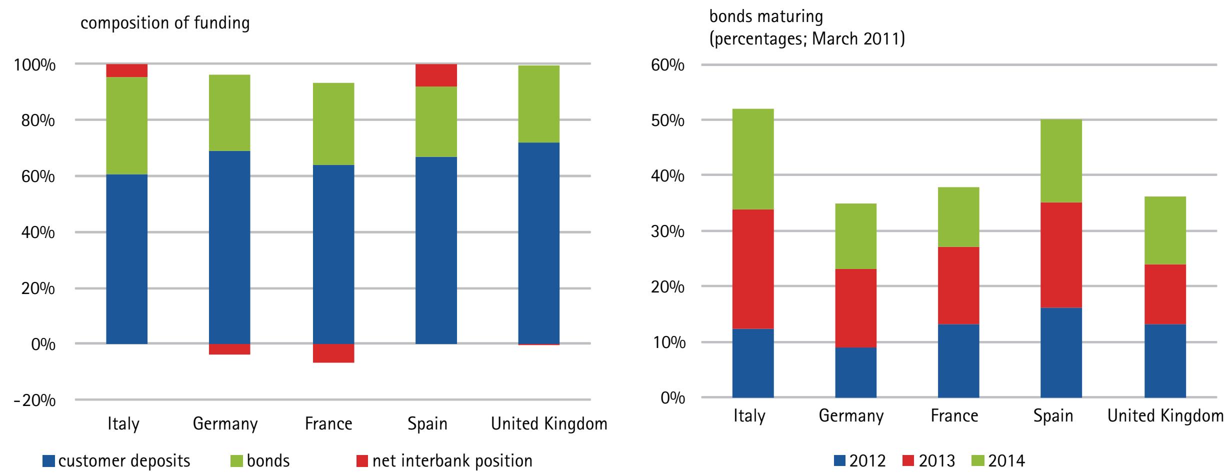


Source: calculations on prospectuses and final conditions for offers to retail investors and Dealogic for offers to institutional investors. Fixed-rate bonds include step up/down securities.

With reference to floating-rate bonds, the mean spread on the Euribor rate (to which all issues are indexed) offered to retail investors was around 50 basis points in 2011 (compared with a figure substantially equal to zero in the previous year); for institutional investors the figure came out, instead, at significantly higher levels (respectively, 110 and 180 basis points in 2010 and in 2011).

The proportion of bonds maturing by 2014 was more than 50 percent of total bonds in issue for the major Italian and Spanish banks, compared with approximately 40 percent for German, French and British institutions (Figure 76).

Figure 76 Direct funding of major European banking groups and bonds with maturity until 2014
(data at 30 June 2011)



Source: calculations on consolidated financial statements and interim reports. Bloomberg data on bonds maturing. See Methodological notes.

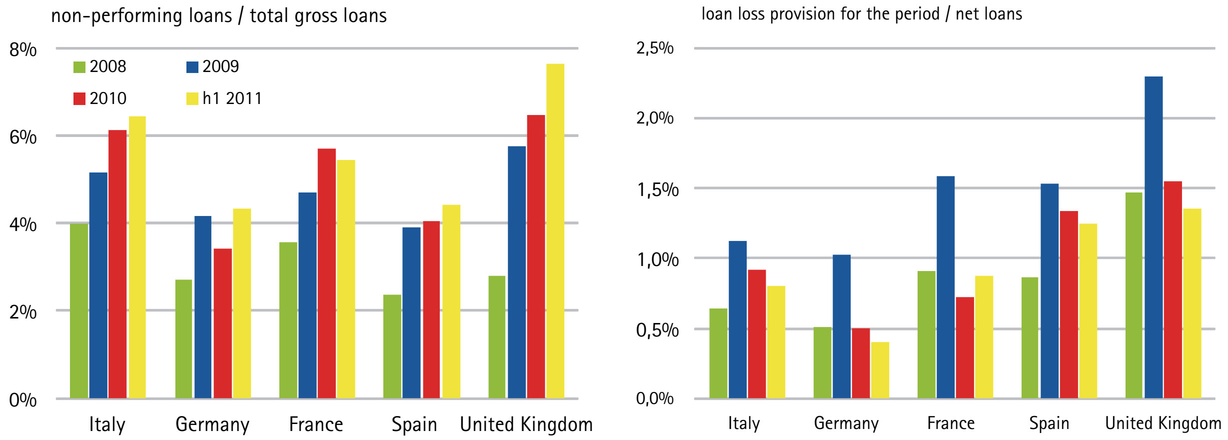
With particular reference to Italian banks, securities maturing by the end of 2012 included bonds guaranteed by the government, issued from December 2011 following the entry into force of a number of measures to support the national lending system (Box *'Public guarantees on Italian bank bonds'* in Chapter III above, *'Secondary markets'*).

These bonds, mostly with a maturity of 3 months, were withheld by the issuer banks themselves, as can be deduced by the fact that, although they were listed on the MOT market, they were never traded. The banks preferred to use the securities backed by public guarantees as collateral for gaining access to the long-term extraordinary refinancing operations of the European Central Bank, intensifying their issue in the days immediately prior to the two 36-month refinancing auctions organised by the ECB in December 2011 and February 2012.

In the first half of 2011, the proportion of non-performing loans to total loans increased for all major European banks, with the exception of the French ones (Figure 77).

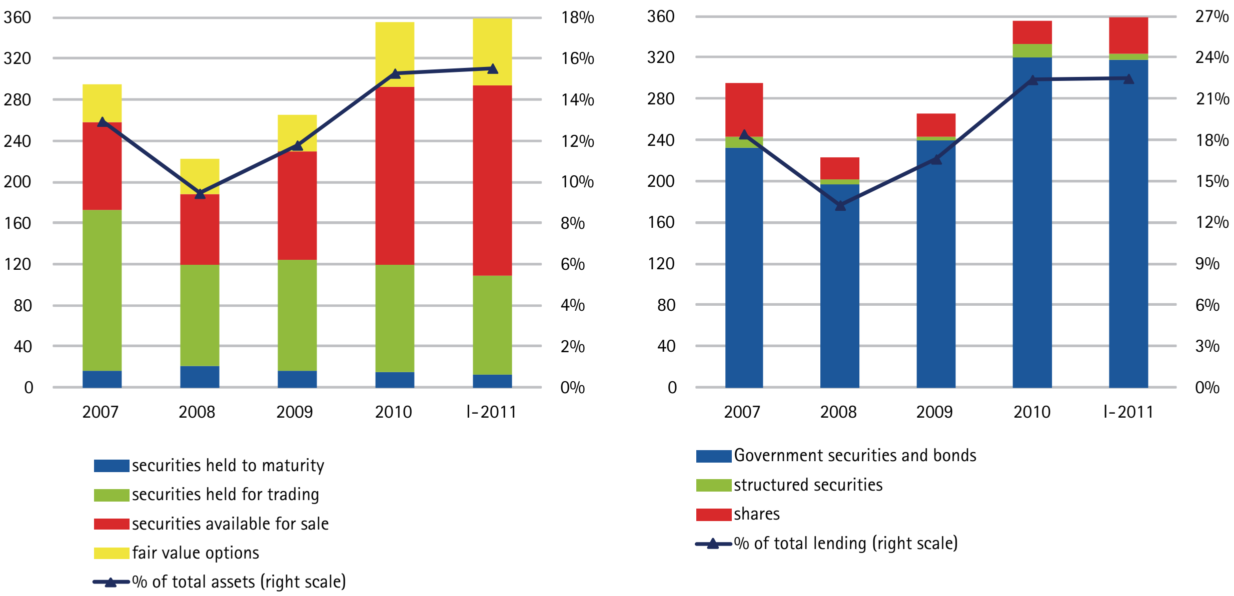
For Italian banks, the average proportion of non-performing loans to gross loans in the first half of 2011 exceeded 6 percent, one of the highest figures in Europe after that of the British banks. The flow of loan impairment provisions for Italian banks was instead down compared to the previous two years and lower than that recorded by Spanish and British banks.

Figure 77 Credit quality of major European banking groups
(data at 30 June 2011)



Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

Figure 78 Breakdown of securities portfolio for major Italian banking groups
(period end balances; billions of euro)



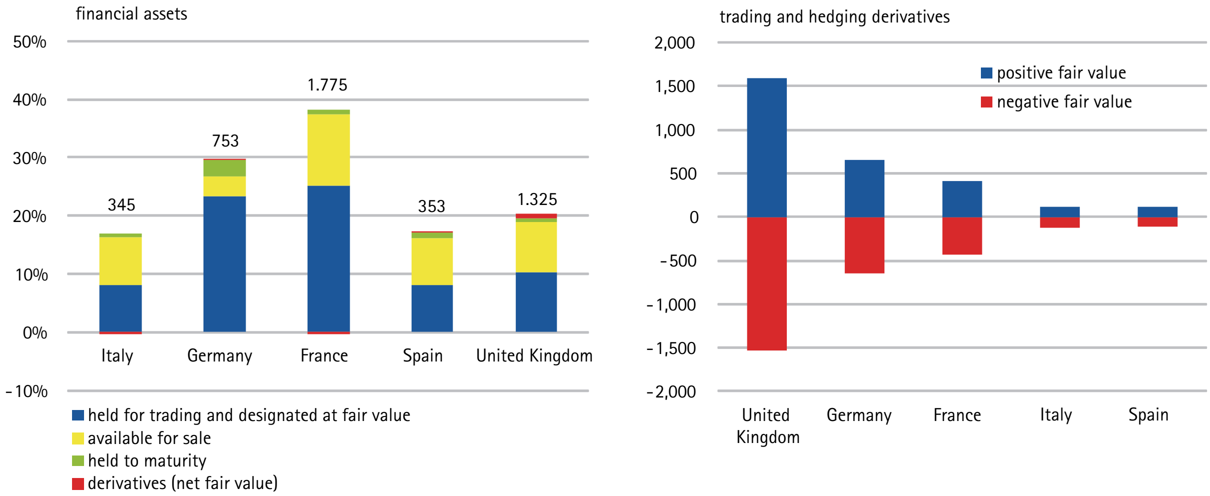
Source: calculations on consolidated financial statements and interim reports. See Methodological notes. Financial assets other than securities (i.e. credit facilities or loans) and assets sold and not cancelled or impaired are excluded. UCITS are included among Government securities and bonds.

During the first half of 2011, the securities portfolio of the major Italian banks remained substantially stable compared with the end of the previous year, both in absolute terms (coming out at around 360 billion euro, an increase of 0.8 percent), and in terms of total assets (16 percent; Figure 78).

The proportion of securities available for sale increased further (+6.7 percent) compared with a contraction in the proportion of securities held for trading (-8.9 percent). As regards the breakdown of the portfolio, compared with the end of 2010 the proportion of structured securities fell (-63.9 percent) while the proportion of equities rose (+59 percent).

With respect to total bank assets, the proportion of total financial assets (securities and sundry assets, such as loans and receivables) varied significantly between major European groups (Figure 79). As of 30 June 2011, it was around 17 percent for major Italian and Spanish banks, while in the other countries considered the banks reported financial assets between 20 (United Kingdom) and 38 percent (France) of their portfolios.

Figure 79 Financial assets and derivatives of major European banking groups
(percentages with respect to total assets; amounts in billions of euro; data at 30 June 2011)

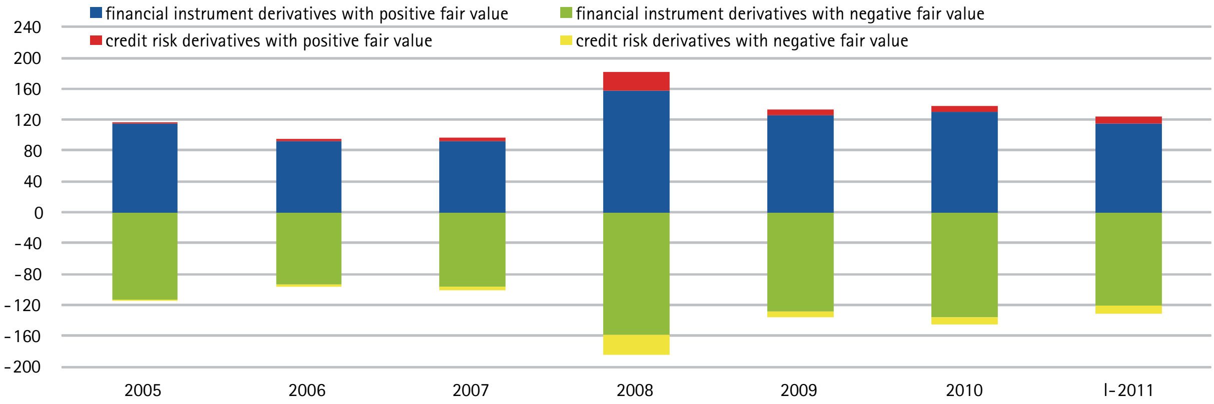


Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

Considering the breakdown, the largest proportion (approximately 8 percent of total assets for Italian banks compared with and 20 percent or higher for Germany and France) involves assets held for trading and held at fair value with direct recognition in profit & loss of interim changes in value (so-called fair value through profit & loss). For the major French groups, in addition, a significant portion of the portfolio was made up of financial assets available for sale (approximately 12 percent of total assets compared with figures of less than 10 percent for the banks of the other European countries).

With reference to trading and hedging derivatives, the net market value (i.e. the difference between fair value positions with positive market value and fair value positions with negative market value) is negative for the major Italian and French banks, while in Germany, Spain and the United Kingdom the major banking groups show positive figures. The gross market value of derivatives (i.e. the sum in absolute terms of fair value positions with positive market value and fair value positions with negative market value) in the portfolios of the major 5 Italian banks is limited compared with the rest of Europe.

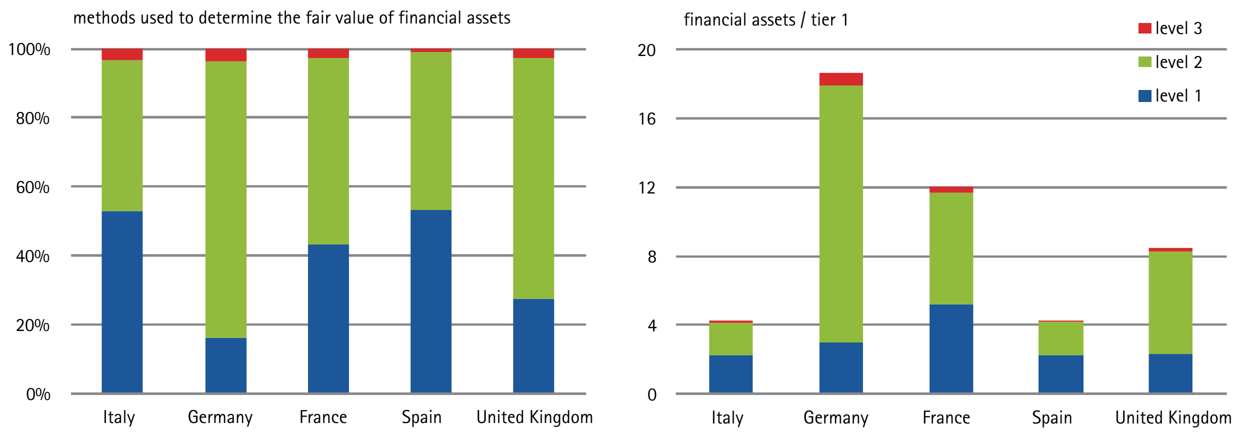
Figure 80 Fair value of trading derivatives for major Italian banking groups
(period end balances; billions of euro)



Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

In particular, in the first six months of 2011 the gross market value of trading derivatives for the major Italian banks fell slightly compared with the end of 2010, declining from 364 billion euro at the end of 2010 to 283 billion at 30 June 2011 (Figure 80). The net market value of trading derivatives was approximately -7.3 billion euro (-4.8 billion in 2010).

Figure 81 Financial assets at fair value for major European banking groups
(data at 30 June 2011)



Source: calculations on consolidated financial statements and interim reports. See Methodological notes.

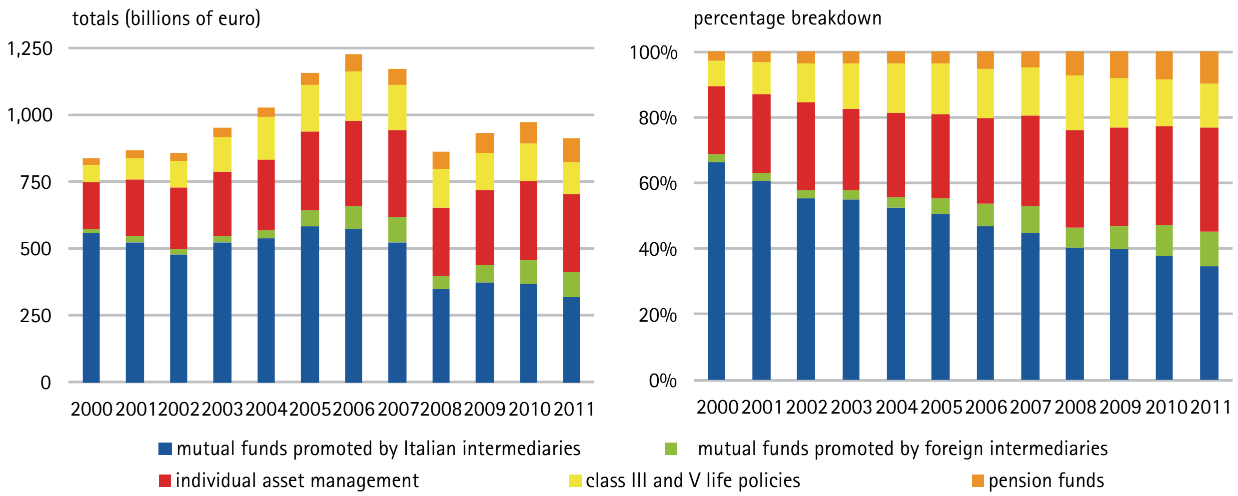
With reference to the methods used to determine the fair value to be recognised in financial statements, the financial assets portfolio for major Italian and Spanish banks was made up by over 50 percent of instruments listed in active markets for which the fair value is determined on the basis of available official prices (level 1, mark-to-market approach) (Figure 81). On the other hand, German banks and, to a lesser extent, British and French banks, showed a considerable proportion of financial assets not listed in active markets the fair value of which is determined, therefore, on the basis of market prices of instruments listed in active markets with similar characteristics (level 2, comparable approach), or on the basis of internal models not based on market prices (level 3, mark-to-model approach).

2 Managed investment products

In 2011 the assets referable to managed investment products placed in Italy declined by 6.5 percent, declining from 974 to 911 billion euro, a level lower than in 2009 (Figure 82).

The change was mainly due to a contraction in the assets of mutual funds promoted by Italian intermediaries (-14.5 percent). Assets connected to Class III and V policies and those of individual portfolios managed fell (-12.5 and -1.7 percent respectively), while the assets of funds set up by foreign intermediaries and those of pension funds recorded an increase of 7.2 and 8.2 percent, respectively.

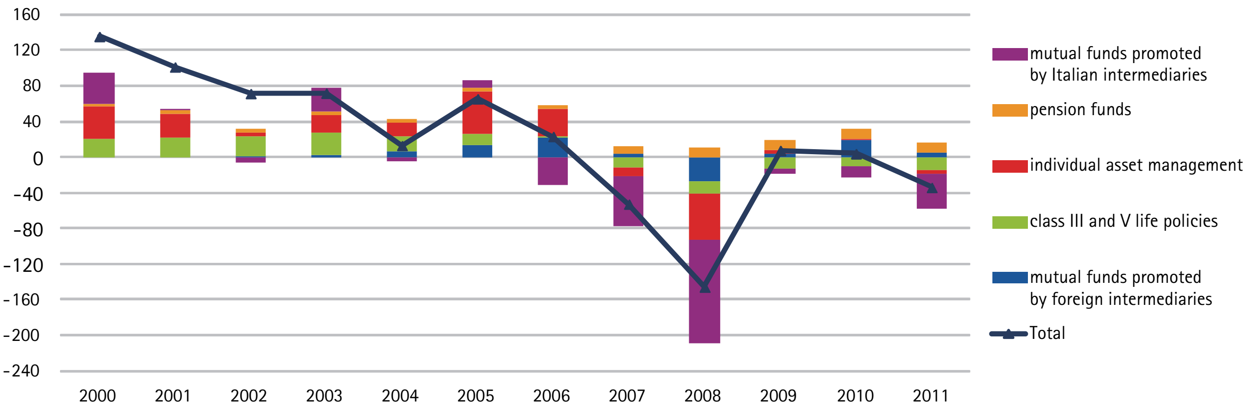
Figure 82 Portfolio of asset management products placed in Italy



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-ended 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 units of mutual 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).

Net inflows of managed investment products placed in Italy were negative by 34 billion euro, in particular as a result of the considerable outflows from mutual funds promoted by Italian intermediaries (of 38 billion) and of Class III and V life policies (of 14 billion). The net inflows of individual portfolios managed were also negative by approximately 5 billion, while pension funds and mutual funds promoted by foreign intermediaries recorded positive net inflows of an amount of 11.4 and 5.2 billion respectively (Figure 83).

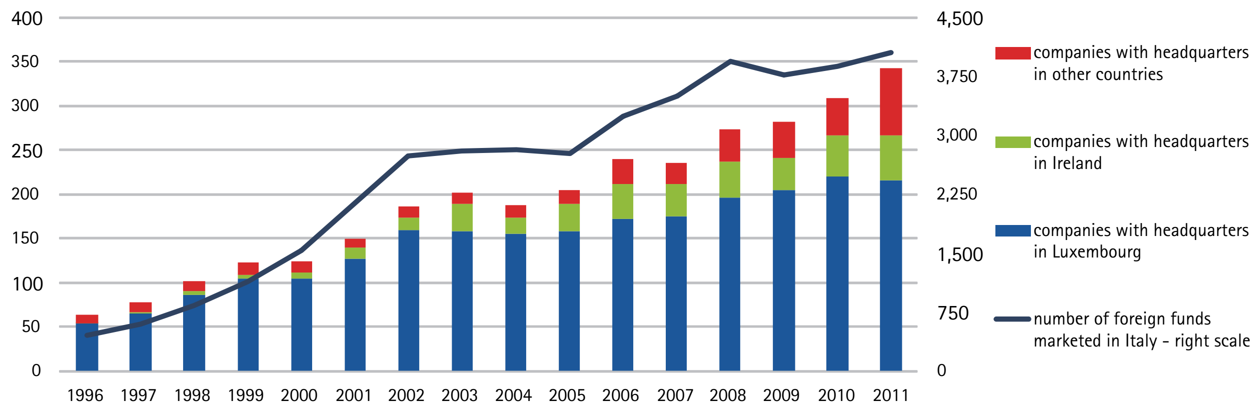
Figure 83 Net inflows of asset management products placed in Italy
(billions of euro)



Source: calculations based on provisional 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). 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 portfolio management. The 2011 figures are provisional.

The number of foreign funds marketed in Italy increased from 3,874 in 2010 to 4,058 in 2011. In particular there was a drop in the number of Luxembourg-based companies authorized to market funds in Italy, while both the number of Irish companies and that of companies based in other countries increased (Figure 84).

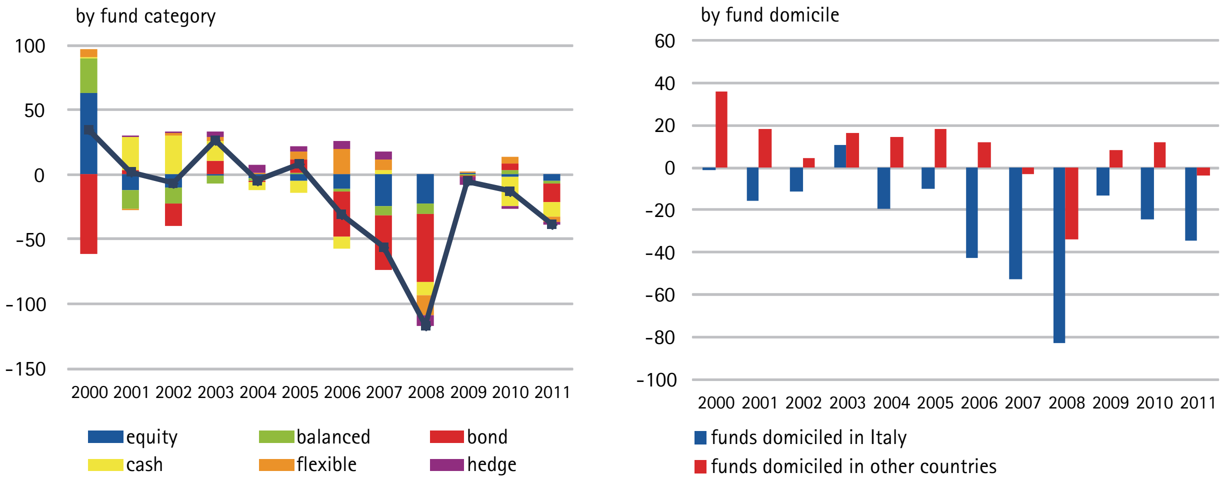
Figure 84 Number of foreign funds marketed in Italy and number of foreign firms authorised to market funds, by country of registration



Source: prospectuses.

Mutual funds promoted by Italian intermediaries, domiciled both in Italy and abroad, recorded net outflows of approximately 39 billion euro (Figure 85). In particular the funds that recorded the largest outflows in the period were bond funds (-15 billion) and cash funds (-11.4 billion). More limited outflows, instead, regarded other funds, with a reduction in inflows of 4.4 billion euro for equity funds, 2 billion for balanced funds, 2 billion for speculative funds and 3.4 billion for flexible funds.

Figure 85 Net ouflows from mutual funds promoted by Italian intermediaries
(billions of euro)



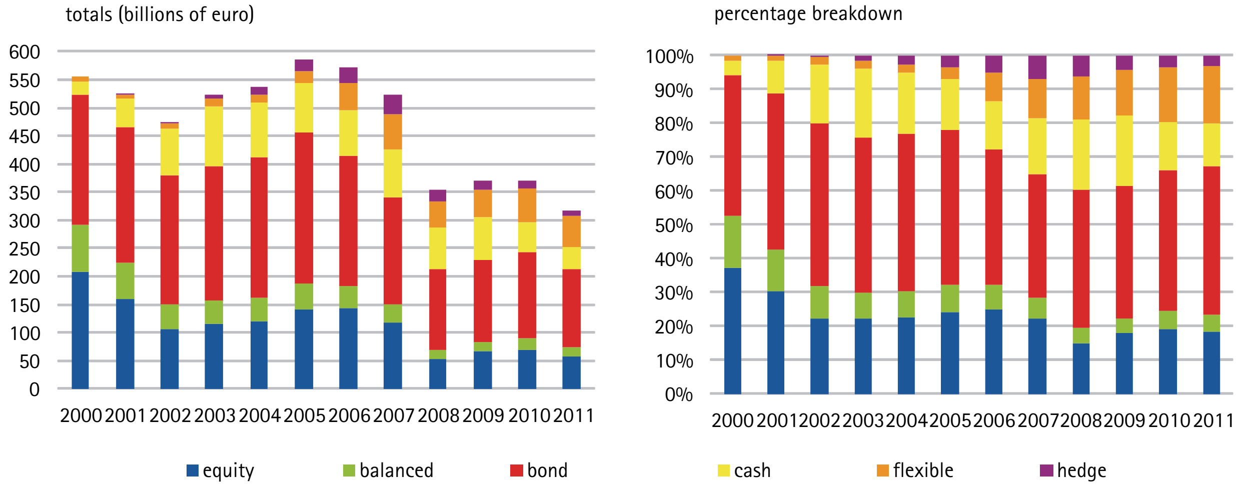
Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. The data include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ('roundtrip' funds). Funds of funds are also included. For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

The assets of mutual funds promoted by Italian intermediaries dropped by 14.5 percent in 2011, of more than 53 billion euro, reaching levels lower than those of 2008 (Figure 86). This contraction regarded all types of funds, in particular bond funds (-15.5 billion), cash funds (-13.7 billion) and equity funds (-12.4 billion).

With reference to the percentage breakdown of the assets of funds promoted by Italian intermediaries, the proportion of bond funds rose (from 41.6 in 2010 to 43.7 percent in 2011) as did that of flexible funds (from 16.1 to 17.2 percent) while the proportion of equity funds fell (from 19 to 18.3 percent) as did that of cash funds (from 14.4 to 12.6 percent). The proportion of hedge funds and balanced funds, instead, remained substantially stable.

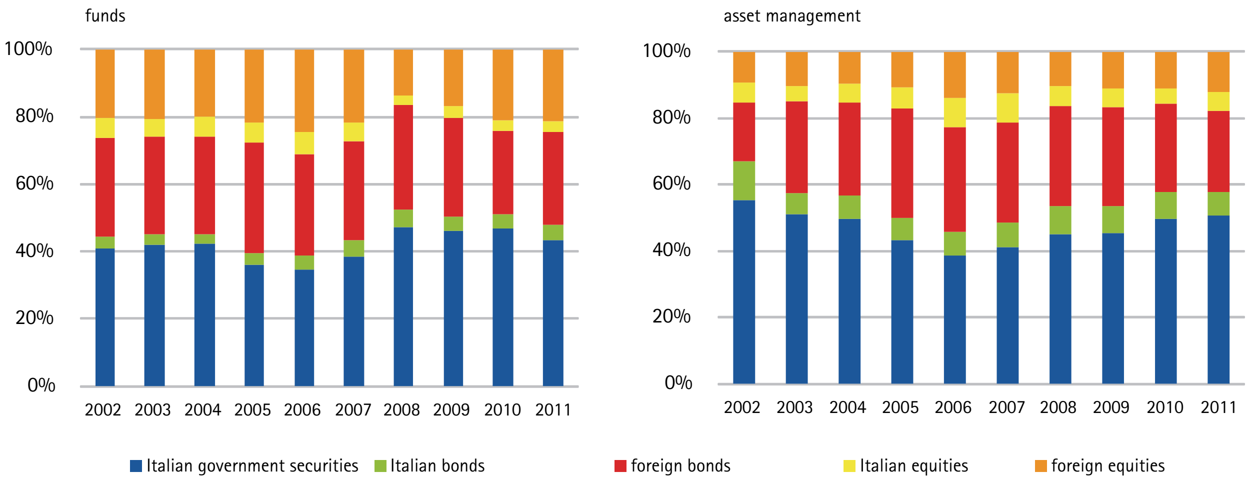
In 2011 the composition of the portfolio of Italian open-end mutual funds changed, with a drop of 5 percent in the proportion of government securities (which fell from 47 percent of assets managed in 2010 to 43 percent in 2011) and an increase in the proportion of Italian and foreign bonds (respectively 1 and 3 percent) while the proportion of investments in equities, both Italian and foreign, remained more or less unchanged at 3 and 21 percent respectively. On the contrary, in asset management the proportion of investments in government securities increased slightly (going up from 50 to 51 percent) as did that of equity securities (+1 percent) while the proportion of assets invested in bonds fell by 1 percent for Italian bonds and 2 percent for foreign bonds (Figure 87).

Figure 86 Net equity for mutual funds promoted by Italian intermediaries



Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. The data includes 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 the data refers to total assets.

Figure 87 Asset breakdown for Italian open-end mutual funds and for individually managed portfolios

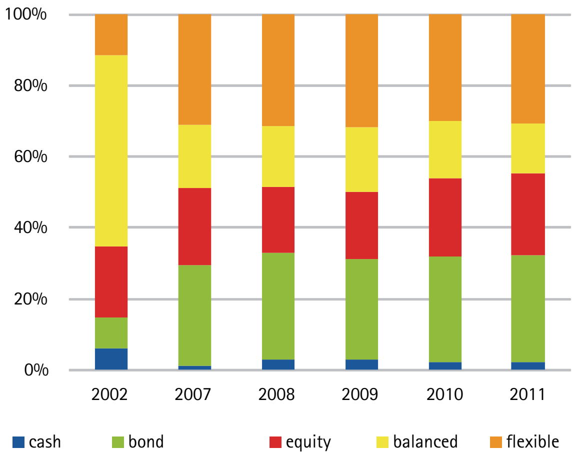


Source: calculations based on Bank of Italy data. The portion of individual portfolios invested in UCITS was allocated to other financial assets according to the composition of the Italian mutual fund portfolio for the reference year. The data on foreign bonds include foreign public securities and the data on shares include UCITS units.

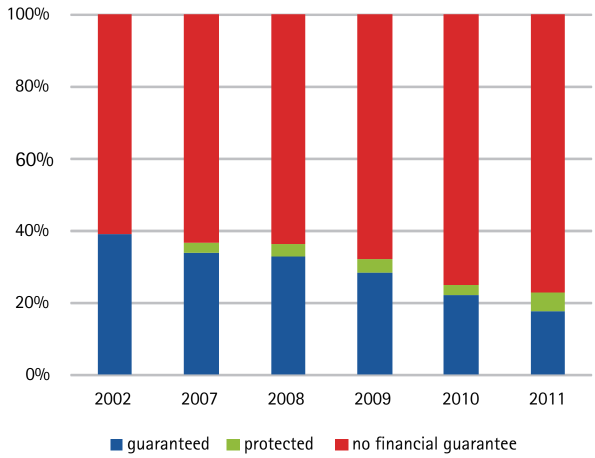
The composition of the assets managed by funds connected to unit linked policies evolved in a similar manner to that of mutual funds, with an increase not only in the proportion of bond funds (from 29.6 to 30.1 percent) and flexible funds (from 30 to 31 percent) but also of equity funds (from 22 to 23 percent). The proportion of balanced funds out of total assets managed showed, on the contrary, a significant contraction (from 16.2 to 13.7 percent) while that of cash funds remained substantially stable compared with 2010 (Figure 88).

Figure 88 Asset breakdown for funds associated with unit-linked policies

by type of fund



by type of financial guarantee



Source: calculations on Ania data.

In 2011 the number of asset managers operating in the real estate fund sector remained stable with respect to 2010, although the number of active funds increased (324 in 2011 compared with 294 in 2010) as did the related net assets (+11.5 percent). Total assets rose further from 50.4 billion in 2010 to almost 54 billion in 2011 (+6.7 percent), while borrowing fell from 43.3 billion to 40.7 billion (-6 percent). The proportion of investments in real estate and real estate rights recorded a slight increase, while that of investments in financial instruments dropped (Table 22).

Table 22 Italian law closed-end real estate funds[1]
(cash amounts in billions of euro)

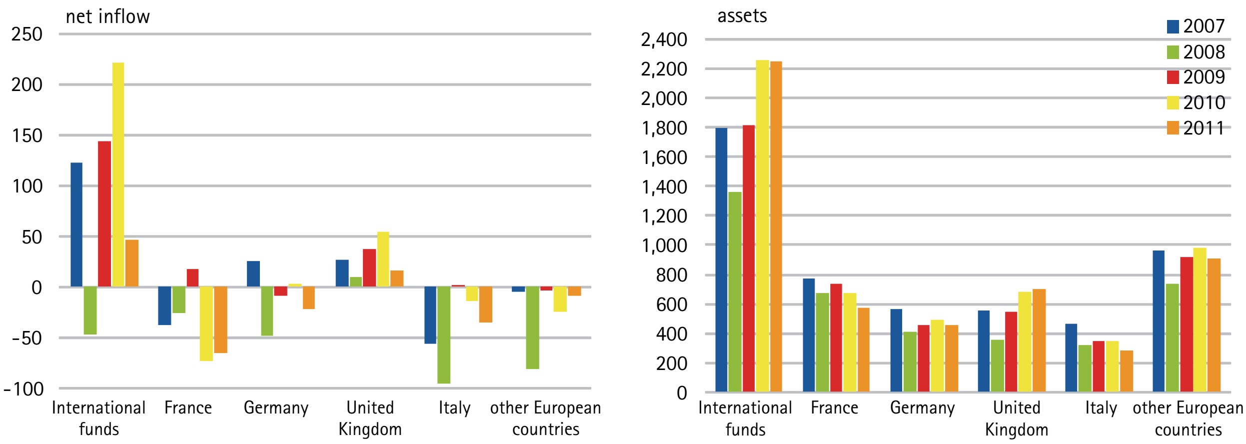
	number of AMCs	number of funds operating	net assets (A)	total assets (B)	borrowing ((B-A)/B) %	asset percentage breakdown			
						real estate and real estate rights	financial instruments	securities and liquidity	other assets
2003	11	19	4.4	5.2	14.1	74.7	8.7	10.2	6.4
2004	16	32	8.1	12.3	34.3	86.1	6.1	3.6	4.2
2005	27	64	12.0	18.6	35.3	83.7	8.5	4.8	3.1
2006	34	118	16.3	26.9	39.5	82.0	6.8	6.1	5.1
2007	47	171	21.6	35.9	39.9	85.3	4.7	4.4	5.6
2008	51	226	24.4	42.4	42.4	86.9	4.8	4.5	3.9
2009	54	259	26.3	47.5	44.6	86.2	5.2	4.6	4.0
2010	57	294	28.6	50.4	43.3	87.0	5.0	3.5	4.4
2011	57	324	31.9	53.8	40.7	87.7	4.1	4.9	3.3

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

Also in Europe, the mutual fund sector recorded a negative trend in 2011. In particular, inflows to 'pure' international funds (that is funds domiciled in Ireland and in Luxembourg for which it is not possible to identify a country which, singularly, holds at least 80 percent of total assets) fell sharply compared with the levels reached in 2010.

More specifically, the inflows of such funds went down from 221 billion euro in 2010 to 46 billion in 2011 (Figure 89). Funds domiciled in the major European countries also recorded net negative flows during 2011, with outflows of 65 billion from mutual funds in France, 22 billion from those in Germany and 34 in Italy; an exception was the United Kingdom, with inflows of 17 billion euro, although in sharp decline from 55 in 2010.

Figure 89 Portfolio and net inflows of mutual funds in Europe
(billions of euro)



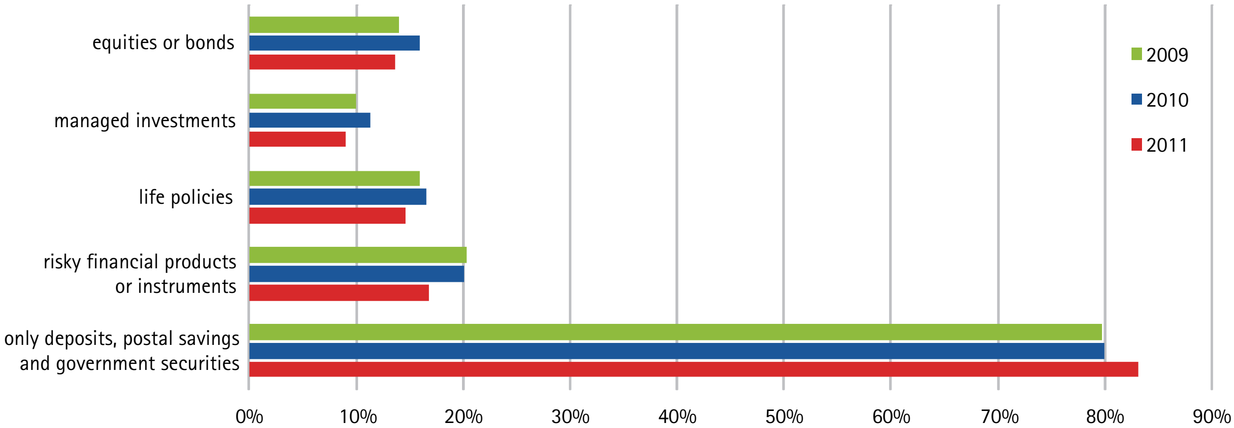
Source: Lipper FMI. The funds are classified on the basis of the country in which the major share of the portfolio is held. This classification criteria may differ from that of the country in which the fund is established, as occurs with 'roundtrip' funds, or from that of the country of residence of the intermediary. 'International funds' are those established in Ireland and Luxembourg, for which an individual country with at least 80% of the total portfolio ('pure cross-border') cannot be identified. The 'other European countries' are Switzerland, Spain, Belgium, Sweden, Austria, The Netherlands, Denmark, Finland, Norway, Portugal and Greece. Funds of funds are excluded.

3 Households

During 2011, in a worsening macroeconomic scenario and with a consequent increase in investors' risk aversion, the percentage of households investing in risky financial instruments (equities, bonds, managed investments and life policies) declined by 3 percentage points, coming down to 17 percent from approximately 20 percent in 2010 (Figure 90).

In particular, the percentage of retail investors holding managed investment products decreased from 11 to 9 percent, while the proportion of households holding equities or bonds declined from 16 to 14 percent.

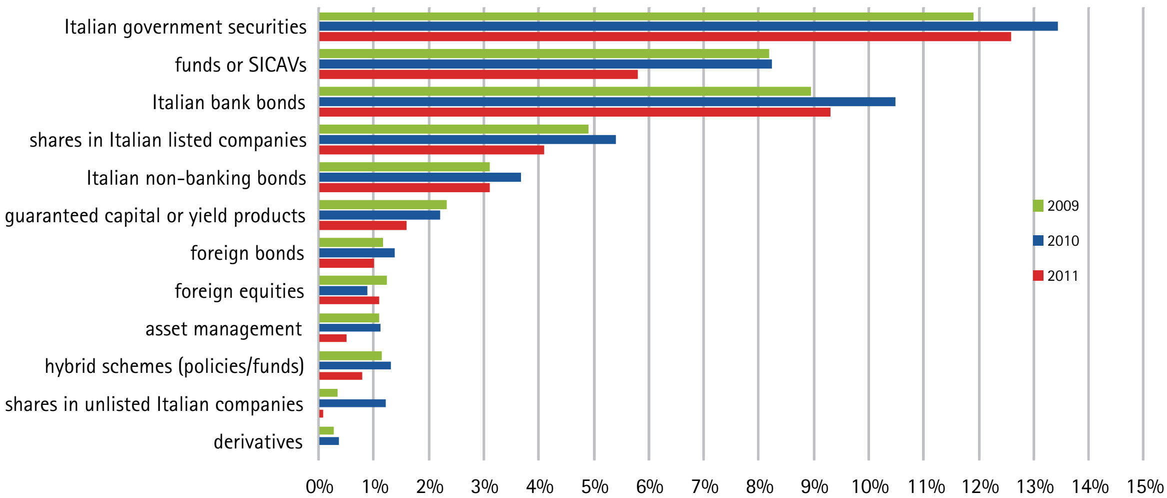
Figure 90 Financial asset classes held by Italian households
(percentage of households with financial assets or asset combinations declared at the end of the period)



Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological notes. Risky financial products or instruments means equities, bonds, managed investments and life policies. The proportion of households holding only deposits and government securities also includes those that hold only cash (so-called unbanked households). The deposits and postal savings item includes deposits in bank and postal current accounts, bank and postal savings books, deposits in currencies other than the euro, repurchase agreements and certificates of deposit. The managed investments item includes Italian and foreign mutual funds and SICAVs, accumulation programmes (unit cost averaging), asset management in securities and in funds, mixed fund-policy schemes and liquidity management services. The life policies item includes class III and V policies, capitalisation products, multi-class policies, supplementary pension schemes and pension funds.

An analysis by single type of financial product showed a decline in the proportion of households that have invested in mutual funds or SICAVs (from just over 8.2 to approximately 5.8 percent), in Italian listed equities (from 5 to 4 percent) and in Italian bank bonds (from 10 to 9 percent; Figure 91). The proportion of households holding government securities also fell by approximately one percent (from 13.5 percent at December 2010 to approximately 12.6 percent at the end of 2011).

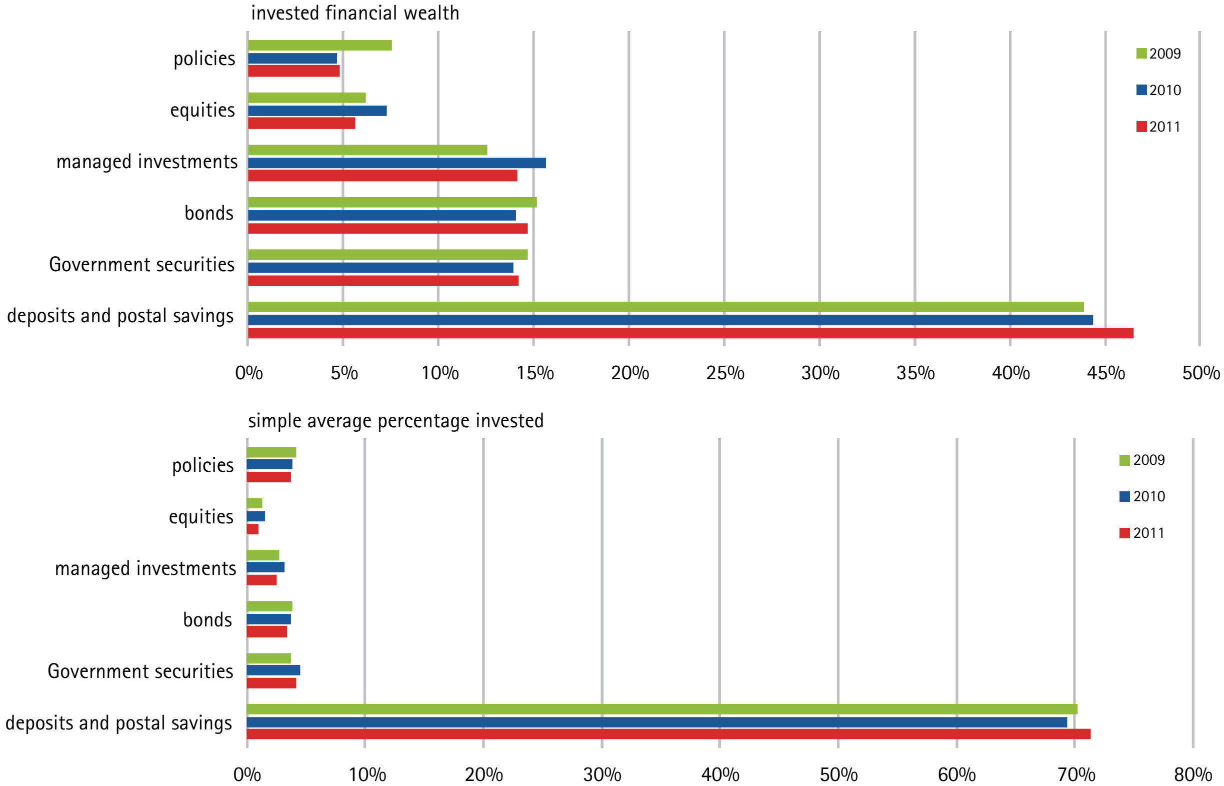
Figure 91 Financial instruments and products held by Italian households
(percentage of households holding the financial product or instrument indicated)



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

The distribution of households' wealth invested in financial products or instruments and deposits confirms the evidence available on holdings of various types of financial instruments. In 2011 there was a drop, indeed, in the proportion of wealth held in managed investment products (from 16 to approximately 14 percent) and in equities (from 7.3 to 5.6 percent), while the proportion of bonds increased slightly (from 14.1 to 14.7 percent; Figure 92). Finally, the proportion of investments in deposits and postal savings grew by approximately two percentage points.

Figure 92 Portfolio composition of Italian households

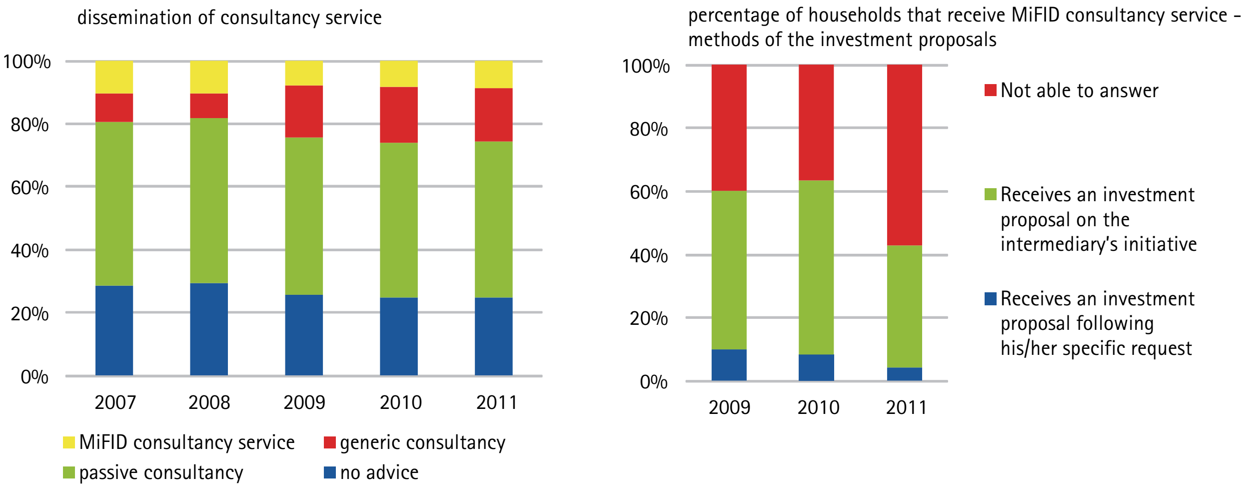


Source: estimates on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological notes. The deposits and postal savings item includes deposits in bank and postal current accounts, bank and postal savings books, deposits in currencies other than the euro, repurchase agreements and certificates of deposit. The managed investments item includes Italian and foreign mutual funds and SICAVs, accumulation programmes (unit cost averaging), asset management in securities and in funds, mixed fund-policy schemes and liquidity management services. The policies item includes class III and V policies, capitalisation products, multi-class policies, supplementary pension schemes and pension funds. Household savings do not include unbanked sums.

The evidence on financial advisory services confirmed how little it is used by retail investors. In particular, the proportion of households that receive personalized investment proposals from their financial adviser remained low.

On the basis of GfK Eurisko data, as of December 2011 the percentage of retail investors that receive personalized investment proposals concerning a specific financial instrument (so-called 'MiFID consultancy') was approximately 8 percent, a substantially stable figure compared with that recorded at the end of 2010 and lower than in 2008, after the Lehman default, when it reached approximately 10 percent (Figure 93). The proportion of households stating that they have a trusted adviser but from whom they do not receive investment proposals ('passive advisory service') remained stable at approximately 49 percent. So-called 'generic advisory', corresponding to investment proposals that do not refer to a specific financial instrument, declined slightly (16.9 percent in December 2011 compared with 17.8 percent in December 2010). Finally the percentage of retail investors who declared they decide with no financial intermediaries support ('no advice') remained stable at 25 percent.

Figure 93 Financial advisory services to households in Italy



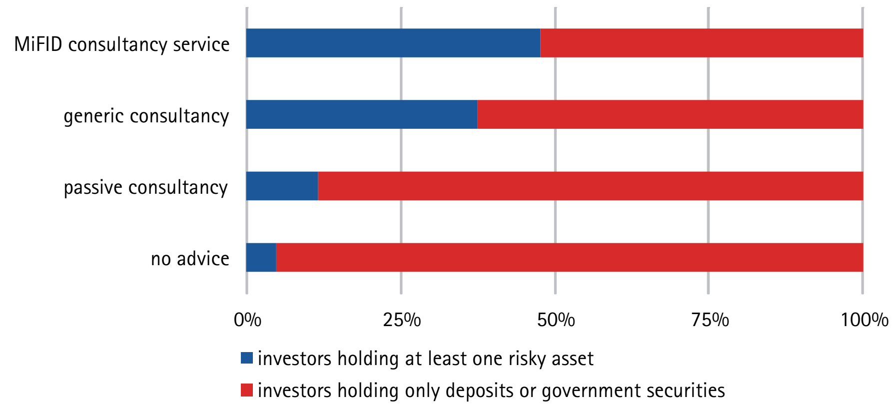
Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological notes. The 'passive consultancy' group includes households that state that they have a trusted adviser for investments by whom, however, they have not been contacted in the last 12 months. The 'generic consultancy' group includes families that have a trusted adviser, by whom they are contacted without receiving investment proposals relating to specific financial instruments. The 'MiFID consultancy service' includes households that are contacted by their trusted adviser for investments and receive personalised investment proposals referring to a specific financial instrument. The Figure on the right shows the percentages out of total households that receive the MiFID consultancy service.

Households that received investment proposals on the intermediary's initiative represented approximately 40 percent of total households receiving MiFID consultancy services; only 4 percent state that they received an investment proposal following their specific request; approximately 56 percent did not remember or did not answer.

Households that received MiFID advisory services seemed more willing to diversify their portfolio: approximately 44 percent of this category of investors held at least one risky financial product, compared with less than 6 percent recorded for households that decided autonomously (Figure 94).

The limited diffusion of the consultancy service can be explained by various factors, among which the level of education (understood as a proxy of the level of financial education), the perception of conflicts of interest and the degree of satisfaction for the service received play an important role.

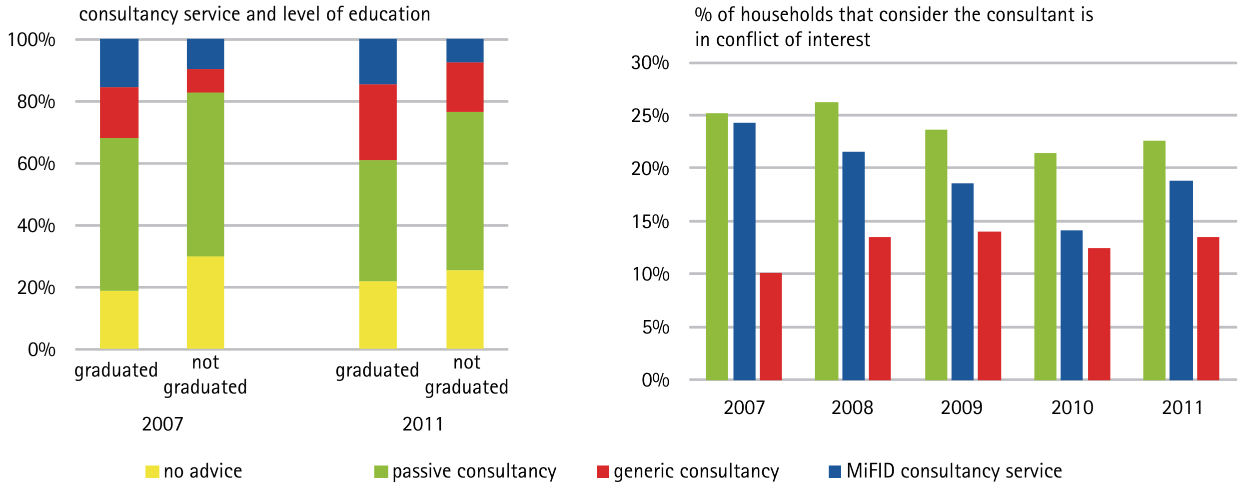
Figure 94 Consultancy services and participation in the financial market
(data at December 2011)



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

Higher education is associated with greater propensity to hold risky instruments and to invest with the support of an intermediary (Figure 95). The distribution of households by type of advisory and level of education highlights the fact that the percentage of retail investors who make use of the MiFID advisory service is higher for graduates (approximately 15 percent at December 2011 and at December 2007) compared with people with lower qualifications (8 percent at the end 2011, down almost 2 percent compared with 2007).

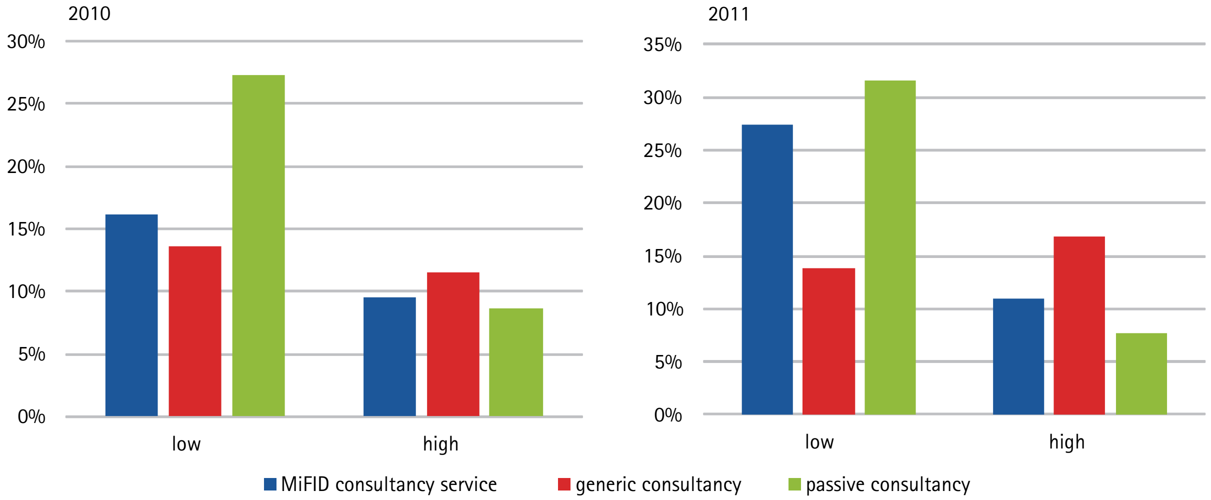
Figure 95 Consultancy services, education and perception of conflicts of interest
(data at December 2011)



Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological notes. The 'passive consultancy' group includes households that state that they have a trusted adviser for investments by whom, however, they have not been contacted in the last 12 months. The 'generic consultancy' group includes families that have a trusted adviser, by whom they are contacted without receiving investment proposals relating to specific financial instruments. The 'MiFID consultancy service' includes households that are contacted by their trusted adviser for investments and receive personalised investment proposals referring to a specific financial instrument.

Compared with 2010 the proportion of households that received MiFID consultancy service and that perceive conflicts of interest has grown (19 percent at December 2011 compared with approximately 14 percent at December 2010), and the percentage of investors declaring a low level of satisfaction for the MiFID consultancy service continued to increase (from 16 to 27 percent; Figure 96).

Figure 96 Degree of satisfaction of Italian households for financial consultancy services
(percentage out of total households grouped together by type of consultancy service received)



Source*:* our calculations on GfK-Eurisko data. It is assumed that households have a high level of satisfaction with respect to the consultancy service received when to the question *'Overall, how satisfied are you with your trusted investment adviser?'* they answer *'Very'*. It is assumed that households have a low level of satisfaction with respect to the consultancy service received when to the question *'Overall, how satisfied are you with your trusted investment adviser?'* they answer *'Not very or not at all'*. The 'passive consultancy' group includes households that state that they have a trusted adviser for investments by whom, however, they have not been contacted in the last 12 months. The 'generic consultancy' group includes families that have a trusted adviser, by whom they are contacted without receiving investment proposals relating to specific financial instruments. The 'MiFID consultancy service' includes households that are contacted by their trusted adviser for investments and receive personalised investment proposals referring to a specific financial instrument. See Methodological notes.

Consob activity B

Supervision of issuers and external auditors

I

1 Corporate disclosure

Supervision of corporate disclosures and ownership structures, as usual, kept the Institute very busy during 2011. In particular 611 requests for communications to Consob were sent to issuers, under the terms of Art. 115 of the Italian Consolidated Law on Finance, together with 129 requests for publications of data and information, under the terms of Art. 114 (Table 23).

As regards waivers and delays concerning communications pursuant to Art. 114, during the year Consob received 9 justified claims, later accepted, and 4 delay communications, with respect to which the immediate publication of information was not imposed, taking into account the issuers' commitment to ensure due confidentiality until the information was published.

The usual attention was devoted, in addition, to discussions and comments released on the Internet. The continual monitoring of rumours appearing in the main online forums, especially on the occasion of price trend anomalies or in proximity to significant corporate events, enabled daily checks on the information debated by the public and to examine its correspondence with what was disclosed by issuers. In 2 cases, the presence of rumours led the Institute to require the immediate publication of research reports, in order to re-establish the conditions of parity and complete disclosure that guarantee regular performance of trading.

The supervisory activity aimed at verifying listed issuers' compliance with the rules on correct information disclosure also involved regular analysis of communications concerning differences in effective operating performance, forecasts and quantitative targets previously made available to the public, under the terms of Art. 68, section 2, of the Issuers' Regulations (profit warnings). Most profit warnings were concentrated in the second half of 2011.

Table 23 Supervision of corporate disclosure duties and ownership structure

	2004	2005	2006	2007	2008	2009	2010	2011
Requests for information pursuant to Art. 115 of the Italian Consolidated Law on Finance								
information acquired from directors, statutory auditors, independent auditors, general managers, parents and subsidiaries	51	90	36	59	132	155	198	178
requests for data and information	43	213	201	151	392	422	244	404
requests for confirmation of major shareholdings	21	77	30	44	30	214	33	20
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 information on shareholdings	39	13	12	14	12	20	31	9
total	*166*	*440*	*307*	*316*	*668*	*811*	*506*	*611*
Requests to publish data and information pursuant to Article 114 of the Italian Consolidated Law on Finance								
supplements to information for disclosure at shareholders' meetings	15	6	11	5	11	38	24	18
supplements to periodic financial reports	14	--	6	1	21	59	7	15
information for disclosure to the market (press releases)	82	69	129	100	90	112	109	76
monthly disclosures	8	2	2	1	8	3	9	10
quarterly disclosures	–	–	–	–	–	20	6	--
supplements to documentation on mergers and other extraordinary transactions	1	--	4	3	8	25	1	6
supplements to takeover bid documents	4	17	6	49	30	10	8	4
total	*124*	*94*	*158*	*159*	*168*	*267*	*164*	*129*
Waiver of disclosure requirements pursuant to Art. 114, section 6, Italian Consolidated Law on Finance	11	2	25	3	*5*	*4*	*2*	*9*
Delayed disclosures pursuant to Art. 114, section 3, Italian Consolidated Law on Finance	–	–	*12*	*20*	*4*	*1*	*2*	*4*
Requests for immediate publication of research reports in the event of rumours	3	8	18	14	*5*	*4*	*4*	*2*
Reports to legal authorities	--	--	4	--	*5*	*10*	*6*	*3*
Written reprimands	--	--	1	1	--	--	*2*	--
Annual financial statements challenged	4	4	4	3	*2*	*1*	*1*	--

Source: Consob.

During 2011 Consob received almost 24 thousand research reports, under the terms of Art. 69-*novies* of the Issuers' Regulations, that is on the occasion of their publication.

The supervisory activity on corporate disclosure concerning transactions with related parties was guided by the rules on transparency introduced by the new Regulation 17221/2010 containing rules on the subject of transactions with related parties.

In accordance with the new transparency system 80 disclosure documents were published for operations of greater significance with related parties (Table 24).

Table 24 Related party transactions disclosed to the market in 2010

company	transaction	counterparties
Acea SpA	update of a supply contract	listed company and controlling shareholder
Acea SpA	dissolution of a joint-venture set up with a related party	listed company and major shareholder
Acegas Aps SpA	update of and supplement to energy supply contract in favour of related party	reference shareholder of the holding which controls the listed company and company controlled by the listed company
Aicon SpA	loan by related party and commitment by the latter to subscribe to the capital increase of the listed company	listed company and its parent
Aicon SpA	Waiver of receivables claimed by related party from listed company	listed company and its parent
Arena Agroindustrie Alimentari	investment agreement which provides for a capital increase reserved for related party to be subscribed by conversion of receivables	listed company and main supplier
Arena Agroindustrie Alimentari	investment agreement which provides for a capital increase reserved for related party to be subscribed by conversion of receivables	listed company and company invested in by company which exercises significant influence over the listed company and indirectly by directors
Arena Agroindustrie Alimentari	granting of guarantees in favour of a related party as part of restructuring of a bond loan	listed company and company that exercises significant influence over the listed company
Banca Generali SpA	sale of business unit	companies controlled by parent company of the listed company of which one through the listed company
Banca Ifis SpA	granting of loan in favour of related parties	listed companies and subsidiaries, one of which listed
Banca Ifis SpA	intra-group merger by incorporation of the listed subsidiary	listed company and listed subsidiary
Banca Intermobiliare di Investimenti e Gestioni SpA	centralization of treasury at the parent company	listed company and its parent
Banca Popolare dell'Emilia Romagna società cooperativa	framework resolution on issuing bond loans	listed companies and subsidiaries, one of which listed
Banca Popolare dell'Emilia Romagna società cooperativa	framework resolution on subscribing bond loans	listed companies and subsidiaries, one of which listed
Banca Popolare dell'Emilia Romagna società cooperativa	renewal of credit lines in favour of related party	listed company and associate
Banca Popolare dell'Emilia Romagna società cooperativa	renewal of credit lines in favour of related party	listed company and subsidiary
Banca Popolare di Sondrio società cooperativa per azioni	granting of a plafond credit line needed for interest- and exchange-rate hedging transactions	listed company and company invested in by a director
Banco di Sardegna SpA	framework resolution on subscribing bond loans issued by related party	listed company and its listed parent
Banco di Sardegna SpA	opening of current account credit in favour of related party for six months	listed company and company subject to significant influence on the part of the listed company's parent
Banco di Sardegna SpA	extension of current account credit in favour of related party for a further six months	listed company and company subject to significant influence on the part of the listed company's parent
Banco di Sardegna SpA	framework resolution on interest- and exchange-rate derivative transactions	listed company and its listed parent
Banco di Sardegna SpA	framework resolution on exchange-rate transactions with related parties	listed company and companies subject to joint control by the listed parent
Banco di Sardegna SpA	framework resolution on repurchase agreements	listed company, listed parent company and other group companies
Banco di Sardegna SpA	framework resolution on deposits and repurchase agreements	listed company and its listed parent
Banco di Sardegna SpA	constitution of assets to guarantee loan operations	listed company and its listed parent
Borgosesia SpA	contribution of property portfolio to a real estate fund	subsidiary and real estate fund promoted by a subsidiary AMC the unit holders of which are the major shareholders of the listed company
Credito Artigiano SpA	framework resolution on subscribing bond loans issued by group companies	listed company and companies subject to joint control by the listed parent
Credito Artigiano SpA	sale of equity investments in favour of a related party	listed company and its listed parent

Cont.

Cont. Table 24

company	transaction	counterparties
Credito Artigiano SpA	merger by incorporation	listed company and companies subject to joint control by the listed parent
Credito Artigiano SpA	merger by incorporation	listed company and company subject to joint control by the listed parent
Credito Artigiano SpA	securitization of residential mortgage loans	listed company, listed parent company and other group companies subject to joint control
Credito Bergamasco SpA	repurchase of loans sold to a special purpose vehicle as part of a securitization and sale of another special purpose vehicle	listed company, listed parent company and other group companies
Credito Bergamasco SpA	award of the second rating in a loan securitization transaction	listed company, listed parent company and other group companies
Credito Bergamasco SpA	issue of senior bond loans subscribed by a related party	listed company and its listed parent
Credito Bergamasco SpA	framework resolution on issuing bond loans guaranteed by the parent company, sale of part of the loan portfolio and increase of the credit lines available to the company	listed company, listed parent company and other group companies
Credito Bergamasco SpA	territorial reorganisation of branches in the group context	listed company and listed parent company and other group companies subject to joint control
Credito Bergamasco SpA	renewal of 'Total Return Swap' contracts as part of securitization transactions	listed company, listed parent company and other group companies
Credito Bergamasco SpA	operation relating to management of securitised loans and loans sold as part of the branch reorganisation plan	listed company, listed parent company and other group companies
Credito Bergamasco SpA	operation relating to programme of bond issues guaranteed by the parent company: sale of loan portfolio	listed company, listed parent company and other group companies
Credito Bergamasco SpA	operation relating to programme of bond issues guaranteed by the parent company: sale of loan portfolio, disbursement of subordinated loan and parent company making available a credit facility	listed company, listed parent company and other group companies
Emak SpA	acquisition of four companies sold by a related party	listed company and controlling shareholder
Erg Renew SpA	amendment of contract for loan granted by a related party	listed company and its listed parent
Ergycapital SpA	issue of sureties by a related party	listed company and shareholder that exercises joint control over the listed company
Fidia SpA	capital increase of related party	listed company and company over which it exercises joint control
Fnm SpA	contribution of equity investment held in subsidiary to a related party	listed company and major shareholder
Gas Plus SpA	loan from related party	listed company and its parent
Greenvision Ambiente SpA	settlement agreements relating to investee company and purchase of interest in the latter's share capital	listed company and other shareholders of investee companies of the listed company
Greenvision Ambiente SpA	signing of a work contract	subsidiaries of the listed company
Greenvision Ambiente SpA	purchase and sale of equity investments between subsidiaries	subsidiaries of the listed company
Igd Immobiliare Grande Distribuzione SpA	acquisition of a property from a related party and subsequent rental to the same	listed company and its parent
K.R.Energy SpA	capital increase reserved for a related party	listed company and a company controlled by a director and major shareholder of the listed company
K.R.Energy SpA	commitment by related party to subscribe a capital increase	listed company and a company controlled by a director and major shareholder of the listed company
Kerself SpA	signing of a work contract	listed company and an investee company of the majority shareholder
Kerself SpA	capital increase reserved for a related party	listed company and majority shareholder
Le Buone Società SpA	sale of an equity investment to a related party	listed company and company subject to joint control by the parent
Meridiana Fly SpA	advance payments for future capital increase by related party and commitment of the latter to finance the company	listed company and controlling shareholder

Cont.

Cont. Table 24

company	transaction	counterparties
Meridiana Fly SpA	provision of guarantees in favour of the listed company by related party	listed company and controlling shareholder
Meridiana Fly SpA	commitments to provide financial resources to the listed company to implement an integration project	listed company and controlling shareholder
Meridiana Fly SpA	commitments to provide financial resources to the listed company to implement an integration project	listed company and controlling shareholder
Meridie SpA	amendment of rental contract and signing of new preliminary contract for purchase of property with related counterparty	company controlled by the listed company and company subject to the significant influence of a director of the listed company
Mittel SpA	operations to restructure the group relating to two purchases and sales of equity investments	listed company and group company
Mondo Tv SpA	capital increase reserved for a related party	listed company and controlling shareholder
Parmalat SpA	acceptance of the group's cash pooling system	listed company and company subject to joint control by the controlling shareholder
Pierrel SpA	loan from related party	listed company and company that exercises significant influence over the listed company
Pirelli & C. SpA	granting of loan in favour of related party	listed companies both subject to the significant influence of a shareholder and director
Poligrafici Editoriale SpA	framework resolution on loan operations in favour of related party	listed company and its listed parent
Prelios SpA	loan from related party	listed companies both subject to the significant influence of a shareholder and director
Rdb SpA	contribution of business unit in favour of a related party	listed company and other partner in the joint venture
Rdb SpA	capital increase reserved for a related party	listed company and company controlled by a director of the listed company
Risanamento SpA	medium/long-term unsecured credit line from related parties	listed company and major shareholders
Safilo Group SpA	investment agreement providing for the sale of a trademark, a loan from a related party and a capital increase reserved for the latter	listed company and majority shareholder
Sintesi Società di Investimenti and Partecipazioni SpA formerly Yorkville Bhn SpA	rental of business unit	company controlled by the listed company and company invested in by a director
Sintesi Società di Investimenti and Partecipazioni SpA formerly Yorkville Bhn SpA	purchase of equity investment in another listed company sold by a related party	listed company and controlling shareholder
Società Cattolica di Assicurazione società cooperativa	purchase of equity investment sold by a related party	listed company and company that exercises significant influence over the listed company
Socotherm SpA	sale by related party	listed company and its parent
Telecom Italia Media SpA	early termination of the Content Competence Center contract	listed company and its listed parent
Telecom Italia Media SpA	renewal of the revolving credit facility by related party	listed company and company subject to joint control by the listed parent
Tesmec SpA	signing of a property leasing contract by related party and agreement on option to purchase the property	listed company and company subject to joint control by the controlling shareholder
Toscana Finanza SpA	loan from related party	listed company and its listed parent
Toscana Finanza SpA	intra-group merger by incorporation into the listed parent	listed company and its listed parent

Source: Consob.

During 2011 the Commission also received 38 communications of ordinary operations (as defined by the Regulation and by the communication of 24 September 2010 containing indications and application guidelines), in relation to 19 companies and concluded at market terms or standard terms. These operations, for which the public disclosure obligations were waived, regarded both loan contracts and service supply contracts, for an average amount of approximately 120 million euro.

In February 2011 the Commission updated the list of relevant issuers of widely distributed financial instruments, on the basis of the communications received from the issuers.

2 Public offerings and extraordinary financing operations

In 2011 Consob approved the publication of 1,234 prospectuses concerning the admission to listing in a regulated market or public offerings (Table 25).

Table 25 Supervision of public offerings and admission to listing

		2005	2006	2007	2008	2009	2010	2011
number of prospectuses concerning:								
admission to listing of shares[1]		19	36	38	17	6	7	7
of which	*through offering*	*15*	*26*	*27*	*9*	*1*	*2*	*5*
offerings of unlisted securities by Italian issuers[2]		7	6	18	23	28	29	31
offerings reserved for employees[3]		26	--	--	--	--	--	--
capital increase as an option for shareholders[4]		5	23	14	16	23	16	23
UCITS[5]		374	397	422	428	337	380	330
bond loans		18	711	1,163	986	748	655	777
of which:	*base prospectuses*	–	*535*	*870*	*639*	*472*	*405*	*416*
	prospectuses	–	*143*	*115*	*45*	*36*	*24*	*14*
	registration documents and supplements	–	*33*	*178*	*302*	*240*	*226*	*347*
issue of covered warrants[6] and certificates		37	32	109	99	102	27	66
admission to listing of warrants		10	1	3	2	10	--	--
	total	*498*	*1,205*	*1,767*	*1,571*	*1,254*	*1,114*	*1,234*

Source: Consob. [1] The figures refer to transactions for which authorisation was granted during the year for filing of the prospectus for admission to listing. [2] Includes prospectuses concerning issuers with widely distributed shares, issuers of non-widely distributed shares and future banks; excludes, instead, bond loans, covered warrants and certificates and offerings reserved for employees. [3] Includes stock option plans reserved for employees but excludes offerings involving recognition of foreign prospectuses. [4] Share capital increases in listed companies (including increases with associated warrants and convertible bonds). [5] Includes public offerings of mutual fund units and SICAV shares, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies. The figure also includes sales of new sub-funds of harmonised foreign UCITS. Note that: i) starting from 1 July 2009 the publication of prospectuses of Italian open-ended UCITS is no longer subject to prior authorization; ii) on 1 July 2011 the new notification procedure between the authority of the member state of origin and Consob laid down by Art. 93 of Directive 2009/65/EC and by Regulation (EU) 584/2010 came into force. Up to and including 2006 figures also include pension fund offerings which from 2007 no longer fall under Consob supervision. [6] The number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants.

As regards share listings, the Commission approved 7 prospectuses; of these, 5 referred to offerings aimed at admission to trading. During the year, however, only one IPO was completed, and it concerned the shares of Salvatore Ferragamo SpA.

It should be noted, in passing, the recent diffusion of the practice of preparing, also for the first admission to listing, prospectuses in the so-called 'tripartite format' provided for in Art. 12 of Directive 2003/71/EC.

With reference to the listing of shares issued following a merger or a spin-off involving a listed issuer, Consob confirmed equivalence in 6 cases under the terms of Art. 57, section 1, letter *d)* of the Issuers' Regulations.

As regards offerings of unlisted shares of Italian issuers, the prospectuses approved by the Institute, totalling 31, are attributable to committees promoting new banks (15), issuers of non-widely-distributed shares (10) and issuers of widely-distributed but unlisted shares (6).

With reference to new banks, it is worth noting the public subscription to establish Banca Progetto SpA, as it involved not only the approval of the prospectus, but also supervisory actions by Consob after the prospectus was published.

As far as issuers of unlisted and non-widely distributed shares are concerned, as in previous years, particular attention was paid to the related prospectuses, as these issuers are less familiar with the disclosure obligations governed by the Italian Consolidated Law on Finance and by the implementing regulations.

During the year, Consob also approved 23 prospectuses relating to rights issues. A considerable number of these prospectuses came from banking issuers.

Several non-financial listed companies also increased their share capital; among these, it is worth mentioning Juventus Football Club and Cobra Automotive Technologies.

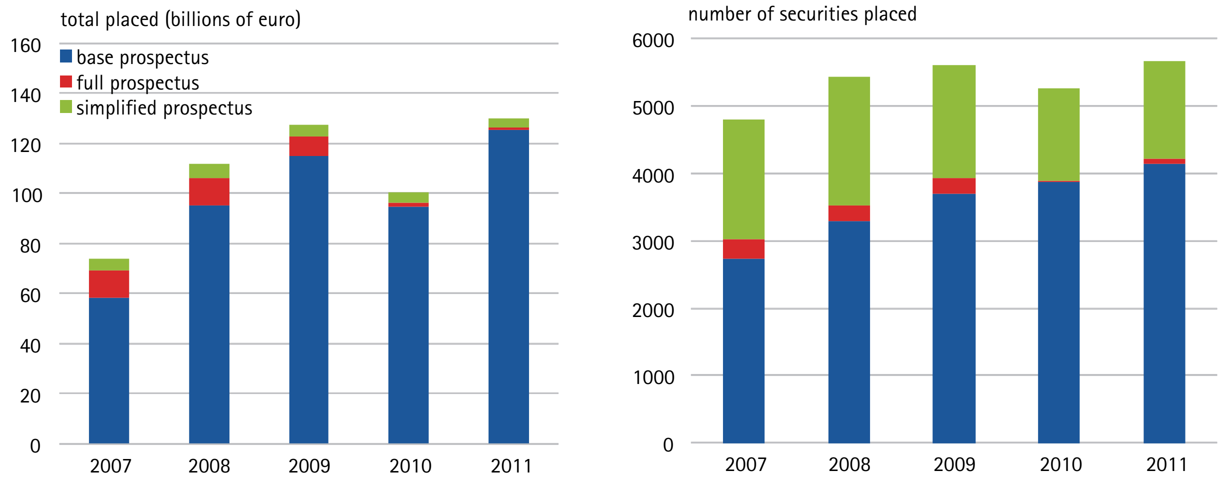
Recourse to a capital increase became necessary, finally, also for a number of listed real estate companies.

In relation to the issue of non-equity products, 435 approvals were issued associated with 843 documents of both Italian and foreign issuers in 2011. Of these documents, 777 related to bond loans and 66 to covered warrants and certificates. In addition, 330 prospectuses relating to UCITS were transmitted to Consob.

With particular reference to bonds, Eni SpA issued a loan entirely reserved to Italian investors and divided into two *tranches* (one at fixed rate and the other at floating rate), for a total maximum amount of 1,350 million euro.

As regards banking issuers, the quarterly reports sent to Consob in 2011 refer to 5,660 bonds, corresponding to an amount of approximately 130 billion euro, significantly higher than 100.3 billion in 2010 (Figure 97).

Figure 97 Bond issues by Italian banks subject to public offering regulations



Source: Consob.

The supervisory activity also monitored advertisements concerning public offerings and/or admissions to trading of non-equity financial products, pursuant to Communication 11021864 of 24 March 2011, aimed at providing indications on the correct interpretation of the rules on advertisements.

With reference to supervision on insurance products, during 2011 667 prospectuses were filed with Consob (641 in 2010); of these 338 were selected (approximately 50 per cent) with potential critical disclosure issues (Table 26). In general, the shortcomings found essentially involved correct presentation of transparency disclosures.

Table 26 Enforcement on insurance products in 2011

type of contract	Prospectuses filed	Prospectuses subject to supervision	supervisory action broken down by area					
			investment unbundling	financial structure and risk	revaluation mechanisms	yield scenarios	other	total
unit linked	479	272	66	152	--	89	41	348
index linked	47	29	6	3	--	21	1	31
capitalisation	141	37	25	7	2	--	5	39
total	*667*	*338*	*97*	*162*	*2*	*110*	*47*	*418*

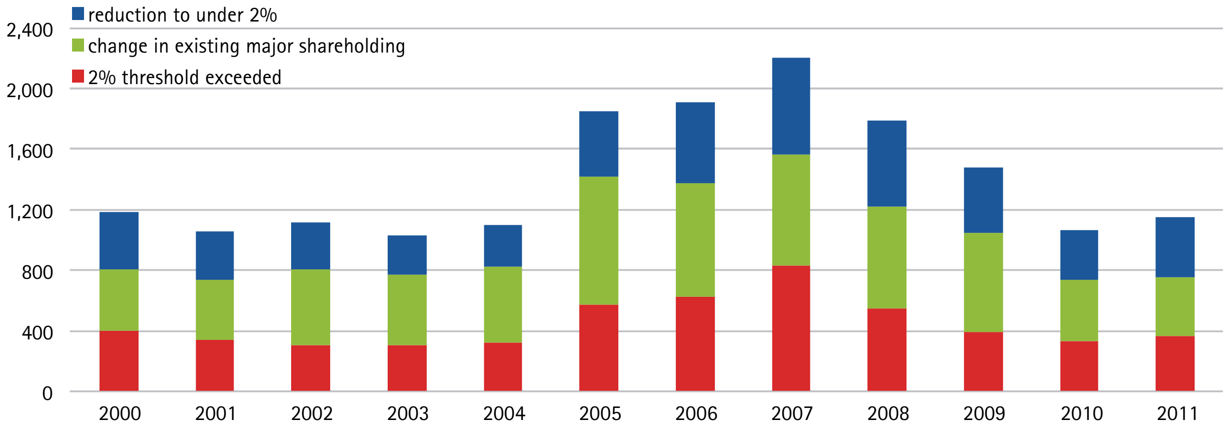
Source: Consob.

In 142 cases (approximately 40 per cent of all cases), the insurance companies updated the disclosure, in order to re-establish completeness and consistency, giving opportune notice of this to investors through specific announcements on websites.

3 Ownership structures and takeover bids

More than 1,100 disclosures regarding equity investments in listed companies were published in 2011 (1,062 in 2010) in compliance with Art. 120 of the Italian Consolidated Law on Finance (Figure 98).

Figure 98 Disclosure of major shareholdings in Italian listed companies



Source: Consob.

214 shareholders' agreement disclosures were published in 2011 (201 in 2010) regarding 86 listed companies.

In 2011 the Commission authorized the publication of 24 documents relating to 13 public offers for listed or widely distributed securities (one partial, 6 voluntary and 6 mandatory and residual), one public offer to purchase securities listed in the Luxembourg Stock Exchange and convertible into Italian listed shares and 10 public exchange offers (Table 27).

Table 27 Financial instruments subject to tender offers whose prospectus was authorized for publication in 2011

	on listed shares[1]	on bonds and warrants[2]	on unlisted shares	on other instruments[3]	total
voluntary	6	3	7	1	17
unsolicited	1				1
mandatory	6				6
on own shares					
total	*13*	*3*	*7*	*1*	24
obligation/right of purchase[4]	*5*				

Source: Consob. [1] Includes ordinary, privileged and savings shares. [2] The figure includes an offer concerning securities listed on the Luxembourg Stock Exchange convertible into Banca MPS ordinary shares. [3] Includes fund units and insurance policies. [4] Supplementary documents for the purpose of fulfilling the disclosure requirements connected with the obligation/right of purchase pursuant to Arts. 108 and 111 of the Italian Consolidated Law on Finance.

During the year, the Commission also issued a judgement of equivalence on the content of the document relating to the public purchase and exchange offer launched by Prysmian on all shares of Draka Holding, a Dutch company listed on the Euronext in Amsterdam.

In 5 cases the Commission set the price for the mandatory purchase of ordinary shares, under the terms of Art. 108, section 4, of the Italian Consolidated Law on Finance.

Consob also decided the publication of two disclosure documents which completed the information concerning the obligation to purchase and the right to purchase, under the terms of Arts 108, section 2, and 111, section 1, of the Italian Consolidated Law on Finance; in two cases of public exchange offers, the Commission considered applicable the exemption from the obligation to publish a prospectus, pursuant to Article 102, section 4-*bis*, of the Italian Consolidated Law on Finance.

During the year, as usual, the Commission provided clarification and interpretative guidelines on takeover bids, in response to queries linked to specific transactions.

The Commission also ascertained that Ladurner Finance, Iniziativa Gestione Investimenti SGR and La Finanziaria Trentina had acted in concert, cooperating on the basis of an agreement aimed at acquiring, at least by Ladurner Finance, control over Greenvision Ambiente.

It should be noted, finally, that as a result of the transposition in the Italian law of the takeover bids Directive, and the ensuing change in applicable rules, the Commission modified the percentage of the relevant float for mandatory purchase, provided for in Art. 108, section 2 of the Italian Consolidated Law on Finance.

4 Financial reporting

Implementing Articles 118-*bis* of the Italian Consolidated Law on Finance and 89-*quater* of the Issuers' Regulation, also in 2011 the supervisory activity on financial reporting followed the so-called risk-based approach, aimed at selecting the companies with the highest risk profiles in terms of transparency and correctness of financial information.

In order to detect signals of potential anomalies, Consob refined the indicators used to identify companies with particular shortcomings in control and management systems.

In selecting the sample, anomalies in the performance of indicators relating to prices, in yield differences (with respect to the sector average) and in price volatility were therefore considered, as well as critical issues emerging from investigations in progress, negative opinions or qualified opinions formulated by independent auditors, reports of the Judiciary, other supervisory authorities and companies' auditing bodies.

The set of issuers identified on the basis of these indicators, as already in 2010, was supplemented with a sample randomly selected and including one fifth of listed companies (half of which extracted from the set of companies with the largest capitalization and with higher turnover).

The worsening of the sovereign debt crisis also led Consob to pay particular attention, on ascertaining the correctness of regular disclosures, to specific accounting items more sensitive to the economic situation.

With reference to listed banks, in particular, Consob verified the correspondence between the information published and the indications provided by the ESMA in its recommendations on information to be disclosed in financial reports regarding exposures held in sovereign debt securities.

Consob, finally, convened the banks cited by EBA Recommendations, in order to assess the financial impact of the requested capital strengthening measures and the related disclosure to be provided in the 2011 annual financial reports.

5 Internal auditors

As part of its supervisory activity on auditing bodies, Consob took action to verify the correct application of the rules on list voting provided for in Consob's Issuers' Regulations for the appointment of the board of statutory auditors and of the oversight committee. In order to highlight any link between lists contrary to the spirit of the rules, the Commission requested proper disclosure to the market of the relationships existing between shareholders representing the above mentioned lists.

Consob also carried out the usual supervisory activities on the subject of interlocking for members of auditing bodies of listed companies and issuers of widely distributed securities. In this regard, it's worth noteing the recent change in the rules on interlocking contained in the Issuers' Regulations, adopted following the Forum on Regulatory Simplification proceedings.

As part of the supervision on application of the Regulations on transactions with related parties, requests for information were sent to auditing bodies on the concrete application of the regulatory rules.

Consob also formulated further requests to auditing bodies on the supervisory activity carried out under the terms of Art. 149 of the Italian Consolidated Law on Finance, with specific reference to checks on the adequacy of the organizational structure, of the internal control system and of the company's administrative and accounting system.

During 2011 Consob decided for the first time to attend a number of shareholders' meetings of listed companies, in order to check the regularity of the meetings' proceedings and the real participation faculty offered in practice to minority shareholders.

6 Audit firms

As of 31 December 2011, there were 21 independent auditing firms entered on the Special Register, the same number as in 2010.

It is worth noting that, although Italian Legislative Decree 39/2010, which transposed Directive 2006/43/EC on statutory audits of accounts, exonerated Consob from holding the Special Register of Independent Auditors, the Commission will maintain the Special Register until the envisaged regulations of the Ministry of Economy and Finance are issued.

During 2011, in view of the expiry of the transitional regime, the European Commission issued new provisions to consider the evolution of the systems controlling auditing activities in force in the various foreign countries.

With Resolution No. 17837 of 28 June 2011, the Commission confirmed for 2011 the maximum amounts of guarantees and insurance cover for independent auditors entered in the Special Register, previously established by Resolution No. 17379 for 2010, to cover risks deriving from independent auditing activities.

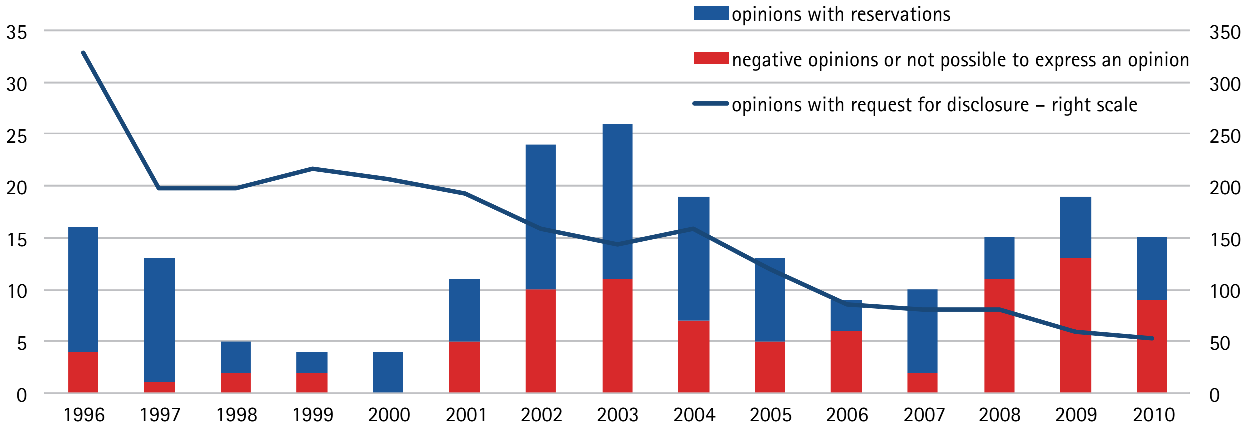
With reference to auditing assignments made for the 2010 audit, entry into force of the aforementioned Legislative Decree 39/2010, as is known, widened the categories included in the definition of entities of public interest, determining a significant increase in the set of entities subject to independent auditing by registered auditing firms.

During 2011 the quality control activity on registered auditing firms continued.

The supervision of auditing firms was carried out through the usual preventive quality control actions, which assumed a systematic nature, and through subsequent actions on specific cases (enforcement).

In continuity with the approach followed in the previous years, the supervisory activity was generally aimed at assessing the adequacy of the procedural system adopted by companies, in accordance with the principles contained in Document No. 220 concerning *'Quality control of independent auditing work'*, and its correct application. This system constitutes in fact a first fundamental internal control for safeguarding the quality of the professional services offered to the market.

Figure 99 Independent auditor opinions on financial statements of companies listed on Italian regulated markets



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

For small companies Consob decided that assessing the procedural and organizational aspects had to be combined with examining samples of certain independent auditing appointments granted under the terms of the Italian Consolidated Law on Finance (listed companies, subsidiaries and/or parents of listed companies, investment firms, asset management companies) and under the terms of Italian Legislative Decree 39/2010 (issuers of widely distributed securities, unlisted banks), confirming the approach tested as part of the quality controls carried out during 2010.

As regards the outcomes of the audits concerning organizational and procedural requisirements, while taking account of the dimensions of the entities subject to audits, many areas of weakness were detected and these were the subject of recommendations for corrective actions, in many ways attributable to shortcomings already found in previous years with reference to medium-sized and small auditing firms.

The audit activity also involved the professional 'networks' to which the companies themselves belong. The analysis highlighted, in general, the absence of coordination between the procedures applied at the local level and the policies and guidelines communicated by the network.

On the subject of observance of the requisites of independence, actions were recommended to strengthen the procedures to check the completeness and correctness of attestations of independence provided by shareholders and employees for the purpose of issuing proposals for professional services and for the assignment of the team to perform the tasks - requesting the application of these procedures also to any external collaborators used. These actions may be represented by the introduction of control mechanisms for checking that statements are correct and, more generally, by controls to manage situations that may represent threats to independence and by adequate training courses on the subject.

With reference also to any non-audit services provided to the client companies, in many circumstances it was found that there was no specific procedure in place to assess in advance (on accepting the appointment) whether such services were compatible with maintaining the necessary independence in performing auditing duties. In this regard the adoption of specific procedures aimed at regulating such situations was recommended and the opportunity of implementing suitable controls was stressed.

Consob also found, as already noted in quality controls carried out in 2010 with reference to medium-sized and small companies, that there were often no adequate training programmes on an annual basis, aimed at ensuring knowledge of the audit methodology adopted, the accounting and auditing standards of reference, the legislation on independence, the formalities required by money-laundering legislation and taking into account the specific training needs for different staff seniority - and therefore the different role performed by the various figures within the auditing teams - and the peculiarities of the specific economic sectors (such as banking, insurance and financial intermediation). On this last point, an important subject of recommendation regarded the use of specialists to tackle issues that require specific skills (such as that of electronic data processing - EDP - audits and the valuation of complex financial instruments), also taking into account the fact that the consultation procedures, both internal and external, were often found to be inadequate and were therefore also the subject of action.

The limited size of some supervised subjects is also the cause of procedural weaknesses found in filing work records, with respect to which no adequate controls were generally found to be in place for ensuring observance of the terms for saving work records provided for in the technical rules of reference (normally 60 days) and their integrity and security, owing mainly to the absence of electronic data storage. In this regard, companies were asked to implement archiving procedures that enable full observance of the terms and methods provided for in the technical rules of reference.

Specific recommendations were made to auditing firms also with reference to procedures for accepting and maintaining customers, an important stage in which the company must assess the 'professional risks' associated with acquisition of a new customer and the availability of adequate resources to perform the task, as already done in quality controls carried out in previous years again with reference to medium-sized and small companies. In this regard, companies were asked to document more adequately the assessment processes performed, both at the stage of accepting a new customer and of assessing maintenance of customers in the portfolio, this latter to be done annually, and to introduce forms of control on the effective performance of such assessments before reaching a formulation of work proposals and starting auditing work.

Finally, particularly significant actions became necessary to guarantee the establishment or reinforcement of internal audit procedures of the companies examined. When are carried out, these audits, in fact, were often found to be insufficient and, sometimes, it was found that there were no specific action plans aimed at overcoming the shortcomings that emerged during monitoring, with reference to both appointments and to the procedural areas examined. Consob therefore recommended carrying out more effective monitoring programmes to audit quality control procedures and sample tasks selected, on the basis of the indications contained in Document No. 220, providing for the adoption of appropriate corrective action plans to overcome any shortcomings found.

With reference to the examination of selected tasks, the audits involved mainly companies in the financial sector (banks, investment firms, AMCs) and generally had as their objective to check on the correctness of the auditing process in its fundamental stages (planning the work, the auditing procedures aimed at analysing and assessing the internal control system, auditing procedures carried out on the accounting items, assessing the related outcomes on completing the work).

Companies were therefore recommended to ensure adequate activity of direction, supervision and re-examination of the work, both in defining the auditing strategy and, just as crucial, in assessing the evidence acquired and raising staff's awareness on the above mentioned points through internal rules and organizing specific training courses.

II Supervision of markets

1 Market abuse

During 2011 supervision on the subject of market abuse focused on the enhancement of the preliminary enquiry activity, in order to enable a more effective selection of cases for further investigations in the subsequent ascertainment stage. During the year, therefore, preliminary analyses were carried out on 157 cases (compared with 105 examined in 2010), of which 48 regarded alleged insider trading cases, 101 alleged operational manipulation cases of and 8 information manipulation cases.

In order to expand the ascertainment activity, during 2011 intense discussions - begun in previous years - continued with the industry on the subject of reporting suspicious transactions. The intermediaries were invited not only to increase reports quality, even more than their quantity, but also to adopt the opportune measures to remind customers of market rules. A series of meetings were also held with market operators and some multilateral trading facilities (MTFs) in order to identify measures capable of preventing potentially illegal conduct, or likely in any case to alter the orderly performance of trading and market operation.

Table 28 Findings of market abuse investigations

	charges of administrative and/or criminal offences		cases in which no offences were found	*total*
		of which: alleged insider trading		
2005	4	*2*	4	*8*
2006	7	*2*	6	*13*
2007	10	*3*	3	*13*
2008	6	*2*	4	*10*
2009	8	*2*	6	*14*
2010	10	*3*	19	*29*
2011	15	*7*	14	29

Source: Consob. See Methodological notes.

In 2011, Consob completed 29 investigations on market abuse, formulating charges of administrative offences in 15 cases relating, respectively, to insider trading (7 cases), disclosure manipulation (2 cases) and operational manipulation (6 cases; Table 28). In 8 out of 15 cases (3 relating to insider trading and 5 to alleged operational manipulation) a report was also sent to the Judiciary.

In 5 of the 7 investigations in which insider trading charges were formulated, the privileged information concerned a plan to launch a takeover bid. In the remaining cases the information concerned, respectively, a plan for a joint venture with a foreign company and the issue of a bond loan (Table 29).

Table 29 Type of privileged information in alleged insider trading cases

	change of control / takeover bids	economic results / financial performance and position	share capital transactions / mergers / spin-offs	others	*of which alleged cases of front running*	*total*
2005	--	1	--	1	*1*	*2*
2006	--	--	--	2	--	*2*
2007	1	1	1	--	--	*3*
2008	1	--	--	1	*1*	*2*
2009	--	--	1	1	*1*	*2*
2010	2	--	1	--	--	*3*
2011	5	--	--	2	--	*7*

Source: Consob. See Methodological notes.

As regards allegations of manipulation, 4 cases of operational manipulation concerned the conduct of online traders, sometimes repeated over time and relating to different financial instruments.

Consob detected market abuse activities involving 24 subjects, of which 5 are companies involved for joint responsibility and administrative responsibility (Table 30).

As regards administrative proceedings initiated for market abuses ascertained in previous years, see paragraph 2 of Chapter IV below *'Investigations and enforcement'*.

In 2011, 340 subjects were requested to provide data and information. In 61 cases Consob asked for the collaboration of foreign supervisory authorities, while in 29 cases the requests were issued in order to assist foreign authorities in their investigations (Table 31).

Table 30 Subjects involved in allegations of market abuse

	authorised intermediaries[1]	institutional insiders[2]	other subjects[3]	foreign operators	*total*
insider trading					
2005	--	1	2	--	*3*
2006	--	7	--	--	*7*
2007	--	11	1	--	*12*
2008	--	2	20	12	*34*
2009	--	2	9	--	*11*
2010	--	4	1	2	*7*
2011	1	4	5	--	*10*
market manipulation					
2005	--	1	7	--	*8*
2006	--	6	2	--	*8*
2007	1	4	2	--	*7*
2008	--	--	5	--	*5*
2009	2	1	10	1	*14*
2010	1	2	8	--	*11*
2011	--	7	7	--	*14*

Source: Consob. See Methodological notes. [1] Banks, investment companies, asset management companies and stockbrokers. [2] Shareholders, directors, executives of listed companies. [3] econdary insiders (Art. 187-*bis*, section 4, of the Italian Consolidated Law on Finance).

Table 31 Requests for data and information concerning market abuse cases

	breakdown of requests 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*
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*
2010	37	35	48	*41*	5	17	*142*	*13*
2011	161	7	109	*57*	2	61	340	29

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

During 2011, Consob joined as a civil plaintiff in 6 new criminal proceedings concerning market abuse cases (all relative to manipulation). The Commission had submitted a report to the competent Judiciary on the results of the supervisory investigations conducted (Table 32). The charges formulated by the Public Prosecutor in the indictment describe events ascribed to the alleged offenders in terms that are generally in line with the results of Consob's investigations.

In 2011 three proceedings were judged in the first instance in relation to market abuse, in which the Commission had joined as a civil plaintiff. In one case, the defendants were found guilty and a judgement passed on compensation for damages in Consob's favour; two cases ended with acquittals; one was defined with a verdict applying penalties at the request of the parties; one with a verdict of crime expiration due to the statute of limitations.

Table 32 Civil proceedings brought by Consob in criminal cases regarding insider trading and market manipulation

year	proceedings	offence[1]	outcome as at 31 December 2011
2004	2	Market manipulation	2 plea bargaining judgements 1 guilty judgement[2]
2005	6	Insider trading and market manipulation	4 guilty judgements[3] 2 plea bargaining judgements 3 judgements of no case to answer
2006	9	Insider trading, market manipulation	4 guilty judgements[4] 6 plea bargaining judgements 2 not guilty judgements[5] 1 dismissal due to statute of limitations
2007	12[6]	Insider trading, market manipulation	3 guilty judgements 5 plea bargaining judgements 2 dismissals due to limitation of actions 1 judgement of no case to answer[7] 1 acquittal
2008	5	Insider trading, market manipulation	1 guilty judgement 1 plea bargaining judgement 1 dismissal due to statute of limitations 2 acquittals
2009	1	Market manipulation	1 guilty judgement
2010	3	Insider trading, market manipulation	1 acquittal
2011	6[8]	Market manipulation	1 plea bargaining judgement

Source: Consob. [1] Insider trading: Art. 2, Law 157/1991, then Art. 180 of the Consolidated Law on Finance, now Art. 184 of the Consolidated Law on Finance; market manipulation: Art. 5, Law 157/1991, then Art. 2637 of the Civil Code, now Art. 185 of the Consolidated Law on Finance. [2] he Milan Court of Appeal partially overturned the judgement of first instance, among other things finding guilty an employee of the company who had been found not guilty in the first instance for the crimes ascribed to him and ordering him to pay compensation for damages to Consob's reputation and work, confirming for the remainder the judgement of the lower court. 3 In one case the competent Court of Appeal reduced the amount awarded to Consob as compensation for damages, confirming, for the remainder, the judgement of the lower court. In one case the Court of Cassation, considering that the lower court had no geographical jurisdiction, quashed the judgement of the first and second instance and ordered the files to be sent to the Public Prosecutor of the Court considered to have jurisdiction. [4] One guilty judgement was handed down following an abbreviated trial. In one case the competent Court of Appeal, in overturning the judgement of first instance, dismissed the case due to the statute of limitations and revoked the civil orders favourable to Consob. In another case, the competent Court of Appeal dismissed the case due to the statute of limitations, but confirmed the civil orders favourable to Consob. In a further case the competent Court of Appeal confirmed the guilty virdict and the civil orders against one person and, overturning the earlier judgement, found the other person not guilty, revoking the civil orders against him. [5] In one case, the judge also ordered transmission of the files for the possible application of administrative sanctions under the terms of Art. 187-*bis* of the Consolidated Law on Finance. In another, the judgement was issued with reservations under the terms of Art. 530, section 2, of the Code of Criminal Procedure. [6] In one case, after being sent back to the preliminary investigations stage, the case was dismissed during 2008. [7] With the judgement in question, the judge ordered that the files be forwarded to Consob for possible charging of administrative offences pursuant to Art. 187-bis of the Italian Consolidated Law on Finance. [8] Among the six, after Consob joined the case as a civil plaintiff, two proceedings were combined owing to objective and subjective connection.

2 Regulated markets, multilateral trading facilities and systematic internalisers

2011 was characterized by an intense activity of regulation and supervision on the part of the Commission.

During 2011, in addition, meetings were held with the UK Financial Services Authority (FSA) for exchanging information on the supervision of financial markets. The meetings are part of the ordinary activities of cooperation between the two Supervisory Authorities begun following the integration between Borsa Italiana and the London Stock Exchange and the signing of the Memoranda of Understanding (MoUs) on trading (December 2007) and post-trading (September 2010).

In September 2011 a new multilateral facility for wholesale trading of repurchase agreements on government bonds and securities was launched by an operator which already operates another trading venue; the number of multilateral trading facilities active in Italy therefore rose to 9.

As regards systematic internalisers, during 2011 two banks, already active in the bond sector, informed Consob of the launch of internalisation activity on shares admitted to trading in regulated markets, while another operator, preferring to shift its systematic internalisation business to a bank belonging to its group, communicated the cancellation.

In December 2011, in the 18 internalisation facilities active in the sector of financial instruments other than equities approximately 3,700 financial instruments were admitted to trading, most of which government securities and own bonds or bonds issued by group companies. Approximately 77 per cent of admissions to trading are referable to 6 internalisation systems. In the lists of the two internalisation systems for shares approximately 120 stocks are admitted.

3 Trading and post-trading transparency

During the year the Commission continued its intense monitoring activity concerning the obligations of post-trading transparency, methods of publication of post-trading information used by authorised subjects, in accordance with the provisions of the Regulation No. 16191 on markets, and possession by information distribution channels of the requisites of clarity, accessibility and reliability provided for both in EU legislation and in Italian regulations and guidelines.

On 10 July 2011 Consob adopted a new notification regime on net short positions, requiring investors holding significant bear positions in listed Italian companies to notify the Commission of this.

On 12 August 2011, taking into account the extraordinary nature of the market conditions, the Commission decided to adopt restrictive measures on net short positions on companies in the financial sector, also on an intraday basis.

From 1 December 2011, finally, Consob decided to prohibit, permanently, 'naked' short-selling on shares, that is sales not backed by securities available at the moment of the order. The new ban covers all shares listed on Italian regulated markets irrespective of the trading venue and establishes that, before short-selling the shares, the investor must have them available (for example, through a securities loan). The objective of the ban is to reduce the risk of failure to deliver the securities at the transaction settlement date and the risk of market abuse.

On 24 February 2012 the Commission decided not to extend further the prohibition on assuming or increasing short positions on shares in the financial segment. This decision is in line with those already taken by other European authorities, which had introduced similar measures in the past and takes into consideration current market conditions.

The other measures adopted at the time in relation to listed shares on Italian regulated markets remain in any case in force for an unspecified period of time, introducing into Italian legislation - ahead of the set deadlines - some of the restrictive measures contained in the European Community Regulation on short sales and other provisions concerning credit default swaps that will come into force on 1 November.

In November 2011 Consob, in agreement with the Bank of Italy, approved the changes to the Regulations of the Monte Titoli SpA centralised management service. These changes are aimed mainly at adjusting the Regulations to the changed legislative and regulatory framework on the subject of central depositories. In fact, in January 2010 the Italian Consolidated Law on Finance was amended, transposing the community rules on the rights of shareholders in listed companies (the 'Shareholders' Rights Directive'), while in December 2010 the Bank of Italy – Consob Order containing rules on centralised depositories and liquidation services, guarantee systems and the related management companies had been modified.

On 1 September 2011, finally, at the request of Consob and the Bank of Italy, Monte Titoli SpA adopted a new system of penalising fails (failures to deliver securities on settlement) meant to be more effective on the conduct of individual intermediaries.

4 Rating agencies

In 2011, together with other competent European authorities, Consob examined the applications for registration presented by the four major international rating agencies (Standard & Poor's, Moody's, Fitch and DBRS) as well as by Italian rating agencies, which applied for registration in accordance with Regulation 1060/2009.

After these checks, on 31 October 2011, Consob and the other European authorities granted registration to the above mentioned international rating agencies, and to their respective Italian offices. On 21 December 2011, Consob also granted registration to an Italian rating agency, Crif SpA, while the registration process relating to another Italian agency is still in progress.

On two of the major international rating agencies, Consob carried out particularly intense supervisory activity from June 2011 following the diffusion, by the same agency, of changes in the ratings and outlooks concerning the Italian sovereign debt and the major Italian banks.

Of particular significance was the supervisory activity carried out following the diffusion, by a leading international rating agency, of two reports concerning assessments on the rating of Italy's sovereign debt.

1 Subjects authorized to provide investment services

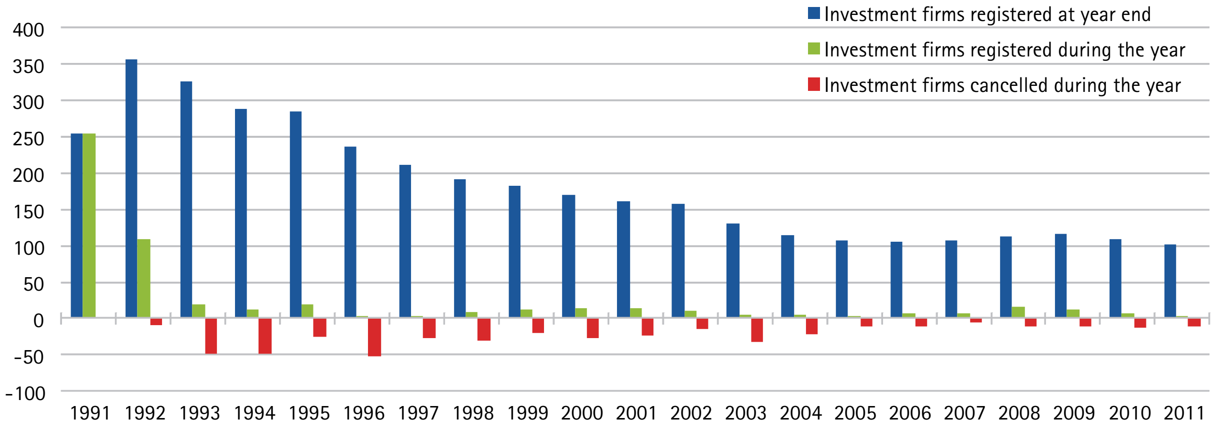
In 2011 the number of banks and investment firms authorized to provide investment services declined to 778 from 811 in 2010 (Table 33).

Table 33 Authorized intermediaries for investment services

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Investment firms										
number of authorized subjects	*158*	*131*	*115*	*108*	*106*	*108*	*113*	*115*	*110*	*102*
consulting	–	–	–	–	–	108	109	110	103	*94*
trading on own behalf	45	38	30	27	24	24	20	17	15	*14*
trading for third parties	60	49	41	35	32	35	31	25	23	*20*
placing with prior subscription[1]	32	23	17	14	13	12	9	8	6	*5*
placing without prior subscription[1]	112	87	78	74	72	74	68	61	53	*47*
management on an individual basis	80	70	60	60	58	56	50	49	47	*46*
reception and transmission of orders and mediation	89	74	63	59	55	59	60	54	52	*49*
MTF management	--	--	--	--	--	--	2	2	3	3
average number of services per subject	*2.44*	*2.43*	*2.37*	*2.36*	*2.27*	*3.30*	*3.01*	*2.77*	*2.69*	*2.68*
Banks										
number of authorized subjects	*725*	*710*	*716*	*729*	*736*	*742*	*734*	*725*	*701*	*676*
consulting	–	–	–	–	–	723	700	692	673	*651*
trading on own behalf	558	544	552	556	562	559	540	535	516	*500*
trading for third parties	492	434	440	425	413	561	541	536	515	*499*
placing with prior subscription[1]	266	264	273	272	263	267	261	261	242	*225*
placing without prior subscription[1]	691	679	684	691	707	713	705	699	674	*651*
management on an individual basis	240	241	248	238	226	222	212	208	195	*181*
reception and transmission of orders and mediation	710	692	699	708	716	722	713	705	683	*660*
MTF management	–	–	–	–	–	1	1	1	1	*1*
average number of services per subject	*3.71*	*3.65*	*3.66*	*3.59*	*3.57*	*4.72*	*4.65*	*4.66*	*4.65*	*4.65*

Source: Consob and Bank of Italy. [1] Includes placement with firm commitment or guarantee towards the issuer.

Figure 100 Register of investment firms and trust companies



Source: Consob.

Table 34 National Investor Compensation Fund intervention
(situation at 31 December 2011; monetary amounts in thousands of euro)

	insolvencies[1]				
	Investment firms	Stockbrokers	Asset management companies	Banks	*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
2010	2	--	1	--	3
2011	--	--	1	1	2
Total insolvencies	*18*	*9*	*3*	*1*	*31*
of which with liabilities filed	*17*	*9*	*2*	*--*	*28*
number of creditors admitted	2,595	1,008	*1*	--	*3,604*
amount of claims admitted[2]	28,269	42,955	*3,751*	--	*74,975*
fund intervention[3]	8,662	11,250	--	--	*19,912*

Source: Consob calculations based on National Investor Compensation Fund data. [1] Liabilities of which were filed as of 1 February 1998. [2] Amounts net of partial distribution ordered by liquidation procedure bodies. [3] Compensation resolved, paid or committed against claims received.

With reference to asset management, in 2011 the number of subjects authorized to provide management service on an individual basis increased to 58 from 52 in 2010, the subjects authorized to provide consultancy service increased to 58 from 57 in 2010, while asset management companies (AMCs) authorized to provide such services were 51 (of which, 7 with branches in Italy and 44 without branches), up from 43 of 2010.

With reference to investment firms and trust companies, the number of authorized subjects fell from 110 in 2010 to 102 in 2011 (Figure 100).

During the year, an investment firm and a bank experienced a crisis, thus bringing to 31 the total number of intermediaries' insolvencies between 1997 and 2011 (Table 34). The National Investor Compensation Fund has overseen insolvency proceedings since 1 February 1998, intervening in 29 cases (17 investment firms, 9 stock brokers, 2 AMCs and a bank). This form of crisis management is flanked by the so called special management, which also involves the Italian Ministry of Economy and Finance, for prior insolvency cases.

2 Banks and investment firms

During 2011 the supervisory activity included, as usual, meetings with bank and investment firms' executives, issues of formal requests for data and information and inspections; the complaints received by the Institute gave further impulse to the control activity (see Chapter IV *'Investigations and enforcement'*).

In particular, 68 meetings were held with executives of supervised intermediaries (31 of banks, 26 of investment firms and 11 of community investment firms and banks authorized in Italy).

With reference to inspections, a total of 14 were launched (6 of investment firms and 8 of banks) and 17 were completed encompassing 10 investment firms and 7 banks (Table 35).

In 2011, moreover, supervisory activity dealt with 8 large banking intermediaries (on which investigations, including inspections, had been going on since the previous year), issuing orders convening the respective boards of directors under the terms of Art. 7, sect. 1, lett. *b)*, of the Italian Consolidated Law on Finance; analogous initiatives were also carried out in relation to a sample of smaller intermediaries.

The results of the investigations highlighted the adoption of an approach to investment services inspired by a product marketing philosophy (the bank's own products, or the group's ones, or companies with which the distributor bank has existing placing agreements), rather than by a customer's service logic. This approach complicates substantially the acceptance of the principle of serving customers' interests as well as possible, and amplifies the conflicts of interest embedded in banking intermediaries, often also listed companies.

Table 35 Inspections of investment firms and banks

	inspections started		inspection completed	
	investment firms[1]	banks	investment firms[1]	banks
2003	1	9	5	8
2004	--	2	--	5
2005	4	2	1	4
2006	3	2	5	2
2007	4	2	2	4
2008	8	3	8	2
2009	3	9	3	8
2010	6	2	4	3
2011	6	8	10	7

Source: Consob. [1] Includes trust companies and Italian branches of EU investment companies.

Given the strategic and procedural shortcomings found, Consob requested the implementation of corrective measures. Although all intermediaries have begun to revise their corporate strategies and internal procedures, the perception of compliance risks and the consequent definition of corrective actions were found to be quite uneven in terms of timeliness and effectiveness.

Following recourse by certain foreign issuers against debt restructuring plans by means of exchange (and/or purchase and exchange) offers of bonds not backed by a prospectus either in their country of origin or in Italy, Consob issued Communication 11085708 of 20 October 2011, in order to remind the public and operators of several fundamental principles for investor protection.

More recently, given the frequent buy-back operations involving subordinated bonds and other debt securities carried out by banks in order to strengthen their equity, the Commission issued Communication 12010034 of 9 February 2012, in order to highlight the particular caution to be taken in customer relations, considering the specific conflict of interest for banks that carry out such operations (playing at the same time the role of offerer and issuer) and the duties of intermediaries that hold on behalf of their customers the securities involved in such offers.

In March 2011, as part of the work of the Contact Committee set up under the terms of the Memorandum of Understanding signed on 31 October 2007, Consob and the Bank of Italy published a joint protocol containing guidelines for coordination between the corporate compliance and the internal audit units in the provision of investment and collective asset management services by intermediaries. This division of duties reflect the rules stated by MiFID, which innovated the legal definition of 'internal control system' for intermediaries.

During 2011, in addition, the Commission assessed the work done on compliance activities by the Italian Compliance Association (Aicom), following discussions with the Associazione Italiana Revisori Contabili (Assirevi - the Italian Independent Auditors' Association). The objective of this work was to identify an operational best practice with respect to which to orient the organisation of the control work of the compliance unit.

With reference to investment firms and banks authorised to provide investment services, in the context of the aforementioned Memorandum of Understanding of October 2007, a working group was set up in which the Bank of Italy and Consob take part for the transposition, under the terms of the Italian Consolidated Law on Finance, of the prudential rules on the subject of remuneration and incentive policies and practices, in accordance with the provisions of Directive 2010/76/EC. On completion of the first stage of the work, it is planned to publish a public consultation document within the first half of 2012.

In the area of supervision on transparent disclosure, in 2011 checks were made as usual on the completeness of prospectuses concerning bank bond issues (see Paragraph 2 of Chapter I *'Supervision of issuers and external auditors'*).

3 Asset management companies (AMCs)

In the field of supervisory activity on AMCs, during 2011 two meetings were held with corporate executives (under the terms of Art. 7 of the Italian Consolidated Law on Finance) and 13 formal requests for data and information were issued (under the terms of Art. 8 of the Italian Consolidated Law on Finance).

Six inspections, carried out under the terms of Art. 10 of the Italian Consolidated Law on Finance were also completed: for 5 AMCs the inspections were aimed at checking the organizational and procedural solutions adopted after the transposition of the MiFID Directive and on the observance of the rules related to correctness and transparency of conduct and conflicts of interest; for one AMC, the inspection was aimed at checking the observance of the rules on short selling (see Chapter IV '*Investigations and enforcement*').

The inspections relating to the open-ended mutual fund segment involved 3 small AMCs.

The inspections relating to the real estate fund segment had the aim of checking on correct organisation of the investment decision-making process, in particular with reference to the roles and responsibilities of the various corporate units involved, as well as correspondence between the business plan and the management activities.

During 2011, in addition, the supervisory action launched in previous years continued focusing on a very relevant subject for real estate fund management, relating to procedures for assessing the property portfolio asset management activity in its different stages. The joint Bank of Italy-Consob communication of 29 July 2010 stated, in fact, that AMCs had to adopt such a procedure, specifying certain duties, of both an organizational and a procedural nature, considering the absolutely central position of property valuation activity in the corporate processes of AMCs which manage real estate funds; moreover, this arrangement is confirmed by the Directive on alternative investment fund managers to be transposed into our legislation (Directive 2011/61/EU of 8 June 2011).

In 2011, as usual, the Commission carried on the supervisory activity also in coordination with the Bank of Italy through transmitting data and information and issuing opinions.

Consob also intervened in relation to cases of companies in crisis. As far as transparency supervision is concerned, from 1 January to 30 June 2011, 208 communications were presented to offer harmonized foreign UCITS in Italy.

During the year the Institute carried out a survey on the methods of managing 'flexible' funds, that is funds which have no constraints on basic asset allocation (shares *versus* bonds) and the investment policy of which has the aim of keeping the fund in line with the risk profile declared in the offer documentation. Flexible funds vary a lot both in the degree of risk declared in the prospectus and in commissions charged; they are increasingly common as a result of a repositioning of the offer range which, given the exceptional tensions on the financial markets and of a change in investors' preferences, has favoured products characterized by a precise control of the risk.

In 2011, finally, work continued on analysing the structure of the boards of directors of AMCs and checking the requisites of independence of directors. In particular Consob examined the composition of the boards of directors of the 17 largest AMCs by assets managed and belonging to banking or insurance groups, comparing it with 2010 (Table 36). In the fourth quarter 2011 the assets managed by the AMCs included in the sample (of more than 161 billion euro) represented approximately 85 per cent of total assets of Italian open-ended funds.

Table 36 Offices held by asset management company directors 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*
2010								
offices held in parent company	2	10		1	5	1		*19*
Chairman	1	1						*2*
Deputy Chairman								
Managing director								
Director	1	4		1	3	1		*10*
Executive director		2			1			*3*
Independent director								
Director General		1						*1*
Deputy Director General								
Manager		2			1			*3*
offices held in other group companies	5	48	3	4	6		1	*67*
no office held in group companies	3	20	1	29	1		3	*57*
Total	*10*	*78*	*4*	*34*	*12*	*1*	*4*	*143*
2011								
office held in the parent company		14		3	7	1		*25*
Chairman		1		1	1			*3*
Deputy Chairman				1				*1*
Managing director		1						*1*
Director		6		1	3			*10*
Executive director					1	1		*2*
Independent director								
Director General					1			*1*
Deputy Director General								
Manager		6			1			*7*
offices held in other group companies	6	35	1	7	3	1	1	*54*
no office held in group companies	1	20		30	2		2	*55*
grand total	*7*	*69*	*1*	*40*	*12*	*2*	*3*	*134*

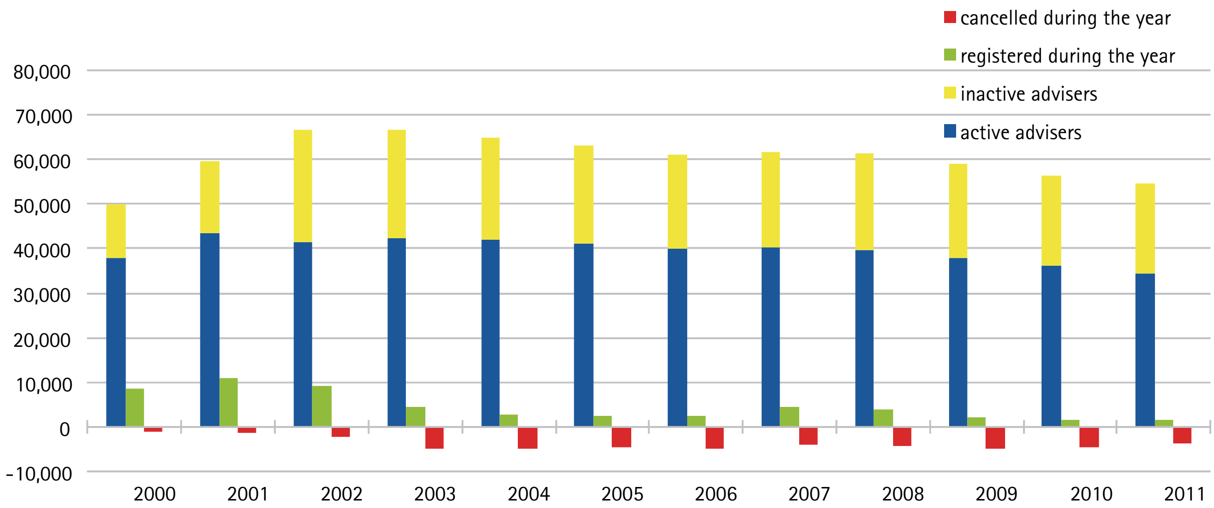
Source: prospectuses. Data relating to a sample made up considering the top 20 AMCs by assets promoted in 2010, only AMCs attributable to banking or insurance groups, excluding therefore Prima Sgr, Anima Sgr and Bancoposta Fondi Sgr. Period end data. In the case of directors holding office in both the parent company and other group companies, representation of the position in the parent company is considered prevalent. To identify the concept of executive director reference was made to Art 2381 of the Italian Civil Code, while to identify the concept of independent director reference was made to the definition of the Assogestioni autonomy protocol.

4 Financial salesmen

At the end of 2011, 34,560 financial salesmen resulted active, compared to 54,583 registered names (from 56,416 at the end of 2010; Figure 101).

The supervision of financial salesmen in 2011 was prompted by intermediaries' reports and investors' complaints, by the results of inspections carried out at intermediaries and by communications of the Judiciary, the Police and the Organisation holding the Register of financial salesmen.

Figure 101 Register of financial salesmen



Source: Consob.

The supervision concerning reports and complaints about financial salesmen was carried out on the basis of preselected criteria. These criteria, already introduced in 2010, take into consideration a number of quantitative factors, such as the number of customers involved and the amount of damages, and also qualitative factors, such as the nature of the theoretical sanction for each offence and whether or not the offence is repeated.

Priority investigations were, therefore, activated only for cases characterized by a level of seriousness greater than a threshold predetermined according to objective measurements. This made it possible to base the supervisory action on objective criteria and to make it more timely.

During 2011 Consob also began to analyse the data transmitted by intermediaries in implementation of the provisions stated in Appendix II.10 of the 'Disclosure Obligations Manual for Supervised Subjects' pursuant to Consob Resolution 17297/2010. The analysis was carried out in order to assess the opportunity of activating specific supervisory initiatives with reference to classes of financial salesmen.

Investigations and enforcement IV

1 Investigations

Consob concluded 35 inspections and launched 22 new investigations concerning supervised entities in 2011, (Table 37).

Table 37 Inspections: breakdown by category of supervised entity

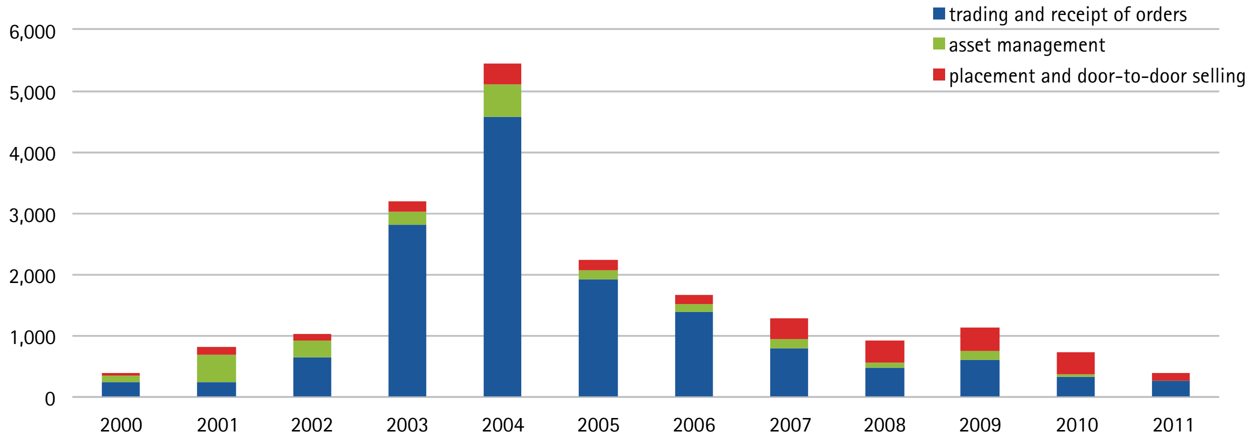
	investigations launched concerning:							*investigations concluded concerning:*						
	listed companies	auditing company	market management companies	Inv. firms[1]	banks	Asset Management co.s \SICAVs	*Total*	listed companies	auditing company	market management companies	Inv. firms[1]	banks	Asset Management co.s \SICAVs	*Total*
2004	2	5	--	--	2	1	*10*	2	8	--	--	5	1	*16*
2005	2	4	--	4	2	6	*18*	2	3	--	1	4	4	*14*
2006	2	3	--	3	2	--	*10*	2	4	--	5	2	2	*15*
2007	4	5	--	4	2	3	*18*	1	2	--	2	4	3	*12*
2008[2]	5	5	--	8	3	6	*27*	5	5	--	8	2	3	*23*
2009	5	9	--	3	9	1	*27*	7	6	--	3	8	4	*28*
2010	13	8	--	6	2	4	*33*	13	7	--	4	3	--	*27*
2011	1	3	2	6	8	2	*22*	1	9	2	10	7	6	*35*

Source: Consob. [1] Trust companies are included and Italian branches of European Community investment companies. [2] The total includes an investigation launched and concluded concerning a stockbroker.

Inspections concerning intermediaries, as usual, were driven by complaints, which in 2011 totalled 398, showing a clear reduction compared to 738 last year, mainly because of the reduction in the number of reports on placement and out-of-office offers (Figure 102).

Among the investigations carried out in 2011 concerning illegal public offers of financial products, some concerned the diffusion of investment proposals through the internet, apparently aimed at stipulating contracts for the transfer of ownership or use of consumer goods, frequently associated with marketing strategies based on "multi-level" or "pyramidal" schemes enabling investors to obtain additional gains as long as they are able to attract new investors.

Figure 102 Complaints received about investment services



Source: Consob.

The investigations aimed at checking if the declared purpose of the business proposal actually matched its effective content, in order to verify whether the business scheme was indeed a financial investment.

Moreover, specific attention was also paid to the use of promotional tools such as "multi-level" marketing strategies since, as well as potentially implying a criminal offence for those promoting products in Italy, it can also exponentially spread the investment proposal, thereby expanding the negative fallout of the unlawful offer on the plateau of potential investors.

The investigations ascertained the true conduct towards the public through the inspected websites and resulted in the issue of 3 precautionary orders (suspensions), 6 prohibitions (bans) of public offering of financial products and 2 orders to shut down the websites involved (in one case it was not possible to track the identity of the service provider; Table 38).

Table 38 Precautionary measures and prohibition orders in relation to public offerings

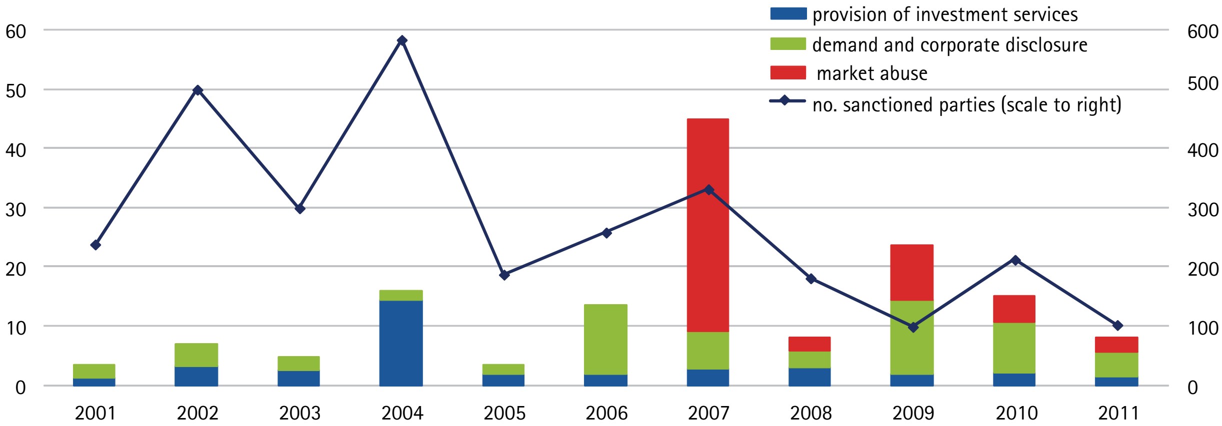
	orders of precautionary suspension	orders of prohibition	orders of annulment	*total*
2004	9	7	3	*19*
2005	5	6	--	*11*
2006[1]	2	3	1	*6*
2007	--	1	--	*1*
2008	2	1	--	*3*
2009	6	4	--	*10*
2010	5	5	--	*10*
2011	3	6	--	*9*

Source: Consob. [1] In 2006 one precautionary suspension was adopted that was later withdrawn. In 2008, one of the suspensions then generated a related prohibition order during the same year, which is also recorded in the table.

2 Enforcement

In 2011, the Commission began 235 disciplinary proceedings (296 in 2010), of which 200 resulted in the application of a sanction due to ascertained breach of provisions of the Consolidated Law on Finance and implementation regulations. Total penalties applied amounted approximately to 8 million euro (Figure 103).

Figure 103 Financial penalties imposed by Consob[1]
(millions of euro)



Source: Consob. [1] Data includes reduced payments. "Provision of investment services" includes the financial penalties applied to financial salesmen. For the years prior to 2006, the data refers to the sanctions proposed by the Ministry of Economy and Finance and to those applied directly with regards to financial salesmen.

3 Market abuse enforcement

In 2011 the Commission imposed sanctions for market abuse offences in 7 cases (15 in 2010), of which 2 involving insider trading and 5 market manipulation.

Financial penalties applied, totalling 2.4 million euro (approximately 4.2 million euro in 2010), involved 9 parties, of which 8 were natural persons and one was a legal entity; moreover, sanctions totalling 220 thousand euro were applied for 2 breaches of Art. 187-*quinquies* of the Consolidated Law on Finance (entity liability) (Table 39).

Furthermore, an additional mandatory interdictive measure was imposed upon the same natural persons pursuant to art. 187-quarter of the Consolidated Law on Finance (temporary loss of good reputation and temporary prohibition to be manager, director or controller in listed companies) for a total of 36 months, for a minimum of 2 months and up to 6 months per capita. Additionally, on the same subjects – where the related regulatory requirements were met – in accordance with Art. 187-*sexies* of the

Consolidated Law on Finance, confiscation of assets held by the perpetrators of the breach was ordered, for approximately 1.2 million euro (2 million euro in 2010).

In 2011, the sanctionary proceedings concerning three natural persons and the company Cremofin Srl, in relation to buybacks of Cremonini SpA shares between 9 January 2008 and 20 February 2008, came to an end.

Table 39 Enforcement of market abuse legislation
(cash amounts in thousands of euro)

		number of cases	number of parties concerned	amount of sanctions	amount of confiscated assets	number of persons involved in additional penalties	additional penalties (months)
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
2010	insider trading[1]	11	13	2,404	2,025	12	55
	manipulation[2]	4	7	1,810	--	7	28
	total	*15*	*20*	*4,214*	*2,025*	19	83
2011	insider trading[1]	2	4	1,720	1,139	4	16
	manipulation[2]	5	5	700	101	4	20
	total	*7*	*9*	*2,420*	*1,240*	8	36

Source: Consob. [1] Crime sanctioned in accordance with Art. 187-*bis, quater, quinquies* and *sexies* of the Consolidated Law on Finance. [2] Crime sanctioned in accordance with Art. 187-*ter, quater, quinquies* and *sexies* of the Consolidated Law on Finance.

Another case of insider trading closed in 2011 concerned a natural person and a Luxembourg company (Aeneas Holdings Sa) linked to the former, in relation to purchases of ordinary shares in Sirti SpA made from July 2007 to February 2008.

4 Intermediaries and financial salesmen enforcement

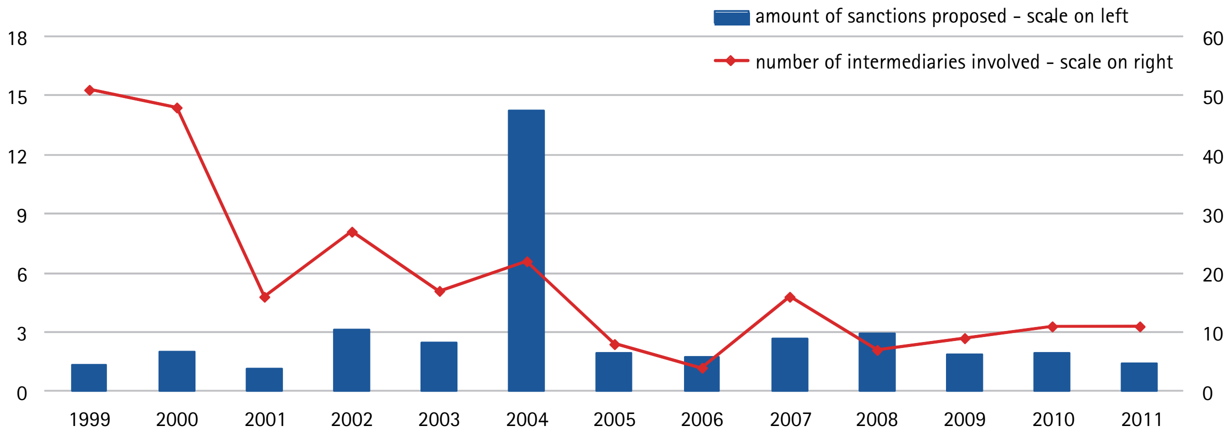
11 investigations concerning the investment service-related infringements were completed in 2011 (in line with 2010) with the infliction of sanctions; they involved 2 banks, 7 investment companies and 2 asset management companies (Table 40; Figure 104). The related penalties, totalling around 1.4 million euro (2 million in 2010), were distributed to 43 company members (82 in 2010).

Table 40 Financial penalties proposed to the Ministry of Economy and Finance or imposed directly by Consob on intermediaries[1]
(cash amounts in thousands of euro)

	n° of intermediaries involved					n° of persons fined					amount of penalties[2]				
	banks	investment firms	stockbrokers	asset management companies	*total*	banks	investment firms	stockbrokers	asset management companies	*total*	banks	investment firms	stockbrokers	asset management companies	*total*
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*
2010	2	7	--	2	*11*	15	50	--	17	*82*	194	1,262	--	511	*1,967*
2011	2	7	--	2	*11*	4	37	--	2	*43*	460	800	--	140	*1,400*

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

Figure 104 Financial penalties proposed to the Ministry of Economy and Finance or imposed directly by Consob on intermediaries[1]
(millions of euro)



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

Among the most significant sanctions applied in 2011 to salesmen, there are those relating to Banca Popolare di Milano' executives,, adopted following investigations of the optional offer to retail customers of the bank and other banks of the group of bonds *cum* warrant (from 15 June to 3 July 2009).

The sanctionary proceedings on 2 asset management companies arose from inspections carried out by the Bank of Italy, the results of which, were disclosed to Consob, as far as its competence profile was involved, according to the principle of cooperation pursuant to Articles 4 and 5 of the Consolidated Law on Finance. The additional supervisory activities carried out by Consob confirmed the presence of significant relationships between the managing directors and significant connections between the asset management companies, with negative fallout in terms of conflicts of interest.

The supervisory duties also involved dealing with the crisis of some asset management companies.

In 2011, moreover, a sanction of 50 thousand euro was applied to foreign parties (2 natural persons and one legal entity), for providing investment services and activities in Italy without the prescribed authorisations.

In 2011, the Commission applied a sanction to a bank for breach of Art. 187-*nonies* of the Consolidated Law on Finance in relation to the organisational-procedural deficiencies found in the processing and notification to Consob of suspicious operations according to market abuse regulations.

Upon completion of these proceedings, financial penalties were applied to a legal entity and 13 natural persons for an approximate total of 253 thousand euro.

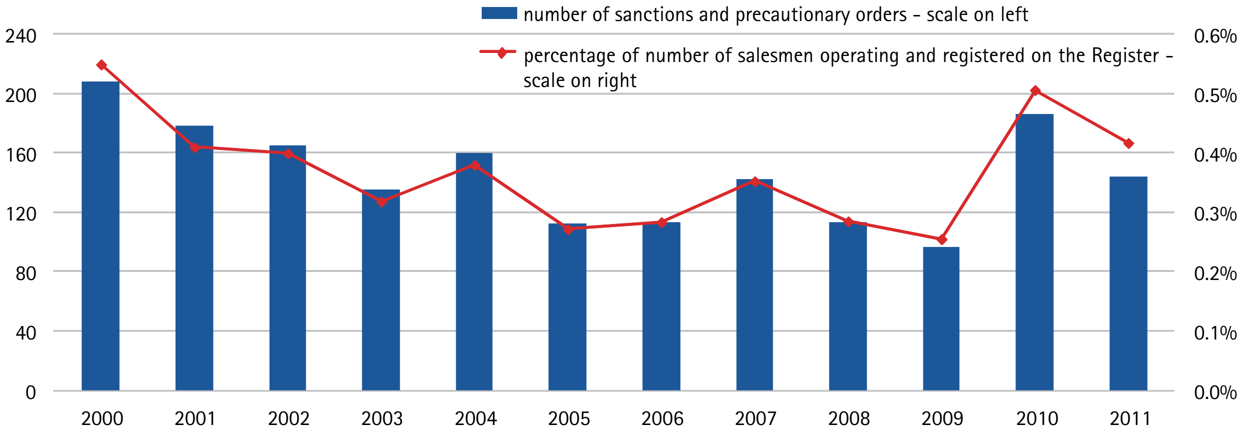
With regard to financial salesmen, 116 disciplinary measures were imposed in 2011 (146 in 2010), including 92 disqualifications from the register, 23 term suspensions (from a minimum of one month to a maximum of four months) and one written reprimand. The Commission also issued 68 reports to the Legal Authorities for criminal offences emerging during the course of investigations (as compared with 57 in 2010; Table 41; Figure 105).

Table 41 Disciplinary sanctions and precautionary measures regarding financial salesmen

	sanctions					precautionary orders	Reports to legal authorities
	reprimand	disqualification from the register	fixed-term suspension from the register	financial penalty	*total*	fixed-term suspension from business activities	
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
2010	6	78	61	1	*146*	40	57
2011	1	92	23	--	*116*	28	68

Source: Consob.

Figure 105 Disciplinary sanctions and precautionary measures regarding approved financial salesmen



Source: Consob.

5 Listed companies enforcement

63 sanctions concerning infringement of listed companies regulations and public disclosures were applied by the Commission in 2011 (66 in 2010) and concerned breaches of regulations on public subscription offers and sale offers (11 cases), takeover bids (3), corporate disclosure (13), communication of major shareholdings and shareholders' agreements (33) and auditing firms (3 cases; Table 42).

Table 42 Administrative sanctions proposed by Consob to the Ministry of Economy and Finance or imposed directly by Consob on public offerings, corporate disclosure and legal auditing[1]
(cash amounts in thousands of euro)

	n° of cases						n° of subjects fined					total penalties					
	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	*total*	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	*total*
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*
2010	4	8	19	35	--	*66*	16	16	20	55	--	4,420	872	1,208	1,311	--	*7,811*
2011	11	3	13	33	3	*63*	15	1	6	12	3	1,145	320	700	1,185	350	*3,700*

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

More specifically, 47 sanction related to breach of issuers' regulations, whilst sanctions for approximately 2.6 million euro were applied to 28 parties. In sanctionary proceedings, most of the infringements concerned the disclosure obligations of relevant shareholdings in listed companies. On this subject, 13 proceedings were extinguished, because the subjects involved chose to make an early reduced payment (pursuant to Art. 16 of Italian Law no. 689/81) for a total amount of 480 thousand euro (Table 43; Figure 106).

Table 43 Reduced payments on infringement of regulations on public offerings, corporate disclosure and voting proxy
(cash amounts in thousands of euro)

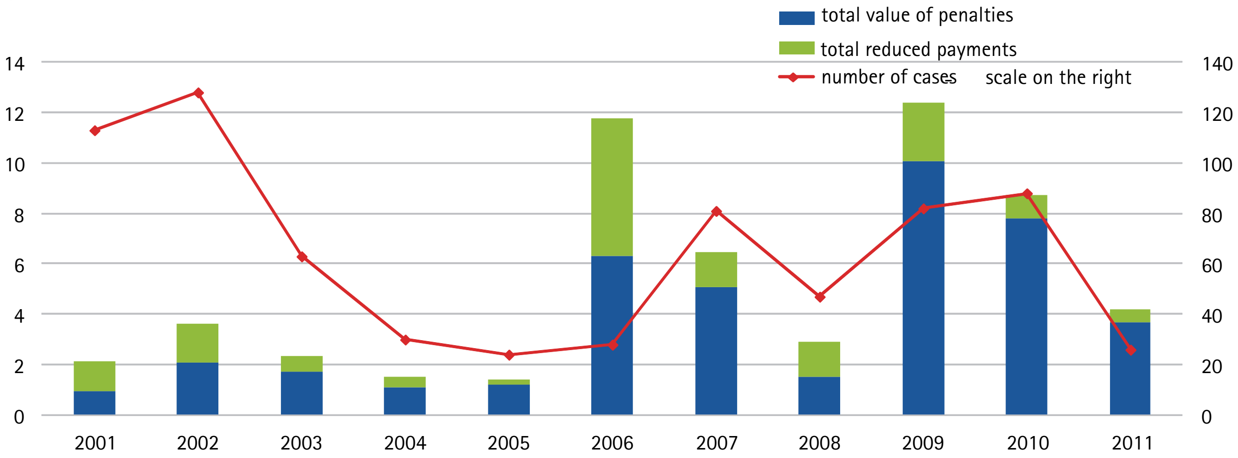
	n° of cases						n° of subjects						reduced amount payments made					
	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	*total*	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	*total*	public subscription offer and sale offer	takeover bids	corporate disclosure	major shareholdings and shareholders' agreements	legal auditing	*total*
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*
2010	--	--	--	22	--	22	--	--	--	22	--	*22*	--	--	--	930	--	*930*
2011	--	--	--	13	--	*13*	--	--	--	13	--	*13*	--	--	--	480	--	*480*

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

In 2011, 13 sanctions were also adopted concerning unlawful conduct in terms of corporate disclosures which resulted in sanctions totalling 700 thousand euro (1.2 million euro in 2010) being applied to 6 parties. 12 of these sanction orders concerned breach of provisions on corporate disclosures (Art. 113 and 114 of the Consolidated Law on Finance) and a provision for the breach of regulations on financial relations (Art. 154-*ter* of the Consolidated Law on Finance).

With regards to the sanction orders issued concerning 3 auditing firms, in 2 cases they were barred from employing the partner responsible for the auditing under investigation for a period of 36 months (18 months each); in the other case, the company responsible for the breach was given a financial penalty of 350 thousand euro.

Figure 106 Administrative sanctions regarding public offerings and corporate disclosure[1]
(millions of euro)



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

Additionally, in 2011, 4 sanctions were applied to both national and foreign subjects for having unlawfully promoted and placed financial products; these orders involved 8 natural persons and 3 legal entities. Penalties applied for these infringements totalled 960 thousand euro and entailed accessory administrative sanctions for 12 months.

V Regulation and interpretation

In 2011, following market consultation, the commission made a great many regulatory amendments. Many of these were made following European Union Directives, often integrating the content of these with elements set to protect the specific national context, or with ad hoc provisions aimed at coping with new phenomena that earlier regulations were shown as being unable to effectively grasp. Other interventions have been carried out on the exclusive input of the national legislator, for example as the gender balance in listed companies is concerned. Yet others have been implemented independently by Consob with a view to organising or making the rules set out in its regulations more effective.

1 Enactment of European Union legislation

The interventions hinged on incorporating European Union Directives include in particular those on takeover bids (Directive 2004/25/EC) and shareholder rights in listed companies (Directive 2007/36/EC).

In terms of take-over bids, the changes involved both the general provisions on the procedure and the way the bid is organised, and those on mandatory bids. The review of the regulations, approved after extensive consultation that began in October 2010 and in February 2011, in the first place intended to assure minority shareholders a greater degree of protection in operations resulting in changes in a company's control structure. The changes made also sought to achieve greater efficiency and market transparency of corporate control and equal treatment of Italian and foreign investors on offers on debt securities, at the same time ensuring the reduction of compliance costs for bidders.

The revision took into account practical issues raised by applying current regulation and followed a comparative analysis of the legal orders of major countries. The regulation of takeover bids has in recent years been subject to various legislative interventions, which first incorporated the 2004 European Union Directive (Italian Legislative Decree of 19 November 2007) and subsequently introduced some important changes, most recently in September 2009, in particular with regards to the passivity rule, acting in concert and the relevance of derivatives in terms of the obligation to promote a take-over bid. Considering the complexity of the legislative changes made and the highly innovative nature of some of these, Consob therefore deemed it appropriate to carry out a general revision of the regulations of takeover bids.

A second area of intervention concerned shareholder rights. In order to avoid the critical issues emerged during the initial practice of the regulation, some changes have been made to issuers' regulations in the area of solicitation of voting delegations. The initial practice had shown, indeed, that the promoter's regulation-linked costs were so high that they removed every incentive in soliciting voting delegations, thereby eliminating all purpose to the legislation (Italian Legislative Decree no. 27/2010) and regulatory (resolution no. 17592 of 14 December 2010) innovation introduced by Directive 2007/36/EC in order to increase shareholder involvement in the company's life (the "Shareholders' Rights Directive"). These costs, moreover, contrasted with benefits in terms of greater information for the market which looked substantially irrelevant.

The Commission then considered another European issue, i.e. remuneration transparency for listed companies directors in accordance with Art. 123 of the Consolidated Law on Finance, which intervenes downstream of Recommendation 2009/385/EC. Changes to the issuers' regulations were made following extensive consultation of market participants begun in October, having heard the Bank of Italy and Isvap. The new regulations will be implemented at the forthcoming shareholders' meetings called to approve the annual financial statements for FY 2011.

Resuming and developing principles already mentioned in previous moral suasion acts (specifically with general communication 11012984 of February 2011), Consob extended the pre-existing disclosure obligations establishing that companies shall make a report on the remuneration of directors available to the public at least 21 days prior to the meeting (which shall rule with a non-binding vote).

The content of the report must comply with the layout - set out in two separate sections - established by the same Regulations.

In short, the layout envisaged by the regulation on executives remuneration intends to provide the market with a more detailed indication and at the same time a truer indication of the total compensation package assigned to key managers. The rules approved also took into account the principle of proportionality, for example establishing simplified procedures for "smaller" companies - as defined by the related party transactions regulation - i.e. providing that the pay of key executives which does not exceed the highest remuneration assigned to the members of company bodies or the general manager can be reported in aggregate form.

Moreover, the Commission submitted for consultation some proposals to change issuers' and market regulations, which were then adopted in January 2012, incorporating Directive 2010/73/EU (amending the Prospectus Directive and the Transparency Directive).

More specifically, some changes were made to the regulations of prospectuses for public subscription and sale offers and for admission to listing on regulated markets, also trying to anticipate, as far as possible, the implementation of the new European Directive, incorporation of which into the Italian order should be completed by 1 July 2012.

Finally, under the scope of the works for incorporating Directive 2009/65/EC on collective securities investment schemes (the "UCITS IV") and the related European Union enactment provisions, Consob submitted its contribution to the Ministry of Economy and Finance for drafting the legislative decree incorporating the European Union provisions (as established by the 2010 European Union Law).

At the same time, in collaboration with the Bank of Italy for the relevant profiles, market consultation began on a "package" of amendments concerning the regulation of collective investment management, contained in the joint Consob-Bank of Italy Regulation of 29 October 2007, in the Consob Regulation on intermediaries and in the Bank of Italy's Regulation of asset management, as well as the regulations on the public offering of UCITS, contained in Consob issuers' regulations.

The definitive adoption of the legislative decree transposing UCITS IV is currently underway, approved in its first draft by the Council of Ministers on 20 January 2012 and submitted to the relevant parliamentary commissions for the issue of their opinion.. Consob is already ready to incorporate the above mentioned European Union regulations into the Italian order without delay.

2 Implementation of national legislation

A great many changes were made on the exclusive input of the national legislator.

A particularly major revision involved the shareholdings transparency regime. By resolution no. 17919 of 9 September 2011, the commission thus approved some major changes to the issuers' regulations on the transparency of potential shareholdings, shareholders' agreements and shareholder structures.

The most significant intervention - in incorporation of the delegation pursuant to Art. 120, paragraph 4, letter d-*ter*) of the Consolidated Law on Finance - was the inclusion of positions held in cash-settled derivatives within the financial instruments subject to market disclosure. The need to extend the shareholdings transparency to consider potential shareholdings represented by cash-settled derivatives had been notified in the position paper published by Consob in October 2009. The measure subsequently adopted made the representation of total potential shareholdings for a given listed company more complete, regardless of the financial instrument used to this end.

To minimise one-off adjustment costs incurred by operators, the current shareholdings transparency regime was simply integrated, without altering the fund set-up.

Finally, in implementing the delegation set out in Articles 147-*ter* and 148 of the Consolidated Law on Finance, in December 2011, consultation began on the proposed amendment concerning gender balance in executive, managing and controlling bodies of Italian listed companies. These articles require listed companies to comply with a criteria of gender balance in company bodies, according to which the least represented gender shall represent at least one third of the above mentioned bodies; Consob was assigned the task of adopting the regulatory changes to implement the new principle.

3 Revision of Consob regulations

Parallel to the initiatives described, Consob also began an overall review of its secondary legislation through the institution in February of three round tables with authorities, industry and investors representatives concerning, respectively, the competition between rules and supervision , bank funding and simplification of regulations. The priority of the round tables was to identify and analyse the main regulatory areas and supervisory practice which could be a source of critical issues or competitive disadvantage for operators (issuers, intermediaries and markets), without prejudice to the need to combine market competitiveness with the necessary investor protection. A first reference document, published in July 2011, highlighted numerous regulatory changes in terms of markets, intermediaries and issuers to the market's attention.

The discussion with markets and investors, moreover, enabled Consob to identify certain critical areas in primary legislation. Thus began a debate on various subjects such as the simplification of the regulation concerning the accumulation of offices, the standardisation of the notion of director independence, the possibility for listed companies to issue limited or plural vote shares, the extension of the faculty to issue bonds for unlisted companies and the possibility of modifying the threshold in a listed company’s bylaws concerning mandatory bid offer.

In the forthcoming months, a second package of regulatory changes is to be adopted, concerning, amongst other matters, widely distributed securities, takeover bids, transparency on major shareholdings and shareholders' agreements, corporate governance of small and medium sized enterprises and the management of continuous information. The aim is to complete simplification and rationalisation by spring 2012.

Other changes made independently by the institute concerned Art. 100 of the issuers' regulations, which disciplines listed companies' communications to Consob concerning changes in board membership, executive roles and the Director General, if provided; Model 3H for the disclosure and its instructions were also abrogated. The changes to Art. 100 were made in an effort both to consider regulatory innovation in matters of corporate governance (with specific reference to the members of the corporate bodies of listed issuers) and to extend and improve the disclosure to Consob and the market.

International relations VI

1 International cooperation

Consob continued its international cooperation activity in 2011 interacting with the supervisory authorities of EU member countries and of other countries (Table 44).

Table 44 Exchange of information between Consob and foreign supervisory authorities

subject	2004	2005	2006	2007	2008	2009	2010	2011
Information requests issued to foreign Authorities								
insider trading	8	12	16	18	25	23	20	27
market manipulation	8	6	12	9	27	14	23	18
unauthorised public offerings and investment services	2	4	5	1	2	3	10	14
transparency and corporate disclosure	9	10	5	1	2	1	8	--
major holdings in listed companies and authorised intermediaries	1	2	4	3	2	2	9	5
integrity and professionalism requirements	7	4	--	9	--	--	--	1
infringement of rules of conduct	2	--	1	--	--	3	3	1
transaction reporting pursuant to Art. 25 of the MiFID	–	–	–	–	1	1	--	--
short selling	–	–	–	–	42	6	4	
requests sent to remote members pursuant to Art. 57 of the MiFID	–	–	–	–	11	2	5	24
suspicious operation reports	–	–	–	–	1	6	9	5
total	*37*	*38*	*43*	*41*	*113*	*61*	*91*	*95*
Information requests from foreign Authorities								
insider trading	18	18	17	18	18	5	9	11
market manipulation	3	4	14	2	3	2	4	5
unauthorised public offerings and investment services	3	9	9	3	2	8	6	4
transparency and corporate disclosure	--	4	3	--	1	1	2	3
major holdings in listed companies and authorised intermediaries	--	4	--	1	1	--	1	1
integrity and professionalism requirements	44	31	46	37	18	36	41	50
infringement of rules of conduct	--	--	--	3	2	2	5	--
transaction reporting pursuant to Art. 25 of the MiFID	–	–	–	–	1	--	--	--
short selling	–	–	–	–	--	--	--	--
requests sent to remote members pursuant to Art. 57 of the MiFID	–	–	–	–	--	--	1	--
suspicious operation reports	–	–	–	–	2	5	8	11
total	*68*	*70*	*89*	*64*	*48*	*59*	*77*	*85*

Source: Consob.

More specifically, the institute sent 95 requests for cooperation to other authorities (as compared with 91 in 2010); the requests for information made to Consob by foreign supervisory authorities totalled 85 (77 in 2010) and concerned above all professionalism and integrity requirement checks.

2 Workstreams within the European Union

In 2011, as usual, Consob participated in the activities of the European Commission for the elaboration of draft Directives and Regulations.

The institute took part in negotiations concerning the proposed regulation of short sales and credit default swaps (CDS). In October 2011, the European Council and Parliament agreed on a shared text and the regulation, adopted and directly applicable to Member States will come into force in November 2012.

The proposal, presented by the European Commission in 2010, aims to create a standardised legislative framework for coordinated interventions on a European level, improve transparency and guarantee market integrity. The most significant aspects of the proposal concern: *i*) disclosure obligations relating to net individual short positions held in public debt securities and shares and short positions in CDS; *ii*) provisions on the management of orders relating to short sales; *iii*) the introduction of permanent restrictive measures for so-called "naked" short sales; *iv*) measures relating to settlement procedures; v) the exemptions regime; *vi*) powers of coordination and intervention in exceptional situations assigned to ESMA; *vii*) the powers of the competent authorities and international cooperation.

In 2011, the institute was involved in negotiations concerning the proposed regulation of over the counter (OTC) derivatives, central counterparts and trade repositories that the European Commission presented in 2010 to introduce a shared regulation and make the market of derivatives traded off the stock market safer and more transparent. The regulation adopted and applied to Member States after the agreement reached by the European Parliament and Council, will come into force at end 2012.

The clearing obligation will concern all OTC derivative contracts with certain characteristics in terms of standardisation and on the condition that it enables a reduction of the systemic risk. The obligation may be met with European or foreign central counterparts, respectively authorised or recognised and will apply to financial counterparts, as defined by the Regulation, and to "non-financial counterparts", as long as the speculative activity carried out exceeds a certain threshold, beyond which the non-financial counterpart will be subject to the obligation in relation to all OTC derivatives it has concluded; exemption is envisaged for infra-group operations. As concerns contracts not subject to clearing obligations by central counterparts, alternative risk mitigation measures will be introduced. The obligation to report to the supervisory authority will apply to all derivative contracts, not only OTCs. The Regulation establishes procedures and requirements for authorisation and supervision and organisational and prudence requirements to which the authorised central counterparts must keep. Additionally, ESMA is responsible for recording and supervising trade repositories.

Consob is monitoring the proposed amendment to Directive 2006/43/EC in relation to the legal auditing of the annual and consolidated accounts published by the European Commission on 30 November 2011 and currently discussed by the Board.

The European Commission proposes intervening on the current regulation in order to: *i*) introduce a passport for auditing firms and legal auditors that will enable them to work in Member States other than the State in which they are qualified; *ii*) establish, by regulation, more detailed standards in terms of the legal auditing of the accounts of entities of public interest; *iii*) strengthen cooperation between the competent national authorities; *iv*) provide for supervisory competences with public authorities in order to guarantee stricter controls of the legal auditors and auditing businesses; *v*) establish a special regime for small and medium enterprises.

Consob also participated in the debate on the proposed amendment of Directives 2002/87/EC and 2006/48/EC of the European Parliament and Council in relation to the supplementary supervision of banks, insurance companies and investment firms belonging to a financial conglomerate.

The current proposal aims to apply both supplementary supervision as envisaged by the Directive on financial conglomerates and the consolidated/group supervision established by the Directives on Capital Requirements and Insurance, on companies with mixed investments at the top of the financial conglomerate; it also aims to introduce greater flexibility in the identification of financial conglomerates subjected to prudential supervision, considering the potential risk of the group and providing for forms of coordination between European supervisory authorities.

The institute participated in the start-up of negotiations in relation to recent proposed Directives and regulations aimed at revising the current regulations of the MiFID Directive, made by the European Commission in October 2011. The proposal is currently being discussed by the Board.

In terms of markets, the main changes being discussed relate to: *i*) the regulation of the trading venue, in order to include any existing trading platform in the regulation and therefore to eliminate regulatory arbitrage; *ii*) transparency pre- and post- trading of share transactions; *iii*) the introduction of a transparency regime of information pre- and post-trading on non-share markets; *iv*) the consolidation of post-trading information; *v*) specific aspects of micro structure of the markets that consider technological innovation (high frequency trading, co-location, sponsored access and tick size); *vi*) derivative markets on commodities; *vii*) possible extensions of the regime for the communication to the authorities of information on transactions (transaction reporting).

As concerns intermediary regulations, the proposed revision of the MiFID concerns: *i*) the application of the Directive to the direct sale of financial instruments issued by banks and investment companies; *ii*) the regulation of investment consulting activities, also as an outcome of the European Union works on pre-assembled investment products; *iii*) the precautions that must be taken by intermediaries in launching complex products, including structured financial instruments; *iv*) the remuneration of those working on the commercial network in view of regulations on conflicts of interest.

In October 2011, the European Commission proposed adopting a regulation modifying the regulation on market abuse, negotiations of which also involve Consob.

The Commission intends to intervene on the current regulation in order to: *i*) extend the scope of application of the Directive to include financial instruments admitted for trading exclusively on the MTF; *ii*) extend the application of the Directive to include market manipulation through OTC instruments able to affect the prices of financial instruments traded on regulated markets or MTF; *iii*) also sanction the attempt to manipulate; *iv*) adapt the definition of privileged information for derivatives on commodities; *v*) provide for a more standardised sanction regime; *vi*) provide the competent authorities with additional investigative powers; *vii*) strengthen cooperation between supervisory authorities; *viii*) reduce issuer discretion in terms of the decision to delay the dissemination of privileged information; *ix*) reduce the costs for fulfilling transparency obligations by small and medium issuer enterprises. The proposal is currently being discussed by the Board.

The institute also participated in the works initiated by the European Commission for the reform of the Transparency Directive on the disclosure obligations applying to listed companies.

More specifically, the main new features proposed by the European Commission entail the introduction: *i*) of a beneficial regime for small issuers; *ii*) of obligations to also disclose derivatives settled in cash; *iii*) of greater standardisation in the disclosure of major shareholding also with reference to thresholds; *iv*) of transparency in the disclosure of information on payments to governments by extraction industry businesses; *v*) of provisions to facilitate access to information regulated on a European level.

In November 2011, the European Commission published a proposed revision of Regulation 1060/2009/EC on ratings agencies to cope with matters that are not governed by current European Union legislation.

More specifically, the Commission aims to govern: *i*) the risk of excessive reliance on ratings by market operators, particularly in cases where the ratings are used for regulatory purposes; *ii*) the high level of concentration of the ratings sector; *iii*) the civil responsibility of ratings agencies; *iv*) the remuneration models used by ratings agencies; *v*) the transparency and frequency of ratings of government securities.

During the year, Consob was involved in meetings of the EGAOB (European Group of Auditors' Oversight Bodies), a group of experts established by the European Commission to liaise between the public control bodies of legal auditors and the auditing firms on a European Union level.

The EGAOB provides the European Commission with support in assessing public control systems of third party countries and in problems of international cooperation. In January 2011, on the basis of the contributions made by the Group of Experts, the European Commission adopted a decision of equivalence of the supervisory systems in terms of auditing adopted in 10 third party countries (Australia, Canada, China, Croatia, Japan, Singapore, South Africa, South Korea, Switzerland and the United States of America).

3 Workstreams within the European Securities Market Authority (ESMA)

In 2011, Consob worked within the European Securities and Markets Authority (ESMA), which, as part of the new European financial supervisory architecture operative since January 2011, is the competent body for the equity sector.

ESMA has replaced CESR (Committee of European Securities Regulators), which was instituted in 2001 by the European Commission to deal with regulatory and supervisory matters of shared interest to the European Union Member States and states of the European Economic Area. ESMA flanks the EBA (European Banking Authority), which replaces the CEBS and is competent for the banking sector, and the EIOPA (European Insurance and Occupational Pensions Authority), which replaces the CEIOPS and is competent for the insurance sector and company or professional pensions.

As part of the new European supervisory structure, the proceedings by the joint task force of level three committees (CER, CEBS and CEIOPS) flowed into a new coordination committee (the "joint committee"), which has the task of encouraging cooperation and coherence of supervisory approaches taken by the three European authorities, above all with respect to the financial conglomerates and institutions active on a cross-border basis. In 2011, the Committee published the internal procedural rules and a list identifying financial conglomerates active in Europe.

ESMA has additional competences with respect to those previously assigned to CESR, concerning: *i*) the preparation of binding technical standards to be submitted to the European Commission for related adoption; *ii*) the resolution of any disputes between national supervisory authorities; *iii*) the exercise of powers to ensure the coherent application of European Union rules; *iv*) intervention to take measures in emergency situations. ESMA also has the faculty to prohibit or temporarily limit certain financial activities that may threaten the orderly function of the market or stability of the financial system and exercises direct powers of supervision on ratings agencies.

The institute has chaired the IMSC, Investment Management Standing Committee, of the ESMA and has helped prepare level 2 enactment measures of the new Directive on alternative investment fund managers.

More specifically, Directive 2011/61/EU, the "AIFMD", which introduces common rules for mutual investment funds managers other than harmonised UCITS (Undertaking for Collective Investment in Transferable Securities) funds and a European passport for the management and cross-border marketing of these funds, establishes the adoption by the European Commission of a series of level 2 provisions.

In 2010, the European Commission requested technical assistance from CESR in defining the measures to enact the AIFMD Directive and in 2011 ESMA published technical opinions concerning: i) the general provisions of the Directive, authorisation and operative requirements of alternative fund managers (GEFIA); ii) the obligations and requirements of fund depositories; iii) the transparency obligations and use of the financial leverage; iv) supervision of alternative fund managers, including managers based in third party countries.

Again in the IMSC, Consob helped draft guidelines, presented in 2010, for the measurement of risk and calculation of global exposure for certain types of structured UCITS, published in April 2011.

The guidelines propose: *i*) an optional regime for the calculation of global exposure and application criteria of the commitment approach, indicating practical risk control models; *ii*) the introduction of provisions on the transparency of UCITS using said regime.

The Group of Experts chaired by Consob drafted a document (Q&A) of questions and answers on the standardised definition of a "money market fund", which supplements and encourages a common interpretation and application of the guidelines prepared in 2010.

In July 2011, the IMSC also published a reference document in relation to ESMA guidelines concerning certain types of UCITS referred to as exchange-traded funds (ETF) and some structured UCITS. Upon completion of the reference procedure, the group prepared a new document setting out specific level 3 measures.

The measures relate to the information to be included in the prospectus, in the KII (Key Investor Information) for investors and in commercial communication and dictate further provisions for the protection of investors purchasing shares in said funds on the secondary market. The document also introduces a common definition of ETF in order to encourage greater transparency on the matter.

Another document on agreements for cross-border operations of harmonized management companies and the marketing of funds was published in October 2011, due to the late transposition of the UCITS IV Directive in some Member States. The document is regulated by the rules established by the European Court of Justice, according to which provisions of a self-executing directive are directly applicable in the Member States. The experts' works will continue in 2012.

The European Commission appointed ESMA to prepare technical opinions on the measures by which to enact Directive 2010/73/EU amending the Prospectus Directive (2003/71). Consob helped develop these rules and the Commission will adopt them by July 2012.

ESMA has the task of defining new provisions on: i) the format of prospectuses and the content of the key investor information; ii) the regime applicable to small and medium enterprises; iii) criteria for the assessment of equivalence with regards to the market of a third party country; iv) possible issue of technical provisions aimed at clarifying current level two legislation.

The additional work groups instituted by ESMA in which Consob was involved in 2011 include those set up by the Secondary Markets Standing Committee and the Investor Protection and Intermediaries Standing Committee in order to provide the European Commission with technical opinions under the scope of the revision of the MiFID Directive.

The Secondary Markets Standing Committee, in particular, carried out a public consultation concerning the guidelines aiming to govern high frequency trading, sponsored access and co-location services. The guidelines in these matters concern: *i*) the management of an electronic trading system by a regulated market or a multilateral trading system; *ii*) the use of an electronic trading systems, including a trading algorithm, by an investment company for trading on its own behalf or that of clients; *iii*) the possibility of gaining direct or sponsored access to the market offered by an investment company for the fulfilment of client orders. In line with those provided by the MiFID Directive, these guidelines do not only concern the trading of shares but also cover any financial instrument traded in an automated environment. Upon completion of the consultation (February 2012), ESMA published the guidelines that market investors must comply with as from May 2012.

The Secondary Markets Committee also took steps to encourage the convergence of supervisory practices in terms of exemptions with regards to pre-trading transparency obligations that the competent authorities may agree upon. To this purpose, and in support of a common application of the MiFID, the work group prepared concrete examples of exemptions that the national authorities will take as reference in exercising their responsibilities in the matter.

Works carried out by the Investor Protection and Intermediaries Committee include the preparation of reference documents in relation to guidelines on: i) the requirements of suitability in procedures established by intermediaries for a better knowledge of customers; ii) internal compliance department, aimed at encouraging a stricter application of the organisational requirements by intermediaries.

In terms of prospectus and transparency obligations of listed companies, Consob was involved in the works of the Standing Committee on Corporate Finance. In 2011, the standing committee not only produced guidelines for the correct application of European Union regulations on prospectuses, updating the Q&A document, but also published a document containing the changes to be made to the recommendations of the CESR in terms of the information on mining company prospectuses.

Works continued by the Standing Committee on Corporate Reporting on corporate information and of the sub-committee for enforcement, EECS (European Enforcers Coordination Sessions), in order to ensure the effective coordination of the enforcement of financial information Europe-wide.

The EECS implemented coordination of European enforcers to achieve a high level of standardisation in decisions concerning the supervision of the correct application of international accounting standards. More specifically, in 2011 new extracts were published containing the decisions taken by national enforcers of the European Union and entered into the electronic database of the CESR. This database, which was established in 2005, is an archive through which to consult major decisions taken in terms of ensuring the standardised application of IAS/IFRS throughout Europe.

On the basis of the analyses carried out by the EECS and the Standing Committee on Corporate Reporting, ESMA also published a reference document containing proposals aimed at improving the interpretation of the relevance of information in accordance with IFRS (International Financial Reporting Standards).

Consob was also involved in the activity of the ESMA-POL, which in 2011 followed-up on the European Commission mandate to prepare opinions and binding technical standards in implementation of the Regulation on short sales. The standing committee also provided updates of the Q&A document on market abuse.

The institute was also actively involved in the works of the review panel (standing group for the implementation of ESMA standards by Member States) for mapping the proceedings and supervisory powers of the authorities of Member States in implementation of the MiFID Directive.

More specifically, the Group carried out a mapping exercise of proceedings monitored nationally in terms of the application of administrative sanctions and penalties in cases of market abuse and powers available to the national authorities in order to cope with crisis and emergency situations. The review panel also began a peer review on the implementation by the supervisory authority of certain best practices in the scrutiny of prospectuses

The review panel also completed a recognition that began in 2010 on the application, in the individual Member States of discretionary and optional rules contained in the Transparency Directive.

In terms of ratings, the European Commission asked the corresponding ESMA work group, of which Consob is a member, to prepare cooperation agreements between the European Union and Japan for the monitoring of ratings agencies.

ESMA sent the European Commission binding technical standards implementing the European Regulation on ratings agencies (Regulation EU 2011/513).

The standards concern: i) transparency obligations and information to be made available to the public through the specific central repository managed by the ESMA; ii) the information to be supplied to the ESMA when requesting registration; iii) the assessment by the ESMA of the compliance of the methods adopted by the ratings agencies with the requirements established by the regulation; iv) the specific content of the regular disclosure obligations to ESMA for the implementation of continuous supervision. The work group also helped prepare a technical opinion in relation to the level two measures concerning the regulation of fees to ratings agencies.

In 2011, ESMA also registered 4 international ratings agencies in Europe, DBRS, Fitch Ratings, Moody's Investors Service and Standard & Poor's (S&P), assessed by the competent boards of the national authorities of the various Member States for the requirements of independence, governance and transparency established by the European regulation, and whose supervision is ESMA's responsibility

4 Workstreams within the International Organization of Securities Commissions (IOSCO) and other institutional settings

In 2011, Consob was involved in the technical committee and executive committee of IOSCO (International Organization of Securities Commissions) and was a member of the related standing committees, work groups and task forces.

Jointly with the supervisory authority of the United Kingdom (FSA), the institute chairs the Task Force on Unregulated Entities instituted by the technical committee in order to coordinate the control initiatives relating to unregulated entities.

In 2011, the Task Force on Unregulated Entities carried out a survey collecting information on the main jurisdictions under which hedge funds are operative, in order to assess any related possible systemic risks. The group has also regularly updated the Financial Stability Board on the level of implementation of the IOSCO principles in relation to the regulation of hedge funds.

Consob is involved in the task force instituted by the technical committee on the regulation of OTC derivatives with the aim of encouraging regulatory convergence on the transactions in derivatives concluded outside traditional trading platforms.

In 2011, the task force prepared 2 reports in relation to the compensation and guarantee of standardised operations with central counterparts and the collection and exchange of information by competent authorities.

Consob contributed to the works of other IOSCO task forces instituted to cope with the financial market crisis and coordinate general regulatory measures in support of the objectives indicated by the G20. The works of the task force were at the basis of the publication of new international standards seeking to encourage further convergence of national regulations in the areas of respective competence.

The Task Force on Commodity Futures Markets was established with the aim of assessing the suitability of the supervisory practices adopted internationally, considering the recent developments on the commodities markets. In 2011, the task force published principles aimed at strengthening transparency and supervision of trade of derivatives on commodities.

The Task Force on Unregulated Financial Markets and Products was instituted with a view to preparing a common approach to those sectors of the financial system as yet poorly supervised and regulated, such as the OTC market of derivatives and structured products. In 2011, the task force began an investigation amongst its members to verify the level of implementation in the various jurisdictions of IOSCO recommendations published in 2009 on the securitisation of loans.

During the year, Consob continued to participate in the permanent work groups of the IOSCO technical committee on transparency and accounting profiles (Standing Committee 1), secondary markets (Standing Committee 2), intermediaries (Standing Committee 3), cooperation problems (Standing Committee 4), collective investment undertakings (Standing Committee 5) and ratings agencies (Standing Committee 6).

Following the works carried out by Standing Committee 1, IOSCO published a reference document in relation to transparency obligations concerning structured products originating from loan securitisation operations.

In terms of markets, Standing Committee 2 prepared a report analysing matters relating to "dark pools" and recommending regulatory measures aimed at increasing the level of transparency of trade, reducing risks deriving from excessive fragmentation in the different trading places.

The Committee also prepared a reference document concerning the problems of integrity and correct function of secondary markets connected with the use of electronic trading platforms for the inclusion of orders and high frequency trading programmes.

Standing Committee 3 on intermediaries completed a reference document concerning the offer of complex financial products, in which specific rules of conduct are defined to ensure suitable investor protection. The report was prepared by a sub-group chaired by Consob and published early 2012.

In collaboration with Standing Committee 5, in 2011 Standing Committee 3 instead defined, in the event of the offer of products comparable to mutual investment funds, the transparency obligations with regards to retail investors; the document has identified the key investor information to be given to them at the time of subscribing collective management products. The committee has prepared a report on the internal procedures to be applied by intermediaries in pricing structured products and in managing the risk of liquidity and has also carried out a recognition of the rules applicable to insolvency of intermediaries and the protection of investor assets.

In terms of international cooperation, Standing Committee 4 has continued to maintain dialogue with the jurisdiction setting hindrances to the exchange of information between competent authorities, in order to remove impediments and promote adhesion to the multilateral cooperation agreement of IOSCO.

The Group has also helped create a portal on the IOSCO institutional website, which enables investors to access the list of notifications in relation to the unlawful provision of investment services by the various competent authorities.

In terms of collective investment undertakings, in 2011, Standing Committee 5 began consultation on the principles that managers of open funds must respect with regards to the suspension of subscriptions or the reimbursement of fund units in order to manage the risk of liquidity and guarantee investor protection.

Standing Committee 6, established in 2009 to pursue the work of the task force on ratings agencies, concluded recognition of the regulatory initiatives taken in the various jurisdictions relating to ratings agencies, in order to assess the conformity of these regulations to IOSCO principles.

Consob contributed to the proceedings of the Implementation Task Force concerning IOSCO's Objectives and Principles on Securities Regulation.

In 2011, the group published the principles of IOSCO's methodology, the revision of which resulted in the introduction of 8 new principles on: speculative funds, ratings agencies, subjects offering analysis and assessment services, independence and supervision of auditors, monitoring and management of systemic risk, revision of the scope of regulation and conflicts of interest.

Consob was also involved in the works of the joint forum, a group comprising representatives of the supervisory authorities of the banking, financial and insurance sector for further investigation of matters of shared interest. The Group has initiated a new workstream that seeks to examine the regulatory divergences between the three sectors for transparency in the distribution of financial products to retail investors. The joint forum intends to, in this regard, develop recommendations aimed at reducing the risk of arbitrage and encouraging a greater comparability of information concerning investment funds and certain financial products issued by insurance companies and banks.

Finally, in 2011 Consob was involved in the work of additional international organisations, including the Financial Stability Board (FSB), the International Forum of Independent Audit Regulators (IFIAR), a group aimed at facilitating cooperation between supervisory authorities with regards to the auditing of accounts, and the Organisation for Economic Cooperation and Development (OECD), where Consob chairs the Steering Group on Corporate Governance, which coordinates analyses on corporate governance matters.

Internal management and external relations VII

1 Financial management

Preliminary total expenditure of 132.4 million euro for financial year 2011 increased by 23.8 million euro compared to the final balance for 2010 (Table 45).

More specifically, current expenditure of 130.7 million euro increased by 24.9 million compared to the same item in 2010, whilst capital expenditure was down from 1.7 to 2.8 million euro.

Table 45 Summary table of revenues and expenditure
(millions of euro)

Items	2004[1]	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]	2010[1]	2011[2]
Revenues								
previous year surplus[3]	11.7	15.3	12.8	24.0	29.7	11.5	6.5	14.5
state funding	26.7	25.4	13.1	10.7	9.8	7.9	1.0	0.4
supervisory fees	49.2	46.9	75.2	75.1	75.0	87.8	108.9	116.6
sundry revenues	3.5	3.7	7.5	9.9	17.2	11.1	6.8	11.4
total revenues	*91.1*	*91.3*	*108.6*	*119.7*	*131.7*	*118.3*	*123.1*	*142.9*
Expenditure								
Current expenditure								
members of the commission	2.2	2.0	2.2	2.6	2.6	2.6	2.0	2.4
staff	44.6	48.0	55.1	60.2	70.6	72.5	80.5	83.3
goods and services	19.4	19.4	20.8	23.0	23.3	17.3	18.2	22.3
expenses for restoration and expansion of property	4.3	4.3	4.1	4.1	4.0	3.4	3.9	3.6
provisions for risks associated with possible compensation for damages	—	4.3	0.0	0.0	18.3	12.2	0.4	17.8
unclassified expenditure	5.2	0.3	0.1	0.1	0.8	1.7	1.3	1.3
total current expenditure	*75.7*	*78.3*	*82.3*	*90.0*	*119.6*	*109.7*	*105.8*	*130.7*
capital expenditure	2.6	1.5	1.9	1.7	2.0	3.2	2.8	1.7
total expenditure	*78.3*	*79.8*	*84.2*	*91.7*	*121.6*	*112.9*	*108.6*	*132.4*

Source: Consob. [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 adjustments to investments (not shown in the table). The 2010 surplus is recorded in 2011 revenues.

The relevant increase in current expenditure is almost entirely due to the greater amount of risks provisions for possible damage compensations (from 0.4 to 17.8 million euro) while staff costs were up by 3.5 percent (from 80.5 to 83.3 million euro) and purchase of goods and services by 22.5 percent (from 18.2 to 22.3 million euro), mainly represented by rent and management of new office space in Rome and Milan and greater IT maintenance costs. Capital expenditure was instead due to hardware and software purchase.

Total income for 2011 (net of previous year surplus) was 128.4 million euro, 90.8 percent of which coming from supervisory fees, 8.9 percent represented by sundry income (essentially, interest income plus sums liquidated by court rulings) and just 0.3 percent from government transfer.

Supervisory fees were basically collected from the following categories: listed companies, intermediaries (banks, investment companies and stockbrokers), auditing firms, market operators, public offerings, etc. (Table 46).

Table 46 Fee breakdown by category of supervised entity
(millions of euro)

	investment firms and stockbrokers	banks	independent auditors	promoters of financial services	market entities[3]	listed companies	UCITS[4]	supervision of public offerings	others	*total contribution revenues*
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	5.5	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[1]	1.3	13.1	9.0	5.0	5.4	14.7	8.6	29.1	1.6	*87.8*
2010[1]	1.6	16.9	11.9	5.5	5.7	19.8	10.7	34.8	2.0	*108.9*
2011[2]	1.7	20.2	12.1	5.2	5.7	23.0	11.5	34.7	2.5	*116.6*

Source: Consob. [1] Annual accounts. [2] Preliminary data. [3] Includes Borsa Italiana SpA, Tlx SpA (until 2008), MTS SpA, Cassa di Compensazione e Garanzia SpA, Monte Titoli SpA and Organismo Promotori Finanziari (since 2009). [4] Includes the supervisory fees paid by asset management companies for individual portfolio management services.

2 Human resource management

On 1 October 2011, Consob's new organisational structure became effective, meeting various aims, whose pursuit inspired the main guidelines for change in response to an ever evolving market structure and dynamics (Table 47).

The institutional context created in the past ten years, following European standardisation and major changes in markets organisation and operations, made it necessary and no longer deferrable the adjustment of the internal structure.

Table 47 Staff composition by seniority and organizational unit[1]

organizational unit	executives	managers	employees	other[2]	*total*
General Management	2	3	11	4	*20*
General Secretary	4	0	1	0	*5*
General Lawyer	1	0	0	0	*1*
Legal Services	4	21	10	1	*36*
Offices used by the commission[3]	5	19	31	1	*56*
Offices used by the General Management[3]	1	14	12	0	*27*
Divisions					
Issuers information	4	19	16	1	*40*
Corporate governance	7	22	21	1	*51*
Markets	7	33	35	1	*76*
Intermediaries	5	33	40	0	*78*
Inspectorate	3	24	15	0	*42*
Research	3	11	18	0	*32*
Administration	11	31	55	12	*109*
Regulatory strategies	3	4	8	0	*15*
Consumer protection	5	8	8	1	*22*
Divisions total	*48*	*185*	*216*	*16*	*465*
TOTAL	*65*	*342*	*281*	*22*	*610*

Source: Consob. [1] Figures at 31 December 2011. Fixed-term employees are classified according to the equivalent permanent grades. [2] "Other" includes general service career staff. [3] Offices not coordinated by the Divisions.

The need to carry out a harmonious rationalisation of the instrumental activities resulted in the creation of the Administrative Division, under which scope staff management, organisation, the administration of goods and services and the management of information systems were included. The unitary coordination of all instrumental activities lays the basis for the progressive development of an integrated, efficient policy in line with the supply of back office services, optimising the complementary nature of the different areas of production of instrumental services. Under this scope, we also have the constitution of a new office in charge of implementing health and safety policies at work. other organisational units were defined, privileging the specialisations in the supervisory functions and support functions.

To strengthen and rationalise support activities through their allocation between support activities and supervisory activities, with the coordination between the Director General and staff to the Commission, the hierarchical-functional allocation of certain organisational units was also reconsidered, while other units were established *ex novo*.

Changes were also made to the Regulation for the organisation and operation of the institute.

More specifically, it was implemented the legislative provision for the position of General Secretary, to whom support tasks were assigned with regards to the institutional senior management; changes were also made with reference to the functional position and the service report of the Director General, heading the operative coordination of the divisions and some non-coordinated offices and the Deputy Director General.

The institute workforce consists of 610 employees, 35 more than last year. This increase is due to the hiring of 51 people (of whom 7 already working at Consob with different qualifications before being hired through public selection) and the retirement of 9 resources (Table 48).

Table 48 Personnel

	permanent employees				temporary contracts employees	*total*
	management careers	operating careers	general services careers	*total*		
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*
2010	239	270	21	*530*	45	*575*
2011	260	280	22	*562*	48	*610*

Source: Consob. See Methodological notes. [1] Figures at 31 December.

During the year, staff hiring and career progress criteria were revised considering employees' age, the lengthening of working life, the new internal organisational structure and the need to limit costs.

Therefore, new hires were deferred, career progression was slowed and resources assignment criteria was upgraded.

As training is concerned, spending decreased to 400 thousand euro in 2011 (from 475 thousand in 2010) with a reduction in total training hours delivered.

3 External relations and investor education

In 2011, the institute continued its public and investor relations. The institutional website was confirmed as the central tool for the institute's communication with the outside world; the high number of visitors confirms the importance of the instrument in terms of acquiring data and information on regulations and related compliance by operators, investors and researchers (Table 49; Table 50).

Table 49 Visitors to the Consob website
(thousands of visitors)

Pages	2005	2006	2007	2008	2009	2010	2011
Home page (What's new)	2,040	2,675	2,130	1,803	1,873	1,819	1,275
Investors	158	303	344	188	173	193	199
For entities monitored	101	359	367	510	309	388	322
For journalists[1]	–	–	–	12	12	12	5
Consob	229	–	847	1,127	1,454	1,254	1,154
Issuers	2.81	3,937	2,791	2,879	3,679	3,275	3,177
Intermediaries and markets	290	889	1,691	1,436	1,020	1,121	1,090
Consob Decisions/Newsletter	519	597	696	734	968	935	977
Legal framework	727	956	2,117	2,395	1,906	2,127	2,065
Publications and press releases[2]	521	634	750	–	–	–	191
Other websites	14	18	10	9	209	9	4
Site search engine	275	276	313	256	209	196	116
Integrated automatic systems[3]	–	–	–	947	1,746	6,422	....
Help and site map	89	25	26	58	15	16	9
Interactive area[4]	–	–	–	–	44	97	51
English version	141	429	297	274	845	290	322

Source: Consob. [1] Data relating to journalists until 2007 was included in the home page item. [2] In 2008, data was included in Consob. [3] Data relating to 2008 (available as from October) refers to visitors to the Automatic Integrated Supervisory System and the Financial Salesmen Roll (Saivap) and the Automatic Integrated Supervisory System of Control Offices (Saivic); as from June 2009 and October 2009, the figure includes visitors, respectively, to the Integrated External System (Sipe) and the Automatic Integrated Supervisory System on Insurance (Saivia). [4] Figures are available as from June 2009, the date on which the new interactive area was published.

Table 50 Requests for documentation and information concerning Consob's activities

	applicants			subject of applications				
	institutional investors and market operators	investors, students etc.	*total*	resolutions, communications, prospectuses	integrated texts of laws and regulations	data and information	other	*total*
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*
2010	308	1,291	*1,599*	178	264	763	394	*1,599*
2011	315	1,385	*1,700*	188	270	792	450	*1,700*

Source: Consob.

To facilitate the understanding of how the Conciliation and Arbitration Chamber works, Consob published a guide describing the function of the Chamber and the essential steps of conciliation and arbitration.

After having defined its tasks, the Chamber began the administration of conciliation and arbitration in March 2011. 265 requests for conciliation have been received and effectively initiated by the Chamber.

During the year, the first half-yearly update of the conciliators and arbitrators' list took place, with the registration of 386 new conciliators and 106 new arbitrators (Consob resolutions nos. 213 and 214 of 5 December 2011).

4 IT systems

In 2011, Consob's computer systems were updated following the development of the three-year strategic plan defining the evolution of the Information and Communication Technology (ICT) with the adoption of technological and methodological standards for the innovation and integrated management of the institute's central computer systems.

To manage institutional activities, during the year a new web-based data collecting system was launched for the acquisition of data and information from supervised entities.

In 2011, the strengthening and consolidation of equipment concerning the ICT infrastructures and architectures of Consob continued. The institute prepared its interconnection services for the sharing of information and data with the public administration.

In terms of IT security, the system adopted by the institute, named Information Security Management System according to international standard ISO/IEC 27001 extended the scope of action, helping raise data protection. To consolidate and support the current prevention model, up-to-date technologies were acquired, in order to increase the capacity to react against computer hacking and attempted intrusion.

In 2011, given the computer system restructuring in line with the new job assignments, a lot of systems were updated and polices governing access to applications and databanks redefined.

Statistical information C

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Markets

Asset management and investment services

Financial statements of listed companies

Markets I

Table A.1 Capitalisation of Italian listed companies
(end period data; billions of euro)

		financial	industrial	services	total	*% GDP*
2010	Q1	166.8	171.6	120.7	459.1	*29.6*
	Q2	134.3	152.0	103.8	390.0	*25.1*
	Q3	141.6	163.5	113.2	418.3	*26.9*
	Q4	128.9	177.7	118.3	424.9	*27.4*
2011	Q1	137.4	189.7	130.0	457.2	*28.9*
	Q2	124.1	182.9	124.7	431.7	*27.3*
	Q3	93.8	141.6	101.5	336.9	*21.3*
	Q4	86.6	150.7	94.7	332.0	*21.0*

Source: statistical supervisory reports. To divide the listed companies, the classification adopted by Borsa Italiana SpA was used. Service companies include companies belonging to the sectors of 'Health', 'Services to the consumer', 'Services of public utility' and 'Telecommunications' while industrial companies include companies belonging to the sectors of 'Consumer goods', 'Chemicals and raw materials', 'Energy', 'Technology' and 'Industry'.

Table A.2 Turnover in shares of Italian listed companies[1]
(billions of euro)

		Borsa Italiana (MTA)	other platforms	total	*pro memoria OTC trades*
2010	Q1	168.5	32.1	200.5	*98.2*
	Q2	249.7	57.8	307.5	*183.3*
	Q3	162.0	31.6	193.6	*101.1*
	Q4	163.9	29.4	193.3	*114.9*
	total	*744.1*	*150.9*	*894.9*	*497.5*
2011	Q1	213.7	33.6	247.3	*121.2*
	Q2	192.6	38.7	231.3	*221.4*
	Q3	174.8	33.7	208.5	*120.9*
	Q4	126.0	17.1	143.1	*82.6*
	total	*707.1*	*123.2*	*830.3*	*546.1*

Source: statistical supervisory reports. [1] Includes figures on convertible bonds, warrants and option rights (excluding ETF, ETC and ETN). The figures on equity instruments traded on the MTA International segment are not included while those on the shares of foreign companies for which Consob is the competent authority under the terms of the MiFID (Cell Therapeutics, Tenaris and D'Amico International Shipping) are included. The data on OTC trades are corrected for double counting of transactions.

Table A.3 Purchases and sales of Italian listed shares by Italian open-end mutual funds in 2011
(millions of euro)

Italian securities listed on Borsa Italiana	sales	purchases	trades	*% of total Turnover*	net purchases
Unicredit	1,390.1	1,438.8	2,828.9	*36.7*	48.7
Intesa Sanpaolo	297.1	288.7	585.8	*7.6*	-8.4
Eni	215.4	214.1	429.5	*5.6*	-1.3
Enel	174.8	182.2	357.0	*4.6*	7.4
Telecom Italia	114.1	95.3	209.5	*2.7*	-18.8
Fiat	109.5	99.1	208.6	*2.7*	-10.3
Banco Santander	65.0	110.7	175.7	*2.3*	45.8
Atlantia	84.3	62.0	146.3	*1.9*	-22.3
Fiat Industrial	80.7	63.3	144.0	*1.9*	-17.4
Saipem	64.9	62.3	127.2	*1.6*	-2.5
Generali Ass	62.6	59.6	122.2	*1.6*	-3.1
Bulgari	47.8	71.5	119.2	*1.5*	23.7
Parmalat	53.0	58.5	111.4	*1.4*	5.5
Mediobanca	50.7	55.3	106.0	*1.4*	4.6
Telecom Italia	47.6	58.0	105.5	*1.4*	10.4
Tenaris	63.5	39.7	103.3	*1.3*	-23.8
Mediaset SpA	50.7	44.8	95.4	*1.2*	-5.9
Finmeccanica	45.3	41.5	86.9	*1.1*	-3.8
Prysmian	42.7	43.4	86.1	*1.1*	0.7
Terna	31.0	38.1	69.1	*0.9*	7.0
Ubi Banca	36.4	31.9	68.3	*0.9*	-4.6
Bca Pop Milano	29.5	35.7	65.1	*0.8*	6.2
Banco Bilbao Va	34.5	29.0	63.5	*0.8*	-5.6
Stmicroelectronics	29.7	31.8	61.6	*0.8*	2.1
Banco Popolare	32.0	29.3	61.3	*0.8*	-2.7
Snam	26.8	32.5	59.3	*0.8*	5.7
Impregilo	26.4	27.3	53.7	*0.7*	0.9
BCA MPS	23.7	27.7	51.5	*0.7*	4.0
Pirelli & C	27.1	21.4	48.5	*0.6*	-5.8
Bulgari Opa	21.5	20.8	42.3	*0.5*	-0.7
top 30 stocks			6,792.9	88.1	
other stocks			920.2	11.9	
total			*7,713.1*	*100.0*	

Source: statistical supervisory reports.

Table A.4 Turnover in bonds other than Italian government securities on Italian regulated markets and multilateral trading facilities[1]
(billions of euro)

		bank bonds	non-financial corporate bonds	bonds of supranational issuers	non-Italian government bonds	total
2010	Q1	12.7	2.0	13.0	60.5	88.3
	Q2	11.9	1.6	9.9	80.9	104.3
	Q3	9.0	1.4	7.5	41.9	59.8
	Q4	11.6	1.7	7.6	50.1	70.9
	total	*45.3*	*6.6*	*38.0*	*233.4*	*323.3*
2011	Q1	11.7	1.7	7.2	62.3	82.9
	Q2	12.5	1.5	6.4	56.5	76.9
	Q3	9.3	1.2	6.8	65.8	83.1
	Q4	9.4	1.8	6.7	5.9	23.8
	total	*42.9*	*6.2*	*27.1*	*190.6*	*266.7*

Source: statistical supervisory reports. [1] The figures relate to the Mot and Mts Bondvision regulated markets and to the ExtraMot, EuroTLX, Hi-MTF Multilateral Trading Facilities.

Table A.5 Turnover in Italian government securities
(billions of euro)

		MTS	MOT	EuroTLX	other platforms	total	*OTC*
2010	Q1	248.7	51.0	11.2	80.0	390.9	*942.2*
	Q2	181.2	55.7	10.4	97.9	345.1	*981.0*
	Q3	222.2	45.7	9.6	111.2	388.6	*1,048.6*
	Q4	234.7	49.6	7.5	129.8	421.7	*1,140.8*
	total	*886.9*	*202.0*	*38.7*	*418.8*	*1,546.3*	*4,112.6*
2011	Q1	313.5	44.1	8.5	168.5	534.5	*1,295.2*
	Q2	272.7	39.3	6.5	152.1	470.5	*992.8*
	Q3	150.2	44.0	4.5	123.5	322.2	*821.4*
	Q4	109.3	56.7	10.8	81.8	258.6	*524.5*
	total	*845.7*	*184.0*	*30.3*	*525.9*	*1,585.9*	*3,633.9*

Source: statistical supervisory reports. The data on OTC trades are corrected for double counting of transactions.

Table A.6 Turnover in equity derivatives on the Idem market
(notional turnover in billions of euro)

		index futures [1]	index options	stock futures [2]	stock options	total
2010	Q1	139.3	44.1	0.5	15.4	199.3
	Q2	186.2	51.0	24.8	13.2	275.3
	Q3	148.4	41.4	6.9	12.0	208.6
	Q4	141.8	38.5	4.5	16.3	201.1
	total	*615.8*	*174.9*	*36.6*	*56.9*	*884.3*
2011	Q1	169.0	45.3	1.5	17.4	233.1
	Q2	157.8	39.7	26.0	12.6	236.1
	Q3	171.5	49.1	4.0	12.9	237.5
	Q4	119.4	27.9	1.6	10.6	159.4
	total	*617.6*	*162.0*	*33.0*	*53.4*	*866.0*

Source: statistical supervisory reports. [1] Includes data for index minifutures. [2] Includes data for European stock futures.

Asset management and investment services II

Table A.7 Wealth invested in financial instruments deposited at Italian intermediaries
(period end data; market values in billions of euro)

		derivative instruments	equity securities	corporate and foreign government bonds	Italian government bonds	other securities[1]	mutual funds	*total wealth*
professional customers[2]								
2010	Q2	30.5	254.5	750.7	584.8	23.0	150.9	*1,493.4*
	Q3	19.6	255.1	715.0	673.4	29.6	128.4	*1,548.8*
	Q4	31.9	366.0	777.4	761.8	25.4	163.4	*1,821.4*
2011	Q1	25.9	385.6	777.0	707.6	26.8	150.0	*1,771.7*
	Q2	36.2	372.2	767.3	730.0	22.2	131.2	*1,772.2*
	Q3	36.1	301.3	722.1	651.0	17.6	147.2	*1,568.8*
	Q4	38.1	328.7	699.5	628.8	25.5	140.5	*1,565.7*
retail customers [3]								
2010	Q2	60.7	312.4	873.3	427.2	24.5	312.0	*2,010.1*
	Q3	19.2	288.6	917.6	412.7	25.0	320.4	*1,983.5*
	Q4	10.8	219.5	798.4	350.2	20.4	307.0	*1,706.3*
2011	Q1	7.3	221.9	787.5	353.9	20.9	361.5	*1,753.0*
	Q2	8.4	212.9	780.8	352.2	18.5	360.8	*1,733.6*
	Q3	5.6	182.8	757.0	338.3	17.2	329.6	*1,630.5*
	Q4	5.8	180.8	747.7	345.5	20.9	324.5	*1,625.2*
Italian intermediaries[4]								
2010	Q2	0.3	3.3	76.9	60.9	–	5.3	*146.7*
	Q3	0.2	6.0	66.5	70.0	–	4.4	*147.1*
	Q4	0.1	5.2	64.0	67.9	–	3.5	*140.7*
2011	Q1	0.1	5.7	65.8	63.6	–	4.3	*139.5*
	Q2	0.1	5.6	57.7	49.6	–	3.2	*116.2*
	Q3	0.1	3.4	45.6	53.9	–	2.7	*105.7*
	Q4	0.1	1.7	66.9	62.5	–	1.9	*133.1*

Source: statistical supervisory reports. [1] Securities which could not be classified. [2] Professional customers include qualified counterparties. The figures on the single categories of securities include both owned financial instruments (including those held through individual managements) and those in custody relating to asset management services, while the total includes only owned securities. [3] The figures include financial instruments relating to administered savings and individual management. Retail customers include unclassified subjects. [4] Trading book of banks and investment firms.

Table A.8 Assets under management of Italian intermediaries – total data [1]
(billions of euro)

		assets under management[2] mutual funds	pension funds	asset management	other	*total*	portfolio securities [2]	cash and repos[2]	subscriptions	redemptions	purchases of financial instruments[3]	sales of financial instruments[3]
2010	Q1	280.0	6.5	474.4	3.9	*764.7*	....	35.6	63.8	49.7	191.6	175.7
	Q2	271.1	6.4	473.5	3.9	*754.9*	662.7	34.2	58.9	59.8	187.6	182.8
	Q3	272.5	6.3	484.2	4.0	*767.0*	676.1	29.9	41.4	45.8	149.2	143.3
	Q4	264.6	6.3	466.8	3.7	*741.4*	651.8	27.6	46.7	59.2	149.4	158.6
	total								***210.8***	***214.5***	***677.8***	***660.4***
2011	Q1	259.7	6.8	472.7	3.7	*742.8*	650.6	27.8	62.5	65.4	183.4	187.4
	Q2	253.0	6.9	467.5	3.5	*731.0*	639.7	25.3	40.9	51.4	154.6	159.9
	Q3	242.7	6.9	446.0	3.3	*698.9*	597.0	28.8	32.5	41.7	133.5	142.3
	Q4	231.8	7.1	438.9	3.0	*680.9*	580.6	27.3	37.4	55.6	110.7	123.8
	total								***173.3***	***214.1***	***582.2***	***613.4***

Source: statistical supervisory reports. [1] Does not include asset management set up by foreign subjects and delegated to Italian subjects. [2] Period end data. [3] Excludes derivative financial instruments.

Table A.9 Assets managed by Italian intermediaries – Italian open-end mutual funds
(billions of euro)

		assets under management [1]	portfolio securities [1]	cash and repos[1]	Subscriptions	redemptions	purchases of financial instruments[2]	sales of financial instruments[2]	turnover[3]
2010	Q1	213.2	191.8	17.0	19.6	22.9	66.9	69.3	*0.24*
	Q2	204.3	185.4	14.5	19.0	22.6	70.7	72.3	*0.26*
	Q3	202.0	184.7	13.0	10.1	14.9	59.6	61.8	*0.20*
	Q4	194.0	178.4	10.8	12.8	21.0	57.5	64.1	*0.23*
	total				***61.5***	***81.4***	***254.7***	***267.5***	
2011	Q1	185.3	169.8	10.7	12.8	20.9	73.1	80.6	*0.26*
	Q2	178.6	163.6	9.2	10.8	16.2	58.9	63.3	*0.23*
	Q3	164.3	148.1	10.7	7.9	14.8	54.6	63.5	*0.22*
	Q4	153.4	138.9	9.7	12.1	23.8	44.9	54.8	*0.20*
	total				***43.6***	***75.7***	***231.5***	***262.2***	

Source: statistical supervisory reports. [1] Period end data. [2] Excludes derivative financial instruments. [3] The turnover is calculated as follows: (((purchases + sales) - (subscriptions - redemptions))/2)/assets under management.

Table A.10 Assets managed by Italian intermediaries – portfolios managed on an individual basis
(billions of euro)

		assets under management[1]				portfolio securities[1]	cash and repos[1]	subscriptions	Redemptions	purchases of financial instruments[2]	sales of financial instruments[2]	turnover[3]
		Asset management companies	Banks	Investment firms	*total*							
2010	Q1	360.8	103.7	9.9	*474.4*	....	13.5	43.3	26.3	112.7	96.7	....
	Q2	356.9	105.4	11.2	*473.5*	456.0	14.6	39.2	36.7	106.5	101.2	*0.22*
	Q3	367.2	104.8	12.1	*484.2*	469.6	11.5	30.2	30.6	85.3	78.0	*0.17*
	Q4	357.7	97.7	11.4	*466.8*	451.5	11.5	32.7	37.6	87.6	90.7	*0.20*
	total							145.4	131.2	392.1	366.5	
2011	Q1	361.6	98.7	12.3	*472.7*	458.6	11.8	48.0	44.3	104.9	101.8	*0.21*
	Q2	358.0	97.4	12.1	*467.5*	453.5	10.9	28.7	34.9	91.5	92.8	*0.20*
	Q3	343.3	91.4	11.3	*446.0*	429.6	13.4	22.6	26.4	73.3	74.4	*0.17*
	Q4	335.9	92.0	10.9	*438.9*	422.1	12.8	23.4	31.0	60.8	65.4	*0.15*
	total							122.6	136.5	330.6	334.4	

Source: statistical supervisory reports. [1] Period end data. [2] Excludes derivative financial instruments. [3] The turnover is calculated as follows: (((purchases + sales) - (subscriptions - redemptions))/2)/assets under management.

Table A.11 Assets managed by Italian intermediaries – Italian closed-end mutual funds
(billions of euro)

		assets under management	portfolio securities[1]	cash and repos[1]	subscriptions	redemptions	purchases of financial instruments[2]	sales of financial instruments[2]	turnover[3]
2010	H1	66.8	15.2	4.7	1.0	0.4	2.3	2.3	0.03
	H2	70.6	15.9	5.0	1.9	0.4	4.0	2.5	0.04
	total				*2.9*	*0.8*	*6.3*	*4.8*	
2011	H1	74.5	15.7	5.0	2.3	0.4	3.2	2.5	0.03
	H2	78.4	12.2	4.4	2.8	0.4	4.0	2.2	0.02
	total				*5.1*	*0.7*	*7.2*	*4.7*	

Source: statistical supervisory reports. [1] Period end data. [2] Excludes derivative financial instruments. [3] The turnover is calculated as follows: (((purchases + sales) - (subscriptions - redemptions))/2)/assets under management.

Table A.12 Assets managed by Italian intermediaries – pension funds and other pension schemes[1]

(billions of euro)

		assets under management[2]			portfolio securities [2]	cash and repos[2]	subscriptions	redemptions	purchases of financial instruments[3]	sales of financial instruments[3]	turnover[4]
		Asset management companies	Banks	*total*							
2010	Q1	4.6	1.9	*6.5*	....	0.2	0.4	0.3	2.3	2.5	....
	Q2	4.6	1.8	*6.4*	6.1	0.3	0.3	0.2	4.2	4.4	*0.66*
	Q3	4.7	1.6	*6.3*	6.0	0.3	0.2	0.2	2.2	2.2	*0.35*
	Q4	4.7	1.6	*6.3*	6.0	0.3	0.2	0.3	2.4	2.6	*0.40*
	total						*1.1*	*1.1*	*11.1*	*11.7*	
2011	Q1	4.9	1.9	*6.8*	6.6	0.2	0.6	0.1	3.7	3.8	*0.51*
	Q2	5.0	1.9	*6.9*	7.0	0.2	0.2	0.1	2.6	2.6	*0.36*
	Q3	4.9	2.1	*6.9*	7.1	0.3	0.7	0.3	3.6	3.3	*0.47*
	Q4	5.0	2.1	*7.1*	7.4	0.2	0.3	0.2	3.0	2.5	*0.38*
	total						*1.7*	*0.7*	*12.9*	*12.1*	

Source: statistical supervisory reports. [1] The figures exclude insurance companies. [2] Period end data. [3] Excludes derivative financial instruments. [4] The turnover is calculated as follows: (((purchases + sales) - (subscriptions - redemptions))/2)/assets under management.

Table A.13 Net subscriptions of open-end mutual funds placed in Italy

(billions of euro)

		equity	balanced	flexible	cash	Bond	speculative	total Italian open-end mutual funds	foreign open-end mutual funds [1]	grand total
2010	Q1	-0.3	-0.2	1.1	-5.3	1.4	0.0	-3.2	34.1	30.9
	Q2	-0.5	-0.1	1.6	-6.3	1.7	0.1	-3.5	3.8	0.4
	Q3	-0.3	-0.2	-0.3	-3.3	-0.3	0.3	-4.1	95.8	91.7
	Q4	-0.6	-0.1	-1.1	-4.1	-1.9	0.4	-7.3	61.9	54.6
	total	*-1.7*	*-0.6*	*1.3*	*-19.0*	*1.0*	*0.9*	*-18.2*	*195.7*	*177.5*
2011	Q1	-0.4	-0.2	-0.9	-2.3	-3.8	0.4	-7.2	63.5	56.2
	Q2	-0.1	-0.3	-1.0	-1.2	-2.5	0.2	-4.9	24.2	19.3
	Q3	-0.5	-0.3	-1.4	-2.0	-2.5	0.2	-6.5	-47.2	-53.7
	Q4	-0.1	-0.4	-2.1	-4.1	-5.0	-0.0	-11.8	-10.2	-21.9
	total	*-1.2*	*-1.3*	*-5.3*	*-9.6*	*-13.8*	*0.8*	*-30.4*	*30.3*	*-0.1*

Source: statistical supervisory reports. [1] The figures for the last two quarters of 2011 are preliminary.

Table A.14 Net asset values of open-end mutual funds placed in Italy
(period end balances; billions of euro)

		equity	balanced	flexible	cash	bond	speculative	total Italian open-end mutual funds	foreign open-end mutual funds [1]	grand total
2010	Q1	27.1	11.1	30.5	55.2	78.3	11.0	213.2	196.1	409.2
	Q2	24.7	10.7	31.6	48.4	78.4	10.6	204.3	194.3	398.6
	Q3	25.1	10.7	31.7	45.2	78.9	10.3	202.0	203.2	405.1
	Q4	26.2	10.5	32.1	39.3	75.8	10.0	194.0	215.8	409.8
2011	Q1	25.5	10.0	33.1	35.2	71.9	9.5	185.3	199.4	384.6
	Q2	24.5	9.5	31.8	33.9	69.8	9.1	178.6	197.0	375.5
	Q3	20.2	8.6	28.9	31.8	66.5	8.2	164.3	173.9	338.2
	Q4	21.1	8.5	26.9	27.8	61.4	7.8	153.4	172.0	325.4

Source: statistical supervisory reports. [1] The figures for the last two quarters of 2011 are preliminary.

Table A.15 Financial instruments other than mutual funds in custody or administration with Italian intermediaries
(period end data; market values in billions of euro)

		derivative securities	equity securities	corporate and foreign government bonds	Italian government bonds	other securities[1]	*total*
professional customers[2]							
2010	Q2	27.7	229.8	657.4	466.7	5.8	*1,237.3*
	Q3	17.8	229.3	622.4	545.3	11.3	*1,282.2*
	Q4	30.8	342.3	689.8	630.8	6.6	*1,559.2*
2011	Q1	24.6	359.5	684.9	567.8	8.3	*1,493.9*
	Q2	33.4	347.1	679.8	580.6	5.6	*1,490.8*
	Q3	34.3	273.8	638.5	506.2	5.2	*1,298.7*
	Q4	36.9	300.3	622.6	484.8	12.7	*1,302.4*
retail customers [3]							
2010	Q2	60.4	305.9	835.6	377.7	19.7	*1,599.3*
	Q3	18.8	281.4	873.2	360.7	20.3	*1,554.4*
	Q4	10.4	212.3	759.7	309.4	16.0	*1,307.8*
2011	Q1	7.0	214.7	753.5	316.9	16.2	*1,308.3*
	Q2	8.2	205.8	747.8	317.8	15.7	*1,295.3*
	Q3	5.3	177.2	722.2	307.3	14.9	*1,226.9*
	Q4	5.6	175.2	713.6	313.5	19.5	*1,227.4*

Source: statistical supervisory reports. [1] Securities which could not be classified. [2] Professional customers include qualified counterparties. The figures include both own securities in administered savings and those in custody in relation to asset management services, while the total includes only owned securities in administered savings. [3] Retail customers include unclassified subjects. The figures include only owned securities in managed savings.

Table A.16 Securities placed by Italian intermediaries
(market values in billions of euro)

		mutual funds	derivative securities	equity securities	corporate and foreign government bonds[1]	Italian government bonds	other securities[2]	*total*
professional customers[3]								
2010	Q3	6.5	..	0.1	4.3	0.5	..	*11.3*
	Q4	9.0	..	4.1	7.4	6.2	..	*26.7*
	The half-year	*15.5*	*..*	*4.2*	*11.7*	*6.7*	*..*	*38.1*
2011	Q1	11.3	..	0.3	17.7	6.5	0.1	*36.0*
	Q2	8.0	0.1	..	12.2	2.8	..	*23.2*
	Q3	6.7	0.1	..	11.8	7.2	..	*25.6*
	Q4	6.5	..	0.3	15.3	4.6	..	*26.6*
	total	*32.5*	*0.2*	*0.6*	*57.0*	*21.0*	*0.1*	*111.5*
retail customers [4]								
2010	Q3	18.5	0.2	..	17.6	8.2	0.2	*44.8*
	Q4	26.5	0.2	1.3	12.9	3.0	0.4	*44.4*
	The half-year	*45.0*	*0.5*	*1.3*	*30.5*	*11.2*	*0.6*	*89.1*
2011	Q1	22.2	0.4	0.1	16.8	6.0	0.5	*46.0*
	Q2	21.6	0.4	0.1	13.4	5.8	0.3	*41.6*
	Q3	15.7	0.2	..	8.1	4.6	0.4	*29.1*
	Q4	12.9	0.2	..	10.6	4.4	0.5	*28.6*
	total	*72.5*	*1.2*	*0.2*	*48.9*	*20.8*	*1.7*	*145.3*

Source: statistical supervisory reports. [1] The figures do not include bond placements issued by the reporting intermediaries themselves. [2] Securities which could not be classified. [3] Professional customers include qualified counterparties. [4] Retail customers include unclassified subjects.

Table A.17 Bond issues by Italian banks
(amount placed in billions of euro)

		ordinary plain vanilla		step up / down	with call option			structured		*total*
		fixed rate	floating rate		fixed rate	floating rate	others	linked	stochastic interest	
institutional investors										
2010	H1	8.0	6.1	0.0	--	--	--	0.2	2.2	*16.5*
	H2	6.2	10.7	0.3	--	--	*1.8*	*0.1*	0.5	*19.5*
	total	*14.2*	*16.8*	*0.3*	*--*	*--*	*1.8*	*0.2*	*2.7*	*36.0*
2011	H1	17.9	18.4	1.7	--	--	2.1	0.4	0.4	*40.8*
	H2	1.5	6.2	0.4	--	--	..	..	0.2	*8.4*
	total	*19.4*	*24.6*	*2.0*	*--*	*--*	*2.2*	*0.5*	*0.5*	*49.1*
retail customers										
2010	H1	26.3	8.2	11.8	0.8	0.2	4.5	0.9	14.4	*67.1*
	H2	29.3	15.1	6.2	0.5	0.1	3.3	0.2	16.6	*71.3*
	total	*55.6*	*23.3*	*17.9*	*1.4*	*0.3*	*7.8*	*1.1*	*31.0*	*138.4*
2011	H1	59.7	13.6	11.2	1.1	1.9	4.5	0.3	17.6	*110.0*
	H2	38.7	8.9	5.2	5.5	5.1	4.6	0.1	11.1	*79.1*
	total	*98.4*	*22.5*	*16.4*	*6.6*	*7.0*	*9.1*	*0.4*	*28.7*	*189.1*

Source: statistical supervisory reports and Dealogic. Partially estimated figures. Excludes bonds guaranteed by the State.

Table A.18 Net purchases of financial instruments made by retail and professional customers, attributable to trading services (for third parties and on own behalf) provided by Italian intermediaries
(market values in billions of euro)

		mutual funds	equity securities	corporate and foreign government bonds	Italian government bonds	*total*
professional customers[1]						
2010	Q3	0.3	-8.3	12.7	8.6	*13.3*
	Q4	0.7	-10.3	6.9	10.5	*7.8*
	The half-year	*1.1*	*-18.6*	*19.5*	*19.2*	*21.2*
2011	Q1	-0.1	-7.2	5.1	16.7	14.5
	Q2	1.2	-12.2	2.7	9.7	1.4
	Q3	0.6	-6.4	-0.5	17.4	11.1
	Q4	0.2	-6.1	15.1	29.0	38.2
	total	*2.0*	*-31.9*	*22.4*	*72.7*	*65.2*
retail customers [2]						
2010	Q3	1.2	1.4	-0.2	15.9	*18.3*
	Q4	0.8	1.8	1.1	2.7	*6.4*
	The half-year	*2.0*	*3.2*	*0.9*	*18.6*	*24.7*
2011	Q1	-0.4	-0.2	1.5	12.6	13.5
	Q2	-0.5	0.1	0.1	-0.7	-1
	Q3	-1.5	2.8	-6.9	3.4	-2.2
	Q4	-2.7	-0.6	-22.3	18.0	-7.6
	total	*-5.0*	*2.0*	*-27.6*	*33.3*	*2.7*

Source: statistical supervisory reports. The figures do not include derivative financial instruments. [1] Professional customers include qualified counterparties. [2] Retail customers include unclassified subjects.

III Financial statements of listed companies

Table A.19 Main dimensional and profitability indicators of Italian listed companies by industrial sector[1]
(cash amounts in billions of euro)

		non-financial companies	banks	insurance companies	*total*
2009	number of companies	209	20	7	*236*
	number of employees	1,048,754	300,767	113,294	*1,462,815*
	total assets	787.1	1,734.7	578.8	*3,100.7*
	net assets	235.7	128.6	32.1	*396.3*
	value of production	383.2	46.5	92.6	*522.3*
	EBITDA	81.1	54.3	5.8	*141.2*
	net profit	19.2	3.3	0.8	*23.3*
	dividends paid	16.3	1.4	0.6	*18.2*
2010	number of companies	198	20	6	*224*
	number of employees	1,016,539	295,361	105,010	*1,416,910*
	total assets	885.4	1,667.1	571.2	*3,123.7*
	net assets	258.1	122.6	29.1	*409.8*
	value of production	480.0	45.8	101.1	*627.0*
	EBITDA	92.6	45.7	5.9	*144.2*
	net profit	23.8	3.9	1.5	*29.2*
	dividends paid	13.1	1.8	0.8	*15.7*

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes listed companies consolidated in other listed companies. Also excludes 11 listed non-financial companies whose assets represent 0.64 per cent of the total assets of listed companies. The value of production for non-financial companies is the sum of operating revenues , increase of inventories and capitalised costs; for banks this figure is equivalent to the sum of net interest income and net commissions, while for insurance companies it is equivalent to net premiums.

Table A.20 Reclassified income statement of listed non-financial companies[1]
(billions of euro)

	2010	*% change from 2009 restated*
revenues from sales and services	458.9	*18.7*
other operating revenues and income	10.8	*-9.5*
changes in inventories	2.4	*171.0*
capitalised costs	7.9	*11.4*
value of production (a)	480.0	*18.1*
costs for goods and services (b)	-328.1	*20.6*
value added (a+b)	151.9	*13.1*
personnel costs (c)	-59.3	*10.7*
gross operating margin (EBITDA) d=(a+b+c)	92.6	*14.7*
provisions, impairment, amortisation and depreciation (e)	-40.8	*8.2*
operating profit (EBIT) f=(d+e)	51.8	*20.3*
net financial income (expenses) (g)	-12.1	*34.4*
others costs and revenues (h)	2.3	*nc*
profit/(loss) before taxes (l=g+h)	41.9	*23.1*
taxes (m)	-17.8	*16.8*
profit/(loss) after taxes n=(l+m)	24.1	*28.2*
net profit/(loss) of discontinued operations (o)	-0.3	*-77.2*
profit/(loss) for period p=(n-o)	23.8	*36.6*

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes listed companies consolidated in other listed companies. Also excludes 11 listed companies whose assets represent 0.64 per cent of the total assets of listed companies.

Table A.21 Reclassified income statement of listed banks[1]
(billions of euro)

		2010	2009	*% change from 2009 restated*
10	interest and similar income	52.9	61.9	*-14.6*
20	interest and similar expenses	-23.5	-30.5	*-23.1*
30	net interest income (10+20)	29.4	31.4	*-6.3*
40	commission income	19.2	17.9	*7.1*
50	commission expenses	-2.8	-2.8	*-1.5*
60	net commissions (40+50)	16.4	15.1	*8.7*
70	dividends and similar income	1.6	1.7	*-6.2*
80	net gains/(losses) on trading activities	-0.4	1.4	*-131.0*
90	net gains/(losses) on hedging activities	0.1	--	*279.3*
100	gains/(losses) on the sale or repurchase of:	0.8	1.1	*-29.0*
	a) receivables	--	0.1	*-121.8*
	b) financial assets available for sale	0.6	0.7	*-15.0*
	c) financial assets held to maturity	--	--	*-98.4*
	d) financial liabilities	0.2	0.3	*-16.2*
110	net gains/(losses) on financial assets and liabilities carried at fair value	0.5	-0.3	*-235.3*
120	net banking income (60+70+80+90+100+110)	48.4	50.4	*-4.0*
130	net value adjustments for impairment of:	-11.9	-14.7	*-19.2*
	a) receivables	-11.1	-13.5	*-17.2*
	b) financial assets available for sale	-0.5	-1.0	*-54.6*
	c) financial assets held to maturity	--	--	*-85.0*
	d) other financial transactions	-0.3	-0.2	*20.7*
140	net gains/(losses) on financial operations (120+130)	36.5	35.7	*2.2*
150	net premiums	1.7	2.0	*-15.6*
160	net other income/expenses of insurance operations	-2.6	-2.4	*6.2*
170	net gains/(losses) on financial and insurance operations (140+150+160)	35.6	35.3	*0.9*
180	administrative expenses:	-30.1	-30.1	*0.0*
	a) personnel expenses	-18.7	-18.7	*0.3*
	b) other administrative expenses	-11.4	-11.4	*-0.5*
190	net provisions for risks and charges	-1.2	-0.8	*53.6*
200	net value adjustments on property, plant and equipment:	-1.6	-1.4	*10.1*
210	net value adjustments on intangible assets:	-1.2	-1.2	*0.2*
220	other operating expenses/income	2.4	2.5	*-4.2*
230	operating costs (180+190+200+210+220)	-31.7	-31.0	*2.1*
240	gains/(losses) on equity investments	2.0	0.5	*347.7*
250	net gains/(losses) on measurement at fair value of property, plant and equipment and intangible assets	--	--	*-100.4*
260	writedowns of goodwill	-0.4	--	*0.0*
270	gains/(losses) on disposal of investments	0.4	1.0	*-58.5*
280	profit/(loss) from continuing operations before taxes (230+240+250+260+270)	6.0	5.7	*5.5*
290	incomes taxes for the period on continuing operations	-1.9	-2.1	*-13.1*
300	profit/(loss) from continuing operations after taxes (280+290)	4.2	3.6	*16.7*
310	profit/(loss) of asset disposal groups held for sale after taxes	0.4	0.2	*96.8*
320	profit/(loss) for the period (300+310)	4.6	3.8	*21.4*
330	profit/(loss) for the period attributable to non-controlling shareholders	-0.4	-0.4	*1.1*
340	profit/(loss) for the period attributable to the parent company (320+330)	4.1	3.3	*23.7*

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes banks consolidated in other listed banks or insurance companies.

Table A.22 Reclassified income statement of listed insurance companies[1]
(billions of euro)

	2010	*% change from 2009 restated*
profit/(loss) of the non-life segment net of investment management (a)	-1.5	*-1.0*
profit/(loss) of the life segment net of investment management (b)	-16.6	*-20.1*
net commissions (c)	1.5	*18.0*
income and expenses deriving from financial instruments at fair value related to income statement (d)	6.3	*-45.8*
income and expenses deriving from other financial instruments and real estate investments (e)	14.6	*27.1*
interest	11.2	*6.5*
other income and expenses	2.0	*3.7*
realised gains and losses	3.0	*46.8*
gains and losses from measurement	-1.5	*-48.2*
income and expenses deriving from equity investment in subsidiaries, associates and joint ventures (f)	0.1	*-457.0*
other costs (g)	-5.5	*23.9*
other revenues (h)	3.4	*3.0*
profit/(loss) for the period before taxes (a+b+c+d+e+f+g+h)	2.5	*133.9*
taxes	1.0	*297.5*
profit/(loss) for the period after taxes	1.4	*80.8*
profit/(loss) of discontinued operations	0.1	*-41.6*
consolidated profit/(loss)	1.5	*67.6*
of which attributable to group	1.8	*158.6*
of which attributable to non-controlling shareholders	-0.3	-262.8

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes listed insurance companies consolidated in other listed companies.

Table A.23 Reclassified balance sheet data of listed non-financial companies[1]
(billions of euro)

	2010	percentage breakdown	*% change from 2009 restated*
accounts receivable	85.1	16.4	*8.2*
inventories	51.1	9.9	*12.3*
accounts payable	91.4	17.6	*16.9*
net working capital (a)	**44.8**	**8.6**	***-2.5***
other current net assets/liabilities (b)	-38.6	-7.4	*7.3*
total net working capital c=(a+b)	**6.2**	**1.2**	***-37.7***
net property, plant and equipment (d)	243.2	47.0	*8.4*
net intangible fixed assets (e)	196.9	38.0	*4.6*
other non-current net assets/liabilities (f)	95.9	18.5	*67.5*
provisions (g)	-142.7	-27.5	*41.1*
net fixed capital h=(d+e+f+g)	**393.3**	**75.9**	***6.6***
net operating invested capital i=(c+h)	**399.6**	**77.1**	***5.4***
equity investments and other non-current financial assets (l)	115.2	22.2	*3.4*
net invested capital m=(i+l)	**514.8**	**99.4**	***5.0***
net assets discontinued/held for sale (n)	3.3	0.6	*48.0*
adjusted net invested capital o=(m+n)	**518.0**	**100.0**	***5.2***
cash and securities	57.0	11.0	*14.7*
other current financial assets	53.9	10.4	*70.9*
current financial liabilities	80.7	15.6	*26.0*
short-term net financial position	**-30.1**	**-5.8**	***75.7***
non-current financial liabilities	290.0	56.0	*2.6*
total net financial position (a)	**259.9**	**50.2**	***-2.1***
of which payables to banks net of cash and cash equivalents (1)	41.7	8.0	*-30.0*
of which bonds (2)	129.1	24.9	*11.3*
shareholders' equity (b)	**258.1**	**49.8**	***13.7***
total of financial sources of coverage c=(a+b)	**518.0**	**100.0**	***5.2***

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes listed companies consolidated in other listed companies. Also excludes 11 listed companies whose assets represent 0.64 per cent of the total assets of listed companies.

Table A.24 Reclassified balance sheet data of listed banks[1]
(billions of euro)

	2010	percentage breakdown	*% change from 2009 restated*
cash and cash equivalents	11.8	0.7	*-29.0*
financial assets	388.9	23.0	*20.2*
equity investments	12.1	0.7	*12.9*
receivables from customers	1,154.1	68.3	*1.3*
property, plant and equipment	23.53	1.4	*0.6*
intangible assets	48.95	2.9	*-1.0*
other assets	51.1	3.0	*2.0*
non-current assets and asset disposal groups held for sale	-0.4	--	*-134.6*
total loans	*1,690.2*	*100.0*	*4.7*
net inter-bank position	84.8	5.02	*90.8*
payables to customers	774.9	45.9	*6.5*
financial liabilities	236.8	14.0	*8.3*
payables represented by securities	380.4	22.5	*-10.0*
bonds	322.7	19.1	*-5.1*
of which structured	30.7	1.8	*-6.6*
other securities	57.7	3.4	*-30.1*
of which structured	0.8	--	*-18.8*
other liabilities	74.9	4.4	*8.7*
of which technical reserves net of those chargeable to re-insurers	9.3	0.6	*87.0*
shareholders' equity	134.2	7.9	*3.8*
net profit	4.2	0.2	*24.9*
total sources	*1,690.2*	*100.0*	*4.7*

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes banks consolidated in other listed banks or insurance companies.

Table A.25 Reclassified balance sheet data of listed insurance companies [1]
(billions of euro)

	2010	percentage breakdown	*% change from 2009 restated*
intangible assets	14.9	2.6	*14.8*
goodwill	11.2	2.0	*11.1*
property, plant and equipment	5.6	1.0	*5.9*
properties	4.9	0.9	*5.1*
technical reserves chargeable to re-insurers	7.8	1.4	*7.6*
investments	482.2	84.4	*460.5*
real estate investments	16.6	2.9	*15.7*
equity investments in subsidiaries, associates and joint ventures	3.5	0.6	*3.0*
financial assets	415.6	72.8	*396.5*
other loans and receivables	46.5	8.1	*45.3*
sundry receivables	16.6	2.9	*16.4*
other asset items	30.7	5.4	*47.9*
cash and cash equivalents	13.3	2.3	*12.1*
total assets	*571.2*	*100.0*	*1.0*
shareholders' equity	29.1	5.1	*-3.4*
capital and other equity reserves	23.3	4.1	*3.2*
gains or losses recognised directly in equity	-1.0	-0.2	*-394.7*
profit/(loss) for the period	6.9	1.2	*-4.9*
provisions	2.1	0.4	*2.9*
technical reserves	424.3	74.3	*4.5*
financial liabilities	82.9	14.5	*8.0*
payables	9.6	1.7	*3.7*
other liability items	23.2	4.1	*-43.6*
total liabilities	*571.2*	*100.0*	*1.0*

Source: reports from listed companies. [1] Figures relating to the consolidated financial statements. Excludes listed insurance companies consolidated in other listed companies.

Methodological notes

Instructions

The following conventional signs are used in the tables:

-- quantity identified as zero;

— non-existent phenomenon;

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

.. the figures are below the significance threshold.

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

Figures 26, 28, 29, 32

Major Italian non-financial listed groups are represented by a 'closed' sample of groups for which a complete series of financial statements since 1998 is available and included in Mediobanca's R&S yearbook. This analysis therefore covers almost the entire share list range 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 2010 financial statements indicated in brackets): Enel (Enel GreenPower, since 2005 Terna is considered separately because it is no longer consolidated in Enel), Eni (Snam Rete Gas, Saipem), Telecom Italia (TI Media, since 2003), Exor (formerly Ifi; it consolidated Ifil, then incorporated in 2009; Juventus; Fiat, which was considered separately from 2004 to 2009 because it was not consolidated in Exor; Fiat Industrial, since 2011), Edizione (which consolidates Autogrill, Benetton and, since 2007, Atlantia, formerly Autostrade, considered separately up to 2006), Aurelia (Autostrada TO-MI, Sias), Italmobiliare (Italcementi), Luxottica, A2A (formerly AEM), Fininvest (Mondadori, Mediaset), Edison, Erg (Erg Renew, formerly Enertad, revoked by the listing in 2011), Acea, Pirelli & C. (Prelios, formerly Pirelli RE), Cofide (Cir, L'Espresso, Sogefi), Buzzi Unicem, Tenaris (up to 2000 the data are for Dalmine, revoked by the listing in 2003), Impregilo, Intek (up to 2006 the data are for Gim, incorporated into Intek in 2007; it consolidated the KME Group up to 2009, formerly SMI, which is also considered separately, 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. In order to maintain consistency in the historical series of the Telecom Group financial statements, the Seat Pagine Gialle Group was also considered (formerly consolidated into Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (in particular, for Fininvest, Edizione and Aurelia).

Tables 10, 11, 12, 13, Figure 42

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 over-allotment at the close of the public offering. Note, therefore, that the data are independent of the fact that, after stabilisation by the placement agents, the greenshoe option might 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 take 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 equity interest is based on proportional distribution of the shares sold in accordance with the specifications 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 in 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 13

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.

The 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.

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

Figures 72, 74, 78, 80, Table 21

Data refer to the following Italian banking groups: Intesa SanPaolo, Unicredit, MPS, BNL, Mediobanca, UBI, Banco Popolare and Banca Popolare di Milano. This sample essentially represents 2/3 of the entire Italian banking system in total asset terms. For the years prior to 2009 the figures include the main banks subsequently incorporated into the banking groups considered through merger and acquisition operations, with the exception of HVB which is included in the data only from the date of consolidation in the Unicredit financial statements (1 November 2005).

Figure 72

Net interest income includes the balance of interest rate hedging transactions, dividends on holdings and profits and losses on holdings carried at equity. Revenues from investment services include gains on financial transactions (i.e. from the 2005 financial statements, prepared according to IAS/IFRS standards, net gains/losses from trading, hedging, assets and liabilities carried at fair value and gains/losses from the disposal or buyback of receivables and financial assets and liabilities) and net commissions from investment services and collective management (including foreign currency trading, consulting, custody and administration of securities, depository bank services and the placement of insurance and financial products). 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. The item "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 the net commissions from securities and foreign exchange trading and from the acceptance of orders. Other revenues essentially comprise net commissions from advisory services and from the safekeeping and administration of securities.

Figures 76, 77, 79, 81

Data refer to the following European banking groups: Intesa SanPaolo, Unicredit, MPS, UBI, Banco Popolare, Société Générale, Credit Agricole Sa, BNP Paribas, Banco Bilbao Vizcaya Argentaria, Santander, Banco Popular, Banco Espanol de Crédito, Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland.

The financial assets include loans and receivables. For Santander, Banco Popular and Banco Espanol de Crédito the fair value hierarchy refers to the figures at 31 December 2010 while it is excluded from the Lloyds Banking Group calculation.

The figures on exposure to sovereign debt (Box 7) refer instead to the sample of banks used by the EBA in the recapitalisation plan for Italy, Germany, France and Spain. In particular the data relate to the following banking groups: Intesa SanPaolo, Unicredit, MPS, UBI, Banco Popolare, Deutsche Bank, Commerzbank, Landesbank Baden-Wurttemberg, DZ Bank, Bayerische Landesbank, Norddeutsche Landesbank, Hypo Real Estate Holding, WestLB, HSH Nordbank, Landesbank Hessen-Thuringen, Frankfurt, Landesbank Berlin, DekaBank, WGZ Bank, Société Générale, Credit Agricole Sa, BNP Paribas, BPCE, Banco Bilbao Vizcaya Argentaria, Santander, Banco Popular, BFA Bankia, Caja de Ahorros y Pensiones de Barcelona.

Figures 90, 91, 92, 93, 94, 95, 96

Multifinanziaria Retail Market is a sample survey conducted by GFK Eurisko Srl, which gathered questionnaires from a sample of 2,500 households in which the financial head of the household is aged between 18 and 74 (bank employees, insurance company employees and financial advisers are excluded from the survey). The financial head of the household is the person with the highest earnings (if no-one works the most senior male, and if there are no males the most senior female). The 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 itself.

Figure 92

The GfK Eurisko questionnaire contains data on financial wealth and on the portions invested in the different categories of financial assets; financial wealth includes deposits and other forms of cash equivalents, government securities, shares, bonds, life policies, pension funds, managed assets and postal products. Since the data are provided for bands, for each household a precise amount of financial wealth and investments was attributed, calculating the average of the furthest points of the band (the only exception being the last open band of financial wealth, for which the lowest amount in the band has been considered).

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

According to the first method, the punctual value of each investment is multiplied by the punctual value of each household's 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; percentages of each financial asset derive from this figure.

According to the second method, GfK Eurisko weights are multiplied by the punctual value of each household's investments in order to obtain the simple average of investments in each financial asset type.

Figure 99

The types of opinion issued by independent auditing firms are described below.

1) Opinion with reservations. The auditor expresses an opinion with reservations if it ascertains: 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) Opinion impossible owing to serious limitations. 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) Opinion impossible owing to uncertainties. 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 the business continuing to be a going concern, auditors must issue a disclaimer when they consider that the action taken by the directors is based on highly questionable assumptions.

Tables 28, 29, 30

For the years 2005-2009, the data were restated in order to distinguish between allegations of administrative breaches by the Institute and reports of criminal allegations to the Judicial Authority. Any incongruities with respect to the data presented in the Reports for previous years are ascribable to this restatement.

Table 48

Senior management comprises the following grades: Director General, Deputy Director General, Official General, 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 career comprises the following grades: Chief Deputy, Deputy, Senior Assistant, Assistant and Deputy Assistant. The general services career includes the grades of First Head Operator, Head Operator, First Operator, Operator.

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