Annual Report 2012

Rome, 31 March 2013

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Boxes

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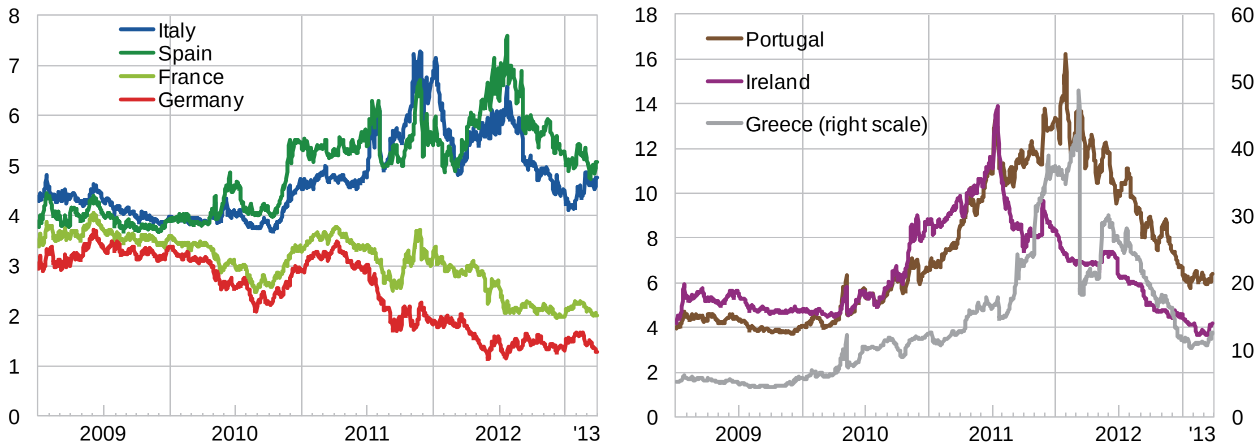
Financial market developments A

1 The sovereign debt crisis in the euro area

During 2012 the crisis in the euro area was characterised by a general, albeit discontinuous, loosening of tension in financial markets. This result was, at least in part, attributable to important decisions taken by the European institutions, to ward off the risk of disintegration of the single currency.

In the countries hardest hit by the crisis, 10-year government bond yields fell to levels lower than those reached in July 2011. However, during the early part of 2013, Italian and Spanish yields trended upwards because of new uncertainty surrounding the economic and political situation, and the unfolding of the crisis in Cyprus (Fig. 1).

Fig. 1 10-year government bond yields in the euro area
(percentages; daily data from 01/01/2009 to 31/03/2013)



Source: Thomson Reuters data.

In the first half of 2012, tensions on government bond markets lessened, following the successful private sector intervention in the Greek crisis, the debt consolidation measures enforced in several euro area countries, the three-year refinancing operations carried out by the European Central Bank (ECB), and the progress made in terms of economic governance in Europe. However, new tensions connected to events in Greece and difficulties in the Spanish banking sector at the end of March created an impaired perception of sovereign risk for several countries, Spain and Italy in particular. As the crisis deepened, there was a reduction in the extent to which government bond yields could be explained by the economic and fiscal fundamentals of the debtor country, and this made way for a growing contagion effect. For Italy in particular, estimates of the determinants of the differential between the yield on the 10-year Btp compared to the German Bund showed that on average, 200 basis points were attributable to contagion during 2012 (Box 1).

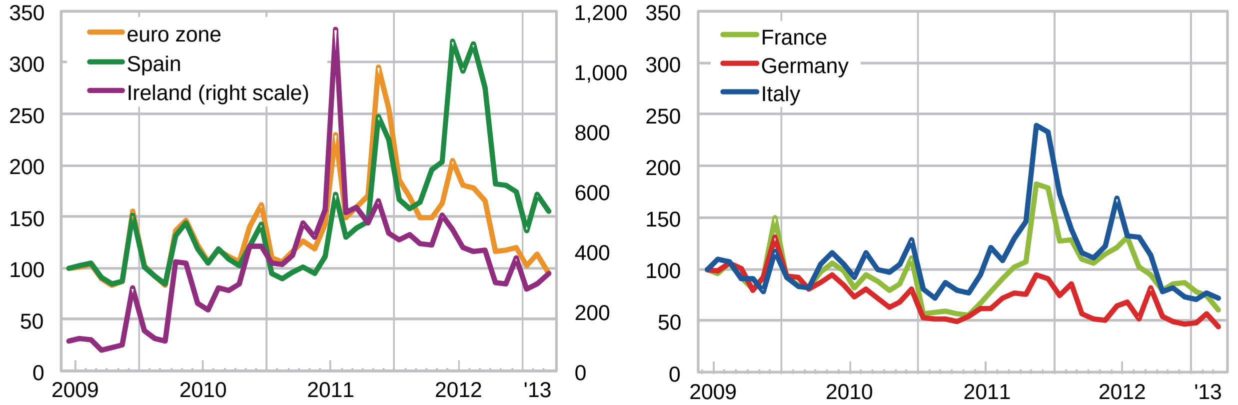
In July, the approval by EU heads of state and government of the financial assistance plan for the Spanish banking sector, followed by the ECB's announcement in August of its intention to buy the government securities of struggling nations on the secondary market (Outright Monetary Transactions – OMT), ushered in a new phase of falling sovereign risk premiums in the peripheral euro area countries. In Italy, the yield on the 10-year Btp fell from 6 percent in early July 2012 to 4.5 percent by 31 December.

However, investors remained cautious until the end of the year, to the benefit of French and German government securities: in particular the 10-year Bund maintained stable yields, below 2 percent. The signs of reduced tension emerging from the markets were also undermined by the negative outlook about the general economic situation in Europe, and uncertainty about the possible direct recapitalisation of struggling banks through the European Stability Mechanism (ESM), whose institutional treaty was ratified in October. The markets also reacted negatively to the constant postponements of the provision of a 34 billion euro slice of aid to Greece, which was finally approved in December.

The fluctuations in government bond yields was accompanied by a similar trend in market liquidity levels, which varied considerably, particularly for the Spanish securities (Fig. 2). The liquidity of Italian bonds was also inconsistent, falling in the first half of 2012 only to rise again in the second half of the year. During the early part of 2013, levels returned to those of early 2011.

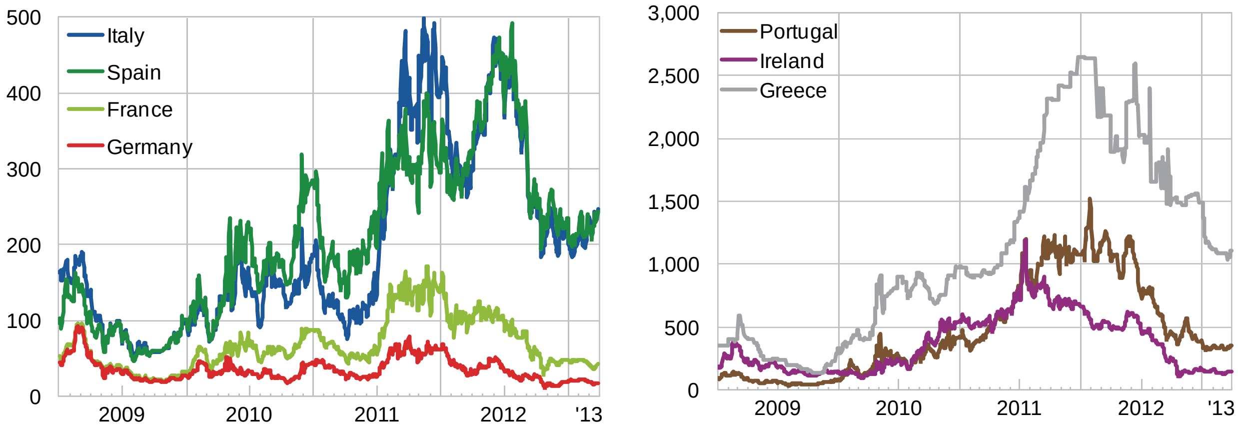
During 2012, the trend in government bond markets was reflected in the prices of credit default swaps (CDS) in the countries most exposed to the crisis, and the related volatility. Early in 2013, the perception of sovereign risk in Spain and Italy remained at similar levels. For Italy in particular, it was higher than the level recorded prior to mid-2011 (Fig. 3); the volatility of Irish CDS, which had steadily calmed since the final quarter of last year, returned to early 2010 levels, and was lower than the level recorded for Italian CDS (Fig. 4).

Fig. 2 Market liquidity indicator for government bonds in the euro area
(monthly data from June 2009 to March 2013; June 2009 = 100)



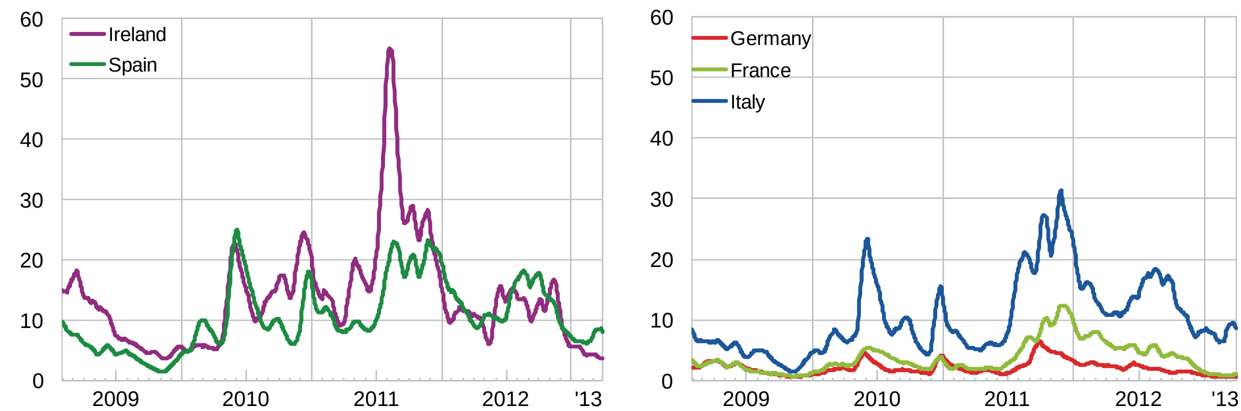
Source: Thomson Reuters data. The liquidity indicator was calculated as the relative quoted spreads average based on the components of the iBoxx sovereign bond index for each country. An increase in the indicator corresponds to an enlargement of the bid-ask spread and, so, signals a reduction of the liquidity level in the government bond market (liquidity index).

Fig. 3 Credit default swap premiums for 5-year sovereign bonds in the euro area
(basis points; daily data from 01/01/2009 to 31/03/2013)



Source: Thomson Reuters data.

Fig. 4 Credit default swap volatility for sovereign bonds in the euro area
(annual percentage values; daily data from 28/01/2009 to 31/03/2013)



Source: Thomson Reuters data. Volatility is estimated applying a multivariate Garch Model 20-day moving average.

Box 1

Determinants of the euro area 10-year bond yield spreads relative to Germany

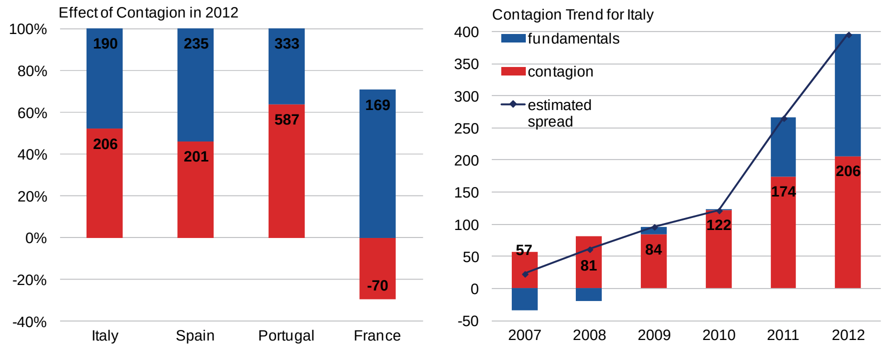
Since the 2008 crisis, the trend in risk premiums in euro area countries has reflected elements linked to fundamentals such as the macroeconomic situation and public finances, as well as contagion-driven factors.

As can be seen from an analysis of the differentials in the yields on 10-year government securities in the euro area compared to the German Bund, during 2012 the part played by contagion in determining the spread was substantially comparable to that of the fundamentals in the peripheral countries, while it reduced the yield expected by investors for countries considered to be safer.

In Spain and Portugal contagion explained 46 percent and 60 percent of the spread, respectively, while in France, the implied spread in the fundamentals was about 70 basis points higher than the observed spread.

In Italy's case, the fundamentals helped to reduce the spread between 2007 and 2008. From 2009 onwards, the deterioration in the economic scenario pushed up the effect of contagion, whose contribution for 2012 can be estimated at 200 basis points, equal to more than 50 percent of the spread.

Spread between German Bund and other euro area 10-year government bond yields: contribution of fundamentals and contagion effects



For an explanation of how the contagion indicator is constructed, see Giordano L., N. Linciano and P. Soccorso, *"The determinants of government yield spreads in the euro area"*, Consob *"Quaderni di finanza"* no. 71, 2012. The figure on the left shows, for 2012, the contributions of fundamentals and of contagion to the spread on 10-year government bonds for various euro area countries, expressed in basis points and estimated according to an FGLS model with adjusted auto-correlation. The figure on the right shows, for 2007-2012, the trend in the contribution of fundamentals and contagion to the spread on Italian government bonds. Sources: Thomson Reuters, Eurostat, ECB and Fred database.

The turbulence fuelled by the Cyprus bailout stimulated the contagion effect, as can be seen by the sharp increase early in 2013 in the intensity of connections between the secondary government bond markets, measured by indicators based on the correlation between the spreads on European government securities compared to the US Treasury (Fig. 5).

Fig. 5 Contagion indicator and historical volatility for 10-year government bond spreads for some European countries
(percentages; daily data from 01/01/2007 to 31/03/2013)

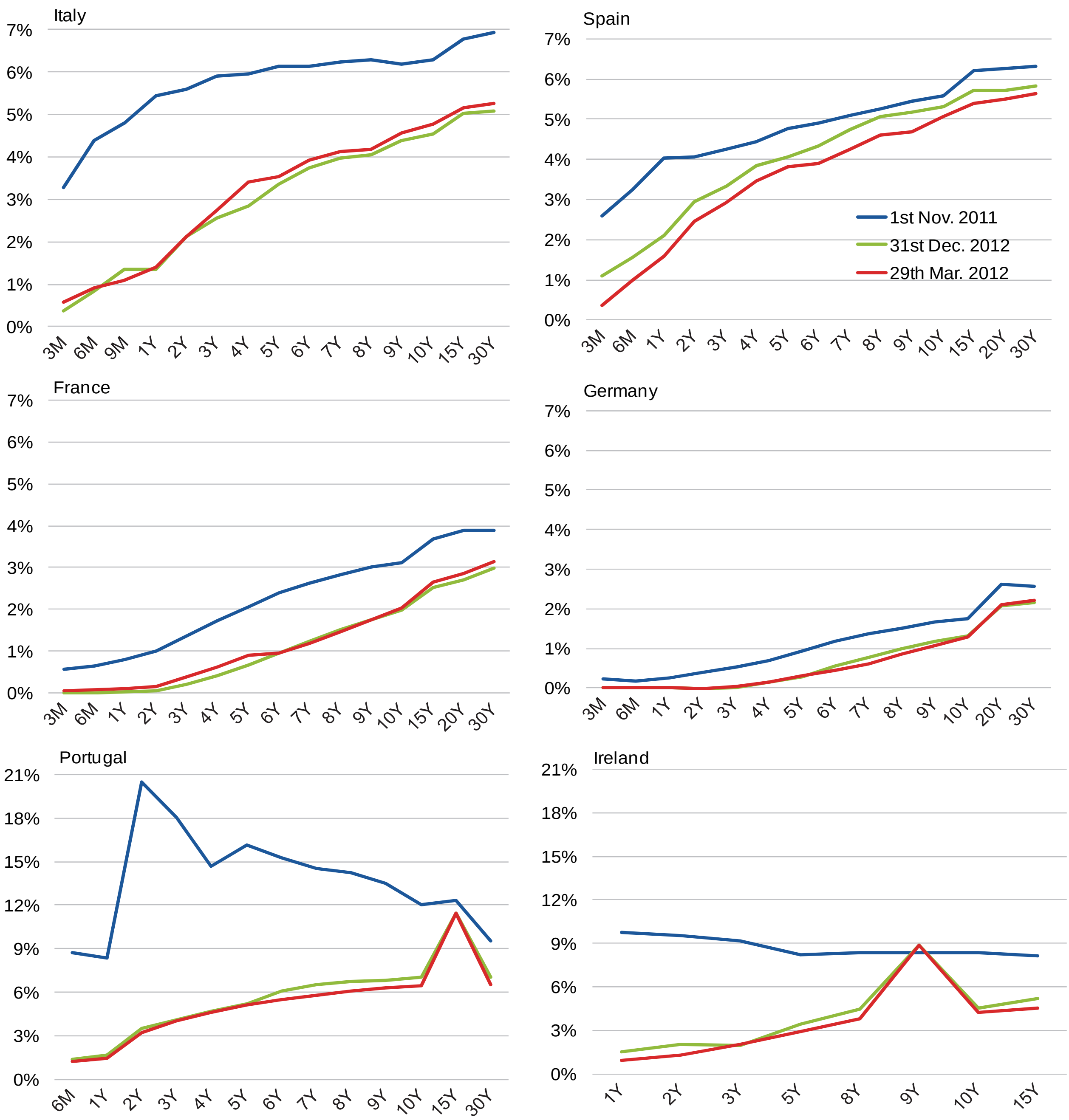
For an explanation of how the contagion indicator is constructed, see Gentile M. and L. Giordano, *"Financial contagion during Lehman default and sovereign debt crisis: an empirical analysis on Euro area bond and equity markets"*, Consob *"Quaderni di finanza"* no. 72. The sample of countries includes Great Britain, Germany, France, Spain, Greece, Portugal, Ireland, Austria, the Netherlands and Finland. The figure on the left shows the percentage of long-term relationships between the statistically significant spreads on government bonds in the various countries. The long-term connections were identified by applying the Johansen bivariate cointegration test (1988) with a rolling period of 1000 days (moving average of the indicator over two months). The figure on the right shows the average value of the historic (annualised) volatility of changes in the spreads of government bonds included in the sample (excluding Greece) compared to the US Treasury. This volatility was estimated by applying the multivariate Garch model. The source of the data was Thomson Reuters.

Between November 2011 and December 2012 the curve for interest rates on Italian government bonds fell by more than 200 basis points on long-term maturities, and by almost 400 on the maturities of less than one year. On 31 December 2012 the yields expected on Italian bonds were lower than their Spanish counterparts, by values varying between 70 and 130 basis points depending on the maturities. However, this divide narrowed in the early part of 2013.

The flight to quality towards the securities of core countries pushed down the risk premiums expected on German and French bonds, which recorded real rates close to zero on the shortest maturities. In March 2013 the rates curve was more similar to the norm, for both Portugal and Ireland (Fig. 6).

From the second half of 2012, the gap between the official Moody's rating and the implied rating on the yields of government bonds and CDS prices in Italy, Portugal and Spain narrowed as a result of the conflicting trend between the tendency towards an improved perception of sovereign risk implied in the prices for government bonds and CDS, and the parallel deterioration in the official ratings.

Fig. 6 Government bond yield curve for some European countries



Source: Thomson Reuters.

In particular, Moody's rating remains higher than the rating implied in the prices of CDS and government bonds for Italy and Spain, while for Portugal it was in line with the implied figure for government bonds from the early part of 2013 onwards. In the case of Ireland, however, even at the end of 2012 the agency's rating was slightly inferior to the risk perceived by the market. The implied risk of CDS on Irish sovereign debt rose significantly during 2012, reaching levels higher than those recorded for Italy and Spain (Fig. 7).

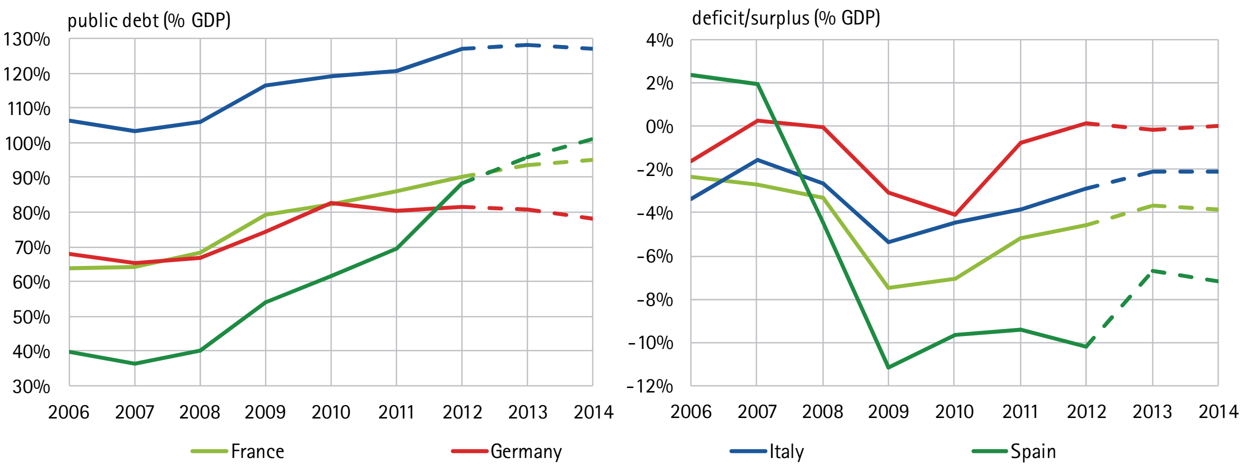
Fig. 7 Government bond official and implied ratings for some countries in the euro area
(monthly data from January 2009 to March 2013)

Source: Moody's data

2 Public finances

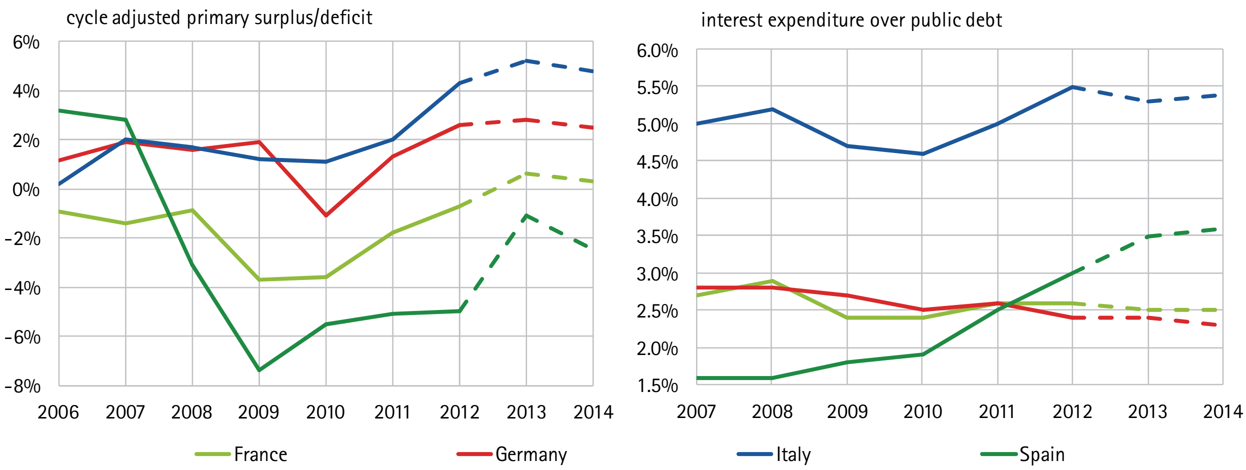
During 2012, the budget deficit to GDP ratio continued to improve in the principal euro area countries, following the imposition of rigorous austerity measures (Fig. 8). However, according to the European Commission, this trend is expected to weaken over the next two years as a result of many factors linked not only to weak economic growth, but also to the persistence of primary deficits (as in the case of Spain and France) and in the increased expenditure on interest, whose expected impact on GDP underwent a significant upwards adjustment in the second half of 2012 (particularly for Spain and Italy) (Fig. 9). These factors have already influenced the dynamics of the public debt to GDP ratio, which increased during the year for Italy, France and Spain.

Fig. 8 Deficit and government debt in the largest European countries



Source: European Commission

Fig. 9 Public sector primary surplus/deficit, after cycle adjustment, and interest expenditure
(values as a percentage of GDP)

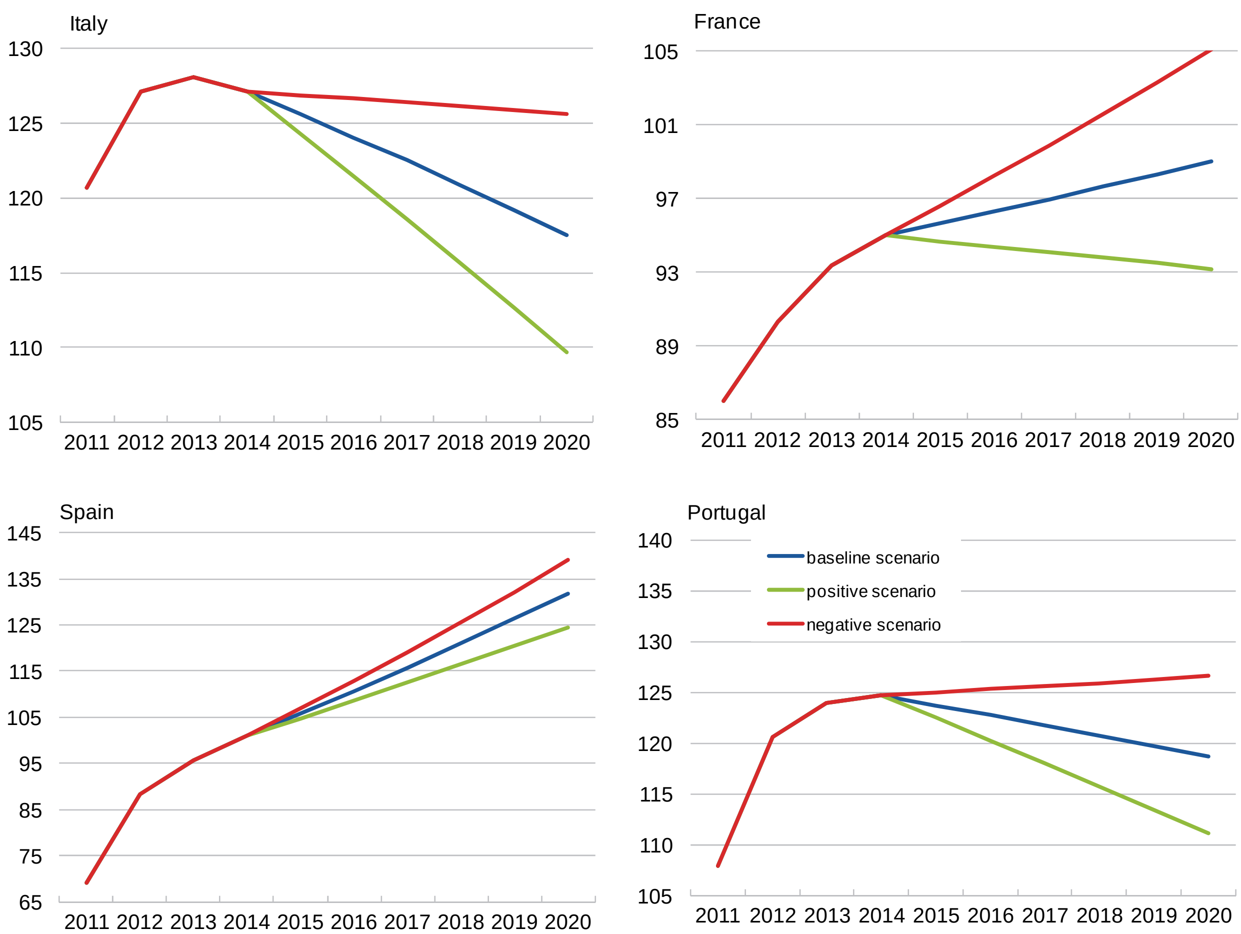


Source: European Commission

Analysis of debt sustainability has become an essential part of the monitoring of national public accounts in Europe. There is a risk that the goal of debt sustainability will not be met without sustained economic recovery and a reduction in the current trend of the cost of borrowing.

In a negative scenario, of persistent zero growth and interest rates 100 basis points higher than current values, the weight of debt on GDP would be more than 125 percent for Italy and Portugal, and more than 135 percent for Spain by the year 2020. Conversely, in a positive scenario in which interest rates remain constant at current values, with growth of 1 percent per year, the debt/GDP ratio would fall for Italy and Portugal, and to a much lower extent for France, while it would continue to grow for Spain (Fig. 10).

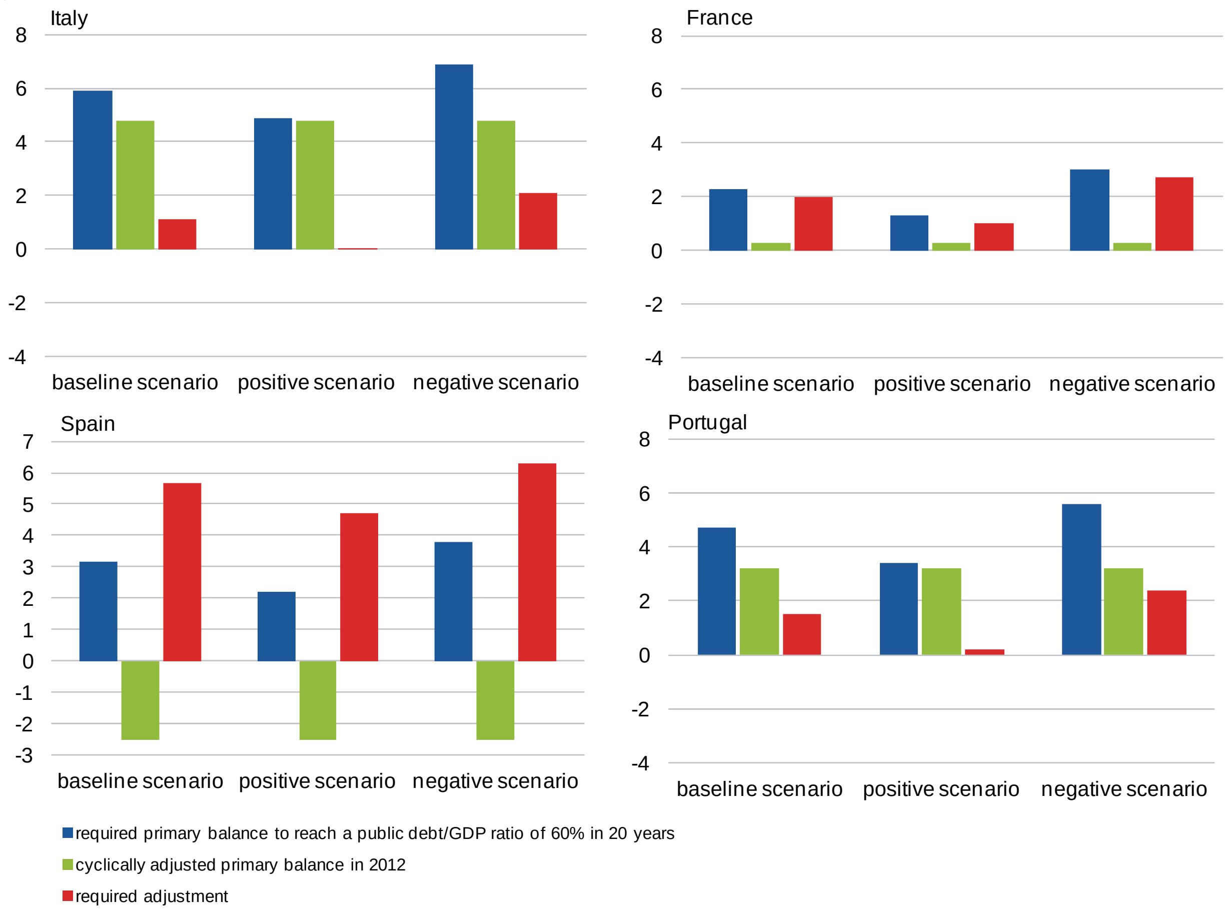
Fig. 10 Simulated trend of debt to GDP ratio under different scenarios in some euro area countries



The evolution of debt was calculated on the basis of the intertemporal budget constraint. The basic scenario envisages interest rates at the current level, and real GDP growth at 0 percent. The positive scenario is based on current interest rates, and on real GDP growth at 1 percent. The negative scenario factors in higher interest rates (with an increase of 100 basis points), and real GDP growth at 0 percent. In all three scenarios, the primary surplus/deficit adjusted for cycle is the same as the European Commission forecast for 2014, while the rate of inflation is 2 percent. The source was the European Commission.

For as long as interest rates remain higher than the rate of growth of GDP, the stabilisation of public finances will require primary surpluses to be achieved, and maintained. The amount of primary surplus that will be required depends, in turn, on the stock of public debt that has been built up, and on the stabilisation objectives (i.e. the reduction in the debt/GDP ratio to be achieved over a given period of time).

Fig. 11 Primary surplus adjustment required to achieve a 60 percent debt/GDP ratio in 20 years time.
(percentage of GDP)



The primary surplus adjustment required to achieve a 60 percent debt/GDP ratio in 20 years was calculated on the basis of the intertemporal budget constraint. The basic scenario envisages interest rates at the current level, and real GDP growth at 0 percent. The positive scenario is based on current interest rates, and on real GDP growth at 1 percent. The negative scenario factors in higher interest rates (with an increase of 100 basis points), and real GDP growth at 0 percent. In all three scenarios, the rate of inflation is 2 percent. The source was the European Commission.

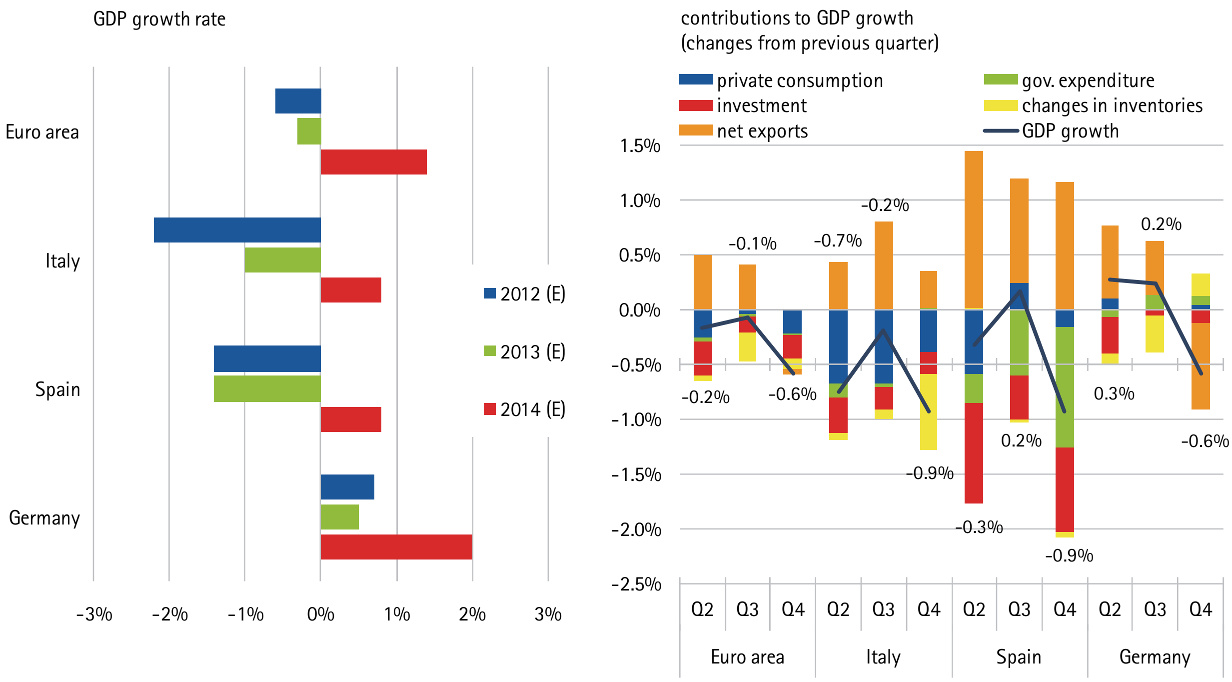
The adjustment in the primary surplus needed to reduce the debt/GDP ratio to 60 percent in 20 years varies (depending on the scenario) between 0.1 and 2.1 percent of GDP for Italy, which has already introduced important structural reforms, while it is much more significant for Spain, with the figure being between 4.7 and 6.3 percent of GDP. For Portugal, however, the necessary adjustment would be between 0.2 and 2.3 percent of GDP depending on interest rates and economic growth. Finally, in France, which has not yet carried out significant interventions on its public accounts, the necessary adjustment in the primary surplus should be between 1 and 2.7 percent of GDP depending on the scenario considered (Fig. 11).

3 Economic activity

In 2012, economic activity in the euro area as a whole was characterised by a growing level of vulnerability. According to European Commission estimates, in 2012 the product of the Area shrank by 0.6 percent, mainly as a result of the fall in investments and consumption. The first signs of recovery are only expected in 2014 (Fig. 12).

In 2012 there was a widening of the gap between the economic cycle in the core countries (Germany in particular) and the peripherals (Italy and Spain) that had been observed since 2010. Although Germany had ended the final quarter of the year in the red, due to the fall in net exports, its annual growth rate was 0.7 percent. Despite the positive trend in the trade balance, economic activity fell in Italy and Spain (by 2.2 and 1.4 percent respectively), as a result of the reduced consumption in Italy, and the fall in investments and public expenditure in Spain.

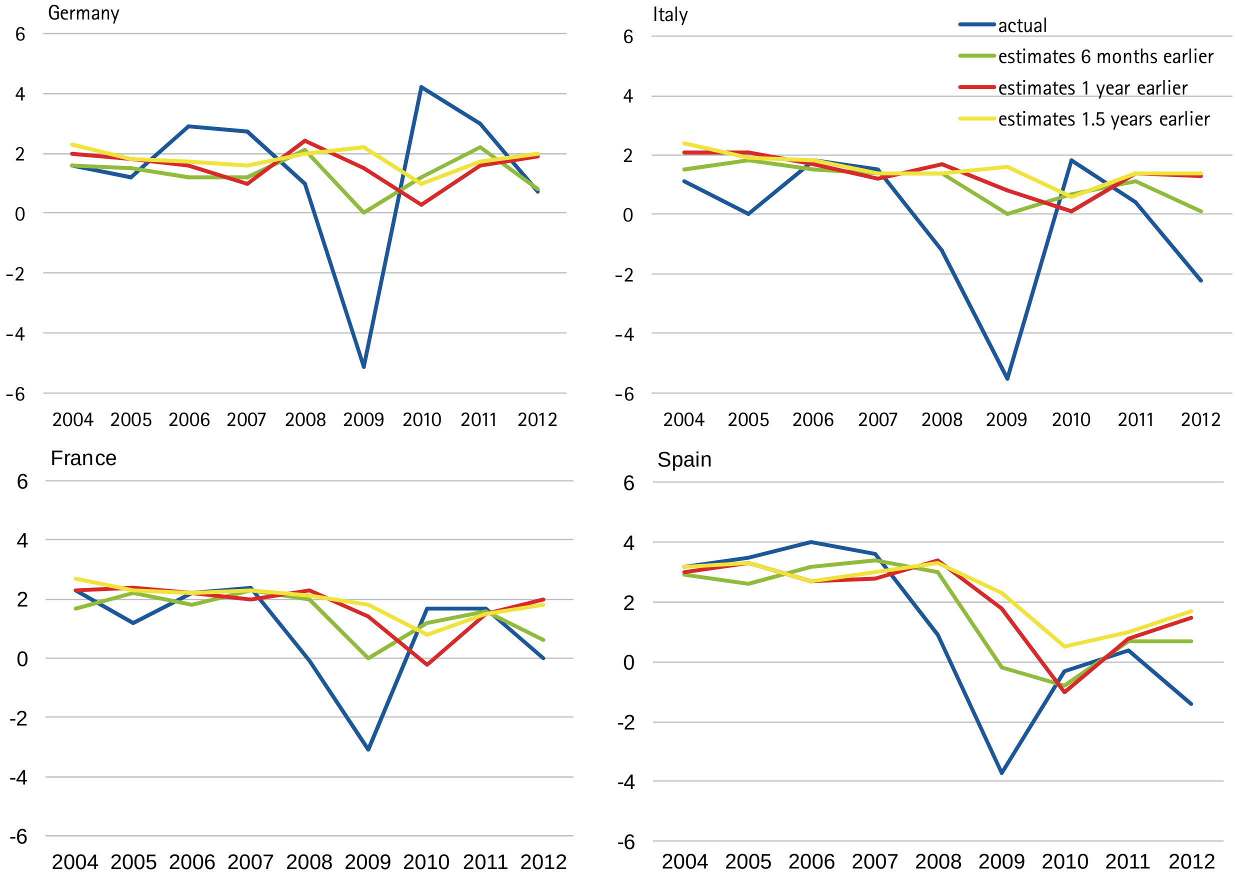
Fig. 12 GDP growth in some European countries



Source: based on European Commission and Thomson Reuters data

As the crisis deepened, the analysis carried out by the leading international organisations highlighted a series of glaring errors in the estimates of growth forecasts, particularly for the peripheral nations, Italy and Spain. The errors were probably due to an underestimate of the negative impact of the fiscal consolidation policies implemented simultaneously by several euro area countries, but also to the financial determinants of the crisis, and problems in quantifying the effects on domestic product of the reduction in bank credit supplied to the economy (Fig. 13).

Fig. 13 Comparison between forecast and effective GDP growth
(percentage values)



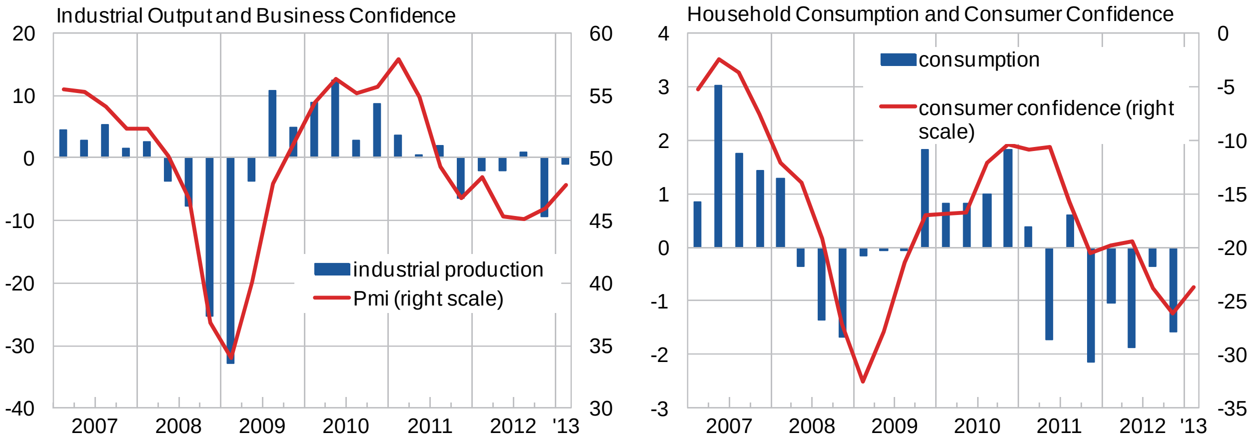
Source: calculations based on European Commission data.

After the slight recovery seen in the third quarter of 2012, industrial production in the euro area fell during the last quarter, by more than nine percentage points. However, the fall in the industrial production index, the largest since 2009, was not accompanied by a deterioration in the climate of business confidence. Although the PMI composite, the benchmark index for European businesses, remained below 50 points (the threshold that denotes the limit between the expectations of growth and recession), it recovered again during the third quarter of the year.

The consumer confidence indicator, which began to fall from mid-2011 onwards, signalled a further decline in the expectations of households. The fiscal consolidation measures undertaken by many euro area countries have squeezed disposable income, fuelling widespread pessimism. Despite this, the early part of 2013 saw a slight improvement in consumer expectations (Fig. 14).

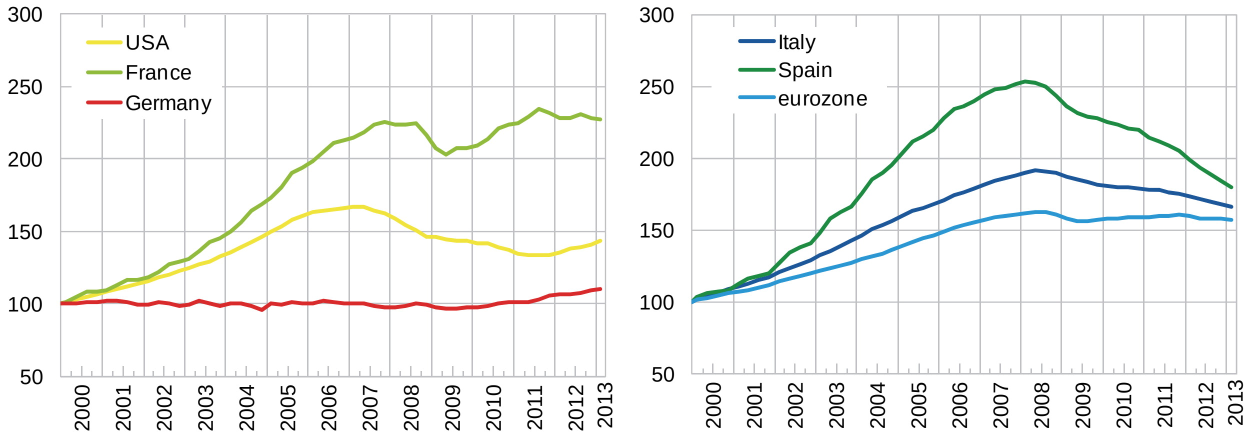
The property market remains weak in most of the advanced countries. House prices only saw a moderate increase in the United States, where the programme of buying mortgage-backed securities on the secondary market, launched by the Fed last September, is expected to help stimulate the offer of mortgages. In the euro area, prices rose slightly on the German market and are still high in France, but in general were stable or tended to fall. The restorative public finance measures seen in the principal peripheral countries have also increased the tax burden, which is pushing down the demand for homes. House prices should therefore continue to fall (Fig. 15).

Fig. 14 Industrial output, household consumption, business and consumer confidence in the euro area



The annualised growth rate of industrial output and household consumption is calculated on quarterly data. The PMI composite series is expressed in index points. The consumer confidence series is expressed as percentage balances. Source: Thomson Reuters, Markit Economics, Eurostat and European Commission data.

Fig. 15 House prices in some advanced countries
(index figures; January 2000=100)

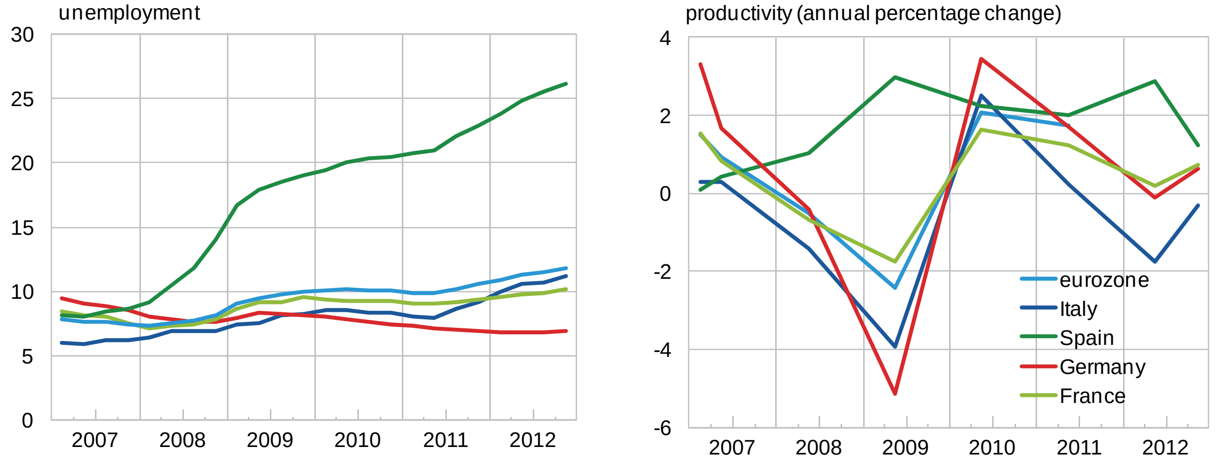


Source: Thomson Reuters.

The persistence of macroeconomic weaknesses is reflected in the job market, with rising levels of unemployment in almost all countries in the Area.

In Spain in particular, the unemployment figure has now exceeded 25 percent, while in Italy it is 11 percent. According to the latest estimates by the European Commission, the rate of unemployment is expected to continue to rise, reaching 12 percent in Italy and also the euro area during 2014 (Fig. 16).

Fig. 16 Unemployment and productivity
(percentage values)

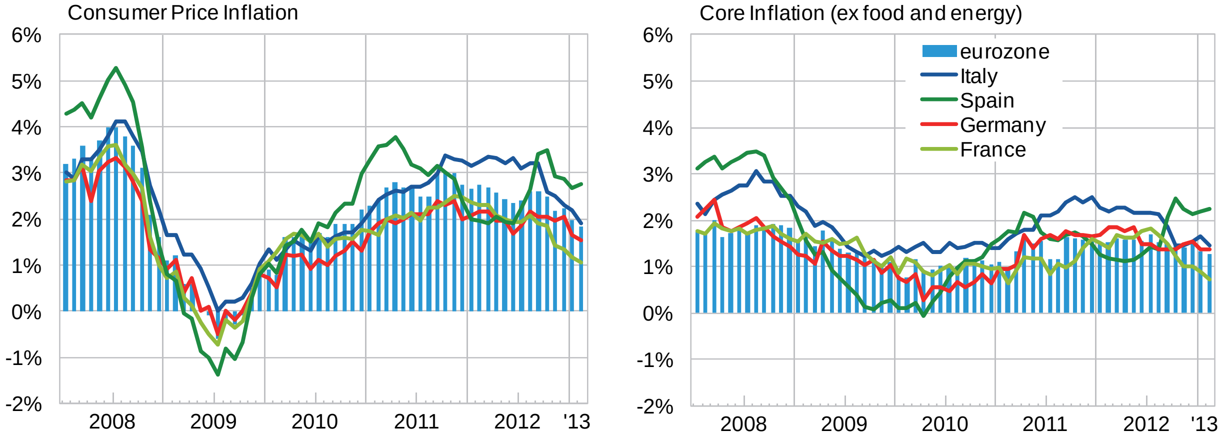


Source: Thomson Reuters.

The trend in the growth of productivity, which began to fall from mid-2010 in most advanced countries, showed a moderate recovery in Italy, France and Germany during the second half of 2012, but continued to fall in Spain.

In a context characterised by weak internal demand and high unemployment, inflation in the euro area began to fall from September 2012, reaching 1.8 percent in February 2013 (Fig. 17).

Fig. 17 Inflation
(monthly data from January 2008 to February 2013)



Source: Thomson Reuters.

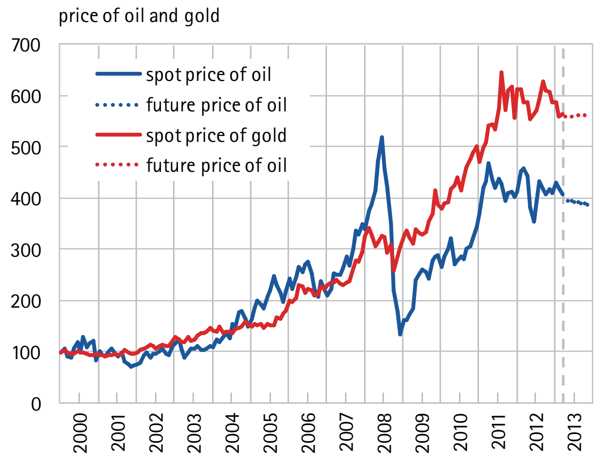
One exception is Spain where, mainly as a result of the increase in VAT rates, inflation reached an annual 3.5 percent in October, before falling again the following month.

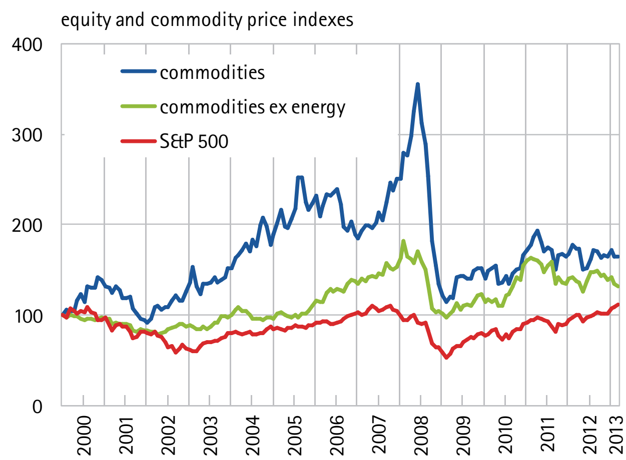
The moderate trend in energy prices during the final quarter of 2012 helped to reduce the rate of growth in consumer prices, countering the slight rise in core inflation recorded at year-end.

The outlook is that the impact of the fiscal consolidation measures taken in many euro area countries and the continuation of the recessive phase will lead to a continued gradual fall in consumer inflation over the next two years (from 2.5 percent in 2012 to 1.5 percent in 2014 according to the latest forecast from the European Commission).

After the significant fall recorded in the first half of 2012, gold and petroleum prices began to climb again from August onwards (Fig. 18).

Fig. 18 Prices of crude oil, gold and raw materials
(monthly data from January 2000 to March 2013; January 2000 = 100)





Source: Thomson Reuters data.

Gold, in particular, reached the levels recorded at the end of 2011, before falling again during the final quarter of the year. Meanwhile oil prices were subject to upwards pressures, due to friction in supply caused by geopolitical tensions in the producing countries and the embargo against Iran. These pressures were however partially offset during the last quarter of the year, by the slump in demand from the main advanced economies.

In a context of weak growth, oil futures indicated a moderately downwards trend in the prices for crude oil in 2013. These expectations are accompanied by the forecast of a slight fall in the prices of commodities.

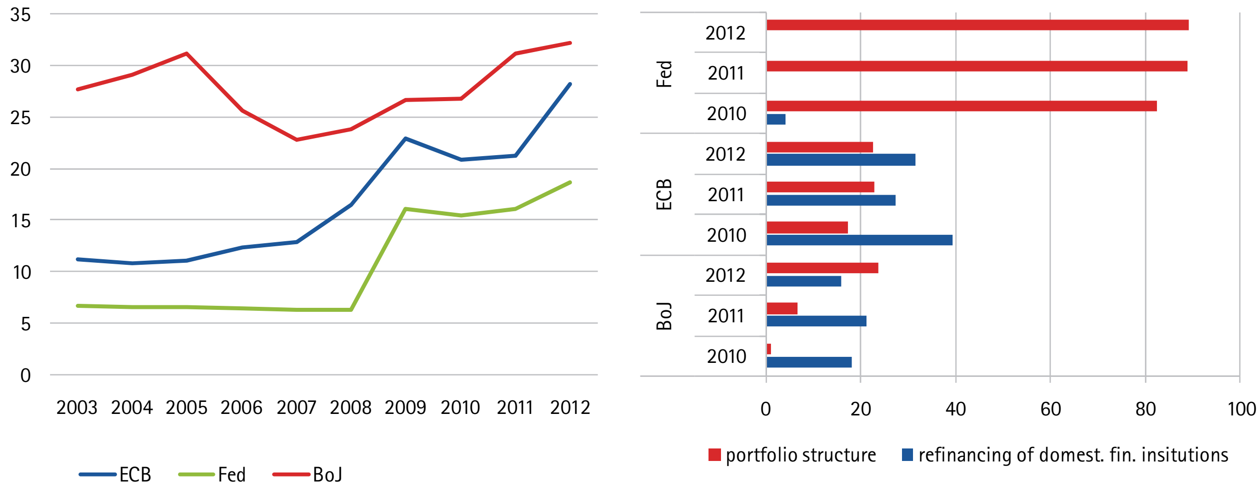
Globally, in 2012, there was zero economic growth in the United Kingdom, with a recovery of economic activity in the United States (2.2

percent) and in Japan (1.9 percent). In 2013 the economic cycle should improve in the United Kingdom and be consolidated in the United States, while a fall in economic activity in Japan is expected.

4 Monetary policy and financial integration in the euro area

Since the beginning of the financial crisis, the ECB, Fed and Bank of Japan (BoJ) balance sheets expanded both in absolute terms and also relative to GDP, respectively to 28 percent, 19 percent and 32 percent of GDP by the end of 2012. The increase has been most significant for the ECB and the Fed compared to the BoJ, which adopted unconventional monetary policy measures at the end of the 1990s and the early 2000s, in an attempt to combat deflation (Fig. 19).

Fig. 19 ECB, Fed and BoJ assets to GDP ratios and asset breakdown (percentage values)



In the case of the Fed, the refinancing of domestic financial institutions includes the term auction facility through which the central bank supplied liquidity between 2008 and 2010. Source: ECB, Fed and BoJ data.

The asset structure of the three central banks reflects the differences in the traditional and unconventional instruments used to combat the crisis. Between 2008 and 2009, the Fed took action intended to guarantee the supply of liquidity through the direct financing of the banks and dealers hit hardest by the sub-prime crisis. From 2009 however, it resorted almost exclusively to the acquisition of government bonds and securities linked to securitisation transactions, which at the end of 2012 impacted by more than 90 percent on the central bank's assets (2,700 billion dollars). The acquisition of government bonds continued during the early part of 2013, at the rate of 45 billion dollars per month (equivalent on an annual basis to 64 percent of the federal government's net indebtedness for 2013); a programme of acquisition of mortgage-backed securities worth 40 billion dollars per month is also in progress. These measures may be reduced during the year if the recovery in the US economy is considered sufficiently robust.

Unlike the Fed, the ECB has favoured the supply of liquidity to the banks, in order to limit the reduction in the supply of credit and has always neutralised unconventional monetary policy measures consisting of securities purchases. At the end of 2012, public securities made up 20 percent of the ECB's assets, while the refinancing of financial institutions accounted for approximately one-third of its assets.

In October 2010 the BoJ launched the Asset Purchase Programme, through which it acquired government bonds, and securitised assets and bonds issued by property investment firms. The programme was extended on several occasions until December 2012 when the available funds generated by the programme amounted to 101,000 billion yen (20 percent of GDP). The Bank of Japan introduced significant changes to its monetary policy in the first few months of 2013. In particular, it officially confirmed its collaboration with the government, the first time setting an inflation target of 2 percent to be achieved within two years, and announced a new phase of "quantitative and qualitative monetary easing".

In order to restore the normal channels for the transmission of monetary policy, distorted by the fragmentation of the monetary and financial markets in the euro area, in August 2012 the ECB announced, and later defined in the following September, a programme of purchasing public bonds with a maximum residual maturity of three years, on the secondary markets.

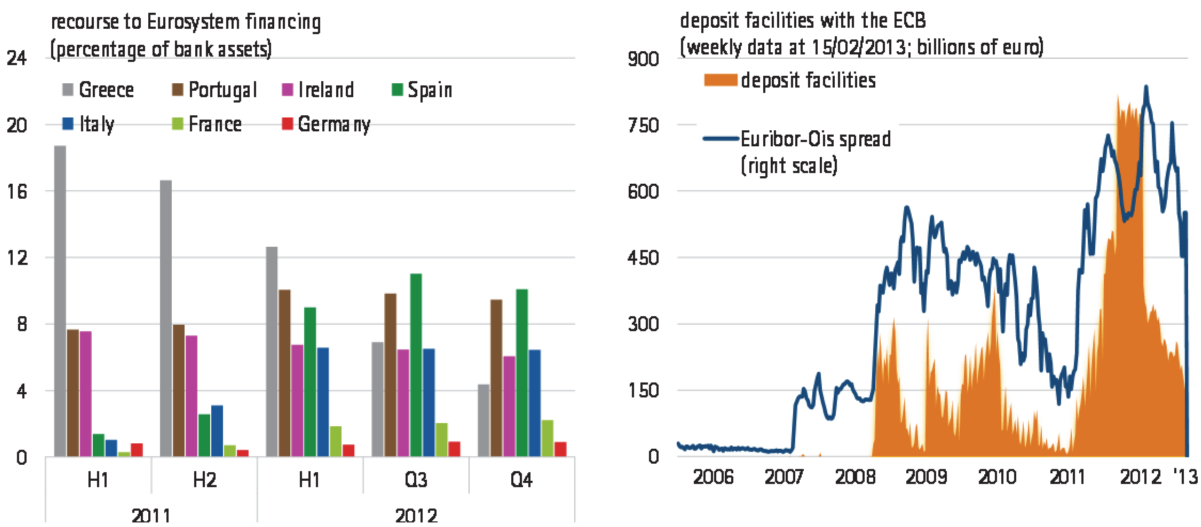
The OMT programme, activated at the request of a struggling country, is aimed at normalising the conditions on the government bond market, through the purchase of public bonds, with no limits in terms of size or duration. There are certain restrictions however: the purchases are subject to stringent conditions for the applicants. The ECB can withdraw its support if the national government is unable to meet its commitments, and finally, no numerical objectives will be announced in terms of yields or spreads. As with the Securities Markets Programme (SMP), the purchases will be neutralised.

At the same time, the ECB concluded the SMP, through which it acquired Italian government bonds with an average residual maturity of 4.5 years and a value of 102.8 billion euro (47 percent of all bonds purchased), Spanish bonds with a residual maturity of 4 years and a value of 44.3 billion euro (20 percent of the total), and Greek bonds with a residual maturity of 3.5 years and a value of 34 billion euro (16 percent of the total). There were smaller purchases of Portuguese and Irish bonds, of 22.8 billion euro and a residual maturity of almost 4 years (10 percent of the total) for Portugal, and 14.2 billion euro and a residual maturity of 4.5 years (7 percent of the total) for Ireland.

In 2012, the banks' recourse to financing in the Euro system increased compared to the previous year for all the countries hardest hit by the sovereign debt crisis.

One exception was Greece, where at the end of 2012 the figure was 4 percent of banking assets (6 percent in the third quarter) and Ireland, where the figure remained largely stable, at 6 percent. In the fourth quarter, the Spanish banks were the primary borrowers of ECB funds, with financing equivalent to just over 10 percent of their total assets. A similar figure was recorded for Portuguese banks. At the end of the fourth quarter, the Italian banks had access to Eurosystem financing equivalent to approximately 6 percent of assets (largely in line with the average for the year). In the second half of 2012, the banks' propensity to deposit surplus liquidity with the ECB had fallen, signalling a weakening of the tensions on the interbank market (Fig. 20).

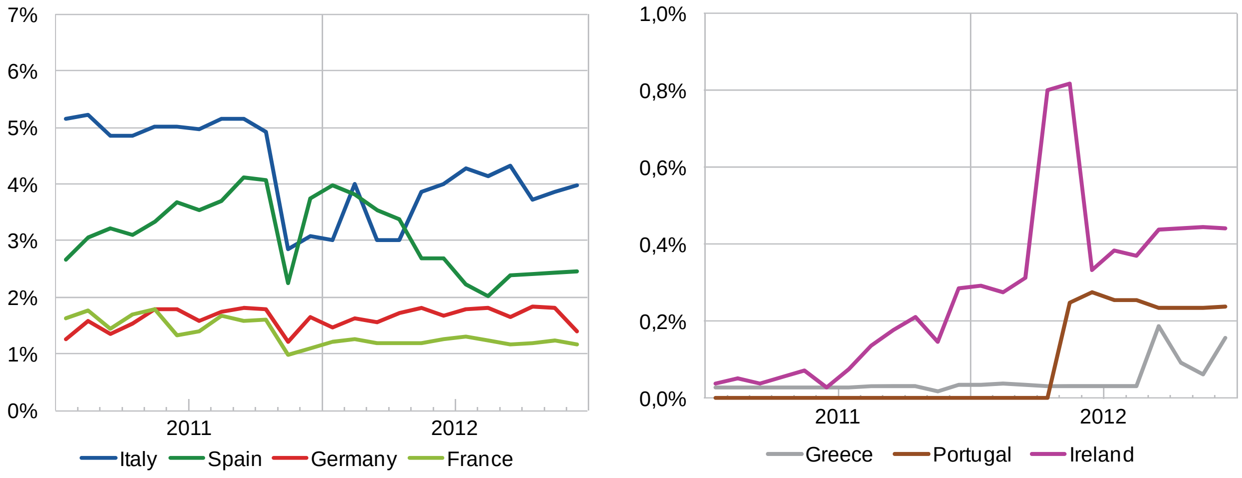
Fig. 20 Banks' reliance on Eurosystem in some euro area countries and ECB deposit facilities



The Euribor-Ois spread is calculated according to the Euribor level. Source: ECB and national Central Banks data.

In 2012, the level of bank funding through collateralised transactions varied, remaining stable for the banks in the core countries, showing a reduction (albeit discontinuous) in Spain, and on the contrary, an increase in Italy and Greece (Fig. 21).

Fig. 21 Bank funding through collateralised operations
(in percentage of bank funding)

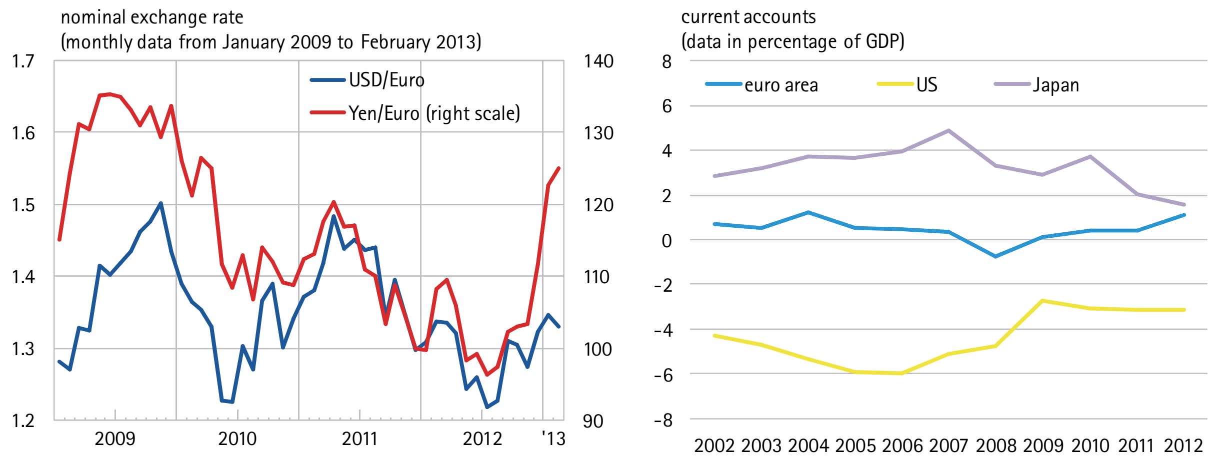


Source: ECB data

5 Foreign exchange markets and the balance of payments

In 2012 the euro's performance was variable against the US dollar and the yen, while in the first few months of 2013 it fell against the dollar and rallied against the yen (Fig. 22).

Fig. 22 Euro exchange rate and current accounts



Source: Thomson Reuters; IMF.

During 2012, the euro appreciated against the US dollar from July until the end of the year, registering a general stability. In the same period the single currency also appreciated against the yen, by 13 percent. These trends are reflected in the competitiveness perceived by manufacturers in non-European markets (Box 2).

Box 2

Euro exchange rate and relative competitiveness relative to Dollar and Yen

The recent changes in Japanese monetary policy intended to kick-start the domestic economy and halt the current phenomenon of deflation, has fuelled fears that struggling countries could resort to competitive devaluations in order to overcome negative cyclical phases. In this context, it may be useful to identify the values of the euro exchange rate against other currencies, at which operators perceive a loss of competitiveness.

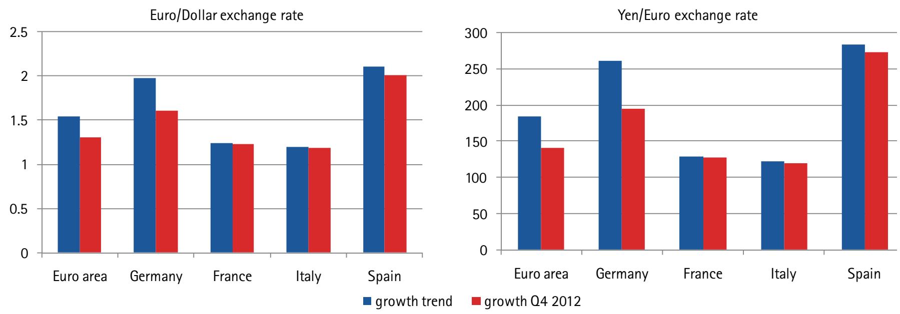
The European Commission conducts periodic surveys on the competitiveness perceived by operators in the manufacturing sectors of non-European markets based on the interviewees' ratings of the level of production capacity compared to orders and output (*European Commission "Business and consumer survey results"*).

This box contains the results of the estimated relationship between perceived competitiveness and the effective exchange rate of the euro against the US dollar and the yen, in order to identify the "pain threshold" beyond which manufacturers consider that the euro area competitiveness will be penalised. This threshold has also been estimated for several member states: France, Germany, Italy and Spain. In particular, perceived competitiveness was compared to the level of the effective nominal exchange rate, the annual change in that rate, and the annual change in global demand (this last element was defined by considering either the average rate of growth of the past 20 years – between 5 and 6 percent – and the value for the final quarter of 2012 – 2 percent).

With regard to the euro/dollar exchange rate the pain threshold estimated for the euro area is 1.3 in the case of a negative economic scenario, and 1.5 in the case of sustained growth in global demand. Therefore, the euro/dollar exchange rate equivalent to the average value recorded in the first quarter of 2013 (1.32) is higher than the pain threshold for the perceived competitiveness of the euro area if global demand continues to be sluggish.

With regard to the individual countries however, the pain threshold varies significantly. A strong euro is a problem for the competitiveness of France and Italy, while the economies of Germany and Spain do not seem to be significantly influenced by fluctuations in the exchange rate against the dollar and the yen. When global demand grows according to its own long-term trend, an exchange rate of 1.23 and 1.19 against the dollar represents an obstacle for the competitiveness of French and Italian manufacturing industries on the non-European markets (the results are not significantly different when growth in global demand is low). For Germany and Spain, the exchange rate pain thresholds are very high, and are not significant. In other words, the level of the exchange rate for these countries does not appear to play any role in the perception of competitiveness on non-European markets. The same dynamics emerge if we consider the exchange rate of the euro against the yen. The exchange rate pain threshold estimated for the euro area is 141 in the case of a negative economic scenario, and 184 in the case of sustained growth in global demand. For France and Italy, an euro-yen exchange rate of 129.3 and 121.9 is already a source of concern for traders operating in non-European markets. However, no effect on perceived competitiveness from the dynamics of the euro-yen exchange rate appears to exist for Germany or Spain.

Euro exchange rate pain threshold



The method used for the analysis is based on the approach of a recent study published by Deutsche Bank (Deutsche Bank, Focus Europe, 25 January 2013, Gilles Moec «Where is the FX 'pain threshold'?»), based on an indicator of perceived competitiveness identified in the three-monthly surveys of the European Commission (European Commission «Business and consumer survey results»).

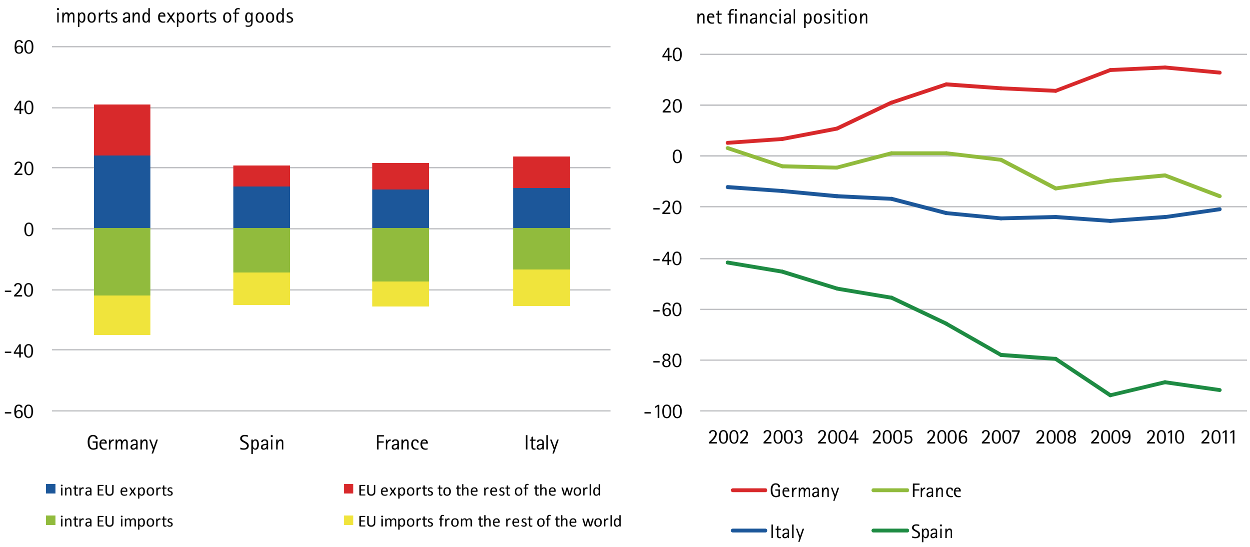
There was also a continuing reduction in the current account imbalances of the United States and Japan while the trade position of the euro area was essentially in the break-even position.

The surplus of the United States fell from 2008 onwards, to approximately 3 percent of GDP, about half the figure recorded in the early 2000s; simultaneously, there was also a significant reduction in the current surplus of Japan, which was 2 percent of GDP.

The figure for the euro area is the result of very different dynamics between the member states.

At the end of 2011, Germany continued to record a significant trade balance surplus, while France, Spain and to a lesser extent Italy had recorded negative balances. In parallel, Germany's net financial position showed an improved surplus (33 percent of GDP) while the figure had clearly deteriorated for Spain (90 percent of GDP). For France and Italy the deficits were respectively 16 and 21 percent of GDP (Fig. 23).

Fig. 23 Geographical distribution of trade flows and net financial position
(percentage of GDP)

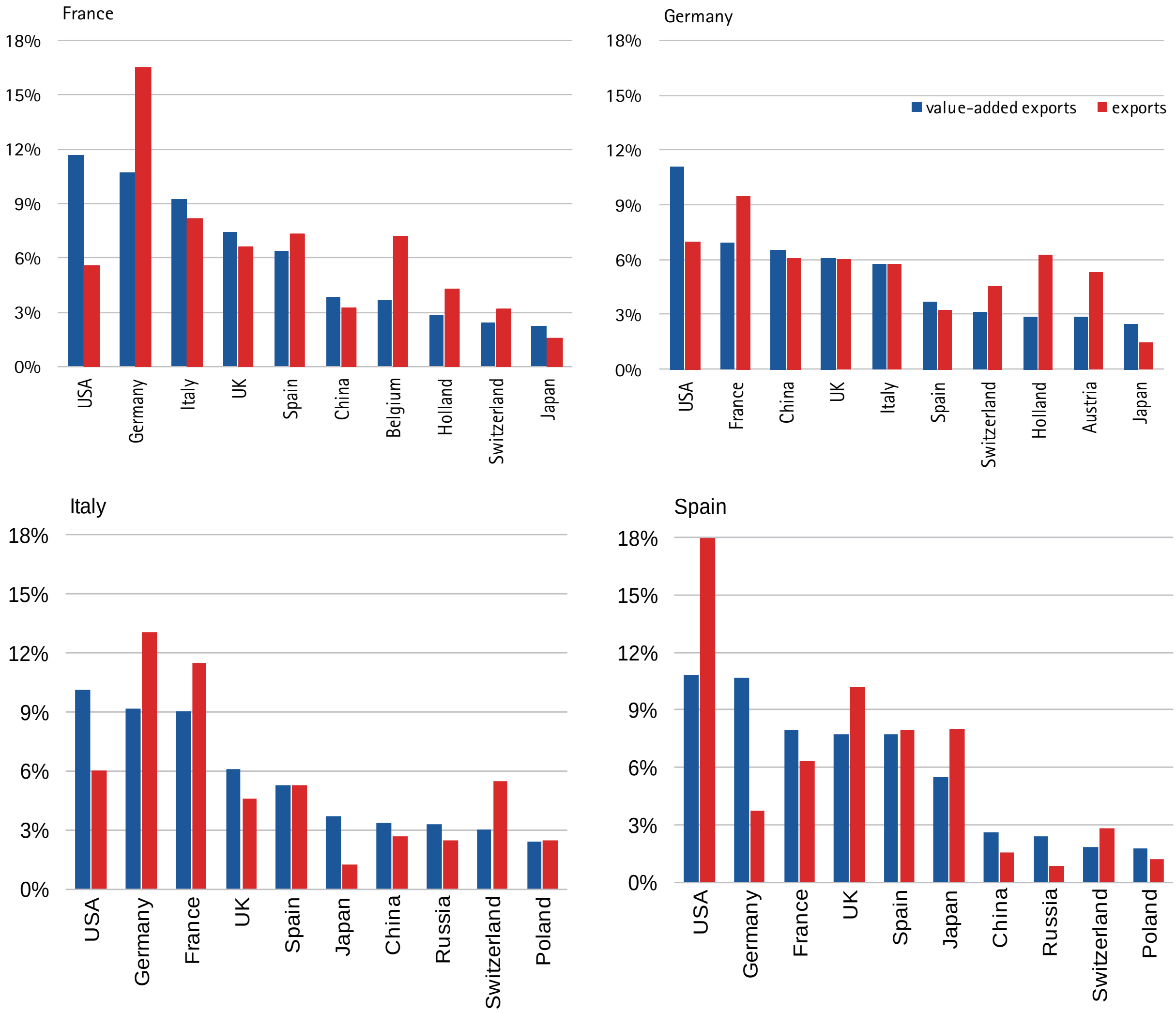


Source: based on Eurostat data; import and export data refers to 2011.

Trade with EU countries represents an important part of the imports and exports of France, Germany, Italy and Spain.

A comparison with the principal export markets shows that for all four of the above countries, the primary commercial partner is another euro area economy, with the values being more significant for Spain and France (respectively more than 18 percent and 16 percent of the total), and lower figures for Germany and Italy (just over 9 and 13 percent respectively Fig. 24).

Fig. 24 Main export markets for some euro area countries
(% on total exports)



Source: based on OECD data

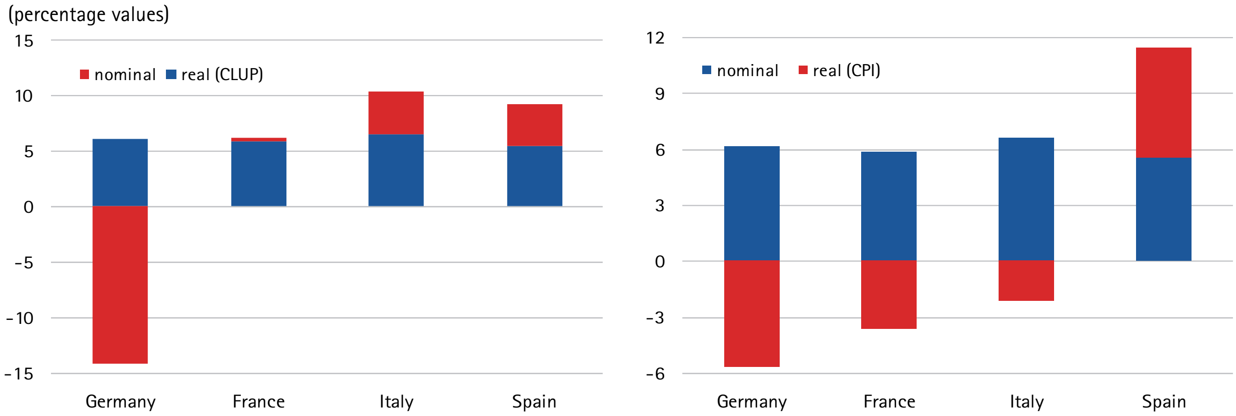
The United States is Germany's second export market (7 percent of the total), the third-largest for Italy (6 percent) and the 6th for France (almost 6 percent of the total) and for Spain (just under 4 percent). China absorbed 6 percent of German exports, less than the 4 percent for France and 2 percent for the Italian and Spanish economies. Japan plays a marginal role.

However, the composition of trade exchanges by export country changes if reference is made to the added value of exports. In particular, with a weight of more than 10 percent, the United States is the primary export market for Germany, France and Italy and the second for Spain. The impact of China is substantially stable for Germany, while it has risen for France, Italy and Spain. Finally, Japan is the sixth destination for Italian exports (almost 4 percent of the total), the eighth for Spain (just above 2 percent of the total) and the 10th for Germany and France (around 2 percent of the total).

Between 2002 and 2011, the nominal effective exchange rate appreciated in the euro area countries, resulting in a general loss of competitiveness. However, the figure for the real exchange rate based on the cost of labour per unit of product shows that in the same period Germany saw a significant rise in competitiveness, unlike Italy, Spain and to a lesser extent France, which on the contrary recorded an increase in the cost of labour by unit of product that was higher than the figure recorded for their main trade partners.

Looking at the real exchange rate based on the inflation rate, Germany, France and Italy improved their competitiveness while Spain was penalised by the trend in domestic prices (Fig. 25).

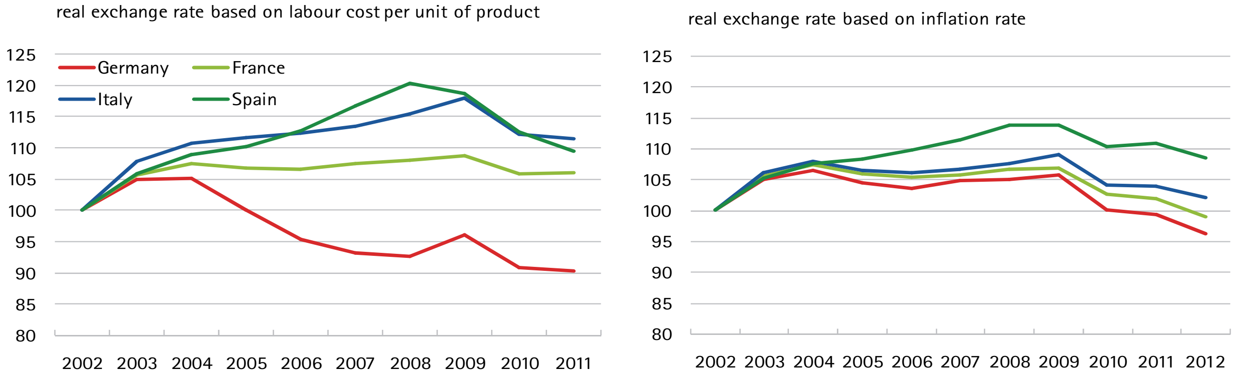
Fig. 25 Changes in effective exchange rates between 2002 and 2011
(percentage values)



Source: based on OECD data

As revealed by the dynamics in the real exchange rate based on the cost of labour by unit of product in 2012, both the core countries and the peripherals saw an increase in competitiveness. For Germany this is a phenomenon that has continued since 2005, while for the other countries, there is a continued reversal of the trend compared to the loss of competitiveness recorded until 2009. (Fig. 26).

Fig. 26 Effective exchange rates



Source: based on OECD data

From 2009 onwards, the principal euro area economies witnessed a reduced incidence of incoming and outgoing flows of foreign direct investment (FDI).

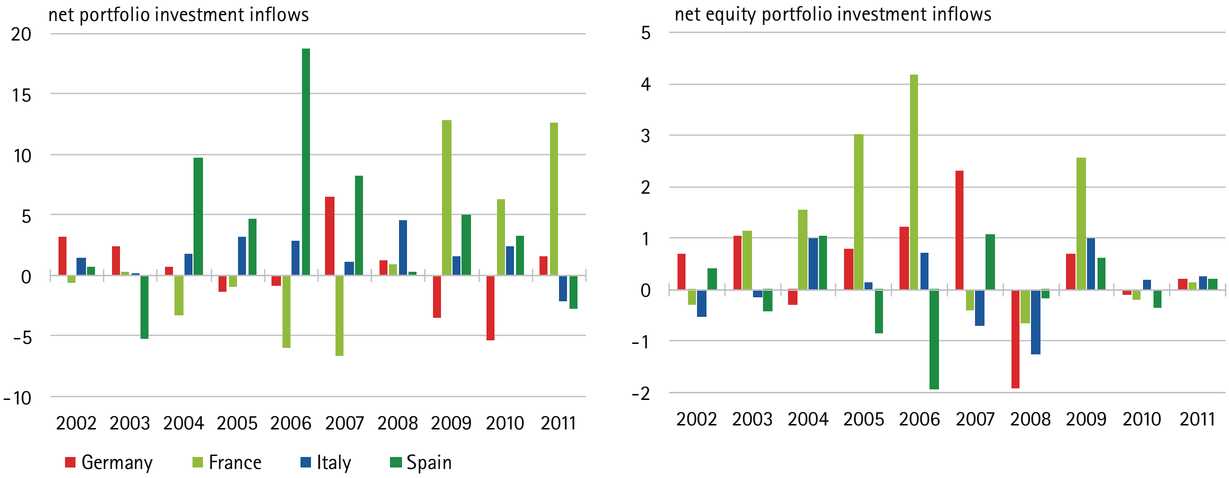
With reference to incoming flows, the countries able to attract the highest quantities of direct foreign investment, even in the current context of reduced volumes, are France and Spain. These economies are also the most active in terms of relocating their production operations abroad, as can be seen from the outgoing flows. With regard to the incoming flows, Italy recorded an incidence of foreign direct investment on GDP of 15 percent in 2011, less than that of France or Spain which were 35 and 42 percent respectively. For Germany the figure was 20 percent. The outgoing investments reached almost 50 percent of GDP in France, 43 percent in Spain and 40 percent in Germany, while in Italy the percentage was clearly lower, at 23 percent (Fig. 27).

Fig. 27 Foreign direct investments
(% of GDP)

Source: based on UNCTAD data. According to the UNCTAD definition, foreign direct investment is an investment in a foreign enterprise in which the foreign investor owns at least 10 percent of the ordinary shares. The investment is made with the aim of establishing a permanent interest in the country, a long-term relationship and a significant influence in the management of the business. More generally, a foreign direct investment takes place when a company invests in production activities outside of its country of origin.

In 2011, portfolio investments, which are more volatile than foreign direct investments, recorded net positive flows towards France (13 percent of GDP) and negative flows for Italy and Spain (approximately 2 percent of GDP for both countries). The net flows of share portfolio investments, which have fallen since 2010, were below 1 percent of GDP in 2011, in all four of the countries in question (Fig. 28).

Fig. 28 Portfolio investments
(in % of GDP)



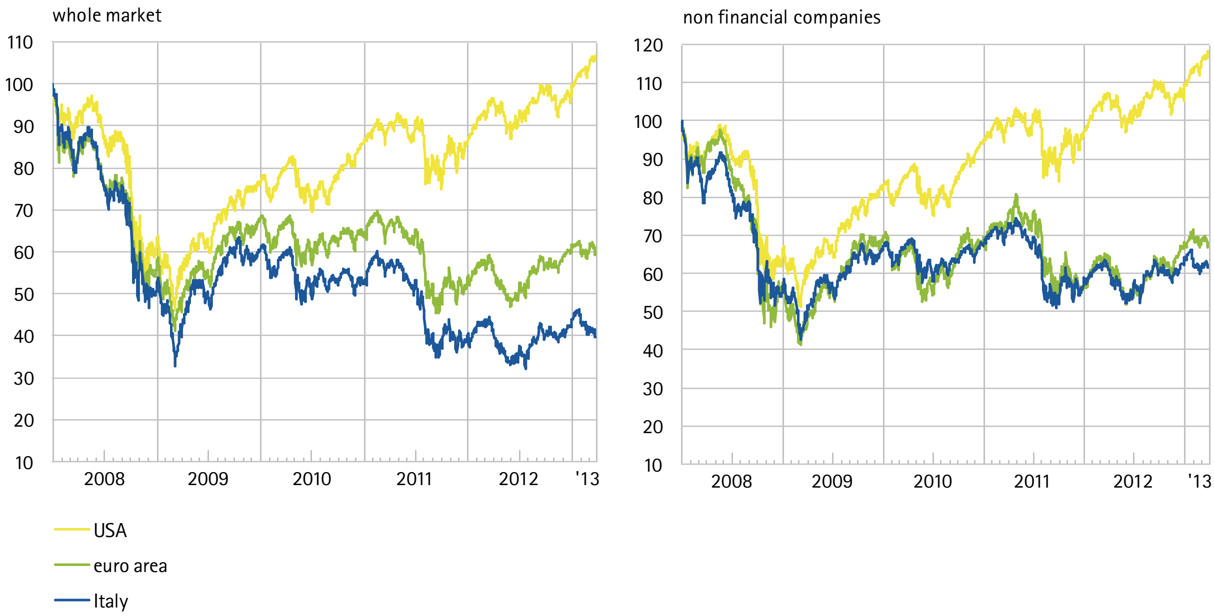
Source: based on Worldbank data Portfolio investments, which follow a financial logic (unlike direct foreign investments) are transactions with foreign countries relating to tradable financial instruments (the purchase of bonds or shares in non-majority holdings) which give the investor the opportunity to dispose rapidly of the invested capital. The investment is motivated by the yield on these financial assets compared to the return on internal assets with equivalent risk.

1 The stock market

In 2012 share prices in the main advanced economies rose, although with a discontinuous trend due to uncertainty about the evolution of the crisis in the eurozone and the global economy (see Chapter I *"The macroeconomic scenario"*). The DJ Euro Stoxx 50 and S&P500 indexes both saw an increase of 13 percentage points, while the value of the FTSE MIB increased by almost 8% (Fig. 29).

In the first half of 2012, the DJ Euro Stoxx 50 and FTSE MIB both fell by 2 and 5 percentage points respectively, while the US share index increased by 8%. From July to December the DJ Euro Stoxx 50 grew by 16%, while the FTSE MIB rose by 14%. The S&P500 saw more modest growth of five percentage points.

Fig. 29 Stock index performance in advanced countries
(daily data from 01/01/2008 to 31/03/2013; 01/01/2008=100)



The chart shows the S&P500 index for the USA, the Euro Stoxx 50 for the eurozone and the FTSE MIB for Italy.
For the non-financial sector, Datastream corporate sector indexes were considered. The source was Thomson Reuters.

In 2012 the increase in eurozone share prices was driven mainly by the recovery of the financial sector. During the second half the share prices of banks and insurance companies rose by 25 and 28%, respectively (Fig. 30). Also in Italy, the recovery in share prices in the insurance sector (+23%) was slightly higher than the 21.6% rise in the banking sector.

Fig. 30 Stock index performance in advanced countries
(daily data from 01/01/2008 to 31/03/2013; 01/01/2008=100)

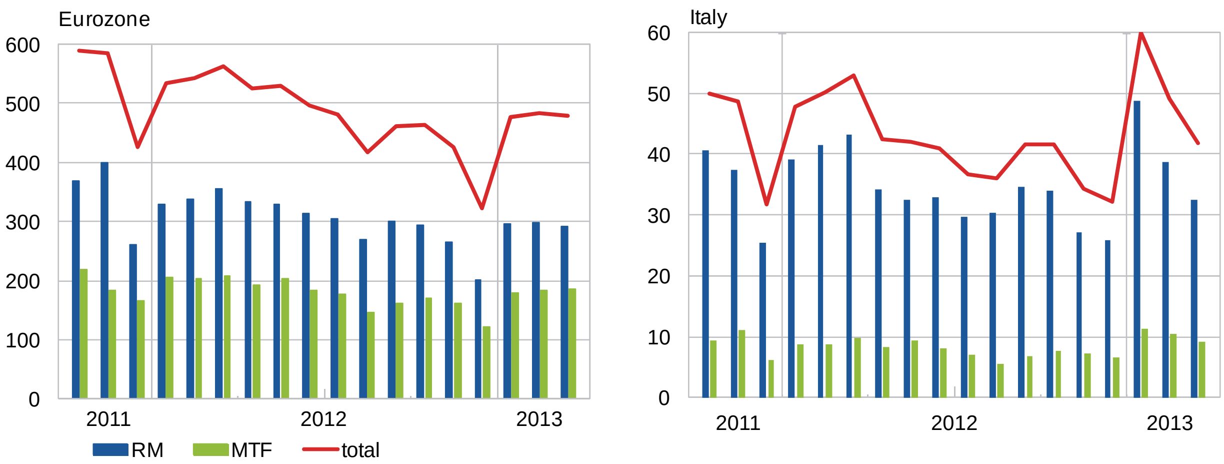
The insurance sector indexes are the S&P500 insurance for the USA, the EuroStoxx insurance for the eurozone and the FTSE all share insurance for Italy. For the bank sector: the S&P500 banks, Euro Stoxx banks and the FTSE Italia banks. The source was Thomson Reuters.

During the first quarter of 2013, the performance of the S&P500 was positive (up by 10%), reflecting the increasingly clear signals of economic recovery despite persisting uncertainty about the effects of expenditure cuts and tax increases which came into force on 1 March (the fiscal cliff).

Meanwhile, in the eurozone, share prices continued to demonstrate a very volatile performance, reflecting the fragility of prospects about the recovery and sustainability of the public finances in the countries hit hardest by the crisis, as well as criticalities relating to the Cyprus bailout. From the start of the year, the DJ Euro Stoxx 50 recorded a slight drop of 0.5%, while the FTSE MIB recorded a bigger drop (-5.7%).

In 2012, the sovereign debt crisis and uncertainty about the macroeconomic outlook led to a contraction in trading volumes in the eurozone. The turnover for companies listed on the Euro Stoxx 600 fell from 427 billion euro in December 2011 to 322 billion euro in December 2012 (-24%). The volume of trades fell by 23% on the regulated markets and by 26% on the multilateral trading facilities (MTF; Fig. 31).

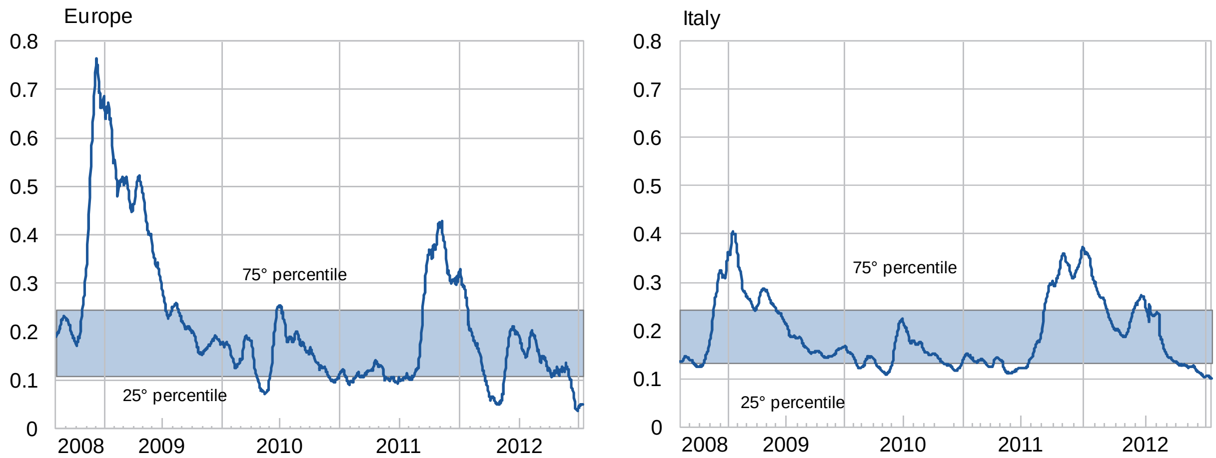
Fig. 31 Stock market turnover in the euro area
(billions of euros; monthly data from October 2011 to March 2013)



Source: Thomson Reuters data. MR indicates regulated markets, MTF indicates multilateral trading facilities. The graph on the left shows the Euro Stoxx 600 companies' turnover. The graph on the right shows the FTSE MIB companies' turnover.

In 2012 there was a general increase in the liquidity of Europe's leading blue chips, despite the discontinuous trend which reflected the performance of share indexes, and levels were higher than those recorded in June 2011 before the deepening of the sovereign debt crisis. However, early in 2013, and particularly in February, there was another fall in the level of liquidity on the share markets (Fig. 32).

Fig. 32 Stock market liquidity indicator
(daily data)

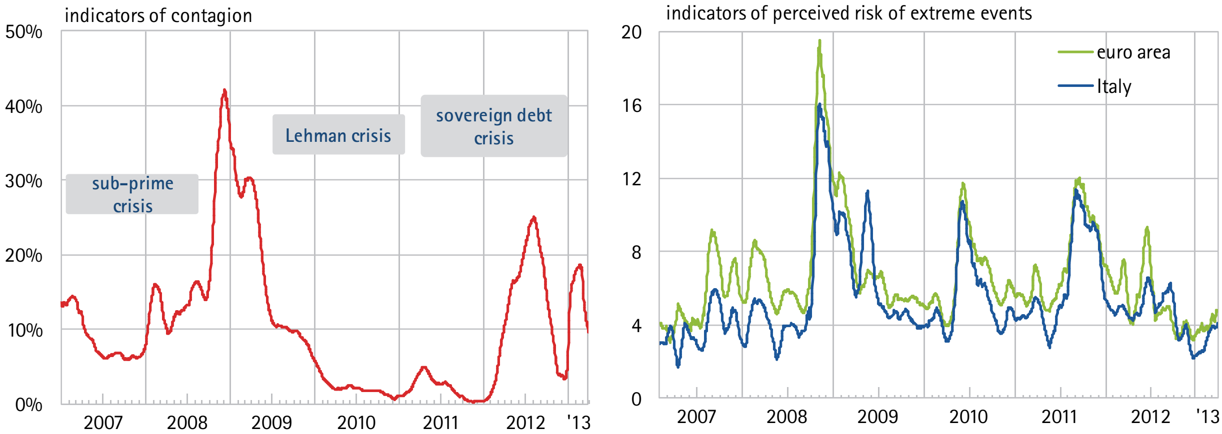


The liquidity indicator is a synthetic measure of 4 sub-indicators (price impact, implied volatility, bid-ask spread and the range indicator) obtained by applying a principal component analysis (first common factor). The indicator lies between 0 (= high liquidity) and 1 (= low liquidity). The chart shows the 20-day moving average. The source was Thomson Reuters.

The trend in the share markets also reflected elements of contagion which peaked early in 2012 and then diminished as a result of the above-mentioned initiatives taken by Europeaninstitutions to ward off the risk of the breakup of the eurozone. The weakening of the contagion effect was accompanied by a reduction in investors' perception of the risk of extreme events, as revealed by an estimate of a risk reversal indicator (Fig. 33).

However, during the first few months of 2013 the contagion and risk reversal indicators began to climb again, signalling a renewed increase in the level of interdependence between the share markets faced with the fluctuating trends in share prices.

Fig. 33 Contagion indicator and perceived risk of extreme events in European stock markets
(percentage values; daily data from 01/01/2007 to 31/03/2013)

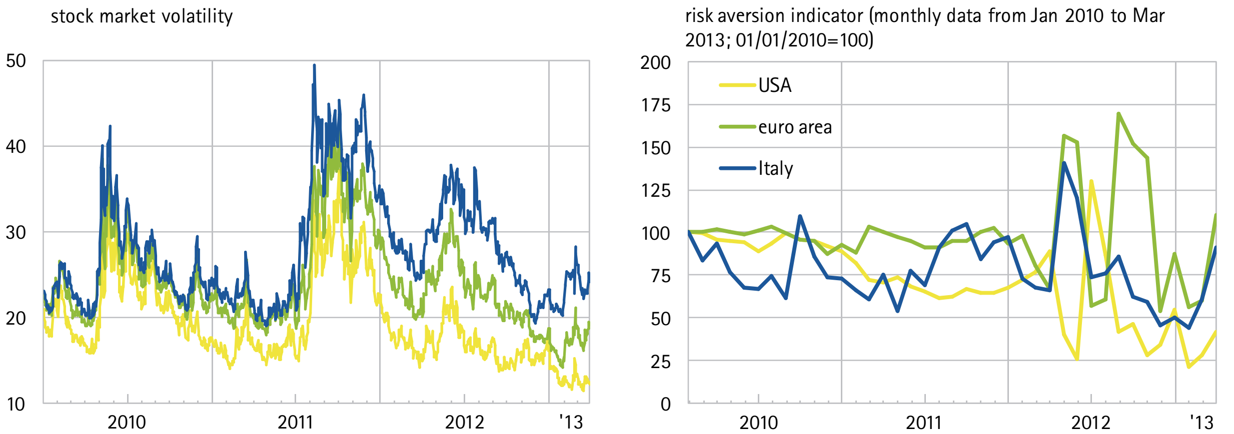


For an explanation of how the contagion indicator is constructed, see Gentile M. and L. Giordano, *"Financial contagion during Lehman default and sovereign debt crisis: an empirical analysis on Euro area bond and equity markets"*, Consob "*Quaderni di finanza*", no. 72. The figure on the left shows the percentage of the statistically significant long-term relations between the share markets of the UK, Germany, France, Austria, the Netherlands, Finland, Italy, Spain, Greece, Portugal and Ireland, out of all the possible connections. The long-term connections were identified by applying the cointegration bivariate Johansen test (1988) with a rolling window of 1000 days, on the historic daily series of share prices. The figure on the right shows the risk reversal indicator, which is constructed as the difference between the implicit volatility of put options and the implicit volatility of call out of the money options with the same maturity, characterised by the same level of sensitivity of the premium compared to changes in the underlying asset (delta). An increase in this indicator signals that the probability of a rise in the price of the underlying asset is much lower than the probability of a decrease, and therefore that investors have a higher perception of the risk of extreme events. For the eurozone: options on the Euro Stoxx 50, for Italy, options on the FTSE MIB. The parameters were a delta of 25 and a maturity of two months. The source was Thomson Reuters.

Reflecting the developments of the contagion effect, the increase in implicit volatility and risk aversion in the eurozone and in Italy was initially higher than the one seen in the USA. This was followed in the second half of 2012 by a clear decrease, which was still higher than the levels recorded in the US (Fig. 34).

At the beginning of 2013 there was a reduction in the level of risk aversion, reflecting the growth in investors' confidence. However, the renewed climate of uncertainty in February and March, signalled by the rise in the implicit volatility of share prices, led to a reduction in the propensity to risk especially in Italy and in the eurozone.

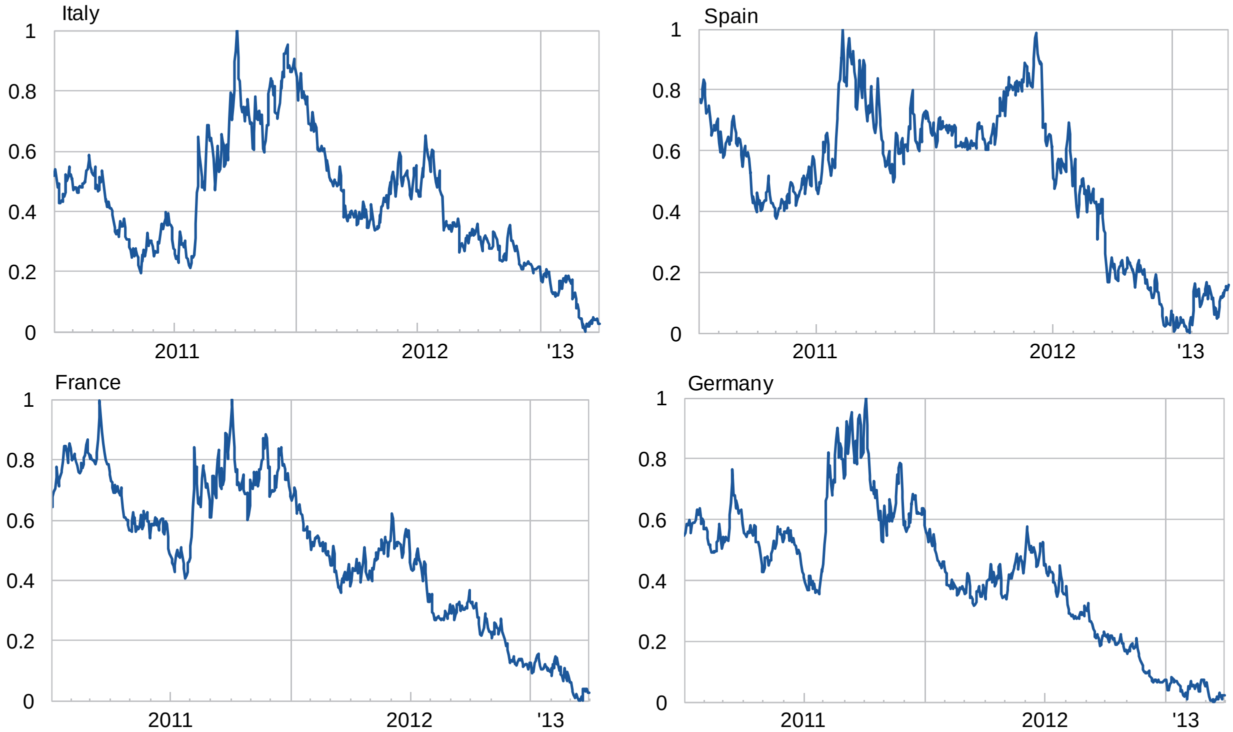
Fig. 34 Implied volatility and risk aversion indicator in stock markets.



The risk aversion indicator was estimated by comparing the historical distribution of share prices with the implied distribution in stock index option prices (for the methodology, see Shimko, 1993); the chart shows the three month moving average. Source: Thomson Reuters.

In the second half of 2012, economic operators were less uncertain about market prospects and this was accompanied by a reduction in "herding behaviour" (the propensity to follow similar investment strategies Fig. 35).

Fig. 35 Herding behaviour indicator for some stock markets
(daily data from 01/01/2011 to 31/03/2013)

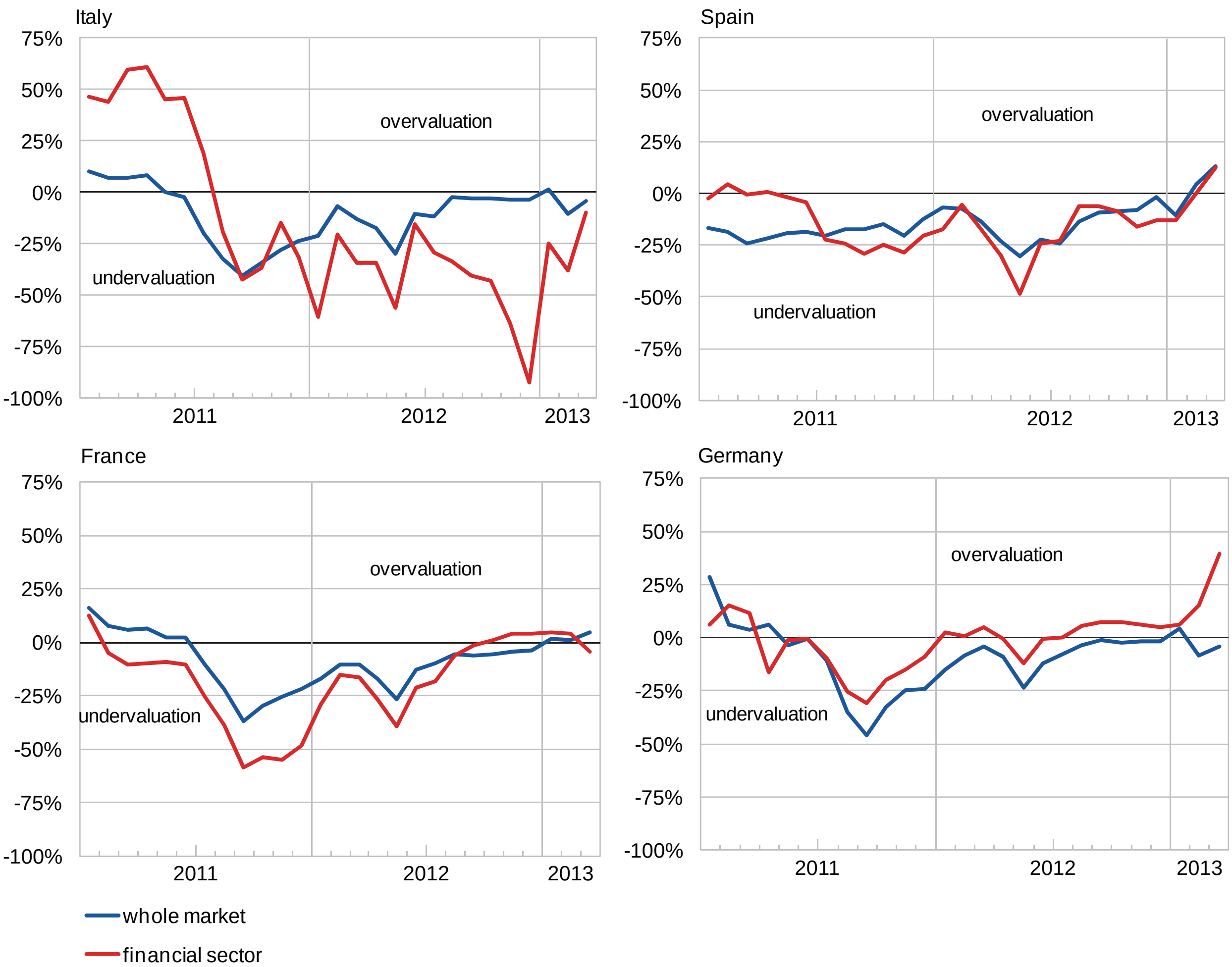


The herding behaviour indicator was calculated as the reverse of the standard cross-section deviation of the share prices of the leading blue chips, following the approach of Chang, E., Cheng, J. and Khorana, A. (2000). A lower dispersion (and therefore a higher indicator value) indicates that investors are adopting similar or copycat investment strategies more frequently and therefore that the herding behaviour is more intensive. The dispersion of share prices for the eurozone was calculated on the stocks listed on the DJ Euro Stoxx 50, and for Italy, on the FTSE MIB. The indicator was normalised between zero and one. The source was Thomson Reuters.

For some of the principal share markets in the eurozone, this phenomenon peaked during the financial crisis of 2008, and then significantly fell away, albeit with a certain level of discontinuity. The sole exception was Spain, where herding behaviour seems to have remained at significant levels until June 2012 when it began to diminish.

In 2012, following the reduction in the contagion effect, the share prices in the leading advanced countries narrowed the gap between the values estimated on the basis of the fundamentals, which had taken on significant proportions during the most intensive phases of the crisis (Fig. 36).

Fig. 36 Difference between stock index effective values and dividend discount model theoretical values.
(percentages; monthly data from January 2011 to March 2013)



The graph shows the percentage difference between the effective value of stock prices and the value estimated on the basis of the dividend discount model (Shiller, 2002; Campbell and Shiller; 1988; De Bondt, 2008). The model's fundamental long-term relationship was estimated by applying a co-integration VECM model on the historic series of share prices, earnings per share, the risk-free interest rate and the equity risk premium. The earnings per share were taken from the financial statements. The equity risk premium was approximated with a 36-month moving average of the earnings yield premium, defined as the difference between the earnings yield (calculated as the reverse of the P/E ratio) and the risk-free interest rate which was approximated with a five-year interest rate swap.) The model was estimated on the basis of the general MSCI share indexes and Datastream indexes (for the financial sector) for Italy, France, Germany and Spain. The source was Thomson Reuters.

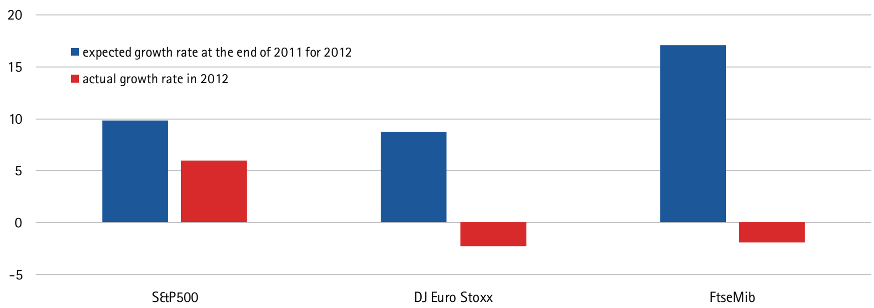
This circumstance is particularly evident for Italy, France and Germany, where at the end of 2012 for the first time since May 2011, the general share indexes demonstrated a convergence towards the fundamentals estimated on the basis of the current value of the expected earnings, discounted at the risk-free interest rate plus the risk premium.

In Italy, during the first quarter of 2013 there was a further amplification of the difference between the effective values of the share indexes and the theoretical values. The undervaluation was most apparent for the Italian listed banks. From the end of 2011 onwards, the divergence of the market value from the fundamental value for these banks was almost always higher than the estimated value for the whole market, peaking at the start of the year.

In 2012, the trend in the profits of the companies listed on the share indexes largely disregarded the expectations of investors in the eurozone (Fig. 37).

The rate of growth in the profits of companies listed on the DJ Euro Stoxx fell by approximately 2%, compared to the expected figure of 8.7%. The divergences between the effective and expected growth rates of companies listed on the FTSE MIB was even more apparent (-2 and +17 percent respectively).

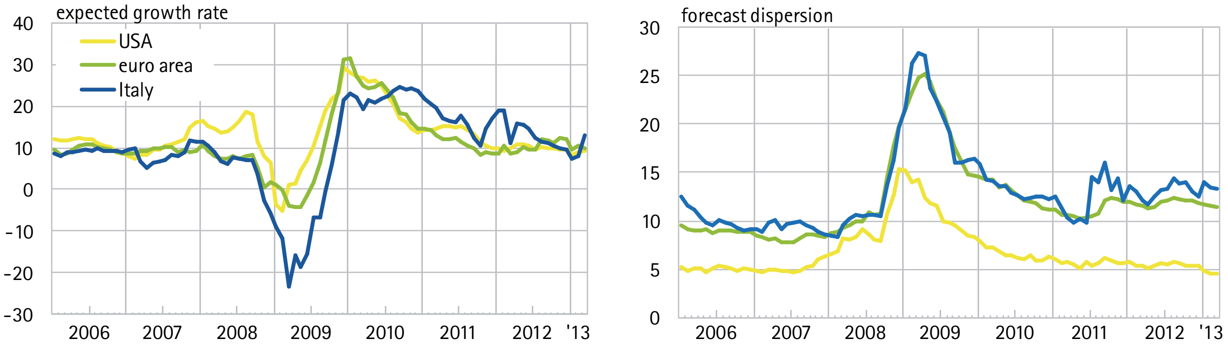
Fig. 37 Earnings growth forecast and actual growth for some stock indexes in 2012



Source: Thomson Reuters and Ibes. Data on 12-month earnings forecasts (before the amortisation of goodwill and other atypical income components) at the end of December 2012 and on actual earnings for 2012 (February 2013 estimate).

Analysts' forecasts on corporate earnings over a one-year time period remained fairly stable in the eurozone and in the USA, while the level of dispersion of forecasts remained higher in the eurozone. There was however a significant adjustment in expectations relating to the rate of growth in the earnings of companies listed on the FTSE MIB, from 17% in December 2011 to 9.6% by the end of 2012. This reduction continued in the early part of 2013, although there was an improvement in the expected rate of growth in March (Fig. 38).

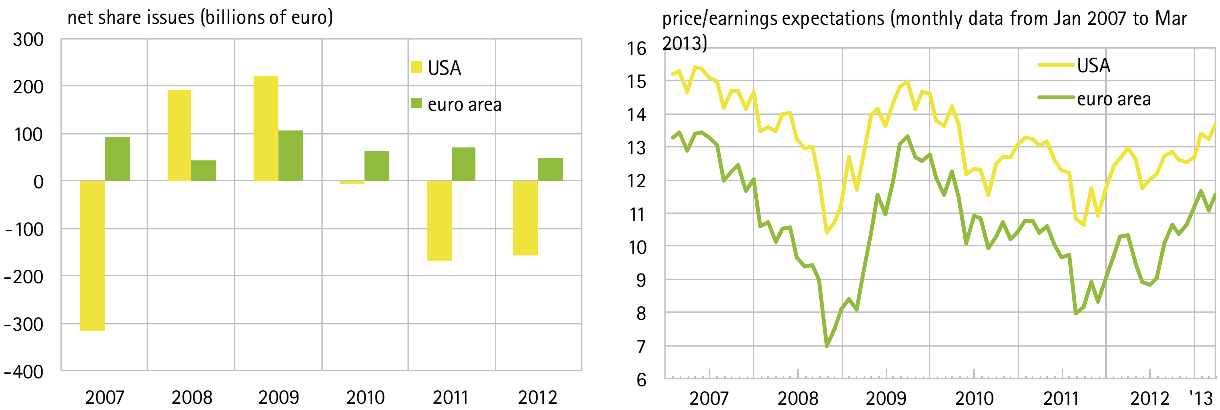
Fig. 38 Analysts' forecasts of corporate earnings over a 12-month period
(percentages; monthly data from January 2006 to March 2013)



Weighted average of rates of growth of profits of companies listed on the S&P500 (Usa), on the DJ Euro Stoxx (eurozone) and on the FTSE MIB (Italy). The sources were Thomson Reuters and Ibes.

In 2012, the fall in share prices led to a significant drop in the price/earnings ratio for the eurozone and also for the USA from March onwards, until June. In the second half of 2012, the rise in this indicator confirmed the renewed climate of confidence on the markets although the total investments on the primary market remained modest, and were still at lower levels than those recorded in 2011 (Fig. 39).

Fig. 39 Net share issues and price/earnings ratio

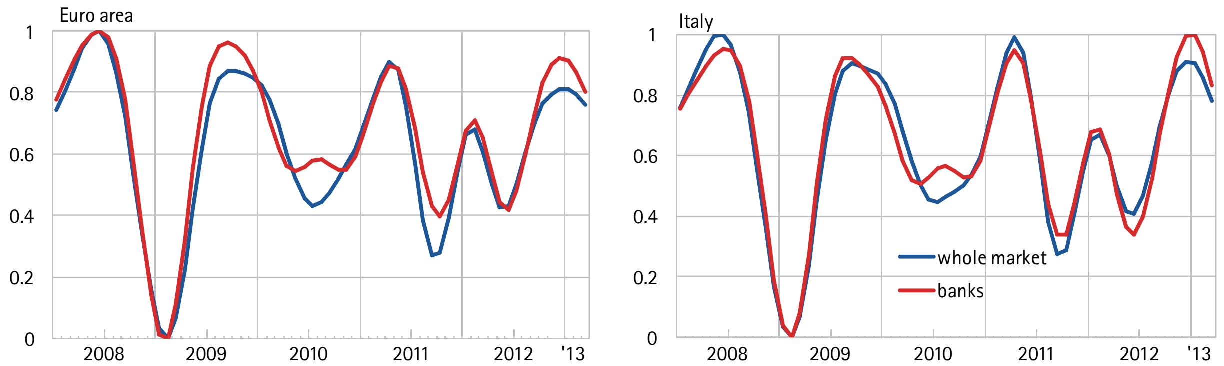


Source: Fed, ECB, Thomson Reuters, and calculations based on Ibes data for companies listed on the S&P500 (USA), on the DJ Euro Stoxx (eurozone) and on the FTSE MIB (Italy).

From the second half of 2012 until January 2013, investor sentiment in the eurozone, which is implicit in the dynamics of the cyclical component of share prices, signalled the perception of improved expectations about the outlook for economic growth, in line with the trend towards a reduction in the risk aversion indicator recorded during the same period (Fig. 40).

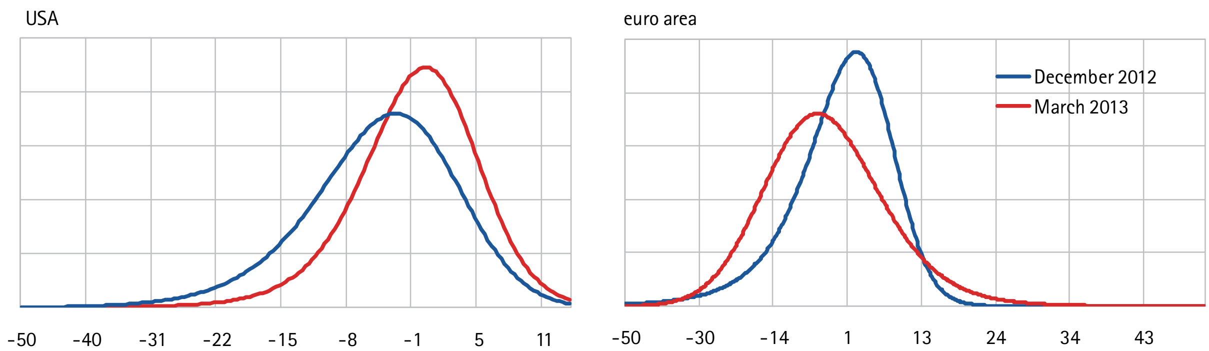
Expectations about share earnings over a three-month period, extrapolated from the prices of derivatives recorded in March 2013, were worse than the estimated expectations at the end of 2012 for the eurozone, while they indicated an improvement for the United States (Fig. 41).

Fig. 40 Market sentiment as implied by stock market indexes dynamics
(monthly data from January 2008 to March 2013)



Market sentiment is estimated by separating the long-term component of earnings from the short term one which is more erratic and volatile. The cyclical component of each historic series has been normalised between zero and one. The indicator was calculated by applying the Christiano-Fitzgerald filter to the historic share index data. The indexes considered were the FTSE MIB and FTSE MIB Banks for Italy, the DJ Euro Stoxx 50 and the DJ Euro Stoxx 50 Banks for Europe. The source was Thomson Reuters.

Fig. 41 Expectations about share prices over a three-month period



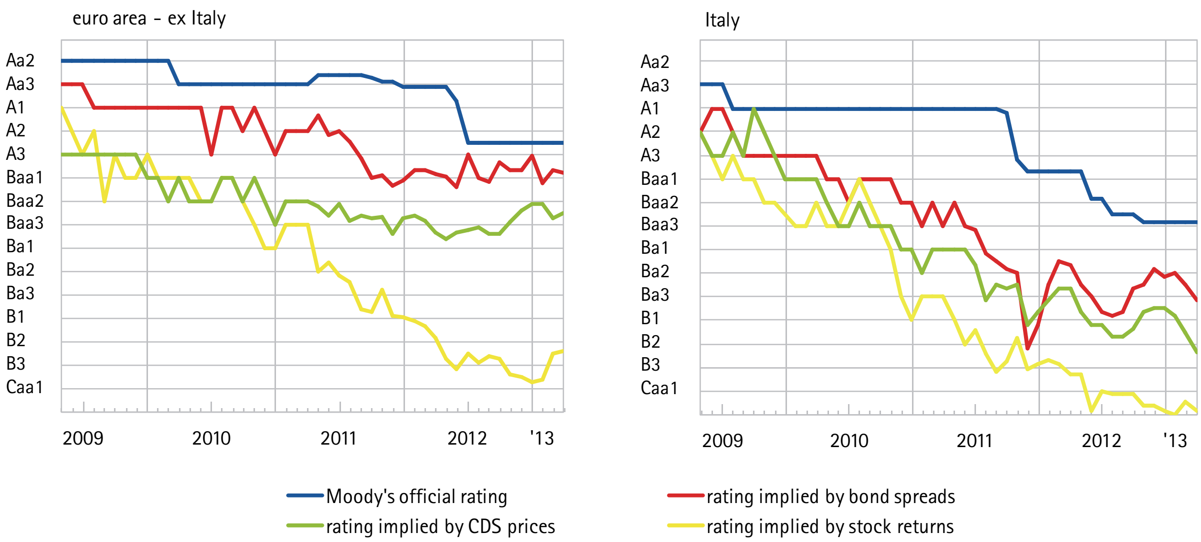
The chart illustrate the probability distribution of share earnings implicit in stock index option prices estimated according to the Shimko approach (1993). They indicate the distributions of risk-neutral probability which do not reflect the investors' aversion to risk. The source was Thomson Reuters.

The official rating given by Moody's for Europe's leading listed banks is still not in line with the rating implicit in the prices of financial instruments which express the quality of credit perceived by economic operators.

From 2010 onwards this divergence was wider for Italian banks, penalised by the perception of higher sovereign risk (Fig. 42). The rating implicit in share prices is significantly lower than the one based on the performance of CDS and bond yields, particularly for the Europeanbanks, denoting greater reactivity by the share market to signals of impairment of credit in the banking sector.

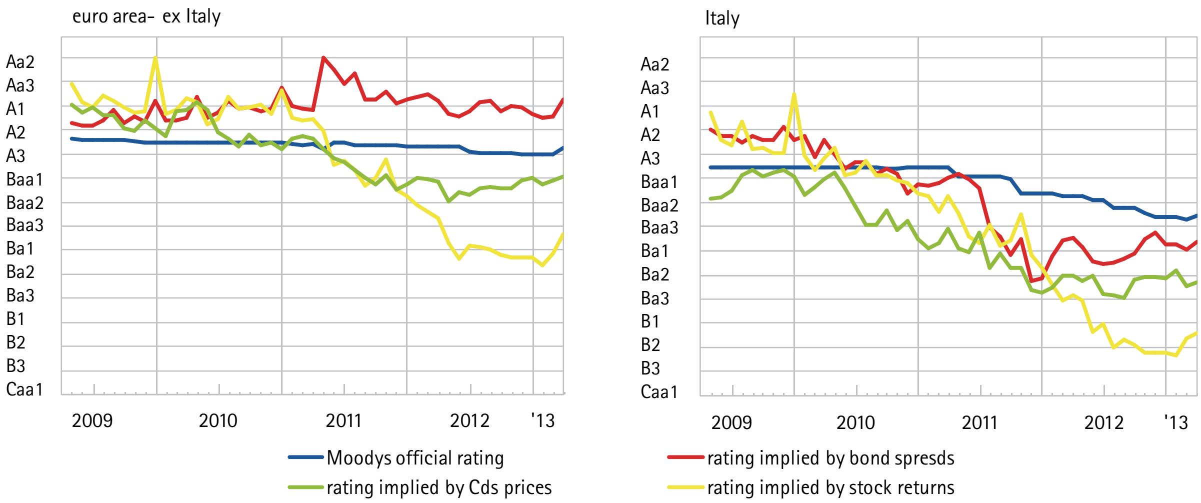
For the leading Europeannon-financials, the level of misalignment between the official rating and the rating implicit in share prices is less obvious than the one recorded for the banks. The implicit rating in the bond spreads also shows that the market's perception of credit risk is less severe than that of Moody's. For the leading Italian listed companies, however, the credit risk implicit in the bond spreads is higher than the official rating, although it is lower than the risk implicit in the prices of CDS and share earnings (Fig. 43).

Fig. 42 Implied ratings for the largest European listed banks
(monthly data from April 2009 to March 2013)



Source: calculations based on Moody's data. Average figures for banks listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian banks) and the leading Italian banks rated by Moody's (Banca Popolare di Milano, Intesa, Mps, Unicredit, Ubi and Banco Popolare).

Fig. 43 Implied ratings for the largest European non-financial listed companies
(monthly data from April 2009 to March 2013)

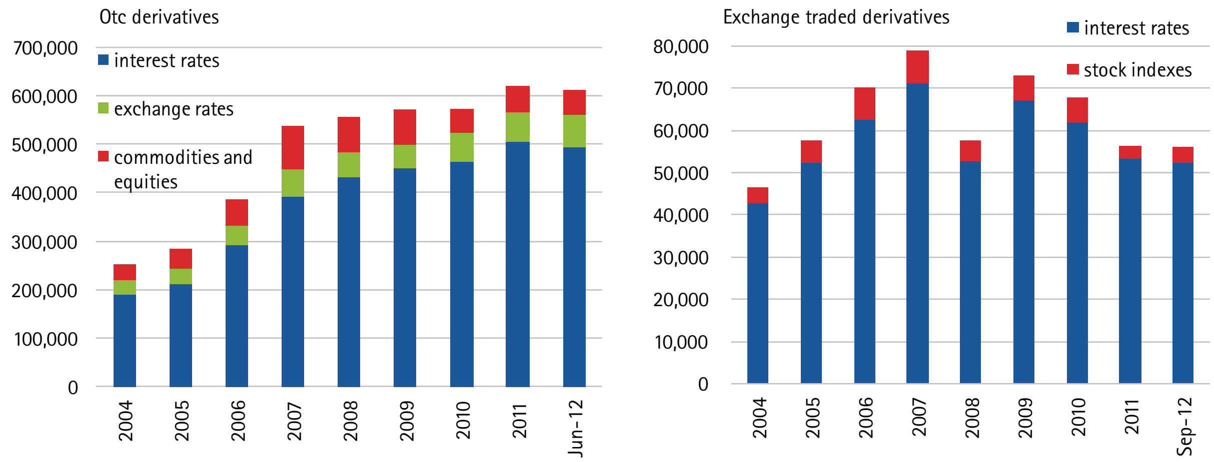


Source: calculations based on Moody's data. Average figures relating to corporations listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian non-financials) and the non-financial companies listed on the FTSE MIB.

2 The derivatives market

In the first half of 2012, according to the Bank for International Settlements (BIS) survey on the largest advanced economies, the OTC derivatives market contracted slightly. The notional value of OTC derivatives on financial instruments (interest rates, exchange rates, shares and commodities) fell by 1% (from 619.149 to 611.997 billion US dollars between December 2011 and June 2012 Fig. 44). Meanwhile in the first half of 2011 the total notional value of OTC derivatives increased by 18% (from 571,000 to 675,000 billion US dollars).

Fig. 44 Notional turnover of derivatives in advanced countries.
(period-end balances; in billions of USD)



Source: Bank for International Settlements.

The reduction refers mainly to the trend in interest rate derivatives (equal to 81% of OTC derivatives on financial instruments) with a notional value falling by 2% (from 504,117 to 494,018 billion US dollars between December 2011 and June 2012). The total value of derivatives on exchange rates and other underlying assets rose by approximately 3%.

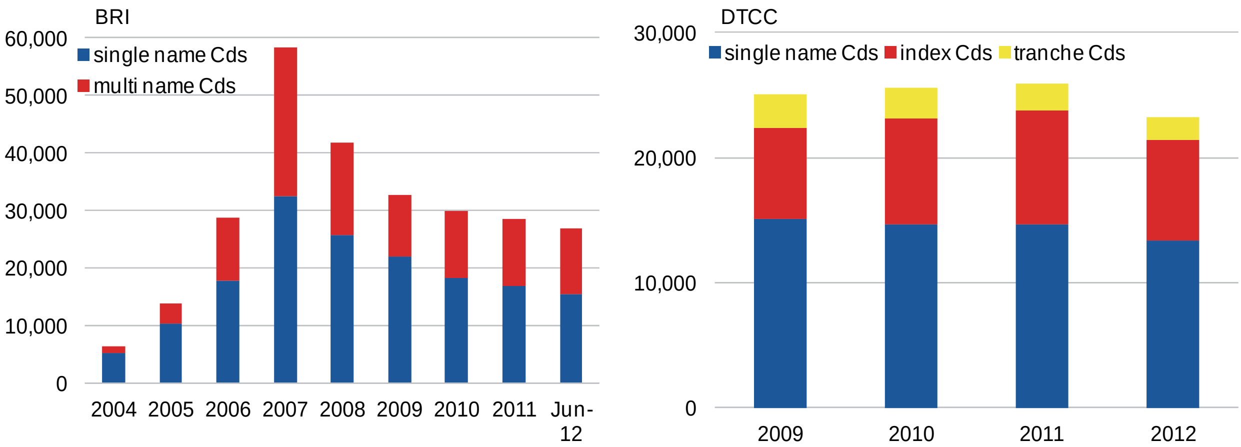
Between December 2011 and September 2012 the notional value of exchange-traded derivatives remained stable at approximately 56,448 billion US dollars.

The notional value of exchange rate derivatives (93% of the exchange-traded derivatives) fell slightly, by approximately 2%, while the total value of derivatives on exchange rates and other underlying assets rose by 26% (from 3,265 to 4,104 billion US dollars).

According to the BIS statistics, in the first half of 2012 there was a slight reduction in the size of the credit default swap (CDS) market. The notional gross value of CDS fell from 29,000 to 27,000 billion US dollars between December 2011 and June 2012 (-5.9%; Fig. 45). In June 2012, the incidence of single-name CDS (those referring to a single debtor) was 58%, a slight decrease compared to the figure recorded in December 2011 (59%).

According to data from the Depository Trust and Clearing Corporation (DTCC), whose information differs somewhat from that of the BIS, 82% of multiname CDS (those referring to several debtors) was represented by index CDS (based on a basket of reference entities) while the remaining quota was made up of standardised tranches of index CDS.

Fig. 45 Notional gross value of credit default swaps
(period-end balances; in billions of USD)



Source: Bank of International Settlements, and Consob elaborations of DTCC data.

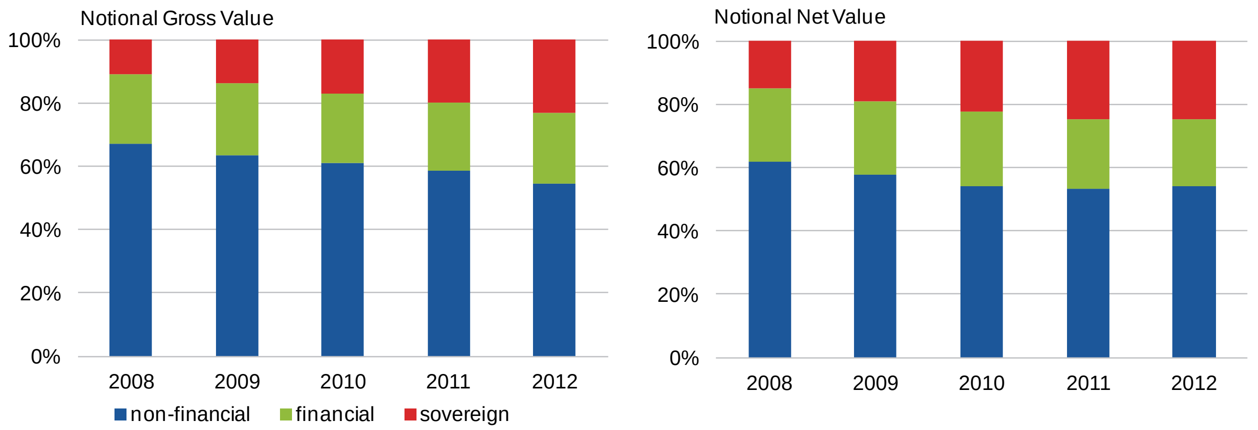
In 2012 the incidence of CDS on sovereign issuers on the total market for CDS rose slightly in terms of gross notional value, while it remained essentially stable in terms of net notional value.

In particular, the percentage of gross notional value relating to sovereign CDS increased from 20% in December 2011 to 23% in December 2012, while the figure for net notional value remained unchanged at 25% (Fig. 46). During the same period, the percentage of corporate CDS fell from 58 to 54% in terms of gross notional value while the net notional value figure remained at 54%. The percentage relating to the financial sector did not undergo any significant changes, being recorded at 22% for both the gross notional and net notional values.

In 2012 there was a continued reduction in the net notional value of CDS in relation to the underlying debt, particularly in the countries hardest hit by the sovereign debt crisis (Fig. 47).

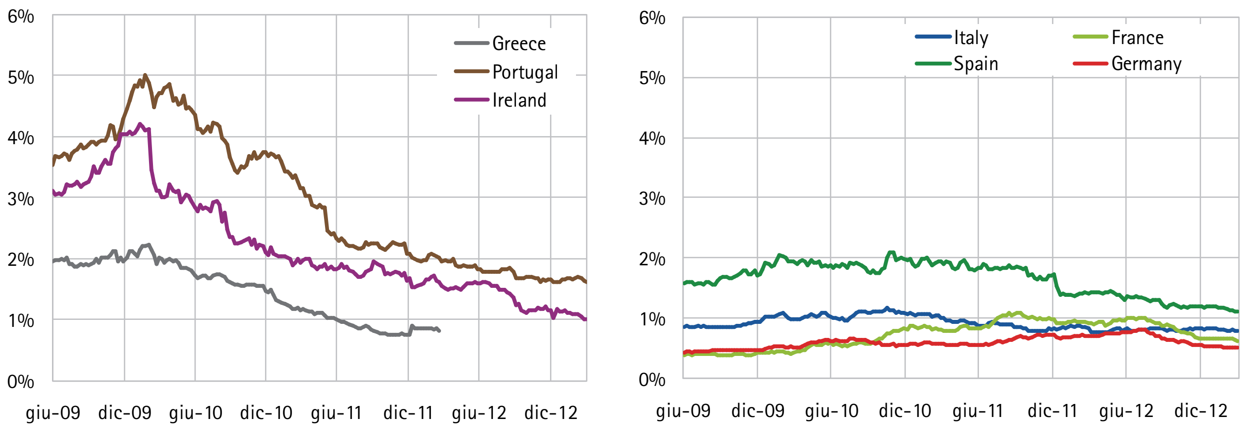
From December 2011 to December 2012 this ratio fell from 1.7 to 1.2% for Ireland, from 2.1 to 1.7% for Portugal, and from 1.7 to 1.2% for Spain. Over the same time period, the ratio for Italy remained stable, at 0.8%.

Fig. 46 Breakdown of credit default swap notional value by reference entity's sector



Source: based on DTCC data, with reference to single-name CDSs (first 1000 reference entities by notional value). The percentage breakdown calculated on year-end values.

Fig. 47 CDS net notional value to public debt ratio for some euro area countries
(weekly data from June 2009 to March 2013)

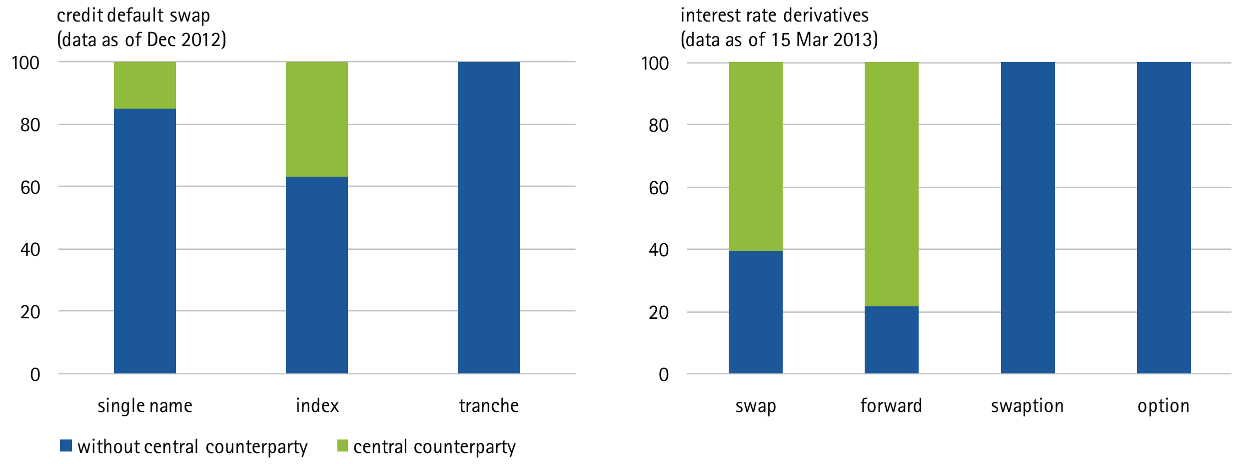


Source: based on Bloomberg, DTCC and Eurostat data

The DTCC data enables an estimate of the percentage of OTC derivatives subjected to the clearing process with central counterparties (CCP). With regard to credit derivatives, 37% of the gross notional value of index CDS and 15% of the single-name CDS is cleared through CCP. With reference to OTC derivatives on interest rates, about 60% of the gross notional value of interest swap derivatives is cleared through CCP (Fig. 48).

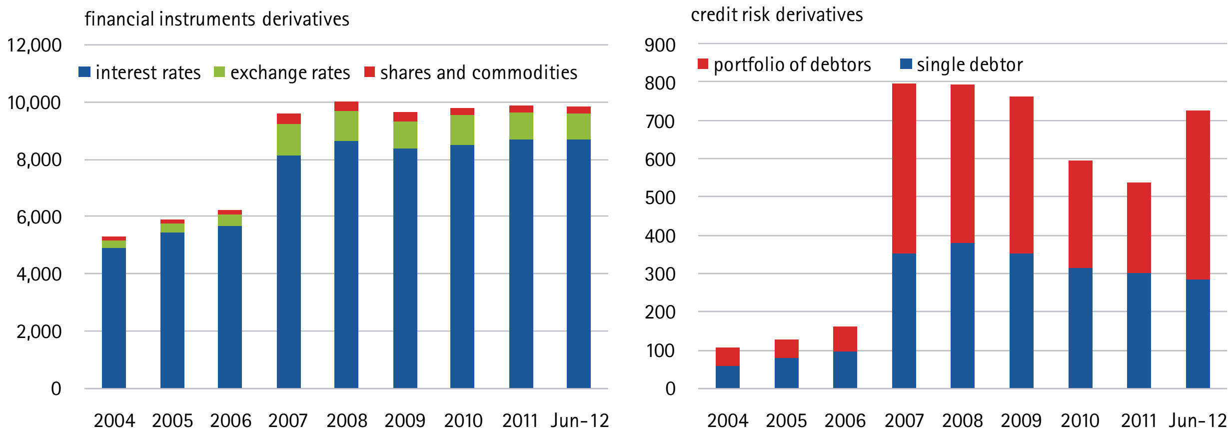
In June 2012, in Italy, the notional value of financial derivatives traded over the counter amounted to 9,830 billion US dollars, with no significant change compared to December 2011. However, there was a significant increase in the notional value of credit risk derivatives (from 538 to 724 billion dollars, an increase of 35% Fig. 49).

Fig. 48 Breakdown of gross notional value of OTC derivatives by clearing process
(percentage values)



Source: based on DTCC data

Fig. 49 Notional gross value of OTC derivatives in Italy
(end of period balances; in billions of USD)



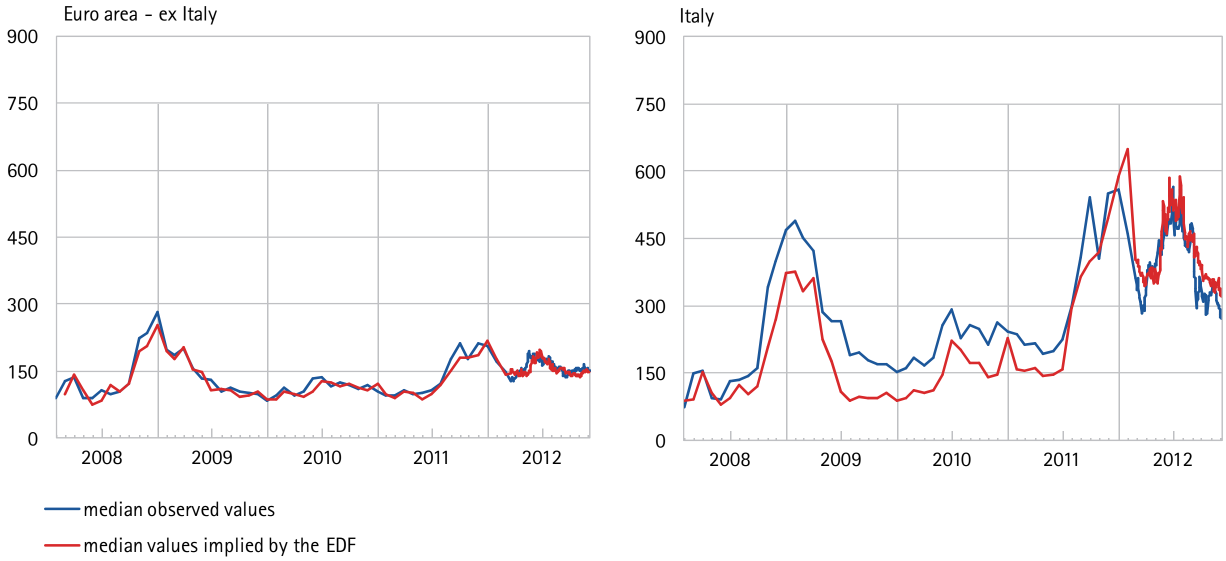
Source: Bank of Italy.

In June 2012, most of the OTC derivatives on financial instruments traded in Italy still had interest rates as the underlying asset (88% of the total notional value). The credit risk derivatives mainly had a portfolio of debtors as the underlying assets (approximately 61%).

In 2012, the trend in the prices of CDS on the debt of the principal non-financial companies in the eurozone reflected the trend in the share markets, and during the first half there was an increase in the credit risk perceived by investors, followed by a decrease.

The observed prices of the CDS were in line with the implicit prices calculated according to theoretical models. The values for the Italian companies were consistently higher than those given for European issuers (Fig. 50).

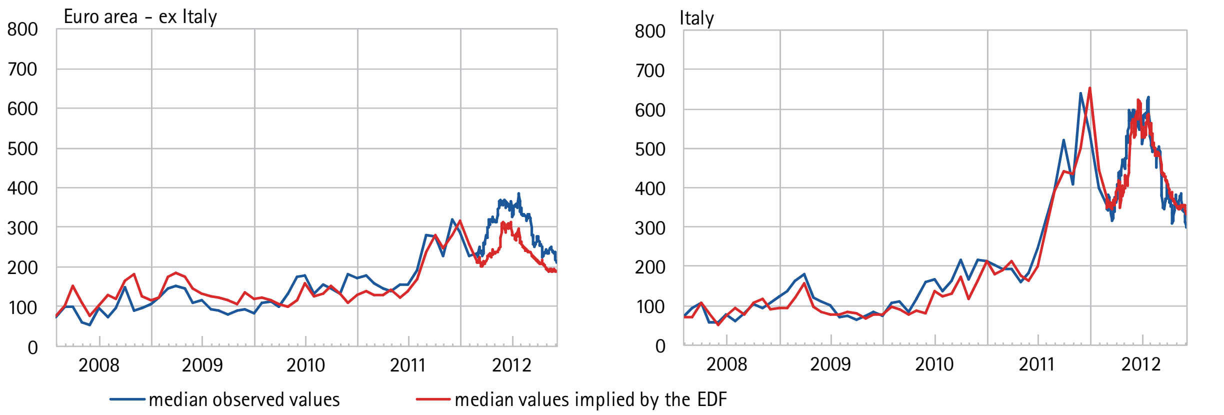
Fig. 50 Effective 5-year CDS prices and implicit prices from expected default frequency (EDF) for large non-financial listed companies.
(basis points; daily data)



Source: Thomson Reuters and Credit Edge data. The data relate to a sample of listed eurozone companies, included in the corporate CDS indexes of Thomson Reuters, for which data is available on the expected default frequency (68), and to the following Italian listed companies: Cir, Fiat, Edison, Enel, Eni, Finmeccanica and Telecom Italia.

The prices of the CDS of the principal European banks are higher than those measured on the basis of the theoretical models, while for the Italian banks there is a substantial alignment at levels consistently higher than the European ones due to the higher exposure to domestic sovereign debt risk (Fig. 51).

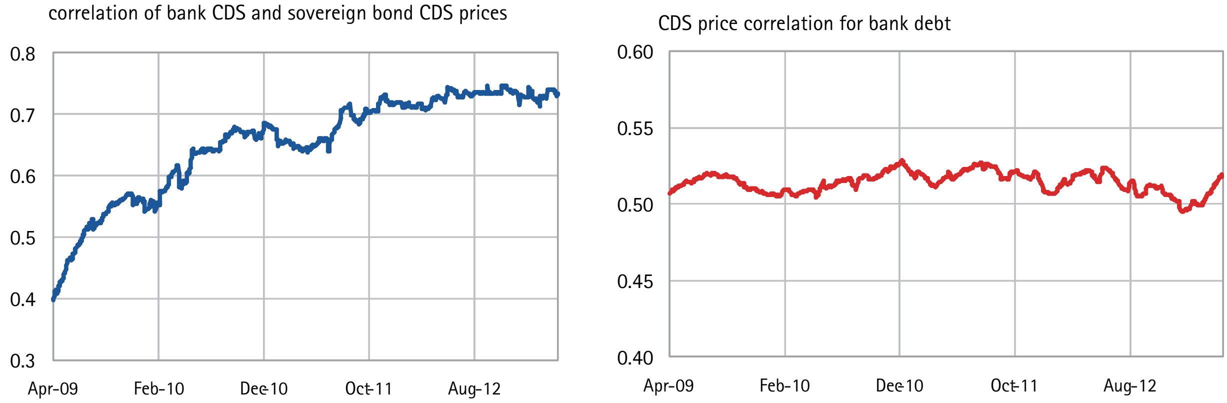
Fig. 51 Effective 5-year CDS median prices and implied prices from the expected default frequency (EDF) for the largest listed banks.
(basis points; daily data)



Source: Thomson Reuters and Credit. The following banks were considered for Italy: Unicredit, Intesa Sanpaolo, Banca Monte Paschi, Banco Popolare and UBI Banca, while for the eurozone the following banks were considered: Deutsche Bank, Commerzbank, Deutsche Posbank Berlin, Societé Generale, Credit Agricole, BNP Paribas, Natixis, BBVA, Santander, Caixa Bank, Banco Espanol de Credito, Banco de Sabadell, Barclays, HSBC, Lloyds and the Royal Bank of Scotland.

In 2012, the correlation between the prices of CDS on Italian sovereign debt and the prices of CDS relating to banks remained high, above the level related to the connection between banks estimated through the correlation between the prices of the related CDS (Fig. 52).

Fig. 52 Contagion indicator for Italian banks according to CDS price analysis
(daily data from 01/04/2009 to 31/03/2013)



Source: Thomson Reuters data. The figure represents the estimated dynamic correlation, applying the Engle model (2002). The CDS prices on the senior debt of the following banks were considered: Intesa, Unicredit, Mps, Ubi, Banca Popolare di Milano and Mediobanca.

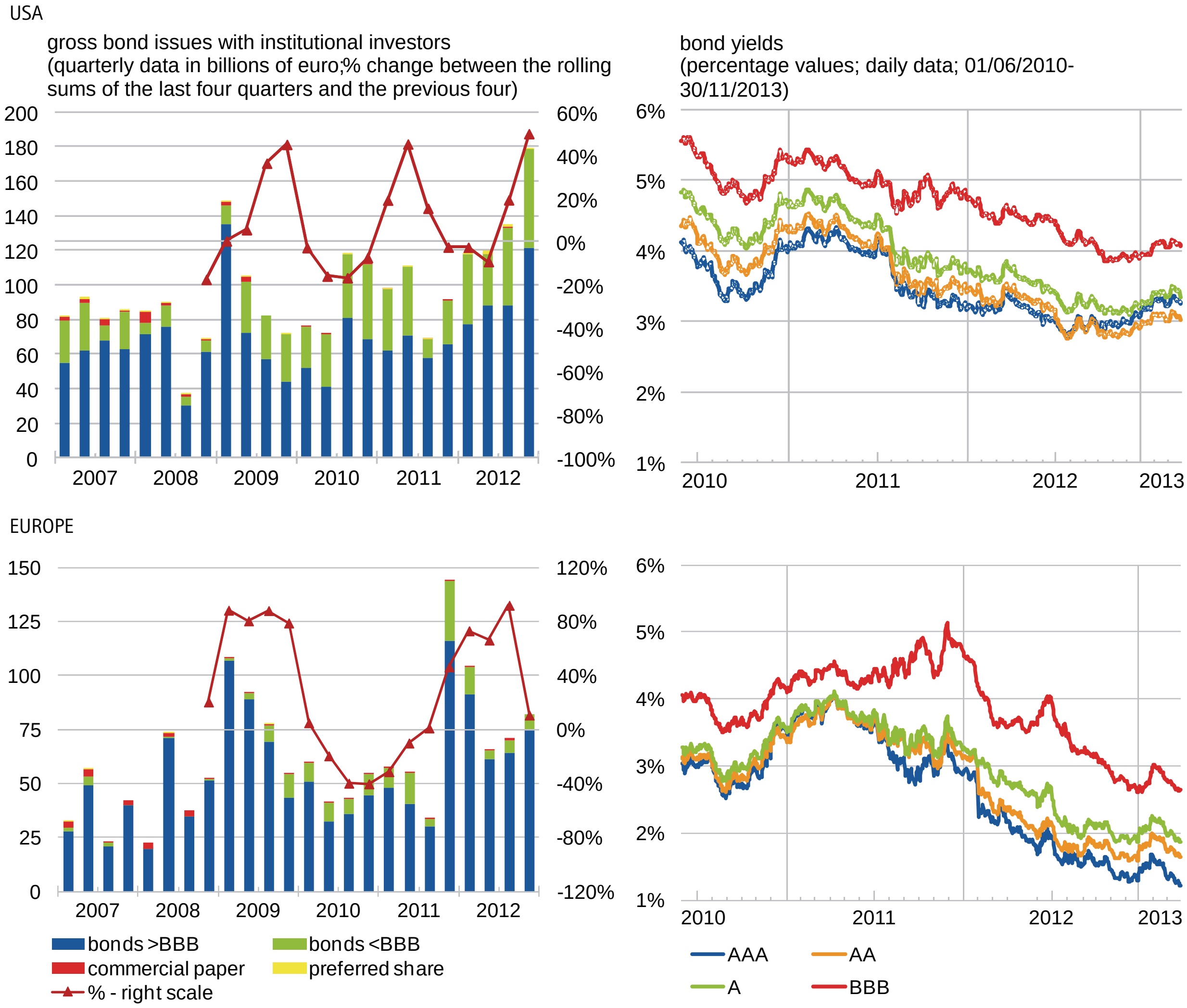
3 The bond and securitisation markets

In 2012 there was a significant recovery in the United States corporate bond market, where total gross value of bond issues rose by approximately 50% (compared with a 3% reduction in 2011), rising from 367 billion in 2011 to 550 billion, mainly thanks to activity in the final quarter. .The volume of corporate bonds issues increased to a more limited extent in Europe (from 291 to 323 billion euro, a rise of 11%), compared to a reduction from 54 to 44 billion euro (approximately -44%) in the issues of securities with a speculative rating (below BBB). In 2012, yields on the secondary market fell for all rating classes from AAA to BBB, both in Europe and in the USA. In the early part of 2013 they followed a fluctuating trend, signalling significant differences compared to the level at the end of 2012 (Fig. 53).

In Italy, the market for bonds of non-financial companies showed important signs of recovery, despite the fact that in the second quarter of the year, the number of issues was fairly limited compared to the same period in 2011. The volume of corporate bonds rose by 61% from 19 to 30 billion euro, mainly thanks to the growth in the issue of bonds with non-speculative ratings (above BBB), whose volume increased from 11 to 26 billion euro. In the short term, the risk of refinancing bond issues may be moderate, as the percentage of the total bonds issued since 2007 and maturing in 2013 is limited, approximately 8% of the total (Fig. 54).

In 2012 there was a continued recovery in bank bond issues in the United States, although the rate of growth of the issues (which increased by 5% from 95 to 100 billion euro) was lower than the 12% increase recorded in 2011. Meanwhile in Europe there was a reduction of approximately 26% in bond issues, from 563 to 418 billion euro, mainly as a result of the reduction in issues during the second half of 2012. On the secondary market, the yields on bank bonds remained substantially stable in the United States, while in Europe there was a significant increase in the differential in yields with high ratings (AAA to A) and those rated close to speculative level (BBB).

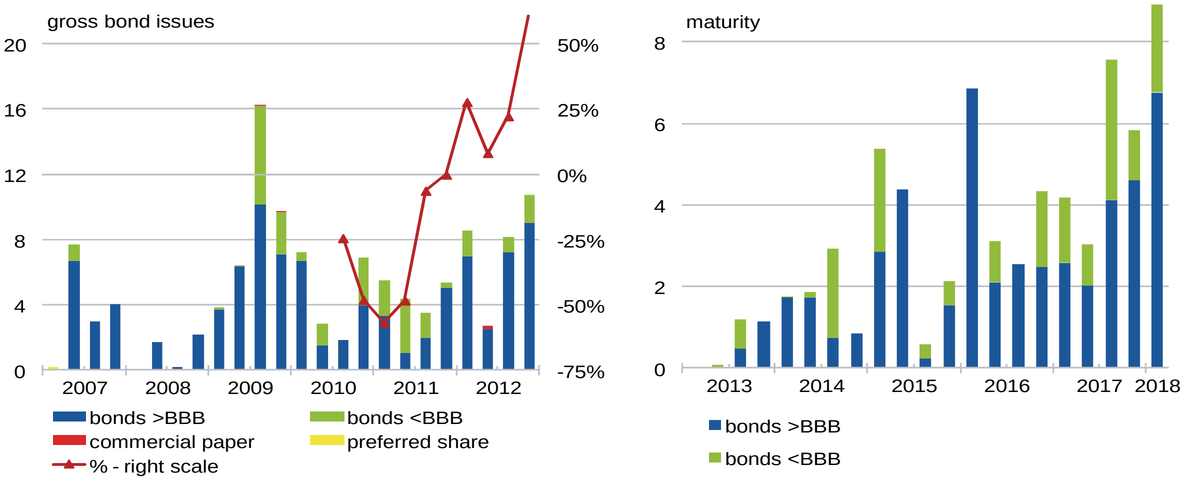
Fig. 53 Non-financial companies bond issues and yields



Source: based on Dealogic, Consob, Kler's and Markit data. The data on issues for Europe refer to the placements of companies headquartered in Italy, France, Germany, Spain, the Netherlands and the UK, and their subsidiaries (even if based in other countries).

Fig. 54 Corporate bonds issued by Italian non financial companies

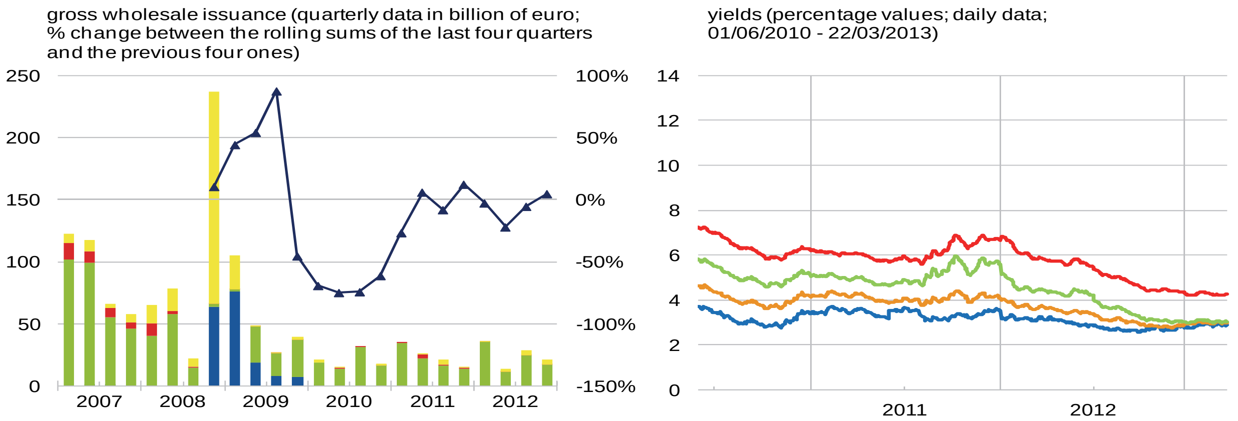
(quarterly data in billions of euros; percentage change between the total for the four quarters ending with the reference quarter, and the four previous ones)



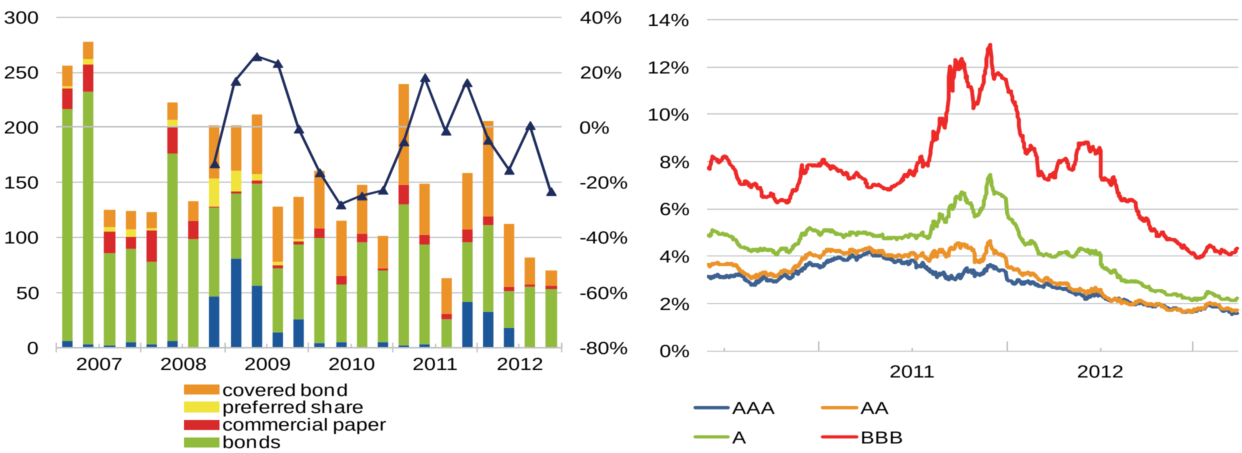
Source: based on Dealogic, Consob and Kler's data. The maturities refer to bonds issued from 2007 onwards.

Fig. 55 Bank bond issues and yields

USA



EUROPE



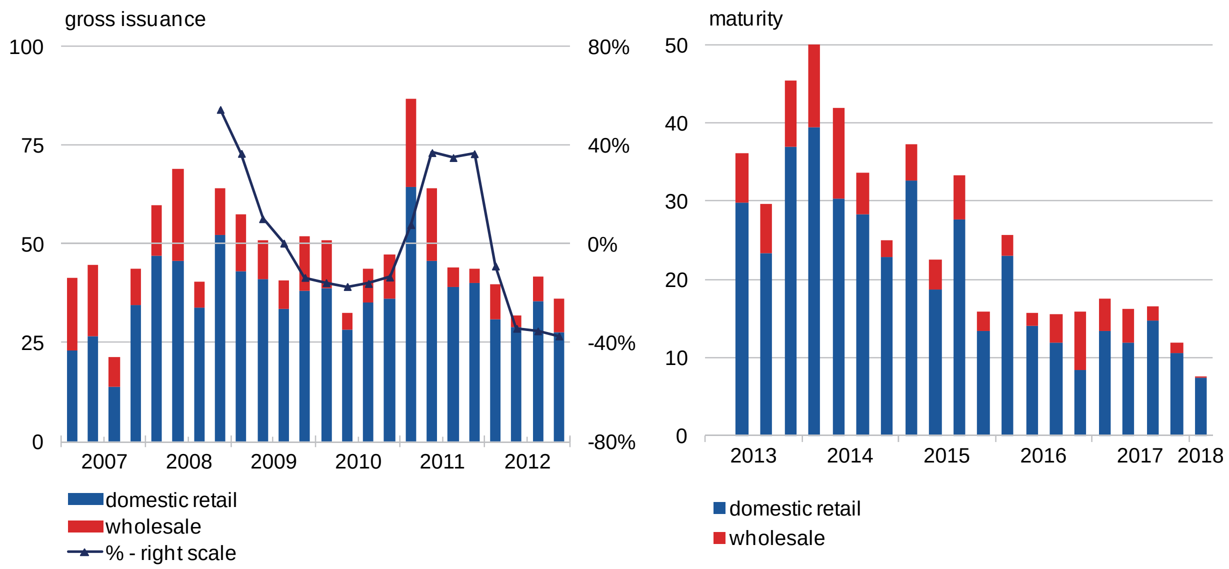
Source: based on Dealogic, Consob and Kler's data (for bond issues) and Markit data (for yields). The data on European issues for Europe refer to the placements of companies headquartered in Italy, France, Germany, Spain, the Netherlands and the UK, and their subsidiaries (even if based in other countries).

During the last few months of 2011, the yields on BBB rated bonds reached almost 13%, only to fall to just above 4% during 2012. During the first few months of 2013 there was a slight upwards trend in Europe while in the USA the yields on bank bonds on the secondary market essentially remained stable (Fig. 55).

In Italy, there was a sharp drop in the volume of bank bond issues in 2012, from 238 to 149 billion euro (-37%). This negative trend was recorded on the Euro market (from 49 to 26 billion euro, a reduction of 46%), and also for issues addressed to retail investors (from 189 to 122 billion euro, - 35%). At the end of 2012, the total value of bonds maturing over the following 12 months was 111 billion euro (approximately 22% of the stock of existing bonds). 19% of the bonds maturing in 2013 were placed with institutional investors (Fig. 56).

Fig. 56 Bond issued by Italian banks

(amounts maturing in each quarter (in billions of euro; percentage change between the total for the four quarters ending with the reference quarter, and the four preceding quarters)

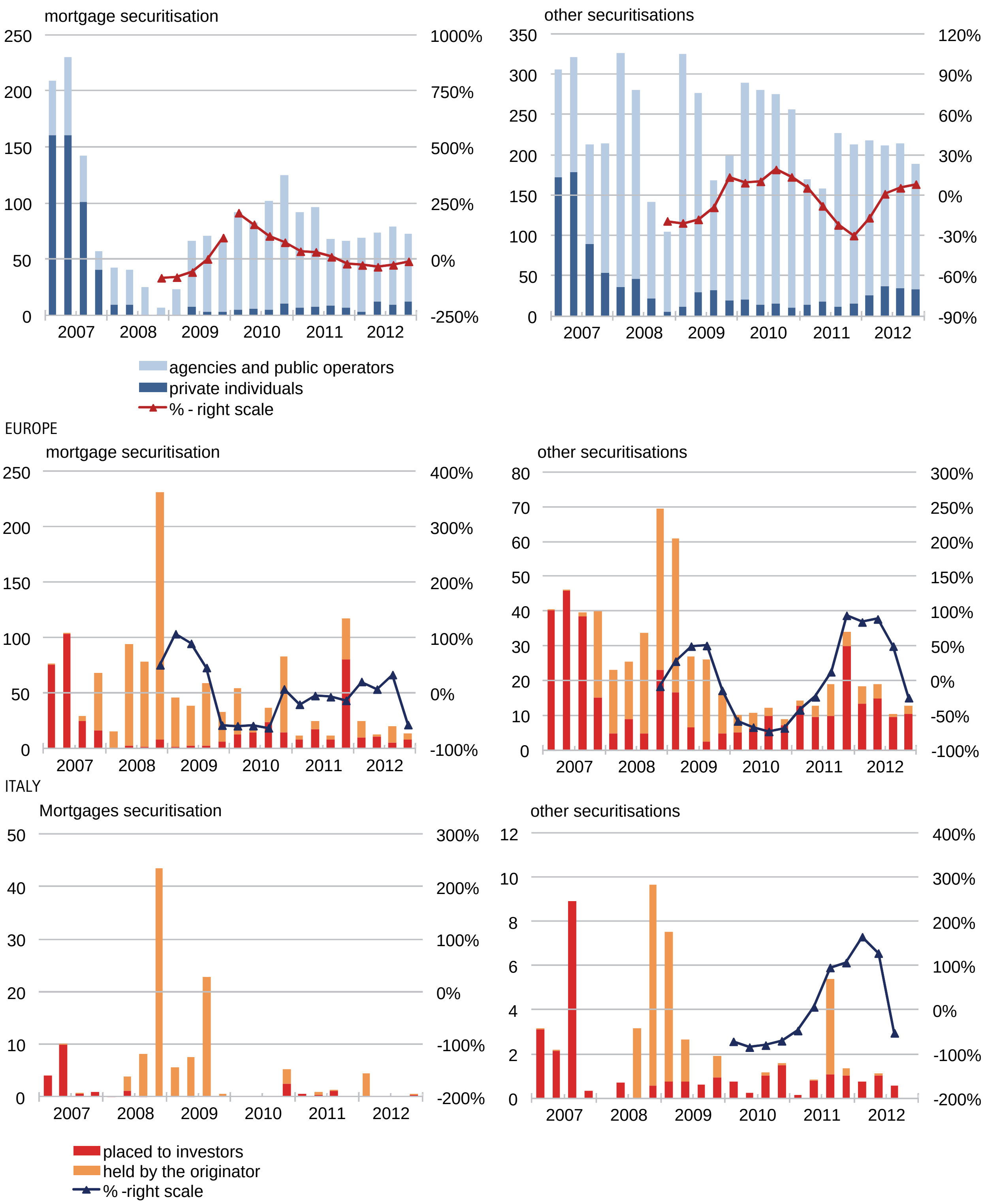


Source: based on Dealogic, Consob and Kler's data. The maturities refer to bonds issued from 2007 onwards.

The volume of securitisation issues in the USA has risen slightly from 1,094 to 1,128 billion euro (an increase of 3%), despite the fall in issues of mortgages (from 323 to 294 billion euros, a reduction of 9%; Fig. 57). Meanwhile in Europe there was a significant drop in the volume of issues, from 246 to 131 billion euro (-46%). There is still little interest in Italy for this type of operation, as evidenced by the 50% drop in the total volume of issues, from 11.7 to 5.7 billion euro.

Fig. 57 Securitization

(quarterly data in billions of euros; percentage change between the total for the four quarters ending with the reference quarter, and the four preceding quarters)



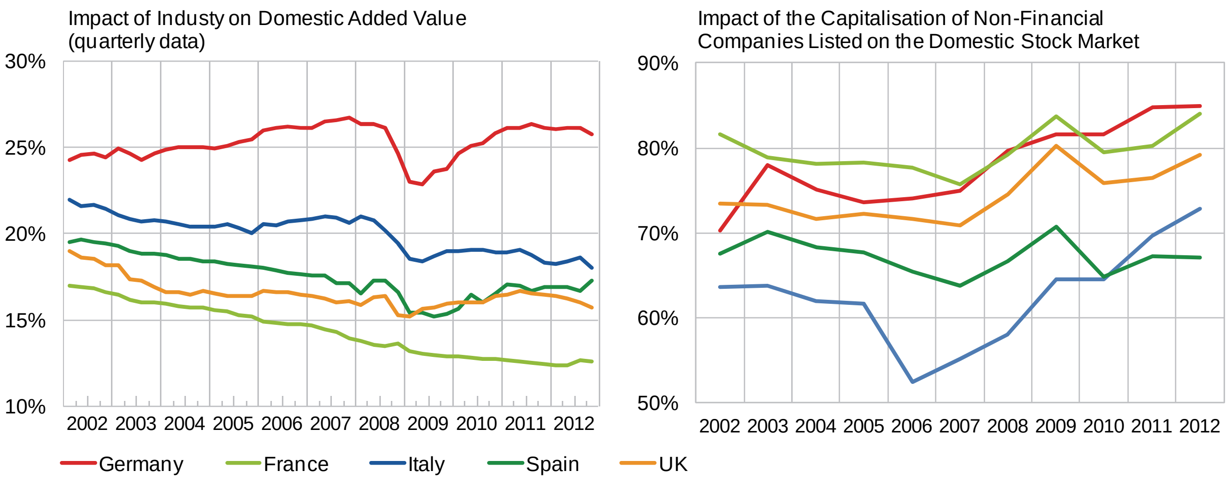
Source: based on Dealogic data The figures for Europe refer to securities backed by assets of companies headquartered in Italy, France, Germany, Spain, the Netherlands, the UK, and their subsidiaries.

1 The role of the industrial sector in the economy

The weight of the industrial sector varies across Europe's core countries. Over the past decade, Germany has proved to be the EU's largest industrial economy, followed by Italy, albeit with a significant gap.

From 2002 onwards, the share of the industrial sector added value (excluding construction) on total domestic added value has been approximately 25% in Germany, while it has gradually diminished in Italy and France, where it was 18% and 13% respectively at the end of 2012 (Fig. 58). The same dynamics also emerged in Spain and the United Kingdom, where at the end of 2012 the ratio between industrial added value and total added value was 17% and 16% respectively.

Fig. 58 Incidence of the industrial sector in large European countries



Source: Eurostat and Datastream

A different picture emerges if we consider the weight of the non-financial sector on the total capitalisation of the companies listed on Europe's principal regulated markets.

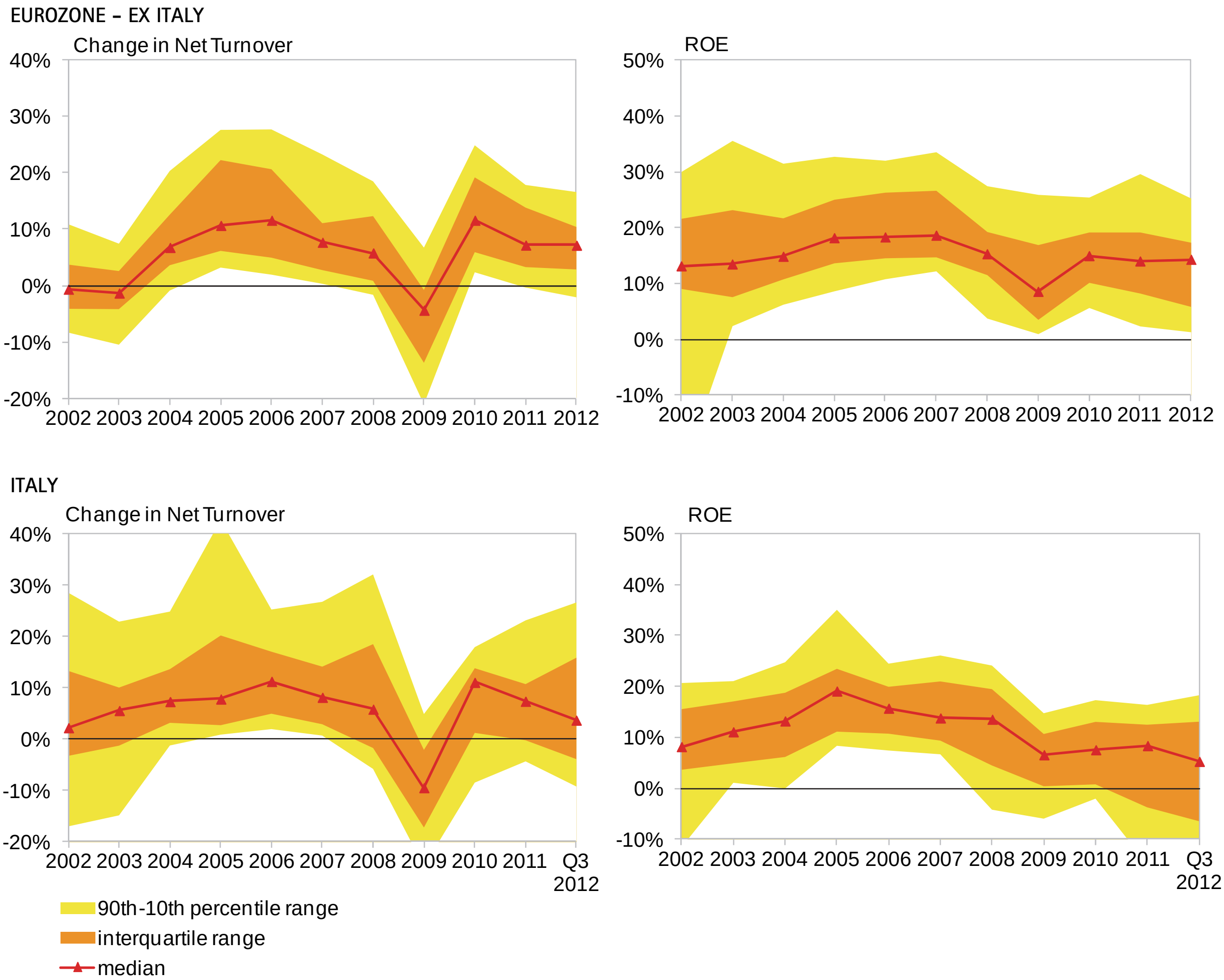
Despite the significant weight of industry on the real economy, Italy has the lowest incidence in Europe of the capitalisation of listed non-financial companies. The weight of the sector on the share market from 2011 increased from 65% at the end of 2010 to 73% at the end of 2012. However, that increase is mainly attributable to the reduced weight of the financial sector, which has been affected by the larger decreases in share prices experienced by the banks as an effect of the sovereign debt crisis.

Conversely, in Italy and France, the weight of the capitalisation of non-financial listed companies is high (84% at the end of 2012), despite the lower impact of the industrial sector on the real economy.

2 Revenues and profitability

In 2012 the gap between the profitability of the largest Italian listed companies and those of their eurozone competitors widened even further (Fig. 59).

Fig. 59 Revenues and profitability for large non-financial listed companies



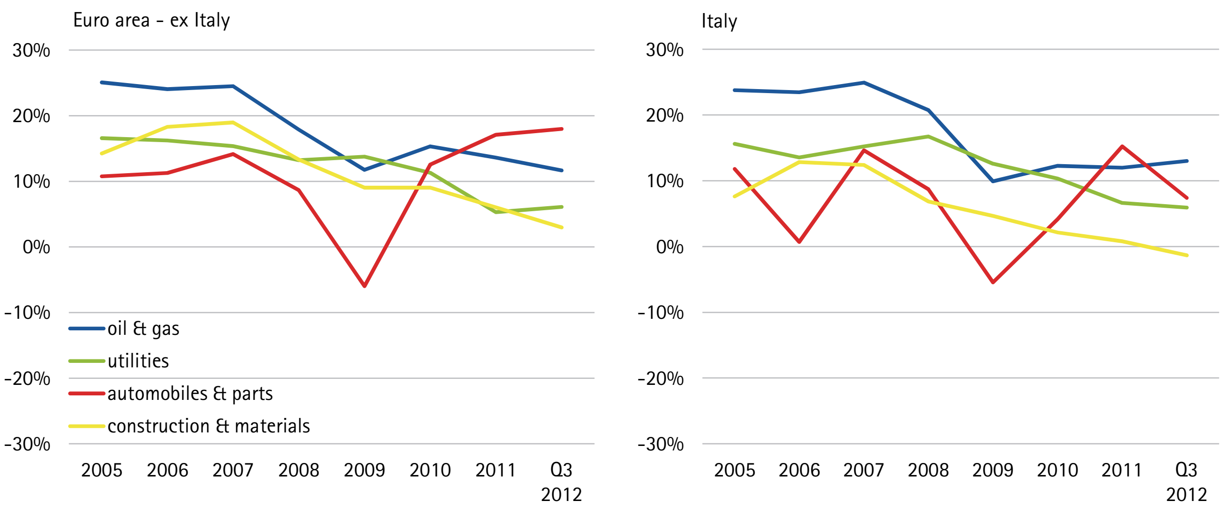
Source: based on Worldscope data for companies listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. The annual change in turnover was calculated on the basis of the restated figure for the previous year. For the third quarter of 2012, partially-estimated annualised figures were used.

During the first nine months of 2012, the rate of growth of Italian companies' turnover dropped sharply from 7.4 to 3.4%, while it remained stable for their European counterparts, at just over 7%. The median ROE figure also demonstrated a divide between Italian and European businesses, showing a decrease for the former (from 8.4 to 5.3%) and remaining above 14% for the latter.

Companies operating in the construction industry, particularly affected by the economic situation, have shown the greatest level of weakness both in the eurozone and in Italy.

Profitability in the construction industry reduced gradually from 2007 onwards. This trend was also confirmed in the first nine months of 2012, and penalised Italian listed companies to a greater extent, taking ROE to negative levels. In the eurozone and in Italy, the listed companies in the utilities sector maintained a ROE of close to 6% after the fall recorded in 2011. Meanwhile profitability was more stable in the energy sector, and was consistently above 10%. Finally, the automotive sector is showing signs of recovery in Europe. In Italy there has been a notable drop in ROE, which lost almost 8 percentage points at aggregate level in the first nine months of 2012 (from 15.2 to 7.4%; Fig. 60).

Fig. 60 Return on equity for non-financial listed companies by industrial sector

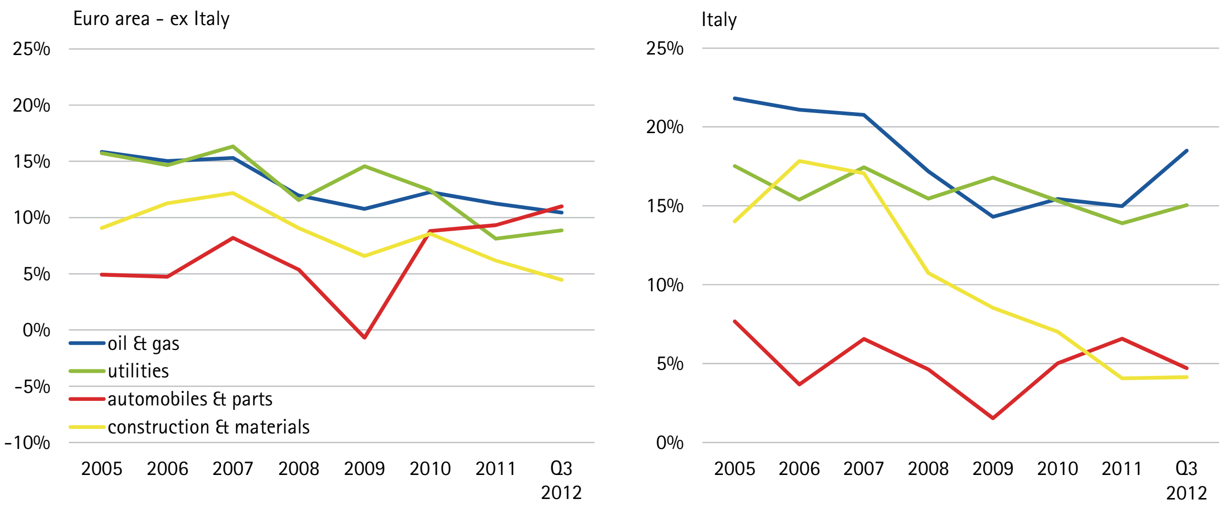


Source: based on Worldscope data For the third quarter of 2012, annualised figures have been given.

The divide between the profitability trend of Italian businesses and their European counterparts is also evident in terms of the EBIT margin (the ratio between EBIT and revenues), a measure which is not influenced by differences in the taxation of profits.

In the first nine months of 2012, energy and utilities companies showed more evident signs of growth in Italy, while the significant drop in income margins in the construction sector persisted, decreasing from 17% in 2007 to approximately 4% in 2012. In line with the ROE trend, in the automotive sector the trend in the EBIT margin was positive for European companies and negative for Italian firms, with a difference of more than 6 percentage points. This finding highlights the gradual deterioration of Italian companies' ability to generate income faced with a given volume of revenues and the growing impact of costs on their operations (Fig. 61).

Fig. 61 EBIT to turnover ratio (EBIT margin) for non-financial listed companies by industrial sector

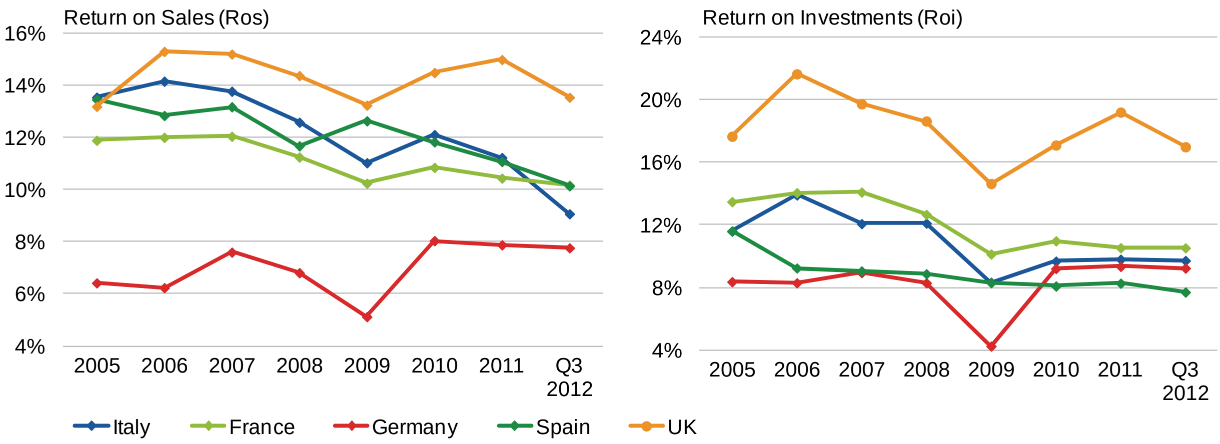


Source: based on Worldscope data. For the third quarter of 2012,annualised data were used.

An analysis of the income performance of listed industrial companies broken down by country shows that in the first nine months of 2012 the ratio between operating profit and turnover (ROS) fell in all principal European countries except for Germany. This dynamic was particularly evident for Italian and British non-financial companies, for which the reduction in ROS (from 11.2 to 9% and 15 to 13.5%, respectively) derived mainly from the reduction in profits from current operations. Return on invested capital (ROI, given from the ratio between operating profit and invested capital) appeared to be more stable for the listed non-financial companies in the main European countries, except for British firms, for which ROI fell (from 19 to 16%), although it was still higher than the levels recorded by companies in the other principal European countries (for which ROI is less than or equal to 10%; Fig. 62).

The drop in profitability in relation to turnover and invested capital is a phenomenon that has affected Italy, France and Spain since 2005. For non-financial listed Italian companies, ROS decreased from 13.5% in 2005 to 9% in September 2012, while ROI fell from 11.6 to 9.7% during the same period. Spanish and French firms also experienced a fall in ROS (from 13.5 to 10% and from 12 to 10% respectively) and in ROI (from 11.6 to 7.7% and from 13.5 to 10.5%).

Fig. 62 Profitability indicators for the largest European non-financial listed companies



Source: based on Worldscope data for the top 30 non-financial companies by capitalisation in March 2013, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. The 2012 figures are provisional. For the third quarter of 2012, partially-estimated annualised figures have been given.

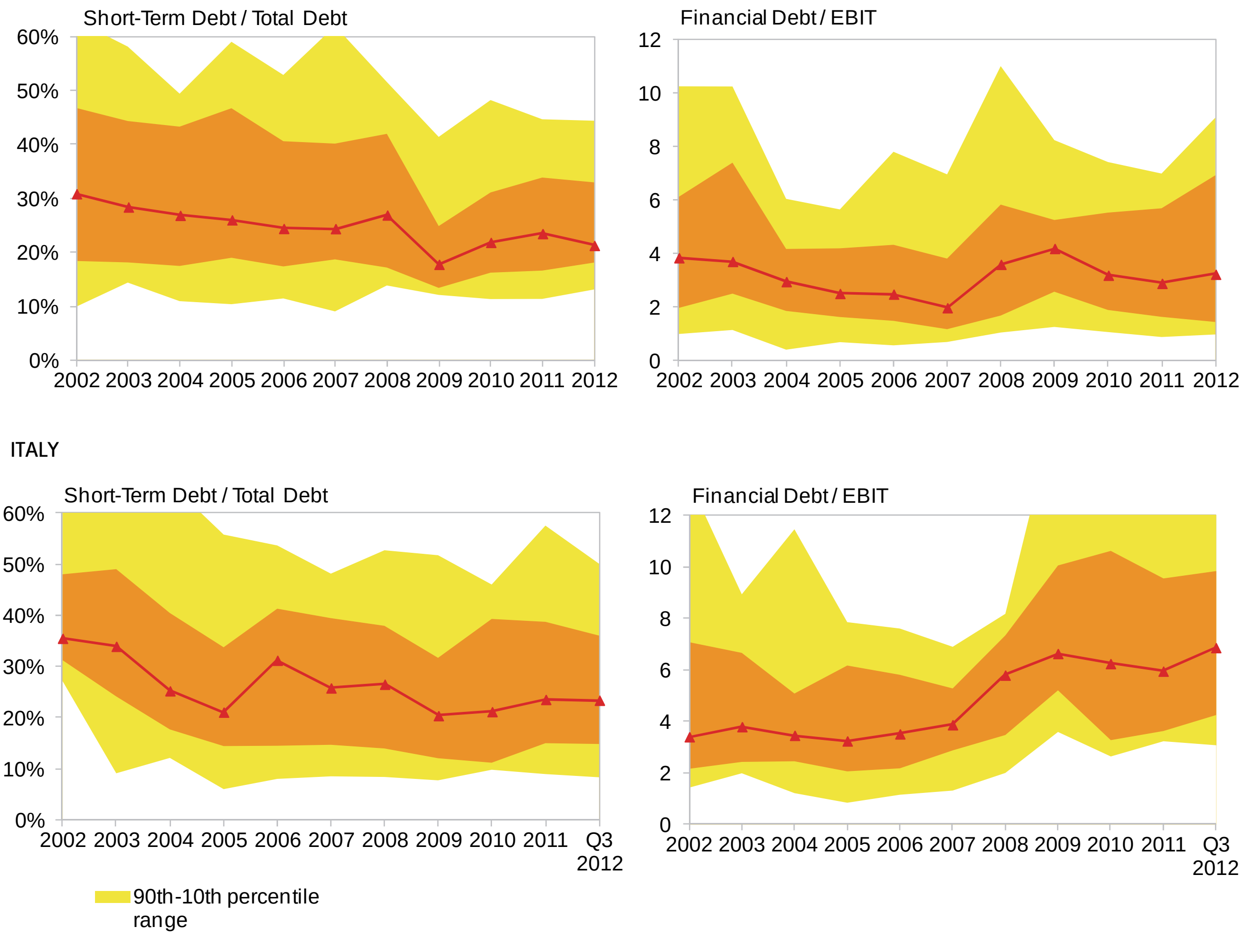
3 Structure and sustainability of debt

Italian companies displayed a greater financial fragility compared to the largest listed companies of other eurozone countries due to a weak earnings performance and financial structure which is more skewed towards short-term borrowing.

On 30 September 2012, short-term financial liabilities represented 21.3% of the total borrowings of businesses in the eurozone, and 23.4% for those in Italy. Compared to Italian businesses, European companies exhibited a lower incidence of financial liabilities on EBIT, illustrating a better capacity to cover their debts with operating profit. In 2012, the median value of the impact of financial liabilities on EBIT for Italian listed industrial companies increased significantly compared to 2011 (Fig. 63).

Fig. 63 Structure and debt sustainability for main non-financial listed companies

EUROZONE - EX ITALY



Source: based on Worldscope data on companies listed on the S&P 100 for the USA, the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. The financial liabilities/EBIT ratio has only been calculated for companies with a positive EBIT. For the third quarter of 2012, partially-estimated annualised figures were used.

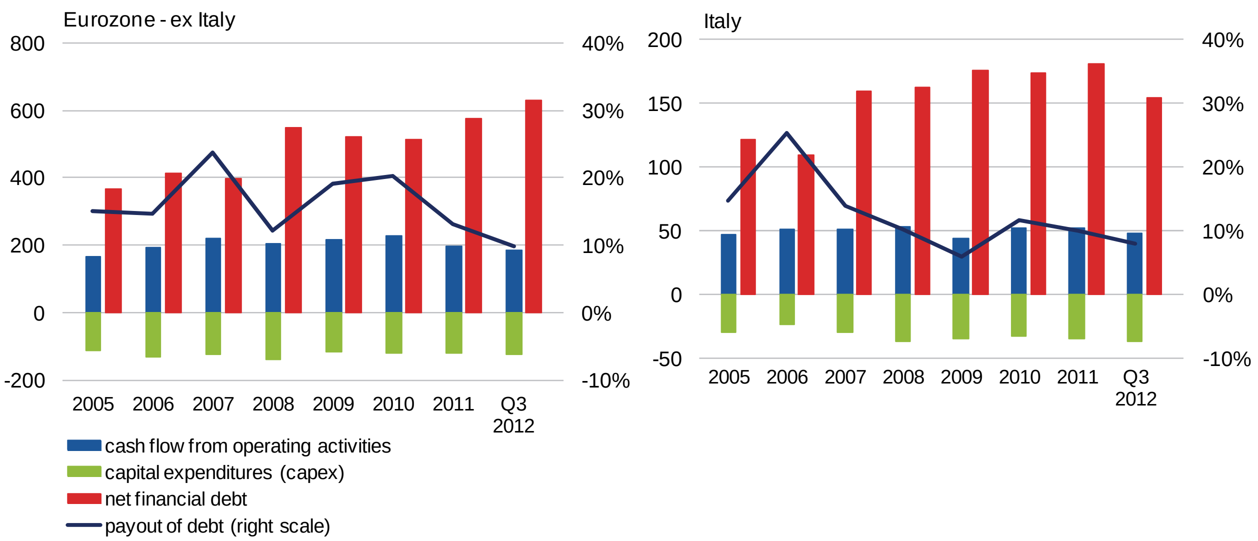
A cash flow analysis indicates a deterioration in the sustainability of debt for the non-financial listed companies of the eurozone and for those in Italy.

However, the financial fragility of Italian businesses is mitigated by the significant recourse to self-financing to cover the outgoing cash flows needed to meet their commitments (Box 3).

On 30 September 2012 the debt payout ratio (based on the cash flow available to repay the debt and the total net financial liabilities) fell in Europe mainly as a result of the significant increase in net financial debts, and stands at 9.8% (compared to 13.1% in 2011). In Italy, the moderate fall in the indicator (from 9.9% in 2011 to 7.9% in 2012) was due to the reduction in operational cash flows, which more than offset the fall in net financial liabilities (Fig. 64). This virtually eliminated the divide between European and Italian companies in terms of debt payout.

With regard to the trend in the individual components of the indicator, net financial liabilities rose significantly for European companies, reaching 629 billion euro (573 in 2011, an increase of 9.8%) compared to a reduction for the Italian companies (from 181.6 billion euro (2011) to 154.3 billion in 2012, a decrease of 15%). The reduction in operational cash flow was 5% for eurozone companies and 8% for their Italian counterparts. Finally, technical investments grew by 5% for both the eurozone and for Italy.

Fig. 64 Financial liabilities and operational cash flows for large non-financial listed companies
(cash amounts in billions of euro)



Source: based on Worldscope data on companies listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. The debt payout ratio is calculated as the relationship between the operational cash flow net of technical investments and the total amount of net financial liabilities. For the third quarter of 2012, partially-estimated annualised figures were used.

With regard to the degree to which financial liabilities are covered by income from current operations (the ratio between EBIT and financial liabilities) there has been a reduction of the gap between Italian and European listed companies.

Box 3

Cash flows of Italian listed companies

A cash flow analysis for Italian non-financial companies for the period 2002-2011 indicates that funds generated by income management (self financing) cover almost all the companies' financial requirements. This figure is confirmed for the sample of large companies selected by Mediobanca according to size-related criteria (such as a workforce of more than 500 employees), and also for the principal Italian listed groups (which represent a subgroup of the Mediobanca sample).

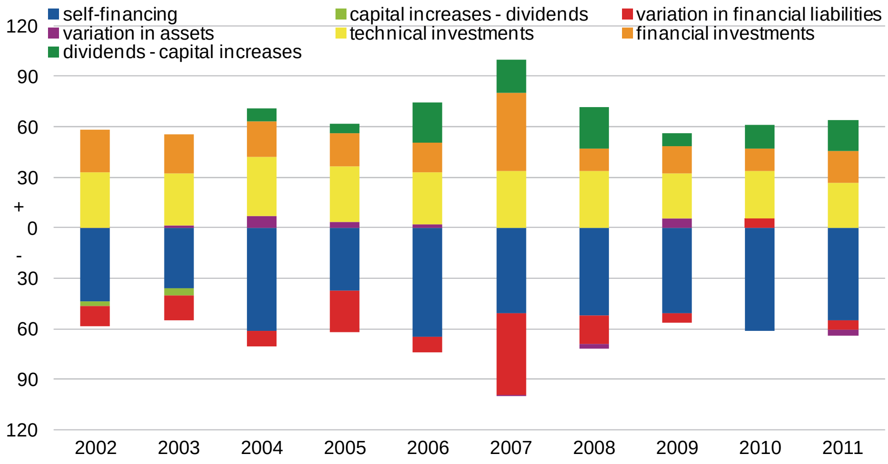
Borrowings, which in 2007 had become a considerable source of business financing, reaching more than 40% of the total, gradually reduced until 2010, the year in which repayments overtook new forms of finance to the value of more than 5 billion euro. In 2011, however, there was a recovery in lending activity although it was more limited for the large listed groups which registered an increase of 3.9 billion euro in their financial liabilities (5.8 for the large companies).

The funds generated were mainly absorbed by technical investments, which during the period constituted part of the essentially stable investments for large Italian companies (on average 31 billion euro), and grew steadily for the sub-group of listed companies, accounting for approximately 56% of the funds absorbed in 2011 (45% in 2002).

In 2011, the trend in financial investments, which had been hit by uncertainty linked to the economic crisis, showed signs of recovery among the large Italian companies, recording growth (compared to 2010) of 41% for the whole sample and 85% for the sub-sample of listed companies.

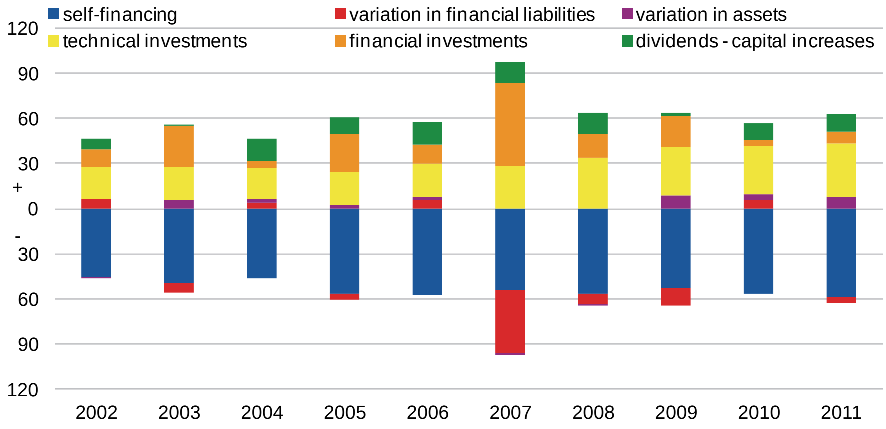
The total dividends paid out to shareholders, net of capital increases, represent a particularly significant part of the investments of large companies (approximately 29%) and to a lesser extent, of the large listed groups (19%).

Funding (-) and investments (+) of large Italian non-financial companies
(billions of euro)



Source: Mediobanca, "Cumulative data of 2,032 Italian companies", 2012 edition. Self financing is net of investments in net working capital.

Funding (-) and investments (+) of large Italian non-financial groups
(billions of euro)

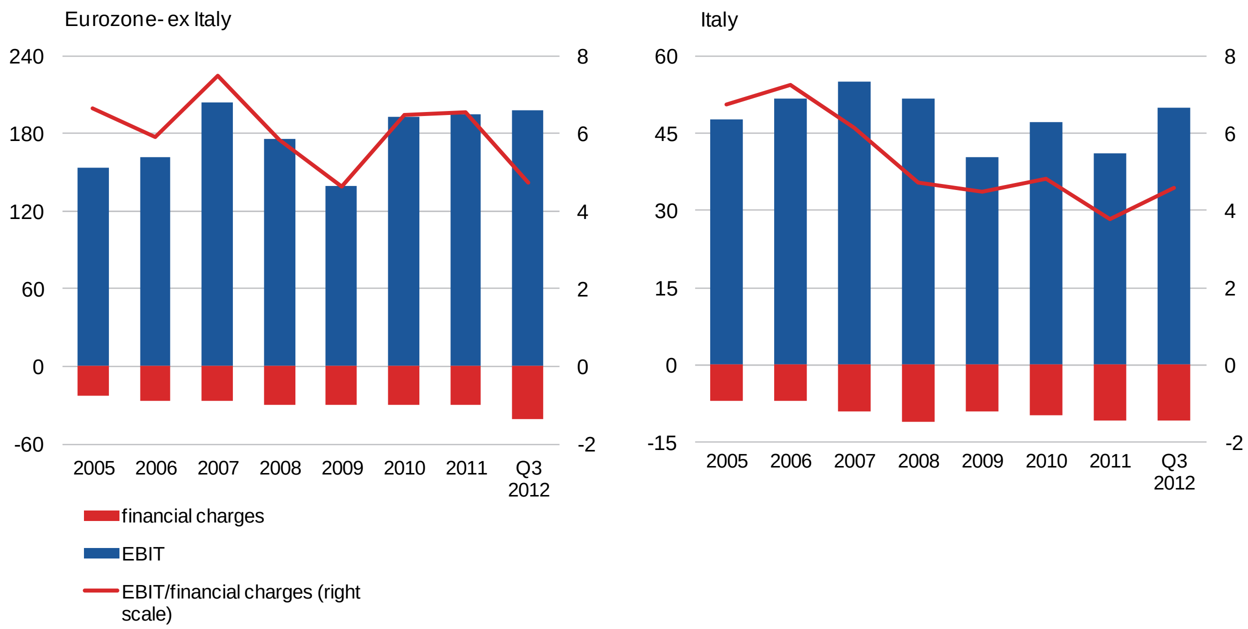


Source: based on financial statements and R&D data for the largest Italian listed groups. Self financing is net of investments in net working capital.

This ratio fell sharply for eurozone companies, mainly as a result of the increase in financial liabilities, from 30 billion euro at the end of 2011 to more than 41 billion on 30 September 2012 (an increase of 40%). In Italy, however, after the reduction of past years, in the first nine months of 2012 the ratio between EBIT and financial liabilities grew, close to the level of the eurozone companies. This trend depended mainly on the increase in EBIT, which rose by 21.6% from 41 billion euro in 2011 to almost 50 billion Fig. 65).

The change in the incidence of liquid assets on total financial liabilities in recent years confirms a narrowing of the divide between Italy and the rest of the eurozone, mainly thanks to the trend in total financial liabilities which has risen for European listed companies and has fallen for the Italian firms (Fig. 66).

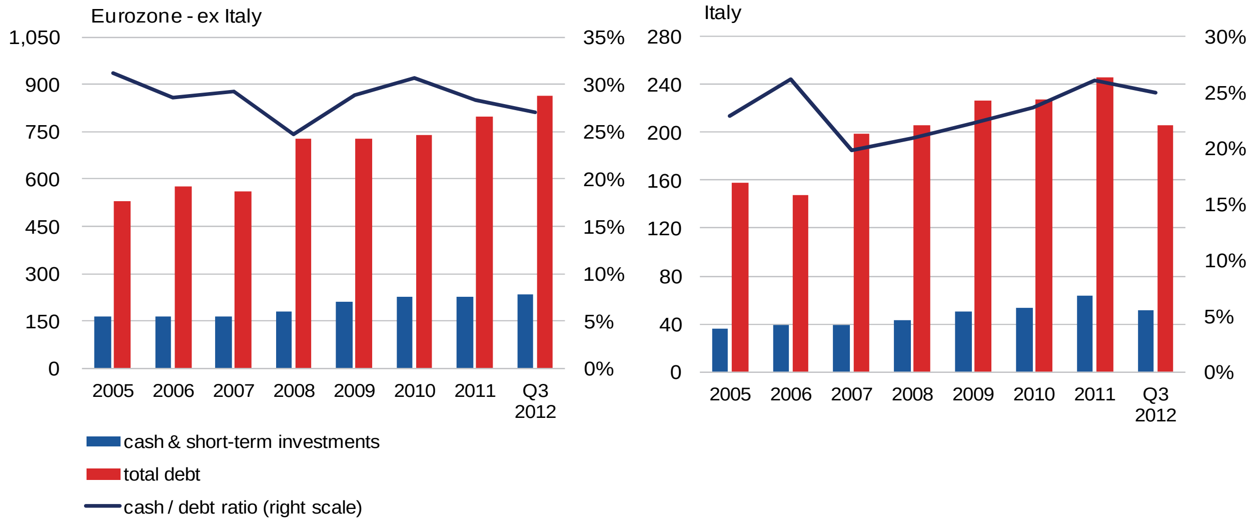
Fig. 65 Financial liabilities coverage for large non-financial listed companies
(cash amounts in billions of euro)



Source: based on Worldscope data on companies listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. For the third quarter of 2012, partially-estimated annualised figures were used.

The gross financial liabilities of European companies grew from 799 to 862 billion euro (an increase of 7.8%) while those of Italian firms fell from 245.7 to 205.5 billion (a decrease of 16.3%). On the other hand, the trend in liquid assets shows a fall of 20% for Italian companies (from 64 billion euro in 2011 to 51 billion in 2012) and a 3% increase for European companies (from 226 to 233 billion euro). On 30 September 2012, Italy's principal listed companies had a liquid assets/financial liabilities ratio of 25%, just slightly below that of the European firms.

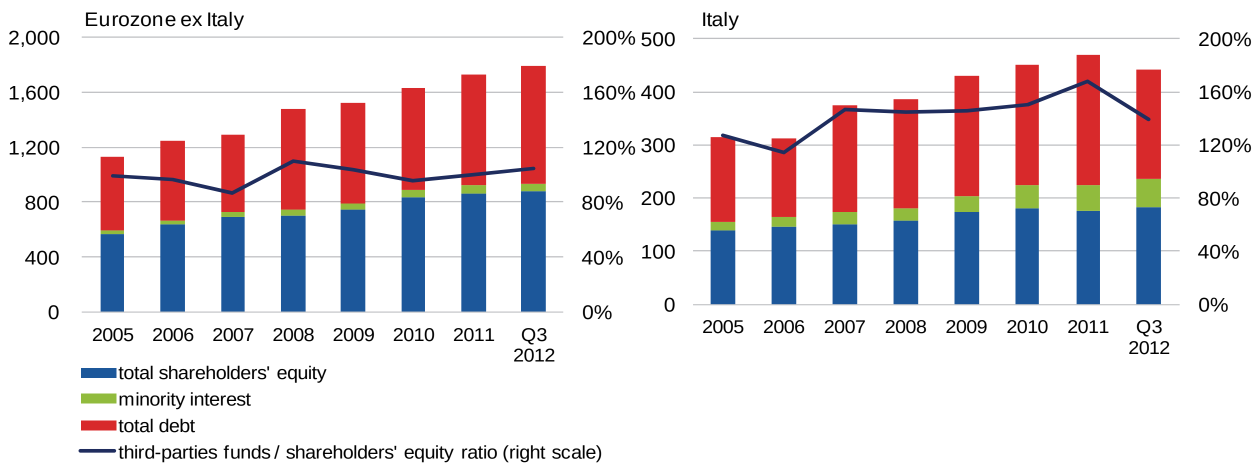
Fig. 66 Liquidity of large non-financial listed companies
(cash amounts in billions of euro)



Source: based on Worldscope data on companies listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. The figures for the third quarter of 2012 were partially estimated.

As to the changes in financial leverage (from the relationship between borrowed capital and own funds), Italy's listed companies display a higher level of imbalance in their sources of financing compared to European firms, as their financial leverage has remained significantly higher than 100% for several years. However, on 30 September 2012 the financial leverage of Italy's listed industrials had fallen by 30% compared to the value recorded at the end of 2011 (mainly as a consequence of the fall in indebtedness), while for the European listed companies the figure remained substantially stable, close to 100% (Fig. 67).

Fig. 67 Financial leverage of non-financial listed companies
(cash amounts in billions of euro)

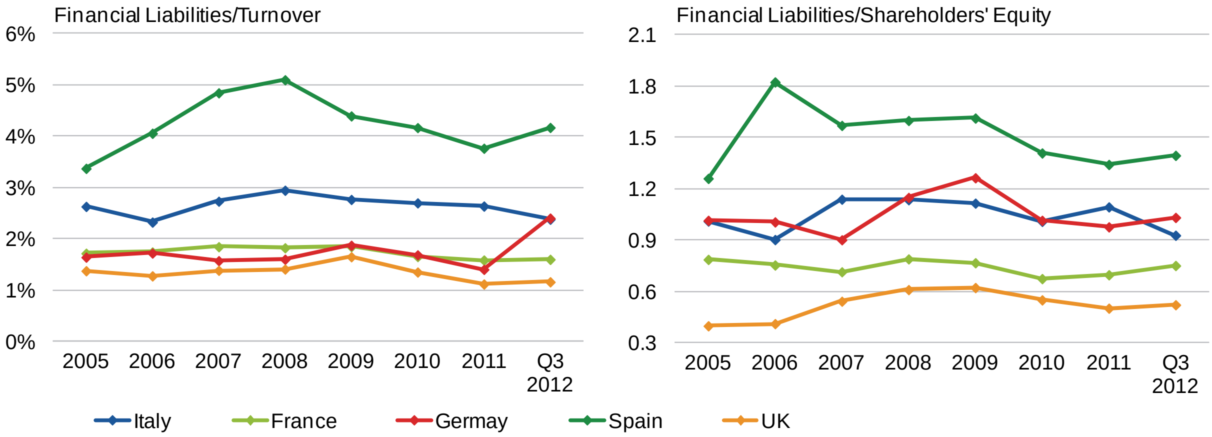


Source: based on Worldscope data on companies listed on the DJ Euro Stoxx 50 for the eurozone (excluding Italian companies) and the main Italian listed groups. The figures for the third quarter of 2012 were partially estimated.

An analysis of the financial structure of the listed companies broken down by the main European countries shows that there is greater financial vulnerability among companies in economies experiencing a deeper recession, compared to the core eurozone countries (Germany and France) and those outside the single currency area (the United Kingdom).

During the period in question, Spain had the highest incidence of financial liabilities on turnover, followed by Italy. Only German companies had an incidence of financial liabilities on turnover that was close to that of the listed Italian companies, on 30 September 2012 (Fig. 68).

Fig. 68 Financial structure of large European non-financial listed companies

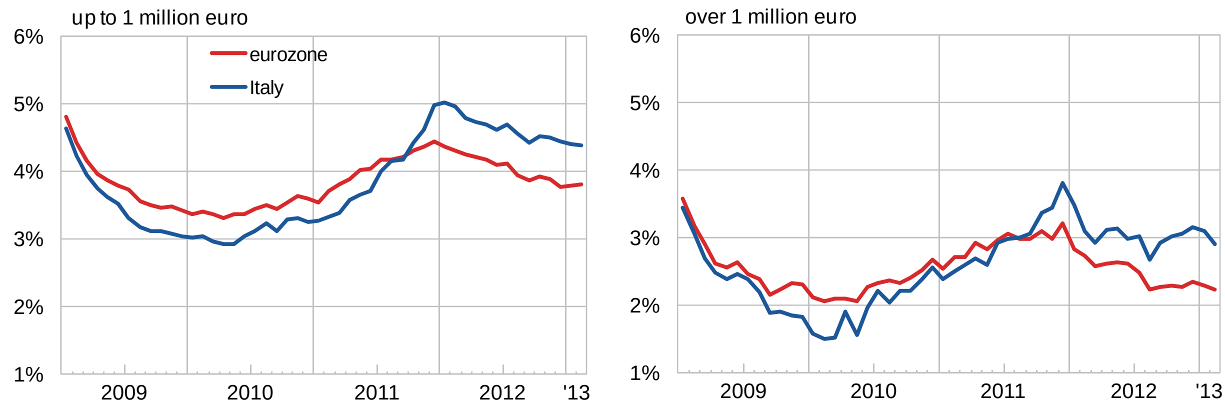


Source: based on Worldscope data for the top 30 non-financial companies by capitalisation in March 2013, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. The 2012 figures are provisional. For the third quarter of 2012, partially-estimated annualised figures were used.

On 30 September 2012, the percentage of turnover allocated to cover financial liabilities was 4.2 for the listed Spanish companies, 2.4 for German and Italian companies, 1.6 for the French and 1.2 for the British firms. The Spanish companies also had the highest financial leverage, with total financial liabilities standing at approximately 1.4 times their net equity on 30 September 2012. For the other European countries, the average leverage value was approximately 1 for Italian and German companies while it was below 1 for the French and British firms.

The financial fragility of Italian companies compared to the rest of Europe is also evident from an analysis of the trend in the cost of obtaining bank credit. From the second half of 2011 onwards, there was a notable increase in the rates charged by the banks on new loans denominated in euro, supplied to non-financial companies. This increase was higher for the Italian companies than their European counterparts, and affected large, medium and small businesses. For large companies, the gap in interest rates compared to the average for the eurozone widened during 2012 (Fig. 69).

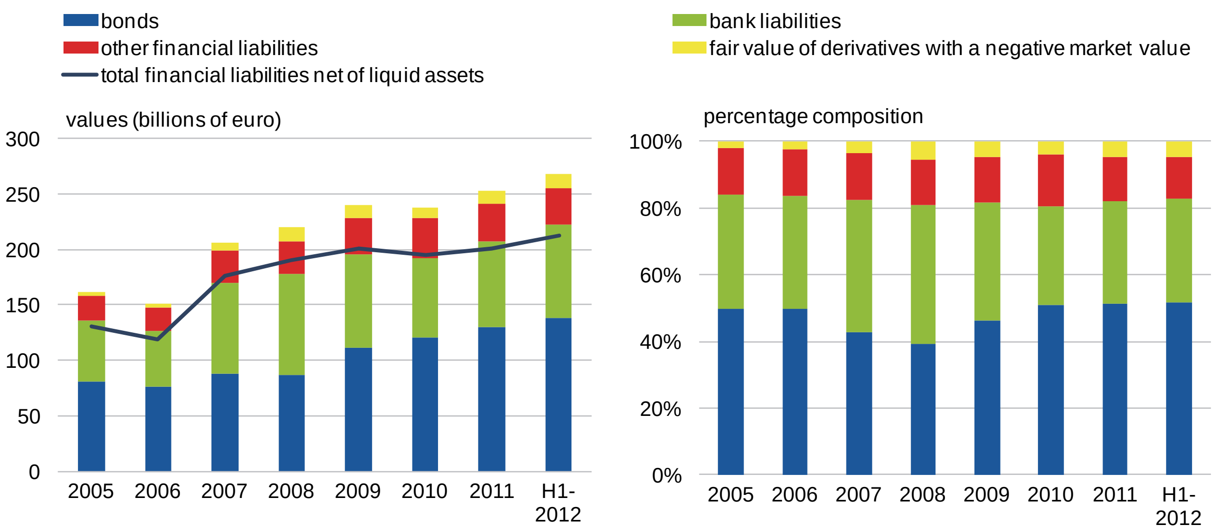
Fig. 69 Interest rates on Euro-denominated bank loans to non-financial companies
(monthly data from January 2009 to February 2013)



Source: ECB; annualized rate charged for new loans

The breakdown of the financial liabilities of the main Italian non-financial listed companies showed that during the first half of 2012 there was an increase in recourse to bond issues, from 129 billion euro at the end of 2011 to 138 billion on 30 June 2012 (an increase of 7%), and also in bank credit which rose from 78 to 84 billion euro (+8%), while the other financial liabilities remained stable (Fig. 70).

Fig. 70 Breakdown of financial debt for large Italian non-financial listed groups



Source: based on consolidated financial statements and half-yearly reports.

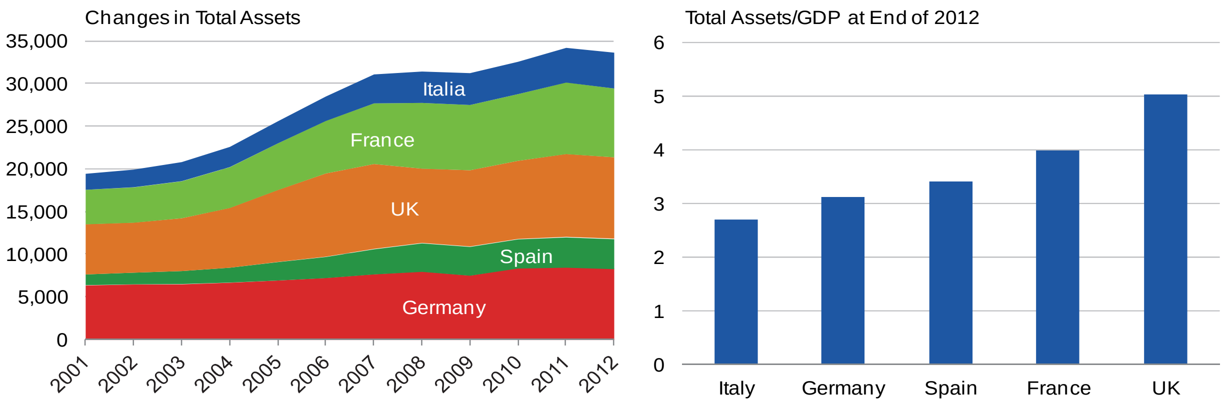
IV Financial companies

1 The role of the banking sector in the economy

The close interconnection between banks and sovereign issuers continued to influence both the changes in the general economic situation in European countries during 2012 and also the debate on policy measures required to loosen the link between sovereign and banking risk.

The interconnection has been fuelled by the significant growth in the size of the banking system since the early 2000s in the main European countries (France and the United Kingdom and to a lesser extent in Germany, Spain and Italy, Fig. 71).

Fig. 71 Changes in total banking assets and incidence on GDP in large European countries at the end of 2012
(period end balances; billions of euro)



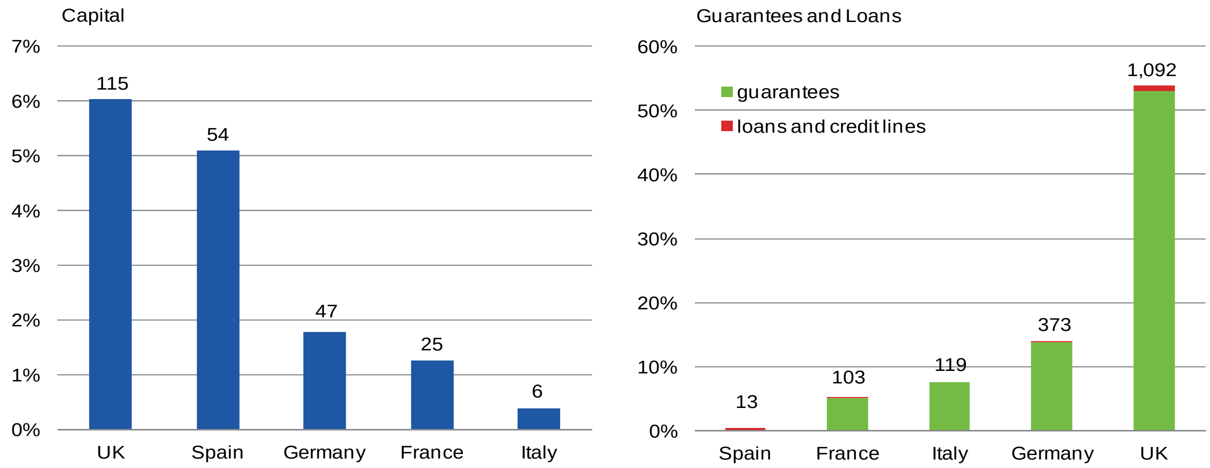
Source: ECB and Eurostat data

In absolute terms, the United Kingdom has the largest banking system in terms of total assets (9,552 billion euro at the end of December 2012), followed by France and Germany with more than 8,000 billion. Meanwhile Italy and Spain have smaller banking systems, (4,220 and 3,582 billion, respectively, in December 2012). In the period 2001-2012, the size of the banking system in terms of total assets more than doubled in Spain and Italy (increasing by 177% and 125% respectively), followed by France (+ 99%), the United Kingdom (+ 62%) and Germany (+ 31%).

In the United Kingdom and France, the banking sector also has a heavier weight on the economy, with banking assets at the end of 2012 equating to 5 and 4 times their respective GDP. The figure for Italy is the lowest of all the countries in question, at approximately 2.7 times GDP.

The increase in the weight of the banking system on the economy goes hand-in-hand with the State's incentive to support struggling banks. In Europe, since 2007 there has been a number of interventions in favour of the banking sector, sometimes in the form of recapitalisations (which have later become nationalisations) of the banks involved, but more often in the form of state guarantees on bank liabilities. Such guarantees, although they do not involve any real outlay of cash, have created large potential liabilities for public finances. The rescue packages for banks carried out in the main European countries have varied in size and format (Fig. 72).

Fig. 72 Public intervention to support banks in main European countries as a percentage of GDP, 2012
(September 2007 – July 2012. Figures in billions of euro and percentages compared to GDP 2012)



Source: based on MBRES data The figures include any repayments or terminations of the guarantees. The figure for Italy includes 3.9 billion of government measures contained in decree law no. 95 of 6 July 2012, converted with amendments by law no. 135 of 7 August 2012. The figure for Spain includes 30 billion euro already paid out by the EFSF.

The United Kingdom in particular has intervened in the rescue of many banks, and in two cases has nationalised the institution involved. Its recapitalisation measures have exceeded 100 billion euro, while guarantees on liabilities amounted to more than 1,000 billion. In Germany, public aid for banks has also been considerable, both in the form of guarantees on banking liabilities and in the form of subscriptions to shares or subordinated securities (more than 370 billion euro of guarantees and 47 billion of capital). In Spain, the largest recapitalisation measure involved the European Financial Stability Facility (EFSF), which in 2012 paid out a State loan of more than 30 billion euro. This sum is the first instalment in the 100 billion package of EU aid granted to Spain for the recapitalisation and restructuring of its national banking system.

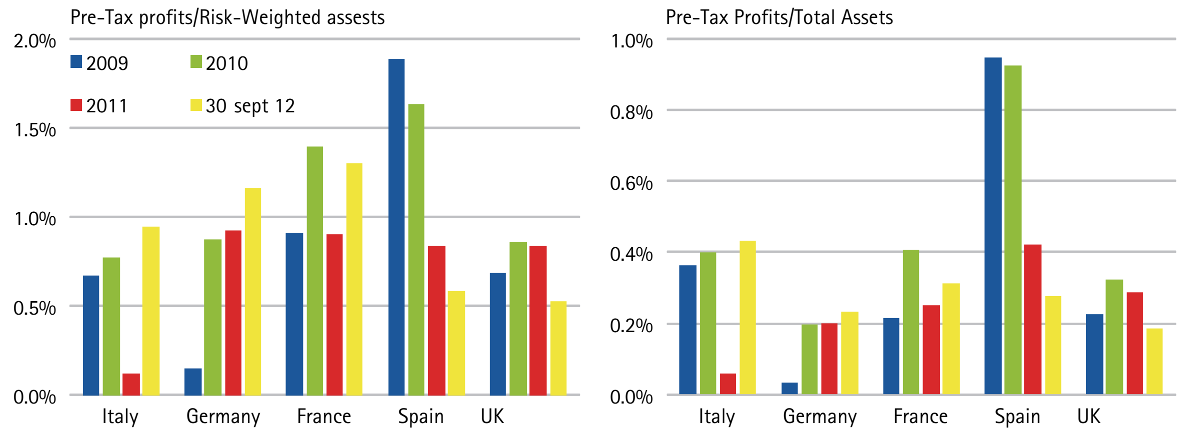
Meanwhile in Italy the banking system has not been supported by any significant public measures since the end of 2011. The State has merely subscribed to subordinated bonds totalling just over 4 billion euro, issued by four banks, in return for the issuing banks' commitment not to reduce the level of credit supplied to the real economy. The greatest difficulties for Italian banks have been caused by the sovereign debt crisis, which became more acute from mid-2011 onwards, leading to a deterioration in banking assets as a result of the large direct investments of banks in domestic public securities. In this case the State's intervention took the form of a public guarantee on the bonds issued by the banks (at a value of approximately 120 billion) with the aim of alleviating the difficulties in sourcing finance by reducing the cost of bond issues and the access to ECB refinancing operations guaranteed by the same bonds.

2 Profitability and capitalisation of listed banks

In 2012 the the largest European listed banks, with the exception of Spanish and British institutions, recorded a recovery in profits compared to 2011. Pre-tax profits (gross of goodwill impairment) relative to risk-weighted and not risk-weighted total assets increased for the leading Italian, French and German banks, while they fell in Spain and the United Kingdom. This result derived mainly from a recovery in revenues from trading activity, and the loosening of sovereign debt tensions in the second half of 2012, which was beneficial for banks in general, and all the more so for those with larger holdings of domestic Government bonds in portfolio.

The profitability of Italian banks was on average lower than that of the principal German and French listed banks, if calculated with reference to risk-weighted activities. On the contrary, it is higher, if related to assets not weighted for risk. (Fig. 73). This finding reflects the differences between the business models of Italian banks and their main European competitors, as the former are characterised by investments subject to a higher weighting according to the prudential Basel regulations.

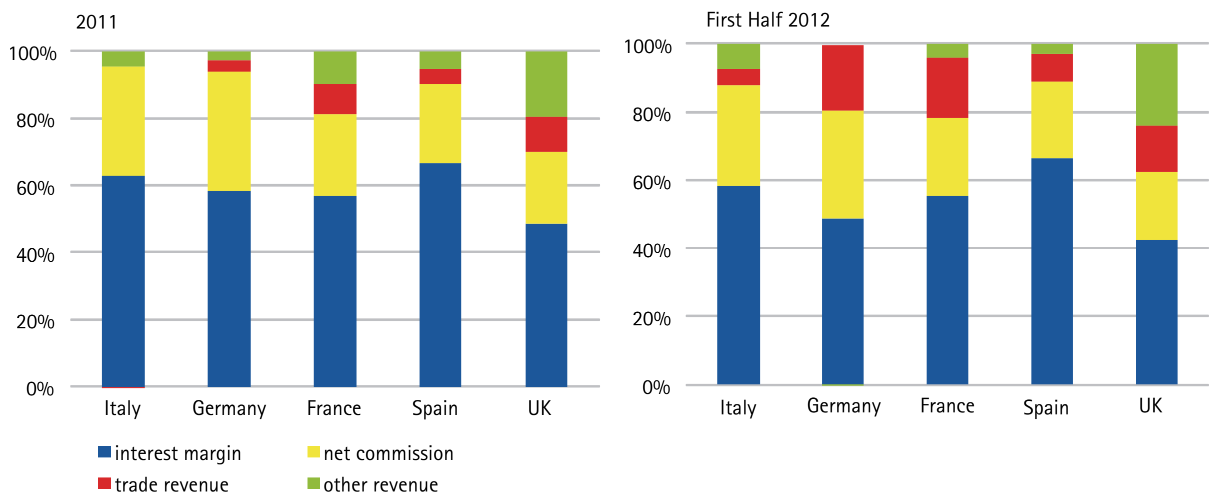
Fig. 73 Profitability trend for large European listed banks



Source: calculations based on the consolidated financial statements and interim reports of the principal European banks. The pre-tax profit includes adjustments to goodwill. The figures on 30 September have been annualised and partially estimated.

As to the breakdown of revenues, in the first half of the year the weight of trading income out of total revenues increased for all the principal European banks, although there was still a higher incidence of interest and commission margins for Italian and Spanish banks (Fig. 74).

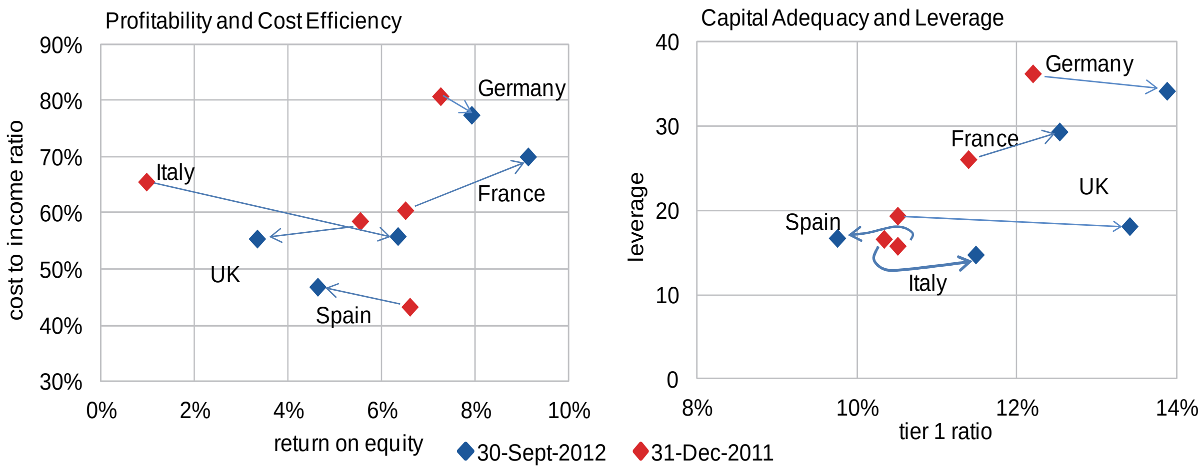
Fig. 74 Revenue breakdown for large European listed banks



Source: calculations based on consolidated financial statements and interim reports of the principal European banks.

The principal Italian and German banks showed improved profitability in relation to net equity and also in relation to operating efficiency. In particular, there was a sharp fall in the incidence of the cost-to-income ratio for the Italian banks. Despite the significant increase in operating costs, profitability also increased for French banks while in Spain and the United Kingdom, the leading banks displayed falling income levels (Fig. 75).

Fig. 75 Evolution of profitability and capital adequacy for large European listed banks in the first nine months of 2012



Source: based on the consolidated financial statements and interim reports of the principal European banks. Pre-tax ROE, annualised inclusive of adjustments to goodwill, and calculated on period-end net equity.

The capital adequacy coefficients increased for all the principal European banks in the first nine months of 2012, mainly as a result of the decrease in risk-weighted assets and in some cases the increase in own funds. An exception was the Spanish banks, whose basic assets compared to total risk-weighted assets (Tier 1 ratio) stood below 10% on 30 September 2012.

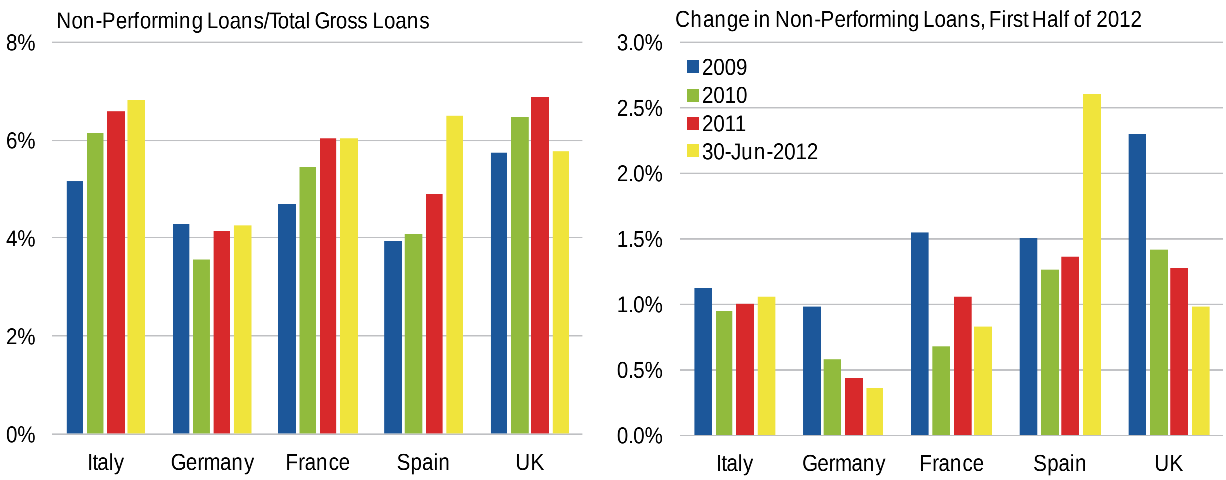
Italian banks continue to display a lower Tier 1 ratio than the principal French, German and British institutions but at the same time have a significantly lower financial leverage figure, particularly in comparison with the leading banks of France and Germany.

3 Credit quality

In the first half of 2012, Spanish and Italian banks were hit by a steep decline in credit quality stemming from the more severe downturn in the economic cycle recorded in their respective economies.

For the the largest Spanish and Italian banks, the incidence of gross non-performing loans on total accounts rose significantly in the first half of 2012, reaching levels above 6 and close to 7%, respectively. However, the figure for Spanish banks reflects the contribution of the country's two leading institutions, which have significant operations outside the Eurozone, and are thus less exposed to the swings of the domestic economy. The Spanish banks also recorded a cost of credit (i.e. credit impairments charges relative to average outstanding loan portfolio) above 2.5%, which was higher than that for main European competitors, at or below 1% (Fig. 76).

Fig. 76 Credit quality trend for large European listed banks



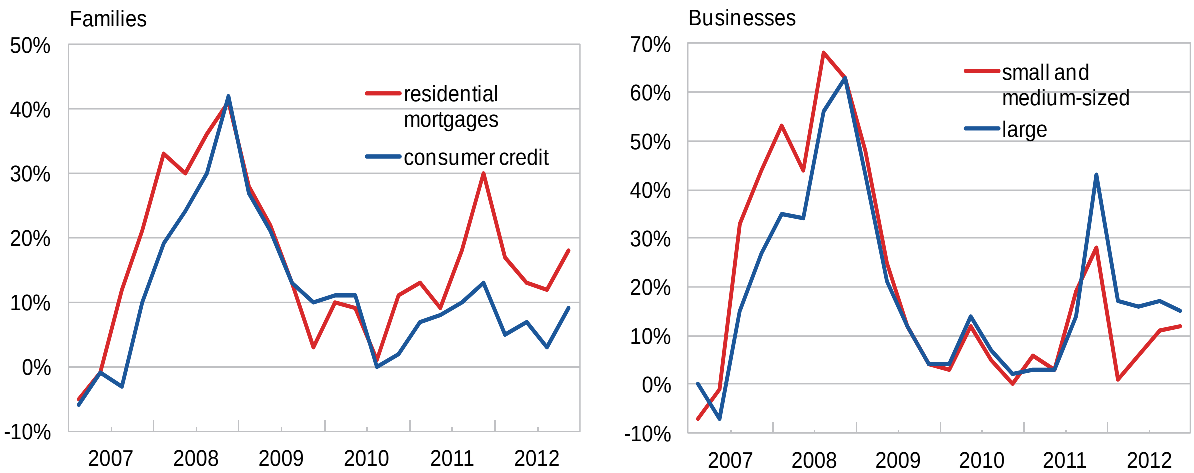
Source: based on consolidated financial statements and interim reports of the largest European banks. Annualised data and partial estimates.

As there is no uniformity in terms of the application of the rules on the classification of accounts as non-performing, or on the balance sheet representation of doubtful accounts, it is very hard to give any comparison of the quality of bank credit in different European countries.

The latest figures from the ECB's Bank Lending Survey show that during the year, the banks tightened up the conditions under which they would lend to small and medium-sized businesses and to households. Meanwhile there was no change to the conditions through which large companies could access bank credit.

For smaller businesses, the credit restriction indicator (given from the percentage of banks which reported having imposed more stringent lending criteria, net of those which relaxed their conditions) increased from 1% in the first quarter to 12% in the fourth, while for households, the tightening of credit conditions was seen in the final quarter of the year, with the indicator rising (for mortgages) from 12% in the third quarter to 18% in the fourth and for consumer credit from 3 to 9% in the same period. Conversely, for large businesses the credit restriction indicator improved slightly, falling from 17% in the first quarter to 15% in December (Fig. 77).

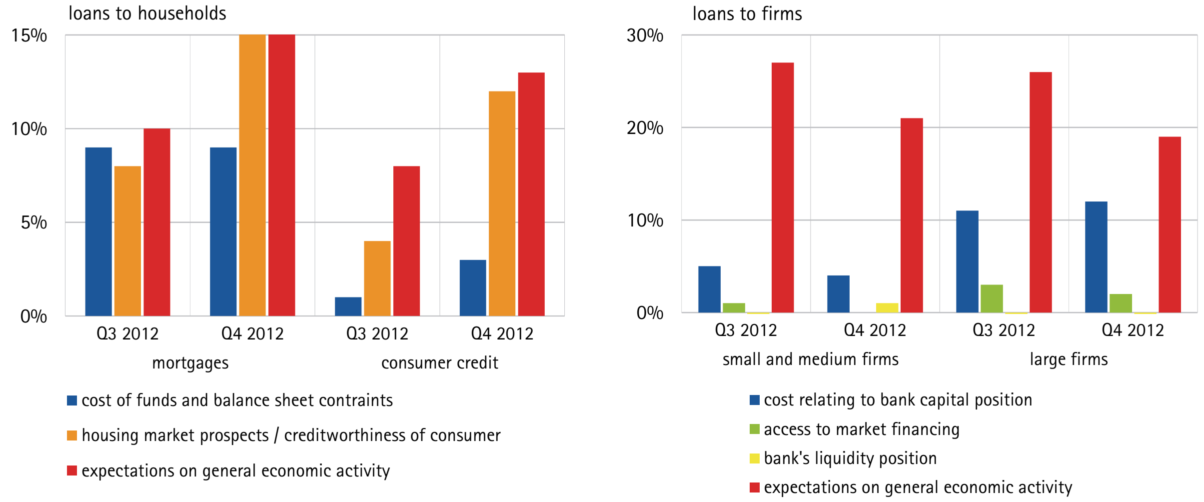
Fig. 77 Lending restriction indicators for the eurozone
(quarterly data)



Source: ECB Percentage of banks that have noted increased rigidity in loan granting criteria, net of the share of the banks that have noted a loosening.

As to the factors affecting changes in lending requirements, during the second half of the year the banks gave more consideration to the negative economic outlook, especially for business loans, while factors connected to budgetary restrictions and funding issues were reported less frequently (Fig. 78).

Fig. 78 Factors restricting credit access conditions in the Eurozone



Source: ECB (Bank Lending Survey) The percentages relate to the number of banks which considered the corresponding restriction on access to credit to be significant.

4 Financial assets of listed banks

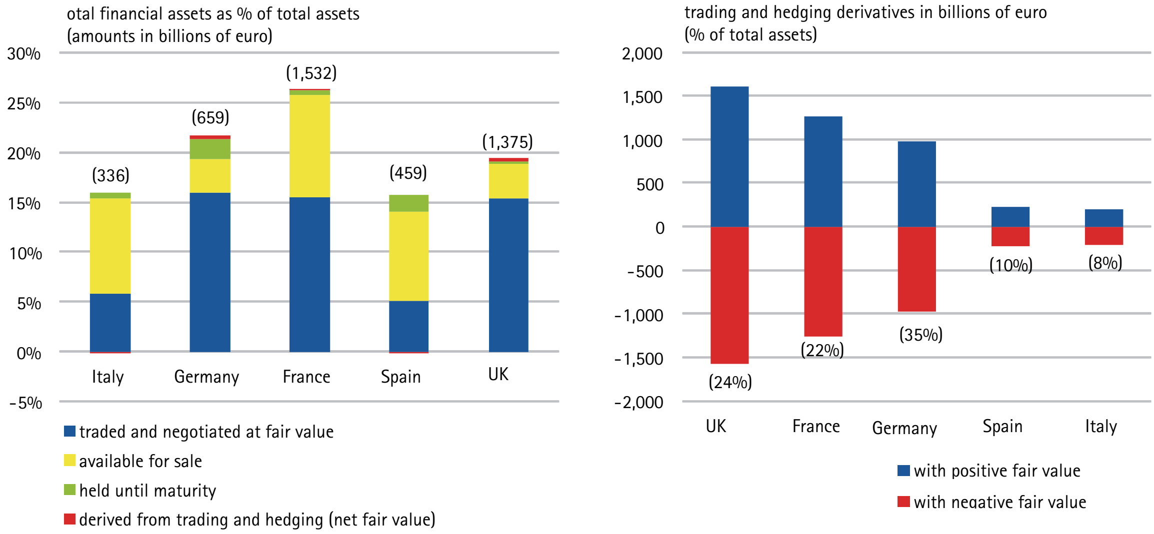
A breakdown of banks' assets shows that the the largest Italian and Spanish institutions are less exposed to financial assets and lower open interest in derivative contracts.

Specifically, on 30 June 2012 the incidence on total assets of financial assets and fair value net of derivatives for the leading Italian and Spanish banks was about 15%. This figure is far below that of the banks in the other leading European countries (20% of German banks, 22% for the French and 26% for the British institutions). The fair value of derivatives with a positive market value represents about one quarter of total assets for the British and French banks, and 35% for their German counterparts. For the Spanish and Italian banks this value is significantly lower (10 and 8% respectively Fig. 79).

The differences in the asset breakdowns and the incidence of financial instruments, including derivatives, are reflected in the level of assets risk-weighted for prudential purposes. The Italian and Spanish banks, who have a lower percentage of private-sector loans compared to financial assets, have weighted assets equivalent to approximately 45% of the non-weighted assets, whereas for the British, French and German banks this ratio is 34, 25 and 20% respectively (Fig. 80). However, in recent years there has been a general tendency towards a reduction in risk-weighted assets among all

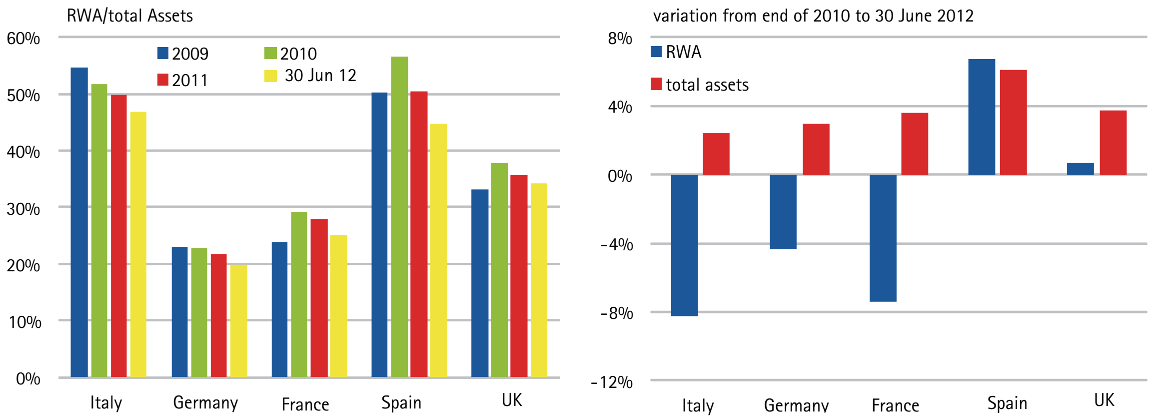
Europe's principal banks. This trend has been generated by changes in prudential regulation which have increased the minimum prudential requirements, and also by various contingent policy measures introduced in Europe intended to restore market confidence in the European banking sector at the peak of the sovereign debt crisis. The Spanish banks are an exception, as they have seen a sharp deterioration in the quality of their assets, particularly as a result of the real estate crisis that has afflicted Spain in recent years.

Fig. 79 Breakdown of financial assets and derivatives held by the largest European listed banks in mid 2012



Source: based on the consolidated financial statements of the principal European banks.

Fig. 80 Changes in risk-weighted and non-risk weighted assets for large European listed banks



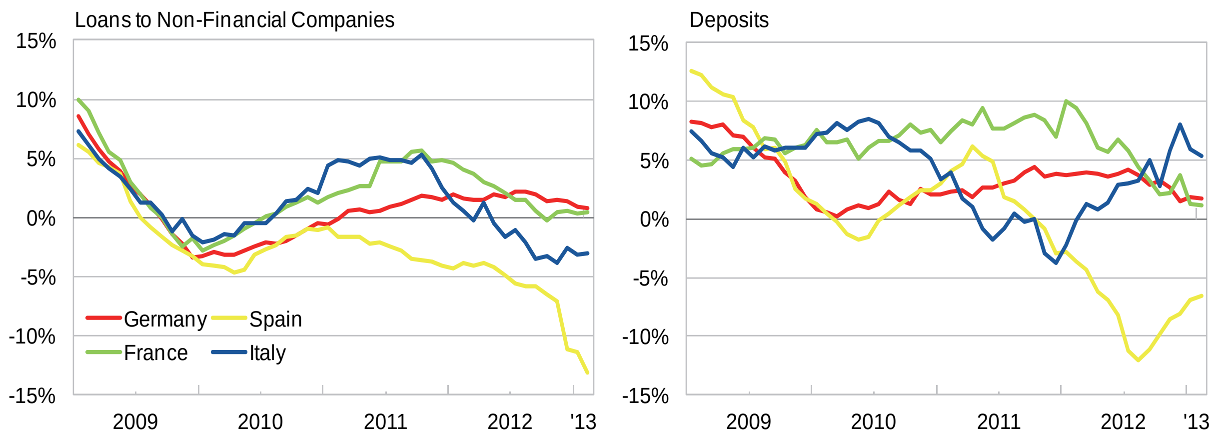
Source: based on the consolidated financial statements of the principal European banks.

5 Lending activity and deposits of listed banks

In 2012 bank loans and deposits trend in Europe highlighted a widening gap between core and peripheral countries, both in terms of financing to the real economy and in deposits trend.

In particular, during 2012 the rate of growth of loans to non-financial companies was negative in Italy and Spain. For Spanish banks, a significant drop in loans to non-financial companies was recorded in the final months of 2012, with an annual growth rate that was negative by more than 10%. In France the figure was positive, but fell throughout 2012 except for the last two months of the year, while in Germany the trend in business lending displayed a stable rate of growth. Customer deposits continued to fall in Spain, although during the last few months of 2012 there was a slight reversal of this trend. In Italy the growth rate went back into the black in 2012 after falling during the second half of 2011, showing a sharp increase at the end of the year. With regard to the core countries, the growth rate was consistently positive for the German banks, whereas there was a gradual slowdown for the French institutions (Fig. 81).

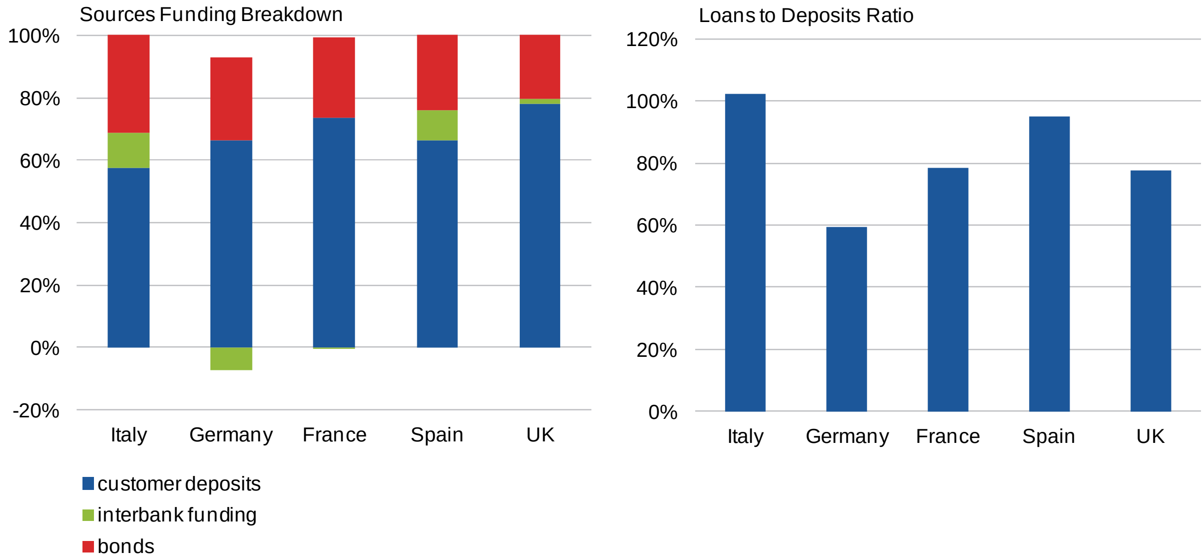
Fig. 81 Growth rate of loans to non-financial companies and banking deposits
(percentages on an annual basis, monthly data from January 2009 until February 2013)



Source: ECB

In Europe, the deposits structure of the principal Italian banks is differentiated by the higher weight of bond issues (approximately 30% compared to average values of between 20 and 25% for Europe's principal banks) and by the greater recourse to interbank deposits. Italian and Spanish banks also recorded higher values for the loan-to-deposit ratio (the ratio between customer loans and total customer deposits and bonds issued), followed by their French, British and German counterparts. The potential imbalance between illiquid loans and stable sources of funding thus seems to be higher for Italian and Spanish banks (a loan-to-deposit ratio above 100% indicates that the illiquid loans exceed the sources of bank funding considered more stable, in other words the amounts collected through deposits and bonds placed with retail investors). However, these differences also reflect the higher incidence of customer loans and the different asset structure of the Italian and Spanish banks, compared to the leading banks in the other main European countries (Fig. 82).

Fig. 82 Deposits breakdown and loan-to-deposit ratio for the largest European listed banks
(situation on 30 June 2012)



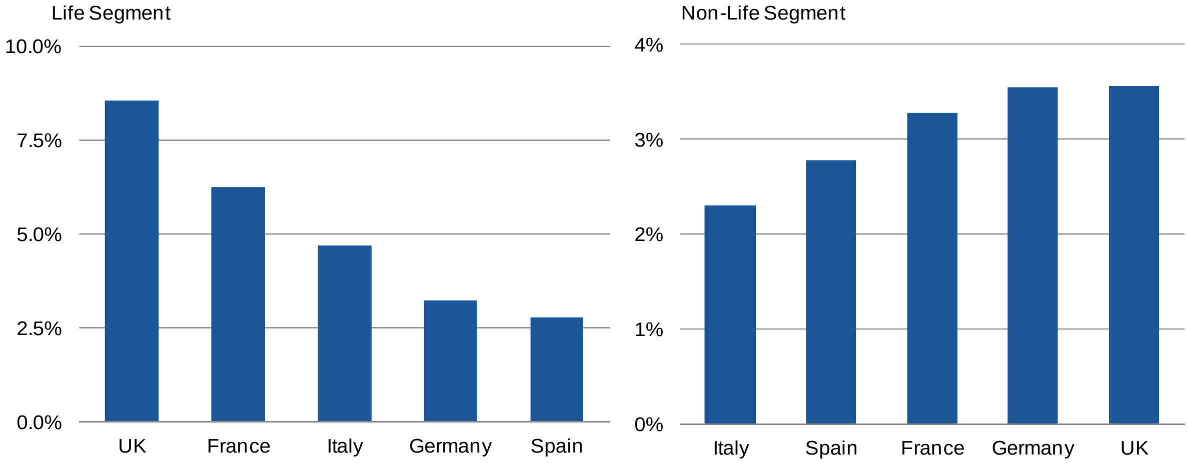
Source: based on consolidated financial statements of the the largest European banks. The loan-to-deposit ratio is calculated as the ratio of customer loans to total customer deposits and bond issues.

6 Insurance companies

In Europe, the United Kingdom and France have the most well-developed insurance markets.

In 2011, the incidence of life insurance premiums on GDP was above 8% in the United Kingdom and 6% in France, compared to 5% in Italy and 3% in Germany and Spain. The differences between countries are less marked in the non-life sector, which recorded premiums of more than 3% of GDP in the United Kingdom, Germany and France, compared to 2.8 and 2.3% for Spanish and Italian companies, respectively (Fig. 83).

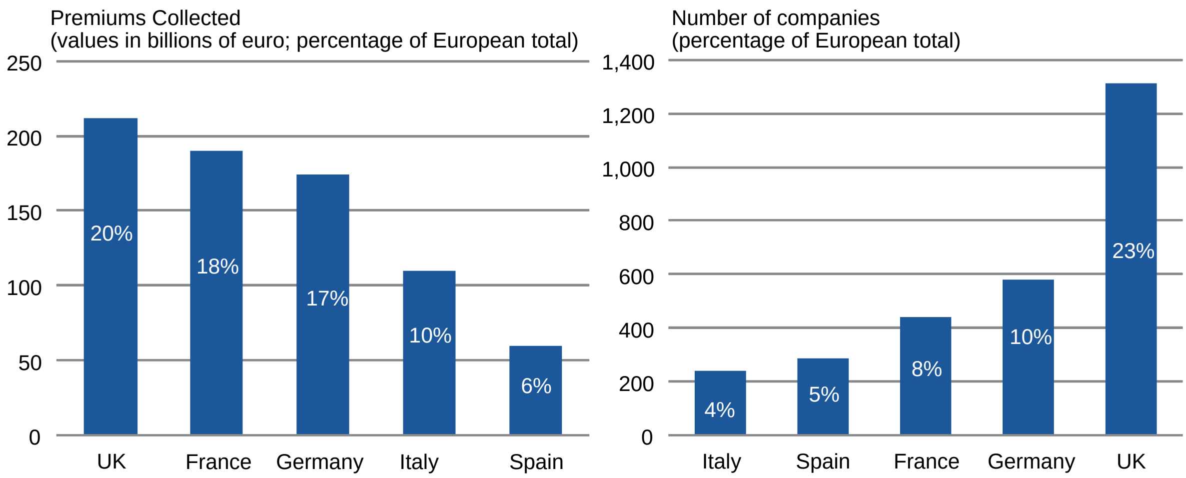
Fig. 83 Insurance premiums in % of GDP for large European countries in 2011



Source: calculations based on Insurance Europe data.

The United Kingdom has the most well-developed insurance sector in terms of the number of premiums collected, the number of insurers and the share of the European market, followed by France and Germany. Italy and Spain have significantly smaller insurance markets (Fig. 84).

Fig. 84 Size of the insurance sector in large European countries, and European market share in 2011
(values in billions of euro; percentages out of total premiums in Europe)



Source: calculations based on Insurance Europe data.

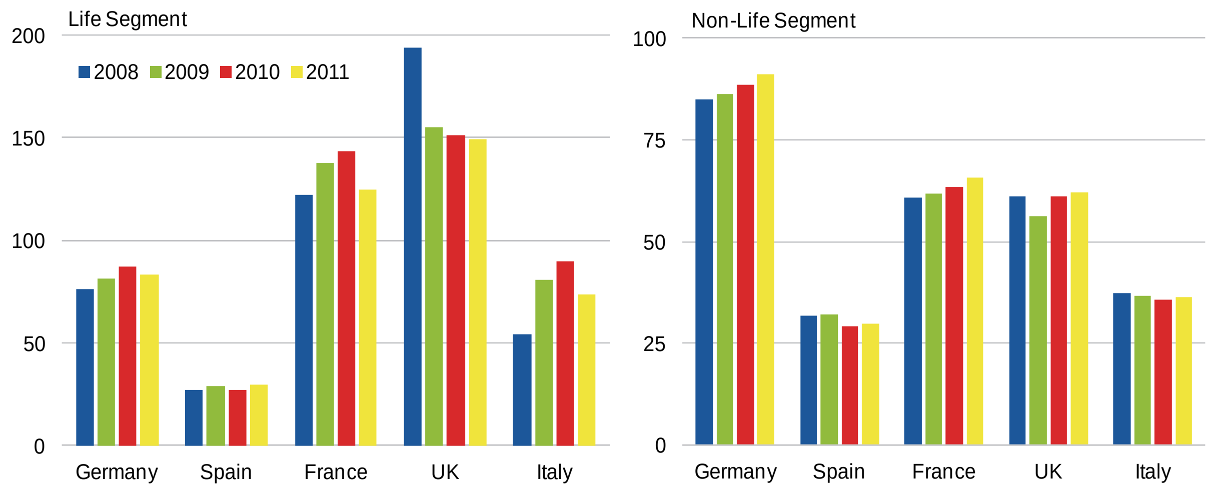
In the United Kingdom the total value of premiums collected in 2011 exceeded 200 billion euro (20% of the total premiums collected in Europe) with more than 1300 companies operating in the industry. In Germany and France, despite the fact that there are far fewer insurance companies (582 and 441 respectively), the total value of premiums collected in 2011 was considerable, equivalent to 190 and 174 billion euro respectively, corresponding to 18 and 17% of the total European market.

In 2011, the 242 Italian companies operating in the sector collected premiums of 110 billion euro (10% of the market) compared to a figure of less than 60 billion (6% of the market) for the 287 Spanish insurers.

In 2011 the premiums collected in the life sector fell in almost all the main European countries except for Spain. The trend in the premiums collected in the non-life sector appeared to grow slightly but in Italy and Spain it was still below 2008 levels (Fig. 85).

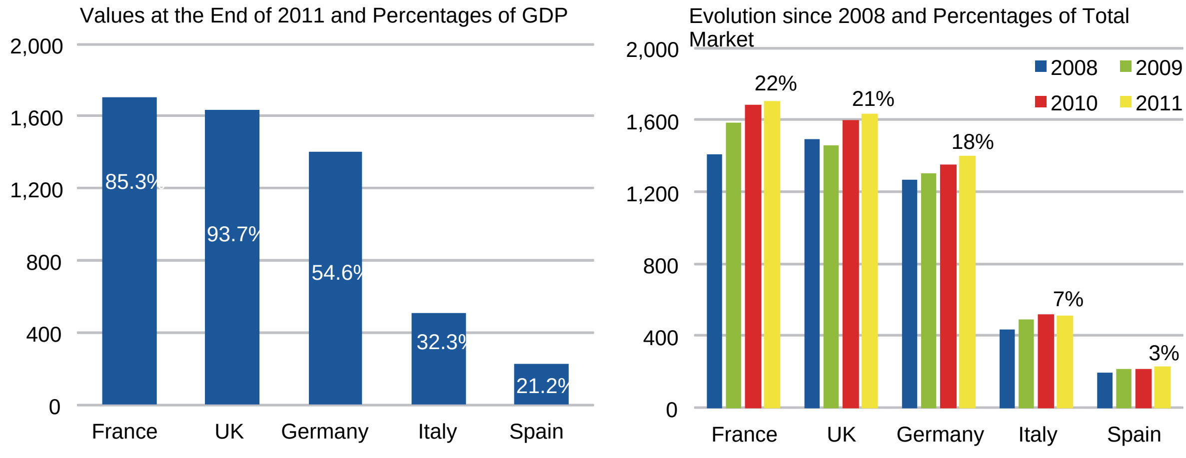
In 2011 the total value of the investment portfolio of European insurance companies amounted to 7,740 billion euro (an increase of 2.6% compared to 2010). Of the principal European countries, France, United Kingdom and Germany displayed considerably high total investments, with an incidence on domestic GDP of 85, 93 and 54% respectively, compared to 32% in Italy and 21% in Spain. The portfolio of total investments of the British, German and French insurance companies represents more than 60% of the total investments in the whole of the European insurance sector. Investments by Italian insurers represent approximately 7% of the total, while those of their Spanish counterparts were close to 3%. Since 2008, despite the tensions on the financial markets, investments by insurance companies have grown in all the core countries, particularly in France (Fig. 86).

Fig. 85 Premiums collected in large European countries



Source: calculations based on Insurance Europe data.

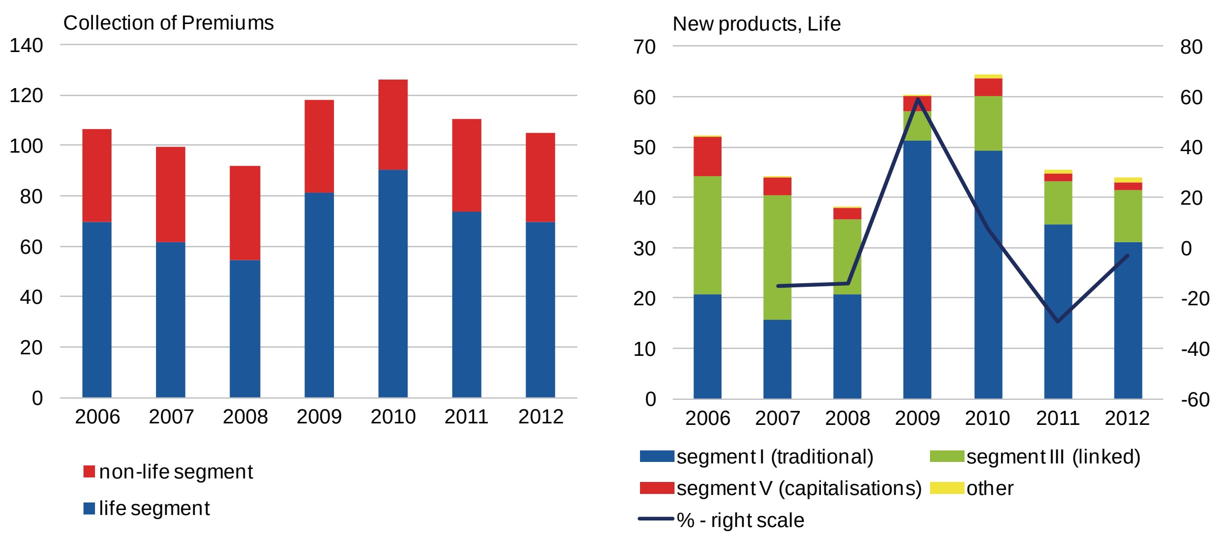
Fig. 86 Investments of insurance companies in large European countries



Source: calculations based on Insurance Europe data.

With reference to the Italian insurance sector, in 2012 the total premiums collected by insurance companies continued to shrink, mainly as a result of the significant decrease in the life sector (Fig. 87).

Fig. 87 Premiums collected by Italian insurers



Source: based on IVASS data The figures refer to direct Italian business.

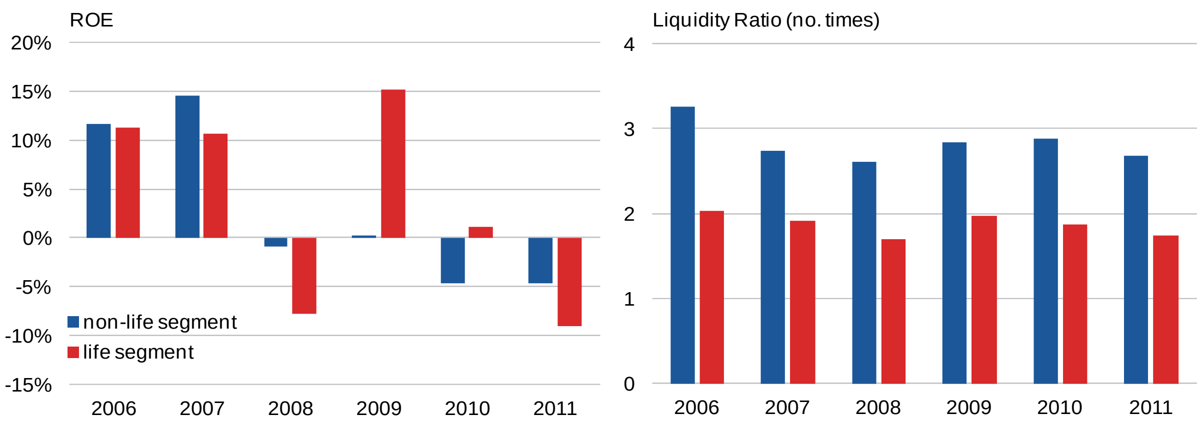
Life premiums in particular continued to fall, standing at 70 billion euro by the end of 2012 (a decrease of 6% compared to the previous year). This dynamic probably reflects the reductions in disposable income and in household savings, and also the reallocation of the portfolio in favour of investments such as government bonds which are relatively more profitable than insurance policies, and which have experienced a sharp increase in returns since mid-2011. There was a smaller decrease in the volume of non-life premiums, which fell by 3% from 36.3 billion euro in 2011 to 35.4 in 2012.

In the first nine months of 2012, the new Line I premiums (policies on the duration of human life) and Line V (capitalisation operations) decreased significantly, confirming the trend displayed since 2010. The new product in Line III (life insurance connected to investment funds or indexes) showed an increase, recovering the level recorded in 2010 although still below the peak values of 2007.

The profitability of the Italian insurance market was particularly negative during 2011, with a decrease in ROE in the non-life segment (-4.7%) and also in the life segment (-9%). The negative revenue performance also affected the trend in the liquidity ratio, which decreased significantly in both segments (Fig. 88).

Despite the decrease in the liquidity ratio, it was still significantly higher than the legal minimum for the non-life segment standing at just over 18 billion (approximately 2.7 times the legal minimum of 7 billion) and at 27 billion for the life segment (1.75 times the minimum margin of 15 billion).

Fig. 88 Profitability and liquidity indicators for Italian insurance companies



Source: based on IVASS data

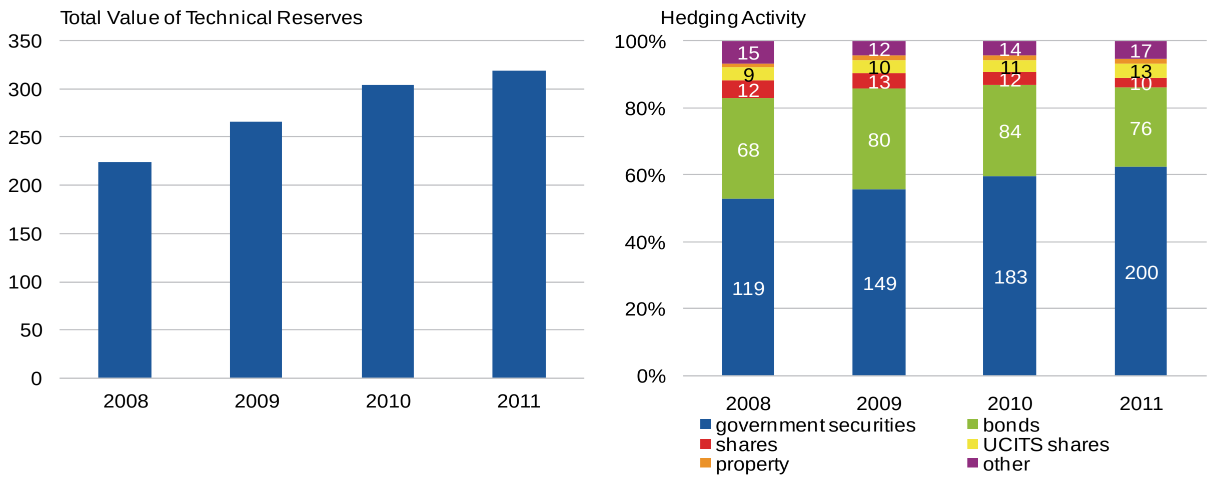
The anti-crisis measures introduced in Italy in 2011, which remain in force until application of the new *Solvency II* prudential regulations, have given insurance companies the opportunity to neutralise latent losses on government bonds and other State-backed securities for the purposes of calculating their liquidity ratios. Similar measures have been introduced in the other principal European countries. This has reduced the impact of the sovereign debt crisis in the single currency area on the solidity of insurance companies which have invested a growing percentage of their technical reserves in government bonds and other debt securities since 2008.

At the end of 2011 the gross technical reserves in the life segment (in other words the commitments towards policyholders inclusive of the reserves borne by the re-insurers) amounted to 319 billion euro (an increase of 5% compared to 2010). Hedging activities, in other words investments made by the insurance company to cover technical reserves booked as liabilities) were mainly made up of debt securities (86%) of which 62%, equivalent to 200 billion euro, was made up of securities issued or backed by EU states or other OECD countries. This figure is a marked increase on the 50% recorded at the end of 2008.

The remaining investments include bonds (totalling 76 billion euro, equivalent to 24%), shares (10 billion, 3% of the total), shares in share and bond UCITS (13 billion, 4% of the total), real estate, shares in property companies and units in real estate mutual funds (totalling 5 billion, corresponding to 2% of the total Fig. 89).

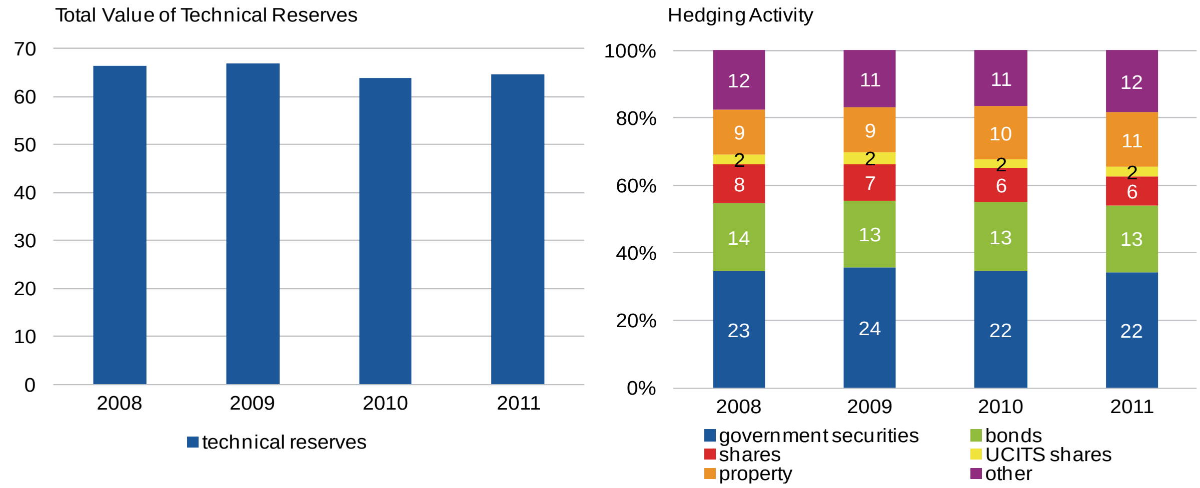
With regard to the non-life segment, at the end of 2011 technical reserves (including those borne by the reinsurers) amounted to 65 billion euro, an increase of 1% compared to 2010. The breakdown of hedging activity to cover technical reserves in the non-life segment was much more diverse than in the life segment, with the total securities issued or guaranteed by EU or other OECD states amounting to just 22 billion (approximately 34% of the total). The remaining investments were made up of bonds (totalling 13 billion euro, 20%), real estate, holdings in real estate companies and shares in real estate mutual funds (totalling 11 billion, corresponding to 16% of the total), shares (6 billion, i.e. 8% of the total), shares in share and bond UCITS (2 billion, 3% of the total), and other assets accounting for the remaining 18% of investments, in other words receivables from re-insurers, policyholders and intermediaries, and bank deposits (Fig. 90).

Fig. 89 Life segment technical reserves and investment breakdown



Source: based on IVASS data

Fig. 90 Non-life segment technical reserves and investment breakdown



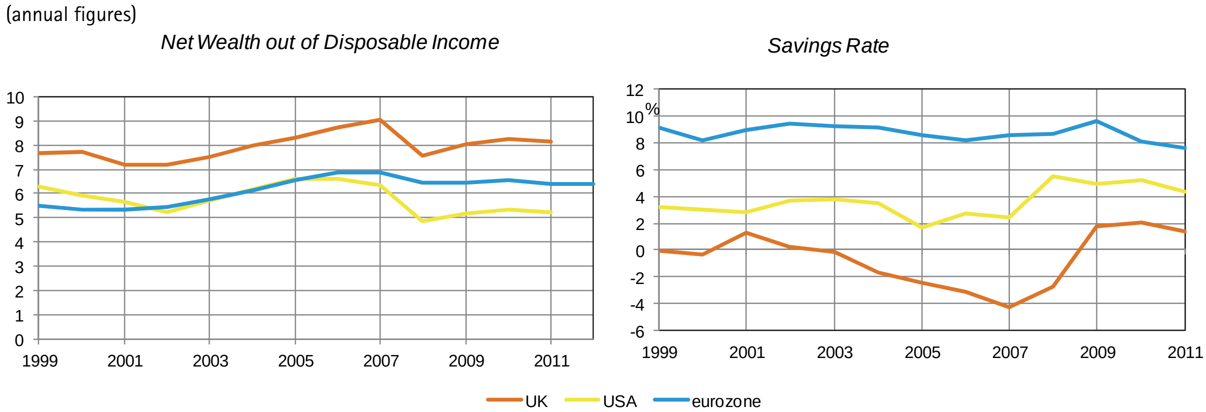
Source: based on IVASS data

V Households and assets under management

1 Household wealth in the main advanced countries

At the end of 2011 the net wealth of households, in other words the sum of real and financial assets net of financial liabilities in the eurozone, was more than six times the amount of gross disposable income. The figure is historically lower than the one for the United Kingdom which at the end of 2011 had stabilised at 8, recovering the contraction from 9 (2007) to 7.6 recorded in 2008 after the sub-prime crisis. The ratio between net wealth and disposable income in the eurozone is higher than that of the United States, which, after the contraction recorded in 2008 after the financial crisis (from 6.3 to 4.8 in 2007) demonstrated a slight recovery, increasing to 5 (Fig. 91).

Fig. 91 Net wealth and household savings rate in the main advanced economies
(annual figures)



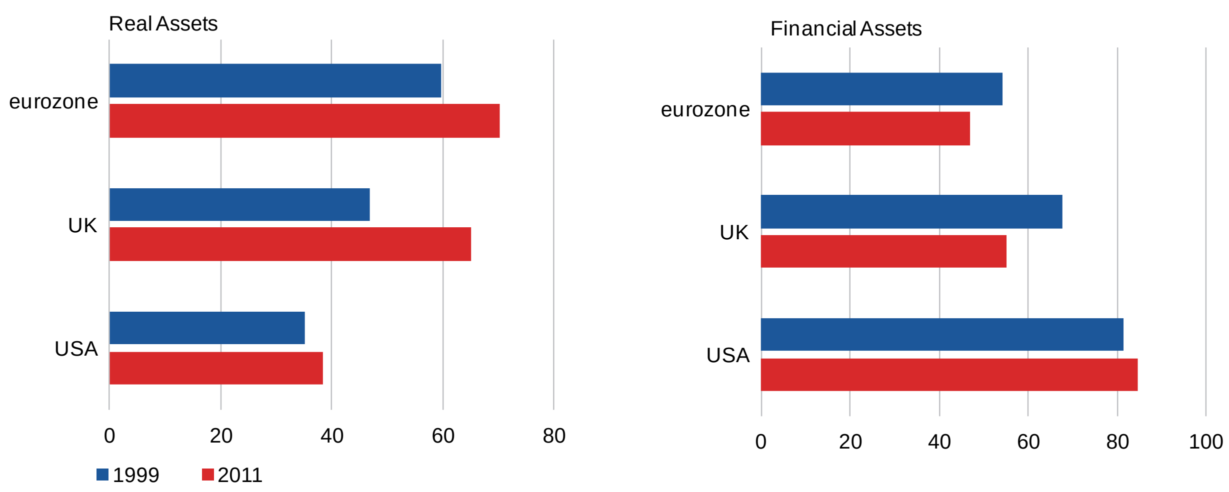
Source: ECB and OECD data Net wealth is the sum of real and financial assets less financial liabilities. The figures have been taken from financial accounts in which the institutional sector of households also includes not-for-profit enterprises. The graph on the right shows the rate of net savings, calculated by taking into account the flow of savings net of write-downs.

The trend in net wealth is also linked to the trend in household savings, which seems to be consistently higher in the eurozone than in the United Kingdom and the United States. Between 2003 and 2007, the savings rate fell in all three areas, confirming the fact that during that period, the increase in net wealth out of disposable income depended mainly on the positive phase of the stock market cycle (which was reflected on the value of the financial assets) and of the property sector (which was reflected on the value of real assets – see paragraph 1 of Chapter I *"Macroeconomic scenario"*, for details of the trend in property prices). The savings rate then continued to grow, rising above pre-crisis levels in both the United Kingdom and the USA. In the eurozone, however, the figure showed a discontinuous trend.

The weight of real assets on gross household wealth in the eurozone was more than 70% at the end of 2011 compared to 60% in 1999. The figure is still higher than the one recorded in the United Kingdom, where it was just over 60% (an increase of 20 percentage points compared to 1999) and for the USA, where it fluctuated around 40% during the period (Fig. 92).

The weight of financial assets on household wealth continued to be significantly higher in the United States, where it was more than 80% in 2011 (a slight increase compared to 1999 and equivalent to almost double the figure for the eurozone).

Fig. 92 Breakdown of wealth in the main advanced economies
(percentage values)

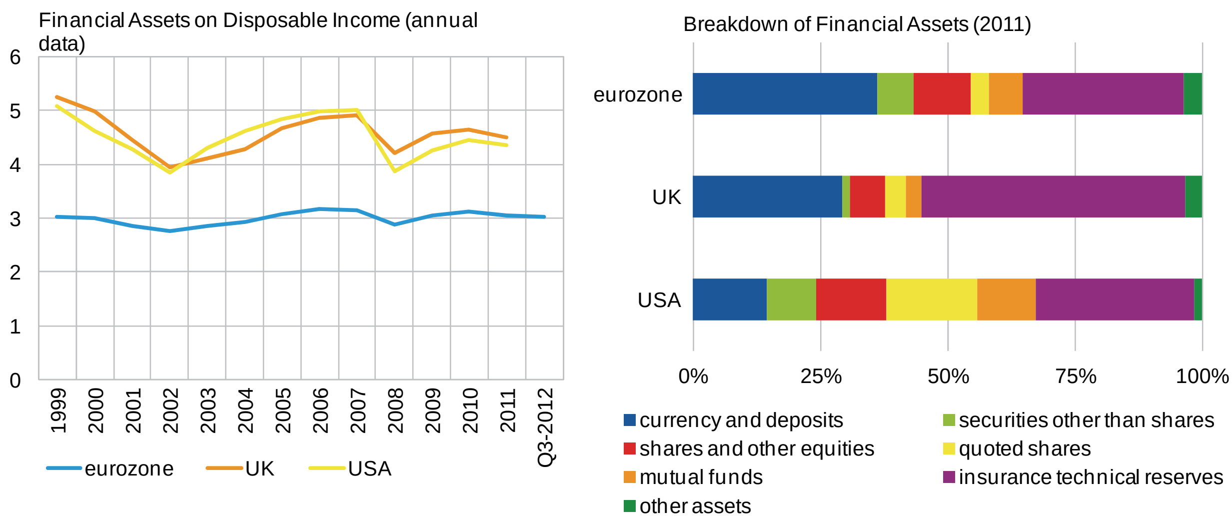


Source: based on OECD data

The ratio of financial assets to disposable income is historically higher in the United Kingdom and the USA compared to the eurozone. At the end of 2011 in the three areas in question, it was 4.5, 4.4 and 3.0, respectively (Fig. 93). The trend in financial wealth compared to disposable income reflects the asset class composition and the differing exposure of households to the financial markets, which is more limited in the eurozone. In line with the stock market cycles, the ratio of financial assets compared to disposable income decreased sharply in the USA and in the UK during the 1999-2002 period, in correspondence with the sub-prime crisis. There was some degree of recovery in 2009, as the year-end figure for 2011 was below that for 1999, in both countries.

As can be seen from the breakdown of financial assets at the end of 2011, in the eurozone the percentage of wealth held by households in shares and equity funds was just over 10.3% (of which 6.8% relates to funds), higher than the 7.2% for the UK (of which 3.1% refers to funds), but significantly lower than the figure for the USA (29.3%, of which 11.5% refers to equity funds). The weight of unbanked sums was 36% for households in the eurozone, in line with the 32% recorded for the United Kingdom but more than double the value recorded for the United States (15%). The United Kingdom has the highest percentage of financial wealth invested in pension funds and insurance policies, as can be seen from the figure relating to technical insurance reserves (approximately 50% Fig. 93).

Fig. 93 Financial assets held by households in the main advanced economies

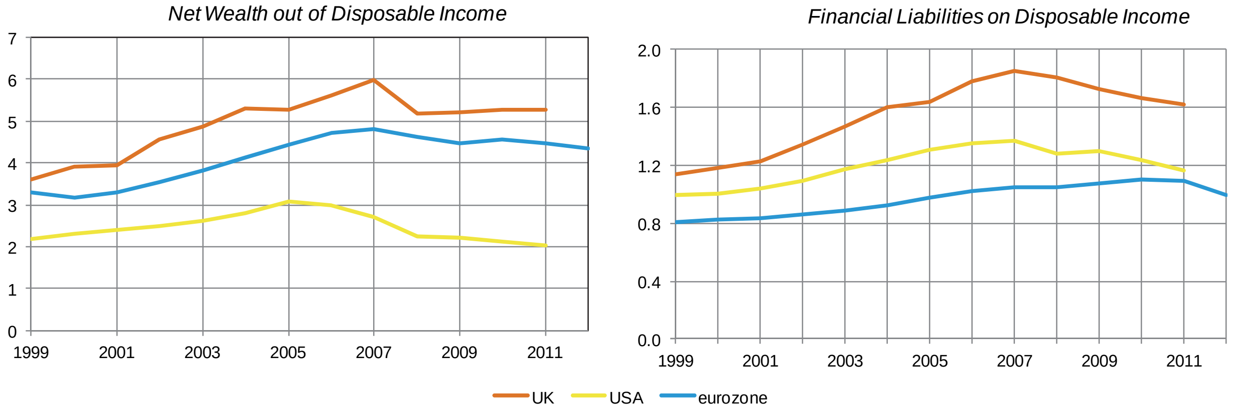


Source: ECB, Eurostat, OECD. Financial assets include the following categories: "current assets" (tickets, coins and deposits), "non-share instruments" (bonds, treasury bills, deposit certificates and derivatives), "shares" (listed, non-listed and equity investments), "share funds", "technical insurance reserves" (which correspond to financial liabilities for insurance companies and pension funds), "other active accounts" (trade receivables, payment advances, credits and debits deriving from time delays in the payment of taxes, contributions and redemptions).

In the eurozone, household investments in real assets are higher than in the USA (Fig. 94). The ratio between real assets and disposable income fell sharply in the United Kingdom and the United States during the sub-prime crisis, when the property bubble burst. At the end of 2011, it was 4.5 in the eurozone compared to 5.3 and 2.0 for the United Kingdom and the USA, respectively.

Households in the eurozone and in the USA have less debt than those in the United Kingdom, where the ratio between financial liabilities and disposable income has historically been higher. However, following the 2007-2008 crisis the divergences between the areas in question gradually narrowed, with a reduction in indebtedness in the English-speaking countries, and moderate growth in the eurozone nations.

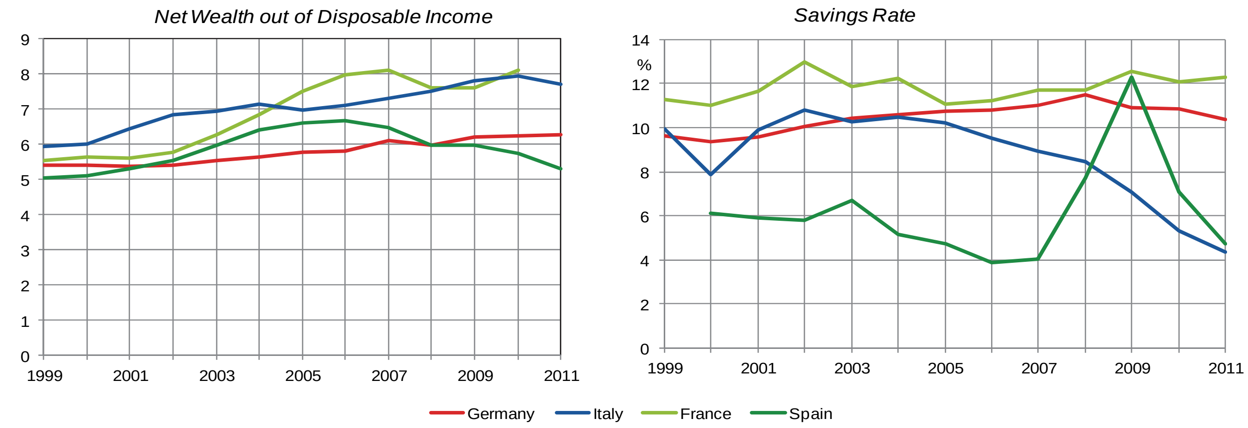
Fig. 94 Real wealth and financial liabilities
(annual figures)



Source: ECB and OECD.

The figures on household wealth in the eurozone show differences between countries. Between 1999 and 2011 the ratio between the net wealth and disposable income of Italian households was consistently higher than it was for German households, and from 2008 onwards, was substantially in line with the figure for French households. Net wealth in Italy also grew more or less without interruption until 2010 when there was a slight reduction, which took the figure at the end of 2011 to approximately 8 times disposable income. The figure is similar to that recorded for France and higher than the one for Germany (of 6.3 Fig. 95).

Fig. 95 Net wealth and savings in various eurozone countries
(annual figures)

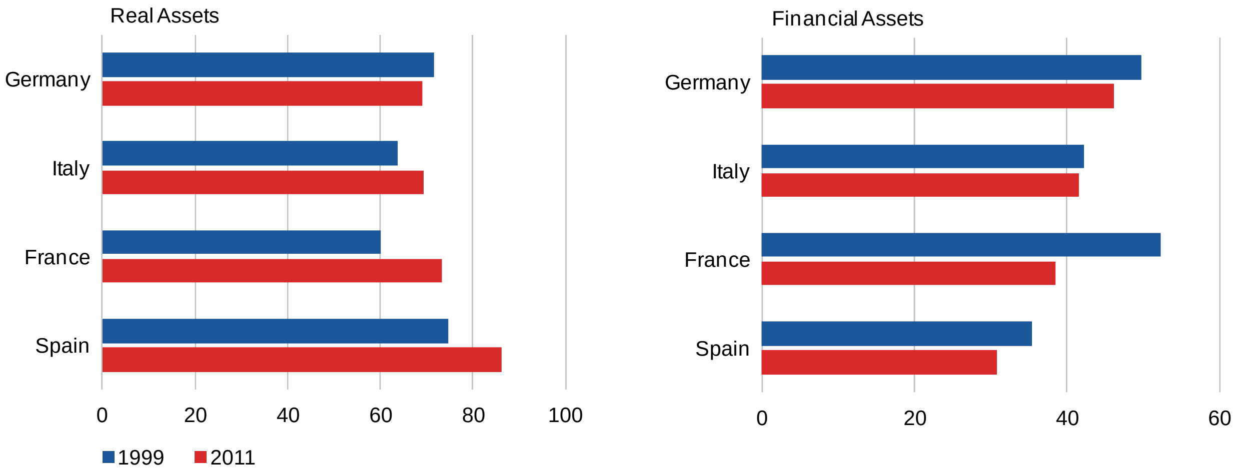


Source: based on Bank of Italy, Bank of Spain and OECD data. Net wealth is the sum of real and financial assets less financial liabilities. Indicates the rate of net savings, calculated by taking into account the flow of savings net of write-downs. The figures have been taken from financial accounts in which the institutional sector of households also includes not-for-profit enterprises.

At the end of 2011 the percentage of gross household wealth held in the form of real assets was almost 70% in Italy and Germany, and was 73% in France and 86% in Spain. Compared to 1999, this figure remained substantially stable for German households, while it grew by about 14 percentage points in France, by 11 percentage points in Spain and by 5 points in Italy.

In 2011 the percentage of financial assets was higher in Germany, although it had clearly fallen compared to 1999 (from 50% to 46%). In the period in question, the figure reduced significantly in France (from 52 to 38%). The ratio remained stable at 42% in Italy, while it decreased slightly in Spain, from 35 to 31% (Fig. 96).

Fig. 96 Breakdown of net wealth in various eurozone countries
(percentage values)



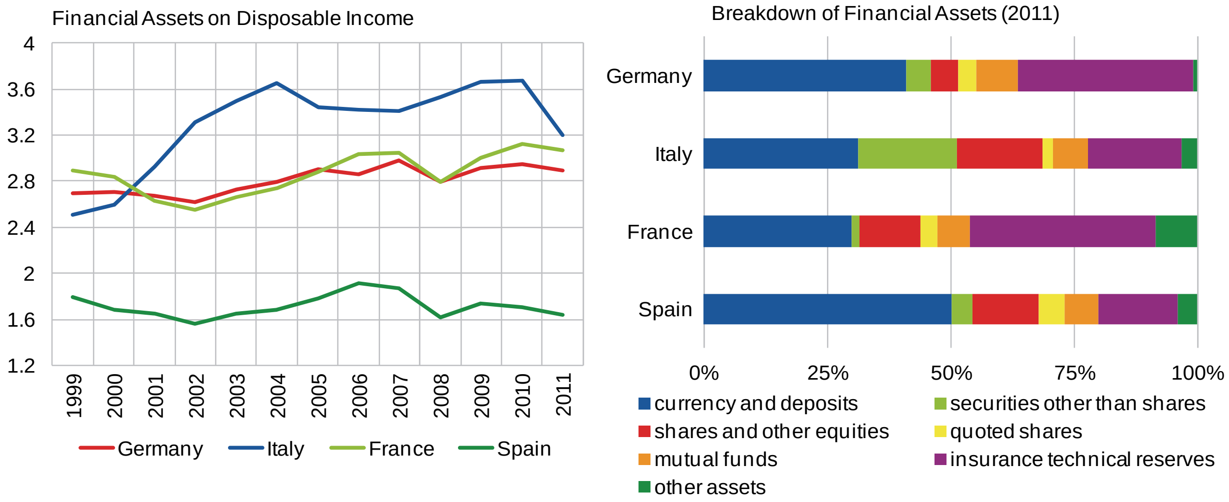
Source: based on Bank of Italy, Bank of Spain, Eurostat and OECD data. The figures for France refer to 2010 (last available survey).

At the end of 2011 the ratio between financial assets and the disposable income of Italian households, historically higher than that of the other European countries in question, had fallen slightly compared to the previous year (from 3.7 to 3.2) after having remained largely stable since 2007 (Fig. 97).

At the end of 2011, there were considerable differences in households' portfolio decisions within the eurozone.

Direct and indirect investments (i.e. through funds) in listed shares varied between 2.1% of total financial assets in Italy, and 5.4% in Spain. The figure was approximately 3.5% in France and Germany. There were however significant differences in other asset classes. In particular, French households held the highest percentage of insurance policies and pension funds, as can be seen from the figure on technical reserves (37.6%), followed by German households (35.7%). The share of financial wealth held in bonds and deposit certificates was approximately 20% for Italy, a much higher value than the 4.1% recorded for Spain and the 5.2% for Germany. The figure was not significant for France. Investments in non-listed shares and equity investments were more significant in Italy (17.5%) followed by France and Spain (12.3 and 13.3%). Finally, the weight of current assets was higher in Spain and Germany (50 and 41% respectively), while in Italy and France it was around 30%.

Fig. 97 Financial assets in certain eurozone countries
(annual figures)

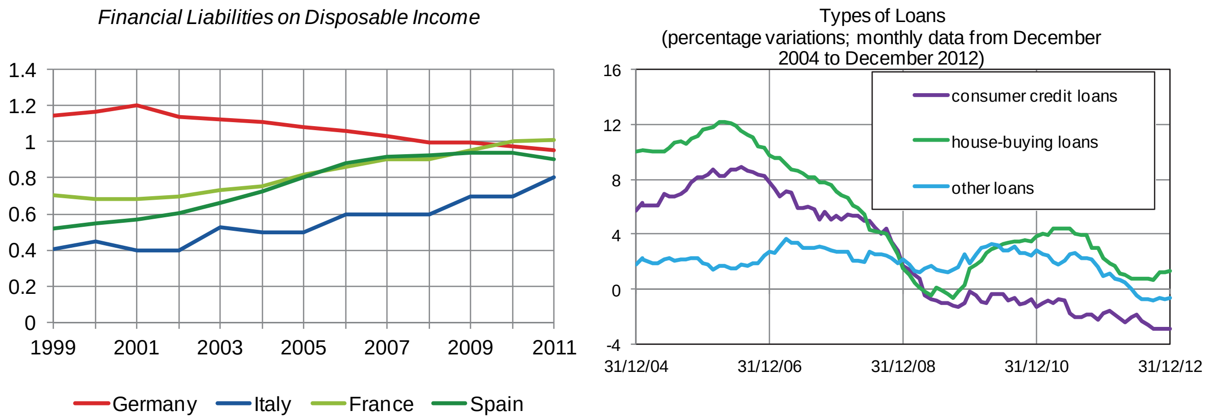


Source: based on Bank of Italy, Eurostat and OECD data. Financial assets include the following categories: "current assets" (tickets, coins and deposits), "non-share instruments" (bonds, treasury bills, deposit certificates and derivatives), "shares" (listed, non-listed and equity investments), "share funds", "technical insurance reserves" (which correspond to financial liabilities for insurance companies and pension funds), "other active accounts" (trade receivables, payment advances, credits and debits deriving from time delays in the payment of taxes, contributions and redemptions). The figures have been taken from financial accounts in which the institutional sector of households also includes not-for-profit enterprises.

At the end of 2011 the indebtedness of Italian households was still below that of other eurozone countries, although the differences have narrowed since 2008.

The financial liabilities of Italian households were 80% of disposable income, double the figure recorded in 1999. In the same period, France and Spain also saw an increase in the level of indebtedness (equivalent to 30 and 40 percentage points respectively), while Germany saw a reduction of approximately 20 percentage points (Fig. 98).

Fig. 98 Financial liabilities and types of loan in the eurozone
(annual figures)



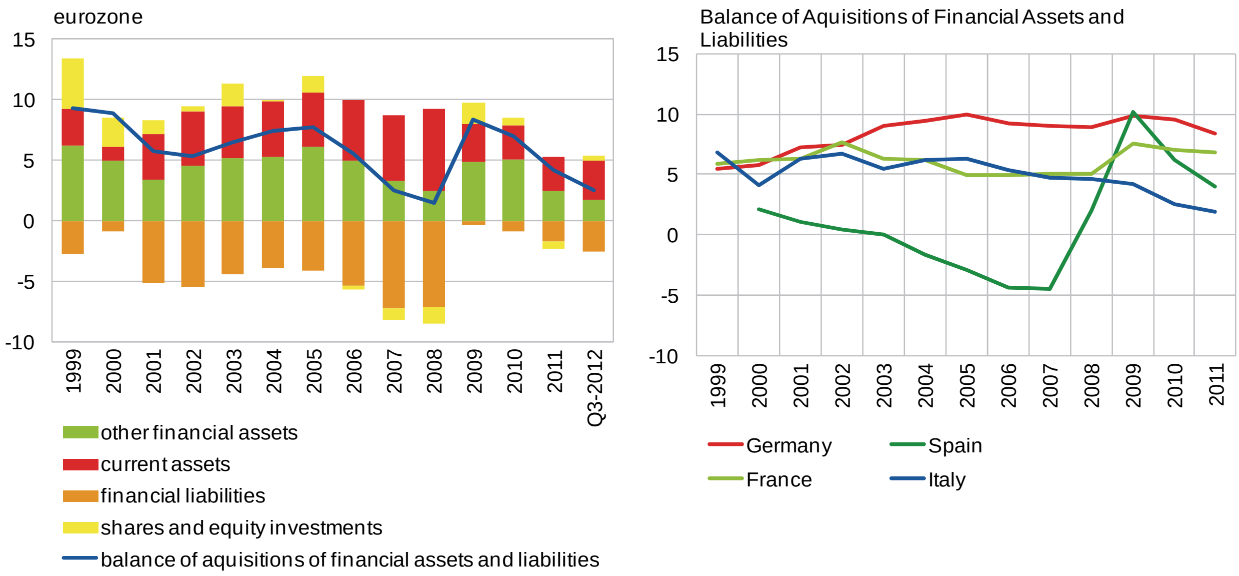
Source: based on ECB, Bank of Italy, Eurostat and OECD data.

The contraction in consumer credit loans continued during 2012. The home loan category, which represents the majority of credit supplied to households, increased although at a lower rate than the previous year.

Between 1999 and 2012, the breakdown of investment flows of households in the eurozone, according to the type of financial asset, indicated a clear decrease in share purchases (listed and non-listed) which had recorded a net negative value during the years of the sub-prime crisis. The flows of financial liabilities have increased in the past two years after having been largely eliminated during the years immediately following 2008 (Fig. 99).

In Italy, net investment flows gradually reduced from 2006 onwards, standing at 2% of disposable income in 2011 (from approximately 7% in 1999).

Fig. 99 Flows of financial assets and liabilities in the eurozone
(annual data as percentages of disposable income)



Source: Eurostat.

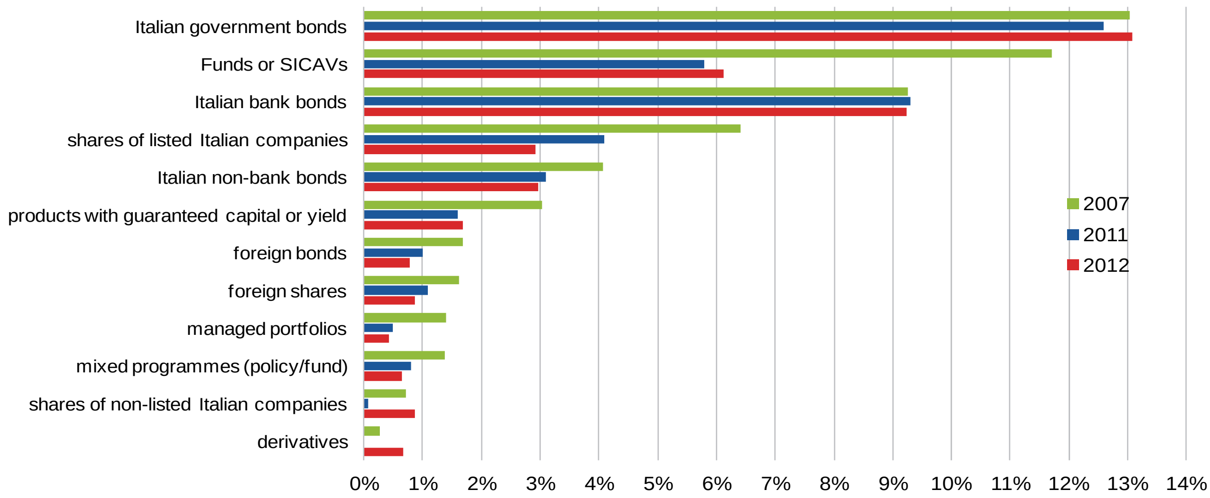
2 Household portfolio choices and advisory services in Italy

In 2012, there was no significant change in the participation by Italian households on the financial markets, compared to 2011. In particular the percentage of households investing in risky instruments (shares, bonds, asset management products and life policies) remained stable, at around 25%. This figure is 10 percentage points less than the 2007 value, reflecting the impact of the sub-prime financial crisis and the sovereign debt crisis in the eurozone.

The most marked reductions were seen in the percentage of households investing in life policies and pension funds (from 21% in 2007 to 15% in 2012), and in asset management products (from 14 to 9%). During the same period, the percentage of investors holding shares or bonds fell by three percentage points from 16 to 13%.

From 2011 to 2012, the percentage of households investing in Italian government bonds increased from 12.6% to 13.1% (Fig. 100). The percentage of households investing in mutual funds or SICAVs increased slightly during the same period, from 5.8 to 6.1%. However, the percentage of households investing in Italian listed shares decreased significantly from 4.1% at the end of 2011 to 2.9% at the end of 2012.

Fig. 100 Dissemination of financial instruments and products among Italian households
(percentage of households possessing the indicated financial instrument or product)



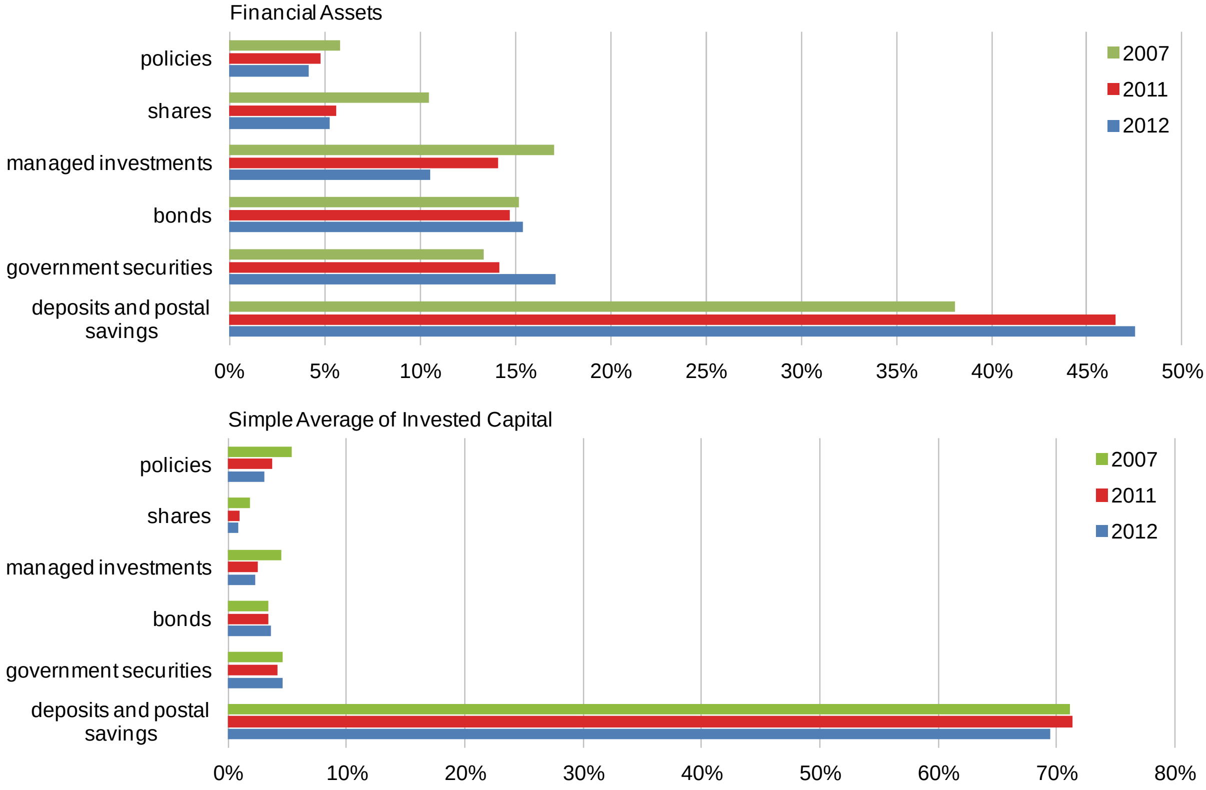
Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households).

Compared to 2007, the largest decreases were seen in listed shares and asset management products, the dissemination of which fell, respectively, from 6.4 to 2.9%, and from 11.7 to 6.1%. The percentage of households owning Italian government bonds returned to the 2007 level of approximately 13%. The figure for Italian bank bonds remained stable at 9.3%.

The distribution of household wealth confirms some of the findings described above.

The percentage of financial assets invested in government bonds rose from 14.2%, recorded in December 2011, to 17.1% in December 2012. In the same period, share investments decreased slightly from 5.6 to 5.3% of financial assets (Fig. 101). The percentage of financial assets related to bonds increased slightly (from 14.7% at the end of 2011 to 15.4% at the end of 2012). Finally, investments in deposits and postal savings remained stable at 47% (however this was a clear increase compared to 2007, when the figure was 38%).

Fig. 101 Breakdown of Italian households portfolio



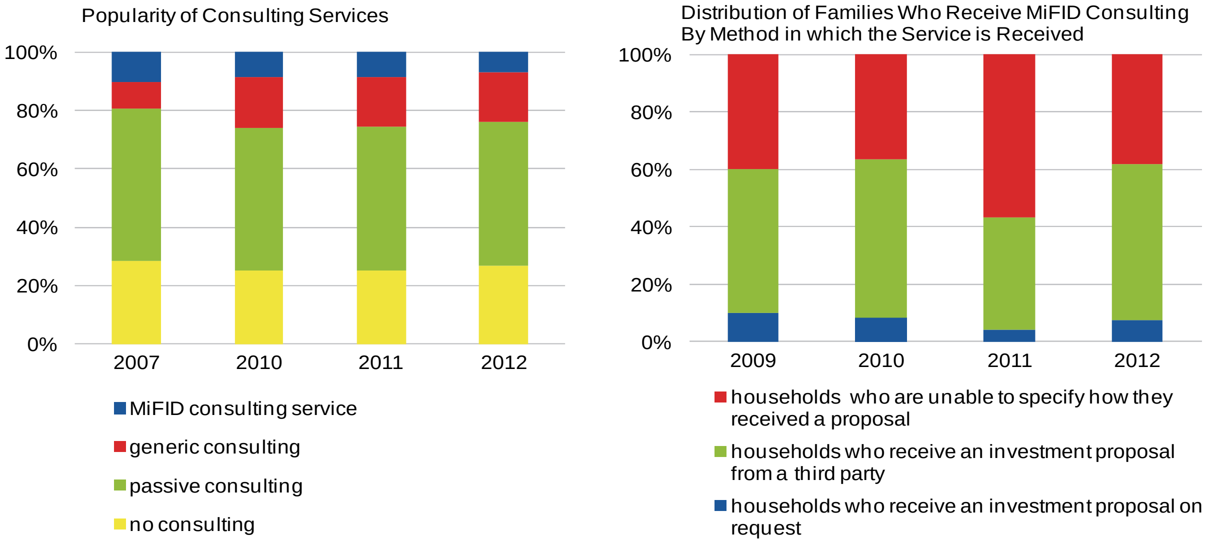
Source: estimates based on GfK Eurisko - Multifinanziaria Retail Market data. The heading "Deposits and postal savings" includes current account bank and postal deposits, bank and postal savings books, deposits not denominated in euro, repurchase agreements and deposit certificates. The "asset management products" heading includes mutual funds, Italian and foreign SICAVs, accumulation plans (PAC), management of securities (GPM) and fund portfolios (GPF), mixed policy/fund programmes, and liquidity management services. The "Policies" heading includes Line III and V policies, capitalisation products, multi-segment policies and supplementary pension plans. Household savings do not include unbanked sums.

The popularity of advisory services among retail investors is still low. The percentage of households receiving personalised investment proposals from financial advisers is still small (Fig. 102).

Based on GfK Eurisko data, in December 2012 the percentage of retail investors receiving personalised investment proposals relating to a specific financial instrument (MiFID advice) was around 7%. This figure is lower than the 8.6% level recorded in 2011, and significantly lower than the 10% level recorded in 2008, after the Lehman default. The percentage of households who confirmed that they had their own advisers but without receiving investment proposals ("passive consulting") remained stable at 49%. The percentage of households receiving "generic advisory services" (investment proposals that do not relate to a specific financial instrument) also remained stable. The percentage of retail investors who said that they reach their decisions without assistance from any financial intermediary ("no advice") rose from 25 to 27%.

Households receiving investment proposals at their intermediary's initiative account for approximately 54% of the total number of households receiving MiFID advice. Only 8% said that they received an investment proposal following a specific request, while 38% could not remember or did not respond.

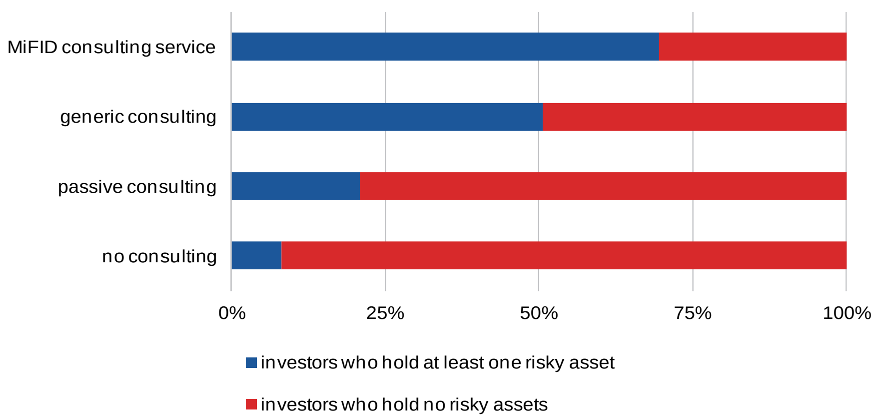
Fig. 102 Characteristics of financial advisory services provided to households in Italy



Source: based on GfK Eurisko - Multifinanziaria Retail Market data. The "passive consulting" group includes households who confirmed that they have their own investments adviser, by whom they had not been contacted within the past 12 months. The "generic consulting" group includes households with their own trusted advisers who were contacted without receiving investment proposals about specific financial instruments. The group "MiFID consulting" includes households contacted by their own advisers, who receive personalised investment proposals in relation to a specific financial instrument. The graph on the right shows the percentages out of the total number of households receiving MiFID advisory services.

Retail investors receiving the MiFID consulting service display a more diversified portfolio, which included at least one risky financial product in around 70% of cases (compared to 8% for households making independent decisions; Fig. 103).

Fig. 103 Advisory services and participation in the financial markets
(data for December 2012)

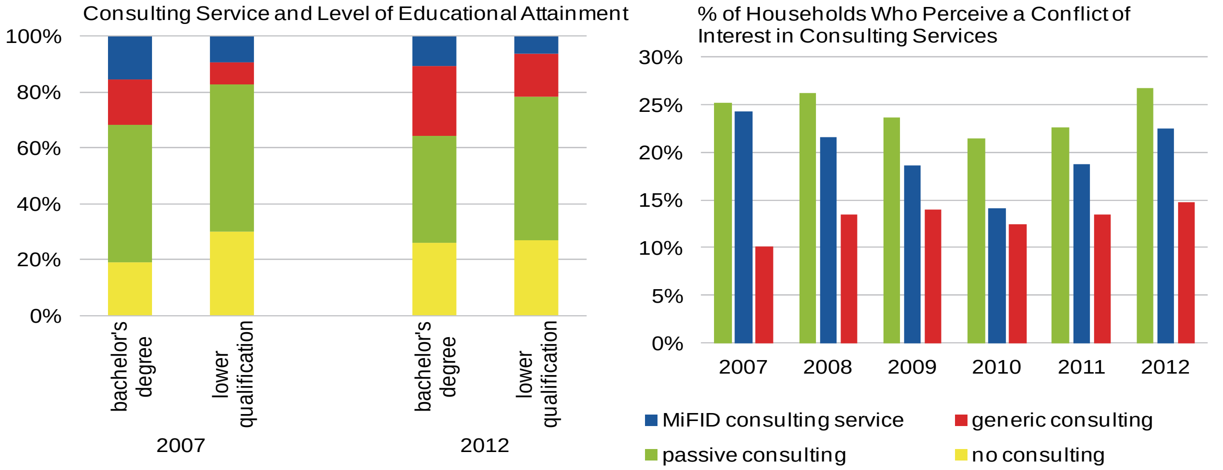


Source: based on GfK Eurisko - Multifinanziaria Retail Market data. Risky financial products and instruments refer to shares, bonds, asset management products and life policies.

A higher level of education, which can be considered a proxy for the level of financial knowledge, is associated with a higher propensity to hold risky instruments and to invest with the support of an intermediary.

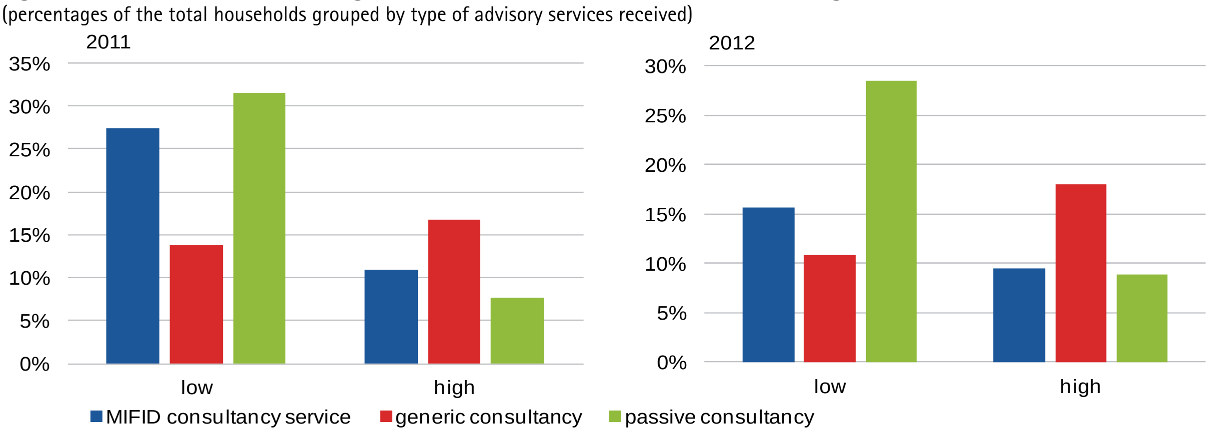
The breakdown of households by consulting type and level of education illustrates the fact that the percentage of retail investors using the MiFID consulting service is higher among graduates (11% in December 2012 compared to 15% in 2007), than it is for others with lower qualifications (6% at the end of 2012, almost 4 percentage points less than in 2007; Fig. 104).

Fig. 104 Advisory service, level of education and perception of conflicts of interest
(data for December 2012)



Source: based on GfK Eurisko - Multifinanziaria Retail Market data. The "passive consulting" group includes households who confirmed that they have their own investments adviser, by whom they had not been contacted within the past 12 months. The "generic consulting" group includes households with their own trusted advisers who were contacted without receiving investment proposals about specific financial instruments. The group "MiFID consulting" includes households contacted by their own advisers, who receive personalised investment proposals in relation to a specific financial instrument.

Fig. 105 Level of satisfaction among Italian households with the financial consulting service
(percentages of the total households grouped by type of advisory services received)



Source: based on GfK Eurisko - Multifinanziaria Retail Market data. A household is assumed to be very satisfied with the advisory services received when the response to the question *"Overall, how satisfied are you with your investments adviser"* is *"Very"* A household is assumed to be dissatisfied with the advisory services received when the response to the question *"Overall, how satisfied are you with your investments adviser"* is *"Not very or not at all"*. The "passive consulting" group includes households who confirmed that they have their own investments adviser, by whom they had not been contacted within the past 12 months. The "generic consulting" group includes households with their own trusted advisers who were contacted without receiving investment proposals about specific financial instruments. The group "MiFID consulting" includes households contacted by their own advisers who receive personalised investment proposals in relation to a specific financial instrument.

There is a steadily growing percentage of households who perceive a conflict of interest in the delivery of MiFID advisory services.

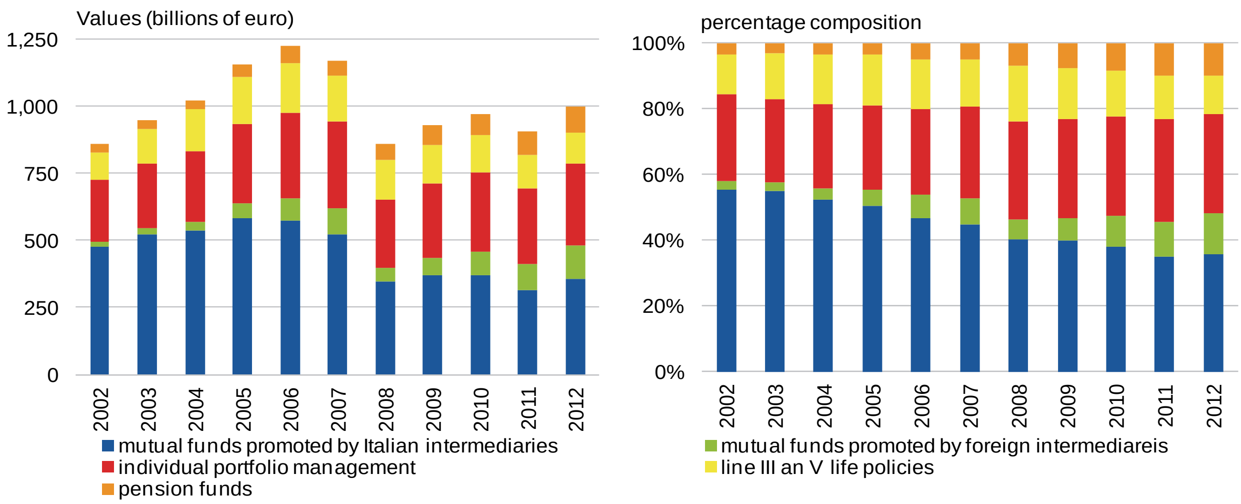
At the end of 2012, such households represented 23% of the total investors assisted by an adviser, compared to 19% in 2011 and 14% in 2010. The percentage of investors declaring a low level of satisfaction with the MiFID consulting service (15.7%) is still higher than the percentage of families stating a high level of satisfaction (9%) although this difference is less marked than in 2011 (Fig. 105).

3 Asset management products

In 2012, the assets included in the category of asset management products placed in Italy increased by 10%, from 911 billion euro in 2011 to approximately 1,000 billion.

The figure is mainly attributable to the 28.3% increase in the assets of foreign mutual funds of Italian intermediaries, and the growth in the assets of funds promoted by foreign intermediaries (28%) and Italian intermediaries (+13.1%). The portfolio of individually managed assets also increased by 7.3%, while the assets linked to Line III and V policies reduced by 10%, and those of Italian mutual funds by 3% (Fig. 106).

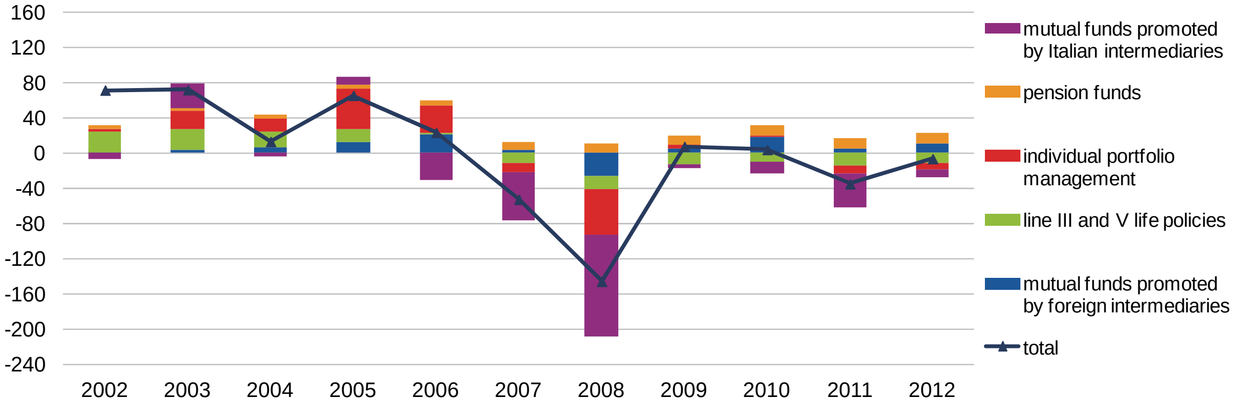
Fig. 106 Portfolio of asset management products placed in Italy



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-end funds (harmonised and otherwise) and foreign funds ("roundtrip" funds). Data also include funds of funds. The figures relating to individual portfolios are stated net of investments in 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).

The net inflows of asset management products placed in Italy were negative by 6.5 billion euro (-35 billion in 2011) as a result of the 12 billion of outflows from the mutual funds of Line III and V policies, from the mutual funds promoted by Italian intermediaries (9.2 billion euro) and those related to individual portfolio management (7 billion). The net inflows from mutual funds promoted by foreign intermediaries and those of pension funds were positive, amounting to 10.3 and 11.8 billion euro respectively (Fig. 107).

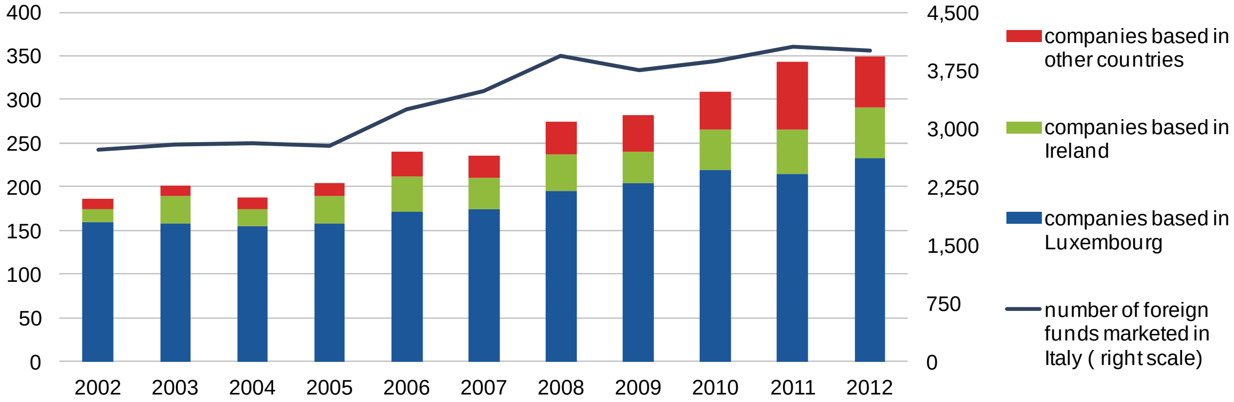
Fig. 107 Net inflows of asset management products placed in Italy
(billions of euro)



Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Data on mutual funds promoted by Italian intermediaries include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). The data relating to life policies refer to "direct Italian business" (i.e. excluding reinsurance business and that performed by foreign companies operating in Italy). The total does not take into account net subscriptions to mutual funds from individual portfolio management. The 2011 figures are provisional.

There was a slight fall in the number of foreign-law funds marketed in Italy, from 4,058 in 2011 to 4,009 in 2012. There was an increase in the number of companies based in Luxembourg and Ireland, and a fall in the number of companies based in other countries (Fig. 108).

Fig. 108 Number of foreign funds marketed in Italy and number of foreign firms authorised to market funds by registered office

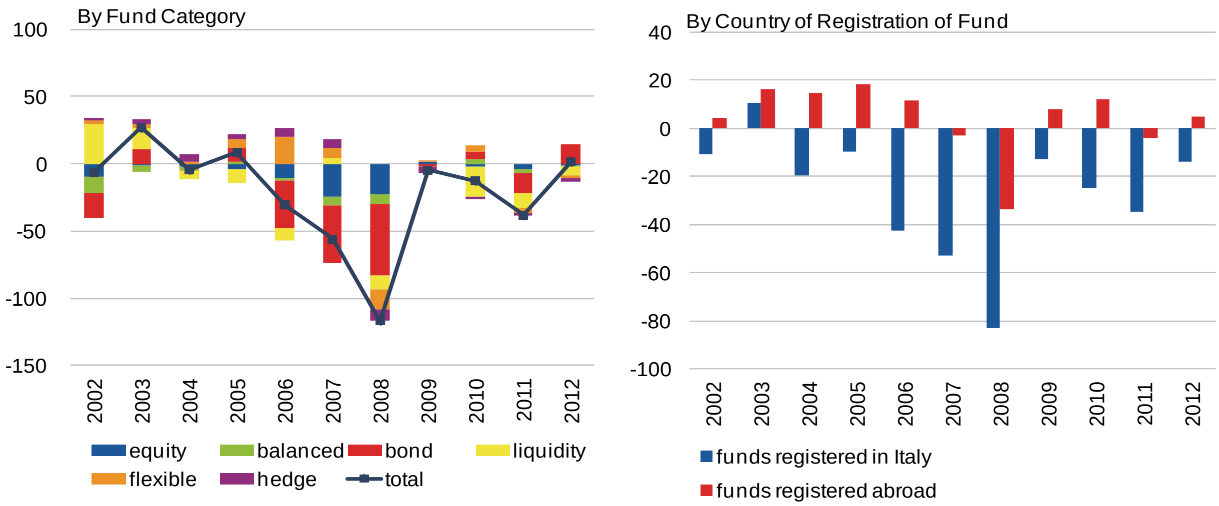


Source: prospectuses

In 2012, the net inflows of mutual funds promoted by Italian intermediaries domiciled abroad were positive, amounting to 4.6 billion euro, while the inflows of Italian-domiciled funds recorded an outflow of 13.8 billion.

The funds with the largest outflows were the liquidity funds (-6.5 billion), and the flexible and hedge funds (-2.5 billion for both categories). The outflows of equity and balanced funds were more limited, amounting to 1.2 and 0.7 billion euro. Investments in bond funds were positive (+14.7 billion euro; Fig. 109).

Fig. 109 Net outflows from mutual funds promoted by Italian intermediaries
(billions of euro)



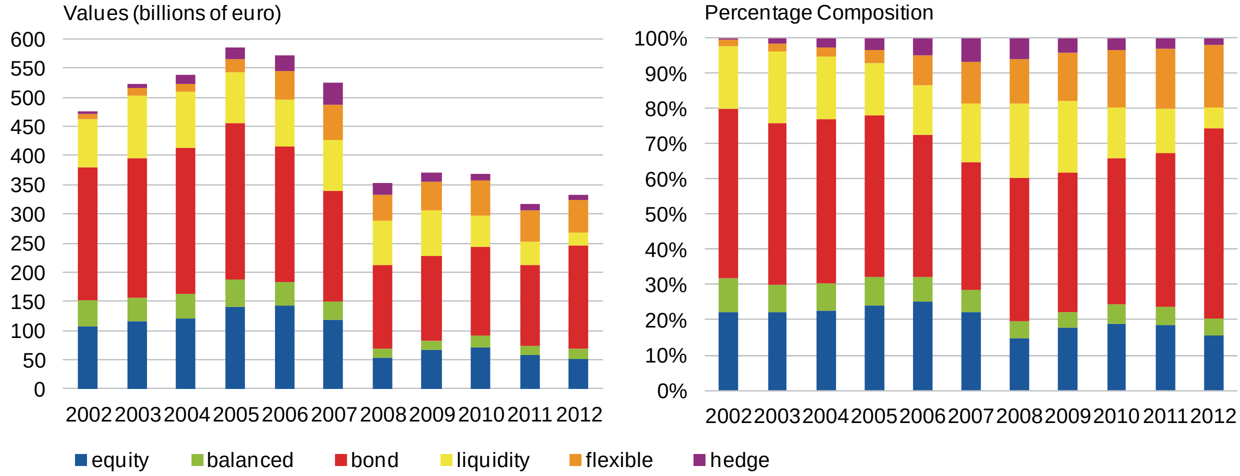
Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. The data includes Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Funds of funds are also included. For 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 332 billion euro in the mutual funds promoted by Italian intermediaries increased to a limited extent (5%) compared to 2011.

The weight of the individual categories of fund on the total managed assets increased for the bond, flexible and balanced funds by 28.9%, 6.5% and 1.5% respectively, while it fell by 48% for the liquidity funds, by 26.2% for the hedge funds and 11.3% for the equity funds (Fig. 110).

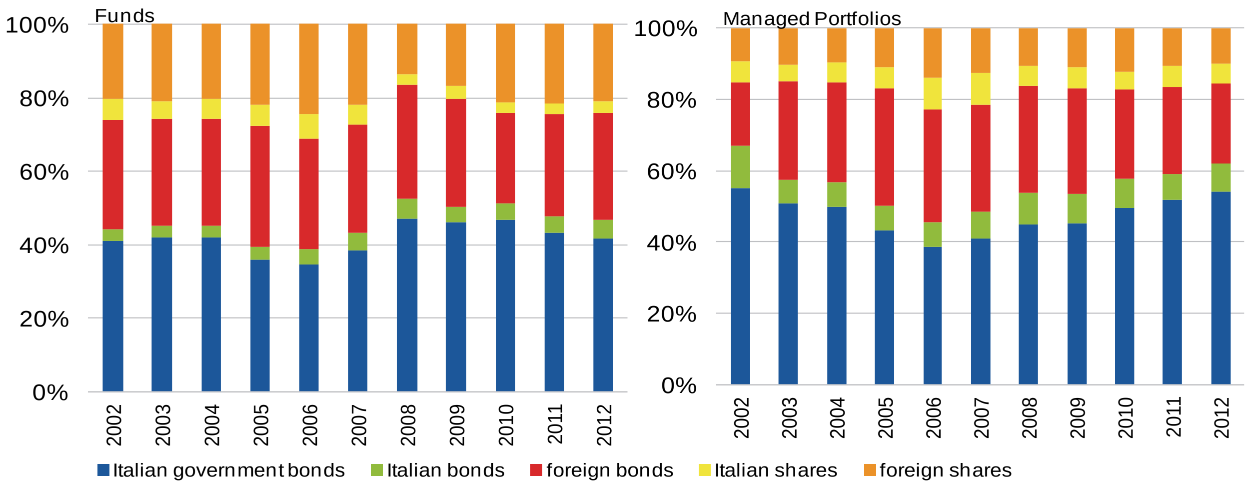
With regard to the breakdown of the assets of open Italian-law mutual funds, in 2012 there was a drop in the percentage of government bonds, which at the end of the year represented 41.6% of managed assets compared to 43% in 2011, and also in the percentage of investments in foreign shares (from 21.5 to 21%). Italian and foreign bond investments increased, by 0.6 and 1% respectively. On the other hand, with regard to individual portfolio management, the percentage of funds invested in government bonds increased by 1% compared to 2011, from 49 to 50%, as did the percentage relating to Italian and foreign shares (by 5% and 10% respectively), and foreign bonds (4.6%). Finally, the percentage invested in Italian bonds fell by approximately 1% (Fig. 111).

Fig. 110 Net asset of 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.

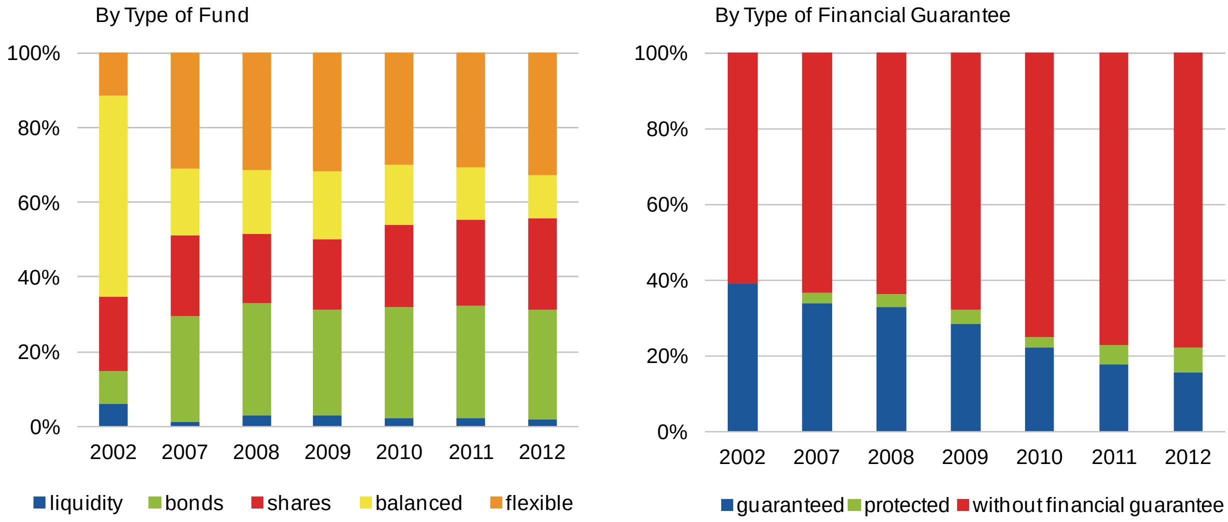
Fig. 111 Asset breakdown of Italian open-end mutual funds and managed individual portfolios



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 figure for foreign bonds includes foreign public securities, and the figures for shares include those in UCITS.

The composition of assets managed by unit-linked funds saw an increase in the weight of flexible funds (from 31% in 2011 to 33% in 2012), and in the share market (from 23% to 24.5%). The percentage of assets related to internal balanced funds fell by two percentage points compared to 14% in 2011, while for the bond funds the figure reduced from 30% to 29%. The reduction in the percentage of assets related to internal guaranteed funds connected to unit-linked policies continued to fall, from 17.5 to 15.5% (Fig. 112).

Fig. 112 Breakdown of unit-linked funds



Source: based on Ania data

In 2012 the number of asset management firms operating in the real estate funds segment remained almost identical to 2011, although the number of operational funds grew from 323 in 2011 to 343 in 2012. Both the net equity in total assets of these funds showed a moderate increase: net indebtedness thus fell by 1%. The weight of investments in property, real property rights and financial instruments showed a small increase (Table 1).

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

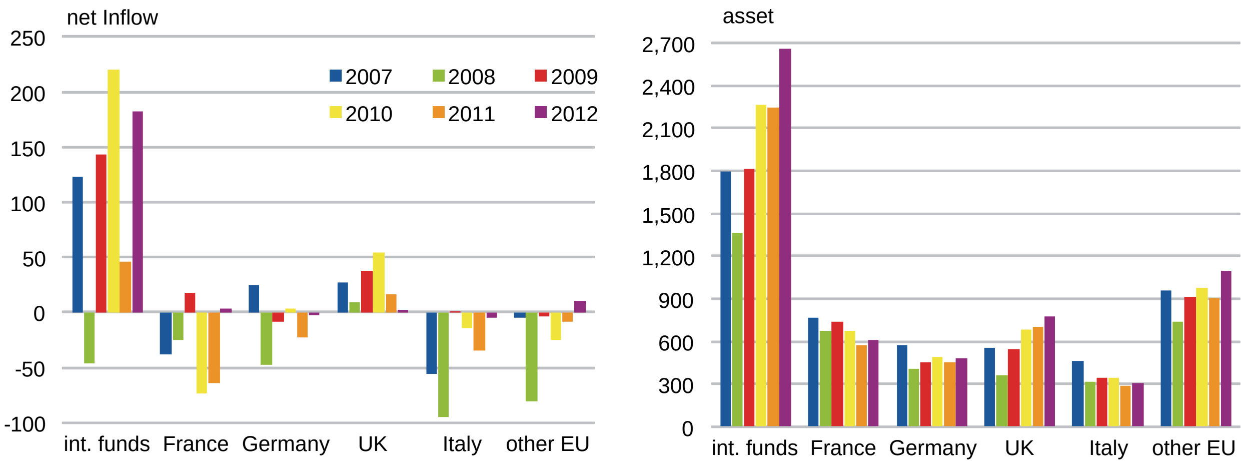
	number of asset management firms	number of operational funds	shareholders' equity (A)	total assets (B)	borrowing ((B-A)/B) %	percentage breakdown of assets: properties and property rights	financial instruments	securities and liquidity	Other Assets
2003	11	19	4.4	5.2	14.1	74.7	8.7	10.2	6.4
2004	16	32	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	44.7	86.2	5.2	4.6	4.0
2010	56	289	28.5	50.5	43.5	87.1	4.9	4.4	3.6
2011	57	323	31.4	53.6	41.5	87.7	4.0	4.5	3.8
2012	58	343	31.9	53.7	40.5	88.1	4.5	3.4	4.0

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

The shareholders" equity of mutual funds is still low in Italy compared to the rest of Europe, and net inflows remained negative. In 2012 the net inflows of mutual funds in Europe grew significantly, with the exception of Italy and Germany, where the outflows amounted to 5 and 3 billion euro respectively.

The inflows of "pure" international funds (those domiciled in Ireland and Luxembourg, for which it is not possible to identify a single country contributing to at least 80% of the total assets) increased significantly from 46 to 182 billion euro. In France and the United Kingdom there were inflows of resources into the mutual funds sector of 4 and 2 billion euro, respectively (Fig. 113). In all the main European countries there was also an increase in the assets held by mutual funds. The increase was significant for the "pure" international funds, while it was more limited in the UK, and marginal in France, Germany and Italy.

Fig. 113 Asset 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.

Consob activity B

1 The regulated markets

In 2012, the capitalisation of Italian listed companies increased by 10%, rising to 365 billion euro (332 in 2011). Relative to GDP, it also increased from 20.6% to 22.5% (Table 2).

Table 2 Stock market indicators for trading venues operated by Borsa Italiana SpA
(cash amounts in billions of euro)

	MTA market[1]								Aim Italia/Mac		Expandi market			Nuovo Mercato		
	Capitalisation[2]	Capitalisation[2] (as a % 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	Number of listed companies	Capitalisation[2]	Share trading volumes[2]	Number of Italian listed companies	Capitalisation[2]	Share trading volumes	Number of Italian listed companies
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	3.2	5.8	—	—	10	2	26			
2007	723	49.0	1,510	263	19	14	3.7	7.8	0.1	3	11	4	36			
2008	368	23.2	1,156	251	4	16	8.0	15.6	0.1	4	7	1	39			
2009	457	30.3	562	280	40	11	5.0	5.3	0.6	11						
2010	425	27.2	715	271	2	11	3.9	7.7	0.6	19						
2011	332	20.6	706	261	1	11	5.0	8.8	0.6	24						
2012	365	22.5	504	253	2	10	4.2	7.2	0.6	27						

Source: Borsa Italiana, Bloomberg and Thomson Reuters. [1] Since 2005 Mta has included the Nuovo Mercato (Mtax); in 2009 the Mercato Expandi was also incorporated into Mta; since 2010 it has also included the Miv (Market for Investment Vehicles). [2] Data refers to Italian companies only. [3] Year-end percentages.

Following the recovery in value of listed companies, at the end of 2012 the dividend yield was 4.2% and the price/earnings ratio 7.2%

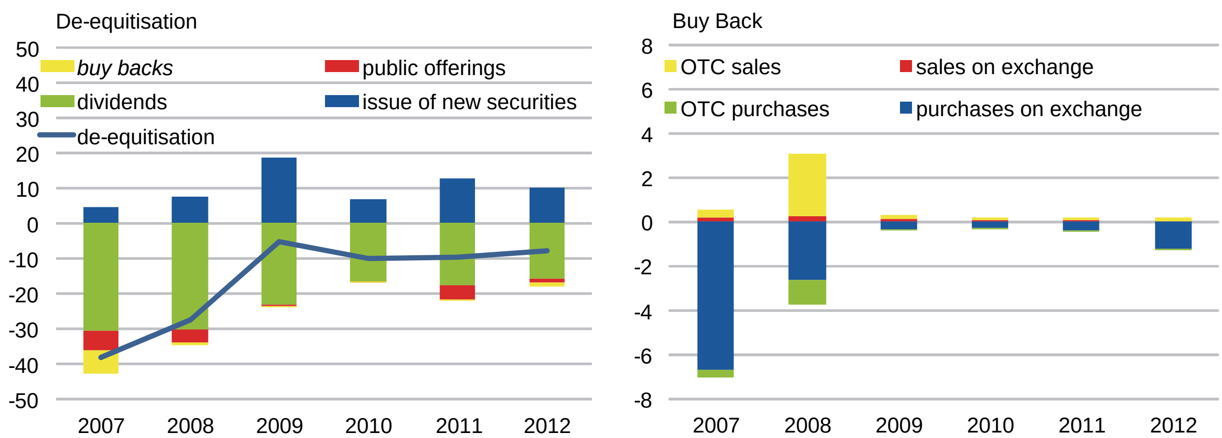
The number of Italian listed companies dropped further, from 261 to 253, with 10 delistings and two new listings. The number of companies listed on the multilateral trading facilities (Mtf) Aim and Mac rose from 24 to 27.

In 2012, investments in risk capital continued to fall, and were lower than the funds returned to shareholders through dividend distributions, takeover bids and buybacks. The new issues of securities amounted to 10 billion euro (2.4 billion less than in 2011), while dividends of 16 billion were distributed (17.6 in 2011; Fig. 114).

Overall, from 2007, approximately 60 billion euro was collected from shareholders through capital increases and subscription offers. The dividends distributed in the same period amounted to 134 billion, while the expenditure on takeover bids and buybacks of own shares amounted to 16 and 9 billion, respectively.

Based on the disclosures made to Consob under the terms of the Issuers' Regulations on operations in own shares, the market and off-market transactions totalled 1.3 billion euro, almost 1 billion more than in 2011, while sales remained stable at approximately 0.2 billion.

Fig. 114 Funds raised from (+) and returned to (-) shareholders of Italian listed companies
(billions of euro)



Source: calculations based on Consob, Borsa Italiana and Thomson Reuters data, relating to shares and convertible bonds listed on Mta. The de-equitisation indicator is calculated on the difference between the new issues and the sum of the dividends, takeover bids and buybacks. The figures on buybacks relate to the acquisitions net of own shares, disclosed by the issuers to Consob. The dividends are estimated.

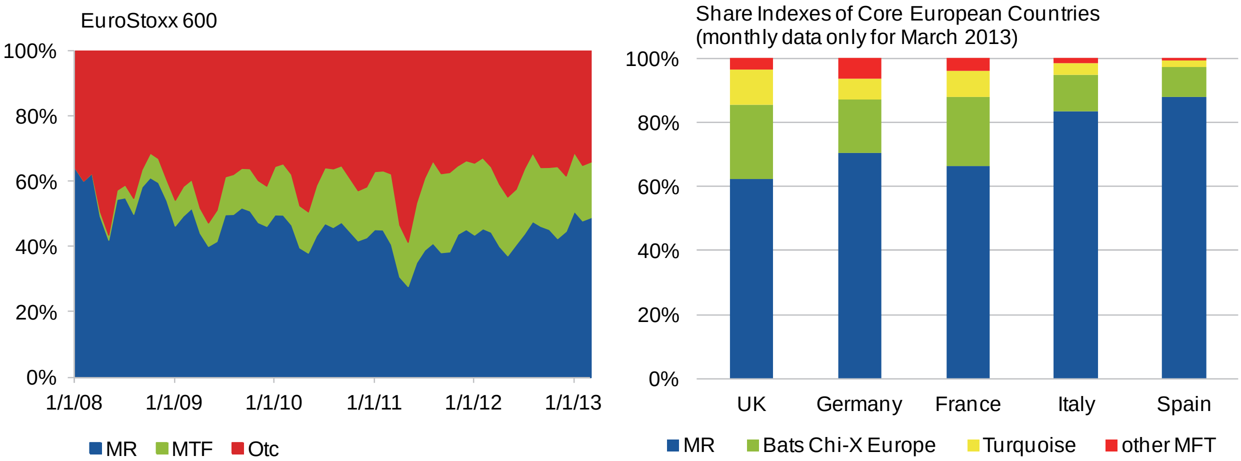
In 2012 there was a sharp drop in stock exchange turnover for Italian companies, which fell from 706 billion in 2011 to 504 billion euro (-28.6%).

At European level, in 2012 the quota of trades of European shares on the Euro Stoxx 600 index relating to regulated markets was 44% on average (+5 percentage points compared to 2011).

In January 2013, the share of the regulated markets was 51%, clearly lower than the 64% recorded in January 2008, while for the MTFs and bilateral OTC trades, the figures were 18% and 31% respectivelyFig. 115.

The fragmentation of trades among the regulated markets and alternative trading venues is still more evident in the United Kingdom, France and Germany, where the quota of trades concluded on regulated markets was about 60% of the total, in January 2013. This figure was approximately 85% in Italy and Spain. After Borsa Italiana, the largest platform for the trading of Italian shares was Bats - Chi X Europe.

Fig. 115 Trading fragmentation in European stock markets
(monthly data from January 2008 to January 2013)



Source: Thomson Reuters data. MR indicates regulated markets, MTF stands for multilateral trading facility (including the 'dark pools') and OTC indicates 'over-the-counter'. The left graph refers to the turnover distribution of shares included in the DJ Euro Stoxx 600 index. The graph on the right shows specific turnover by trading venue. The indexes considered were the FTSE 100 for the UK, the DAX30 for Germany, the CAC40 for France, the IBEX35 for Spain, and the FTSE Mib for Italy.

With regard to exchange traded products (ETPs), in 2012 the assets managed by the ETPs traded on Borsa Italiana's EtfPlus market rose from 18.6 billion to 20.7 billion euro (an increase of 11% on 2011), the highest level since the ETP market was launched in Italy (Table 3).

At the end of 2012, approximately 18.2 billion of managed assets were invested in ETFs, an increase of approximately 9% compared to 2011. 2.6 billion euro were invested in ETCs (commodities), and ETNs (notes), rising by 32% in total. The number of listed ETPs also increased to 800 by the end of 2012 (670 in 2011).

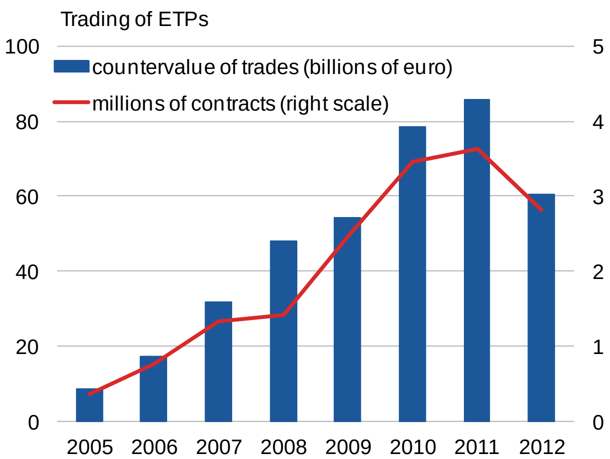
Table 3 Asset under management for ETP listed on the EtfPlus market
(cash amounts in billions of euro)

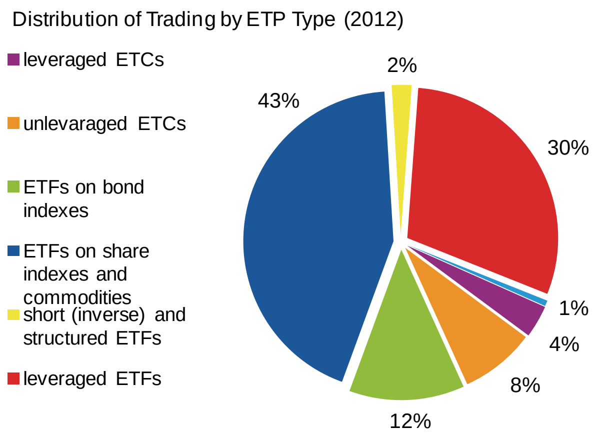
	amount	percentage change compared to previous year
2005	4.0	150
2006	7.6	90
2007	10.3	36
2008	10.5	2
2009	14.6	39
2010	19.8	36
2011	18.6	-6
2012	20.7	11

Source: Borsa Italiana

As with the share trades, total turnover fell from 85.8 billion to 60.5 billion euro compared to 2011 (-29%). In parallel, the number of contracts fell from 3.6 to 2.8 million. As for the distribution of turnover by ETP category, in 2012 approximately 43% of trades was related to ETFs linked to share indexes, or to the trend in commodities, 30% was related to leveraged ETFs, 12% ETF to bond indexes, and the same percentage to ETCs. (Fig. 116).

Fig. 116 Exchange traded products listed on EtfPlus



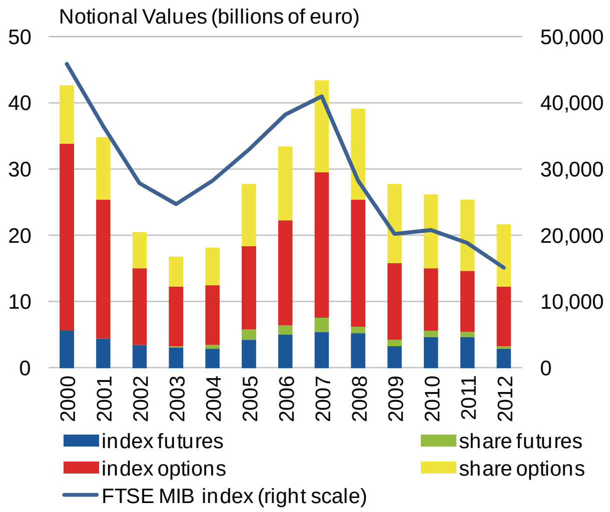


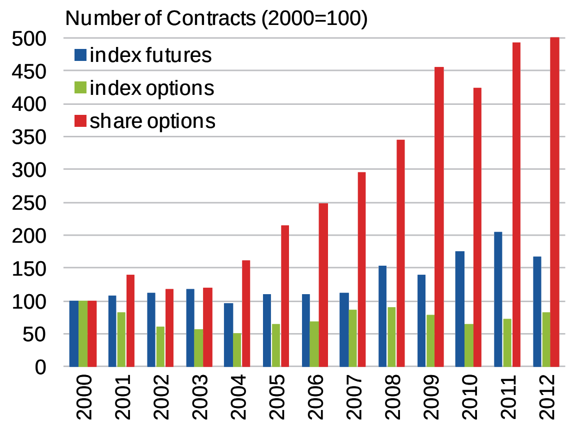
Source: Borsa Italiana

In 2012 turnover for ETC and short ETF trades was essentially half that of 2011, while the ETFs linked to share and bond indexes, the trend in commodities and ETFs with leverage effect reduced by a quarter.

With regard to derivatives traded on the Idem market run by Borsa Italiana, in 2012 the daily average notional value of the 'open interests' fell by around 15% (from 25.4 billion to 21.6 billion euro). Fig. 117. The predominant share of the open interests appears to be evenly distributed between share and index options, with quotas of 44% and 41% respectively, in terms of notional value.

Fig. 117 Notional value and number of open positions for derivative contracts traded on IDEM market
(average daily percentages)

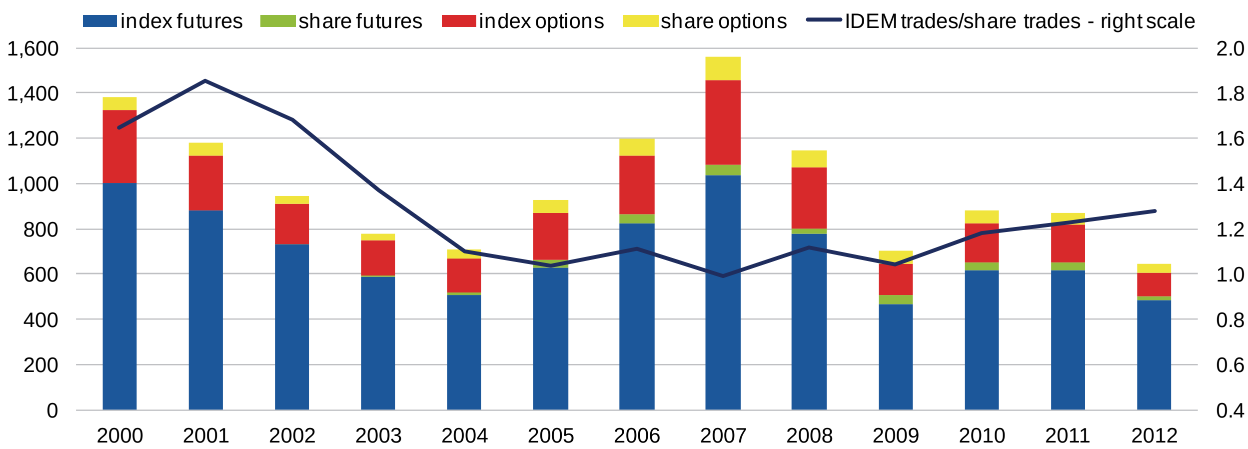




Source: Borsa Italiana and Thomson Reuters data The graph on the notional value of positions opened in the "index futures" category includes index minifutures. The annual values for the Ftse Mib index are the average end of month figures.

Reflecting the sharp drop in share trades on the spot market, the notional value of the equity derivatives traded on Idem in 2012 also fell sharply compared to 2011, from 869 to 648 billion euro (-25%). Fig. 118. The ratio between the notional value on equity derivatives trades was substantially stable, at 1.2. The trades mainly related to futures and index options which, in line with previous years, have proved to be the most popular derivatives trades.

Fig. 118 Notional turnover for derivatives traded on IDEM market
(billions of euro)



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

In 2012, turnover on Borsa Italiana's securitised derivatives market SeDeX, on which covered warrants and certificates are traded, fell by 9% from 11 to 10 billion euro (Table 4). The number of outstanding issues increased by about 23% as a result of the balance between new and matured issues.

Table 4 Covered warrants and certificates listed on SeDeX market
(cash amounts in billions of euro)

	Number of issues			Turnover
	outstanding[1]	new[2]	matured[3]	
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
2012	4,759	4,917	4,038	10

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

Again in 2012, the most significant instrument was the 'covered warrant plain vanilla' category, which represented 62% of the outstanding issues at year-end. This category was followed by the investment certificates, which represented 22% of issues.Table 5 The leverage certificates correspond to approximately 14% of issues, while the category of exotic instruments is marginal.

Table 5 Types of covered warrants and certificates listed on SeDeX market
(situation on 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	*59.7*	154	*3.2*	399	*8.4*	1,016	*21.3*	*4,408*	*100.0*
2008	1,728	*36.3*	108	*2.3*	215	*4.5*	1,149	*24.1*	*3,200*	*100.0*
2009	1,672	*35.1*	96	*2.0*	399	*8.4*	1,122	*23.6*	*3,289*	*100.0*
2010	1,846	*38.8*	100	*2.1*	438	*9.2*	959	*20.2*	*3,343*	*100.0*
2011	2,176	*45.7*	92	*1.9*	511	*10.7*	1,101	*23.1*	*3,880*	*100.0*
2012	2,935	*61.7*	87	*1.8*	667	*14.0*	1,070	*22.5*	*4,759*	*100.0*

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

An analysis of 'moneyness', in other words the distribution of covered warrants according to the profit from the immediate exercise of the option, reveals that in 2012, around 61% of the *covered warrant call plain vanilla* options were issued with an exercise price 10% higher than the market price of the underlying asset (the issue is 'deep out of the money'), and that on maturity the percentage of 'deep-out-of-the-money' covered warrant calls had increased slightly (66%).Table 6

Table 6 Distribution of covered warrants listed on SeDeX market by moneyness at issuance and at maturity
(percentages)

	moneyness[1] at issue[2]		moneyness[1] at maturity[3]	
	number of securities	*percentage*	number of securities	*percentage*
exercise price compared to price of underlying asset (call)				
> 10 per cent (deep out of the money)	1,263	*61.3*	1,120	*65.9*
from 10 to 1 per cent (out of the money)	362	*17.6*	73	*4.3*
from 1 to -1 per cent (at the money)	53	*2.6*	64	*3.8*
from -1 to -10 per cent (in the money)	214	*10.4*	81	*4.8*
< -10 per cent (deep in the money)	168	*8.2*	362	*21.3*
total	*2,060*	*100.0*	*1,700*	*100.0*
exercise price compared to price of underlying asset (put)				
< -10 per cent (deep out of the money)	1,769	*77.7*	1,437	*73.7*
from -10 to -1 per cent (out of the money)	196	*8.6*	123	*6.3*
from -1 to 1 per cent (at the money)	39	*1.7*	25	*1.3*
from 1 to 10 per cent (in the money)	154	*6.8*	92	*4.7*
> 10 per cent (deep in the money)	118	*5.2*	274	*14.0*
total	*2,276*	*100.0*	*1,951*	*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 issuance or at maturity of the covered warrants. [2] Figures for *Covered Warrant Plain Vanilla* on Italian shares and the FTSE Mib index, issued in 2012. [3] Figures for *Covered Warrant Plain Vanilla* on Italian shares and the FTSE Mib index, matured in 2012.

A similar trend was also observed for the 'put' options, with the predominant share of instruments being 'deep out of the money' at the time of issue and maturity (78 and 74% of the total, respectively).

On the bond markets, in 2012 the volume of trades on regulated Italian markets reduced by 4%, from 1.743 to 1.671 billion euro (Table 7).

Trades on the wholesale government bonds market (MTS) fell sharply, from 868 to 567 billion euro (-35%). On the other hand the Bond Vision wholesale government securities market rose by 15%, from 562 to 645 billion. The MOT bond market, managed by Borsa Italiana, also recorded a 57% increase in trades (from 204 to 321 billion euro).

Table 7 Turnover in wholesale and retail Italian bond markets[1]
(billions of euro)

	Mts - wholesale market for government securities	Bondvision – wholesale market	Mts - Wholesale market for bonds other than government securities	Mot[2]	EuroTlx[3]	other multilateral trading facilities[4]	*total*
2000	2,020	–	..	154	—	—	*2,174*
2001	2,324	18	12	137	—	—	*2,491*
2002	2,205	100	24	161	—	—	*2,490*
2003	2,160	176	23	146	2	—	*2,507*
2004	1,949	339	31	151	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	*1,743*
2012	567	645	1	321	104	33	*1,671*

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

2 Supervision of regulated markets, multilateral trading facilities and systematic internalisers

In 2012 the Commission conducted an intensive scrutiny of the amendments proposed by Borsa Italiana to its market rules.

Meetings with the Financial Services Authority (FSA) took place also in 2012 with a view to exchanging information about financial markets supervision. The meetings were part of the routine cooperation programme set up between the two regulators, following the merger of Borsa Italiana and the London Stock Exchange, and the conclusion of the Memorandum of Understanding (MoU) on trading (in December 2007) and on post-trading (September 2010).

During the year, after changes previously authorised by Borsa Italiana, the TAH (Trading after hours) market became a fully-operational multilateral trading facility. In March 2012, the regulations of the new multilateral Aim Italia/Mac system came into force. The new system is a grouping of the pre-existing Aim Italia and Mac systems.

In July, as part of their mission to guarantee a united, cohesive supervisory action, Consob and the Bank of Italy signed a cooperation agreement intended to coordinate their intervention, under Article 77-*bis*, subparagraph 2(c) of the Consolidated Law on Finance. The agreement relates to the rules and procedures for the functioning of wholesale multilateral facilities on which government and non-government securities are traded.

During the year, Consob conducted 14 inquiries into the changes made to the operational rules of the multilateral trading facilities, and 4 inquiries into the changes to the rules of systematic internalisers, in order to verify their compliance with EC guidelines.

At the end of 2012, there were 19 active internalisers (of which 17 related to non-share instruments, and 2 to shares), with one manager operating on the systemic internalisation on both shares and non-shares. At the end of September 2012, in the 17 internalisers in the sector of non-share instruments, 3,400 financial instruments had been admitted for trading, most of which were made up of government securities, own bonds or bonds issued by group companies. About 85% of the above instruments were handled by six internalisation systems. The listings of the two internalisers for shares admitted for trading on the regulated markets counted 120 shares.

Finally, in response to the continuing growth of high-automation trading systems, the proposed MiFID review, in line with the provisions of the ESMA Guidelines on this issue, has established rules for high-frequency trading and on the systems and controls to be implemented by investment firms and trading venues to ensure that trading is orderly and fair, and to prevent possible market abuses (Box 4).

3 Supervision of trading transparency

In 2012, as part of its supervision of post-trading transparency obligations, the Commission updated the list of channels used by the qualified entities in complying with the above obligations. For each channel, details of the manager, website and number of users were given, together with a list of the channels used to comply with transaction reporting obligations.

In 2012, work also continued on verifying the accuracy of information transmitted in connection with transaction reporting, with particular reference to the monitoring of the timeliness and accuracy of the reports received by the Institute. The controls, carried out on 450 intermediaries required to fulfil transaction reporting obligations, revealed instances of omitted or inaccurate reports, which led to investigation proceedings against the interested parties.

Box 4

The risks of high-frequency trading

In recent years, innovation in finance and advances in technology have increased the popularity of high frequency trading (HFT), a trading technique based on the use of algorithms that enable high-speed acquisition, elaboration and response to market information. In the main European countries, the percentage of trades handled by high-frequency traders has grown steadily in recent years, and currently stands at between 10 and 40%, depending on the country.

The growing popularity of this type of trading has fuelled debate not only between the supervisory authorities, but also in the academic world. Despite the absence of unequivocal results, economic theorists have suggested that HFT can amplify the systemic shock impact, adversely impacting the integrity and quality of the market (the efficiency of price information, volatility and liquidity).

In particular, the growing popularity of HFT on the financial markets could compromise the way in which prices are formed, by distancing them from fundamental economic factors and thus reducing their informative value. The extent to which HFT is now part of trading also has an impact on the volatility of the financial instruments in question, with the risk of amplifying any abnormal price movements. As to the impact on liquidity, although various studies have demonstrated the positive effect of HFT on the markets, practical experience shows that in particularly turbulent conditions, high-frequency traders can create an absorption of liquidity. In practice, the liquidity offered by the high-frequency traders is referred to as *'ghost liquidity'*, to indicate liquidity that is only 'apparent', as it tends to disappear very quickly, often in particularly turbulent market conditions. Another critical aspect of the widespread use of HFT relates to the potential impact on fair access to the markets, as not everyone is able to access the low latency methods, which involve considerable investments in technological infrastructure, IT and above all human capital. The existence of diverse operating conditions on the market can lead to a loss of confidence among investors, and can incentivize the better-informed to divert their operations towards less transparent platforms, with obvious implications for the efficiency of the price formation process. Finally, one of the most significant issues linked to the popularity of HFT relates to the risk of this practice leading to potential price manipulation, practices which exploit the higher speed and complexity of the algorithms used, which often make it hard for the high-frequency traders to verify the manipulative intentions of the market.

In 2012, Consob authorised 'SDIR-NIS', the system for the circulation of regulated information managed by BIt Market Services SpA, in accordance with Article 113-*ter*, subparagraph 4(a) of the Consolidated Law on Finance. The system began operating in 28 May 2012.

In 2011, the Commission decided to bring forward the national application of certain measures in the 'Regulations on short selling and aspects of derivatives contracts intended to hedge against the issuer's risk of default' (*credit default swaps*)', known as the Short Selling Regulations, in other words the obligation to report net short positions on shares and the prohibition on naked short selling. These measures were maintained until the entry in force of the new provisions of the EC Regulation.

On 23 July 2012, considering the extraordinary market conditions, the Commission also decided to adopt exceptional restrictive measures on short selling for companies in the financial sector. Naked short selling was thus also prohibited on shares issued by banks and insurance companies. The prohibition, originally brought in for one week, was then extended until September 2012, when it was removed given the improved market conditions.

In 2012, the Commission conducted the necessary evaluations with regard to the measures taken by Borsa Italiana in relation to the admission, exclusion and suspension from trading of financial instruments, pursuant to Article 64, paragraph 1-*bis*, subparagraph a), of the Consolidated Law on Finance.

4 Supervision of clearing, settlement and central depositary services

In March 2012, Consob and the Bank of Italy approved the Regulations for the collateral management service of Monte Titoli, which amended and extended the Regulations on the centralised management service.

In September 2012, Consob issued an agreement with the Bank of Italy, approving the amendments to the Regulations of *Cassa di Compensazione e Garanzia* which were intended to extend the central counterparty service to derivatives on agricultural commodities with physical delivery, in particular the futures on durum wheat. The new futures contract on wheat is a financial instrument for which Borsa Italiana has authorised trading in a new segment, named Agrex (*Agricultural Exchange*), in the Idem market for financial derivatives. Trading began in January 2013.

These instruments are guaranteed by Cassa di Compensazione e Garanzia within a specific segment which was also introduced recently. In general, the guarantee of the Default Fund is provided, as in all other cases of guaranteed drawings, through its own intervention. In this specific case, final settlement of the positions takes place through a combination of the individual counterparties with the physical delivery of the goods between them. This creates certain aspects which are specific to the Fund: at the end of the futures trading phase, there is no intervention by the central counterparty, which however continues to guarantee fulfilment of the parties' delivery obligations.

In September 2012, Consob issued an accord with the Bank of Italy, approving the changes to the Operational Regulations for liquidation services (EXPRESS II) in relation to definitive settlement, irrevocability and the introduction of new functions in the X-TRM service.

5 Supervision of rating agencies

During 2012, the application by the Italian rating agency Cerved Group SpA (still subject to earlier provisions amended in 2011 and attributing responsibility for registration to national supervisory authorities) was examined and checked for compliance with Regulation (EC) 1060/2009.

In 2012, the Institute continued its supervision of the rating agencies, concentrating its efforts on monitoring the market impact of the publication of ratings on issuers and listed financial instruments.

In this context, several potential violations were reported to ESMA under Article 31 of Regulation 1060/2009 as amended, relating to the elaboration and circulation of ratings and outlooks on Italy's sovereign debt and on leading Italian banks, by various international rating agencies.

In some of these cases, the Commission verified the fairness of the information and of the market operations carried out at the time the ratings, and outlooks were released, in order to identify any potential market abuse offences. These activities were accompanied by frequent exchanges of information with the Public Prosecutors' Offices which were responsible for conducting criminal inquiries into some of the above cases.

6 Market abuse

As usual, in 2012 the supervisory activity also involved preliminary investigations in order to take quicker and more effective decisions as to which of the market abuse offences should be investigated further.

The Institute also continued its discussions with the industry in relation to the obligation to report suspicious transactions in order to identify potential abuses. Compared to previous years, the Commission received fewer reports, but those that were received tended to be of better quality. In several instances the intermediaries were also asked to draw their clients' attention to regulatory compliance.

In 2012, Consob concluded 26 market abuse investigations, finding that administrative offences had been committed in 12 cases, relating to the following areas: insider trading (4 cases), manipulation of market information (2 cases), transaction-based market manipulation (4 cases) and 'mixed' manipulation (2 cases). In 8 of the 26 cases, reports were made to the Legal Authorities (2 cases of insider trading and 6 cases of market manipulation; Table 8).

Another report on a case of transaction-based manipulation was sent to the Legal Authorities following a case in which an administrative offence had been investigated and verified at the end of 2011.

Table 8 Results of market abuse investigations

	cases of administrative and/or criminal offences		cases in which no offence was found	*total*
		of which 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
2012	12	*4*	14	26

Source: Consob.

In all four cases in which insider trading offences were verified, the privileged information in question related to the promotion of a takeover bid, and in three cases led to the subsequent delisting of the target companies (Table 9).

The first case of information manipulation originated from new information received by the Commission from the Legal Authorities, concerning events for which Consob had already levied financial penalties.

Table 9 Type of privileged information in cases of insider trading

	change of control – Takeover bids	Financial performance and financial position	capital transactions – mergers – spin-offs	others	of which 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
2012	4	--	--	--	--	4

Source: Consob.

Investigations into a second case of market manipulation led to a complaint about an untruthful declaration issued by a major institutional investor, concerning a reduction of its holding in the capital of a leading bank in the days leading up to an important capital increase. The declaration could potentially have created negative expectations about the bank's solidity, and could have threatened the results of the vital capital increase.

The first investigations into 'mixed' manipulation related to the activities of the Chairman, Chief Executive and shareholder of a listed company intended to support the share price and reduce the financial risks for himself and the company, by favouring a bond issue among other things.

The second case of 'mixed' manipulation related to the actions taken over a two-year period by the top managers and leading shareholders of a listed company, part of a fashion group. In concert with others, the managers and shareholders engineered a broad market manipulation strategy by circulating false information and undertaking an intensive share price support campaign based on the acquisition of own shares by the listed issuer.

An investigation concluded by Consob at the end of 2011 had already verified a market manipulation offence in relation to operations carried out by an online trader who entered minimum orders within the bid-ask spread, in order to trigger automatic changes in the bids offered by the market maker, allowing him to conclude significant transactions at the manipulated prices. These actions were detailed in a report to the Legal Authorities made in 2012.

The first operational market manipulation investigation concluded in 2012 identified schemes implemented by a trader during the first few days in which a share was traded on a multilateral trading facility.

The second investigation in the same field related to a scheme implemented by an online trader with regard to various government securities traded at various trading venues.

Another investigation into operational manipulation involved the acquisition by a group of individuals acting jointly, of shares through foreign entities, during closing market auctions.

The last operational market manipulation investigation related to acquisitions of shares by an individual over a one-month period, through two companies to which he had links, carried out in such a way as to increase the shares' market price and thus stabilise it at a certain level.

In 2012, Consob commenced market abuse proceedings against 20 individuals and 11 corporations, for joint and several liability and corporate responsibility (Table 10).

Table 10 Parties involved in market abuse cases

	authorised intermediaries[1]	insiders institutional[2]	other parties[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*
2012	--	2	4	--	*6*
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*
2012	1	8	6	--	*25*

Source: Consob. [1] Banks, investment companies, asset management companies and stockbrokers. [2] Shareholders, directors and executives of listed companies. [3] Secondary insiders (art. 187-bis, subparagraph 4, of the Consolidated Law on Finance).

For details of administrative proceedings commenced in relation to market abuse offences investigated in previous years, refer to Chapter V *'Supervisory activity and disciplinary measures'*.

A total of 364 parties received requests for information, data and documents in 2012. In 50 cases, Consob relied on assistance from foreign supervisory authorities, while in 40 cases the requests were intended to assist foreign authorities with their inquiries (Table 11).

Table 11 Requests of data and information concerning market abuses
(number of recipients of the requests)

	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*
2012	207	9	71	*30*	27	50	*364*	*40*

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

In 2012, Consob brought a civil action in two new criminal proceedings concerning market abuse, of which one related to market manipulation and the other to insider trading (Table 12).

Three sets of proceedings were also brought before the Court of Appeal, in which one judgment was made in Consob's favour (a case of market rigging), and two partial successes (a case of insider trading and one of market rigging and obstructing the function of supervision).

With regard to the case of market rigging, the judgment issued by the Milan Court of Appeal (no. 4061 of 20 October 2011), filed on 17 February 2012, upheld the order to pay compensation to Consob as a result of the manipulation of privileged Unipol shares between 19 March and 1 April 2003.

In the proceedings on market rigging and obstructing Consob's supervisory function in the '*Antonveneta*' affair, in its judgment no. 3830 of 13 March 2012, the Milan Court of Appeal partially amended the ruling made by the Court of Milan (no. 10229/2008 of 28 May 2011).

During 2012, in its judgment on the '*IFIL-Exor*' affair, no. 40393/12 of 20 June 2012, the Court of Cassation set aside the ruling of the Court of Turin, dated 21 December 2010, which had acquitted the defendants due to there being no case to answer in relation to the market manipulation charges brought against them.

Table 12 Civil proceedings brought by Consob in criminal cases regarding insider trading and market manipulation

year	posting of	offence[1]	Outcome as at 31 December 2012
2004	2	market manipulation	2 Plea bargaining 1 Conviction[2] 1 Dismissal due to limitation of actions
2005	6	insider trading and market manipulation	4 Conviction[3] 2 Plea bargaining 3 Non-suits
2006	9	insider trading, market manipulation	4 Conviction[4] 6 Plea bargaining 3 Acquittal[5] 1 Dismissal due to limitation of actions
2007	12[6]	insider trading, market manipulation	4 Conviction[7] 5 Plea bargaining 2 Dismissal due to limitation of actions 1 non-suit[8] 2 Acquittal
2008	5	insider trading, market manipulation	1 Conviction 1 Plea bargaining 1 Dismissal due to limitation of actions 3 Acquittal[9]
2009	1	Market manipulation	1 Conviction
2010	3	insider trading, market manipulation	1 Conviction 1 Acquittal
2011	6[10]	Market manipulation	1 Plea bargaining 1 Dismissal due to limitation of actions
2012	2[11]	insider trading, market manipulation	

Source: Consob. [1] Insider trading: art. 2, law 157/1991, then art. 180 of the Consolidated Law on Finance, now art. 184 of the same Law; market rigging, art. 5, law 157/1991, later art. 2637 of the Civil Code, now art. 185 of the Consolidated Law on Finance. 2 The Milan Court of Appeal partially amended the lower court's judgment. In its ruling, among other things, it ordered the conviction of a member already acquitted of the charges made against him by the lower court, ordering him to pay compensation to Consob for loss of image and obstructing the regulatory function. The rest of the lower court's judgment was upheld. The Court of Cassation subsequently amended the Court of Appeal's ruling, acquitting some of the defendants after deciding that their earlier conduct was time-barred. The convictions were also revised, and the decision on the position of one of the defendants was referred to the competent Court of Appeal. [3] In one case, the competent Court of Appeal reduced the amount of compensation paid to Consob, upholding the rest of the lower court's judgment. The Court of Cassation later acquitted the defendants on the grounds of time-barring, and annulled the civil rulings in favour of Consob. In another case, the Court of Cassation found that there was a lack of territorial jurisdiction, and set aside the rulings of the courts of first and second instance, ordering the case to be transferred to the Public Prosecutor's Office at the court with jurisdiction. [4] A conviction was issued after shortened proceedings; on conclusion of the appeal proceedings, the Court of Appeal acquitted the defendant on the grounds of time-barring, upholding the civil rulings in Consob's favour. In another case, amending the lower court's judgment, the Court of Appeal acquitted the defendant on the grounds of time-barring, and revoked the civil rulings in Consob's favour. In another case, the Court of Appeal acquitted the defendants on the grounds of time-barring, but upheld the civil rulings in Consob's favour. In yet another case, the competent Court of Appeal upheld the conviction and civil rulings against one of the defendants, and when amending the appealed order acquitted the other defendant, ruling that he had not committed the offence, and revoked the civil ruling against him. [5] In one case, the judge also ordered the forwarding of papers for the possible application of administrative sanctions under the terms of art. 187-bis of the Consolidated Law on Finance. In another, a partial acquittal was issued pursuant to Article 530(2) of the Code of Criminal Procedure. [6] In one case, following the regression to the preliminary investigation phase, the case was archived in 2008. In one case, the competent Court of Appeal partially amended the lower court's ruling, acquitting some of the defendants for not having committed the offence, releasing others either on the grounds of time -barring or declaring the case not prosecutable, revoking the order to pay compensation to Consob with regard to some of the charges, and upholding the rest of the appealed order. In another case, the competent Court of Appeal partially amended the lower court's ruling, acquitting some of the defendants or reducing their sentences, and also revoking the previous order to pay compensation to Consob. In another case, the Milan Court of Appeal partially amended the lower court's ruling, acquitting one defendant who had died, and others on the grounds of time-barring, and reducing the sum paid to Consob by way of compensation. [8] In this judgment, the court ordered that the case be transferred to Consob for the purposes of contesting the administrative violation under Article 187-*bis* of the Consolidated Law on Finance. [9] In one case, while conducting an immediate review, the Court of Cassation annulled the lower court's acquittal, referring the matter to the Court of Appeal for the next level of the proceedings. [10] Of the six, after the civil action was filed, two proceedings were combined on the grounds of objective and subjective links. [11] First-instance proceedings pending.

II Supervision of issuers and audit firms

1 Ownership structure of listed companies

Findings on the ownership and control structures of Italian companies have confirmed that one shareholder control is still the most popular model (Table 13). At the end of 2012, around 70% of companies were under the control of a single shareholder (173 issuers out of 253).

Table 13 Control models for Italian listed companies
(situation as of 31 December)

	companies controlled by majority shareholders		companies controlled by shareholders with significant influence		companies controlled by shareholders' agreement[2]		cooperatives entities		public companies [3]		total	
	number	weight[1]	number	weight[1]	number	weight[1]	number	weight[1]	number	weight[1]	number	weight[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	48	11.3	8	3.2	30	17.1	261	100.0
2012	125	22.7	48	44.0	43	10.2	8	3.2	29	19.9	253	100.0

Source: Consob. [1] Percentage, calculated as the ratio of ordinary share capitalisation of all companies of each control model, to ordinary share capitalisation of all listed Italian companies. [2] This category includes: *i)* listed companies not controlled by a single shareholder, subject to a shareholder's agreement relating to at least 20% of the capital, as of 31 December; *ii)* listed companies controlled by an unlisted company not controlled by a sole shareholder, subject to a shareholders' agreement relating to the majority of the capital as of 31 December. [3] Residual category, which includes companies that do not fall into any of the above control models.

In most cases (125 companies) the controlling shareholder exercised legal control, by holding more than half the ordinary capital of companies that collectively represented approximately one-fifth of the market capitalisation. In a smaller group (48 cases) the majority shareholder, while holding less than half the share capital, appears able to exercise a dominant influence on the company. In this case, the companies have a higher capitalisation, representing 44% of the total market value. Compared to 2011, there was a fall in the number of companies controlled by a shareholder with significant influence, and a slight increase in the number of those controlled by the majority shareholder.

A medium-term comparison reveals two trends: On the one hand, the weight in terms of the capitalisation of companies controlled by majority shareholders has reduced since 1998 (the year in which the Consolidated Law on Finance was introduced), although there has been no substantial change to the numeric representation of the companies characterised by this control model. On the other hand, the cases in which a shareholder exercises significant influence have risen since 1998, in numerical terms and also in terms of market value.

The findings also confirmed the importance, for the Italian market, of "coalition" control structures, which are found in listed companies whose governance is defined by a shareholders' agreement related to the capital of the company, or that of the unlisted company that controls it.

At the end of 2012, 43 companies (10% of the market) were controlled by a shareholders' agreement. However, a short-term comparison reveals a clear reduction in the number of companies controlled by a shareholder coalition (there were 57 in 2008), while a medium-term view shows that the weight of such companies has increased significantly (in 1998 there were only 28 companies controlled by such an agreement).

The number of listed cooperatives has remained stable, with eight companies operating in the financial sector at the end of 2012, representing 3% of the market capitalisation. The number has remained unchanged compared to the previous four years, while the reduced weight in terms of capitalisation appears to be connected to the negative trend in share prices, which has affected the financial sector in particular.

For the companies with a broader shareholder base, in other words those within the residual category of "non-controlled" companies, the temporal comparison highlights a positive trend in the medium-term, in terms of number and also the weight on those companies' market capitalisation.

The findings on significant shareholdings reflect the traditional characteristics of the Italian market in terms of the concentration of ownership, which has not undergone any significant changes in the short or medium term (Table 14).

In 2012, the average share held by the primary shareholder was 46% of the ordinary voting capital, a slight increase compared to 2011 and substantially in line with the value recorded in 1998. The average total shareholding held by the other key shareholders in 2012 was 16.7%, a slight reduction compared to the previous four years, but an increase compared to 1998. The publicly-held shareholder base, measured by the percentage of shareholders with holdings below the proprietary disclosure threshold, is approximately 37% of the capital. Also in this case, the values are substantially in line with those recorded from 2008 onwards. However, the share held by the market in 1998 was approximately two percentage points higher.

Table 14 Ownership concentration in Italian listed companies [1]
(situation as of 31 December)

	primary shareholder	other key 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	44.6	17.7	37.7
2011	44.8	17.4	37.7
2012	46.0	16.7	37.3

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

The 2012 figures relating to the presence of major institutional investors in Italian listed companies are substantially in line with the previous year (Table 15). Companies with at least one institutional investor as a major shareholder represent approximately 36% of all issuers, compared to approximately 38% in 2011.

However, this figure is significantly lower than the value reached in 2009, when it was just over 50%, and is also lower than the older figure of 41% recorded in 1998. The average share held by institutional investors varies between 6 and 7% in all the time periods, and fell slightly below the lower threshold in 2012.

Recent amendments to the rules on ownership disclosures, in implementation of the Transparency Directive, have also exempted institutional investors (as defined in article 11 of Directive 2011/49/EC) from the first disclosure threshold of 2%. Consequently, the figures recorded on 31 December 2012 may underestimate the number of these investors, compared to previous years. Vice-versa, given the absence of disclosures between 2 and 5%, the representation of the average shareholding could be reversed, which would also prejudice the comparability of the aggregate results for previous years. Therefore the average holding held by institutional investors in listed Italian companies may have fallen by a greater amount than that indicated in Table 15.

The breakdown of institutional investors by country confirms the reduction - already apparent in the previous four years - in the number of companies in which institutional Italian investors hold significant shareholdings.

The number of companies in which Italian institutional investors hold shares was approximately 3.6% of issuers in 2012, while the average shareholding was 4.1%, a value which has also fallen compared to previous years. The reduction in the presence of major foreign institutional investors in the capital of listed companies is less pronounced (from 33.7 in 2011 to 32.4 in 2012). The average shareholding has also remained substantially stable compared to previous years.

Table 15 Participations held by large institutional investors [1]
(situation as of 31 December; figures shown as percentages).

	1998	2008	2009	2010	2011	2012
companies with major Italian or foreign institutional investors[2]	41.0	48.8	50.5	43.9	37.5	35.6
average shareholding of major Italian or foreign institutional investors[3]	7.1	7.2	6.8	7.1	6.1	5.9
companies with major Italian institutional investors[2]	26.0	13.8	11.8	8.5	4.6	3.6
average shareholding of major Italian institutional investors[3]	3.9	5.7	4.4	5.1	4.9	4.1
companies with major foreign institutional investors[2]	25.0	41.5	44.1	39.1	33.7	32.4
average shareholding of major foreign institutional investors[3]	7.5	6.6	6.6	6.9	6.2	6.0

Source: Consob. [1] Institutional investors holding at least 2% of ordinary voting capital. [2] Ratio between the number of companies in which institutional investors hold a major shareholding and the total number of Italian listed companies in each of the years in question. [3] Simple average of the ordinary capital held by institutional investors in companies in which they are present.

2 Shareholders' meetings and corporate bodies

In 2012, there was a significant increase in the attendance at shareholders' meetings of Italian listed companies, with an average number of 160 participants. There was a slight decrease in the number of institutional investors (73 compared to 86 in the previous year Table 16). The latter represent 5.2% of capital, almost one percentage point lower than the figure recorded in 2011.

Table 16 Attendance by institutional investors at the shareholders' meetings of Italian listed companies in 2012

		Number of participants		percentage of share capital represented at shareholders' meeting		
		total	*of which institutional investors*	total	*of which percentage of Italian institutional investors*	*of which percentage of foreign institutional investors*
all listed companies	average	160	*73*	65.1	*0.4*	*4.8*
	min	1	*--*	17.7	*0.0*	*0.0*
	max	5,240	*1,248*	93.8	*15.4*	*64.7*
	median	21	*7*	66.8	*0.0*	*0.5*
Ftse Mib and Mid Cap	average	395	*185*	68.4	*0.4*	*10.4*
	min	4	*--*	44.3	*0.0*	*0.0*
	max	5,240	*1,248*	91.7	*7.9*	*64.7*
	median	133	*85*	70.1	*0.0*	*7.7*

Source: based on minutes of shareholders' meetings held in 2011 to approve the financial statements of Italian companies. Cooperatives have not been included.

The figures on the attendance at shareholders' meetings also indicate a marked difference in the behaviours of Italian and foreign investors. Most of the shares held by institutional investors and represented at shareholders' meetings were held by foreign investors (4.8%), while 0.4% was held by Italian investors. Accordingly, the median value of the holdings pertaining to Italian investors was zero, which indicates that no national institutional investors are present in more than half of Italian listed companies.

The presence of foreign institutional investors is even higher among the larger companies (those belonging to the Ftse Mib and Mib Cap indexes).

The shareholders' meetings of such companies are attended, on average, by 400 shareholders. Institutional investors hold approximately 11% of the capital present at the meeting. Foreign institutional investors are mostly majority shareholders: the average value of their share is 10.4% (0.4% for the Italian investors, while the median value is 7.7% (zero for the Italian investors).

With reference to Board membership, there is a correlation between the company's reference index, and the composition of its executive body.

Companies with higher capitalisation, from the Ftse Mib and Mid Cap indexes, have larger Boards (an average of 12.4 and 13.2 members on average, respectively), compared to the average for the total market, which was 10 members in 2012. Companies with lower capitalisation, such as those on the Star index, and the others not included on any of the indexes in question, have smaller executive bodies (9.2 ad 8.4 members, on average). The largest Board of Directors had 25 members, while the smallest had only two (Table 17).

Table 17 Composition of the Board of Directors for Italian listed companies, by stock index category
(situation as of 31 December 2012)

Index	number cooperatives	*Incidence on capitalisation* [1]	Number of Board members			
			average	minimum	maximum	median
Ftse Mib	37	*85.8*	12.4	5	24	11
Mid Cap [2]	39	*8.4*	13.2	7	25	13
Star [2]	67	*3.7*	9.2	5	15	9
other	110	*2.1*	8.4	2	17	7
total	*253*	*100.0*	*9.9*	*2*	*25*	*9*

Source: Consob data on the composition of corporate bodies. [1] Percentage ratio between the capitalisation of ordinary capital of the companies subject to each index, and the capitalisation of ordinary capital of all the listed companies. [2] Companies on the Star segment and the MidCap index have only been included in the Star category.

With reference to the composition by gender, the figures show that at the end of 2012, 11.6% of the Board members of Italian listed companies were female, while 67% of companies had both genders represented on their Boards (Table 18).

The changes of recent years reveal a positive trend in the number of female Board members, and also indicate an increase in the number of companies in which both genders are represented at boardroom level. Female participation at boardroom level rose by 4 percentage points between 2011 and 2012, while the number of companies with at least one female director has risen by 15%.

This development is a result of Law no. 120 of 12 July 2011, which came into force in August 2012, introducing gender quotas for the boards of listed and publicly-controlled companies. The law stipulates that at least one-third of the Board members must come from the less-represented gender. The government has provided for the gradual introduction of the gender quota, stipulating that on first renewal, the less-represented gender must be at least one-fifth of the members of the executive body. Companies which elected their board members after the new law came into force are thus required to allocate at least one-fifth of the places to the less-represented gender.

Table 18 Women's presence in the Boards of Directors of Italian listed companies
(situation as of 31 December)

	female Board members		companies with at least one woman on the Board of Directors	
	number	*weight*[1]	number	*weight*[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*
2012	288	*11.6*	169	*66.8*

Source: Consob data on the composition of corporate bodies. [1] Percentage relative to total members of Boards of Directors. [2] Percentage relative to total number of Italian listed companies.

An analysis of the relationship between gender composition and market indexes reveals that the relative weight of female directors is higher in companies with lower capitalisation, i.e. those from the Star index and those not included in any of the indexes in question (11.7 and 12.5% respectively Table 19).

However, there is a higher percentage of companies with at least one female director among the companies with higher capitalisation, i.e. those on the Ftse Mib and Mid Cap indexes, where women are present in 73 and 74.4% of listed companies, respectively.

Table 19 Women's presence in the Boards of Directors of Italian listed companies , by stock index category
(situation as of 31 December 2012)

Index	number cooperatives	*Incidence on capitalisation*[1]	percentage of companies with at least one woman	average percentage of women on the Board of Directors
Ftse Mib	37	*85.8*	73.0	10.6
Mid Cap[2]	39	*8.4*	74.4	10.3
Star[2]	67	*3.7*	68.7	11.7
other	110	*2.1*	60.9	12.5
total	*253*	*100.0*	*66.8*	*11.7*

Source: Consob data on the composition of corporate bodies. [1] Percentage, calculated as the ratio of ordinary share capitalisation of all companies belonging to each index to ordinary shares capitalisation of all Italian listed companies. [2] Companies on the Star segment and the MidCap index were included only in the Star category.

In 2012, "interlocking", i.e. the holding of directorships in several listed companies, involved at least one member of the Board of Directors, in most of the listed companies.

There were 177 companies with at least one director who also held offices in other listed companies, equivalent to 71% of the market in numerical terms, and 95% in terms of capitalisation (Table 20). This phenomenon is particularly apparent in 33 companies, in which more than half the directors held positions in other issuer companies. With specific regard to financial companies, i.e. banks, insurance companies and other listed intermediaries, the figures show that in 20% of cases (11 companies out of 54), there are no interlockers. This figure stands at 31% for the non-financials (60 cases out of 194). In the majority of cases involving interlockers, the most frequent situation is that less than half of the board members hold positions in other listed companies (in 74% of the financials and 54% of the non-financial companies).

Table 20 Interlocking positions in the Board of Directors of Italian listed companies
(situation as of 31 December 2012)

percentage of members of the Board of Directors with more than one position	financial companies		non-financial companies		*total*	
	number	*weight*[1]	number	*weight*[1]	*number*	*weight*[1]
0%	11	*3.7*	60	*5.5*	*71*	*5.0*
> 25%	18	*38.1*	63	*27.7*	*81*	*30.6*
between 25 and 50%	22	*57.3*	41	*38.9*	*63*	*44.0*
between 50 and 75%	3	*0.9*	27	*22.4*	*30*	*16.4*
> 75%	0	*0.0*	3	*5.5*	*3*	*4.0*
total	*54*	*100.0*	*194*	*100.0*	*248*	*100.0*

Source: Consob data on the composition of corporate bodies. The data refers to Italian companies which were not in liquidation on 31 December 2012. [1] Percentage on total capitalisation in the sector.

The recent changes to the law should be noted in this regard. Among other things, the new law imposes a prohibition on the holding of management, supervisory and control positions in competing enterprises, banks, insurers or financial companies (art. 36 of Legislative Decree 201/2011 converted into law no. 214 of 22 December 2011).

The 2011 corporate governance reports of Italian listed companies published in 2012 reveal that the presence of independent directors (as defined in the Code of Self Governance and also according to the independence criteria set out in the Consolidated Law on Finance) is higher among companies operating in the service industry, followed by financial and industrial enterprises.

Overall, independent directors, as defined in the Consolidated Law on Finance, represent 39.6% of the total, while the average percentage of independent directors as defined in the Code of Self Governance is slightly lower (37.6%). Table 21). The directors elected by minority shareholders are found in 96 companies, and the average number is 0.7.

Table 21 Presence of independent and minority directors in the Boards of Italian listed companies
(situation as of 31 December 2011)

Sector	number cooperatives	*Incidence on capitalisation* [1]	average % of independent directors[2]		minority directors[3]	
			from the Consolidated Law on Finance	from the Code of Self Governance	number of companies with at least one minority director	average number
financial	59	*26.0*	40.2	37.1	22	0.8
industrial	145	*46.0*	37.7	34.7	45	0.5
services	57	*28.0*	43.9	45.5	29	0.9
total	*261*	*100.0*	*39.6*	*37.6*	*96*	*0.7*

Source: based on the 2011 corporate governance reports of Italian listed companies(published in 2012); Borsa Italiana sector classification.
[1] Percentage weight of the capitalisation of ordinary shares of the companies in each sector of activity, and the capitalisation of ordinary shares of all the listed companies. [2] Figures refer to the Italian listed companies for which corporate governance reports were available (257 out of 261).
[3] Figures refer to the Italian listed companies for which corporate governance reports were available (257 out of 261). The figures do not include the companies adopting the two-tier system, whose supervisory board included members elected from the minority list in 5 cases. The average number of minority members was 2.2.

With regard to the creation of Board committees, the data shows the widespread use of remuneration committees (found in 226 companies, with a capitalisation of almost 100%), and of the internal audit committee, recently renamed the control and risk committee (found in 229 companies, representing 98.6% of the market). The elections committee is less common (used by only 52 companies; Table 22).

The lower popularity of the elections committee may be due to the fact that it was not recommended in the Code of Self Governance used as a reference for the 2011 corporate governance reports, which left the establishment of such a committee to the discretion of each company. The latest version of the Code, approved in December 2011, uses a different approach and expressly recommends that an elections committee should be established.

The remunerations and internal audit committees are not substantially different in terms of their composition (with an average of 3 members). In terms of their functioning, however, the internal audit committees meet more frequently, on average 6 times a year, compared to an average of 3.5 times for the remunerations committee. In both cases, the number of meetings is higher among the financial companies.

Table 22 Presence, composition and functioning of the remuneration, elections and internal audit committees in Italian listed companies, by sector of activity.
(situation as of 31 December 2011)

Sector	remuneration committee				elections committee				internal audit committee			
	number of companies[1]	*weight*[2]	average number of members	average number of meetings[3]	number of companies[1]	*weight*[2]	average number of members	average number of meetings[3]	number of companies[1]	*weight*[2]	average number of members	average number of meetings
financial	54	*99.7*	3.3	5.2	23	*83.8*	4.3	5.0	54	*97.5*	3.5	8.3
industrial	121	*98.2*	3.1	2.7	21	*70.9*	3.0	2.1	123	*98.6*	2.7	4.8
services	51	*99.6*	3.2	3.7	8	*30.1*	3.5	3.3	52	*99.6*	3.1	5.5
total	*226*	*99.0*	*3.2*	*3.5*	*52*	*62.8*	*3.6*	*3.5*	*229*	*98.6*	*3.0*	*5.8*

Source: based on the 2011 corporate governance reports of Italian listed companies(published in 2012); Borsa Italiana sector classification. The figures refer to the Italian listed companies for which corporate governance reports were available (257 out of 261). [1] Number of companies which have established the committee. [2] Percentage ratio between ordinary shares capitalisation of the companies which set up the committee in a given sector, and the capitalisation of the ordinary capital of the listed companies in the same sector. [3] Where the elections committee has been combined with the remuneration committee, the same number of meetings was attributed to both of them.

The Code of Self Governance recommend that boards of directors should perform a self-assessment at least once a year, on the functioning of the board and its committees, and on their size and composition. In the corporate governance reports of listed companies for 2011, 176 companies (almost 70% of the market) confirmed that they had carried out the self-assessment. (Table 23).

Only 7 companies confirmed that they had prepared succession plans. Of these, 5 related to the directors, and 2 only to the executives.

The preparation of succession plans for executive directors was not recommended in the Code of Self Governance used as a reference for the 2011 corporate governance reports. However, Consob had underlined the importance of this issue, by issuing a temporary notice asking companies to declare information about succession plans in their corporate governance and ownership reports. The new version of the Code recommends that the board of directors should consider whether or not to adopt a plan for the succession of executive directors, and if such a plan is adopted, the issuer should state the relevant information in the corporate governance report.

Table 23 Self-assessment of the Boards of Directors of Italian listed companies, and succession plans
(situation as of 31 December 2011)

Sector	self-assessment		succession plans	
	number of companies[1]	*Incidence on total[2]*	number of companies[3]	*Incidence on total[2]*
financial	46	*17.6*	3	*1.1*
industrial	93	*35.6*	2	*0.8*
services	37	*14.2*	2	*0.8*
total	*176*	*67.4*	*7*	*2.7*

Source: based on the 2011 corporate governance reports of Italian listed companies (published in 2012); Borsa Italiana sector classification. The figures refer to the Italian listed companies for which corporate governance reports were available (257 out of 261). [1] Number of companies declaring that the board of directors had carried out the self-assessment process. [2] Percentage orelative to total number of listed companies. [3] Number of companies declaring the existence of a succession plan. Includes two cases in which the plan does not relate to the directors but only to the executives.

With reference to the board of auditors, the figures for the end of 2011 show that the average number of member is 3, and that the average number of minority auditors is 0.4. The minority auditors are more commonly found in companies operating in the service sector, and less in the industrial sector. On average, the board of auditors meets 11 times during the year. The average number of meetings is significantly higher in companies operating in the financial sector (Table 24).

Table 24 Composition and functioning of the Boards of Auditors of Italian listed companies
(situation as of 31 December 2011)

Sector	average number members	average number of auditors (minority)	average number of meetings
financial	3.2	0.4	18.9
industrial	3.1	0.3	9.0
services	3.0	0.6	10.0
total	*3.1*	*0.4*	*11.3*

Source: based on the 2011 corporate governance reports of Italian listed companies(published in 2012); Borsa Italiana sector classification. The figures refer to the Italian listed companies for which corporate governance reports were available (257 out of 261).

Finally, the findings on the use of alternative administration and control systems confirm the infrequent recourse of the two-tier and single-tier systems (Table 25).

8 companies operate with alternative systems; this figure is lower than for 2011. There are two companies using the single-tier system, while there are 6 issuers adopting the two-tier model. During 2012, the listings of two companies were revoked, one (Buongiorno) had adopted the single-tier

model (Buongiorno) while the other (Monti Ascensori) used the two-tier model.

As confirmed by the data on market capitalisation, of the two-tier companies, which represent 7.5% of the market, there are various high-capitalisation companies while the two single-tier companies are smaller in size.

Table 25 Management systems adopted by Italian listed companies
(situation as of 31 December 2012)

model	number of companies	weight[1]
traditional	245	*92.4*
two-tier	6	*7.5*
single-tier	2	*0.1*
total	*253*	*100.0*

Source: Consob. [1] Percentage ratio between the capitalisation of ordinary capital of the companies subject to each control model, and the capitalisation of ordinary capital of all listed Italian companies.

3 Takeover and exchange bids

In 2012 the Commission approved the publication of 13 prospectuses (concerning 9 public offerings and 4 public share swaps), concerning 11 cases of listed or publicly-traded securities, 2 cases of non-listed shares, and one case of publicly-traded securities. Three out of nine public offerings were mandatory (Table 26).

Table 26 Financial instruments subject to takeover and/or exchange bids for which prospectus publication was authorized in 2012

	on listed shares [1]	on non-listed shares[2]	total
Voluntary	4	3	7
Unsolicited	1		1
Mandatory	3		3
on own shares [3]	2		2
total	*10*	*3*	*13*
obligation/right of purchase[4]	*4*		

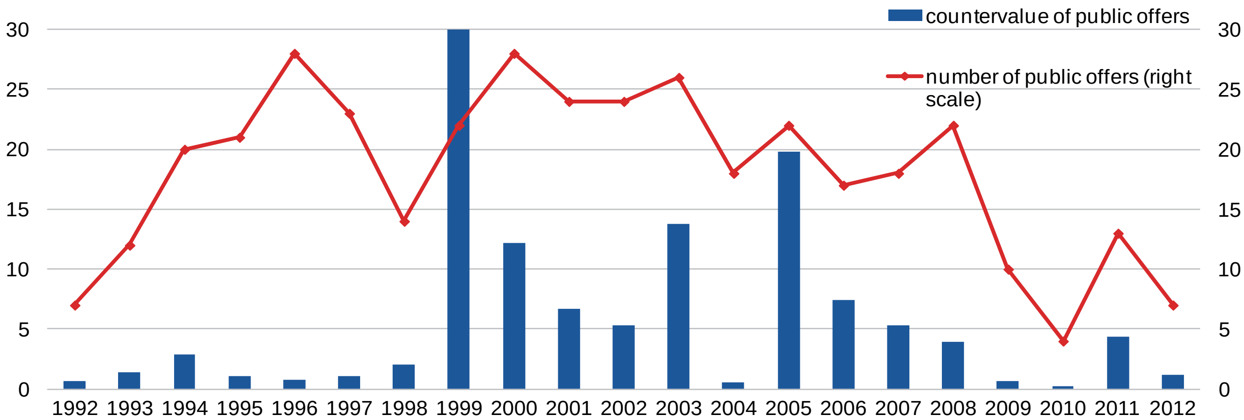
Source: Consob. [1] Includes ordinary, privileged and savings shares. [2] it is included one offering relating to publicly-traded securities. [3] In connection with the voluntary equity swap on own shares by KME Group SpA, the Commission decided that, as far as an exempting public offering was concerned, such instruments could not be considered "listed" according to article 106(4) of the Consolidated Law on Finance. As the controlling shareholder had exceeded the threshold, a mandatory consolidation offering was required, through the extension of the subscription period. [4] Additional documents intended to fulfil the disclosure obligations relating to the obligation/right of purchase under articles 108 and 111 of the Consolidated Law on Finance.

Of these public offerings, 7 were launched by entities referred to in article 39-*bis* of the Issuers' Regulations. The issuer's independent directors thus issued a justified opinion under the terms of the above article, evaluating the bid and the fairness of the price offered. Article 40-bis of the Issuer's Regulations was also deemed to apply to the above bids, with regards to the re-opening of the terms of the public offer.

Compared to the previous year, there was a sharp drop in public offerings for the acquisition and/or swap of shares on Italian listed companies for which the offer period began in 2012, both in terms of the total value of the operations, which was 1.2 billion euro (4.3 in 2011) and in terms of the number of offers, which was 7 billion euro (13 in 2011; Fig. 119).

68% of the countervalue of the offers made in 2012 related to the mandatory public offering intended to revoke the shares subject to the offer made by Transalpina di Energia on the Edison shares.

Fig. 119 Takeover and/or exchange bids on Italian listed companies
(billions of euro)



Source: calculations based on Borsa Italiana and prospectus data. Equity swap bids are priced usiong the shares market price on the day preceding the announcement of the bid.

With reference to buybacks, in the first quarter of 2012 four operations were completed by Italian banks with the benefit of the first application of the exemption rules under article 35-bis of the Issuers' Regulations. The operations related to 28 securities with a total nominal value of 13 billion euro.

During the year, the Commission duly intervened in order to provide explanations and guidance in relation to takeover bids, in response to queries concerning specific transactions. In 3 cases, the Commission issued an opinion on the existence of the conditions required for a takeover bid, and in one case issued a decision on the fairness of the price of a mandatory offering pursuant to article 106(1) of the Consolidated Law on Finance. In 5 cases, it provided guidance on the application of specific exemptions from the obligation to launch a public offering.

The most significant cases included an operation to restructure the debt of a group of companies owned by Seat Pagine Gialle, involving the merger of a Luxembourg-law company by incorporation into the issuer.

The Commission also issued an opinion on various aspects of the complex merger of Unipol Assicurazioni (controlled by Unipol Financial Group) and Premafin, Fondiaria Sai and Milano Assicurazioni .

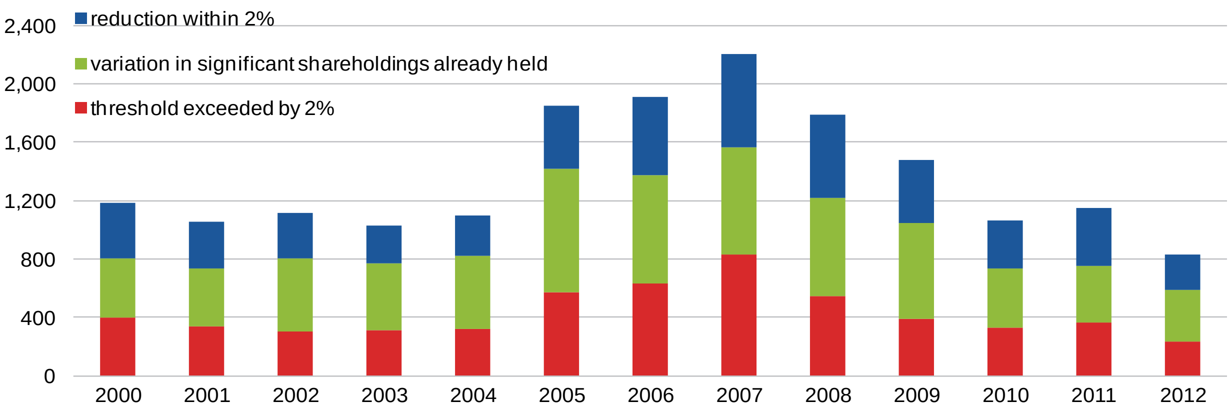
With reference to the transfer of a shareholding between companies in the same group (Cassa Depositi e Prestiti and Snam), which exceeded the 30% limit in the share capital of the listed issuer, the Commission ruled that the joint provisions of article 106(5)(b) of the Consolidated Law on Finance and article 49(1)(c) of the Issuers' Regulations did not apply.

During the year, the Commission replied to a request for an opinion about the proper application of the principle in article 106(2) of the Consolidated Law on Finance, with reference to the mandatory public offering on ordinary Edison shares. Its opinion was that the price indicated by the offeror was consistent with the application of the *ex lege* price determination principle contained in the above law.

4 Disclosure on ownership structures

Pursuant to article 120 of the Consolidated Law on Finance, 830 disclosures concerning shareholdings in listed companies were published in 2012 (against 1,100 in 2011; Fig. 120).

Fig. 120 Disclosures of relevant shareholdings in Italian listed companies



Source: Consob.

In 2012, disclosures by issuers concerning their listed shares represented 5% of the total, with the number of acquisitions slightly exceeding the number of sales.

Unlike in previous years, many of the declarations received in 2012 were received from Italian entities (56%). 30% of the disclosures related to joint stock companies, followed by asset management companies at 29%, individuals at 24%, and banks at 17%.

5 disclosures were also published during 2012 in relation to the acquisition, sale or variation of potential shareholdings in relation to 3 listed companies, whereas no disclosures were made in relation to the 'total long position', introduced in 2011 with the aim of providing investors with certain useful information intended to provide potential investors with the fullest possible picture of the listed company.

In 2012, 155 shareholders' agreements were announced (214 in 2011, in relation to 67 listed companies. 95 cases related to changes to existing agreements, and 21 cases related to dissolution, or the removal of the stipulated purpose. The remaining 39 cases related to the publication of extracts from new shareholders' agreements. A shareholders' agreement was stipulated for one of the two companies admitted for trading during the course of 2012.

5 Disclosure on related-party transactions

In 2012, 79 informative documents were published in relation to significant related-party transactions. (Table 27). This figure was in line with that for 2011 (80 informative documents), the year of first application of transparency rules in related-party transactions.

Table 27 Significant related-party transactions disclosed in 2012 by listed companies - informative notices

type of transaction	counterparty				
	directors/companies linked to directors	parent company	subsidiary/affiliate	key shareholders	total
reserved capital increases	1			3	4
supply, service, sponsorship and investment agreements		11	1	1	13
financing	5	10	4	9	28
merger		8	5		13
transfer of assets		16	2	3	21
total	*6*	*45*	*12*	*16*	*79*

Source: Consob.

In most cases, the informative documents related to financing operations and the acquisition or sale of assets and shareholdings. A considerable number of cases (17), related to capital operations such as mergers and capital increases with the exclusion of option rights for related parties. In 8 cases, the information concerned framework resolutions regarding a series of identical operations with certain categories of related party, the total value of which was likely to exceed the relevant threshold.

In 2012, Consob received 28 notifications of significant transactions with "ordinary" related parties, concluded under market conditions and subject to exemptions from the obligations of public disclosure.

The "ordinary" transactions carried out by 13 companies mainly related to the companies' routine operations (such as contracts for the supply of services, and financing transactions for banking groups). In certain cases, the financing transactions related to non-banking companies which benefited from the exemptions in place for operations covered by financial activities strictly connected to their operations.

In 2012, companies with publicly-traded shares published 47 informative documents concerning related-party transactions. (Table 28). Most of them related to financing operations with the majority shareholder.

Table 28 Significant related-party transactions disclosed in 2012 by the issuers of publicly-traded shares - informative notices

type of transaction	counterparty				
	parent company	subsidiary	corporate bodies	key shareholders	*total*
supply and service contracts, commercial transactions	7	2			*9*
financing	18		7	6	*31*
merger	3				*3*
transfer of assets	4				*4*
total	*32*	*2*	*7*	*6*	*47*

Source: Consob.

6 Supervision of internal control bodies

In 2012 the Commission made specific requests of information to internal control bodies, in order to receive the auditors' comments on the directors' compliance with specific rules and practices, and on the adequacy of the internal control system.

This approach was intended to encourage a swifter evaluation by the auditors of any potential criticalities in the governance of listed companies, and the timely and ongoing compliance with their regulatory obligations under article 149 of the Consolidated Law on Finance.

In connection with potential cases of maladministration, the boards of auditors were also required to inform Consob and the market, about their activity and whether they intended to take corporate liability actions against the directors using their autonomous power of initiative under article 2393(3) of the Civil Code.

In 2012, several important disciplinary procedures were commenced against boards of auditors in respect of violations of their supervisory duties under article 149(1) of the Consolidated Law on Finance. In particular, the complaints related to violations of the duty to supervise the directors' compliance with the principles of law and good administration, on the concrete implementation of the rules of corporate governance adopted under the Code of Self Governance, and on the adequacy of the organisational and internal control structure.

7 Supervision of audit firms

On 13 September 2012, as required by the new sector regulations, the Register of Legal Auditors was established by the Ministry of Economy and Finance. The Register also includes the auditing firms previously supervised by Consob and listed on the Special Register referred to in art. 161 of the Consolidated Law on Finance. The Special Register was definitively cancelled on 13 September 2012. Consob exercised the relevant supervisory powers until that date.

From the figures disclosed by the auditing firms in July 2012, it can be seen that the public-interest entities awarded a total of 2,750 mandates for the legal auditing of their financial statements in 2012 (2,838 in July 2011). The mandates referred to 300 partners (295 in 2011), reporting to 19 auditing firms.

It is a well-known fact that the auditing market is highly concentrated. A breakdown of the mandates for the auditing of the annual and consolidated accounts of public-interest entities on 30 June 2012 confirms a high level of concentration of the market share among the "big four" international leaders in the sector. The "big four" account for just over 83% of the market (based on the number of audit mandates conferred), while the top ten firms cover 97 of the auditing mandates for public-interest entities. The individual market shares of the "big four" vary between 15 and 24% (Table 29).

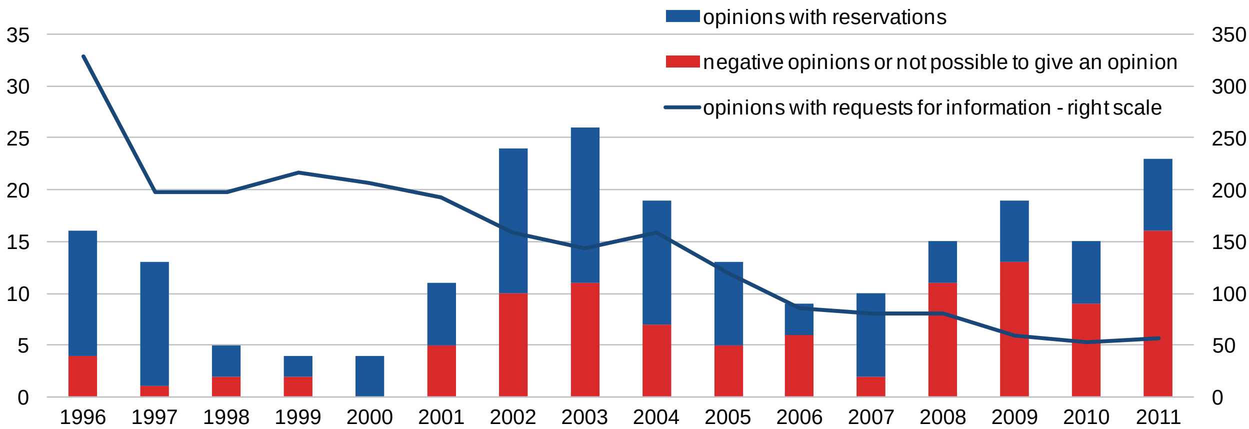
Table 29 Breakdown of legal auditing mandates on 30 June 2012, by category of auditing firm
(figures refer to public-interest entities as defined in art. 16 of Legislative Decree no. 39/2010).

legal auditing firms	firms with listed securities[1]		banks		insurance companies		invest.and financial intermediaries, others		total auditing mandates	
	number	*% share of market*	number	*% share of market*	number	*% share of market*	number	*% share of market*	number	*% share of market*
big four	1,497	*86.1*	301	*81.6*	109	*75.2*	380	*76.5*	2,287	*83.2*
medium-sized firms	206	*11.8*	50	*13.6*	36	*24.8*	88	*17.7*	380	*13.8*
small firms	36	*2.1*	18	*4.9*	-	-	29	*5.8*	83	*3.0*
total	***1,739***	*100.0*	***369***	*100.0*	***145***	*100.0*	***497***	*100.0*	***2.75***	*100.0*

Source: Consob. The auditing firms were classified into three groups, in descending order according to the number of mandates awarded to them. The "big four" category includes the top four auditing firms with the largest number of mandates. The "medium" category includes a second group of 6 auditing firms with a market share of between 0.7 and 6%. The "small" category includes the third group of 9 auditing firms with the smallest number of mandates, and a market share between 0.1 and 0.7%. [1] Companies with listed securities and their parent companies and subsidiaries subject to joint control.

With specific reference to the legal auditing of the 2011 annual and consolidated financial statements of companies listed on regulated Italian markets, the statutory auditors and independent auditing firms only gave a negative opinion of one company (the same as in 2010), and were unable to give an opinion on another 15 companies (9 in 2010, 13 in 2009); opinions with reservations were expressed for another 7 companies (6 in 2010 and in 2009). The auditors issued a request for information in respect of 57 companies (53 in 2010, 59 in 2009; Fig. 121).

Fig. 121 Independent auditor opinions on financial statements of companies listed on Italian regulated markets



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

The supervision of auditing firms in 2012 was again conducted by means of preventive and systemic quality controls, and subsequent intervention (enforcement) in specific cases .

In relation to quality controls intended to verify the existence and accurate application of the internal control procedures required by article 22(1) of Legislative Decree 39/2010, investigations into two auditing firms were completed during the course of 2012. These investigations marked the conclusion of the first cycle of controls on all auditing firms listed on the former Consob register (the "big four" and the medium and small auditing firms) . The controls highlighted criticalities in respect of which the Commission formulated recommendations, implemented by the auditing firms through the appropriate organisational measures.

The frame of reference for the "big four" was the organisational structure and relations with their networks. Within this framework, the adequacy of the internal control procedures adopted by each firm was evaluated, in the light of the fact that their organisational decisions are heavily influenced by the choices made within their networks (especially with regard to aspects of the quality of their professional services). Overall, the various organisational models applied by the large firms, in relation to quality control, were judged to be appropriate, compared to the reference principles.

However, various weaknesses were identified with regard to specific procedural and organisational aspects, which have led to reinforcing measures being introduced, in the implementation of Consob's recommendations.

The quality controls on the medium and small firms highlighted certain weaknesses, with particular regard to the planning of work (client knowledge, evaluation of the going concern principle, evaluation of the risk of fraud, analysis of the administration, accounting and internal control systems, identification of related parties, risk assessment etc.), the methods used to acquire evidence (verification of the reliability of the accounting data from external entities not subject to external auditing, and methods used to carry out external validation procedures and verification of relations with related parties), the appropriateness and scope of the evidence acquired in support of the conclusions formulated in the audit report, with reference to the main audited areas (tangible assets, equity investments in controlled and non-controlled entities, own shares, deposits, current accounts and charges payable and receivable), and the documentation provided in support of the conclusions expressed in the audit report. In response to these criticalities, the Institute carried out various enforcements intended to strengthen important organisational and procedural aspects.

During the year, a new cycle of quality controls was launched with the aim of verifying the efficiency and effective operational implementation of the organisational and procedural measures adopted by the auditing firms in response to the shortcomings identified by Consob, and the correct application of the auditing principles in the carrying-out of audit mandates, also for the large and medium-sized auditing firms.

With regard to enforcement activities, in 2012 a letter of complaint was sent to a firm listed on the Special Register following the discovery of irregularities in the conduct of an audit on the financial statements of a bank. A notification was also sent to an auditing firm in relation to audits carried out on the forecast data for the first four years of operation of a newly-established popular bank, as the auditor had issued his certification without highlighting the existence of irregularities in the elaboration and presentation of the data.

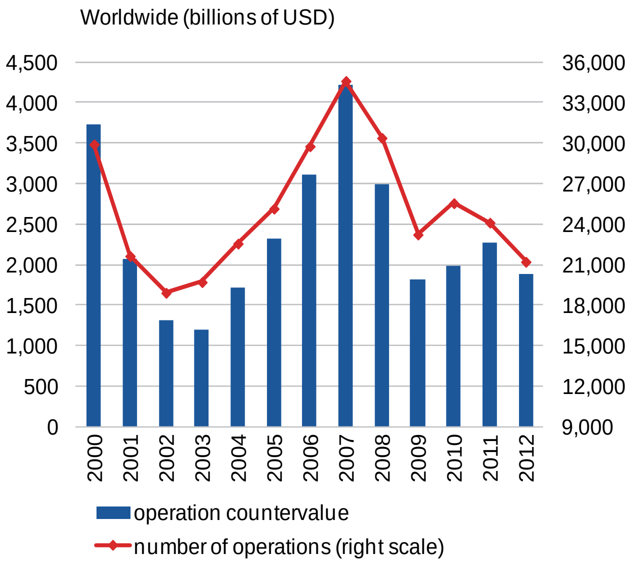
III Supervision of corporate disclosure

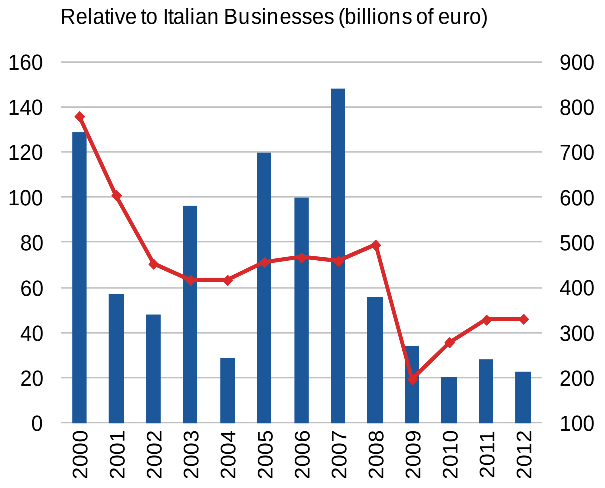
1 Extraordinary corporate finance transactions

Both the value and the number of mergers and acquisitions (M&A) carried out on the international market fell in 2012, reflecting the uncertainties in the global economy. The value of M&A transactions was approximately $ 400 billion less than in 2011 (-18%), and there were approximately 3,000 fewer transactions (-12%; Fig. 122).

There was a similar trend in the transactions involving Italian companies: the value of the transactions completed in 2012 amounted to 22.6 billion euro (28.1 billion in 2011), highlighting a 20% drop, while the number of operations was almost identical (331 compared to 329 in 2011).

Fig. 122 Mergers and acquisitions





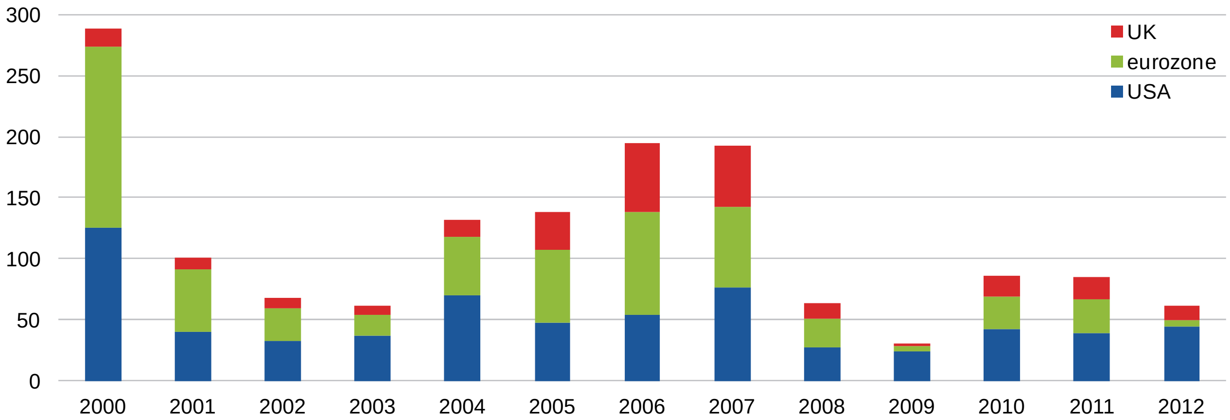
Source: KPMG Corporate Finance and Bloomberg.

There were few large operations on the domestic market: just 20 transactions accounted for approximately 80% of the total countervalue. The weight of Cassa Depositi e Prestiti investments rose to almost 40% of the total in 2012, while the number of operations from foreign buyers fell by more than 60% (from 18 billion to 7 billion euro).

After the signs of recovery in the two years leading up to 2012, the total funds collected by companies newly-listed on the main international stock exchanges fell once again, to approximately 62 billion US dollars (85 in 2011).

The decline in investments was more pronounced in the eurozone, where they fell from above 27 to 5 billion dollars (-81.5%), compared to the UK, which recorded a fall from almost 19 to approximately 12 billion dollars (-36.9%). Conversely, the figure for the United States rose from almost 40 billion dollars in 2011 to 44.5 in 2012 (+14% Fig. 123).

Fig. 123 Equity raised by newly listed companies in large industrialised countries
(billions of US dollars)

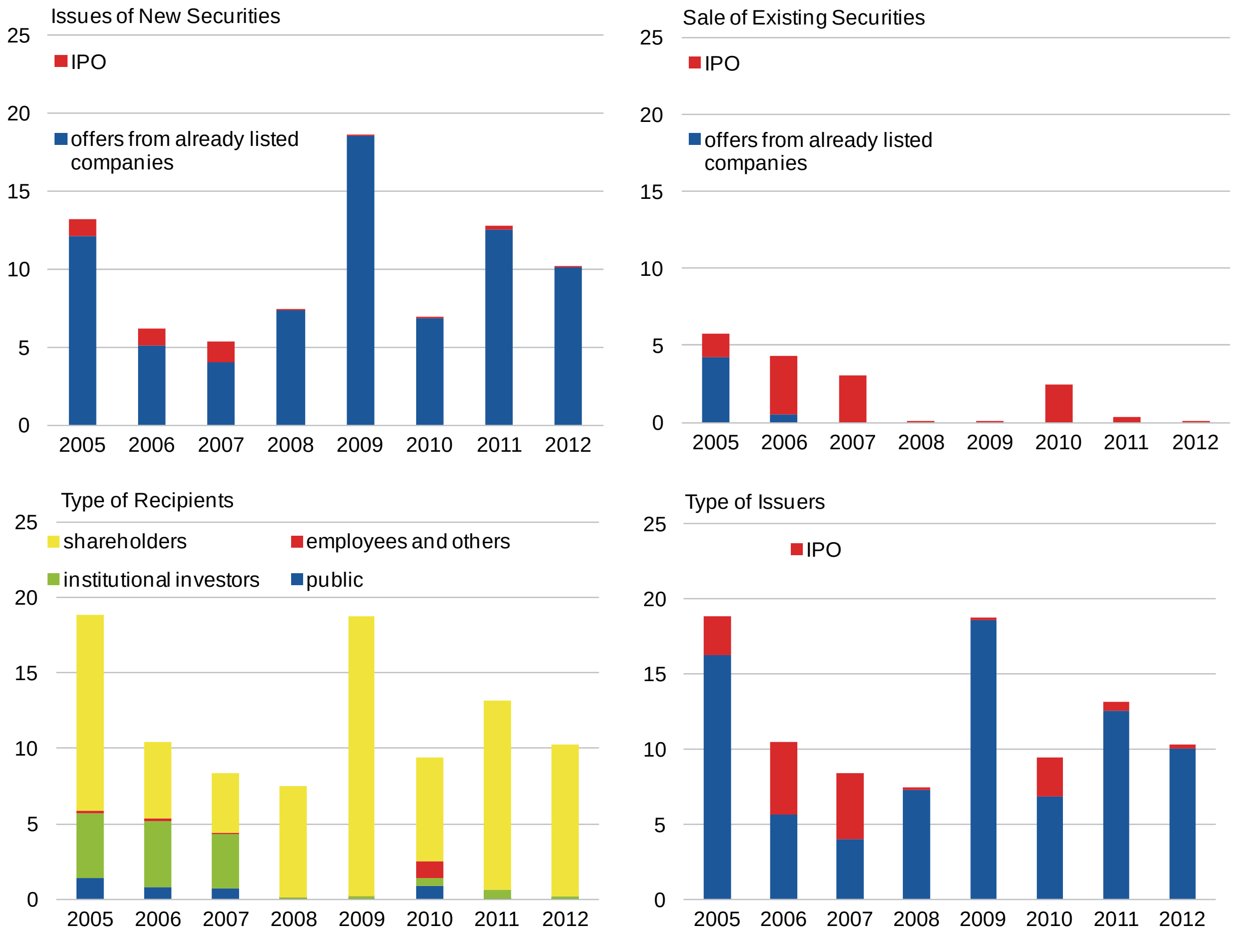


Source: based on data from the World Federation of Exchanges and London Stock Exchange. The US figures refer to NYSE and NASDAQ listed companies.

The total inflows of capital on the Italian share markets fell by 22%, from 13 billion euro in 2011 to 10 billion in 2012 (Fig. 124).

In line with the trend witnessed in previous years, the main channel of investment was the issue of securities offered under subscription by companies already listed. Almost all the funds collected related to capital increases under option, while there was a further decrease (from 4.5 to 1.8%) in the share attributable to initial public offerings intended mainly for institutional investors, and to a lesser extent to the general public.

Fig. 124 Overall placements of shares and convertible bonds of listed companies
(issues of new securities and existing security offerings; in billions of euro)



Source: Borsa Italiana

In 2012, there were 6 initial public offerings on share markets managed by Borsa Italiana. Only one of these related to a listing on the MTA, while the other operations concerned 2 admissions for trading on the MAC and on AIM Italia/Mac (3).

Mac and AIM Italia were merged at the start of the year, and a transitional scheme was in force for companies admitted to trading on the MAC, until December 2012, by which time they were to have appointed their nominated advisors ("nomads"), and should have met the other requirements stipulated for the transition to the new multilateral trading facility. Of the two companies admitted to the MAC, only one applied for and obtained a listing on AIM Italia/Mac within the required deadline, while the shares of the other company were suspended from trading from 1 January 2013, as the issuer had not fulfilled the requirements.

The total value of the offerings was lower than in 2011, and another reduction in value was recorded during the year (-58.2%), approximately the same level as in 2008-2009; there was however a slight increase in the amount of the individual offering, if measured against the total capitalisation of the companies after placement. The companies applying for listing are now smaller in size, with reference to the capitalisation measured on the basis of the pre-offer price and number of shares, the value for 2012 is clearly lower than that for 2011 (just over a third), although it is higher than the amounts recorded in 2008-2009 (Table 30).

Table 30 Initial public offerings by Italian companies[1]
(amounts in millions of euro)

	number of companies	Capitalisation pre-offering[2]	IPO value			*Incidence on Capitalisation post-offering*[3]
			Underwritten	Sale	total	
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	32	9,852	1,428	3,088	4,516	*40.1*
2008	8	341	147	6	153	*31.4*
2009	5	342	52	93	145	*36.0*
2010[4]	10	8,354	46	2636	2,682	*31.9*
2011	8	1,602	61	379	440	*26.4*
2012	6	602	71	113	184	*29.6*

Source: Consob and Borsa Italiana. [1] Includes initial public offerings for trading on AIM Italia/Mac since 2012, and on the individual MTFs in the periods prior to the grouping (from 2007 until 2012 on the Alternative Investment Market, from 2007 to 2011 on AIM Italia). [2] Capitalisation of listed companies,calculated on the basis of the public-offering price and the pre-offering number of shares. [3] In relation to the post-listing capitalisation, corresponding to 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 and Terna in 2004. [4] The figures include the tranche of the Enel Green Power bid, aimed at the general public and the Spanish employees (71 million euro).

The largest initial public offering on the MTA was the 'Brunello Cucinelli' offering with a countervalue of almost 174 million euro, followed by the three bids on AIM Italia/Mac (3.3 million euro, on average), and the two admissions to the MAC referred to above, which were much smaller in size (less than 500,000 euro in total). The 'Brunello Cucinelli' offering was the main new listing in 2012, even considering the pre-transaction capitalisation of 465 million euro (77.3% of the total).

Only one of the newly-listed companies had institutional investors in its shareholder body, in line with the figure for 2011. The pre-offering shareholding of the sole institutional shareholder was 20%, which fell to just over 15% after the offering (Table 31).

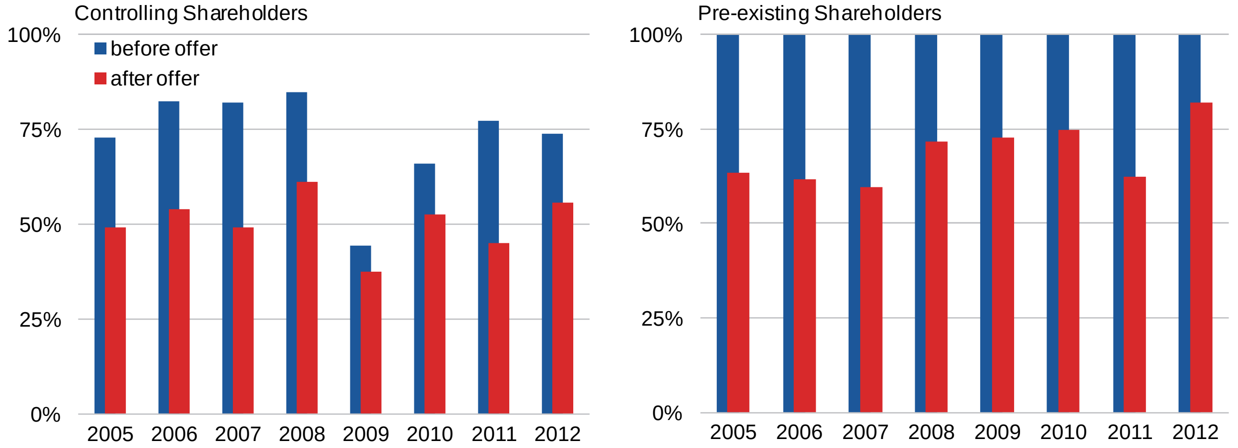
Table 31 Institutional investors' shareholdings in newly-listed Italian companies[1]

	Companies		average number of institutional investors[4]	average share pre-offering[5]	average share post-offering[6]
	number[2]	weight[3]			
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
2012	1	*25.0*	1.0	20.0	15.3

Source: Consob and Borsa Italiana. [1] Institutional investors include 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 and direct investments. Include the initial public offerings for trading on AIM Italia/Mac since 2012 (on AIM Italia since 2009). [2] Number of companies listed during the year, in which institutional investors held an interest at the public offering date. [3] Percentage of all companies listed during the year on the reference market. [4] Average number of institutional investors holding an equity interest at the public offering date. [5] Average percentage of the share capital held by institutional investors at the public offering date. [6] Average percentage of the share capital held by institutional investors immediately after the public offering.

The trend in ownership structure reflects the low contendibility of Italian companies listed on the stock exchange. In 2012 there was a clear increase in the post-offering majority shareholdings, which on average were 55.5% of the voting capital, compared to 44.9% in 2011. There was also an increase in the post-offering percentage of pre-existing shareholders (82% compared to 62.3% in 2011; Fig. 125).

Fig. 125 Ownership structure of newly listed Italian companies
(percentages of share capital with voting rights; average values)



Source: Consob and Borsa Italiana. Data include the initial public offerings for trading on AIM Italia/Mac since 2012 (on AIM Italia since 2009).

The percentage of securities offered to Italian and foreign institutional investors was 90% in 2012, in line with the 93% for the previous year. Except for 2010, the tranche offered to the public is not significantly different from the trend recorded in 2008 (Table 32).

The ratio between demand and placement for the "Brunello Cucinelli" offering denotes the investors' interest in the initial public offering transaction, with the oversubscription figure for the public offering and the institutional offering being clearly higher than the values recorded in previous years.

Table 32 Italian listed companies: offerings results[1]

	percentage allocated[2]				*supply-demand ratio[3]*	
	Public	Italian institutional investors	Foreign institutional investors	other parties[4]	*public offering*	*public offering*
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	24.4	57.7	1.5	*2.8*	*4.0*
2008	10.4	46.0	28.0	15.6	*1.0*	*1.1*
2009	6.9	31.6	56.7	4.7	*1.0*	*4.0*
2010[5]	75.6	12.7	11.7	--	*1.0*	*1.4*
2011	6.8	25.4	67.4	0.3	*1.0*	*1.9*
2012	10.0	30.0	60.0	--	*6.2*	*16.5*

Source: Consob and Borsa Italiana. [1] Averages weighted according to the values of the public offerings - percentage values. Rounding may cause discrepancies in the final figure. Data include initial public offerings for trading on AIM Italia/Mac since 2012, and on the individual MTFs in the periods prior to the grouping (from 2007 until 2012 on the Alternative Investment Market, from 2007 to 2011 on AIM Italia). [2] Where the breakdown of allocations between Italian and foreign institutional investors is not known, the figure has been estimated. [3] The supply-demand ratio averages are based only on offerings for which both the public and institutional figures are known. [4] Named parties for which a certain amount of shares is reserved, also as a result of *pre-listing*. [5] The figures include the tranche of the Enel Green Power bid, aimed at the general public and the Spanish employees.

2 Supervision of public offerings and admission to trading

In 2012, the Commission approved the publication of 1,043 prospectuses concerning admission to trading on regulated markets or public offerings (Table 33). Almost all the prospectuses related to non-share products, in other words bonds (535), covered warrants and certificates (52) and shares in UCITS (415).

During the year, Consob approved the prospectus for the MTA listings of 2 new companies (5 in 2011): Brunello Cucinelli and Sea (whose offering was not successfully concluded) as well as the registration document of Avio SpA, which also related to an incomplete public offer.

Table 33 Supervision of public offerings and admission to trading
(number of prospectuses)

		2007	2008	2009	2010	2011	2012
Admission to listing of shares[1]		38	17	6	7	7	2
of which	*through offering*	*27*	*9*	*1*	*2*	*5*	*2*
Assessment of equivalence		--	6	2	4	6	7
capital increases under option to shareholders[2]		14	16	23	16	23	7
other offerings[3]		--	--	--	--	--	1
offerings of unlisted securities by Italian issuers[4]		18	23	28	29	31	24
Bond loans		1,163	986	748	655	777	535
of which	*base prospectuses*	*870*	*639*	*472*	*405*	*416*	*286*
	prospectuses	*115*	*45*	*36*	*24*	*14*	*7*
	registration documents and supplements	*178*	*302*	*240*	*226*	*347*	*242*
covered warrants[5] and *certificates*		109	99	102	27	66	52
Admission to listing of warrants		3	2	10	--	--	--
UCITS[6]		422	428	337	380	330	415
	total	*1,767*	*1,571*	*1,254*	*1,114*	*1,234*	*1,043*

Source: Consob. [1] Figures refer to transactions for which authorisation was granted during the year for filing of the listing prospectus. [2] Share capital increases in listed companies (including increases associated with warrants and convertible bonds). [3] The figure relates to public or private offerings for sale or subscription (not for listing purposes) and also includes employee stock option plans. It does not include offers that involved the recognition of foreign prospectuses. [4] The data include prospectuses relating to public issuers, issuers of non-publicly-traded shares and newly-founded banks. It does not include bonds, covered warrants and certificates, or employee offerings. [5] The number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants [6] The data include public offerings of Sicav units of mutual funds and shares, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies. The figure also includes the marketing of new segments of foreign harmonised UCITS. It is noteworthy that i) from 1 July 2009, no authorisation is required for the publication of prospectuses for open-ended Italian UCITS; ii) 1 July 2011 marked the entry into force of the new notification procedure between the authorities in the original Member State and Consob, decreed by Article 93 of Directive 2009/65/EC and Regulation EU 584/2010. Up to and including 2006, figures also include pension fund offerings which from 2007 no longer fall under Consob supervision.

During the same period, companies involved in pre-listing operations continued to show a preference for the "tripartite prospectus" which offers a more flexible approach to managing time for access to the markets.

Increasingly, companies are launching the stock market listing process and a simultaneous process for sale through private negotiations with one or more investors.

In 2012, seven listed issuers took advantage of the exemption from publishing the prospectus, provided for in Article 57(1)(d) of the Issuers' Regulations, by providing the public with merger or demerger documents, deemed to be equivalent to the listing prospectus.

In 2012, Consob issued an opinion on three queries relating to the interpretation of exemptions from the provisions of the Consolidated Law on Finance and the Issuers' Regulations, under Article 34-ter of the Issuers' Regulations.

In the insurance sector, the capital increases under option to shareholders included those of Unipol Gruppo Finanziario SpA and Fondiaria Sai SpA, both aimed at fulfilling the broader plans for merger between the two companies.

The other capital increases included several which were characterised by the financial tensions facing the company, and by the special attention devoted to the shareholders' subscription obligations during the preliminary phase.

In certain cases, the Commission requested additional offer documentation. In particular, a request was made in connection with a supervisory action, relating to the incomplete public offering of the shares of IGD Siiq.

With regard to the offerings of non-listed securities of Italian issuers, the Institute approved 24 prospectuses including that of a bank subject to insolvency proceedings, and several newly-founded banks.

With regard to the new banks, their prospectuses related to new operations and extensions to twelve-month offerings, which required the publication of a new prospectus.

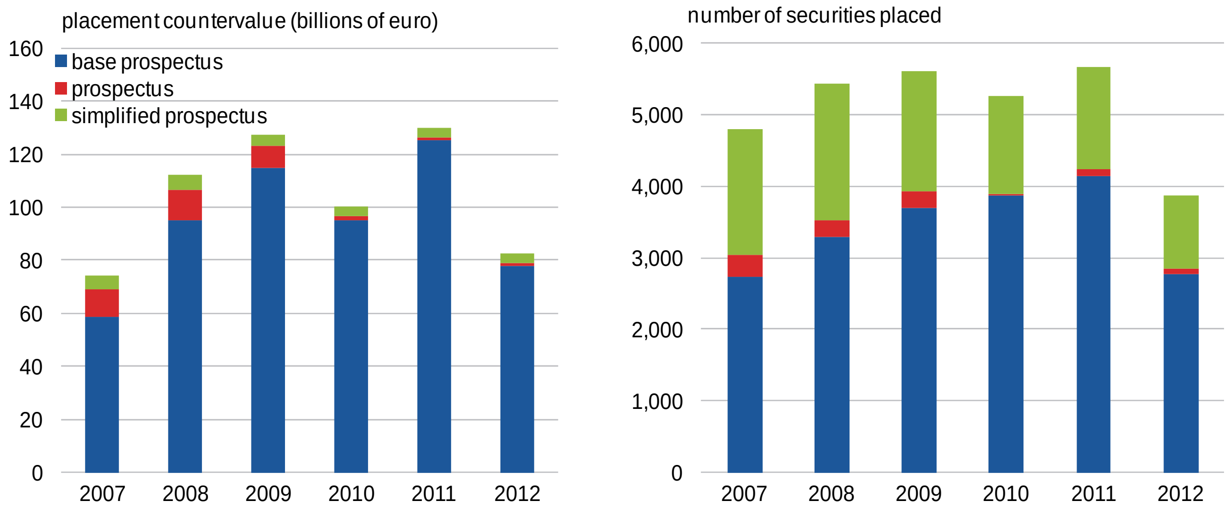
Supervision of the offerings of newly-founded banks was stepped up in 2012.

In the banking sector there were also two operations with similar purposes and supervisory aspects, although the first was an offer of non-listed convertible securities (Banca Popolare di Bari) and the second was a convertible bond issue (Veneto Banca).

Consob approved a total of 535 prospectuses on bond loans in 2012 (compared to 777 in 2011). Five of these related to corporate issuers, and 530 to banking issuers. The fall in the number of documents subject to appeal compared to 2011 seems to be attributable to the recent changes concerning the raising of the threshold required for the application of the simplified rules contained in Article 34-ter, subparagraph 4 of the Issuers' Regulations. Article 34-*ter* provides that the total value of the offer over a 12-month period must be below 75 million euro (compared to the previous threshold of 50 million).

The supervisory reports sent to Consob by the banking issuers reveal a significant drop in the amount placed in 2012 (82.7 billion euro compared to 130 in 2011), and also in the number of securities placed (3,876 compared to 5,660 in 2011; Fig. 126).

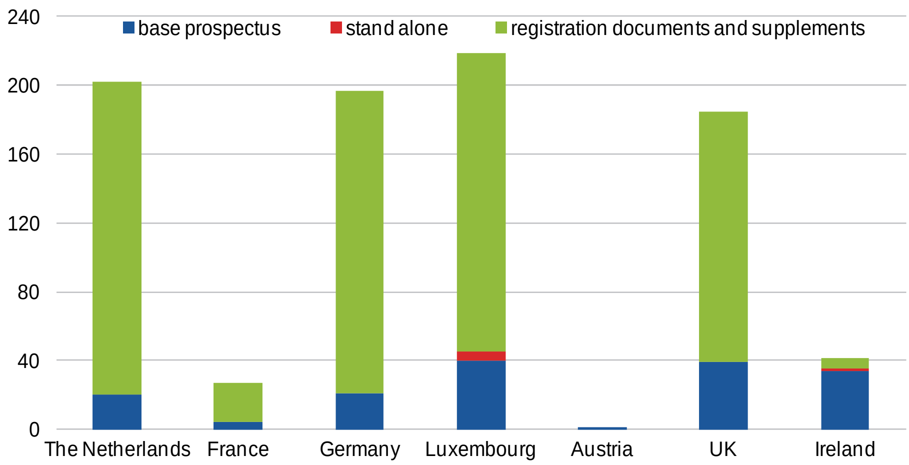
Fig. 126 Offers of bonds, certificates and covered warrants by Italian banks



Source: Consob.

With reference to the "passported" prospectuses on non-equity products issued by banks, in 2012 the Commission verified the completeness and accuracy of the approval certificates of 872 documents issued by EU authorities under the terms of Directive 71/2003/EC (Fig. 127).

Fig. 127 Public offerings and/or admission to trading of non-equity instruments – "passported" documents



Source: Consob.

In 2012, Consob also received 981 final terms relating to passported prospectuses. 936 of these were received after 1 July 2012. The high concentration of prospectuses in the second half of the year derives from the fact that the obligation for issuers to submit the final terms documents, also towards the competent authorities of the Member States, only came into force on 1 July. Of the 936 documents received in the second half of the year, more than 50% were approved by the competent German authority, and almost 30% by its British counterpart.

With regard to "Bonds for Southern Italy" under Legislative Decree 70/2011, 46 parties were authorised to proceed during 2012, up to the limits of the previous notifications, with 64 issues with a total value of 970 million euro. At the end of February 2013, the invested value was 733 million euro.

In 2012, 545 prospectuses were filed with Consob in relation to financial and insurance products issued by insurance companies (667 in 2011). 271 of these contained critical disclosure issues (Table 34).

Table 34 Enforcement activity on insurance products in 2012

Type of contract	Prospectuses filed	Prospectuses subject to enforcement	Breakdown of supervisory actions by area					
			unbundling of investment	Financial structure and risk	Revaluation mechanisms	Yield scenarios	other	total
unit linked	440	249	16	86	--	70	67	239
index linked	27	14	--	9	--	5	--	14
Capitalisation	78	8	2	1	--	3	4	10
total	*545*	*271*	*18*	*96*	--	*78*	*71*	*263*

Source: Consob.

Where necessary, the insurers promptly updated the information provided to investors in order to make it complete and consistent. In the most significant cases, notices were posted online.

3 Corporate disclosure

In 2012, supervision of corporate disclosure resulted in 570 requests for information from Consob under Article 115 of the Consolidated Law on Finance, and 128 requests for the publication of information under Article 114 (Table 35).

In response to the requests for disclosure to the public made in 2012, the Commission only received a single justified complaint, under Article 114(6) of the Consolidated Law on Finance. The complaint was rejected, as the issuer was deemed to be obligated to provide the requested information promptly to the public.

Table 35 Supervision of corporate disclosures and ownership structure

	2007	2008	2009	2010	2011	2012
requests for information under art. 115 of the Consolidated Law on Finance						
Information from directors, statutory auditors, independent auditors, general managers, parent and subsidiary companies	59	132	155	198	178	141
Requests for data and information	151	392	422	244	404	404
Requests for confirmation of major holdings	44	30	214	33	20	18
Requests for information to identify the persons responsible for issue of disclosures in the event of charges of infringement	48	102	--	--	--	--
requests for information about shareholder body	14	12	20	31	9	7
total	*316*	*668*	*811*	*506*	*611*	*570*
Requests to publish data and information pursuant to Article 114 of the Consolidated Law on Finance						
Supplements to information for disclosure at shareholders' meetings	5	11	38	24	18	30
Supplements to periodic financial reports	1	21	59	7	15	20
Information for disclosure to the market (press releases)	100	90	112	109	76	55
Monthly disclosures	1	8	3	9	10	12
Quarterly disclosures	—	—	20	6	--	--
Supplements to documentation on mergers and other extraordinary transactions[1]	3	8	25	1	6	4
Supplements to takeover bid documents	49	30	10	8	4	2
Supplements to prospectuses on proxy solicitation	—	—	—	—	—	5
total	*159*	*168*	*267*	*164*	*129*	*128*
Waiver of disclosure requirements pursuant to Art. 114, sub. 6 of the Consolidated Law on Finance	3	*5*	*4*	*2*	*9*	*1*
Delays in disclosures under Art. 114, sub. 3 of the Consolidated Law on Finance	*20*	*4*	*1*	*2*	*4*	*6*
Requests for immediate publication of research reports in the event of rumours	14	*5*	*4*	*4*	*2*	--
Reports to legal authorities	--	*5*	*10*	*6*	*3*	*8*
Written reprimands	1	--	--	*2*	--	--
Annual financial statements challenged	3	*2*	*1*	*1*	--	*1*

Source: Consob. [1] The figure for 2012 also includes a request for information concerning related-party transactions.

A further five notifications of delays in the circulation of information by listed issuers were also received.

The Institute also regularly monitored the information available online about the listed or public issuers of financial instruments (on specialised websites, blogs, forums and social networks).

As usual, there was also regular monitoring of the internal dealing and buyback transactions in order to verify compliance with the relevant laws and prevent instances of market abuse.

In 2012, Consob received almost 26,000 studies (of which 6,000 monographic), under Article 69-*novies* of the Issuers' Regulations - a slight increase (+8.5%) compared to the previous year.

The studies revealed a continuing tendency for financial analysts to view the listed companies positively. The studies containing a positive "buy" rating were again in the majority (around 48%), although there was a clear decrease compared to the previous year (just over 55%). However, given the negative economic scenario, the incidence of negative "sell" ratings has continued to increase. In 2012 the negative ratings represented almost 15% of the reports, and this percentage has been higher since 2009 (Table 36).

Table 36 Breakdown of monographic studies by recommendation
(percentage values)

	recommendation				total number of studies
	buy	hold	no rating	sell	
1998	59.1	25.5	9.9	5.5	2,288
1999	57.5	26.7	9.1	6.6	2,260
2000	58.2	26.1	9.6	6.1	2,368
2001	48.3	33.6	9.0	9.1	5,912
2002	46.7	29.2	11.7	12.4	5,351
2003	51.1	36.2	3.9	8.8	5,141
2004	55.0	36.3	4.5	6.2	5,326
2005	51.2	36.6	2.6	9.6	5,007
2006	52.6	31.8	7.5	8.1	4,927
2007	53.4	29.6	9.6	7.4	5,648
2008	52.5	31.8	4.3	11.4	6,665
2009	46.5	31.2	5.4	16.9	5,808
2010	53.2	29.4	6.3	11.1	5,358
2011	55.3	28.5	4.7	11.5	5,750
2012	48.2	34.1	2.9	14.8	6,190

Source: Consob.

In 2012, 227 listed companies were the subject of monographic studies, a 9% increase on the previous year. Just under a quarter of the companies covered by the financial analysts are the subject of more than 50 studies a year, while 26% are the subject of less than 4 (Table 37).

The information contained in the analysts' reports is particularly important for small caps, especially for the newly-listed companies who have more issues connected to imbalances of information (Box 5).

In February 2012, the Commission updated the list of the issuers of financial instruments with significant public trading, based on the communications received from the issuers themselves.

Box 5

The impact of financial analyst reports on small caps prices in Italy

Empirical research into various markets, including Italy, shows that the analysts' studies contain new information. This was also evident from an examination of a sample of 1,167 studies elaborated by 26 analysts, relating to 37 small caps listed for trading on the screen-based stock exchange (MTA) managed by Borsa Italiana between 2003 and 2011. 58% of the studies include a buy rating, 26% hold, and 11% sell (the remaining 5% contained no rating).

The method used was the standard event study, which estimates the abnormal returns recorded at the same time as publication of the study, for each day within a given time slot, as well as the cumulative abnormal returns corresponding to various periods preceding and following the date of publication. If the studies contain new information for the market, the abnormal returns on the date of publication other than zero must be recorded. If the abnormal returns are statistically and economically significant in the time slots prior to the date of publication, this would be evidence of selective disclosure of the study prior to publication.

The impact on share prices is calculated on the whole sample, for each category of rating (buy, hold and sell). The empirical exercise was then repeated by eliminating those companies whose study was published during the two weeks prior to the disclosure of potential "contaminating news" able to influence the share price. The analysis was repeated on a sub-sample which only includes the initiation of coverage of a small cap by a broker. Finally, the same methodology was applied to the sub-sample which only includes the revised ratings, in order to verify whether the market was significantly different in such cases.

The results show that the analysts' studies of the small caps contain new information for the market, and that the impact differs depending on the sample.

For the whole sample, the cumulative abnormal returns in the three days including the date of publication of the study were only statistically significant in the case of buy or hold ratings (+0.98% and -0.83% respectively). However, after excluding the studies published simultaneously with other information relevant to the company, only the impact on the buy ratings was significant (+1.13%). The sell ratings had no statistically significant impact on the share prices, even after disregarding the "contaminating news". One possible explanation for this finding is that 93% of these ratings were contained in studies published after 2008, in relation to companies whose average prices fell by 55% between 2008 and 2011, and which had already entered the downturn at the time of the rating. It is thus likely that during that period the sell ratings had no informative value for the market.

With regard to the initiations of coverage, both the buy ratings (+1.5%) and the hold ratings (-2.04%) brought new information to the market. As there were only 8 sell ratings, it was not possible to obtain significant estimates.

In the case of the sample concerning revised ratings, following an improvement in an evaluation (from hold to buy, from sell to buy or from sell to hold), the impact on prices was positive and statistically significant (+2.19%). However, the downgraded ratings (from buy to hold, buy to sell or hold to sell) had no statistical impact other than zero.

The analysis relating to the days prior to the publication of the studies shows that the cumulative abnormal returns are not statistically significant, in other words that there is no clear evidence of information leakage.

Cumulative abnormal returns: positive ratings

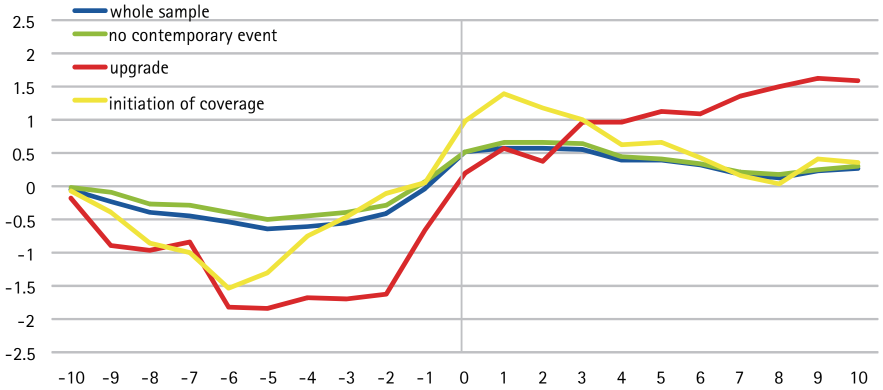


Table 37 Breakdown of companies covered by monographic studies, by level of coverage

	number of companies subject to monographic studies[1]	breakdown of companies according to number of studies[2]					
		≥ 51	25 - 50	13 - 24	5 - 12	≤ 4	*total*
1998	179	4.5	10.1	21.2	25.1	39.1	*100.0*
1999	146	4.9	8.9	16.4	27.4	42.4	*100.0*
2000	261	9.9	9.3	15.6	27.4	37.8	*100.0*
2001	217	7.8	17.5	14.7	24.4	35.6	*100.0*
2002	198	9.4	19.1	20.8	22.6	28.1	*100.0*
2003	255	8.4	15.5	17.7	23.9	34.5	*100.0*
2004	259	8.9	16.2	18.4	23.3	33.2	*100.0*
2005	213	19.7	11.2	15.6	25.1	28.4	*100.0*
2006	215	17.2	9.2	19.1	21.9	32.6	*100.0*
2007	246	18.6	8.8	18.5	22.4	31.7	*100.0*
2008	229	19.7	10.6	17.8	21.6	30.3	*100.0*
2009	223	22.3	12.4	16.7	19.9	28.7	*100.0*
2010	215	23.9	9.8	17.7	20.7	27.9	*100.0*
2011	208	25.9	11.6	14.5	20.7	27.3	*100.0*
2012	227	23.3	12.3	19.1	18.9	26.4	*100.0*

Source: Consob. [1] Companies listed on Borsa Italiana regulated markets. [2] Percentages.

4 Financial reporting

Pursuant to articles 118-*bis* of the Consolidated Law on Finance, and Article 89-*quater* of Consob Issuers' Regulation, supervision of financial information in 2012 continued to be guided by the risk-based approach intended to identify companies presenting the greatest risks relating to the transparency and accuracy of their financial information.

As usual, during 2012 the Commission also reviewed the periodic disclosure obligations imposed on issuers, by virtue of its powers under Article 114 of the Consolidated Law on Finance.

The powers under Article 114 were also exercised with reference to specific situations requiring the supplementation of the information contained in the financial statements, or prepared for review by the competent shareholders' meetings.

The Commission exercised the powers granted under Article 154-*ter*, subparagraph 7 of the Consolidated Law on Finance against 4 issuers with shares listed for trading on the MTA managed by Borsa Italiana SpA.

The persistence of the sovereign debt crisis, with its significant repercussions on the Italian banking system, led the Institute to intensify its monitoring of the financial information provided by the principal listed issuers in the banking sector.

Supervision of intermediaries IV

1 Authorised providers of investment services

In 2012, 744 banks and investment companies were authorised to provide investment services, compared to 778 in 2011 (Table 38).

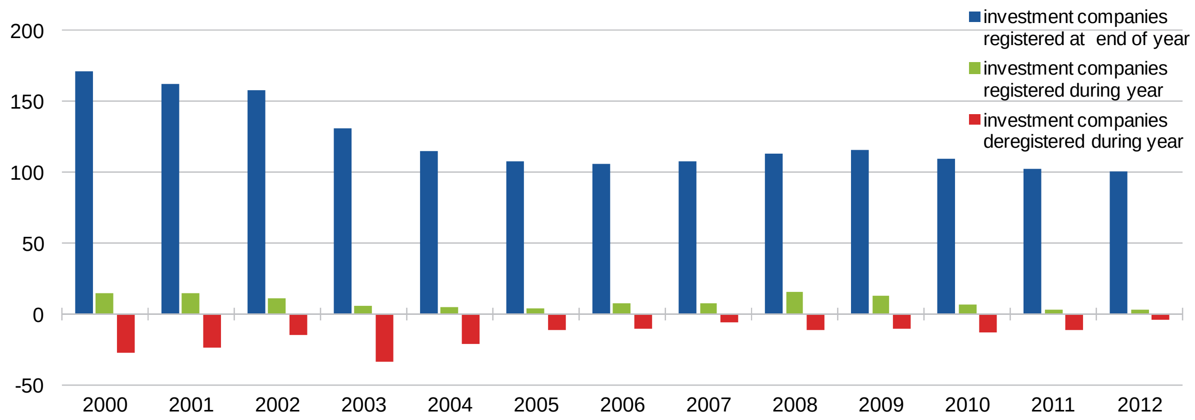
Table 38 Authorised providers of investment services

	2007	2008	2009	2010	2011	2012
Investment firms						
Number of authorised providers	*108*	*113*	*115*	*110*	*102*	*101*
consulting	108	109	110	103	*94*	*92*
trading on own account	24	20	17	15	*14*	*14*
trading on behalf of third parties	35	31	25	23	*20*	*20*
placement with prior subscription[1]	12	9	8	6	*5*	*5*
placement without prior subscription[1]	74	68	61	53	*47*	*46*
individual management	56	50	49	47	*46*	*44*
receipt and transmission of orders, and mediation	59	60	54	52	*49*	*50*
MTF management	--	2	2	3	3	3
average number of services per provider	*3.30*	*3.01*	*2.77*	*2.69*	*2.68*	*2.67*
Banks						
Number of authorised providers	*742*	*734*	*725*	*701*	*676*	*643*
consulting	723	700	692	673	*651*	*617*
trading on own account	559	540	535	516	*500*	*467*
trading on behalf of third parties	561	541	536	515	*499*	*466*
placement with prior subscription[1]	267	261	261	242	*225*	*208*
placement without prior subscription[1]	713	705	699	674	*651*	*616*
individual management	222	212	208	195	*181*	*170*
receipt and transmission of orders, and mediation	722	713	705	683	*660*	*624*
MTF management	1	1	1	1	*1*	1
average number of services per provider	*4.72*	*4.65*	*4.66*	*4.65*	*4.65*	*4.60*

Source: Consob and Bank of Italy. [1] Includes placement with underwriting commitment, i.e. assumption of a guarantee towards the issuer.

3 investment companies were entered on the register during the year. One of these related to an intermediary providing order receipt and transmission and investment consulting services, while the other two related to single-function intermediaries providing investment consulting and portfolio management services. There were 4 deletions, mainly as a result of voluntary exits from the market (Fig. 128).

Fig. 128 Register of investment and trust companies



Source: Consob.

Table 39 National Investor Compensation Fund intervention
(situation on 31 December 2012; cash amounts in thousands of euro)

	insolvencies[1]				
	Investment firms	exchange agents	Asset management companies	Banks	*total*
1997-2007	16	8	--	--	24
2008	--	1	--	--	1
2009	--	--	1	--	1
2010	2	--	1	--	3
2011	--	--	1	1	2
2012	--	1	--	1	2
total insolvencies	*18*	*10*	*3*	*2*	*33*
for which proofs of claim have been filed	*17*	*9*	*3*	*1*	*30*
Number of creditors admitted	2,607	1,008	*1*	--	*3,610*
Amount of claims admitted [2]	28,838	42,559	*3,751*	--	*75,148*
Fund intervention [3]	8,784	11,405	--	--	*20,189*

Source: Consob calculations based on National Investor Compensation Fund data. [1] Cases of insolvency for which the proofs of claim were filed after 1 February 1998. [2] Values net of the partial distributions made by the bodies controlling the insolvency procedures. [3] Indemnities authorised, paid or committed, in respect of the claims received.

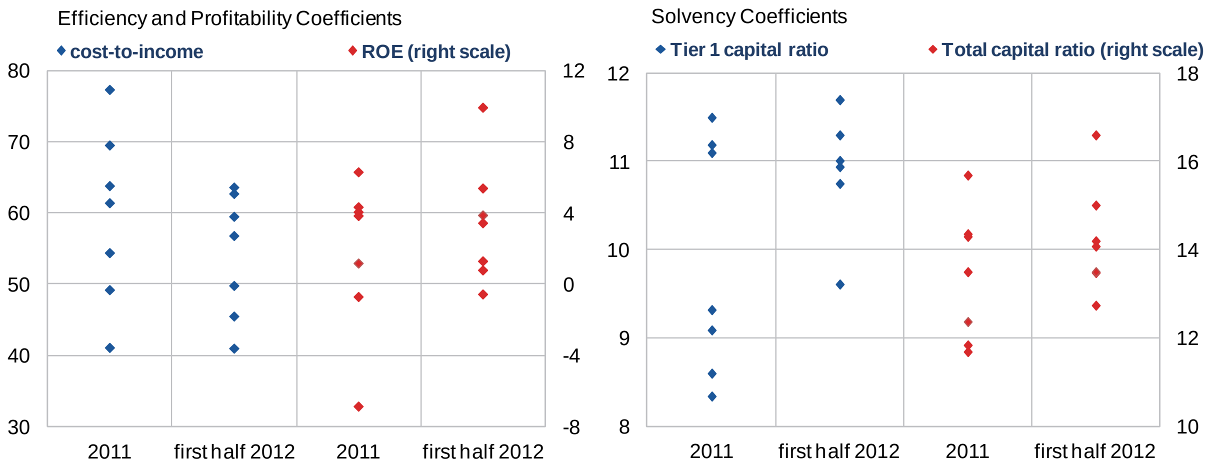
During the year, one bank and one stockbrokers experienced serious difficulties, taking the total number of insolvent intermediaries between 1997 and 2012 to 33 (Table 39). The National Investor Compensation Fund continued its management of insolvencies with proofs of claim filed after 1 February 1998, intervening in a total of 30 cases (17 investment companies, 9 stockbrokers, 3 asset management companies and one bank). These activities accompanied the "special management" of prior insolvency cases, which also involves the Italian Ministry of Economy and Finance.

2 Italian banks

In the first half of 2012, the solvency and operating efficiency of Italy's principal banks showed an improvement compared to the same period in 2011.

In particular, there was a fall in the cost to income ratio (from the ratio between operating costs and the intermediation margin) of the top 8 Italian banking groups. For five of them, this value was below 60%. With reference to capitalisation, there was a general improvement in the prudential coefficients of the main Italian groups. In particular the Tier 1 ratio (from the ratio between the core equity capital and risk-weighted assets) was above 10.5% for 7 groups, while the total capital ratio (from the ratio between the supervisory capital and risk-weighted assets) was higher than 12% for all 8 of the groups (Fig. 129).

Fig. 129 Profitability and solvency coefficients of the principal Italian banking groups



Source: calculations based on consolidated financial statements. Figures relating to the top 8 banking groups (total assets). The ROE data for the first half of 2012 have been annualised.

During the first nine months of 2012 there was a slight improvement in the income statements of the main Italian banking groups, mainly as a result of the significant increase in profits from financial operations, which grew by 90% compared to the end of 2011. On the other hand, the main source of income in traditional banking - the interest margin - continued to decline, falling by 3.6%, while net commissions fell by 3.7%. These dynamics translated into a 1.4% increase in the intermediation margin. Adjustments on doubtful loans showed a significant increase (+25.6%) due to the gradual deterioration in the quality of credit that is apparent in this negative phase of the economic cycle (Table 40).

Table 40 Aggregate income statement for the major Italian banking groups

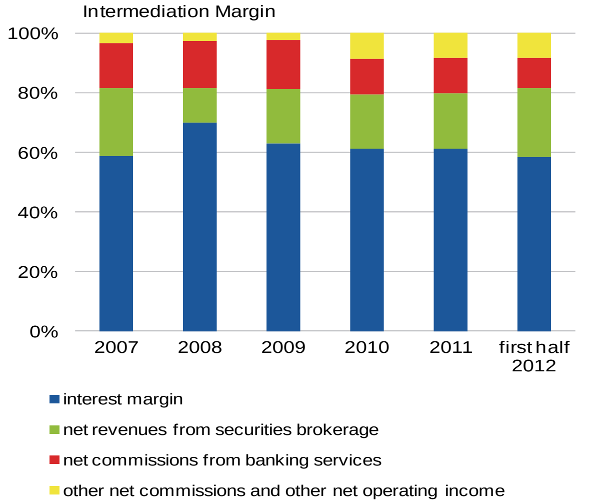
(millions of euro and year-on-year percentage changes)	2008	2009	2010	2011	30 June 2012	% change [1]	30 Sep 2012[2]	% change [3]
interest margin (a)[4]	45,432	40,331	37,428	37,280	18,400	-0.9	24,852	-3.6
net commissions (b = b.1 + b.2 + b.3)	20,417	18,888	20,653	20,116	9,642	-5.2	13,427	-3.7
of which investment and collective management services(b.1)	*9,731*	*7,982*	*8,603*	*8,436*	*4,102*	-12.7	....	
security and currency trading and order receipt	1,639	1,551	1,499	1,507	647	-19.2	....	
individual portfolio management	956	691	690	739	353	4.3	....	
collective portfolio management	3,346	2,636	2,838	3,063	1,398	-14.9	....	
depositary bank	255	108	118	104	49	-19.6	....	
securities safekeeping	125	128	106	77	17	-60.5	....	
placement and distribution of financial and insurance products	3,085	2,687	3,147	2,716	1,554	-9.3	....	
consulting	326	182	204	228	84	-18.3	....	
from banking services (b.2)[5]	*10,206*	*10,496*	*7,239*	*7,337*	*3,232*	-4.8	....	
other net commissions (b.3)[6]	*479*	*410*	*4,332*	*4,343*	*2,309*	4.9	....	
profit/loss on financial transactions[7]	-2,173	3,899	2,562	2,789	3,150	20.3	4,516	90.1
Other net operating income (d)	1,337	1,051	958	630	250	-28.6	121	-42.1
Insurance management result (e)	410	468	613	540	453	58.9	669	99.7
intermediation margin (f = a+b+c+d+e)	65,422	64,636	61,979	61,355	31,895	-0.3	42,916	1.4
operating costs (g)[8]	39,348	37,178	37,130	36,641	17,793	-2.5	19,807	-3.7
Operating result (f-g)	26,074	27,458	24,849	24,714	14,103	2.7	23,109	6.3
Net adjustments on loans	-10,507	-16,358	-13,965	-14,292	-7,585	26.6	-10,974	25.6
Net adjustments on other financial transactions	-2,799	-1,649	-523	-1,883	-566	141.0	-520	-66.4
net profit[9]	8,194	6,136	6,524	3,910	3,072	-25.2	3,908	1.9

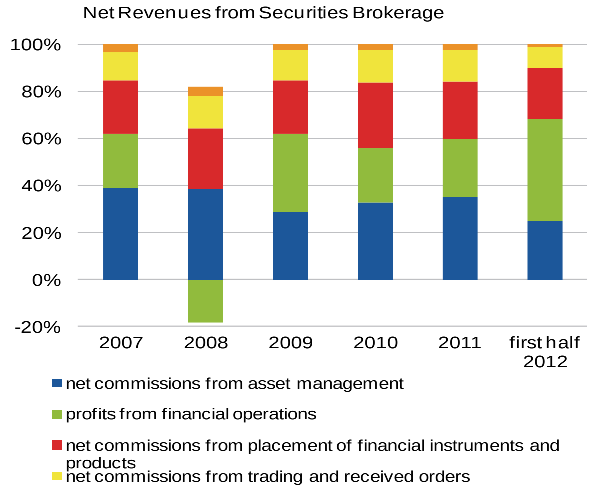
Source: based on consolidated financial statements and interim reports. Rounding may cause discrepancies in the last figure. The data also takes into account the major banking groups later merged via M&A into existing groups, except for HVB (consolidated into UniCredit as from 1 November 2005). [1] Percentage change in the first half of 2012 compared to the first half of 2011. [2] The figures on 30 September 2012 do not include the BNL group. [3] Percentage change in the first nine months of 2012 compared to the same period in 2011. [4] Includes dividends on equity investments, gains and losses on equity investments carried at equity and the balance of interest rate hedge transactions. [5] Net commissions for guarantees issued and credit derivatives, collection and payment services, net commissions on current accounts, credit cards and ATM services. [6] Net commissions for servicing on securitisation transactions, factoring and tax collection services . [7] The item includes the net result of trading, hedges and assets and liabilities assessed at fair value, plus profits or losses 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.

As far as the breakdown of revenues is concerned, during the first half of 2012 the incidence of the interest margin continued to decline, falling below 60%. This dynamic mainly reflects the extremely low levels of interest rates in the presence of the ECB's expansive monetary policy (Fig. 130). The incidence of net commissions also fell below 20%. On the other hand, there was a rise in the contribution made by securities brokerage to total revenues, taking them to levels over 20%, following the relaxing of the tensions on the financial markets and the resulting rise in market prices, and therefore in the fair value of the securities held by the banks. The reduction in returns on domestic public debt securities, which had experienced significant increases during 2011, led to a large increase in the profits from financial transactions, comprising profits from completed trades and gains from the fair value valuations of government securities.

With regard to funding, during the first half of 2012, Italy's leading banks saw a slight fall in the level of direct and indirect deposits.

Fig. 130 Breakdown of revenues of the major Italian banking groups

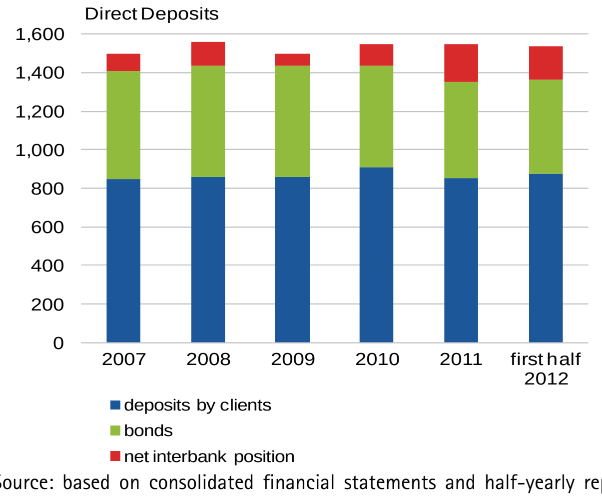


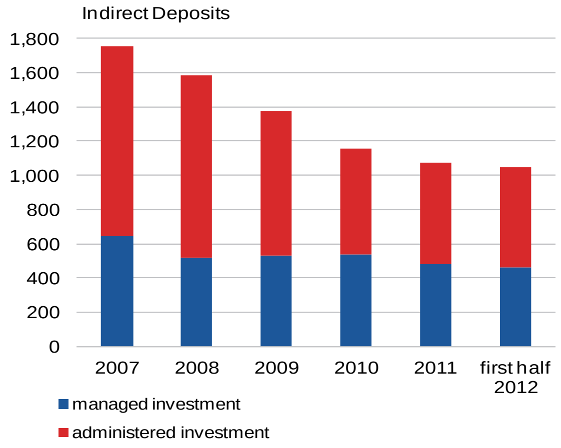


Source: based on consolidated financial statements and half-yearly reports.

During the first half of 2012, there was a slight increase (+2%) in customer deposits, which had fallen slightly at the end of 2011, compared to 2010. There was a different reduction in bond issues (-2%, equivalent to 8 billion euro) and a larger reduction of 12%, equivalent to 23 billion, in interbank deposits, or the net interbank position (the difference between interbank lending and borrowing). Indirect deposits (administered and managed savings) also fell further, mainly due to the managed savings component (-3%), with a smaller 1% reduction in the level of administered savings; Fig. 131).

Fig. 131 Deposits for the major Italian banking groups
(period end balances; billions of euro)

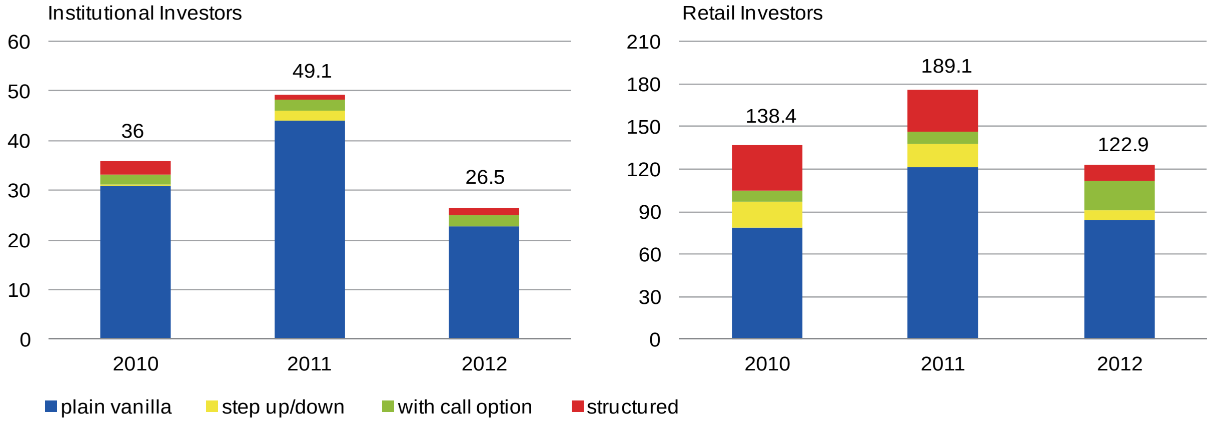




Source: based on consolidated financial statements and half-yearly reports. Asset management includes technical reserves for insurance and welfare products for group companies. Subordinated and trading liabilities are excluded from direct deposits.

In 2012, bank bond issues fell by almost 90 billion, from 238 billion in 2011 to less than 150 billion in 2012. The reduction amounted to 66 billion for bonds placed on the domestic market (-35%) and almost 23 billion for those placed on the international market (-46% Fig. 132).

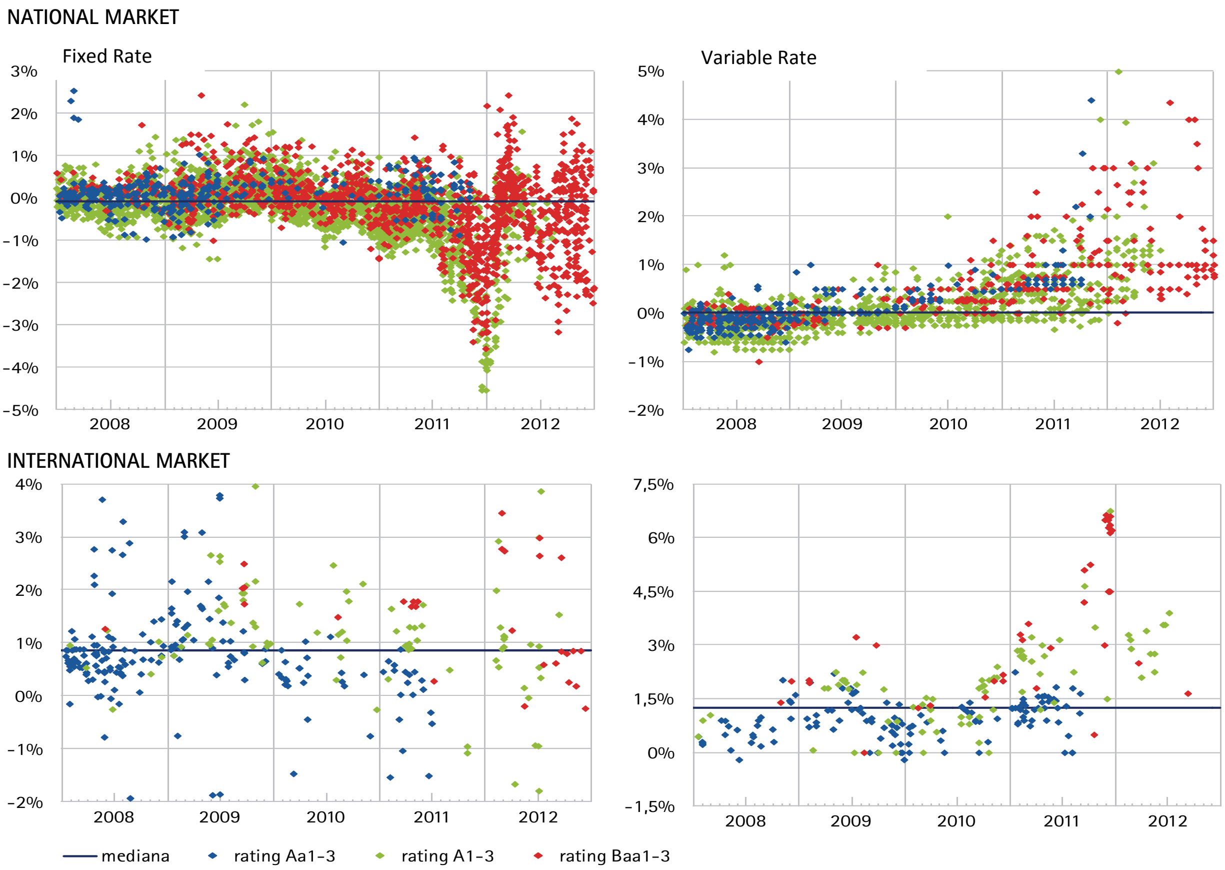
Fig. 132 Bond issues by Italian banks
(amount placed in billions of euro)



Source: statistical supervisory reports. Provisional data and partial estimates. Excludes bonds guaranteed by the State.

With reference to the cost of the bond issues of Italian banks, the returns offered to retail investors, the recipients of the domestic placements, were generally lower than those offered to the institutional investors (Fig. 133).

Fig. 133 Spread of returns on domestic bank issues for the retail market, and on the euromarket for institutional investors
(difference between the returns on maturity of fixed-rate bonds compared to the BTP, and variable-rate bonds compared to the Euribor)

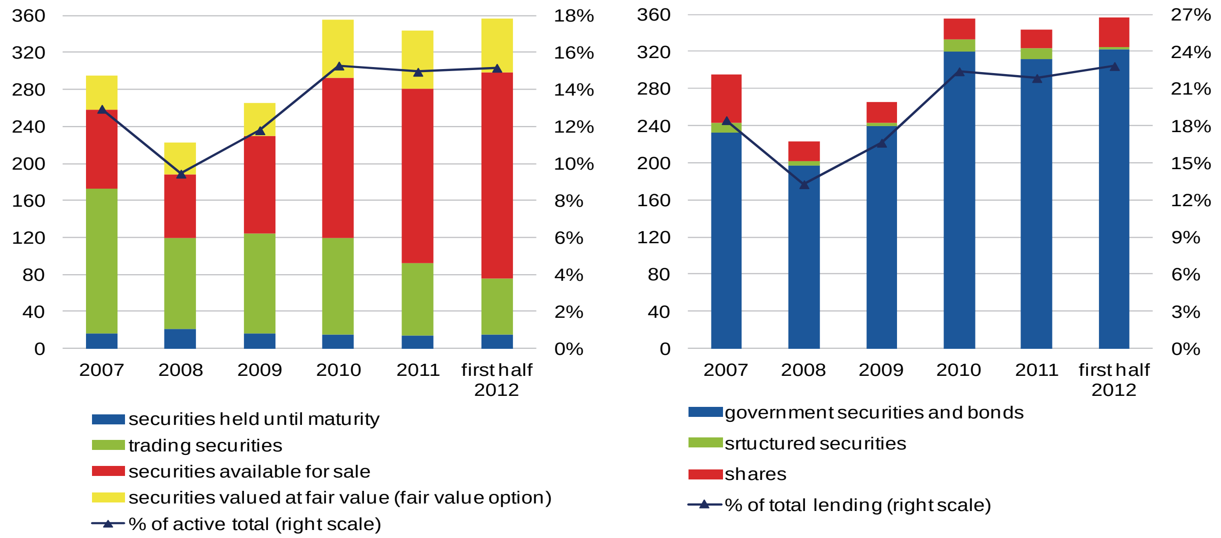


Source: prospectuses and final terms for offerings to retail investors, and Dealogic data for offerings to institutional investors. The fixed-rate bonds include the step up/down securities. Excludes bonds guaranteed by the State.

As to the dynamics of the spreads compared to the benchmark, from the middle of 2011 onwards there was an increase in the number of fixed-rate bond issues with a negative spread compared to the return on BTPs with a similar residual life. This phenomenon, which mainly affects the domestic market, was slightly less apparent during the first half of 2012, but then became much more evident. With regard to variable-rate bonds, from 2011 onwards the spread on returns compared to the Euribor increased significantly, and for some issues even exceeded 400 basis points on the domestic market and 600 basis points on the international market. From 2008 until the end of 2012, the number of high-rated issues (in classes 'AA' and 'A') gradually reduced, and was down to nil by the end of 2012.

The securities portfolio of the main Italian banking groups grew during the first half of 2012, mainly as a result of the 18% increase in securities available for sale, and to a lesser extent in those held until maturity (+9%). The incidence of the securities portfolio on total assets remained more or less stable, at 15% (Fig. 134).

Fig. 134 Breakdown of the securities portfolio of the major Italian banking groups
(period end balances; billions of euro)



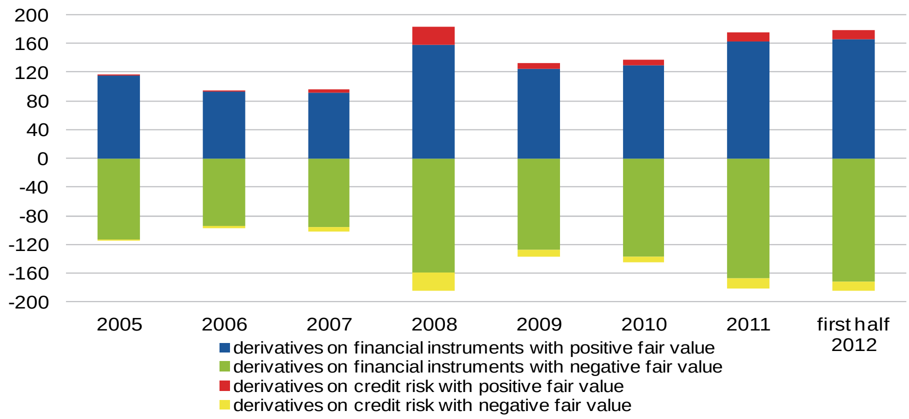
Source: based on consolidated financial statements and half-yearly reports. Financial assets other than securities (i.e. credit facilities or loans) and assets sold and not cancelled or impaired are excluded. UCITS are included among Government securities and bonds.

More specifically, during the first six months of 2012 there was a significant reduction in the securities held in the trading portfolio and those marked at fair value (–22 and -8% respectively). There was a 74% decrease in structured products (from 12 billion euro at the end of 2011 to just over 3 billion on 30 June 2012), while there was an increase in debt securities and shares (up by 3.4 and 58.2% respectively).

The gross market value of trading derivatives (the sum, as an absolute value, of the fair value of the derivatives booked under assets and liabilities) grew slightly during the first half of 2012, from 357 billion at the end of 2011 to 362 on 30 June 2012 (Fig. 135). The derivatives' net market value (the difference between the fair value of the derivatives booked under assets and those booked under liabilities) was negative in the amount of 5.8 billion euro (compared to a negative value of approximately 5 billion at the end of 2011). As to the alteration in the quality of credit, Italy's leading banking groups have shown a significant increase in the incidence of doubtful loans out of the total gross customer loans.

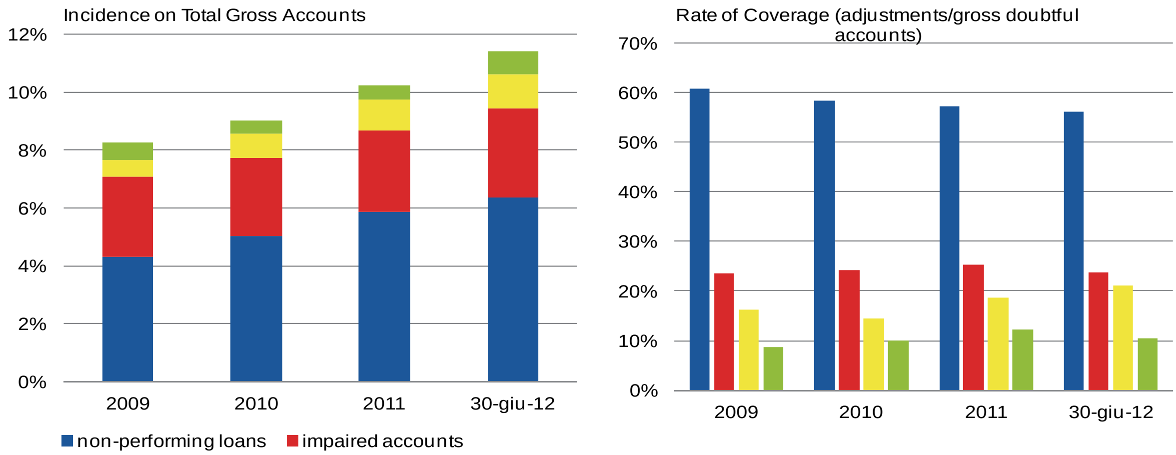
This increase was recorded in all categories of doubtful accounts, although it was more pronounced in the non-performing category (with the incidence on the total rising from 5.9% at the end of 2011 to 6.4% on 30 June 2012), and for impaired accounts (2.8 to 3.1%); restructured and overdue loans accounted for approximately 2% of the total gross loans on 30 June 2012 (Fig. 136). There was a simultaneous reduction in the rate of coverage of non-performing loans and impaired accounts (from the percentage of both types of doubtful accounts already written off on the balance sheet), while the rate for restructured and overdue loans increased.

Fig. 135 Fair value of trading derivatives of the major Italian banking groups
(period end balances; billions of euro)



Source: based on consolidated financial statements and half-yearly reports.

Fig. 136 Changes in the quality of credit of the main Italian banking groups



Source: based on consolidated financial statements and half-yearly reports. 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.

3 Supervision of banks and investment companies

During 2012, the supervision of banks and investment companies consisted of meetings with company representatives, formal requests for information, inspections and an analysis of the complaints received by the Institute (see Chapter IV *"Supervisory activity and disciplinary measures"*). 8 investigations were commenced with regard to investment companies, and 5 with regard to banks, while 10 investigatory procedures were concluded, of which 5 involved investment companies and 5 involved banks (Table 41).

Table 41 Supervisory activity of banks and investment companies

	investigations started		investigations concluded	
	Investment companies[1]	banks	Investment companies[1]	banks
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
2012	8	5	5	5

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

During 2012, following the introduction of the MiFID and its enacting regulations, the supervision of intermediaries providing investment services focused on a review of the operators' conduct towards customers, also in the light of specific placements of financial instruments. The investigations were intended to verify the effects on customers of the intermediaries' procedural and operational controls.

Consob issued 45 letters of complaint to the representatives of 5 banks and one investment company, in relation to verified breaches of sector regulations (see the following Chapter V *"Supervisory activity and disciplinary measures").* It also requested corrective measures to ensure that conduct was compliant with current regulations.

Investigations were also conducted into the customer compliance of EC investment firms with a permanent establishment in Italy, trading on the Forex market. The growing activity of these intermediaries, particularly in high risk instruments such as contracts for difference, requires special attention, especially with regard to compliance with the rules on conduct towards retail clients.

Article 36 of Legislative Decree 201/2011 ("Save Italy") converted with amendments into law 214/2011, imposed a prohibition on interlocking, i.e. the holding or exercising of executive positions in companies or groups of competing companies operating in the credit, insurance and financial markets. The new law responds to the need to avoid situations that could affect competition, but is rather complex in terms of its application.

On 20 April 2012, Consob, the Bank of Italy and ISVAP (now IVASS) published specific guidelines setting out the criteria to be applied by each institution in its own sector, when investigating the existence of illegal "interlocked" positions. On the one hand, the guidelines are intended to promote the straightforward and consistent application of the interlocking prohibition, and on the other, they are intended to guarantee transparency and coordination in the work of the supervisory authorities, who are required to order the cessation of incompatible offices, if the interested parties or bodies fail to act.

4 Supervision of asset management firms

In 2012, 3 meetings were held with the legal representatives of asset management firms (under article 7 of the Consolidated Law on Finance), while 8 requests for information were sent to the same number of auditing firms, as part of the supervisory activities concerning 57 firms (under Article 8(2) of the Consolidated Law on Finance).

Supervision of open mutual funds focused on "coupon funds". These funds are denoted by a long-term "buy and hold" investment policy, and involve the periodic distribution of a coupon connected to the portfolio payoff.

With regard to the supervision of disclosures, the work carried out in 2012 related to checks on the adaptation of bid documentation (by 30 June 2012) to comply with the new provisions of Directive 2009/65/EC (the UCITS IV Directive) and Regulation 583/2010 which specifically require the preparation of KIID documents containing key information for investors.

With reference to cross-border marketing, in 2012 Consob received 415 notifications from foreign authorities under Article 93 of Directive 2009/65/EC, concerning marketing in Italy by foreign-law undertakings for collective investments of shares or units in EC harmonised UCITS. Consob's investigations related to the accuracy of the documentation and procedural compliance.

Two opinions were also issued to the Bank of Italy, in relation to the two cross-border mergers completed in 2012, under the regulations introduced by Directive 2005/56/EC of 26 October 2005, enacted in Italy with Legislative Decree 108/2008, which is intended to facilitate and reduce the cost of cross-border mergers between joint-stock companies in the EU.

With regard to the sector of real-estate funds, the supervisory activity carried out in 2012 jointly with the Bank of Italy also involved a property valuation process. After examining the valuation procedures adopted by the asset management firms in accordance with the joint Consob-Bank of Italy communication of 29 July 2010, further investigations were conducted into the mechanics of these processes, in order to identify the roles and responsibilities of the parties involved in the valuation, the flows of information, and the controls put in place by each firm. Auditing firms were also asked to carry out detailed investigations as part of the audit of the funds' accounts for the year ending 31 December 2011.

The examination of the structure of the asset-management firms' Boards of Directors, and their directors' independence requirements also continued in 2012. The composition of the Boards of the top 18 asset management firms (in terms of managed assets) from the banking and insurance sector was analysed. With total assets of more than 158 billion euro on 31 December 2012, these firms represented approximately 90% of the assets of all Italian-law open funds. The data was then compared against the same figures for 2011 (Table 42).

Table 42 Office held by directors of asset management companies in other companies of the same group
(number of directors)

	Office held in the asset management company							
	Managing director	Director	Executive director	Independent director	Chairman	Chairman, executive director	Chairman, independent director	*total*
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*
Office held in other group companies	6	35	1	7	3	1	1	*54*
No office held in other group companies	1	20		30	2		2	*55*
grand total	*7*	*69*	*1*	*40*	*12*	*2*	*3*	*134*
2012								
Office held in the parent company	1	9	1	2	9	1		*23*
Chairman		1		1				*2*
Deputy Chairman								
Managing director		1			3			*4*
Director		2		1	2			*5*
Executive director					2	1		*3*
Independent director								
Director General					1			*1*
Deputy Director General								
Manager	1	5	1		1			*8*
Office held in other group companies	10	29	1	7	1	1	1	*50*
No office held in other group companies	5	15	1	33	3		2	*59*
grand total	*16*	*53*	*3*	*42*	*13*	*2*	*3*	*132*

Source: prospectuses Figures relate to a sample based on the top 18 asset-management companies from the banking or insurance sector, according to assets managed in 2012. Period end data. In the case of directors with offices in the parent company and other group companies, the position in the former is deemed to be prevalent. For the definition of executive director, reference has been made to Article 2381 of the civil code, while the definition of independent director comes from the definition given by Assogestioni.

5 Supervision of financial salesmen

The Register of Financial Salesmen, which has been managed by a specific body controlled by Consob since 1 January 2009, has seen a reduction in the number of registrants, which fell from 54,583 at the end of 2011 to 52,265 at the end of 2012 (Fig. 137); 33,472 persons hold a mandate from an intermediary.

Fig. 137 Register of financial salesmen

Source: Consob and APF.

As usual, the supervision of financial salesmen during 2012 was mainly based on reports by intermediaries, complaints from investors, the results of investigations conducted into intermediaries and finally on communications from the courts, the police, and the body responsible for keeping the register of financial salesmen.

Supervision of violations of sector regulations is based on the systematic application of standard objective criteria introduced at the end of 2010, in relation to the prior selection of reports and complaints. These criteria allow a greater focus and prompt response in enforcement action, through the selection of the most significant cases in terms of the number of clients involved, the extent of the loss suffered and the penalties which can potentially be imposed for each offence or repeated offence.

In 2012, work continued on gathering and analysing the data submitted by intermediaries in application of Annex II.10 of the "Guide to the disclosure obligations of supervised entities" referred to on Consob resolution no. 17297/2010.

Supervisory activity and sanctions V

1 Inspections

In 2012, there were 33 inspections of supervised entities, while a total of 38 investigations were launched. In 17 cases, assistance was obtained from the Currency unit of the Finance Police (Table 43).

Table 43 Supervisory activity

	Investigations launched against:							Investigations concluded against:						
	listed companies	independent auditors	market management companies[1]	Investment companies[2,3]	banks[4]	Asset Management co.s \SICAVs[3]	*total*	listed companies	independent auditors	market management companies[1]	Investment companies[2,3]	banks[4]	Asset Management co.s \SICAVs	*total*
2007	4	5	--	4	2	3	*18*	1	2	--	2	4	3	*12*
2008[5]	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*
2012	16	3	2	8	6	3	*38*	15	5	2	5	6	--	*33*

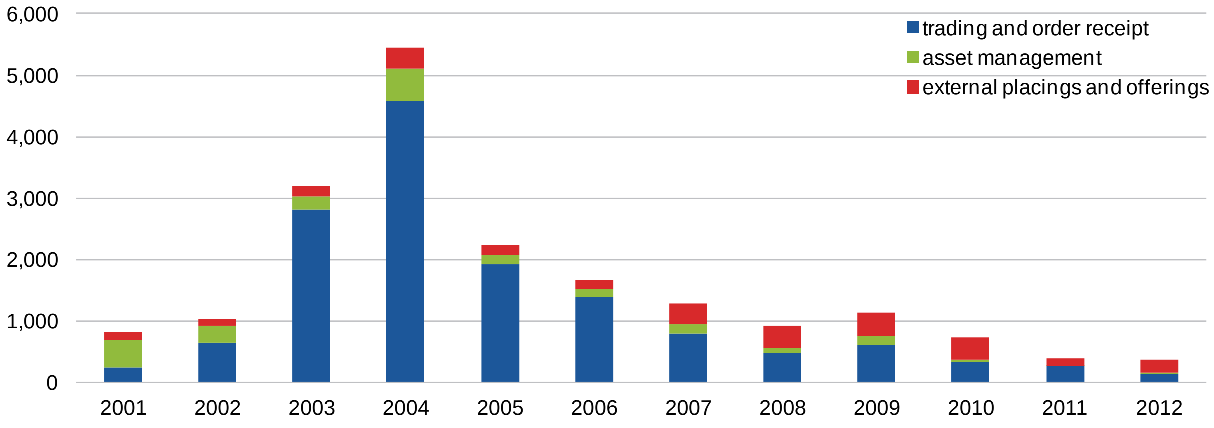
Source: Consob. [1] Includes the managers of regulated markets, clearing services and central depositaries. [2] Includes trust companies and the Italian branches of EU investment firms. [3] Includes the inspections carried out on behalf of the Bank of Italy (with regard to capital stability and anti-money laundering provisions). [4] The total for 2012 includes one investigation that was commenced and then closed, into the promotional committee of a newly-formed bank. [5] Includes one investigation that was commenced and then closed, against a stockbroker.

A total of 49 investigations were commenced in relation to internet-based offences within the Institute's remit. 255 websites were investigated.

Finally, with regard to anti-money laundering regulations, three reports were made to the Financial Intelligence Unit (FIU), one to the Bank of Italy, and one to the Legal Authorities. The Local Government Accounts Department also received a declaration of a failure to report a violation of the limits on the circulation of cash (Art. 51 of Legislative Decree 231/2007).

As usual, the inspections of intermediaries were based on the complaints received during the year. 374 complaints were made in 2012, slightly fewer than the 398 received in the previous year (Fig. 138).

Fig. 138 Complaints received about investment services



Source: Consob.

During 2012, activities continued in relation to the investigations of alleged violation of the rules on the sale of financial products to the public. Various initiatives were taken, mainly in relation to the offers of investments made online.

The supervisory activity was focused in particular on the use of promotional tools such as "multilevel" marketing strategies, as they can reach a far greater section of the public, thus amplifying the potentially adverse impacts of illegal offers on the potential investors.

In 2012, action was intensified to combat the phenomenon of illegal investment services offered to the public. Investigations revealed that also in this area, the web is the preferred form of communication with potential customers, who are offered trading services on financial instruments through specific online platforms. A particularly common example was the illegal offer of investment services on binary options. It was found that a number of operators offer web-based trading on such options, promising very high yields and using particularly aggressive commercial strategies that involve the widespread use of advertisements and affiliation programmes that allow members to increase their returns.

The investigations conducted in this area identified the actual behaviours adopted towards the public through the websites in question, and led to provisional measures (suspensions) being taken in six cases, with six prohibitions on the public offer of financial products, and 16 notifications to protect investors (Table 44).

Finally, Consob issued two general notifications on subjects of particular interest: binary options and mirror trading, international phenomena which are also common in Italy.

Table 44 Provisional and prohibitive measures relating to calls for public savings and notifications to protect investors

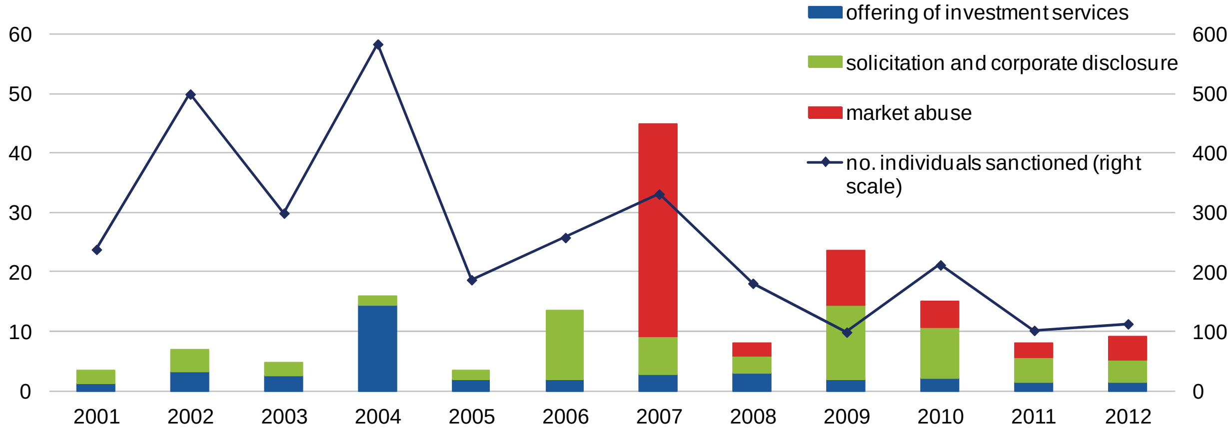
	suspension orders	prohibitive measures	notifications to protect investors	*total*
2007	--	1	--	*1*
2008[1]	2	1	--	*3*
2009	6	4	--	*10*
2010	5	5	--	*10*
2011	3	6	1	*10*
2012	6	6	16	*28*

Source: Consob. [1] In 2008, one case of suspension led to a prohibitive measure being issued in the same year (also shown in the table).

2 Sanctions

In 2012, final decisions were adopted on 183 sanction proceedings (226 in 2011). Of these, 162 ended with the infliction of penalties for confirmed infringements of provisions of the Consolidated Law on Finance and related enforcement regulations (195 in 2011). The financial penalties amounted to 10 million euro, compared to 7.8 million euro in 2011. Following procedures launched in relation to market abuse offences, goods with a countervalue of 6 million euro were seized (compared to 1.2 million euro in 2011; Fig. 139).

Fig. 139 Financial penalties inflicted by Consob[1]
(millions of euro)



Source: Consob. [1] Figures include the reduced payments. The item "Investment services" includes financial penalties inflicted to financial salesmen. For the years prior to 2006, the figures refer to the penalties proposed to the Ministry of Economy and Finance, and those inflicted against the financial salesmen directly.

3 Sanctions on market abuse

In 2012 the Commission inflicted sanctions for market abuse offences in a total of 12 cases (7 in 2011), of which 6 involved insider trading and 6 involved market manipulation.

The financial penalties (amounting to 3.9 million euro in 2012 and 2.4 in 2011) related to 19 parties, of which 16 were individuals and 3 were corporations.

The additional mandatory prohibitive measure was also imposed upon the natural persons pursuant to art. 187-quater of the Consolidated Law on Finance (temporary loss of good repute and temporary prohibition from office of a directorship, management or control nature in listed companies and in companies of the same group as the listed companies) for a total of 126 months, for a minimum of two months and up to a maximum of 24 months per capita. In the cases where the legal conditions were met, confiscation orders were also issued against the same parties, pursuant to Article 187-*sexies* of the Consolidated Law on Finance. The value of the confiscated assets was approximately 6 million euro (1.2 million euro in 2011).

Table 45 Disciplinary measures for market abuse offences
(cash amounts in thousands of euro)

		Number of cases	Number of persons involved	amount Disciplinary 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
2012	insider trading[1]	6	8	1,975	5,958	7	48
	manipulation[2]	6	11	1,900	6	9	78
	total	*12*	*19*	*3,875*	*5,964*	16	126

Source: Consob. [1] Offence governed by Article 187-*bis*, *quater*, *quinquies* and *sexies* of the Consolidated Law on Finance. [2] Offence governed by Article 187-*ter*, *quater*, *quinquies* and *sexies* of the Consolidated Law on Finance.

Violations of Article 187-*quinquies* of the Consolidated Law on Finance (Corporate liability) were also verified against three corporations, and financial penalties totalling 450,000 euro were inflicted as a result.

In 2012, disciplinary proceedings were brought against one foreign entity, in relation to the acquisition of 1.6 million of shares in Cremonini SpA (which was then listed in the Star segment of the screen-based stock exchange of Borsa Italiana SpA) between 5 and 26 November 2007 (Table 45).

4 Sanctions on intermediaries and financial salesmen

A total of 7 investigations concerning the investment-service-related infringements were completed in 2012 (11 in 2011) with the infliction of sanctions. They related to 3 EC investment companies, 2 banks and 2 asset management companies (Table 46). The related financial penalties, totalling around 1.48 million euro (a figure substantially in line with that for 2011) were inflicted upon 26 company members (43 in 2011).

Table 46 Financial penalties inflicted on investment intermediaries
(cash amounts in thousands of euro)

	no. of intermediaries involved					Number of persons fined					amount of penalties[1]				
	Banks	Investment firms	Stockbrokers	Asset management companies	*total*	Banks	Investment firms	Stockbrokers	Asset management companies	*total*	Banks	Investment firms	Stockbrokers	Asset management companies	*total*
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*
2012	2	3	--	2	*7*	3	5	--	18	*26*	80	990	--	408	*1,478*

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

The most significant disciplinary proceedings commenced in 2012 for violations of the intermediaries' regulations included the proceedings against members of Européenne de Gestion Privée Sa, following an investigation carried out between 3 November and 16 December 2010.

Two sets of disciplinary proceedings (including the levying of penalties totalling 230,000 euro) were also commenced in 2012, against parties exercising public investment businesses and services in Italy without the required authorisations.

Supervisory action was also taken in connection with proceedings relating to crisis situations in various asset management companies.

With regard to financial salesmen, 85 disciplinary measures were imposed in 2012 (116 in 2011), including 70 disqualifications from the register, 14 fixed-term suspensions (from a minimum of one month to a maximum of four), and one financial penalty. 38 reports were also made to the Legal Authorities for criminal offences emerging during the course of investigations (compared to 68 in 2011).

Consob also issued 32 provisional suspension orders against financial salesmen. 21 of these resulted in a provisional suspension from operating of 60 days (pursuant to Article 55(1) of the Consolidated Law on Finance), while 11 orders imposed a one-year suspension (pursuant to Article 55(2) of the same law). 32 reports were also made to the Legal Authorities for criminal offences emerging during the course of investigations.

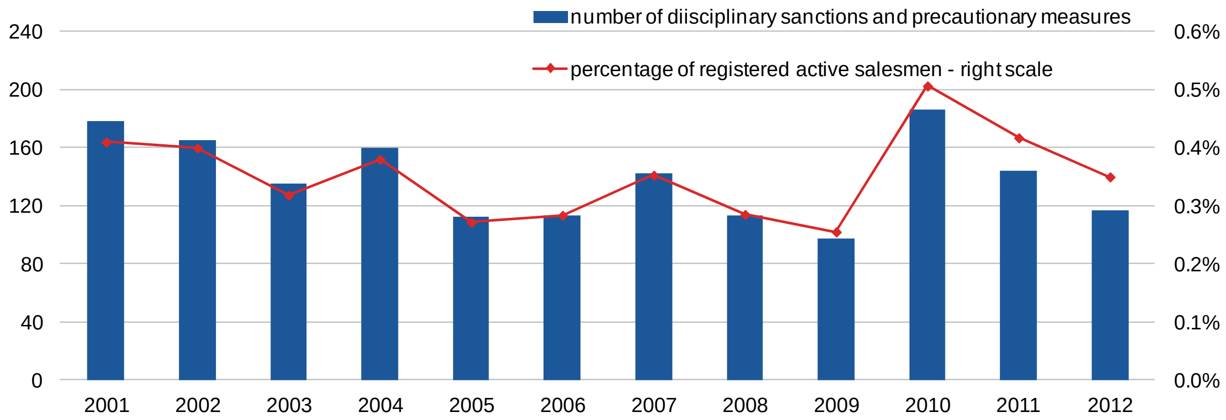
Finally, two financial penalties of 85,000 each were levied against two individuals, for having operated as financial salesmen without being listed on the register for the sector (Table 47 and Fig. 140).

Table 47 Disciplinary sanctions and precautionary measures regarding financial salesmen

	Disciplinary sanctions					provisional measures	Reports to legal authorities
	Reprimand	Disqualification from the register	Fixed-term suspension from the register	Financial penalty	*total*	Fixed-term suspension from business activities	
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
2012	--	70	14	1	*85*	32	38

Source: Consob.

Fig. 140 Disciplinary sanctions and precautionary measures against financial salesmen



Source: Consob.

5 Sanctions on issuers

In 2012, the Commission adopted a total of 54 disciplinary measures (63 in 2011) concerning violations of issuers' and public disclosure regulations. The measures related to violations of regulations on offers, subscriptions and sales (5 cases), takeover bids (4), corporate disclosure (18), notices of major shareholdings and shareholders' agreements (17), legal auditing (5 cases) and Board of Auditors' responsibilities (5 cases). The related financial penalties totalled 4.4 million euro (Table 48).

Table 48 Administrative sanctions regarding public offerings, corporate disclosure and legal auditing
(amounts in millions of euro)

	Number of cases							Number of persons fined						Total penalties						
	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	legal auditing	Board of Auditors' responsibility	*total*	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	legal auditing	Board of Auditors' responsibility	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	legal auditing	Board of Auditors' responsibility	*total*
2007	3	1	11	39	--	--	*54*	20	2	18	43	--	--	2.4	.	1.0	1.6	--	--	*5.1*
2008	--	2	18	10	--	--	*30*	--	3	18	10	--	--	--	0.2	0.9	0.4	--	--	*1.5*
2009	3	1	17	17	--	--	*38*	11	8	17	18	--	--	1.3	2.7	0.3	5.8	--	--	*10.1*
2010	4	8	19	35	--	--	*66*	16	16	20	55	--	--	4.4	0.9	1.2	1.3	--	--	*7.8*
2011	11	3	13	33	3	--	*63*	15	1	6	12	3	--	1.1	0.3	0.7	1.2	0.4	--	*3.7*
2012	5	4	18	17	5	5	*54*	12	10	18	25	4	14	0.9	0.4	0.8	1.3	0.1	0.9	*4.4*

Source: Consob.

In detail, there were 36 issuer-related measures, in respect of which financial penalties totalling 3.6 million euro were applied. Of these, 14 measures related to violations of the obligation to disclose significant shareholdings, and led to the application of financial penalties totalling 390,000 euro. Another four disciplinary procedures relating to disclosure of significant shareholdings were terminated early, as the parties in question applied to make the reduced payment under Article 16 of Law 689/1981), with a total countervalue of 210,000 euro (Table 49; Fig. 141).

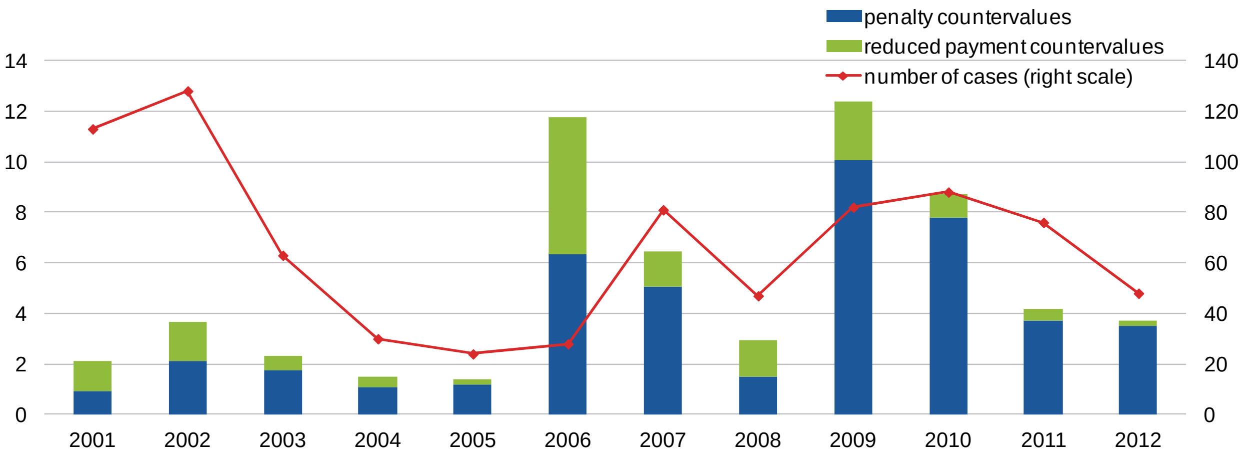
In 2012, a further 18 disciplinary measures were adopted with regard to corporate disclosure offences, in respect of which total penalties of 754,000 were inflicted (585,000 euro in 2011), against 5 individuals and 13 corporations. 7 of the above measures related to violations of regulations on the provision of market information, while 11 related to failures to disclose internal dealing operations by the deadline.

Table 49 Reduced payments on infringement of regulations on public offerings, corporate disclosure and voting proxy
(amounts in millions of euro)

	Number of cases					Number of persons				amount of reduced payments				
	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	*total*	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	Public offerings of sale and subscription	Takeover bids	Corporate disclosure	Significant shareholdings and shareholders' agreements	*total*
2007	4	1	1[1]	21	*27*	21	4	1	23	0.2	.	.	1.1	*1.3*
2008	3	--	--	14	*17*	27	--	--	18	0.3	--	--	1.1	*1.4*
2009	--	--	--	44	*44*	--	--	--	53	--	--	--	2.3	*2.3*
2010	--	--	--	22	22	--	--	--	22	--	--	--	0.9	*0.9*
2011	--	--	--	13	*13*	--	--	--	13	--	--	--	0.5	*0.5*
2012	--	--	--	4	*4*	--	--	--	4	--	--	--	0.2	*0.2*

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.

Fig. 141 Administrative sanctions regarding public offerings and corporate disclosure[1]
(millions of euro)



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

Five disciplinary proceedings were also opened in 2012, in relation to violations of account-auditing regulations. In two cases, the auditing firms were warned not to use the services of the auditor under investigation for periods of eighteen months and two years respectively. In the other cases, the companies were subjected to fines totalling 145,000 euro.

During the year, proceedings were concluded against Mazars SpA and one of the company's partners, in relation to audits carried out on the annual and consolidated accounts of Uni Land SpA for the year ending 31.12.2009.

One of the measures taken in 2012 in relation to accounts auditing violations was launched against the auditing firm Iter Audit Srl , concerning irregularities in its auditing of the accounts of an investment company for the year ending 31 December 2008. Iter Audit Srl had issued the audit certificate on 15 April 2009 without raising any findings or requests for information.

Finally, in 2012 three disciplinary measures were taken in relation to violations of Article 122 of the Consolidated Law on Finance (shareholders' agreements), against seven individuals and three corporations, jointly liable with the perpetrators. Financial penalties of 895,000 euro were inflicted, together with a measure concerning the violation of obligations related to the promotion of a totalitarian takeover bid following a joint acquisition, for which a fine of 360,000 was inflicted.

VI Regulatory activity

1 Implementation of primary legislation

During 2012, Consob was asked to intervene in many areas, in application of primary legislation issued by the EU Community and by the national legislator.

The first area of intervention concerned the completion of the implementation of the UCITS IV Directive 2009/65/EC (the so-called "UCITS IV") regarding harmonised collective investment undertakings. In May, the following separate measures were authorised by Consob and by the Bank of Italy.

The changes to the Issuers' Regulations mainly concerned the structure of the bid documentation for harmonised UCITS, which now consists of the "KIID" ("Key Investor Information Document") provided free to investors before subscribing shares or units, and the prospectus, which is provided on request. Other changes related to the way in which the bid documentation is communicated to Consob, its publication, updating and delivery, the disclosure obligations, the rules on advertising slogans, and on non-harmonised Italian-law UCITS. The changes to the Intermediaries' Regulations affect, among other things, the way in which products are marketed, and the permitted incentives.

A second area of intervention is related to the rules implementing the prohibition on interlocking.

On 14 June 2012, Consob, the Bank of Italy, ISVAP (now IVASS) and the AGCM signed a Memorandum of Understanding to ensure the necessary and appropriate level of coordination required to implement article 36 of Legislative Decree no. 201 of 6 December 2011 (the prohibition on interlocking).

In its resolution no. 18390 of 28 November 2012, the Commission adopted the "Rules on the administrative procedure" concerning Consob's disqualification of the holders of offices deemed incompatible under article 36 of Legislative Decree no. 201 of 6 December 2011 ("Save Italy"), converted with amendments into law no. 214 of 22 December 2011, and determined its entry into force on 2 January 2013.

The measure, adopted in application of article 11 of the above mentioned Memorandum of Understanding, governs the procedure by which Consob, acting within its remit if the corporate bodies concerned fail to act, declares the disqualification of members of asset management firms who hold offices in violation of the prohibition on interlocking. The provisions were intended to reproduce the clauses of the Memorandum of Understanding which govern the start, conduct and conclusion of the disqualification procedure and its effects on the interested parties.

A third area of intervention relates to the equality of access to organs of administration and control of companies listed on regulated markets, in implementation of the provisions of law no. 120 of 12 July 2011. The new subparagraphs 1-*ter* of article 147-*ter* and 1-*bis* of article 148 of the Consolidated Law on Finance require listed companies to comply with the rules on the gender of the members of corporate bodies. The less-represented gender must constitute at least one-third of the administration and control bodies for three consecutive terms of office. Provision has also been made for the gradual introduction of the gender quota, stipulating that on its first renewal, the less-represented gender must be at least one-fifth of the members of the executive body.

The above law gave Consob regulatory powers in relation to the "infringement, enforcement and compliance with regulations on gender quotas, including the preliminary phase and procedures to be followed". Consob exercised this authority in its resolution no. 18098 of 8 February 2012. In order to encourage the equal distribution of genders when the lists are drawn up, while protecting the interests of the minority shareholders, a sole limitation has been imposed on the company's autonomy, by prohibiting compliance with the gender distribution principle on lists with fewer than three candidates.

A fourth area of intervention relates to the administrative procedures of Consob. In November, the Commission adopted the General Regulations on administrative procedures, which fully replaced the regulations set out in its resolution no. 12697/2000.

The new Regulations are intended to simplify the legislation applicable to this type of procedure, and to provide a complete set of rules by integrating the provisions applicable to the individual procedures as contained in Consob's sector-specific regulations. The Regulations also contain a schedule of all the administrative procedures conducted by Consob, with details of the department that 'owns' each procedure, and the terms for its conclusion.

The fifth area of intervention related to the Bank of Italy - Consob measure of 22 February 2008, containing rules on centralised management services.

In August, Consob and the Bank of Italy launched a public consultation, concerning the proposed revision of the rules governing central depositories, settlement services, guarantee systems and related management companies, as contained in the Bank of Italy and Consob Measure of 22 February 2008. The key issues of the consultation process included a redefinition of the boundaries of the regulations, which now also apply to entities admitted for trading on regulated markets and on multilateral trading facilities in Italy, and to participants in the clearing and guarantee systems referred to in article 70 of the Consolidated Law on Finance, and therefore to operations concluded or guaranteed by such systems. In accordance with article 72 of the Consolidated Law on Finance, the draft consultation measure provided, among other things, that the insolvency liquidation procedure could be carried out by the managers of the markets and multilateral trading systems, or by the companies managing the liquidation and guarantee systems, provided that their procedures had previously been approved by the Bank of Italy and by Consob. With regard to the regulations on centralised management, the most significant consultation issue related to the stipulation of how the holders of financial instruments admitted for centralised management could be identified, in the first instance by the issuer. The results of the consultation process will soon be published.

The final area of intervention related to a measure containing implementation provisions concerning organisation, procedures, and internal controls to combat money laundering.

Resolution no. 18382, dated 21 November 2012, made the necessary amendments to the rules previously authorised in resolution no. 17836 of 28 June 2011, concerning the organisation, procedures and internal controls necessary to prevent money laundering and the financing of terrorism, for the auditing firms registered on the Special Register kept by Consob. The amendments were the result of the new approach contained in Legislative Decree no. 39 of 27 January 2010, and in Ministerial Decree no. 144 of 20 June 2012, in which the Ministries of Finance and Justice authorised the regulations on the conditions for the entry and removal from the register of auditors.

Consob also made a significant technical contribution to the elaboration of the draft Legislative Decree, and to the works preparatory to draft bills concerning matters within Consob's remit and related activities.

In April, Consob issued ISVAP (now IVASS) with the memorandum of understanding referred to in article 7(2) of Legislative Decree no. 231 of 21 November 2007, concerning the measure directed at insurers and intermediaries containing provisions on anti-money laundering organisation, procedures and internal controls.

Finally, in two separate amendments dated 9 May and 25 July, various changes were made to the joint Bank of Italy - Consob Regulations dated 29 October 2007, concerning the organisation and procedures of intermediaries offering investment or collective management services, in application of the "CRD 3" Directive, 2010/76/EU. Following the related public consultation, the joint Regulations now include a new article 14-*bis*, which essentially complements the regulations laid down by the Bank of Italy in its Measure of 30 March 2011, applicable to banks and banking groups ("Provisions on remuneration and incentive policies in banks and banking groups"), incorporated into the joint regulations by reference.

2 Revision of the Consob Regulations

During 2012, work continued on the process of regulatory semplification, which began in 2011, by reviewing Consob's regulations on issuers and markets in order to facilitate access to the capital markets for all companies, particularly small and medium-sized enterprises ("Phase 2").

The guiding principles of the Commission's approach during Phase 2 were to rationalise the requirements for issuers, and to maintain a level of regulation consistent with the changes in EU legislation, by eliminating any 'goldplating' (provisions not expressly envisaged in the reference Community laws), unless they were justified by aspects specific to the Italian market.

Consob launched a public consultation relating to a large number of regulatory provisions, divided into five areas of reference: public issuers, public offerings, shareholders' rights, disclosure obligations and the provisions of the Market Regulations. In accordance with the results of the consultation process, in its resolution no. 18214 of 9 May 2012, the Commission made the necessary amendments to the Issuers' and Market Regulations. The resolution was an immediate and direct enactment at regulatory level of Directive 2010/73/EU of 24 November 2010, which amended Directives 2003/71/EC on the prospectus to be published when financial instruments are offered to the public or admitted to trading, and 2004/109/EC (the "Transparency Directive") not enacted at legislative level, in line with the provisions of article 2 of Legislative Decree no. 58 of 24 February 1998, under which the powers granted to Consob include those attributed to it under the laws of the European Union.

The most important changes in "Phase 2" included the elimination of the obligation to disclose significant shareholdings which are not in line with the Transparency Directive (i.e. the thresholds of 35%, 40%, 45% and 75%), the introduction of new rules on the disclosure of shareholders' agreements, in force since 1 July 2013, introducing simplified requirements for members through the publication of an extract containing the "essential details" of the agreement, the extension of the scope of application of the exemption from the obligation to publish a bid document for the buy-back of non-equity financial instruments, in line with EC regulations, simplification of the contents of the offeror's initial declaration by eliminating the information already included in the bid document, and the replacement of the obligation to publish a press article in relation to bid prospectuses (not required under EC regulations) with the requirement to issue a notice to the market from 1 July 2013.

With a view to streamlining the regulations and ensuring the proper balance of shareholder interests, also in consideration of market performance, changes were made to the percentages of the shareholdings required to submit lists for the election of corporate officers, with a single threshold of 1% for all companies with a capitalisation of 1 to 15 billion euro, and 2.5% for companies with a lower capitalisation. No changes were made to the thresholds of 0.5% for companies with high capitalisation, and 4.5% under special conditions (very small companies with no concentration of ownership structure), nor to the special rules applicable to cooperatives. Newly-listed companies can now apply a percentage of up to 2.5%, from the date of the first re-election of the Board following the listing.

3 Alternative Dispute Resolution mechanisms

In 2012, radical changes were made to the rules of Consob's Conciliation and Arbitration Chamber, originally adopted in application of Legislative Decree no. 179 of 8 October 2007, concerning the "Institution of procedures for conciliation and arbitration, indemnity system and guarantee fund for savers and investors in implementation of article 27(1) and (2) of law no. 262 of 28 December 2005".

The revision of the rules contained in the regulations formerly approved with resolution no. 16763 of 29 December 2008 took into account the far-reaching changes occurring in the years since the original issue. Three main considerations were taken into account.

Following the public consultation launched on 5 April 2012 and concluded on 7 May, and with the favourable opinion of the Bank of Italy, Consob adopted the new regulations in its resolution no. 18275 of 18 July 2012. The consultation document examined, among other things, the possible costs and benefits of the introduction into law of a system of extrajudicial dispute resolution, based on compulsory membership for intermediaries. The system is similar to the one introduced for credit brokering, by article 128-*bis*, of the Consolidated Law on Banking, which resulted in the formation of the Financial Banking Arbitrator (ABF), given that the voluntary system had proved to be ineffective.

The most significant change introduced in the light of the Council of State's opinion (detailed above) was the "internalisation" of the Chamber. It is now composed of a President and two members appointed by the Commission, selected from Consob managers who are not responsible for supervisory or disciplinary functions connected to matters handled by the Chamber (article 3(1) of Regulation 18275/2012).

In the medium term, in line with the recommendations emerging during the consultation process, the Commission intends to play an active part in proposing amendments to article 32-*ter* of the Consolidated Law on Finance, in order to achieve a more consistent alignment with the provisions of the Consolidated Law on Banking. This solution would not only reduce the volume of ordinary litigation but would also have the positive effect of guaranteeing a swift and effective resolution of disputes opened by consumers.

VII Internal management, external relations and international activity

1 Financial management

The total preliminary expenditure for 2012 amounted to 120.7 million euro and was less than the final 2011 figure of 9.2 million (Table 50).

Table 50 Summary table of revenues and expenditure
(millions of euro)

headings	2007[1]	2008[1]	2009[1]	2010[1]	2011[1]	2012[2]
REVENUES						
previous year surplus[3]	24.0	29.7	11.5	6.5	14.5	14.3
State funding	10.7	9.8	7.9	1.0	0.4	0.4
Supervisory fees	75.1	75.0	87.8	108.9	116.6	108.9
Sundry revenues	9.9	17.2	11.1	6.8	12.0	10.9
total revenues	*119.7*	*131.7*	*118.3*	*123.1*	*142.5*	*134.5*
EXPENDITURE						
Current expenditure	90.0	119.6	109.7	105.8	128.5	115.9
Expenses for members of the Commission	*2.6*	*2.6*	*2.6*	*2.0*	*2.3*	*2.4*
Staff	*60.2*	*70.6*	*72.5*	*80.5*	*82.0*	*89.3*
Goods and services	*23.0*	*23.3*	*17.3*	*18.2*	*21.5*	*16.8*
property restoration and extension	*4.1*	*4.0*	*3.4*	*3.9*	*3.6*	*4.0*
allocations to provision for risks in relation to potential claims for compensation	*0.0*	*18.3*	*12.2*	*0.4*	*17.8*	*1.0*
Unclassified expenditure	*0.1*	*0.8*	*1.7*	*1.3*	*1.3*	*2.4*
Capital expenditure	1.7	2.0	3.2	2.8	1.4	4.8
total expenditure	*91.7*	*121.6*	*112.9*	*108.6*	*129.9*	*120.7*

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 value adjustments to investments (not shown in the table). The 2011 surplus is recorded among 2012 revenues.

The current expenditure for 2012 is 115.9 million euro, a reduction of 12.6 million compared to the same figure for 2011, while capital expenditure increased by 3.4 million euro (from 1.4 to 4.8).

The considerable reduction in current expenditure is essentially due to the lower allocations to the *Provision for risks connected to potential claims for compensation* (which fell from 17.8 to 1 million euro) and the costs of acquiring consumables and services. Personnel costs rose from 82 to 89.3

million euro, mainly as a result of new members of staff being taken on at the Institute. The capital expenditure also includes work to the fixtures and fittings at the Rome office, and the acquisition of hardware and software.

Total revenues in 2012 (net of the previous year's surplus) amounted to 120.2 million euro. 0.3% of that amount related to State funding, 9.1% to other revenues (interest receivable and sums paid to the Institute following court orders), while 90.6% related to supervisory fees, mainly from entities managing public investments, issuers, intermediaries (banks, investment companies and stockbrokers) and auditing firms (Table 51).

Table 51 Fees by category of supervised person
(millions of euro)

	Investment firms and stockbrokers	banks	independent auditors	financial salesmen	market entities[3]	Issuers	UCITS[4]	entities managing public savings	Others	*total revenues from supervisory fees*
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[1]	1.7	20.1	12.1	5.2	5.7	23.1	11.5	34.7	2.5	*116.6*
2012[2]	1.4	17.7	12.7	4.9	5.7	23.5	10.4	30.5	2.1	*108.9*

Source: Consob. [1] Annual accounts. [2] Preliminary figures. [3] Includes Borsa Italiana SpA, Tlx SpA (until 2008), Mts SpA, Cassa di compensazione e garanzia SpA, Monte Titoli SpA and the Organisation of Financial Salesmen (since 2009). [4] Includes the supervisory fees paid by asset management companies for individual portfolio-management services.

2 Organisation

To guarantee more effective interaction between the various units of the Institute, as identified in the organisational structure which became operational at the end of 2011, forms of horizontal coordination were set up in 2012 (Operational Coordination bodies, Committees and Tables).

In 2012, significant changes were made to the Arbitration and Conciliation Chamber during the year, with the adoption in August of the new enacting regulations of Legislative Decree no. 179 of 8 October 2007, which governs the operation and procedures of the Chamber within Consob. The prerequisite for this reform, following approval of the Council of State, was the qualification of the Chamber as a technical and instrumental arm of Consob with the duties prescribed by laws and regulations, and with autonomy of action. The Chamber has now been redefined as an internal body of the Institute, and its members have been appointed from among the executives of Consob (see paragraph 5 below).

3 Human resource management

In 2012, due to the need to cut costs, the Institute only took on new members of staff where strictly necessary, and also slowed down its career progression pathways with particular regard to the professional profiles of staff members, their individual career paths, and more generally the extension of their working life (Table 52, Table 53).

The contracts of 37 full-time management-level members of staff were also renewed during the year.

Table 52 Breakdown of staff by grade and organisational unit[1]

organisational unit	Executives	Managers	Clerical staff	other[2]	*total*
General Management	3	3	10	4	*20*
Secretary General	3	0	2	0	*5*
Attorney General	1	0	0	0	*1*
Legal Services	5	20	11	1	*37*
Offices not coordinated within Divisions[3]	9	30	39	5	*83*
Divisions					
Issuers' information	4	22	15	1	*42*
Corporate governance	6	24	20	1	*51*
Markets	9	41	36	1	*87*
Intermediaries	4	34	42	0	*80*
Inspectorate	3	24	16	0	*43*
Studies	3	14	18	0	*35*
Administration	11	33	52	11	*107*
Regulatory strategies	3	5	8	0	*16*
Consumer protection	5	5	9	1	*20*
total Divisions	*48*	*202*	*216*	*15*	*481*
TOTAL	*69*	*255*	*278*	*25*	*627*

Source: Consob. [1] Situation on 31 December 2012. Fixed-term employees are classified according to the equivalent permanent grades. [2] The "Other" category includes general-services staff. [3] Offices not coordinated within divisions.

Following an agreement signed with the Trade Unions, in 2012 an experimental remote-working scheme was launched, the rules of which will be defined in 2013. Three workers joined the scheme, from the supervision and administrative support functions.

Expenditure on training remained largely stable compared to the previous year (approximately 400,000 euro), and there was a significant increase in the total number of training hours delivered. This result was achieved following the improvements to the internal training provision, which has significantly reduced costs.

Table 53 Personnel[1]

	Permanent employees				fixed-term employees	*total*
	management level	management level	general services	*total*		
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*
2012	278	276	21	*575*	52	*627*

Source: Consob. [1] Situation on 31 December.

4 Information technology systems

The optimisation of Information and Communication Technology (ICT) and related cost-cutting measures were completed during the year, in accordance with the 2010-2012 strategic plan.

The information systems underwent a process designed to improve the uptake of technological innovations and the quality of service provision. The process incorporated the "DEMACO" scheme ("Dematerializzazione Atti e procedimenti Consob"), which is designed to improve and consolidate the dematerialisation of internal document flows within the Institute, and the external exchange of information and documentation.

Cooperation with other authorities included the setting up of a specific system for the reporting of net short positions to ESMA, and a system for the exchange of data with the Bank of Italy and ISVAP (now IVASS), in application of Article 36 of the "Save Italy" decree (prohibition on interlocking).

During the year, work was completed on the upgrading and consolidation of Consob's ICT architectures and infrastructure.

With regard to IT security, the Institute's activities related to the integration and upgrading of technologies and protection against IT risks.

5 External relations and investor education

In 2012, Consob continued its work on public and investor relations. The Institute's website is the main tool for its external communications. The large number of visits is confirmation of the website's importance in terms of allowing operators, investors and researchers to obtain information (Table 54).

Table 54 Visitors to Consob's website
(thousands of visits)

pages	2007	2008	2009	2010	2011	2012
Home page (What's new)	2,130	1,803	1,873	1,819	1,275	1,305
Investors	344	188	173	193	199	180
Supervised entities	367	510	309	388	322	340
Reporters[1]	–	12	12	12	5	6
Consob	847	1,127	1,454	1,254	1,154	1,160
Issuers	2,791	2,879	3,679	3,275	3,177	3,119
Intermediaries and markets	1,691	1,436	1,020	1,121	1,090	1,088
Consob Decisions/Bollettino	696	734	968	935	977	982
Legal framework	2,117	2,395	1,906	2,127	2,065	2,100
Publications and press releases[2]	750	–	–	–	191	188
Other websites	10	9	209	9	4	4
Site search engine	313	256	209	196	116	112
Help and site map	26	58	15	16	9	10
Interactive area[4]	–	–	44	97	51	54
English version	297	274	845	290	322	340

Source: Consob. [1] The pre-2007 data on reporters has been included under the "Home Page" heading. [2] In 2008 the data was included under the heading "Consob". [3] The figures for 2008 (available from October) refer to access to the Automated Integrated System for Supervision and Register of Financial Salesmen (SAIVAP) and the Automated Integrated System for Supervision of Control Positions (SAIVIC); from June 2009 and October 2009, the figure includes access to the Integrated External System (SIPE) and the Automated Integrated System for Supervision of Insurance Companies (SAIVIA). [4] Data available from June 2009, when the new interactive area was launched.

During the year, Consob received more than 1,700 requests for assistance, and reports on corporate and market transactions from the public and from investors. 1,349 notices were sent through the SIPE system, using the special form provided, while a large number of requests for information were also received by telephone (Table 55).

Table 55 Applications for documentation and information on Consob's activities

	Applicants			Subject of applications				
	Institutional investors and market operators	Investors, students etc.	*total*	Resolutions, communications, prospectuses	amended texts of laws and regulations	data and information	other	*total*
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*
2012	321	1,394	*1,715*	183	275	801	456	*1,715*

Source: Consob.

Consob continues to pay special attention to the reports and complaints received from investors, and to financial education.

During the year, meetings were organised with schools and universities, in order to explain what the Institute does, and how the markets operate. This enabled the acquisition of information about the expectations and needs of the investing public.

Regulatory changes were made to Consob's Conciliation and Arbitration Chamber, concerning the professional requirements for entry on the list of mediators, reformulation of the rules for the appointment of mediators and arbitrators, and the formation of a special advisory committee formed of representatives of associations whose aim is to maintain a permanent link with the trade associations of users and intermediaries. For more details, refer to paragraph 3 of Chapter VI "Regulatory activity".

When the new provisions were first introduced, the mediators and arbitrators - already included on the lists authorised by resolution no. 16763/2008 - were the same as those named on the lists defined in the new regulations, where the requirements had been met. Consequently in December 2012, 1,677 mediators and 1,152 arbitrators were included on the lists.

During the year, a guide to the Institute's planning procedures was introduced, with the aim of defining a single, integrated process for strategic, operational and financial planning of activities.

The three-tier planning process relates to strategic, operational and managerial planning. The three-year strategic plan directs the Institute's supervisory activities according to a risk-based approach. The relevance of the guidelines is verified each year. The multi-year management plan assesses the quali-quantitative requirements for human and technical resources. This is essential in order to guarantee a high standard of quality in the Institute's services. The plan sets out the requirements for changes to the internal organisational processes, the general strategy for implementing those changes, and also identifies the work needed to adapt the Institute's operating capacity to meet the objectives stipulated in the strategic plan. Finally, the annual operational plan sets out the objectives and activities of the Institute's organisational units, with strategic planning being organised on an annual basis. The definition of activities is a detailed, multi-phase process that involves all the units, in order to achieve an integrated, shared planning of the work required.

6 International cooperation

In 2012, Consob continued its international cooperation activity with the supervisory authorities of EU member countries and of other countries (Table 56). The Institute also addressed 142 requests for information to foreign authorities (compared to 95 in 2011), and received a further 70 from other supervisory bodies (85 in the previous year). Most of the requests related to verifications of integrity and professional requirements.

Table 56 Exchange of information between Consob and foreign Supervisory Authorities

subject	2007	2008	2009	2010	2011	2012
Information requests issued to foreign Authorities						
Insider trading	18	25	23	20	27	16
Market manipulation	9	27	14	23	18	14
Unauthorised public offerings and investment services	1	2	3	10	14	33
Transparency and corporate disclosure	1	2	1	8	--	--
Major holdings in listed companies and authorised intermediaries	3	2	2	9	5	1
Integrity and professionalism requirements	9	--	--	--	1	1
Infringement of rules of conduct	--	--	3	3	1	1
transaction reporting under art. 25 MiFID	–	1	1	--	--	--
short selling	–	42	6	4	--	--
requests addressed to remote members under art. 57 MiFID	–	11	2	5	24	67
reports of suspicious transactions	–	1	6	9	5	9
total	*41*	*113*	*61*	*91*	*95*	*142*
Information requests from foreign Authorities						
Insider trading	18	18	5	9	11	9
Market manipulation	2	3	2	4	5	5
Unauthorised public offerings and investment services	3	2	8	6	4	2
Transparency and corporate disclosure	--	1	1	2	3	--
Major holdings in listed companies and authorised intermediaries	1	1	--	1	1	--
Integrity and professionalism requirements	37	18	36	41	50	30
Infringement of rules of conduct	3	2	2	5	--	1
transaction reporting under art. 25 MiFID	–	1	--	--	--	--
short selling	–	--	--	--	--	--
requests addressed to remote members under art. 57 MiFID	–	--	--	1	--	1
reports of suspicious transactions	–	2	5	8	11	22
total	*64*	*48*	*59*	*77*	*85*	*70*

Source: Consob.

During the year, there was a review of the Memorandum of Understanding signed by Consob, the Bank of Italy and the competent French authorities, concerning the clearing and guarantee services relating to operations on financial instruments, between the "Cassa di Compensazione e Garanzia" controlled by Consob and the Bank of Italy, and the LCH. Clearnet SA, supervised by the *Banque de France*, the *Autorité de Contrôle Prudentiel* (ACP) and the *Autorité des Marchés Financiers* (AMF).

In 2012 the Institute held bilateral meetings with delegations from several countries.

Of particular importance were the meetings held in March 2012 with a delegation from the National Commission for Financial Markets of the Republic of Moldova, concerning a study of the standards required by the principal EC directives on investment services and the functioning of organised markets, and post-trading in Italy. The study visits were part of the bilateral agreement on technical assistance signed by Consob and the Moldavian authority in 2005.

Consob provided technical assistance to the supervisory authority of Azerbaijan, which was the venue for a meeting in February concerning public offerings, as part of a programme of technical assistance and exchanges of information.

7 Workstreams within international bodies

In 2012, Consob participated in the Transitional Board, the Presidential Committee and European Regional Committee of IOSCO (*International Organization of Securities Commissions*), and also participated in the related permanent committees, working groups and task forces.

IOSCO's Transitional Board was set up in 2012, and performs the functions of Technical Committee, Executive Committee and Emerging Markets Committee Advisory Board. The formation of the Board is part of a wider process of reviewing the structure of governance and strategic guidelines of the Organisation.

The Institute also continued its involvement in IOSCO's permanent committees on accounting, auditing and disclosure issues (*Standing Committee* 1), secondary markets (Standing Committee 2) and undertakings for collective investment (Standing Committee 5).

The work of Standing Committee 1 included the publication in November of a final report on the principles of ongoing disclosures for assets-backed securities, intended to reinforce protection for investors. The principles in question included the disclosure of updated information on ABS in a format that facilitates interpretation by investors, and at intervals and times that ensure the information will be used. The group also worked on interpreting and enforcing the IFRS.

Standing Committee 2 investigated issues relating to technological advances in order to safeguard the integrity of the financial markets and promote effective supervision, and issues relating to changes in the market structure. In July, a document prepared in collaboration with the Payment and Settlement Systems Committee of the Bank for International Settlements underwent a consultation process with regard to procedures for the recovery and resolution of market infrastructures, and in relation to the recommendations laid down by the Financial Stability Board and G20 to prevent systemic risk.

October saw the publication of the final report of Standing Committee 5, which contained policy recommendations on monetary funds, investments, the management of liquidity, ratings and client information. The Committee's work included the publication of three consultation papers which related, respectively, to the principles for evaluating collective investment schemes (CIS), the management of liquidity risk in such schemes, and the regulation of ETFs organised as CIS, in order to safeguard investors and the proper functioning of the market.

Particularly significant was Consob's participation in IOSCO's permanent committee on intermediaries (Standing Committee 3). The Institute chaired the working group which laid down new principles on suitability relating to the retailing of complex financial products to retail and professional clients.

The final report, published in January 2013, laid down the principles relating to the distribution of such products. The document defined the classification and disclosure obligations towards clients, the intermediary's general duties, and the mechanisms in place to protect consumers in the case of sales of complex financial products. With regard to the provision of individual management or consulting services, the report laid down the requirements for suitability to safeguard customers, where the intermediary recommends the acquisition of complex financial products, the compliance function and the elaboration of internal procedures to reinforce the observance of suitability requirements, incentives and enforcement by the supervisory authorities.

The Institute also collaborated with the work carried out by Standing Committee 4 and the Screening Group which dealt with international cooperation and the evaluation of applications made by supervisory authorities to join the IOSCO MMoU (*Multilateral Memorandum of Understanding*).

Following the resolution of the Presidential Committee of June 2010, the Screening Group has analysed the measures needed to encourage members to sign. This has considerably speeded up the process of ensuring that all IOSCO's ordinary members and associates will become full signatories to the multilateral cooperation and information-exchange agreement by 1 January 2013. These indications will be submitted for approval by the Board in May 2013. The Screening Group also helped to prepare a watch list of IOSCO members who have not become full signatories to the agreement. The list contains 93 members, representing approximately 95% of the global financial markets, and 30 relating to members who have not yet signed.

Standing Committee 4 fostered an ongoing dialogue with jurisdictions which obstruct the exchange of information between competent authorities, in order to promote acceptance of IOSCO's cooperation standards. The group also help to set up a legislation forum on IOSCO's website, which contains examples of the powers available to the authorities of the group's members. The Committee also carried out an analysis of the regulatory, investigative and disciplinary powers available to members of the group with regard to the benchmark-setting process.

Consob participated in the Assessment Committee, newly-formed in February 2012 as part of the Strategic Direction Review of IOSCO, which has proposed full and consistent application of the principles and standards by the members of the Organisation.

The Committee's main activities include "country reviews" for jurisdictions not subject to the FSAP (Financial Services Action Plan) of the IMF or the World Bank, and "thematic reviews" relating to the implementation of specific principles or standards. During the year, the Assessment Committee worked on the first systematic review concerning IOSCO's principles on systemic risk.

Together with the FSA, a British authority, the Commission chaired the Task Force on Regulated Financial Entities which is committed to reinforcing supervision and regulation of the system of shadow banking, including hedge funds, in line with the G20 and FSB recommendations.

In September the Task Force carried out a survey in order to obtain information from leading hedge funds for the purposes of evaluating potential systemic risks in speculative funds, by monitoring factors such as size, interconnection and replaceability. The requested data included information about performance, trading, clearing, leverage and counterparty risks.

The Task Force also worked on elaborating methods to identify systemically important hedge funds (*non-bank SIFIs*). The work was carried out in collaboration with a group dedicated to shadow banking within the Financial Stability Board. The group's task is to determine, in collaboration with IOSCO, methods to identify non-banking financial institutions with global systemic significance (non-bank G-SIFIs). Within IOSCO, the work was carried out with Standing Committees 3 and 5, who were committed, respectively, to preparing a methodology on intermediaries and on undertakings for collective investment with systemic significance.

In 2012 the Institute participated in the work of the Task Force on Unregulated Markets and Products. At the request of the FSB, the task force carried out a stock-taking exercise on various aspects of securitisation transactions, and also issued policy recommendations.

The final report, published in November, contained recommendations intended to ensure that investors receive adequate information to allow them to evaluate the structure of securitisation transactions and the underlying risks, that they have modelling tools that enable cash flow analyses throughout the duration of the operation, and that they can obtain the information they need to analyse the risk-return profile of the products, offered by the rating agencies. The report also identifies various areas that require further consideration and work, including the prudential treatment of products, accounting issues, and a move towards higher levels of standardisation in order to increase liquidity on the secondary markets.

Consob participated in the work of the Task Force on Financial Markets Benchmarks, set up in September 2012 following events relating to the principal benchmarks (Libor and Euribor), in order to restore confidence in their use within the global financial markets and to prevent market manipulation.

The group helped to draw up a consultation paper setting out proposals for potential guidelines and policy principles, in order to address the issues, and to define benchmarks. The issues related to supervision mechanisms, definition of calculation methods, and controls on governance and disclosures.

During the year, the task force - set up in order to elaborate a common approach to the poorly-supervised OTC derivatives market - published a document with the collaboration of Consob. The document sets out international standards intended to reform the financial system of the derivatives market, indicated by the G20 in 2009.

These recommendations established standards relating to the registration and authorisation of entities operating in OTC derivatives, capital requirements and other prudential requirements, rules of conduct, supervision and record-keeping obligations.

Within IOSCO, the Standing Committee on Risk and Research deals with the monitoring and evaluation of proposals intended to identify and mitigate systemic risk, also with regard to risk indicators, the scope of regulation, the phenomenon of shadow banking and SIFIs (Systemically Important Financial Institutions).

Consob also contributed to the work of the Financial Stability Board, which played a central role in verifying the implementation of the G20 recommendations on OTC derivatives and arranged, in 2012, for the publication of consultation papers intended to improve the regulation of shadow banking and non-banking credit activities.

The Institute also chaired the Steering Group on Corporate Governance which coordinates and guides the work of the OECD in this field, including issues related to privatisation and insolvency proceedings, and participated in the work of the Joint Forum and the EGAOB (European Group of Auditors' Oversight Bodies).

The Joint Forum is a group of representatives from supervisory authorities in the banking, financial and insurance sector, set up in order to investigate matters of common interest including the supervision of financial conglomerates and rules on point-of-sale disclosure.

Finally, in 2012 Consob took part in works carried out by permanent committees, working groups and task forces set up within ESMA (see Chapter VI "EC regulatory framework").

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