

# Annual Report 2013

Rome, 31 March 2014



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ANNIVERSARIO  
CONSOB

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# Financial market developments A







## 1 The trends

In 2013, as a result of the improving economic situation, the markets of the major advanced economies recorded an overall positive trend, which continued, although with discontinuity, also in the early months of 2014. With the exception of the United States and the United Kingdom, however, share prices have still not come back to pre-crisis levels (beginning of 2007).

In the United States, the general and banking equity indexes rose, in 2013, respectively by 29.6 and 32.3 per cent. In view of the stronger economic growth, the Fed announced that it would wind down its quantitative easing measures starting from January 2014.

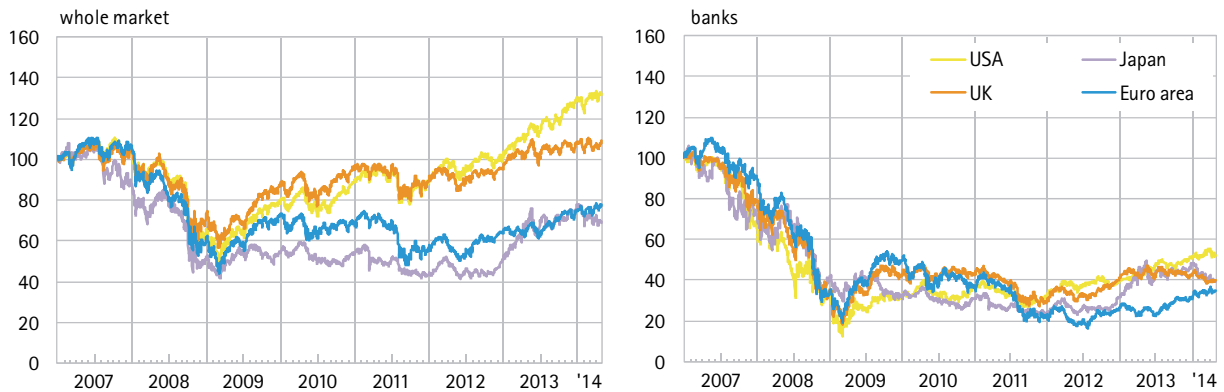
This winding-down (or 'tapering'), consisting of reducing purchasing of securities by ten billion dollars a month, was first greeted with little favour; subsequently it stimulated a positive reaction by the markets, reassured by the signs of a solid recovery and by the Fed's commitment to keeping interest rates at historically low levels as long as unemployment remains at more than 6.5 per cent. In addition, at the end of 2013, the raising of the public debt ceiling (first until February of the next year and then until March 2015) resolved, although only temporarily, the uncertainties associated with US fiscal policy.

In the United Kingdom, the equity market rose in 2013 by 14.4 per cent (7.7 per cent for the banking sector), benefiting from a better-than-expected recovery and by an unemployment rate falling to around 7 per cent (the threshold at which the Bank of England had anchored indications on future changes to interest rates). In Japan too, the trend in the equity indexes (+51.5 and +50.8 per cent, general and banks, respectively) reflected a stronger recovery than expected, although further fiscal and monetary policy stimuli could become necessary to stabilise the economic situation and offset the negative impact of the rise in consumption tax which will take place in the first half of 2014.

During 2013, the financial markets of the euro area recorded a change of approximately 18 per cent, positively affected by signs of a modest recovery, which emerged starting from the second quarter, and by the return of foreign investors to the region (Fig. 1).

In particular, the euro area banking sector recorded a rise in prices of approximately 26 per cent, thanks above all to the particularly favourable trend in the second half of the year (when the reference index recorded a change of 40 per cent, compared with increases of 11 per cent in the USA, 12 per cent in Japan and 2 per cent in the United Kingdom).

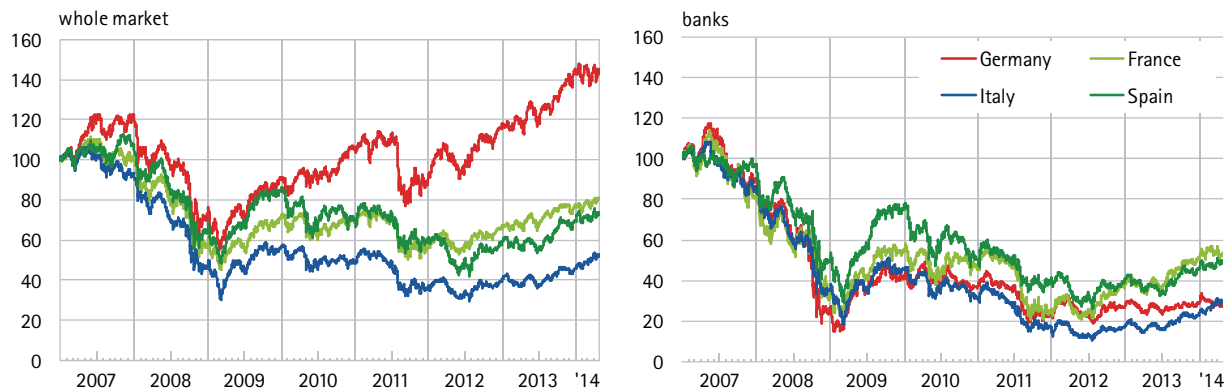
**Fig. 1 Advanced countries stock indexes**  
(daily data ; 01/01/2007 - 31/03/2014; 01/01/2007=100)



Source: Thomson Reuters. The indexes considered for the entire market are the S&P500 (USA), the Topix (Japan), the FTSE100 (United Kingdom) and the Euro Stoxx 50 (euro area), while for the banking sector they are, respectively, the S&P500 Banks, the Japan FTSE Banks, the UK FTSE Banks and the Euro Stoxx Banks.

The rise in the equity indexes in the euro area regarded both the peripheral countries and the core countries, recording changes of between approximately 17 per cent in Italy and approximately 25 per cent in Germany (Fig. 2).

**Fig. 2 Euro area stock indexes**  
(daily data; 01/01/2007 - 31/03/2014; 01/01/2007=100)



Source: Thomson Reuters. The indexes considered for the entire market are the Dax30 (Germany), the Cac40 (France), the Ibex35 (Spain) and the FTSE MIB (Italy), while for the banking sector they are the FTSE Banks indexes of the respective countries.

At the beginning of 2014, the publication of data on the economic situation which were less positive than expected, the uncertainties associated with the outflow of capital from the emerging countries and, lastly, the Ukrainian crisis determined a momentary downturn in the equity markets of the major advanced economies. However, in the first quarter of the year the trend was positive overall in the euro area (+1.7 per cent at 31 March). Despite the increase in volatility, the indicators of contagion and confidence deducible from the prices of financial instruments signal a return to a normalisation of market performance, which should start once again to express quotations increasingly less conditioned by the perception of systemic risks.

The early months of the year were characterised by significant corrections of exchange rates and share prices of several emerging economies, including, in particular, Argentina, Turkey, South Africa and Brazil; the turbulence involved, although to a lesser extent, also Hungary, Russia and Mexico.

This phenomenon was triggered by the start of tapering: as early as last summer, following the announcement of an imminent wind-down of US monetary policy stimuli, the emerging economies had seen significant outflows of capital. Up to that moment, the stimuli that the Fed and, in general, the central banks of the major advanced countries had used had oriented the abundant available liquidity towards the economies in rapid growth, provoking upward pressures on the relevant currencies and the accumulation of financial imbalances.

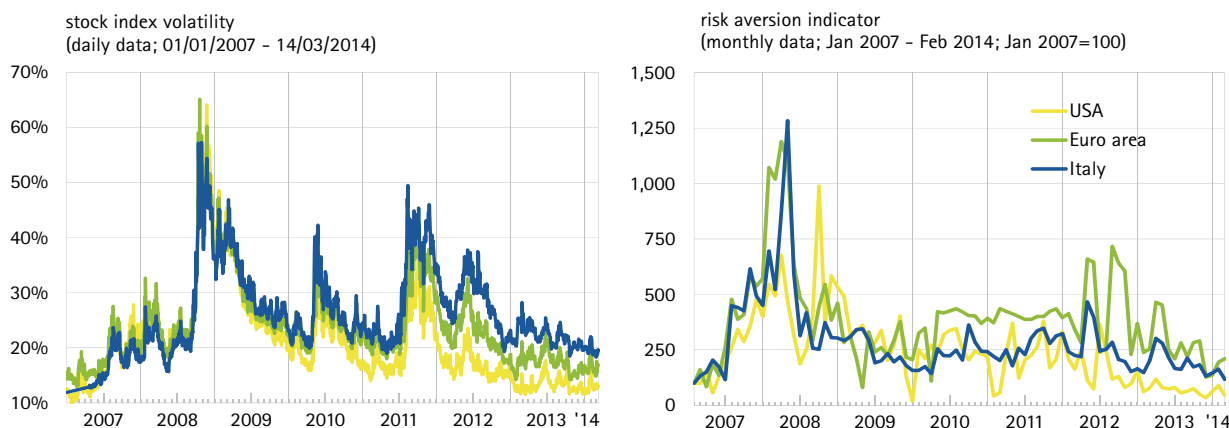
In particular, in the last few years the volume of dollar loans disbursed by foreign banks to emerging countries has expanded rapidly: according to the Bank for International Settlements, between the beginning of 2009 and June 2013, liabilities denominated in dollars more than doubled in Brazil and India, while they remained substantially stable in Turkey and Korea. This circumstance exposed the emerging countries to exchange-rate risk and to the effects of rising US interest rates, increasing their debt refinancing costs.

The Fed's monetary policy decisions are most likely destined to have significant effects for the more fragile economies, such as Argentina and Turkey, while they should be resolved quickly for the more solid ones, such as the Asian countries.

In the early months of 2014, the implied volatility in the equity markets of the major advanced economies remains at the levels of the beginning of 2013. For Italy, the gradual decline continues; this began in the middle of June last year and was temporarily interrupted by turbulences related to the emerging economies (Fig. 3).

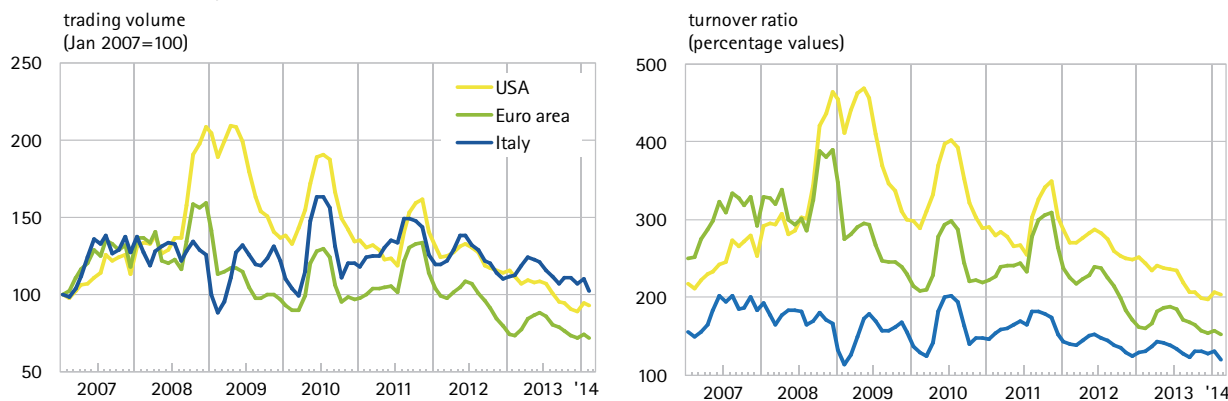
Starting from the second half of 2013, there was a reduction in the volume of trading both in the euro area and in the USA (Fig. 4).

**Fig. 3 Implied volatility and risk aversion indicator in stock markets**



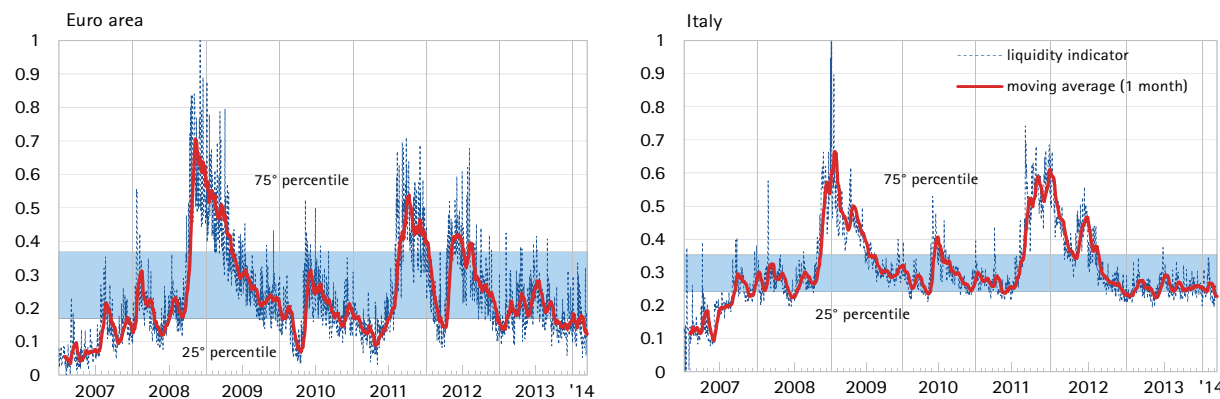
The risk aversion indicator is estimated by comparing the historical distribution of stock returns with the distribution implied by stock index option prices (see Shimko, 1993); call and put options on S&P500 (USA), Euro Stoxx 50 (euro area) and FTSE Mib (Italy) have been taken into consideration. Calculations are based on Thomson Reuters Datastream data.

**Fig. 4 Trading volume and turnover ratio in the euro area**  
(billions of euro; monthly data; Oct 2011 - Feb 2014)



The turnover is given by the ratio between the average counter-value of trades and the monthly average total counter-value of the securities included in the index. The indexes considered are the S&P500 (USA), the Euro Stoxx 50 (euro area) and FTSE MIB (Italy). The source of the data was Thomson Reuters.

**Fig. 5 Stock market liquidity in the euro area**  
(daily data; 01/08/2007 - 14/03/2014)



The liquidity indicator is the first common factor, estimated applying the analysis of the main components of 4 sub-indicators (price impact, implied volatility, bid-ask spread and range indicator). The indicator is between zero (= high liquidity) and one (= low liquidity). The 20-day moving average is shown. The source of the data was Thomson Reuters.

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 comparable to those recorded in June 2011 before the deepening of the sovereign debt crisis (Fig. 5).

## 2 Contagion, herding behaviour and informative efficiency

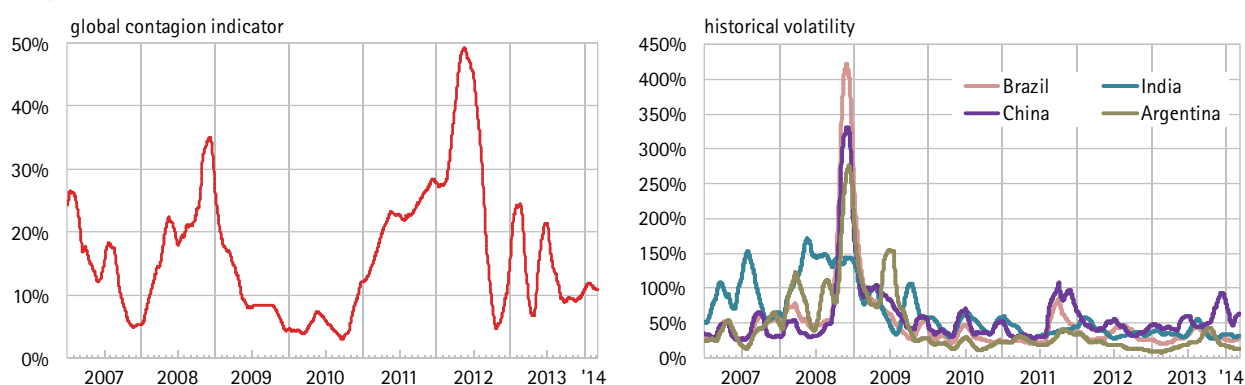
The contagion and risk perception indicators deducible from the prices of financial instruments signal a return to a normalisation of market performance, which should start once again to express quotations increasingly less conditioned by the perception of systemic risks.

This is confirmed also by the reduction in the intensity of the correlation between equity markets not attributable to fundamental factors, estimated both at the global level and for only the European economies (Fig. 6 and Fig. 7).

In particular, the contagion continued to decline stably in the euro area starting from the second half of 2013, both in the banking sector and in the non-financial sector. This trend reflects the signs of a fragile economic recovery in the region and the rebalancing of public finances in Ireland and Portugal.

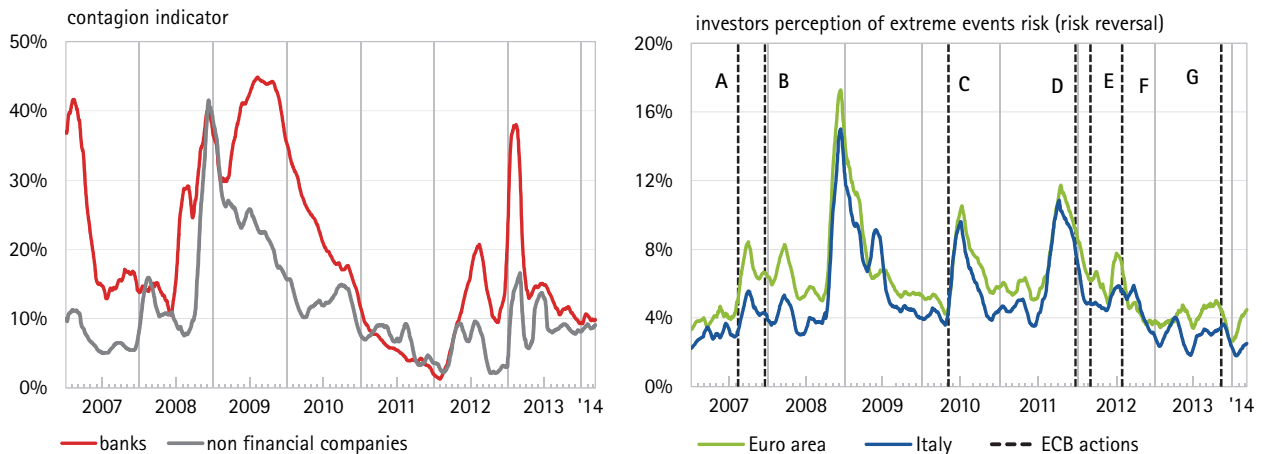
The easing of tensions can also be seen from the trend in the extreme risks perception indicator, which began to decline again in the early months of 2014. This trend also reflects the reiterated statements of the ECB about the intention to adopt all necessary measures to avoid the risk of deflation in the euro area.

**Fig. 6 Financial contagion in a global perspective**  
(daily data; 01/01/2007 - 14/03/2014)



The contagion indicator (chart on the left) was estimated using the daily historical series of equity yields of the Merval (Argentina), Bovespa (Brazil), Micex (Russia), Sensex (India), Shenzhen SE (China), MSCI (Turkey), S&P500 (US), Euro Stoxx 50 (euro area), FTSE100 (RU) and Topix (Japan) indexes; for the estimation methodology, see Consob Quaderno di Finanza No. 72. The annualised historical volatility of equity returns was estimated applying a Garch multivariate model (chart on the right). For both indicators, the moving average at two months is shown. The source of the data was Thomson Reuters.

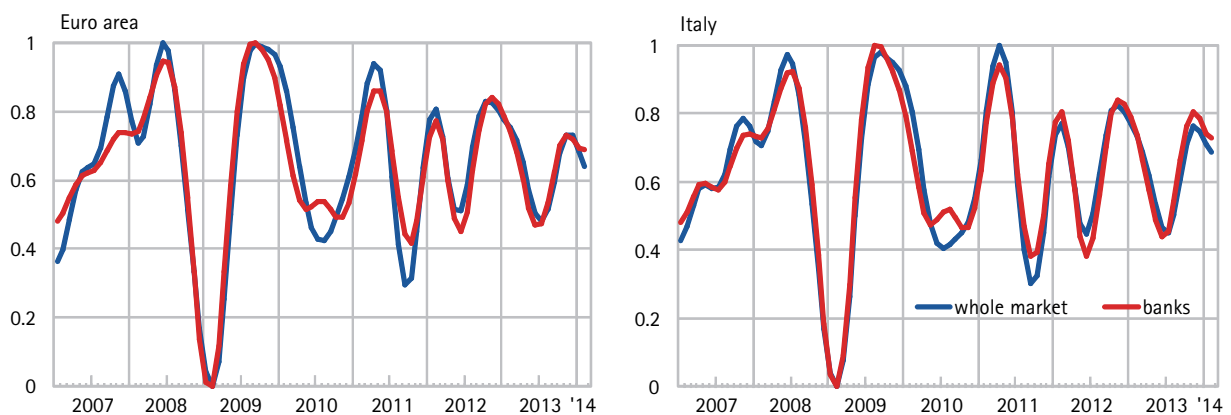
**Fig. 7 Financial contagion and investors perception of extreme events risk (risk reversal) in European stock markets**  
(daily data; 01/01/2007 – 14/03/2014)



The contagion indicator (chart on the left) was estimated using the daily historical series of equity yields (MSCI indexes) of the United Kingdom, Germany, France, Italy, Spain, Greece, Portugal, Ireland, the Netherlands, Austria and Finland (for the estimation methodology see Consob Quaderno di Finanza No. 72). The risk reversal indicator (chart on the right), defined as the difference between the implied volatility of out-of-the-money put options and the implied volatility of out-of-the-money call options with the same maturity (2 months), characterised by the same level of sensitivity of the premium compared to changes in the underlying asset (delta of 25). The increase in this indicator signals a greater perception of the risk of extreme negative returns on the part of investors; for the euro area options on the Euro Stoxx 50 were taken into consideration, and for Italy options on the FTSE MIB. The non-conventional measures adopted by the ECB and shown in the figure correspond to: A) injection of liquidity (09/08/2007); B) swap agreement with the Fed to provide liquidity in US dollars against a guarantee denominated in euro (12/12/2007); C) launch of the securities market programme (09/05/2010); D) first long-term refinancing operation at 3 years (LTRO) (20/12/2011); E) second LTRO at 3 years (28/02/2012); F) announcement of the OMT programme (26/07/2012). The source of the data was Thomson Reuters.

Alongside the gradual reduction in volatility and risk aversion, starting in June 2013 investors' expectations on the economic prospects implied in equity market yields also improved. In the early months of 2014, market sentiment worsened, however, following the events mentioned earlier (geopolitical tensions and release of worse-than-expected indicators on economic activity; Fig. 8).

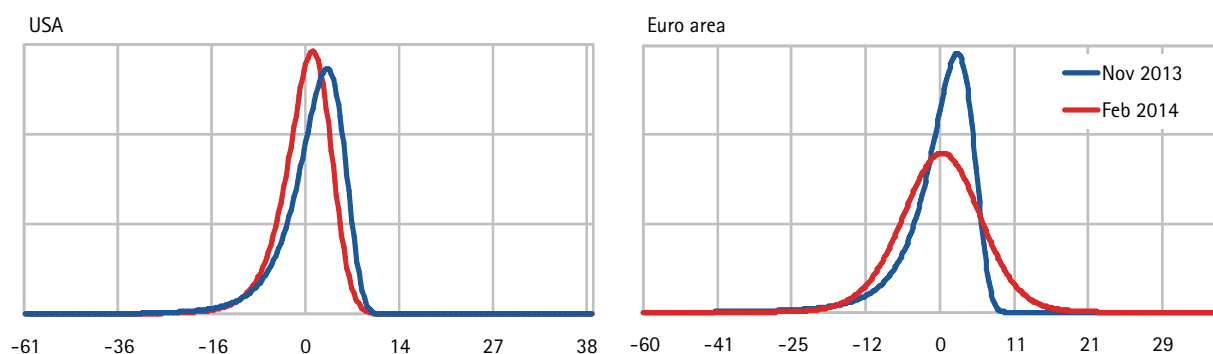
**Fig. 8 Investors' market sentiment as implied by stock market indexes dynamics**  
(monthly data; Jan 2007 – Feb 2014)



Market sentiment is estimated by separating the long-term component of earnings from the short-term which is more erratic and volatile. The cyclical component of each historical series has been normalised between zero and one. The indicator was calculated by applying the Christiano-Fitzgerald filter to the historical 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 of the data was Thomson Reuters.

The deterioration of the climate of confidence among investors in the early months of the year was reflected also in the trend in expectations on equity returns, in relation to a time horizon of three months, extrapolated from the prices of derivatives. In February 2014, the market seemed to have revised the expectations of positive yields downwards with respect to the situation noted in November 2013, for both the United States and the euro area (Fig. 9).

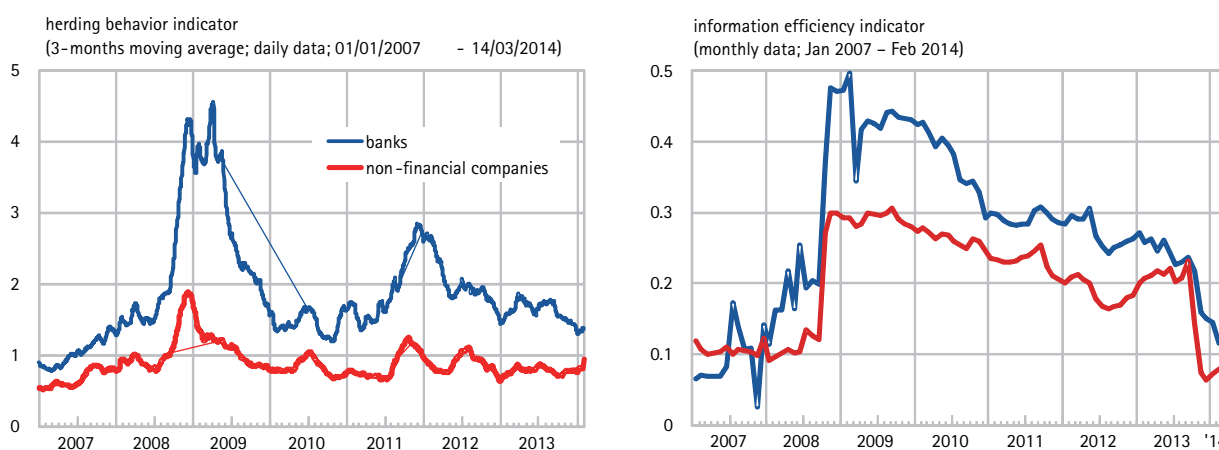
**Fig. 9 Expectations about share prices over a three month period**



Distributions of risk-neutral probabilities (that do not reflect investors' risk aversion) of equity yields at three months implied in the price of options on equity indexes, estimated according to Shimko (1993). The source of the data was Thomson Reuters.

In the second half of 2013, in line with the reduction in the contagion phenomena, operators' propensity to adopt similar investment strategies (so-called herding behaviour) in the euro area decreased and the informative efficiency of the markets improved (Fig. 10).

**Fig. 10 Stock markets herding behaviour and information efficiency in the euro area**



The herding behaviour indicator (chart on the left) is equal to the inverse of the cross-section standard deviation of share prices of the leading blue chips according to the methodology of Chang, E., Cheng, J. and Khorana, A. (2000). This indicator was normalised between zero (minimum point of the series) and one (maximum point of the series). Less dispersion (and therefore a higher value of the indicator) signals that investors more frequently adopt similar or imitative investment strategies (that entail convergence of share prices) and, therefore, that the herding behaviour is more intense. For banks, the dispersion indicator was calculated on the stocks included in the FTSE All Share Banks (Italy), Datastream Banks (Spain), Cac Banks (France) and Dax Banks (Germany). For the non-financial sector, the stocks taken into consideration were those included in the Datastream Non-Financial Total Markets indexes. The informative efficiency indicator (chart on the right) is given by the absolute value of the first-order autocorrelation coefficient among the equity indexes used (Datastream indexes relating to the non-financial sector of the major European countries and Euro Stoxx Banks index); the rise in the indicator signals a reduction in informative efficiency. The source of the data was Thomson Reuters.

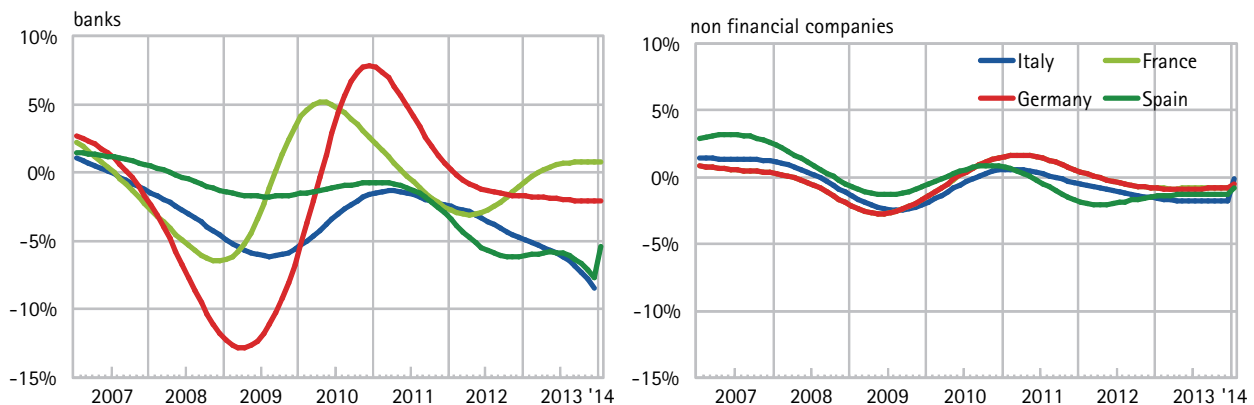
The herding behaviour indicator, based on the dispersion of equity yields, came back in fact to the levels of 2010, before the most acute phases of the sovereign debt crisis, both for the non-financial sector and for the banking sector, which continues, however, to record stably higher figures. At the beginning of 2014, the indicator showed an upward trend at the same time as the aforementioned turbulence on the markets.

The trend in the indicator of informative efficiency for the markets, corresponding to the autocorrelation of equity yields, recorded an improvement in the ability of prices to express fundamental values instead of reflecting contagion phenomena and imitative behaviour.

### 3 Market valuation of listed companies

The profitability of listed companies has still not benefited from the gradual improvement in the economic context of the euro area, as can be seen from the trend in earnings per share, which continue to record negative growth rates in the major European economies both in the banking sector (with the exception of France) and in the non-financial sector (Fig. 11).

**Fig. 11 Historical growth rate trends of earnings per share in the euro area**  
(monthly data; Jan 2007 – Jan 2014)



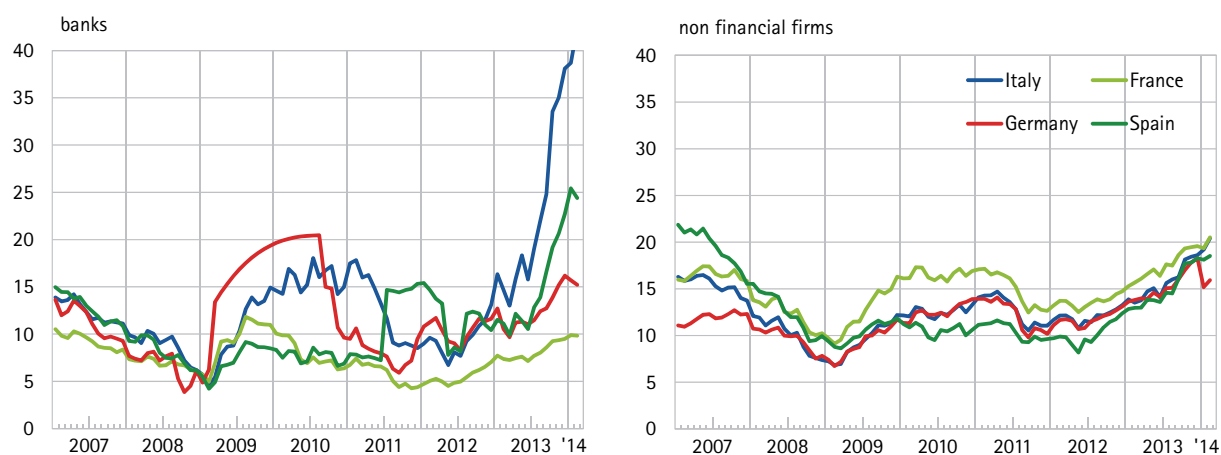
The sample of banks includes the top 20 European groups for total assets. Non-financial companies are those belonging to the Datastream index of their respective countries. The source of the data was Thomson Reuters.

Italian and Spanish banks recorded a more severe reduction in profitability compared with their European competitors; at the same time, share prices showed significant growth. These trends explain the increase in the price/earnings ratio corrected for the economic cycle and the reduction in the risk premium observed during 2013 (Fig. 12 and Fig. 13).



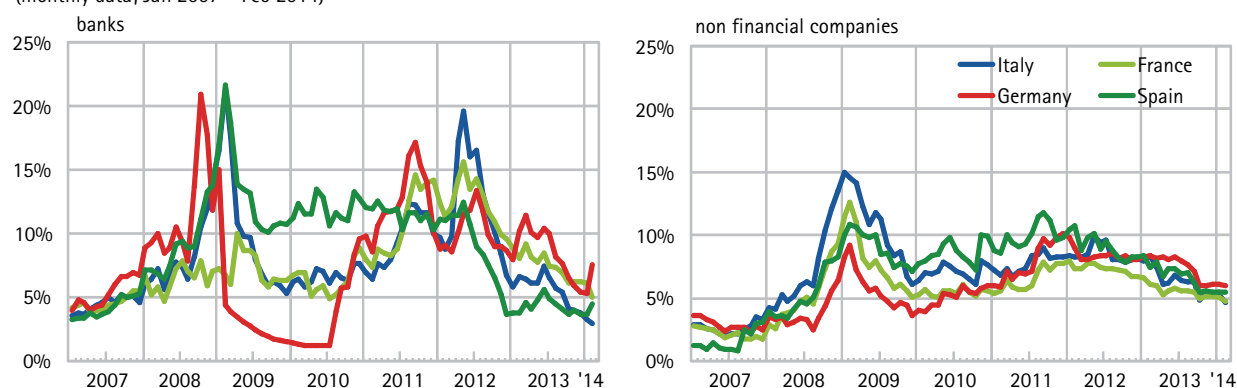
The increase in the price/earnings ratio is more marked for the Italian banking sector. In the early months of 2014, both the price/earnings ratio and risk aversion showed uneven trends between sectors and countries.

**Fig. 12 Price-earnings ratio adjusted for the business cycle in the euro area**  
(monthly data; Jan 2007 – Feb 2014)



The price/earnings ratio adjusted for the economic cycle (by means of the Hodrick-Prescott filter) refers to the top 20 European banking groups for total assets and to the non-financial companies listed in the related Datastream indexes. The source of the data was Thomson Reuters.

**Fig. 13 Earning yield premiums in the euro area**  
(monthly data; Jan 2007 – Feb 2014)



The sample includes the top 20 European banking groups for total assets. For non-financial companies, the Datastream indexes were considered. The risk premium is estimated as the average of the difference between earnings per share (the inverse of the P/E ratio) and the real risk-free rate (approximated with the overnight interest rate for the euro area). For German banks, the risk premium was interpolated from March 2009 to June 2010. The source of the data was Thomson Reuters.

During 2013, the valuation of the banks of some euro area countries expressed by the equity markets was misaligned with respect to the trend of profitability in the sector (Fig. 14).

**Fig. 14 Overvaluation and undervaluation of listed banks in the euro area**  
(monthly data; Jan 2007 – Feb 2014)

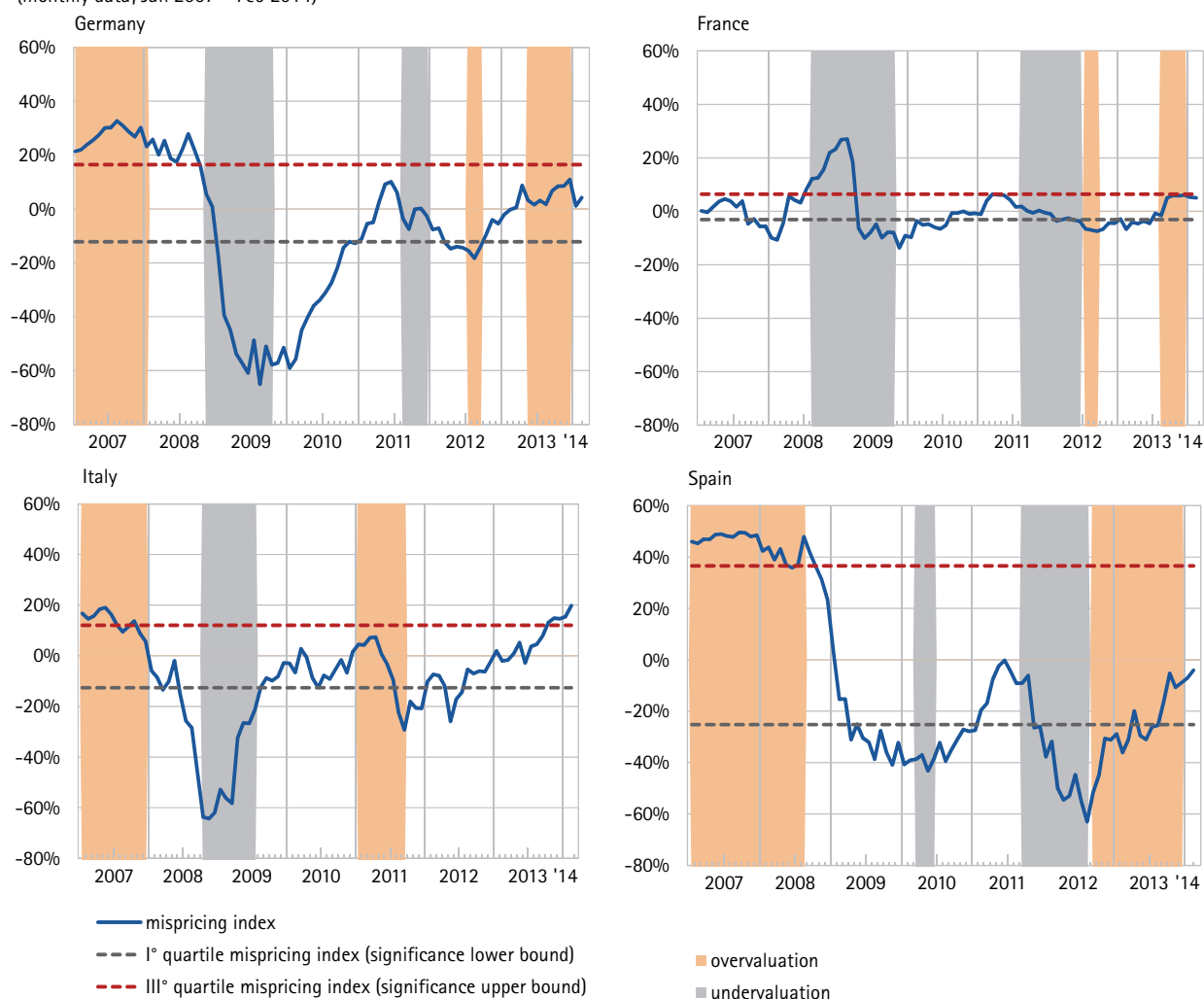


The chart shows the percentage difference between the effective value of share prices and the fundamental value estimated on the basis of a VECM co-integration model and on the historical series of equity indexes, of earnings per share adjusted for the economic cycle and of risk premiums (earnings yield premium; Campbell and Shiller, 1988; Nelson, 1999; De Bondt et al., 2010). The under-/over-valuation with respect to the economic cycle is calculated estimating the historical series of the 1st quartile (3rd quartile) of the distribution of equity indexes conditioned on GDP (the trend component was estimated using the Hodrick-Prescott filter). The indicator signals under-valuation where  $p_t < p_t^*$  (1st quartile, GDP), and over-valuation if  $p_t > p_t^*$  (3rd quartile, GDP). Quiros and Timmermann, 2001; Cassola and Morana, 2002; Detken and Smets, 2004. The processing refers to the top 20 European banking groups for total assets. The source of the data was Thomson Reuters.

In February 2014, French banks seemed undervalued, even in the light of the phase of the domestic economic cycle. On the contrary, for Spanish banks the phenomenon of undervaluation that had affected them since 2012 seems to have disappeared. Italian banks, finally, seem to be overvalued starting from the second half of 2013, probably as a result of investors' positive expectations on the country's macroeconomic prospects and on the growth of corporate profits (Fig. 16 and Fig. 17).

Unlike the banking sector, the prices of non-financial companies in the major euro area countries show no significant misalignment of the theoretical values estimated on the basis of the domestic economic situation, earnings per share and risk premiums (Fig. 15).

**Fig. 15 Non financial listed companies overvaluation and undervaluation in the euro area**  
(monthly data; Jan 2007 – Feb 2014)



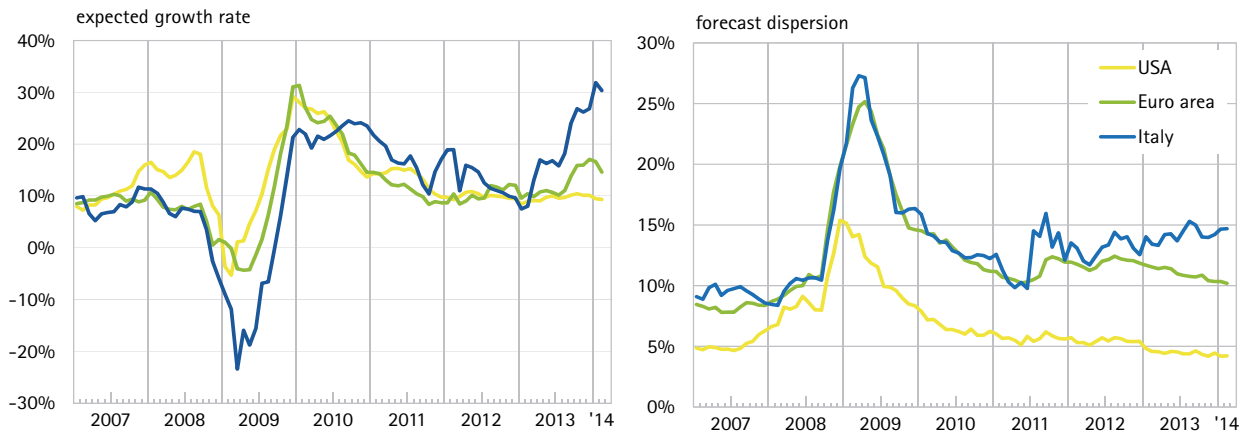
The chart shows the percentage difference between the effective value of share prices and the fundamental value estimated on the basis of a VECM co-integration model and on the historical series of equity indexes, of earnings per share adjusted for the economic cycle and of risk premiums (earnings yield premium; Campbell and Shiller, 1988; Nelson, 1999; De Bondt et al., 2010). The under-/over-valuation with respect to the economic cycle is calculated estimating the historical series of the 1st quartile (3rd quartile) of the distribution of equity indexes conditioned on GDP (the trend component was estimated using the Hodrick-Prescott filter). The indicator signals under-valuation where  $p_t < p_t^*$  (1st quartile, GDP) and over-valuation if  $p_t > p_t^*$  (3rd quartile, GDP). Quiros and Timmermann, 2001; Cassola and Morana, 2002; Detken and Smets, 2004. The source of the data was Thomson Reuters.

Analysts' forecasts for corporate profits on a time horizon of one year remain quite stable in the USA, while they reflect the expectations of a significant increase in the growth rate for Italy, at levels higher than expected on average for the euro area. For Italian companies listed on the FTSE MIB, in fact, the growth rate of expected profits went up from just less

than 10 per cent at the end of 2013, to more than 30 per cent at the beginning of 2014 (Fig. 16).

The dispersion of forecasts remains higher in the euro area than in the United States, where at the beginning of 2014 lower figures were recorded than those before the crisis of 2007.

**Fig. 16 Analysts' forecast of earnings growth over a 12 month period**  
(monthly data; Jan 2007 – Feb 2014)

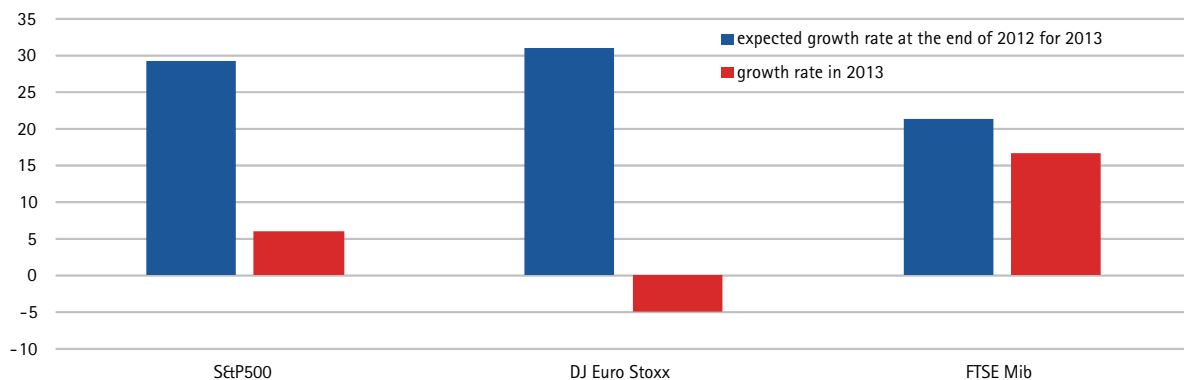


Weighted average of growth rates of profits of companies listed on the S&P500 (USA), on the DJ Euro Stoxx (euro area) and on the FTSE MIB (Italy). The sources were Thomson Reuters and Ibes.

In 2013, the trend of profits of companies included in the equity indexes overall disappointed with regard to the expectations of investors in the USA and in the euro area; for Italy, instead, the gap between expected and actual growth was less significant (Fig. 17).

In particular, the profit growth rate of companies listed in the DJ Euro Stoxx fell by approximately 5 per cent compared with an expected figure of 30 per cent; less marked was the divergence between actual growth and expected growth in the profits of companies listed on the S&P500 (respectively, just over 5 and almost 30 per cent).

**Fig. 17 Earnings growth forecast and actual growth for companies included in major stock indexes in 2013**



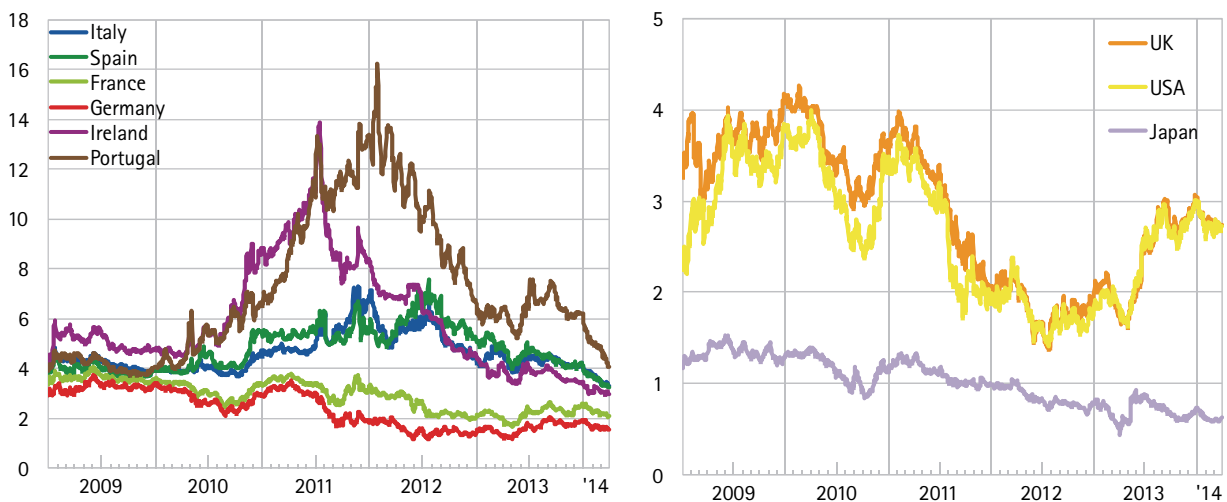
The expected growth refers to forecasts, estimated at the end of December 2012, on profits at 12 months (before amortisation of goodwill and of other atypical revenue items), while actual growth refers to the profit made in 2013 (estimated in February 2014). The sources were Thomson Reuters and Ibes.

## 1 Government bonds

In 2013 the markets for government bonds in the Euro area gradually stabilised as a result of the reduction in the risk of the single currency breaking down. The yields of ten-year government bonds of the countries most exposed to the crisis decreased, coming down, at the end of the year, to levels similar to those recorded in 2010; this trend continued in the early months of 2014 (Fig. 18).

Outside the euro area, the yields of ten-year government bonds continued to fall in Japan, although discontinuously, thanks to the very expansionary monetary policy of its Central Bank. In the United States, instead, an opposite trend prevailed due to the start of the so-called tapering, that is the winding-down of the programme for the purchases of securities on the part of the Federal Reserve (Fed).

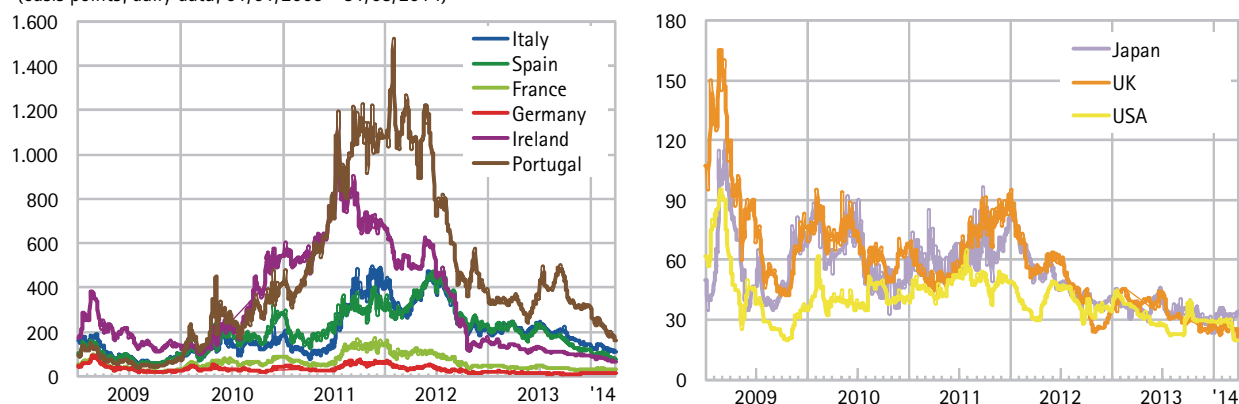
**Fig. 18 10-year government bond yields in the euro area**  
(percentage values; daily data; 01/01/2009 - 31/03/2014)



Source: processing of Thomson Reuters data.

The reduction in the perception of sovereign risk in the peripheral countries of the euro area is confirmed also in the trend of prices of credit default swaps (CDSs), which for Spain and Italy came back to the levels observed in 2009 (Fig. 19).

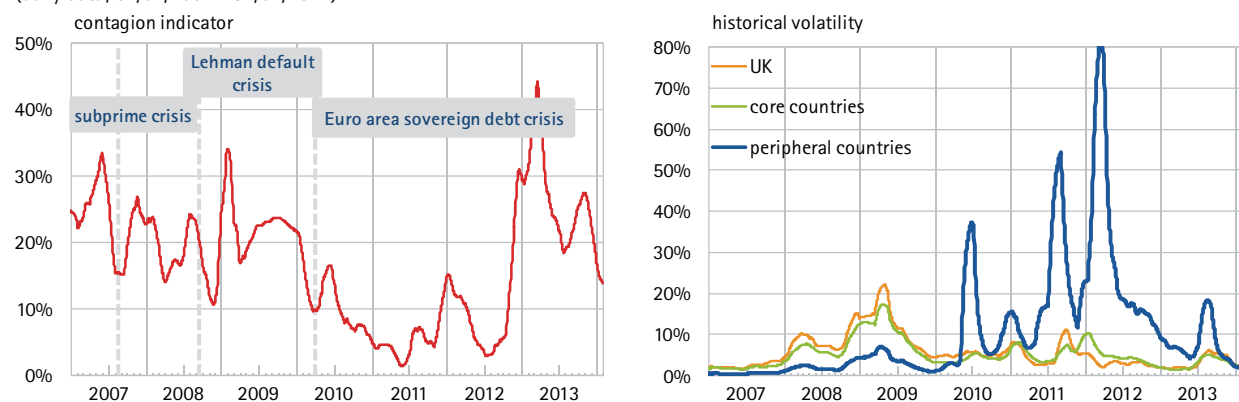
**Fig. 19 5-year CDS premiums on government bonds in the euro area**  
(basis points; daily data; 01/01/2009 - 31/03/2014)



Source: processing of Thomson Reuters data.

In general, the contagion phenomenon showed a gradual decline in the second half of 2013, as emerges also from the trend in the intensity of correlation between markets not attributable to fundamental factors. In January 2014, in fact, this correlation came out at levels similar to those recorded before the start of the sovereign debt crisis, sharply down from the figures reached in the early months of 2013 (Fig. 20).

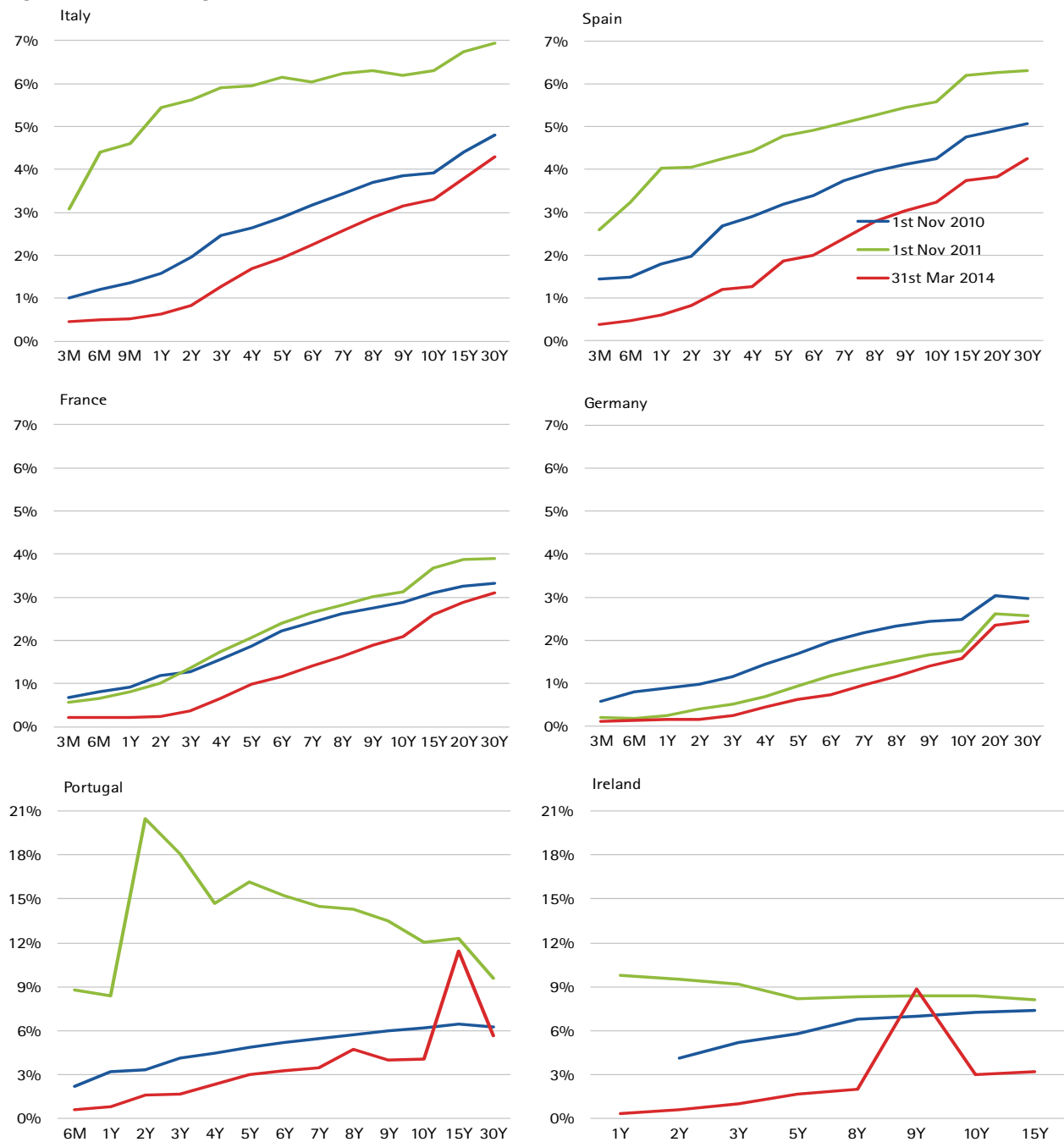
**Fig. 20 Contagion indicator and historical volatility of 10-year government bond spreads in some European countries**  
(daily data; 01/01/2007 - 31/01/2014)



For an explanation of how the contagion indicator is constructed, see Consob Quaderno di Finanza No. 72. The sample of countries includes the United Kingdom, Germany, France, Spain, Greece, Portugal, Ireland, Austria, the Netherlands and Finland. The figure on the left shows the percentage of long-term relations between the statistically significant spreads on government bonds in the various countries, out of the total of all possible connections. The long-term connections were identified by applying the Johansen bivariate co-integration test (1988) with a rolling window of 1000 days (moving average of the indicator over 2 months). The figure on the right shows the average value of the historical (annualised) volatility of changes in the spreads of government bonds included in the sample (excluding Greece) compared to US Treasury Bonds. This volatility was estimated by applying a Garch multivariate model. The source of the data was Thomson Reuters.

The interest rate curve on Italian government bonds fell by more than 300 basis points on all maturities compared with the levels reached in the most intense phase of the sovereign debt crisis. In addition, even with a further contraction of yields on German government bonds, which on the shortest maturities recorded rates close to zero, the spread between the yields of government bonds of Italy and Germany fell significantly (Fig. 21).

**Fig. 21 Yield curves of government bonds in some advanced countries**



Source: Thomson Reuters.

For the first time since the start of the sovereign debt crisis, in the early months of 2014 Italy and Spain saw an alignment of Moody's official rating with the rating implied in the yields of government bonds and CDS prices. The official rating in Ireland, after being higher than the implied rating for a long time, currently expresses a lower judgement on creditworthiness than that expressed by the market (Fig. 22).

**Fig. 22 Official and implied ratings for government bonds and CDS in some euro area countries**  
(daily data; Jan 2009 – Mar 2014)



Source: processing of Moody's data.

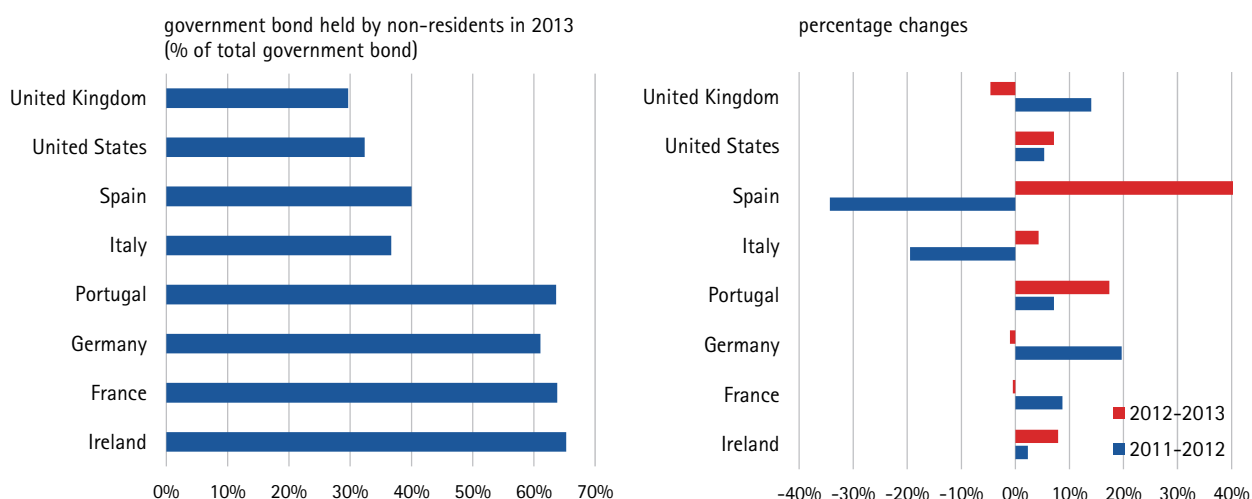


In particular, from the beginning of 2013, the implied rating in CDSs and government bonds on Irish sovereign debt improved considerably reaching levels higher than those of Italy and Spain, as a result of both the good growth prospects and the rebalancing of public spending which should help to bring the debt/GDP ratio back onto a sustainable path.

In 2013, as a result of the improvement in the perception of sovereign risk in the Euro area, the portion of public debt held by foreign investors of Italy and Spain stabilised, recording a turnaround compared with the significant drop experienced in the most acute stage of the crisis (Fig. 23).

In particular, this portion increased by more than 30 per cent for Spain, coming out at 40 per cent and almost completely wiping out the contraction of the previous year. In Italy, the portion of public debt held by non-residents, approximately 37 per cent in 2013, showed only a slight increase (approximately 4 per cent). The United Kingdom and Germany, instead, saw a contraction (respectively, -5 and -1 per cent).

**Fig. 23 Percentage of government bond held by non-residents**



Source: processing of FMI data. The figures for 2013 refer to the third quarter (last available survey).

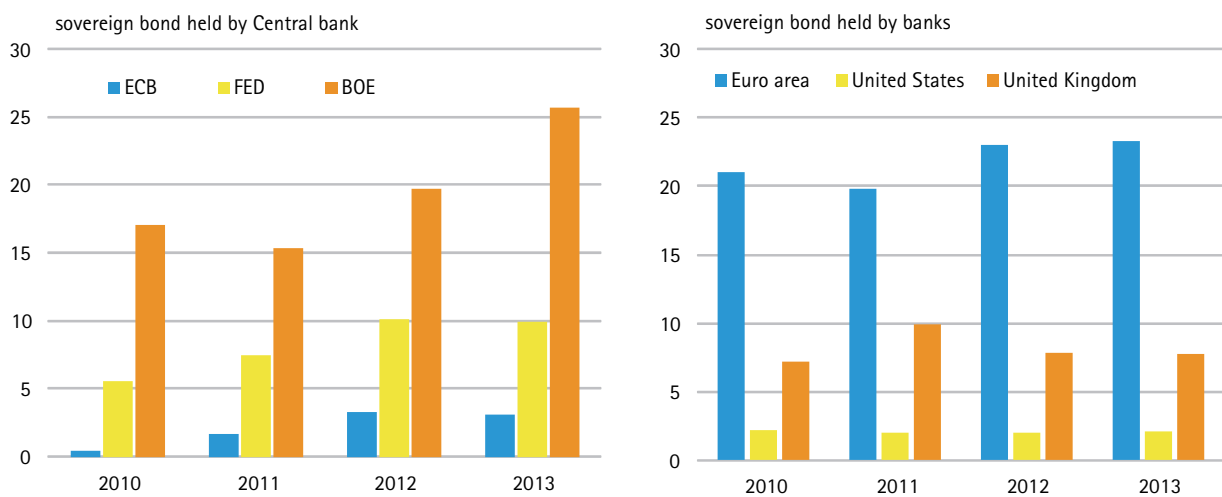
The portion of public debt held, at the end of 2013, by the domestic banks of the euro area countries came out at around 23 per cent, a substantially stable level compared with the previous year and up by two percentage points compared with the figure for 2010. In contrast, the portion referable to the European Central Bank (ECB) continued to fall, coming down to just over 3 per cent, following the maturity of a number of securities in its portfolio, purchased as part of the securities market programme (SMP).

The figures are very different for the USA and the United Kingdom, where the central banks hold a much higher proportion of public securities compared with that of domestic banks.

In particular, the Fed holds approximately 10 per cent of US debt compared with 2 per cent referable to private banks, while for the Bank of England the portion exceeds 25 per cent, compared with 8 per cent of private banks (Fig. 24).

This circumstance reflects both the differences existing in the structure of the various financial systems and the different monetary policy choices of the respective central banks (Fig. 24).

**Fig. 24 Percentage of government bond held by the Central bank and by private banks in some advanced countries**



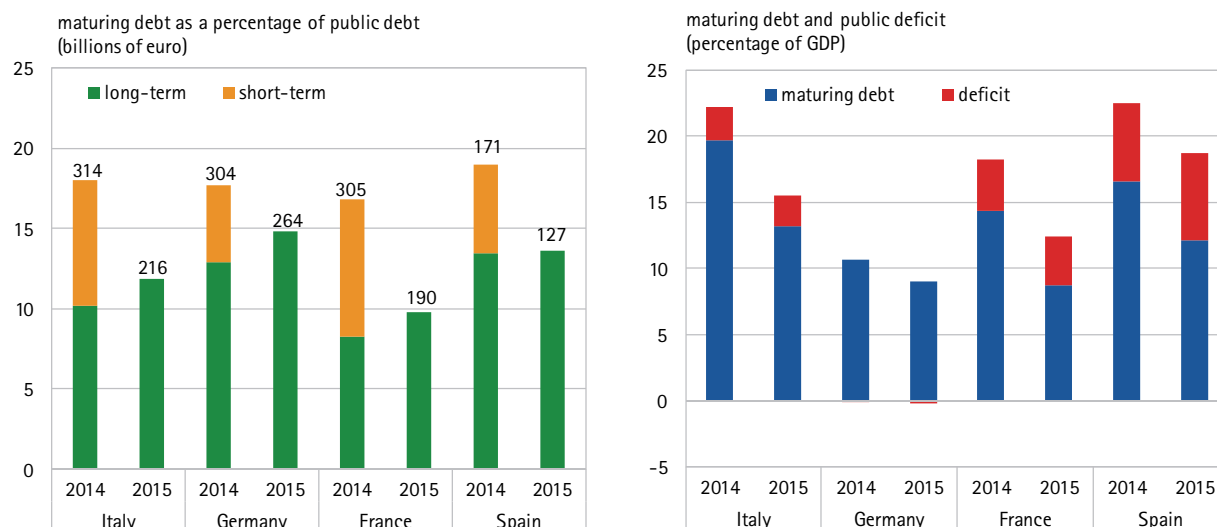
Source: processing of Thomson Reuters data and Bruegel database on sovereign securities developed by Merler and Pisani-Ferry (2012; [www.bruegel.org](http://www.bruegel.org)).

The need to refinance high proportions of public debt is an important vulnerability factor for many euro area countries.

The total proportion of debt reaching maturity in 2014 is between 17 and 18 per cent in Italy, Germany, France and Spain. In relation to GDP, the need to refinance Italian public debt can be estimated at around 20 per cent in 2014 and 13 per cent in 2015 (the figure does not include issues of short-term securities with maturities of no more than one year), while in the same years the coverage for the deficit is, respectively, 2.5 and 2.3 per cent of GDP.

Spain, for which debt reaching maturity in 2014 is approximately 17 per cent of GDP, must find coverage also for a higher deficit/GDP ratio (5.9 and 6.6 per cent in 2014 and 2015). In the same period, France will need to refinance existing debt and finance new debt equivalent to 18 per cent of GDP (Fig. 25).

**Fig. 25 Government bond refinancing**



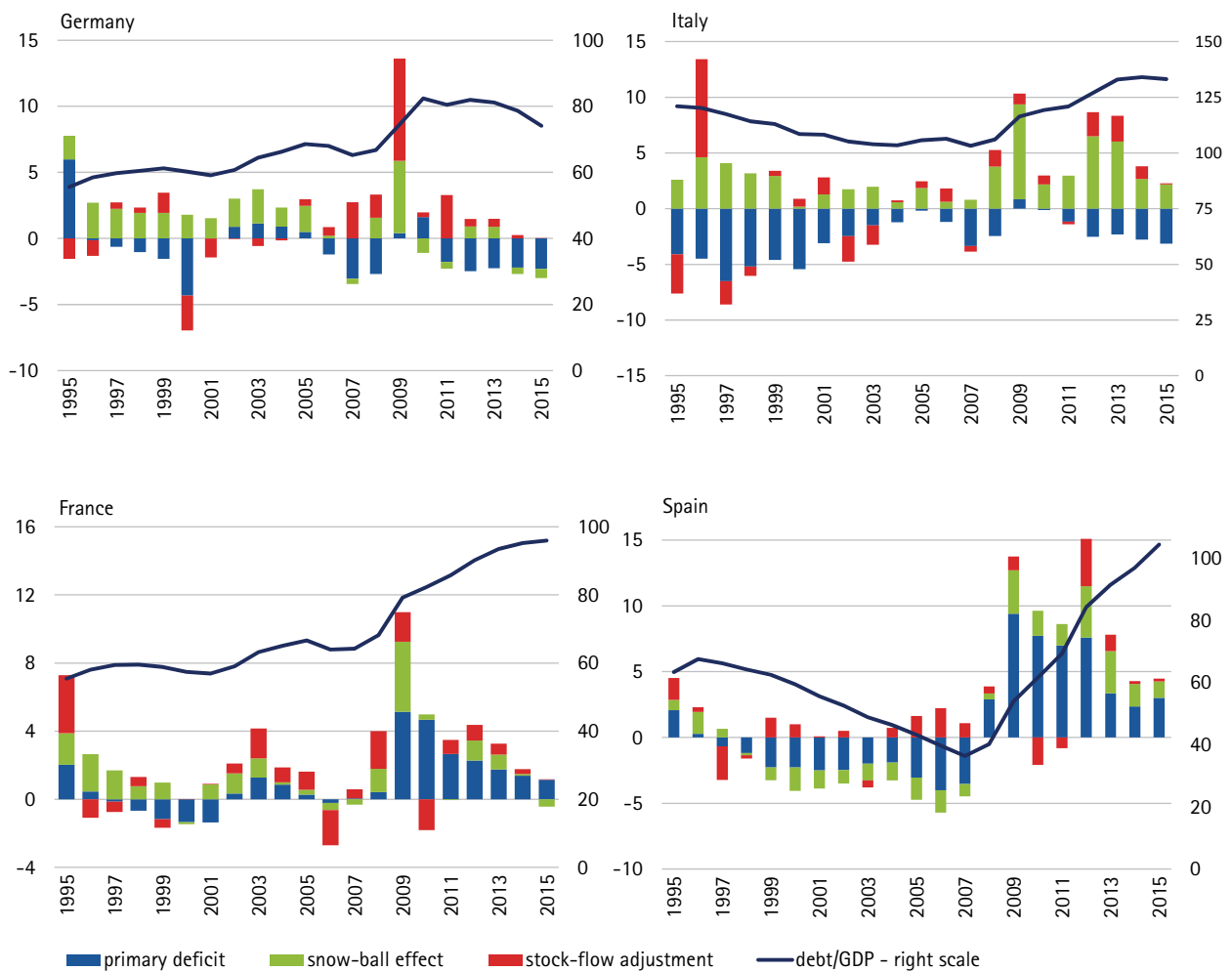
Source: processing of Thomson Reuters and European Commission data.

The evolution of the debt/GDP ratio and the related determinants continue to show significant differences among the major euro area countries. According to the forecasts for 2014, in fact, this ratio should come down only for Germany, thanks to the contribution of the primary surpluses and of low interest rates. For Italy, instead, although persistent primary surpluses have been recorded since the early nineties, the debt trend continues to be penalised by the gap between high interest rates and low or negative growth rates.

For France and Spain, the main factors contributing to the increase in public debt are the primary deficits and stock-flow adjustments (corresponding to the difference between change in the debt and change in the public surplus/deficit determined by extraordinary items such as the recapitalisation of the banking system carried out by the Spanish government in 2012).

Starting from 2015, however, there should be a turnaround. In particular, the Italian debt/GDP ratio should reach levels of around 130 per cent on the condition that growth rates of the real economy are in line with the European Commission's forecasts (respectively 0.7 and 1.2 per cent in 2014 and 2015). Spain's public debt should reach 110 per cent of GDP (on the basis of GDP growth estimates of 0.5 in 2014 and 1.7 per cent in 2015), while France's public debt should exceed 90 per cent (with growth rates forecast for the real economy of 0.9 per cent and 1.7 per cent; Fig. 26).

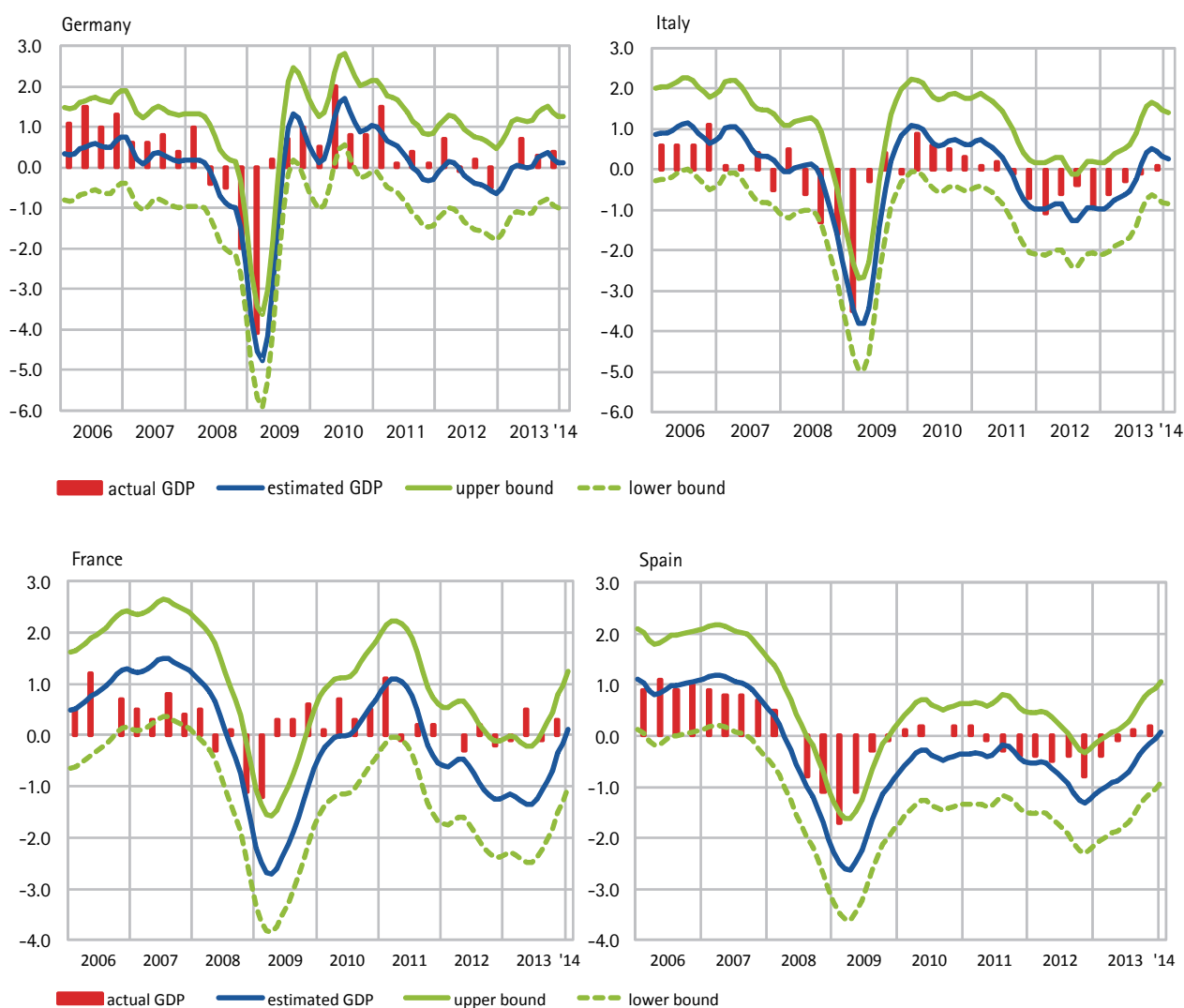
**Fig. 26 Government bond components**  
(percentage of GDP)



Source: European Commission. The figures show the determinants of the debt/GDP ratio (secondary axis); the snowball effect indicates the change in debt determined by the difference between interest rate and GDP growth rate; the stock-flow adjustment corresponds to the difference between change in the debt and change in the public surplus/deficit determined by extraordinary items.

The modest signs of recovery, which emerged in the euro area starting from the second quarter of 2013, are confirmed also in the real-time GDP forecasts (so-called nowcasts) prepared with reference to the major countries of the area. In particular, Italy, after recording the first signs of recovery in the last quarter of 2013, should grow by 0.3 per cent in the first quarter of 2014 (Fig. 27).

Fig. 27 GDP nowcast



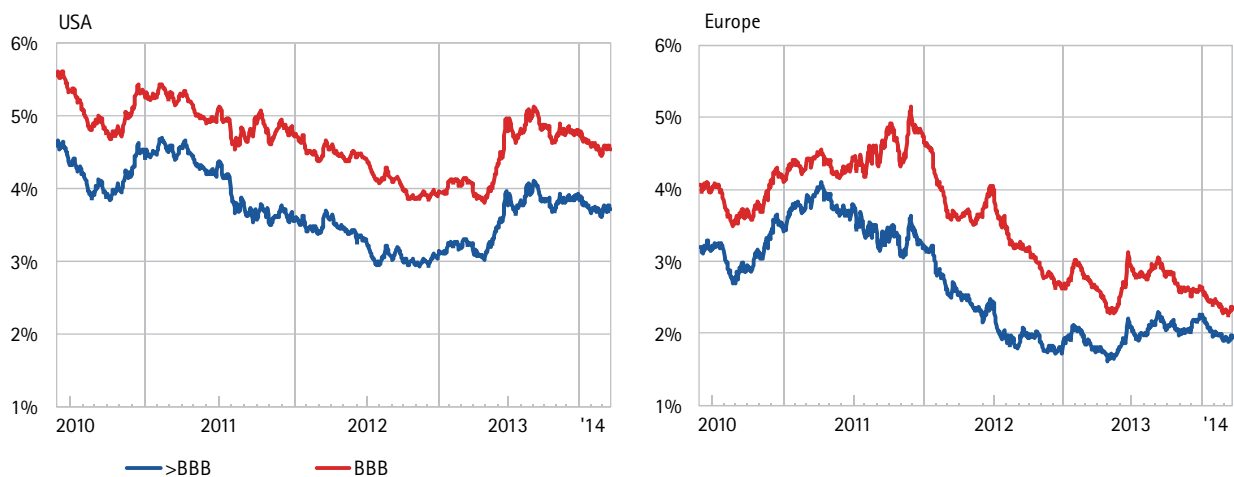
The methodology adopted to prepare the forecasts is based on a state-space reduced-size model using 11 soft and hard indicators (preliminary and final GDP estimates; hard indicators: exports, industrial production index, retail sales, employment rate; soft indicators: economic sentiment indicator, consumer confidence index, business confidence index, construction industry confidence index; Camacho and Perez-Quiros, 2010). The extraction of a factor common to the macroeconomic historical series used is done with the Kalman filter. The model was estimated separately for each country (France, Germany, Italy and Spain) on the basis of data from the European Commission, ISTAT, INSEE, the Bundesbank and INE for the period December 2002 – January 2014.

These forecasts were prepared on the basis of information contained both in the 'hard indicators' (exports, industrial production index, employment rate and retail sales) and in the 'soft indicators' (economic sentiment index and consumer, business and construction industry confidence indexes prepared by the European Commission on the basis of surveys).

## 2 Corporate bonds and securitisations

During 2013, the yields of bonds of non-financial companies increased in the United States by approximately one percentage point for all rating classes, going up from 4 to 5 per cent in the case of securities with BBB rating and from 3 to 4 per cent in the case of securities with a rating of a higher class. 2014 began with a downward trend, which marked a turnaround with respect to the previous year. In Europe there was, instead, greater discontinuity, although the reduction of spreads between bonds with different rating classes shows an improvement in investors' expectations (Fig. 28).

**Fig. 28 Non financial companies bond yields**  
(daily data; 01/06/2010 – 31/03/2014)

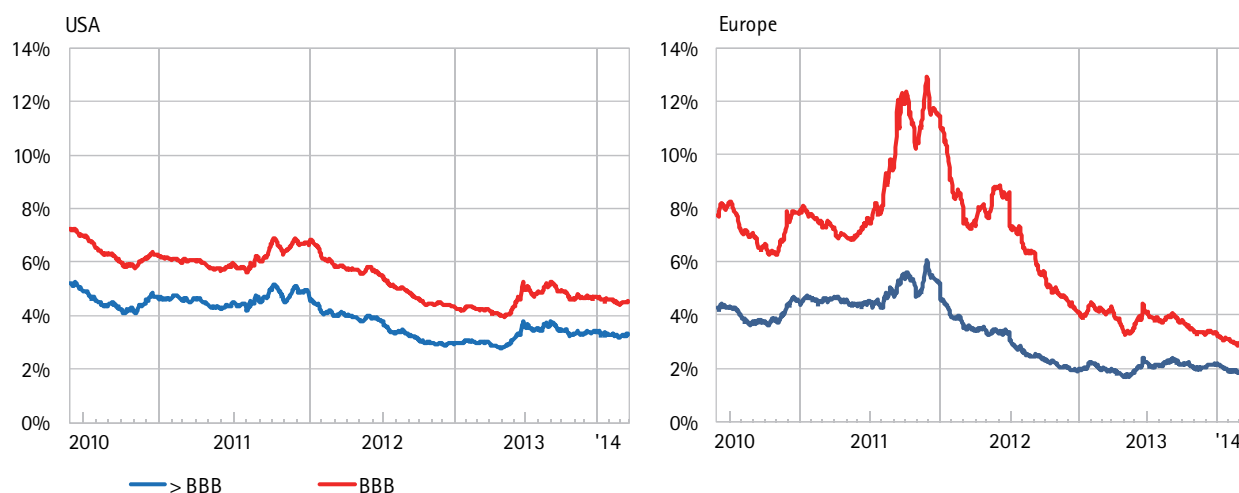


Source: Thomson Reuters. The data refer to the Markit Iboxx indexes.

With reference to bank bonds, the yields showed substantial stability both in Europe and in the United States for all rating classes. In Europe, the narrowing gap between the yields of securities with different rating classes is in line with the trends mentioned in reference to the bonds of the non-financial sector (Fig. 29).

**Fig. 29 Bank bond yields**

(daily data; 01/06/2010 – 31/03/2014)



Source: Thomson Reuters. The data refer to the Markit Iboxx indexes.

In 2013, the primary bond market for non-financial companies showed signs of a slowdown both in the United States and Europe compared with the previous year (Fig. 30).

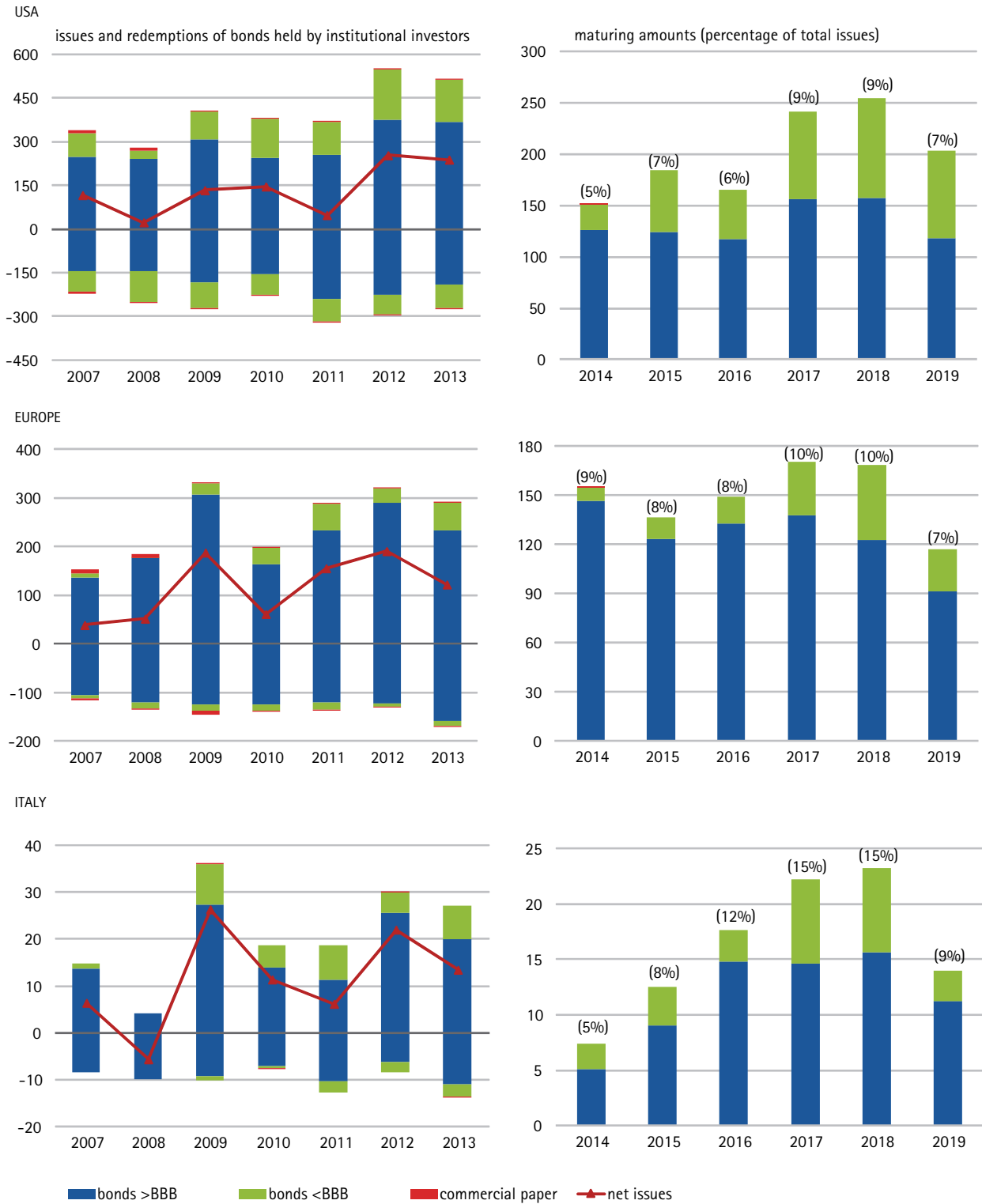
The volume of issues to institutional investors fell by 7 per cent in the USA (down from 548 to 512 billion euro) and by 9 per cent in Europe (from 321 to 292 billion euro), despite the increase from 29 to 57 billion euro of issues of securities with a speculative rating.

In line with the European figure, in Italy too there was a reduction of approximately 10 per cent in issues (from 30 to 27 billion euro) with the exception of securities with a rating lower than BBB (up from 4 to 7 billion euro). In 2014, the refinancing risk of bond funding should be limited, with a volume of securities reaching maturity of approximately 7 billion euro (5 per cent of gross issues since 2007).

During 2013, bond funding of banks from institutional investors recorded a significant recovery in the United States (+31 per cent, from 96 to 126 billion euro). In Europe, instead, there was a drop of approximately 30 per cent in issues, down from 418 to 291 billion euro (the figure does not include securities with public guarantees).

In Italy gross issues of credit institutions fell from 152 to 135 billion euro (approximately -11 per cent). In line with the figures of the previous years, more than 80 per cent of bonds were placed with retail investors. The need for refinancing is significant, as the amount of bonds reaching maturity in 2014 is 12 per cent of the total amount issued since 2007 (Fig. 31).

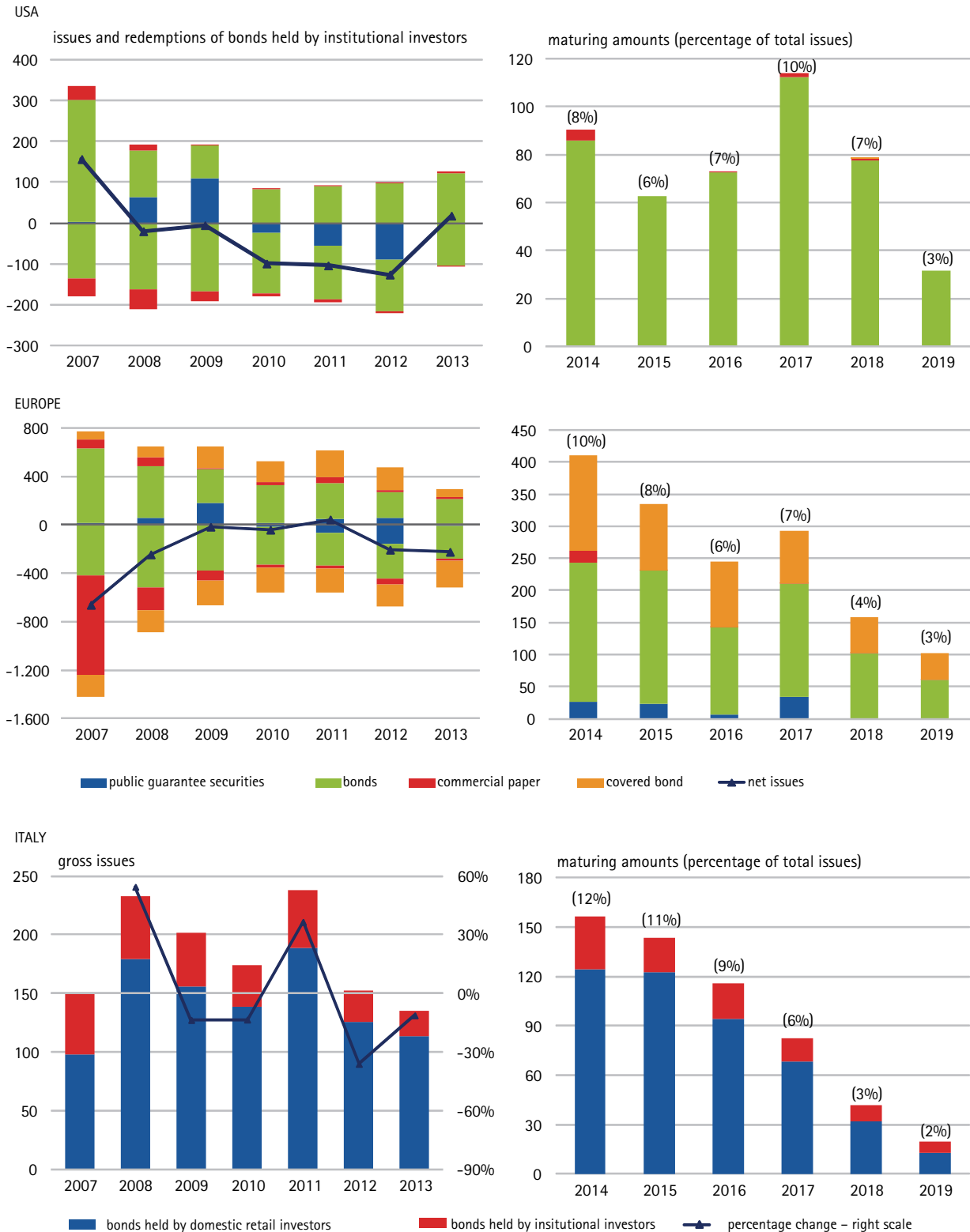
**Fig. 30 Non financial companies bond issues**  
(billions of euro)



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



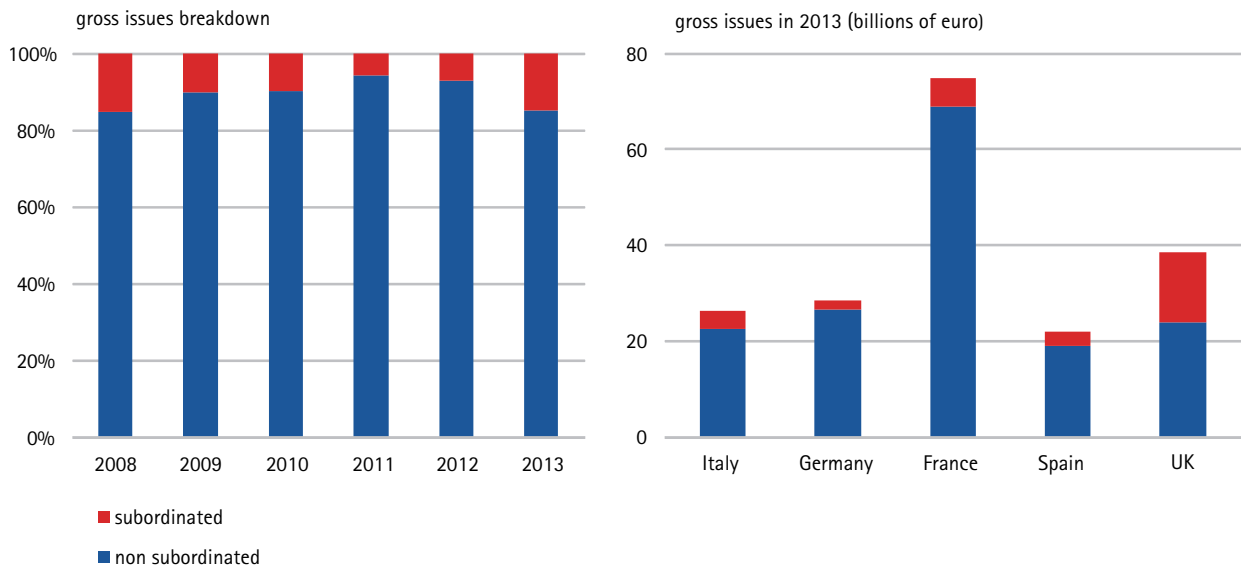
**Fig. 31 Bank bond issues**  
(billions of euro)



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

During 2013, in the major European economies, the proportion of subordinated bank bonds out of total gross issues came back to the levels of 2008, just less than 20 per cent. The figure, however, shows significant variability among countries, oscillating between 7 per cent in Germany and 38 in the United Kingdom. For Italian banks, subordinated bank bonds correspond to 14 per cent of gross issues (Fig. 32).

Fig. 32 Subordinated bank bonds in some euro area countries



Source: Dealogic.

During 2013, the securitisations market continued to be stagnant, both in the USA and in Europe (Fig. 33).

Compared with the previous year, the volume of issues of securitised bonds decreased in the US market by approximately 29 per cent (from 1,122 to 797 billion euro), despite an increase on issues of securities linked to mortgage loans (from 292 to 315 billion euro, approximately 8 per cent). In Europe, the contraction was even more significant, coming out at approximately 39 per cent (from 131 to 80 billion euro). On the Italian market, the volumes of activity remained low, with the total amount of issues at approximately 3.7 billion euro.

**Fig. 33 Securitisation issuances**  
(billions of euro)



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

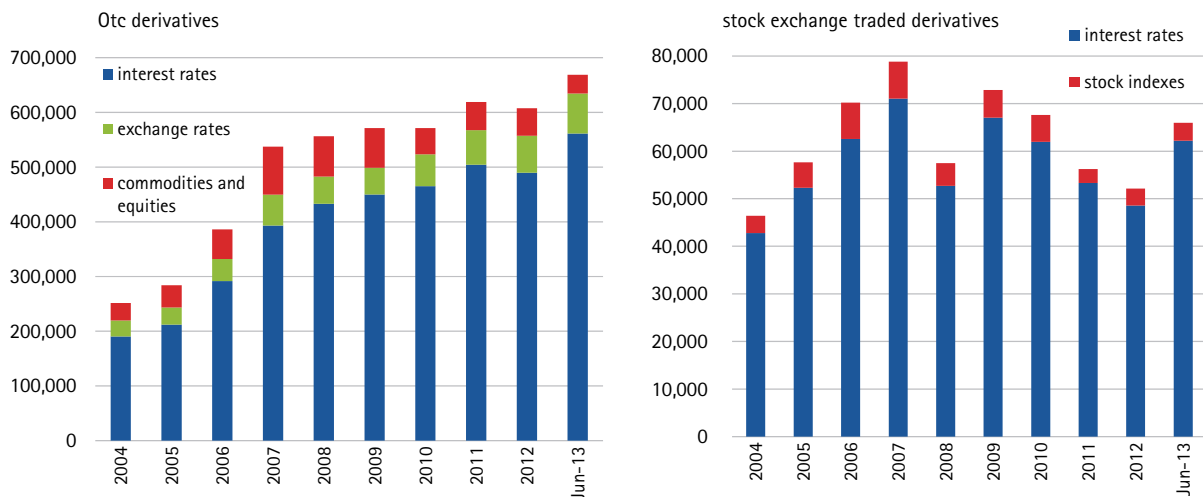
### 3 Derivatives

The over-the-counter (OTC) derivatives market grew significantly in the first half of 2013, mainly as a result of the positive contribution attributable to derivatives on interest rates. This trend is in line with that of exchange-traded derivatives (Fig. 34).

According to the surveys of the Bank for International Settlements (BIS) on the major advanced economies, the notional value of OTC derivatives on financial instruments (interest rates, exchange rates, equities and commodities) increased by approximately 10% (from 607,510 to 668,559 billion US dollars between December 2012 and June 2013 ). This increase was more marked for interest-rate derivatives (from 489,703 to 561,299 billion US dollars between December 2012 and June 2013; +15 per cent), followed by exchange-rate derivatives (from 67,358 to 73,121 billion dollars; +9 per cent). Instead the notional value of derivatives on equities and commodities fell (from 50,449 to 34,139 billion dollars; -32 per cent).

With reference to exchange-traded derivatives the notional value of those on interest rates (approximately 94 per cent of the total) showed a significant increase (approximately 32 per cent), while the amount of derivatives on exchange rates and other underlying assets rose by approximately 6 per cent (from 3,574 to 3,793 billion US dollars).

**Fig. 34 Gross notional value of derivatives in some advanced countries**  
(end of period balances; billions of USD)



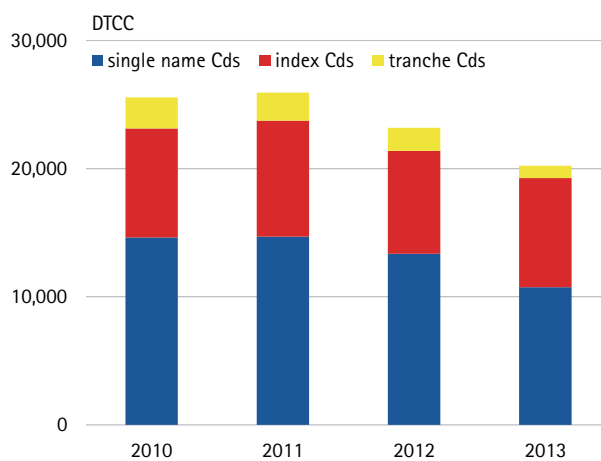
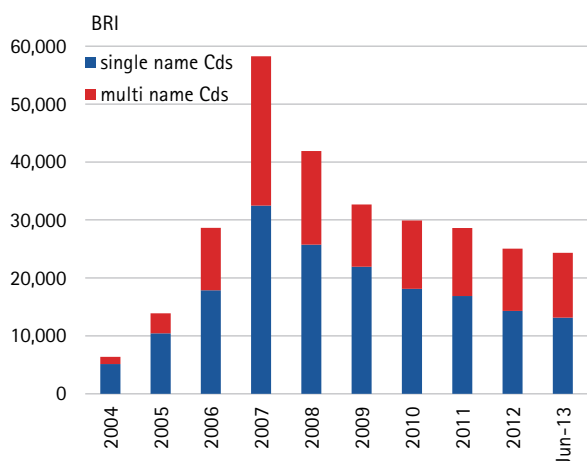
Source: Bank for International Settlements. The data refer to reports of the central banks of 13 countries (Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States).

In the first half of 2013, the gross notional value of credit default swaps (CDSs) fell slightly, recording a contraction of the related market of approximately 3 per cent (Fig. 35).

Between December 2012 and June 2013, according to the BIS surveys, the figure went down from 25 to 24 thousand billion US dollars (-4 per cent). In June 2013, the proportion of single-name CDSs was 53 per cent, down compared with the 58 per cent recorded in December 2012.

According to data from the Depository Trust and Clearing Corporation (DTCC), whose information differs somewhat from that of the BIS, 95 per cent of multi-name CDSs was represented by index CDSs (based on a basket of reference entities) while the remaining proportion was made up of standardised tranches of index CDSs.

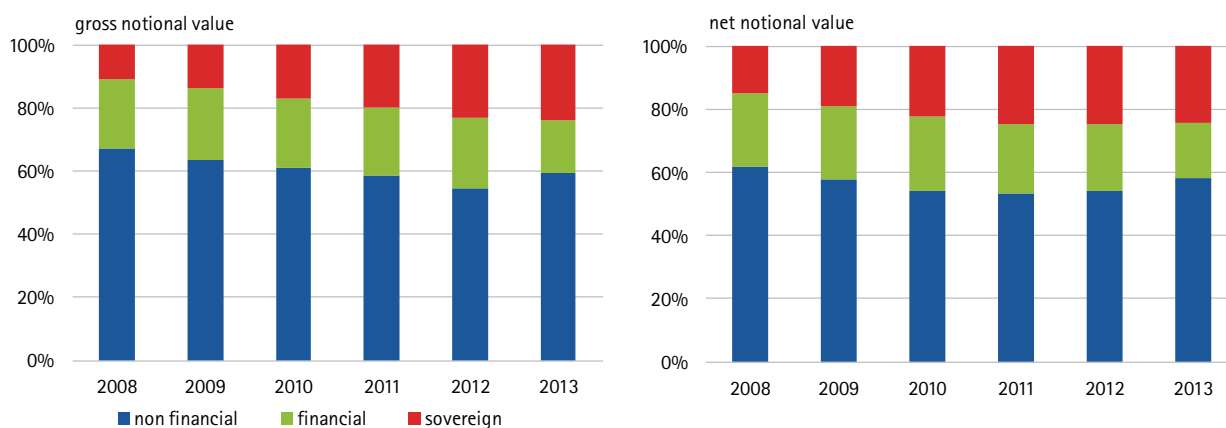
**Fig. 35 Gross notional value of CDS**  
(end of period balances; billions of USD)



Source: BIS and Consob processing of DTCC data.

At the end of 2013, CDSs on sovereign issuers accounted for 20 per cent of the market, in terms of both gross notional value and net notional value (Fig. 36).

**Fig. 36 Breakdown of CDS notional value by reference entity sector**

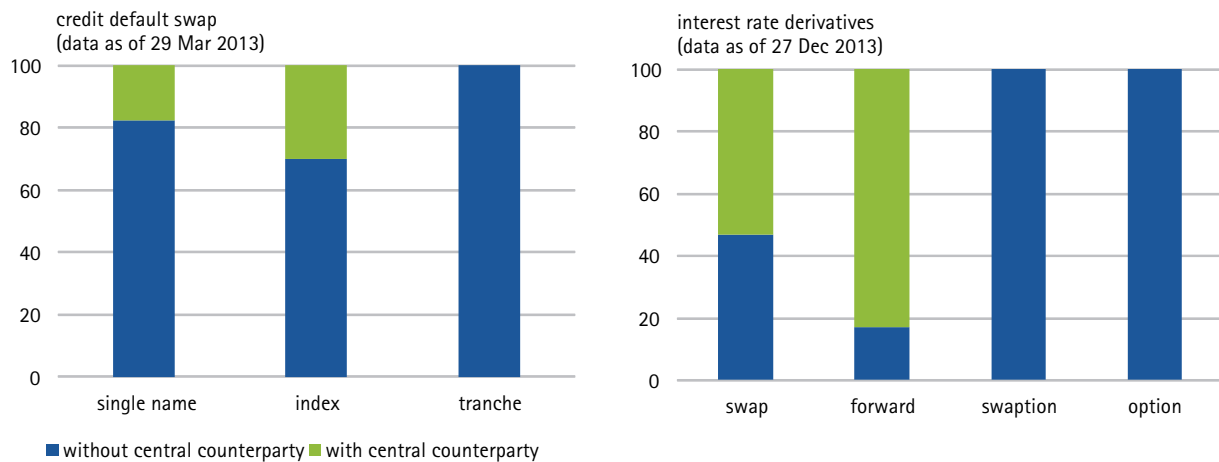


Source: processing of DTCC data Reference is made to single-name CDSs (the first 1000 reference entities according to notional value). The percentage breakdown has been calculated on the year-end values.

More specifically, in terms of gross notional value, the proportion of sovereign CDSs with respect to the entire market increased slightly (going up from 23 per cent in December 2012 to 24 per cent in December 2013), while the figure for net notional value remained unchanged at 25 per cent. In the same period, the proportion of CDSs referred to non-financial corporate issuers also increased (from 54 to approximately 59 per cent in terms of gross notional value), while that of CDSs referred to financial-sector issuers fell (from 22 to 17 per cent). Similar trends emerged in terms of net notional value.

The proportion of OTC derivatives subject to the clearing process at central counterparties (CCPs) varies according to the type of product. With regard to credit derivatives, 30 per cent of the gross notional value of index CDSs and 17 per cent of single-name CDSs are cleared through CCPs. With reference to OTC derivatives on interest rates, approximately 53 per cent of the gross notional value of interest rate swap derivatives are cleared through CCPs (Fig. 37).

**Fig. 37 Breakdown of gross notional value of OTC derivatives by clearing process**  
(percentage values)



Source: processing of DTCC data

## 1 Business cycle exposure of listed companies

The major non-financial listed companies of the main European countries are characterised by a somewhat diverse exposure to the economic cycle, as emerges from the distribution of turnover and capitalisation among cyclical sectors (including energy, chemicals, automotive, construction) and defensive sectors (such as public services, health, pharmaceuticals and foods; Fig. 38). French and British companies seem less exposed than the others. Italian and Spanish companies continue to be distinguished by their smaller size compared with their main European competitors.

In the first half of 2013, the proportion of turnover of companies active in cyclical sectors oscillated between approximately 67 (France) and 76 per cent (Italy), down compared with 2007 by approximately 4 percentage points for Italian, French and German companies, and by approximately 10 percentage points for Spanish firms.

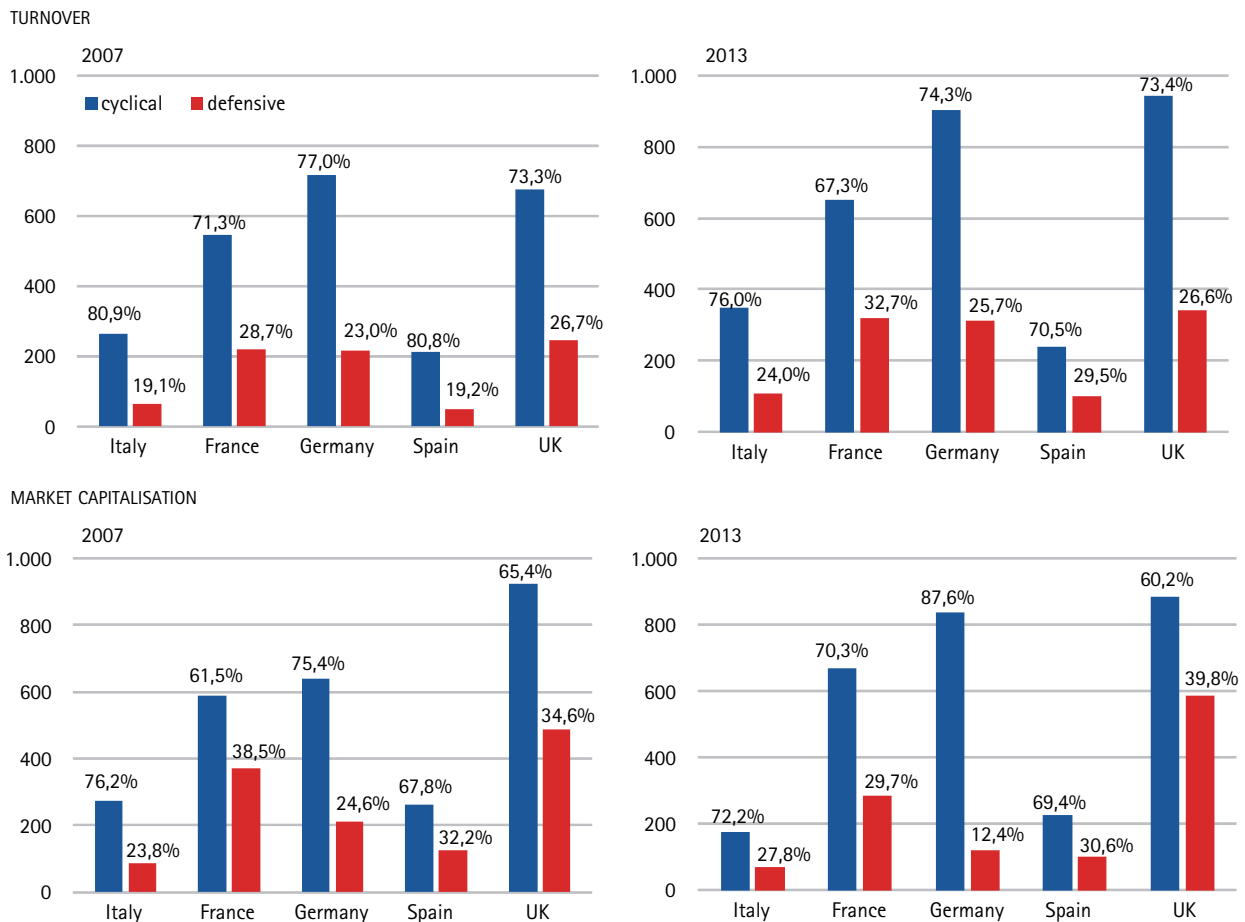
Since 2007, the turnover of the main British, French and German companies has shown the greatest changes in absolute terms, while in percentage terms the greatest increases were recorded by Italian companies (respectively, approximately 31 and 75 per cent in the cyclical and defensive sectors) and by Spanish companies operating in defensive sectors (approximately +97 per cent).

The change in turnover was not, however, reflected uniformly in the trend of stock exchange capitalisation in the same period. At the end of 2013, the proportion of capitalisation of cyclical sectors was greater for German companies (approximately 88 per cent), followed by Italian, French and Spanish (around 70 per cent) and British companies (approximately 60 per cent).

From 2007 to the end of 2013, the largest German and British companies increased their total market value (approximately +12 and +4 per cent respectively), the former driven by the performance of the cyclical sectors (approximately +31 per cent) and the latter by the defensive sectors (approximately +20 per cent). For French companies, a slight overall contraction was recorded (-0.5 per cent), deriving from a sharper drop in the defensive sectors (approximately -23 per cent) than the increase in the cyclical sectors (approximately +14 per cent). Finally, Spanish and Italian

companies recorded an overall contraction, respectively, of approximately 17 and 32 per cent.

**Fig. 38 Major listed non-financial companies breakdown by cyclical and defensive sectors**  
(amounts in billions of euro and in percentage of selected sample)



Source: processing of Worldscope (turnover) and Thomson Reuters (stock exchange capitalisation) data on the top 30 non-financial companies for capitalisation in January 2014 listed in France, Germany, Spain and the United Kingdom and of the main listed Italian groups. For 2013, the annualised turnover of the first six months is shown (latest available figure). See Methodological Notes.

Considering the degree of internationalisation, the contribution of exports to turnover for 2012 of the largest Italian listed companies appears substantially in line with the figure recorded for France, Germany and the United Kingdom (approximately 68 per cent), while substantially less for Spain (approximately 56 per cent; Fig. 39).

The sectors in which the main listed Italian companies achieve the highest proportion of foreign turnover are not representative of the sectors of domestic industry most oriented to global exportation. After the financial crisis of 2008, in addition, the proportion of global exports attributable to the sectors in which Italian companies showed a stronger presence declined significantly.

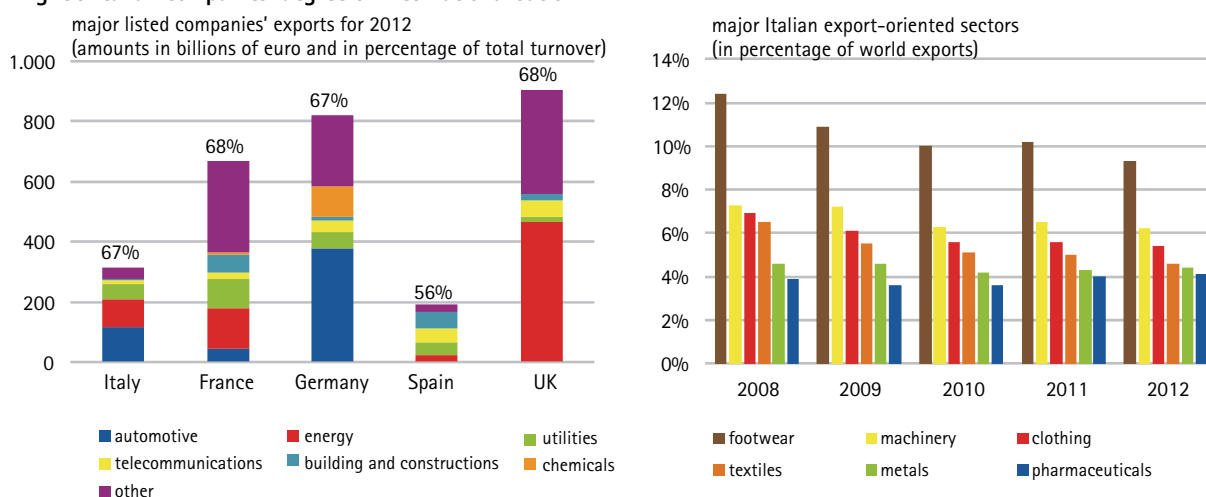


At the end of 2012, the export turnover achieved by the main listed groups is related mainly to the automotive, energy and utilities sectors (corresponding to approximately 25, 20 and 11 per cent of total turnover, respectively).

On the contrary, the sectors for which the proportion of the Italian economy in global exports is greater are different from those related to listed companies. In particular, the main sectors for Italian exports are those of footwear (9.3 per cent), machinery (6.2), clothing (5.4), textiles (4.6), metals (4.4) and pharmaceuticals (4.1); for the automotive sector, instead, the figure comes out at 2.5 per cent.

Compared with 2008, the footwear, and textiles and clothing sectors contracted by approximately 3.2 and 1.5 percentage points, respectively.

**Fig. 39 Italian companies' degree of internationalisation**



Source: processing of Worldscope data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups (export turnover by sectors) and on ICE-ISTAT and Eurostat data (proportions of global exports). See Methodological Notes.

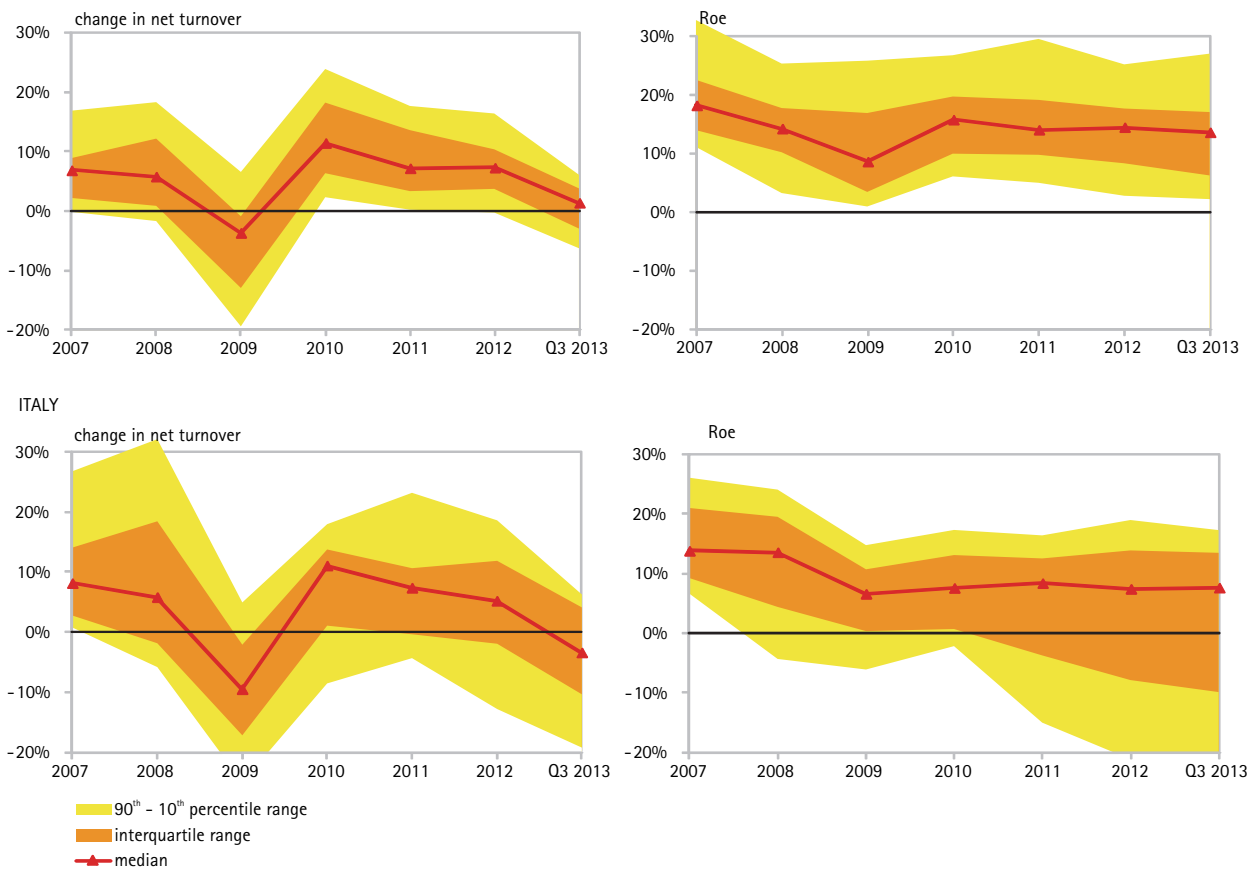
## 2 Revenues and profitability

During 2013, the turnover of the main listed companies continued to fall both in the euro area and, to a greater extent, in Italy. In the same period, the profitability of European companies showed, instead, substantial stability, while the trend worsened for Italian companies (Fig. 40).

At 30 September 2013, 60 per cent of the largest Italian companies showed a drop in turnover from the previous year (34 per cent of companies), compared with 43 per cent of European companies (10 per cent at the end of 2012). In addition, 40 per cent of major Italian listed companies recorded a negative ROE (the figure stood at 35 per cent in 2012), while the indicator was positive for all their European competitors.

**Fig. 40 Revenues and profitability of major non-financial listed companies in the euro area**

EURO AREA – EX ITALY



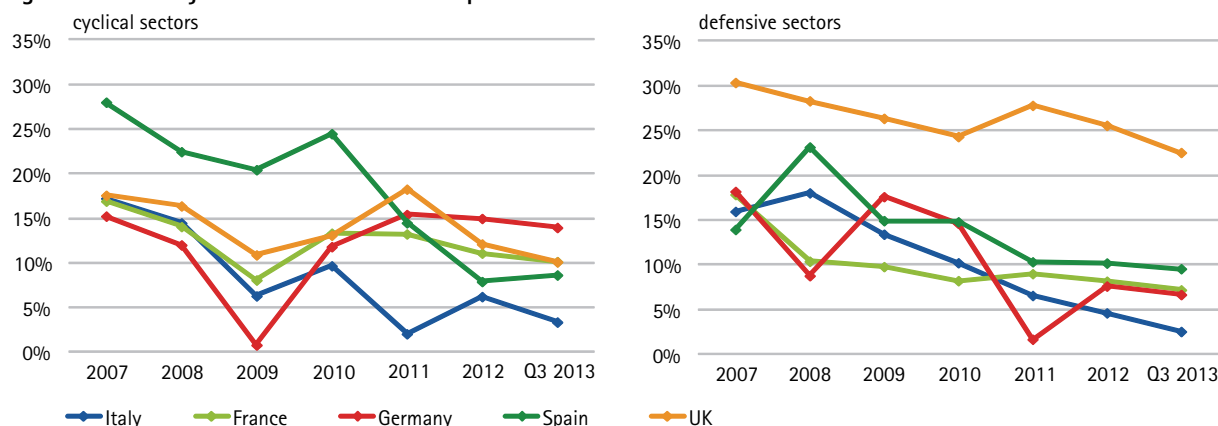
Source: processing of Worldscope data on companies listed on the DJ Euro Stoxx 50 for the euro area (excluding Italian companies) and the main Italian listed groups. The annual change in turnover was calculated on the basis of the restated figure for the previous year. For the third quarter of 2013, partially-estimated annualised figures have been given. See Methodological Notes.

The disaggregated figures for the main European countries and for exposure to the economic cycle show that, from 2007 to 2013, the profitability of the largest listed companies declined significantly in both the cyclical and defensive sectors. The contraction was more modest for British and German companies, while Italian companies recorded decidedly worse performance (Fig. 41).

In the context of the cyclical sectors, in 2013, German companies recorded the highest profitability (with an ROE of around 14 per cent, close to the levels of 2007), while the indicator declined to approximately 10 per cent in France, the United Kingdom and Spain. In Italy, the ROE went down from approximately 17 per cent in 2007 to 3 per cent at September 2013.

With reference to the defensive sectors, instead, British companies showed much better results than those of the other countries in the whole period considered, with an ROE, at 30 September 2013, of approximately 23 per cent, compared with figures of between approximately 10 and 2 per cent respectively in Spain and Italy.

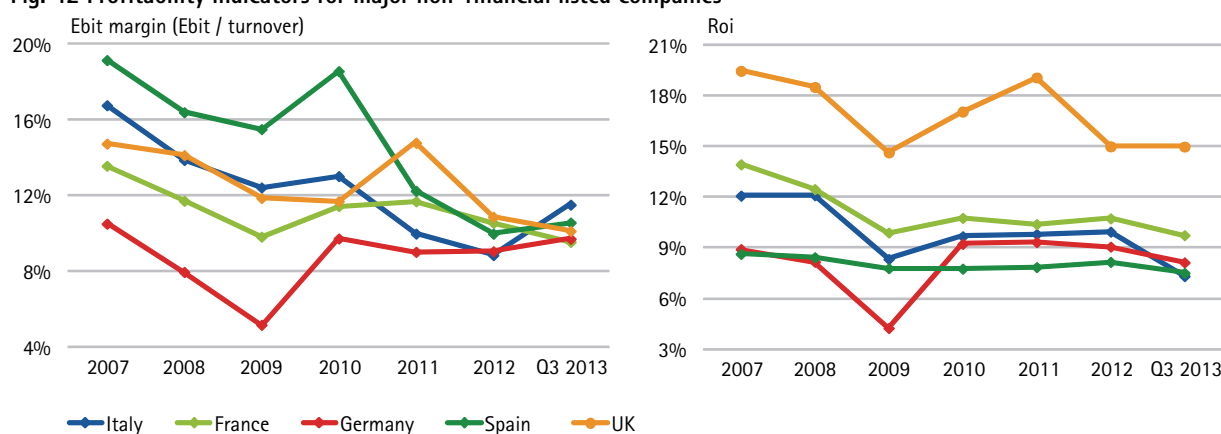
**Fig. 41 Roe for major non-financial listed companies**



Source: processing of Worldscope data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. For the third quarter of 2013, partially-estimated annualised figures have been given. See Methodological Notes.

The drop in profitability was reflected in that of the EBIT margin only for the main French and British listed companies, while the operating margin rose slightly for German and Spanish and, to a more significant extent, Italian companies (Fig. 42).

**Fig. 42 Profitability indicators for major non-financial listed companies**



Source: processing of Worldscope data of the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. The invested capital is given by the sum of shareholders' equity and financial debt. For the third quarter of 2013, partially-estimated annualised figures have been given. See Methodological Notes.

For the largest Italian listed companies, the figure went up in the first nine months of 2013, from approximately 9 to 12 per cent, as a result of a more than proportional contraction in turnover (-26.6 per cent).

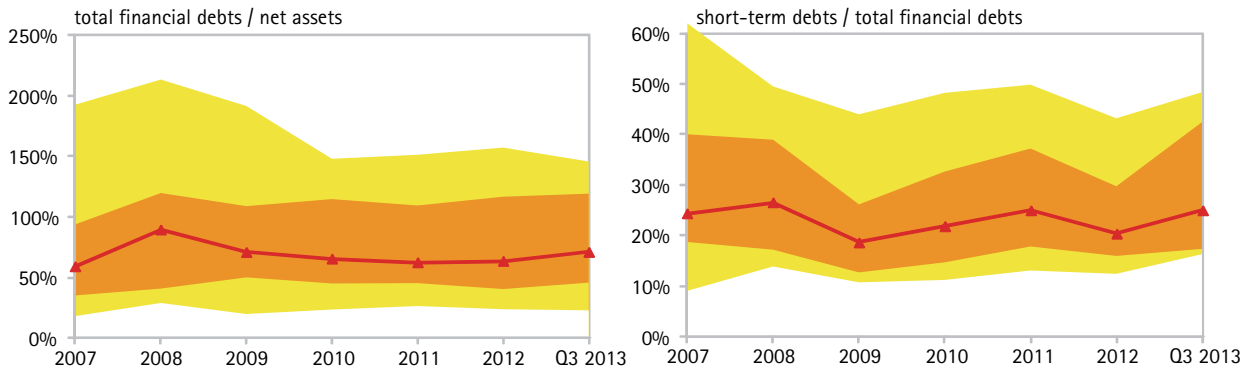
The profitability of invested capital (ROI) decreased in all the countries examined (to a greater extent in Italy where it went down from 10 per cent, at the end of 2012, to approximately 7.3 per cent in 2013); an exception was the United Kingdom, where the indicator remained unchanged at around 15 per cent, a level stably higher compared with other European companies.

### 3 Structure and sustainability of debt

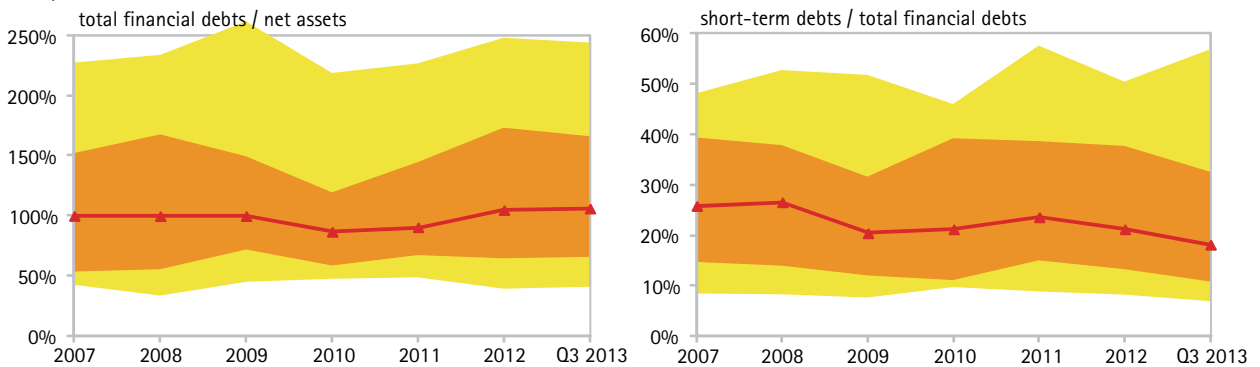
In the first nine months of 2013, the largest Italian listed companies presented a weaker financial structure compared with their euro area competitors, above all with reference to the debt-to-equity ratio (Fig. 43).

**Fig. 43 Debt structure and debt sustainability for major non-financial listed companies in the euro area**

EURO AREA – EX ITALY



Italy



■ 90<sup>th</sup>-10<sup>th</sup> percentile range  
■ interquartile range  
—▲— median

Source: processing of Worldscope data on companies listed on the S&P 100 for the USA, the DJ Euro Stoxx 50 for the euro area (excluding Italian companies) and the main Italian listed groups. For the third quarter of 2013, partially-estimated annualised figures have been given. See Methodological Notes.

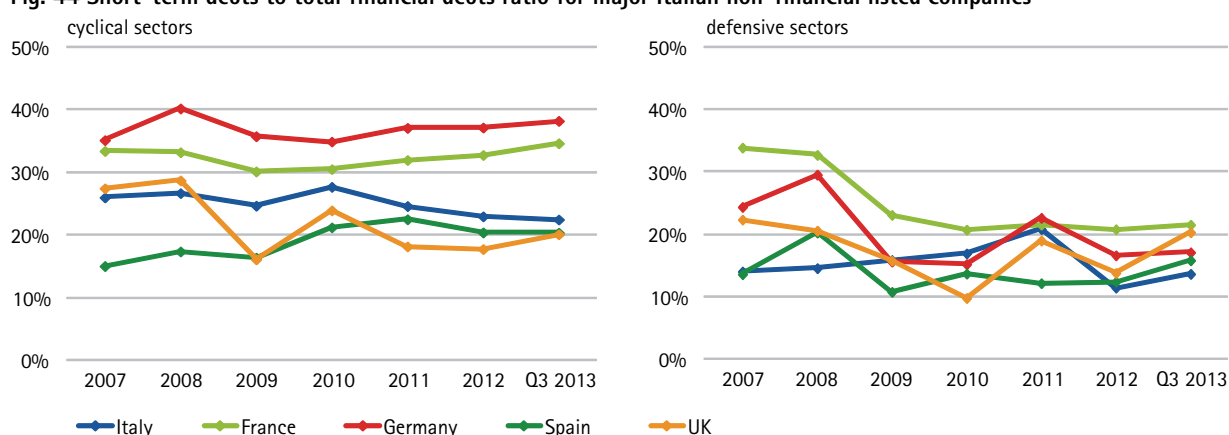
The ratio of financial debt to shareholders' equity is considerably higher for Italian companies compared with that of the Euro area (with median values, in 2013, of approximately 110 and 70 per cent respectively). In the first nine months of the year, however, the indicator showed an increase of approximately ten percentage points for all companies in the euro area.

The ratio of short-term debt to total financial debt shows, instead, favourable trends for Italian companies compared with European ones. For the former, in fact, the proportion declined (with a median value down from approximately 21 to 18 per cent), while for the latter it increased (from approximately 20 to 25 per cent).

The largest German and French companies operating in the cyclical sectors show a higher proportion of short-term debt (at approximately 38 and 35 per cent respectively, up slightly); they are followed by Italian companies (approximately 22 per cent, down compared with the long-term average) and by British and Spanish companies (approximately 20 per cent; Fig. 44). The figure continues to stand at lower average levels (around approximately 18 per cent) for all European companies active in defensive sectors.

In particular, for Italian companies, at third quarter 2013, the average proportion oscillates from 22 per cent in the cyclical sectors to 14 per cent in the defensive sectors.

**Fig. 44 Short-term debts to total financial debts ratio for major Italian non-financial listed companies**



Source: processing of Worldscope data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. For the third quarter of 2013, partially-estimated annualised figures have been given. See Methodological Notes.

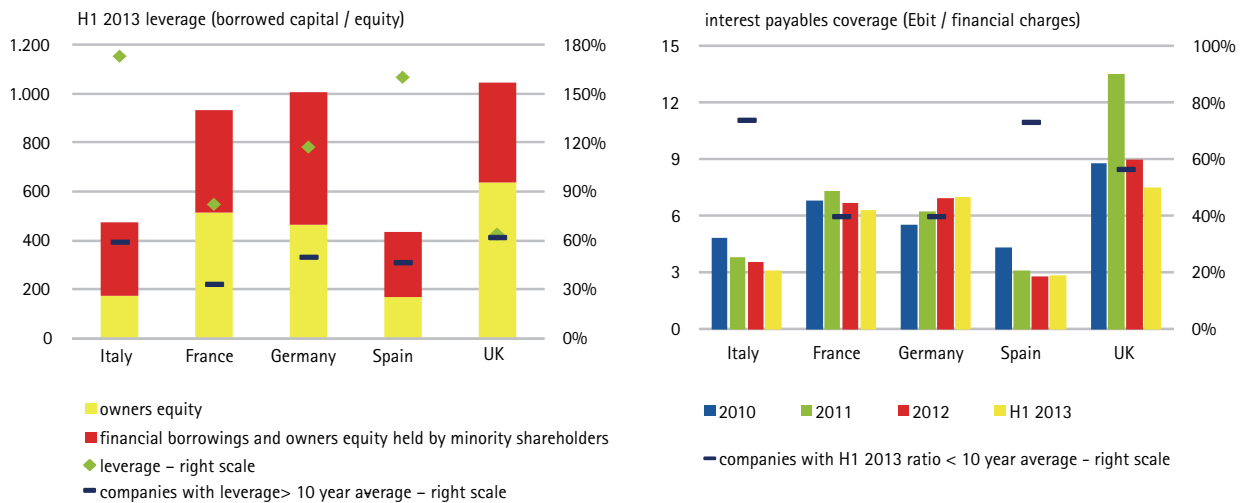
In the middle of 2013, the largest Italian companies showed on average a level of leverage of 160 per cent, lower only than the figure for Spanish companies (170 per cent). British companies are more capitalised, although the proportion of companies with financial leverage more than the average of the last decade is among the highest in Europe (Fig. 45).

In the United Kingdom, the proportion of companies which, mid-2013, showed figures higher than the long-term average stood at around 60 per cent, a figure comparable with the Italian one and approximately double the level of France.

Italian and Spanish companies show greater vulnerability also with respect to the degree of coverage of interest expense, which remains much lower than that of the other countries.

In particular, in the first half of 2013 the ratio between EBIT and borrowing costs was 3.1 and 2.9 respectively in Italy and Spain, compared with figures oscillating at around 6 in France and 7 in Germany and the United Kingdom. With the exception of Spain and Germany, the indicator fell in all the countries considered, recording a more marked reduction for British companies (for which, at the end of 2012, it stood at 9).

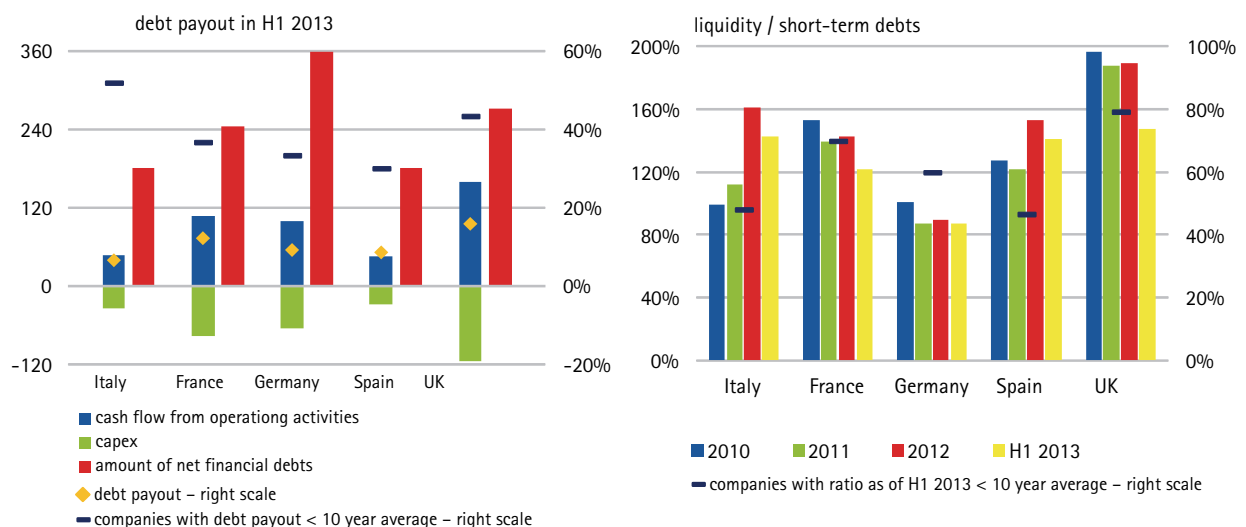
**Fig. 45 Coverage of interest payables and leverage for major non-financial listed companies**  
(amounts in billions of euro)



Source: processing of Worldscope data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. For the first half of 2013, annualised figures have been given. See Methodological Notes.

In the first half of 2013, the ratio between operating cash flow and net financial debt (payout of the debt) decreased significantly for the largest European companies, with the exception of German ones. The lowest figure was recorded for Italian companies (approximately 6.5 per cent), while the highest levels were expressed by British companies (approximately 16 per cent), in line with the higher stock of own funds (Fig. 46).

**Fig. 46 Debt payout and short-term debts coverage for major non-financial listed companies**  
(amounts in billions of euro)



Source: processing of Worldscope data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. For the first half of 2013, annualised figures have been given. See Methodological Notes.

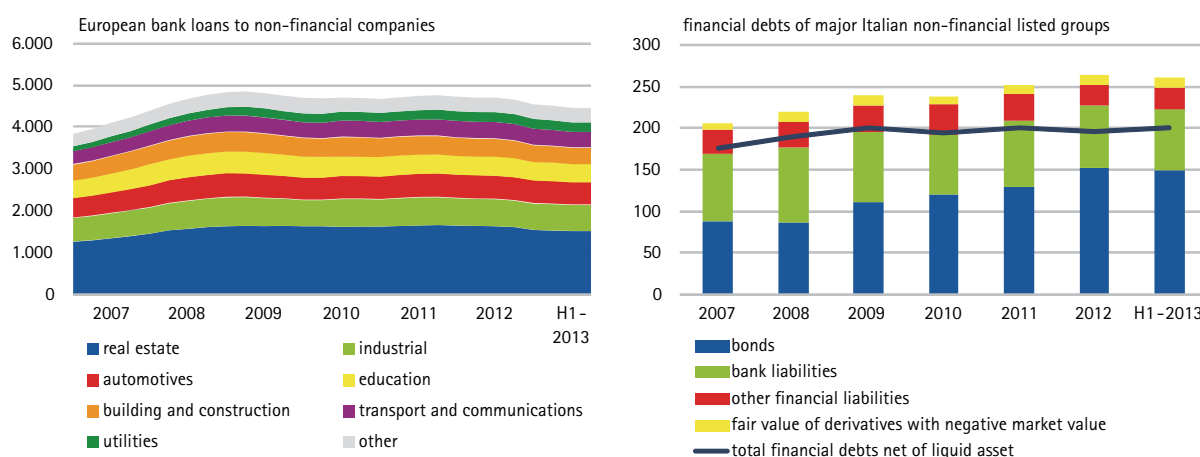
In 2013, more than half the largest Italian companies recorded a payout of debt lower than the average of the decade. In the same period, the main French, Spanish and German companies presenting lower-than-average figures for the indicator were no more than 40 per cent of the total.

The liquidity indexes of the largest listed companies also worsened, coming out at around 145 per cent in Italy, Spain and the United Kingdom, 121 per cent in France and 87 per cent in Germany. In particular, the liquidity indicator decreased most for companies in the United Kingdom, followed by those in France, Italy, Spain and Germany.

As regards recourse to the credit market, approximately 34 per cent of total bank loans disbursed in Europe between 2007 and the first six months of 2013 related to the real estate sector. In the first half of 2013, there was a slight drop in bank loans disbursed, of approximately 2 per cent (Fig. 47).

The sources of financing of the largest Italian non-financial listed groups saw, in the period 2007–first six months of 2013, a reduction in bank loans of 11 per cent and a significant increase in bond issues, of 71 per cent. In the first six months of 2013, there was a reduction in both bond issues and bank debt (4.3 and 1.2 percentage points, respectively).

**Fig. 47 European bank loans and financial liabilities breakdown for major Italian non-financial listed groups**  
(amounts in billions of euro)



Source: ECB for loans by European banks, and processing of consolidated financial statements and interim reports. See Methodological Notes. The distribution of bank loans by NACE sector of non-financial companies is estimated.

After the lows recorded in 2010, the trend of cash flows of Italian companies in 2012 showed moderate expansion, in particular as regards liquidity and financial debt (Box 1).

## Box 1

### Cash flows of Italian companies

In 2012, the cash flows related to the sample of large and medium-sized companies (including listed ones) selected by Mediobanca increased by approximately 10 billion euro compared with 2011, while those of only large listed groups by approximately 9 billion.

In 2012, also self-financing (that is resources generated by revenue operations) was confirmed as the main financing channel for covering the needs of Italian companies, although there was a contraction compared with 2011 (from approximately 85 to 77 per cent of total resources for the broader sample and from 94 to 78 per cent for the main listed companies).

The reduction in the proportion of self-financing was reflected in an increase in financial debt, which amounted to 23 per cent of total sources for the complete sample of companies (22 per cent for the main listed companies).

As regards total investments, in 2012 the resources generated were absorbed mainly by technical investments, the total amount of which is substantially stable over time and higher for the largest listed companies (36 billion euro) compared to large and medium-sized companies (27 billion).

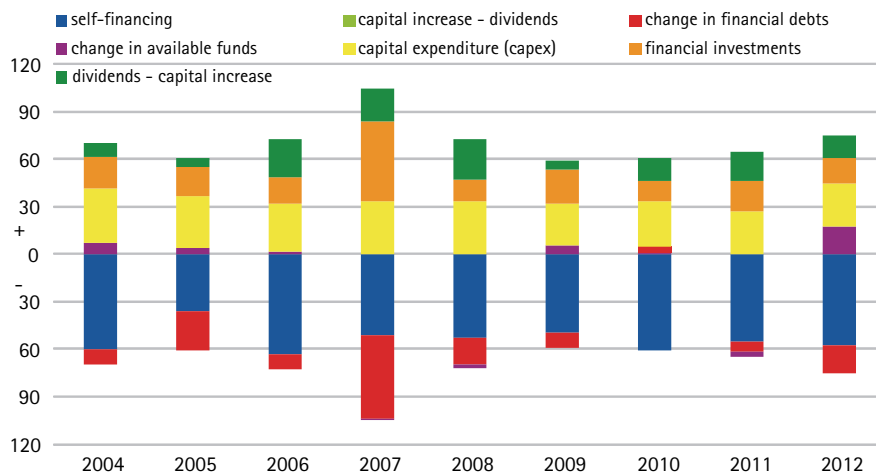
In 2012, there was a considerable increase in liquidity, above all as a result of the greater indebtedness. In particular, listed companies showed a change in liquidity of 16 billion euro (8 billion in 2011), while the increase for large and medium-sized companies was 17 billion (compared with a negative flow of 3 billion in 2011).

Financial investments of large and medium-sized Italian companies fell again in 2012 (15.6 billion euro compared with 19.2 in 2011), while listed companies recorded increased flows (8.7 billion euro from 7.2 in 2011).

The distribution of dividends continues to account for an important proportion of the use of total resources, amounting (net of capital increases) to approximately 15 and 20 per cent in 2012 for the largest listed groups and for large and medium-sized Italian companies, respectively. However, the related flow fell significantly (by approximately 8 and 22 per cent, respectively, coming down at the end of 2012 to 11 and 14.6 billion euro).

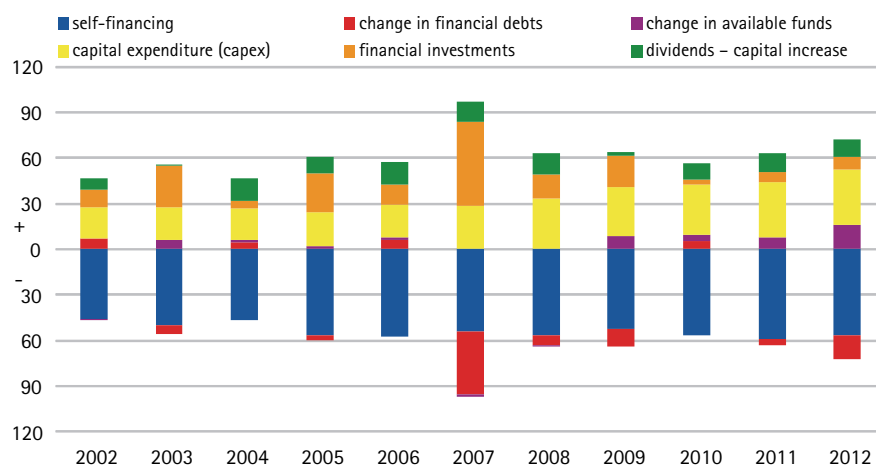


**Uses (+) and sources (-) of financial resources of Italian non-financial companies**  
(billions of euro)



Source: Mediobanca, 'Cumulative data of 2,035 Italian companies', 2013 edition. The sample includes all large industrial and tertiary companies (with more than 500 employees) and more than one fifth of those of medium size. Self-financing is net of investments in net working capital.

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



Source: processing of financial statements and R&D data for the leading Italian listed groups. Self-financing is net of investments in net working capital. See Methodological Notes.

## 4 Vulnerability factors

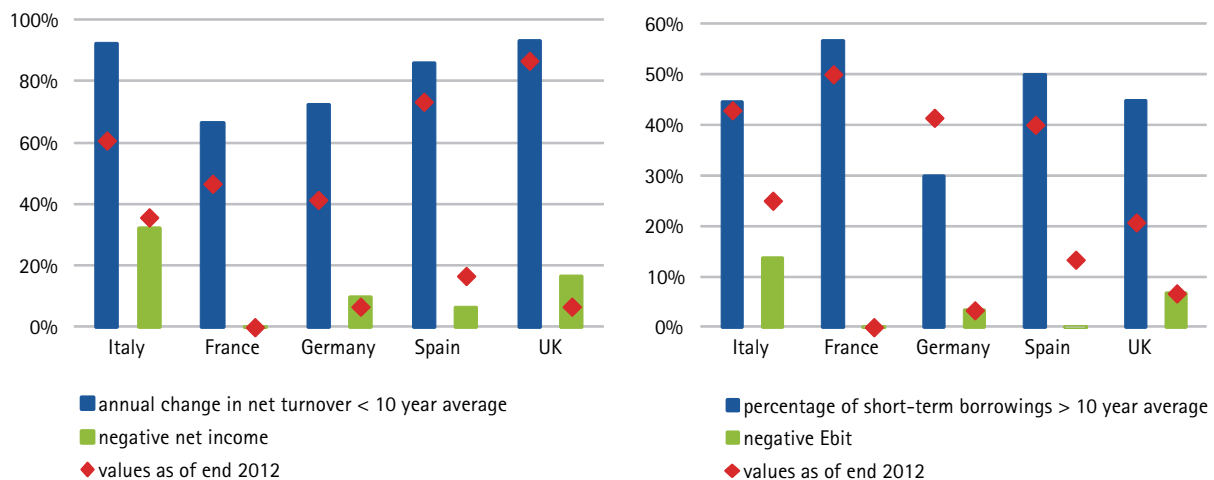
Although they recorded some slight signs of improvement, the largest Italian listed companies still show higher financial fragility profiles than those of the euro area, in terms of both profitability and debt sustainability (Fig. 48).

With reference to profitability in the first half of 2013, approximately one third of the Italian sample show a negative net result and approximately 14 per cent a negative EBIT. For the United Kingdom, Germany and Spain, the proportion of companies making a loss was, respectively, 17, 10 and 7 per cent.

French and German companies, in addition, seem more solid in terms of stability of turnover compared with the average for the decade, although the former present a significantly higher proportion of short-term debt.

**Fig. 48 Percentage of major non-financial listed companies with low profitability and high level of short term indebtedness**

(no of companies as a percentage of the selected sample as of H1 2013)

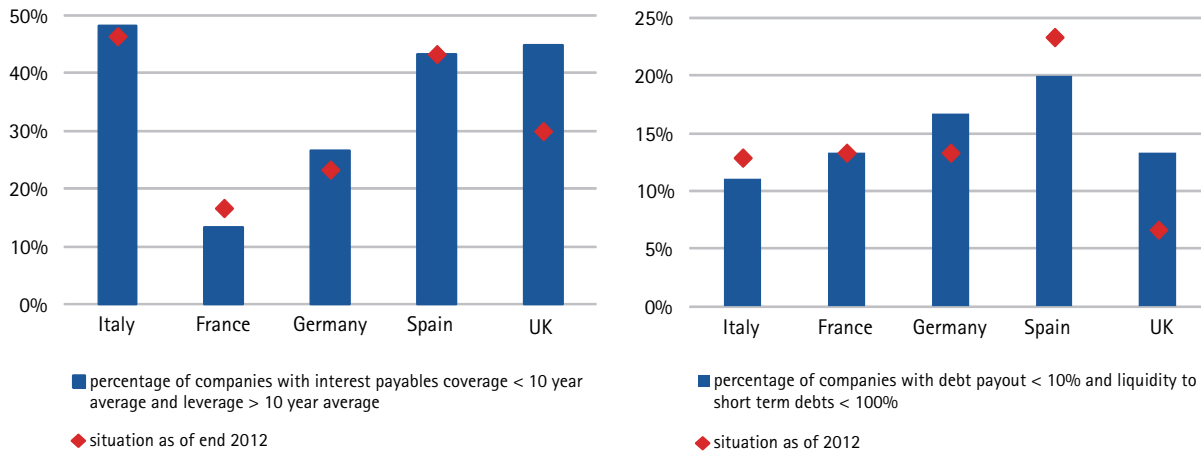


Source: processing of Worldscope annualised data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. See Methodological Notes.

In the first half of 2013, the proportion of the largest companies most vulnerable in terms of lower coverage of interest expense and greater leverage grew compared with the average for the decade above all in the United Kingdom (+15 percentage points), while Germany and Italy recorded a more modest increase (+3 and +2 percentage points, respectively; Fig. 49).

The cost of bank borrowing, which is higher in the peripheral countries, contributes to amplifying the vulnerability of companies, as can be seen also from the positive correlation between expected default frequency (EDF) and restrictive credit conditions (Fig. 50).

**Fig. 49 Financial vulnerability of major non-financial listed companies**  
(no of companies as a percentage of the sample as of H1 2013)

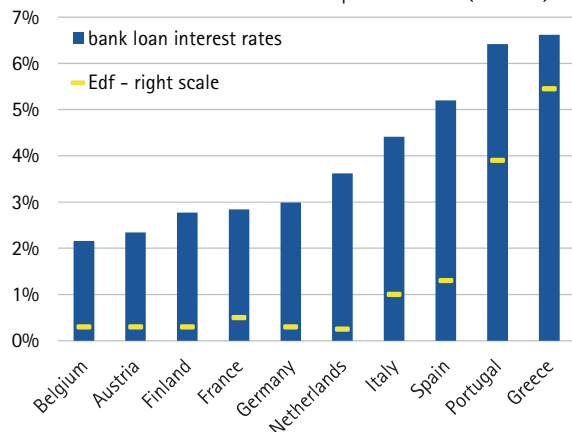


Source: processing of Worldscope annualised data on the top 30 non-financial companies by capitalisation in January 2014, listed in France, Germany, Spain and the United Kingdom, and the main Italian listed groups. See Methodological Notes.

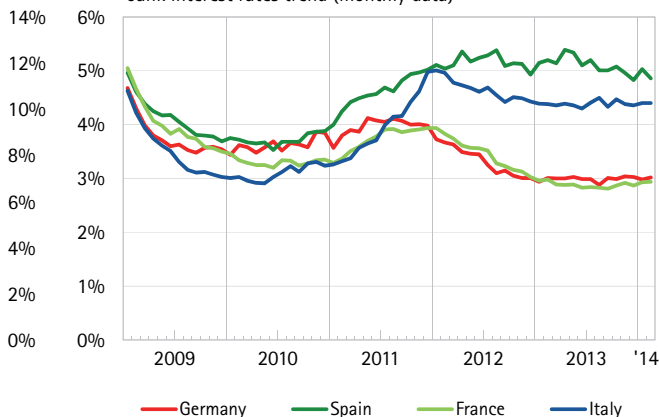
**Fig. 50 Bank interest rates and expected default frequency for major non-financial listed companies**

LOANS UP TO 1 BILLION EURO

Edf and bank interest rates in European countries (Jul 2013)

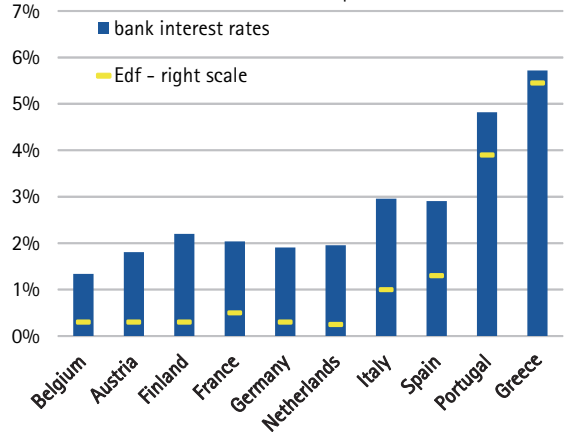


bank interest rates trend (monthly data)

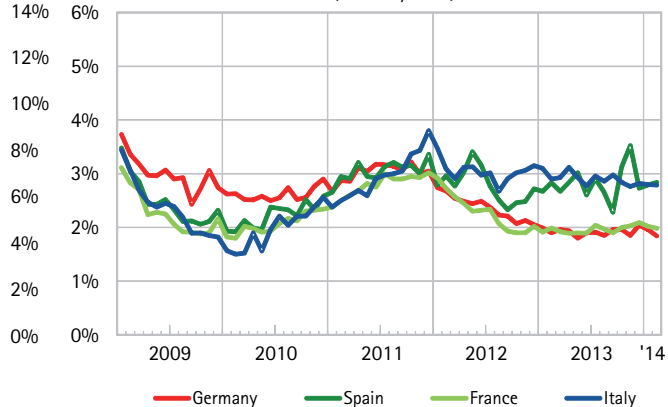


LOANS OVER 1 BILLION EURO

Edf and bank interest rates in European countries (Jul 2013)



bank interest rates trend (monthly data)



Source: FMI, Bloomberg, ECB and Moody's Credit Edge.

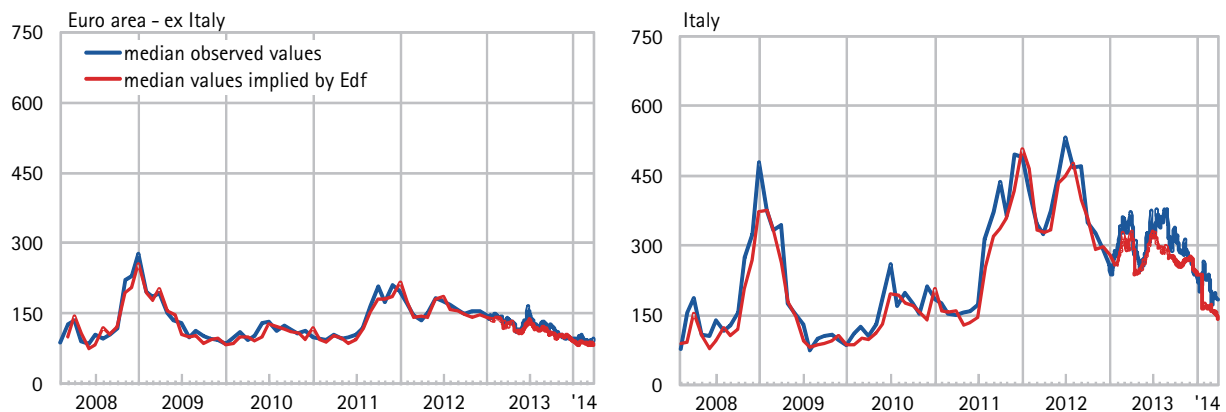
In the early months of 2014, banking interest rates in Italy were approximately 100 basis points higher than in Germany for loans of a greater amount and approximately 140 basis points higher for smaller loans. In this context, recourse to the bond market as an alternative to bank borrowing remains an accessible option above all for larger companies.

In particular, mid-2013 EDF was on average 0.7 per cent for the core countries, where banking interest rates were around 1.9 per cent for loans of a larger amount (2.8 per cent for smaller loans), 2.6 per cent for Spain (with interest rates of 2.9 and 5.2 per cent, for loans of more and less than one million euro, respectively) and 2 per cent for Italy (with interest rates of 3 and 4.4 per cent).

EDF is significantly higher for Portugal (7.8 per cent) and Greece (10.9 per cent), where the bank rate charged to companies exceeded the average for companies in the core countries by a figure ranging between 290 and 380 basis points (respectively for large and small companies).

The greater vulnerability of the main Italian listed companies compared with their European competitors is also reflected in the trend of prices of CDSs on the related debt (Fig. 51).

**Fig. 51 Prices of 5-year Cds observed and implied by expected default frequency for major non-financial listed companies** (basis points values; daily data; 31/01/2008 – 31/03/2014)



Source: processing of Thomson Reuters and KMV Credit Edge data. The data refer to a sample of 68 listed companies in the euro area included in the Thomson Reuters corporate CDS indexes, for which data are available on the expected default frequency, and of 7 Italian listed companies (Cir, Fiat, Edison, Enel, Eni, Finmeccanica and Telecom Italia).

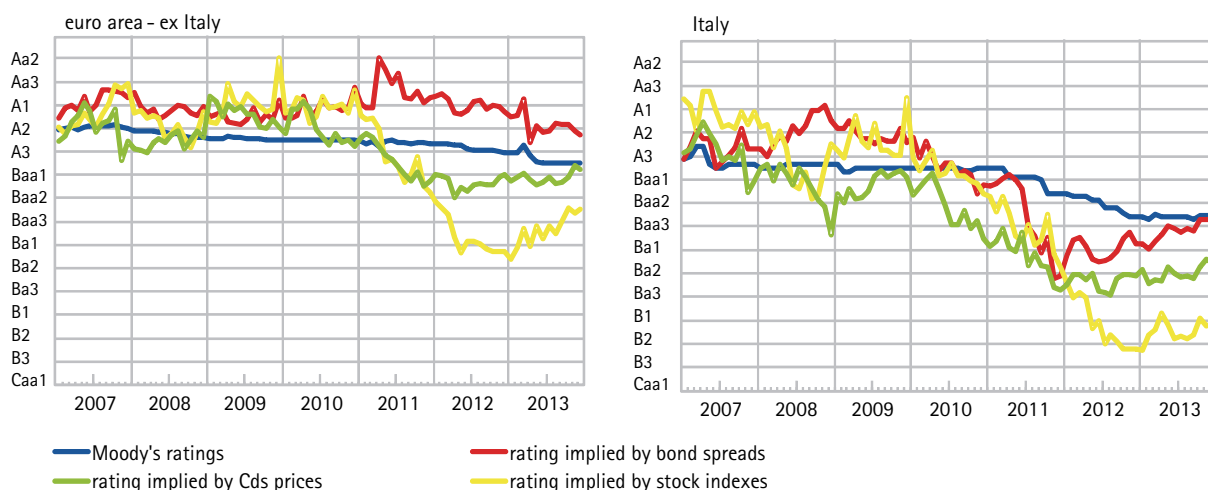
In the first quarter of 2014, the CDS prices of Italian companies remain significantly higher than those relating to the largest companies in the euro area (coming out at around approximately 150 and 80 basis points, respectively), although the gap is gradually narrowing.

For Italian companies, there remains a slight misalignment between the observed prices of Italian CDSs and the implied values calculated on the basis of theoretical models.

During 2013, the rating values implied by the spreads of bonds of the main Italian non-financial companies gradually improved until they were realigned at the end of the year with the official ratings issued by Moody's (on average, BAA2-BAA3). On the contrary, in the euro area the ratings implied by these spreads remained constantly higher than the official ones (on average, BAA1-A3), with the exception of a momentary convergence in the first half of the year (Fig. 52).

In particular, at the end of 2013 the average rating implied by the share prices of Italian companies was 4-5 notches lower than that for the euro area (B1 and BAA2-BAA3 respectively), while the average implied by CDS prices was approximately 4 levels lower (BA2 for Italy and BAA1 for the euro area).

**Fig. 52 Ratings implied by financial instrument prices for major non-financial listed companies**  
(monthly data; Jan 2007 – Dec 2013)



Source: processing of Moody's Implied Rating data. Average figures relating to corporations listed on the DJ Euro Stoxx 50 for the euro area (excluding Italian companies) and the Italian non-financial companies listed on the FTSE MIB. The benchmark for bond spreads is the related government bond.

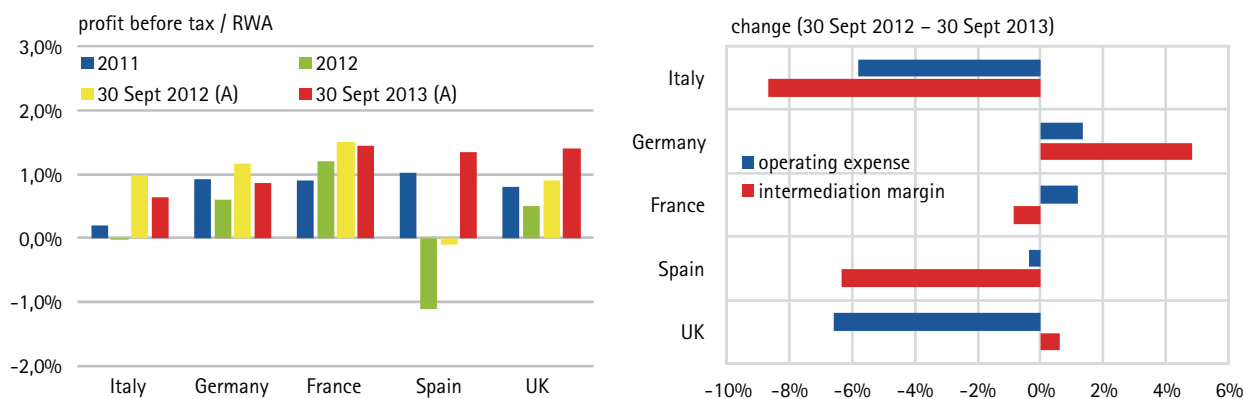
# IV Banks and insurance companies

## 1 The profitability of listed banks

In the first nine months of 2013, the profitability of the leading listed banks, measured with respect to risk-weighted assets (RWAs), was marked by diverse trends in the main European countries. In the United Kingdom, an improvement was observed, while earnings performance was stable in France and down in Italy and Germany (Fig. 53).

In particular, at 30 September 2013 Italian banks recorded a reduction in net banking income of more than 8 percentage points compared with the first nine months of 2012, while for Spanish banks the drop was approximately 6 per cent. In the same period, Italian banks cut their operating costs significantly (approximately -6 per cent).

Fig. 53 Profitability trend in major euro area listed banks

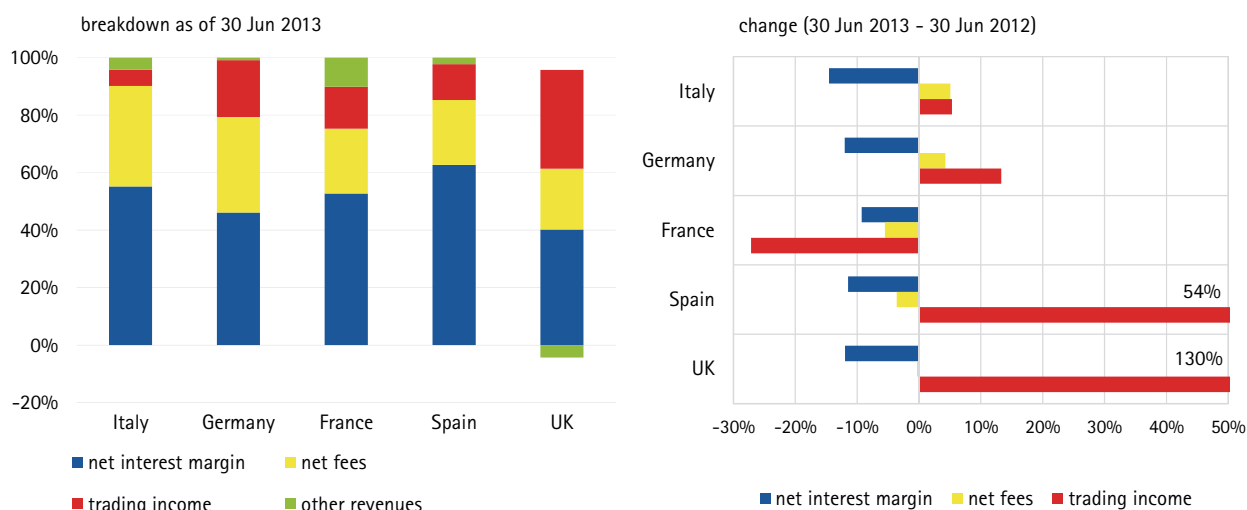


Source: processing of consolidated financial statements and interim reports of leading European banks. See the Methodological Notes. The pre-tax profit includes adjustments to goodwill. The figures at 30 September have been annualised and partially estimated.

The reduction in the profit margins of Italian and Spanish banks was largely due to the extremely low levels of short-term interest rates. For these banks, in fact, the contribution of net interest income to total revenues is greater compared with the figure for their main European competitors owing to the more traditional business model.

In particular, in the middle of 2013, the proportion of net interest income to total revenues was close to or more than 60 per cent for Italian and Spanish banks, compared with figures of less than 50 and 40 per cent for German and British banks (Fig. 54).

**Fig. 54 Revenue breakdown trend for major euro area listed banks**



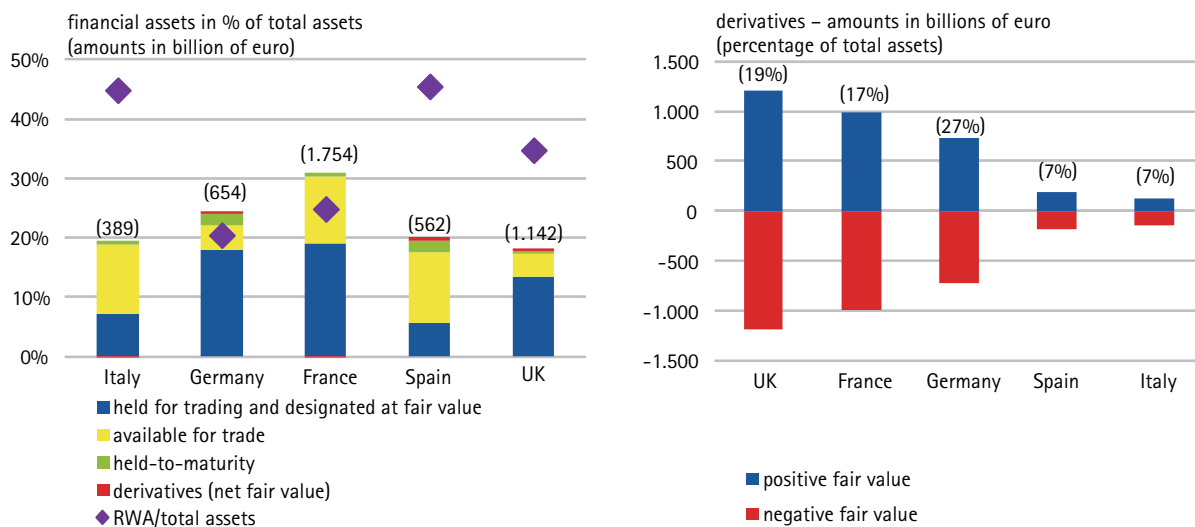
Source: processing of consolidated financial statements and interim reports of leading European banks. See the Methodological Notes.

## 2 Capital adequacy and asset quality of listed banks

The asset situation of the banks in the main European countries also reflects the differences in the related business models. The leading Italian and Spanish banks are characterised by lower investment in financial assets and are less operational in derivatives compared with the banks of the major European economies (Fig. 55).

At 30 June 2013, financial assets and the net fair value of derivatives represented approximately 20 per cent of assets for the leading Italian and Spanish banks, compared with 25 and 30 per cent for the largest German and French banks. Operations in derivatives were also extremely limited in Italy and Spain, with a positive fair value of the derivatives of 7 per cent of total assets, significantly lower than the levels observed for the other countries, ranging between 27 per cent for Germany and 17 per cent for France. Consequently, risk-weighted assets (RWAs) amounted, mid-2013, to approximately 45 per cent of total assets for Italian and Spanish banks and between 20 and 25 per cent of assets for German and French banks.

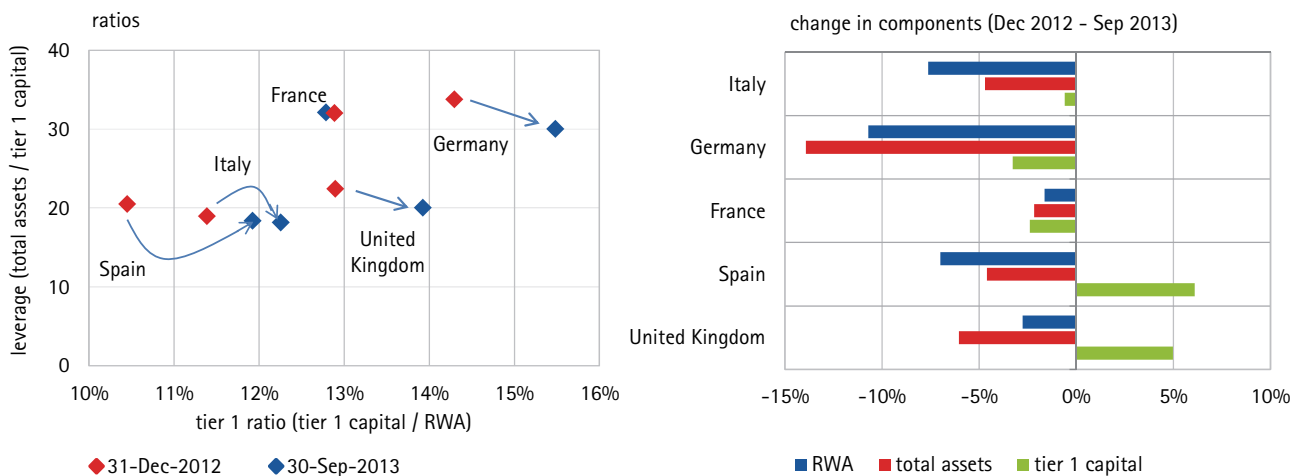
**Fig. 55 Financial assets and derivatives held by major European listed banks as of mid-2013**



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

Capital adequacy improved for all the leading European banks in the first nine months of 2013. In Italy, Germany and Spain the increase of capital ratios was due to the significant reduction in RWAs. For Italian and Spanish banks, moreover, the drop in RWAs was more than that of total assets recorded in the same period, a sign not only of the deleveraging process still ongoing, but also of the re-composition of assets towards investments characterised by lower capital absorption and the use of more sophisticated methodologies for determining RWAs. In Spain the increase in the Tier 1 ratio was also due to an increase in Tier 1 capital, mostly achieved with public support (Fig. 56).

**Fig. 56 Capitalisation and leverage fluctuation in major European listed banks**



Source: processing of consolidated financial statements and interim reports of leading European banks. See the Methodological Notes.

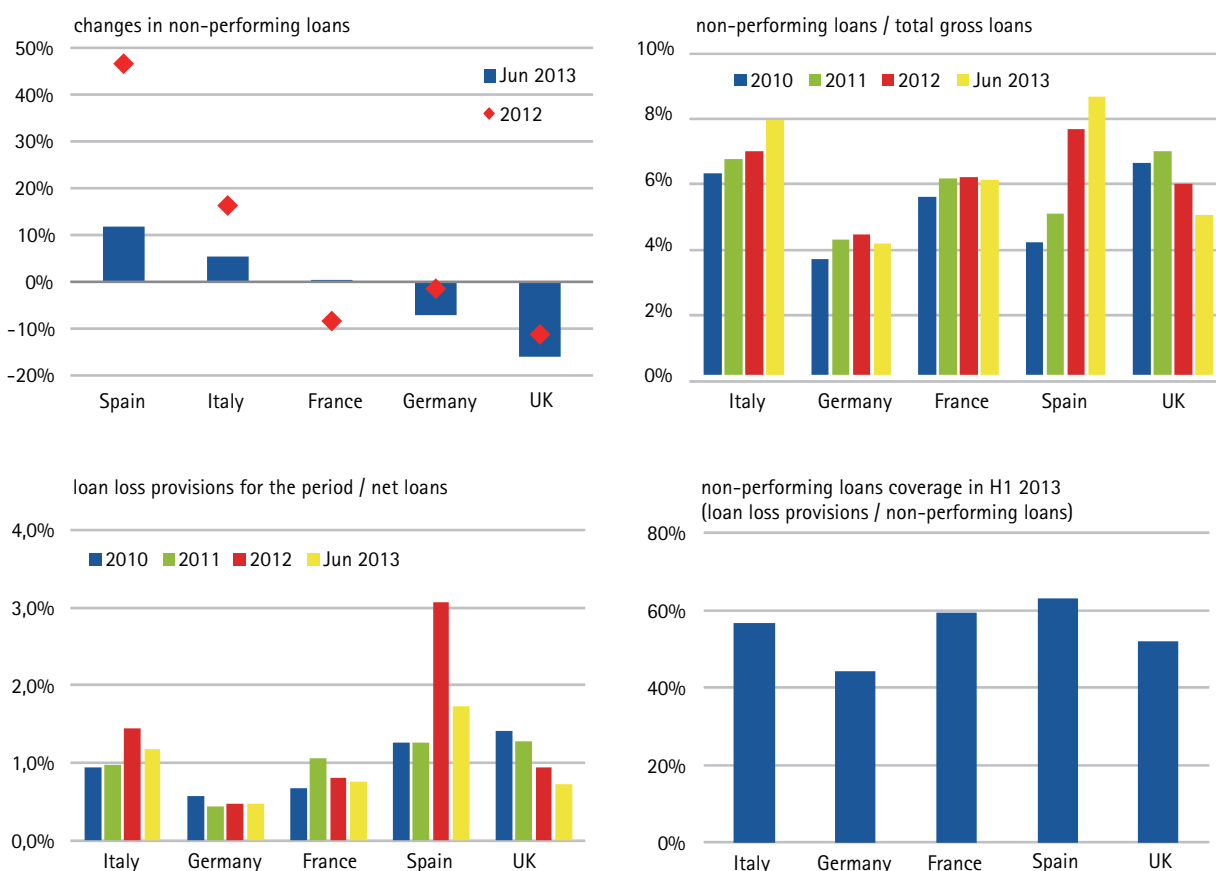


### 3 Credit quality

In the first half of 2013, in Italy and Spain the increase in non-performing loans continued, although at a more moderate rate compared with the previous year. The proportion of non-performing positions to total gross loans remained at high levels (Fig. 57).

In the first six months of 2013, the amount of non-performing loans increased by 10 per cent in Spain and 5 per cent in Italy, while it fell in Germany and the United Kingdom. Italian and Spanish banks continued to exhibit a higher proportion of non-performing positions to total gross loans, with figures respectively close to and more than 8 per cent. The cost of lending (ratio between write-downs on loans in the period and net loans) came down in Italy, Spain and the United Kingdom, while the non-performing loan coverage ratio (ratio between total write-downs on non-performing loans and gross non-performing loans) continues to stand at high levels for Italian, Spanish and French banks. The lack of uniformity both in the treatment of impaired loans and their recognition in the financial statements, however, makes international comparisons extremely complex.

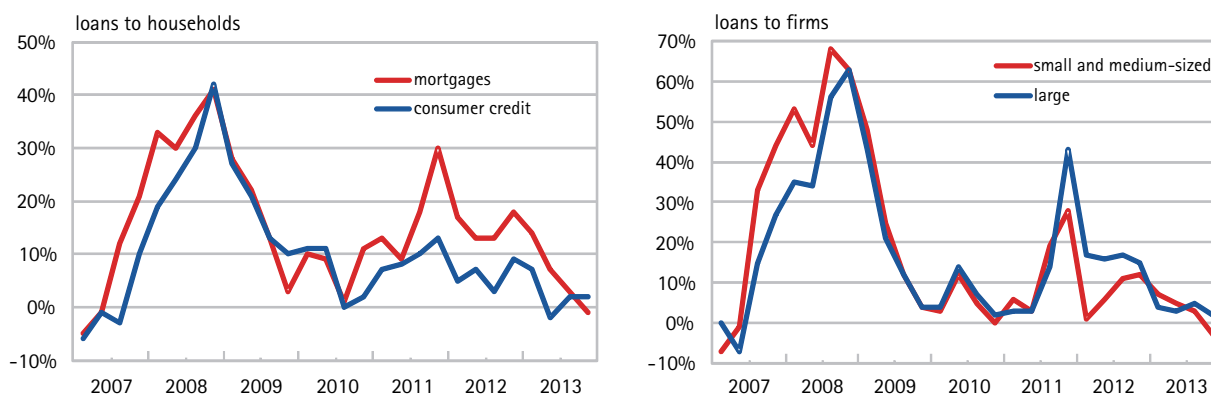
Fig. 57 Credit quality changes in major European listed banks



Source: processing of consolidated financial statements and consolidated interim reports of leading European banks. Annualised data and partial estimates. See the Methodological Notes.

With reference to the standards for granting bank loans in the euro area, the latest data from the ECB's Bank Lending Survey show easier conditions of access to credit for both households and businesses in the second half of 2013 (Fig. 58).

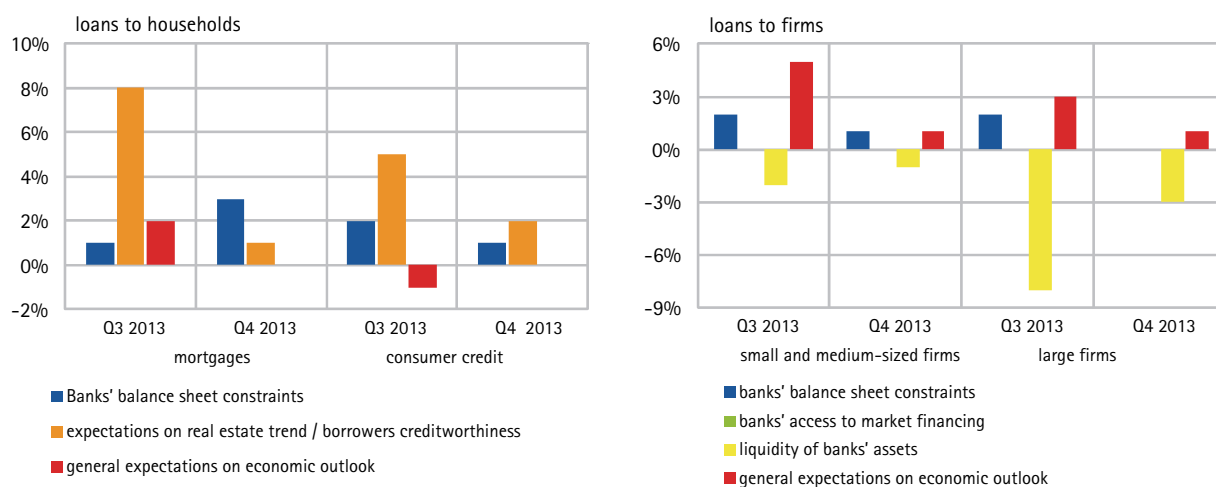
**Fig. 58 Credit standards tightening indicators in the euro area**  
(quarterly data)



Source: ECB Percentage of banks that reported increased rigidity in loan granting criteria, net of the percentage of banks that reported a loosening.

As regards the factors that affected the increased rigidity in conditions for granting loans on the part of banks, in the second half of the year the banks indicated the uncertainties related to property market performance or to the reliability of creditors as more significant for loans to households, while the negative assessment of the general economic outlook was reported with less frequency both for loans to businesses and for those to households (Fig. 59).

**Fig. 59 Factors explaining the tightening of credit standards in the euro area**

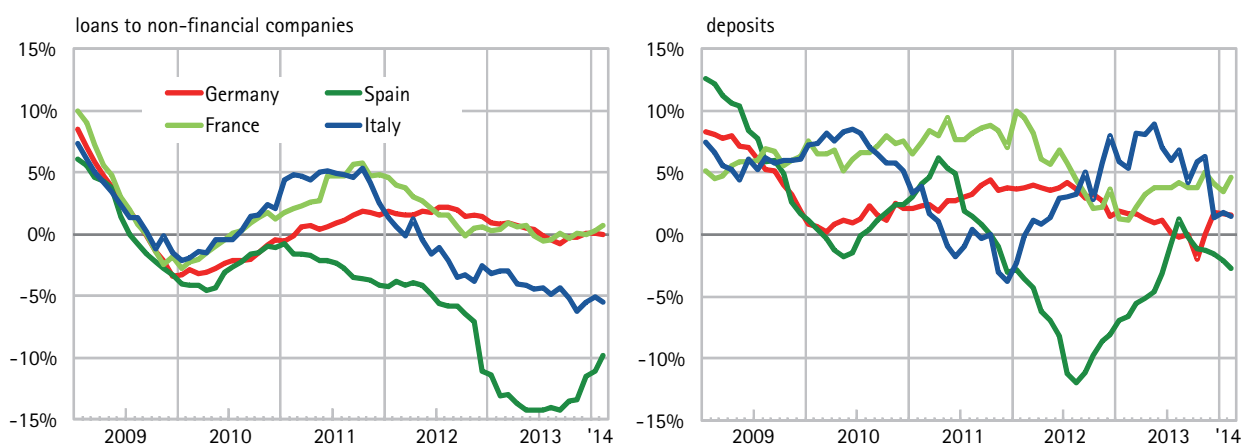


Source: processing of ECB data (Bank Lending Survey). The percentages relate to the number of banks which considered the corresponding restriction on access conditions to credit to be significant.

The trend in bank loans to non-financial companies shows a net gap between core and non-core countries, which is a sign of the progressive reduction of the degree of financial integration within the euro area recorded from the start of the sovereign debt crisis (see also paragraph 4 below). This trend is in line with that of bank interest rates charged on loans to non-financial businesses (see Chapter III 'Non-financial companies' above).

The reduction in loans to industrial companies seemed notably marked in Spain, where, in February 2014, it was close to 10 per cent (5.5 per cent in Italy). In France and Germany, instead, loans to the non-financial sector remained substantially stable from the start of 2013, recording growth rates close to zero. The difficulties of Spanish banks in accessing funding by means of deposits continued; in February 2014 deposits had fallen on an annual basis by approximately 3 per cent. Italy is distinguished by a discontinuous trend, with a falling growth rate compared with the previous year (Fig. 60).

**Fig. 60 Growth rate of loans to non-financial companies and of deposits**  
(year to year % values; monthly data; Jan 2009 - Jan 2014)



Source: ECB

## 4 Financial fragmentation

An indicator of the degree of financial fragmentation in Europe is the trend of foreign exposures of European banks, which, in the last few years, have been marked by a gradual decline. Compared with 2010, in fact, European banks significantly reduced both exposures to the banking sectors of other EU countries and those to the non-banking private sector (Fig. 61).

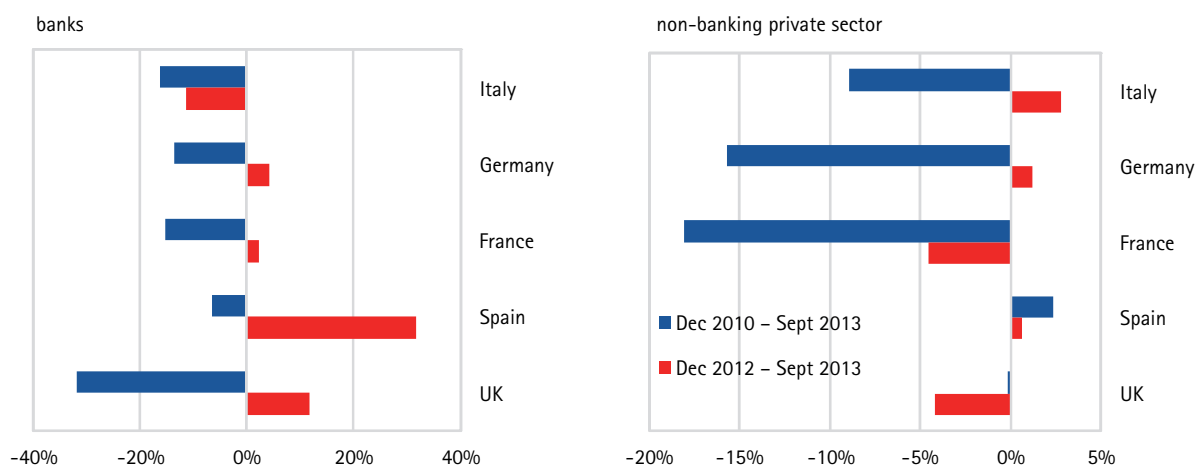
From the end of 2010 to 30 September 2013, the reduction was more than 30 per cent for British banks and at levels close to or more than 15 per cent for Italy, Germany and France. With reference to the non-banking

private sector, the reduction of foreign exposures of banks was less marked overall, ranging from approximately 9 per cent in Italy to 15 per cent in France and Germany.

In the first nine months of 2013, the tendency of European banks to reduce cross-border exposures seems, however, to be attenuating and, in some cases, turning around.

In particular, foreign lending by banks to the banking sector of other European Union countries increased significantly in Spain and the United Kingdom (by more than 30 and 10 per cent respectively). Slight turnarounds can be observed, also, in the evolution of the foreign exposures of Italian, German and French banks.

**Fig. 61 Financial integration degree within the EU**  
(percentage change of foreign exposures with banks and with non-banking private sector)

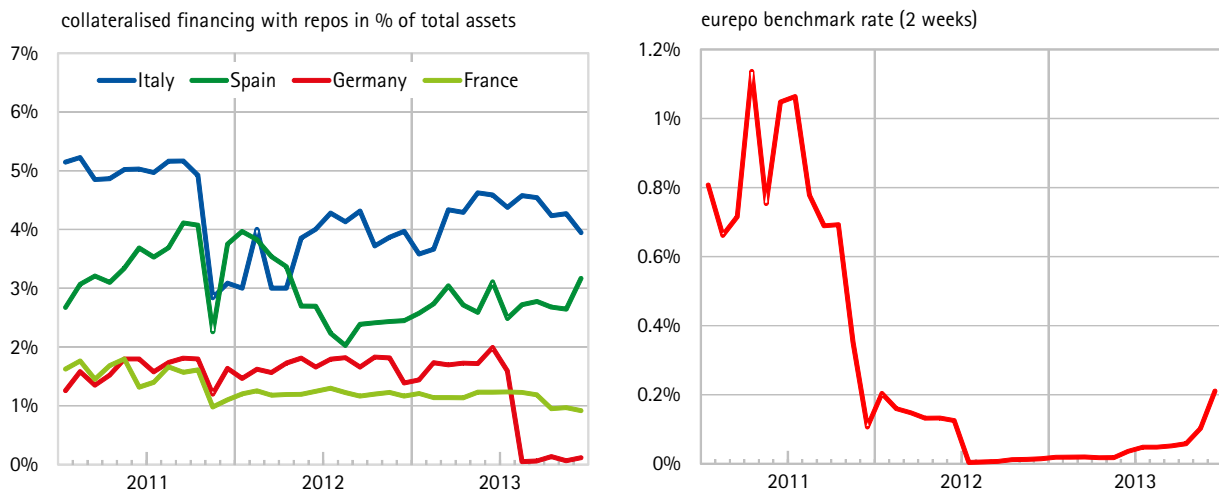


Source: processing of Bank for International Settlements data. See the Methodological Notes.

The gap between core and non-core countries emerges also with reference to the characteristics of bank funding. Italian and Spanish banks were again more dependent on short-term forms of funding, such as financing through collateralised repurchase agreement (repo) transactions on the interbank market (Fig. 62).

In particular, at the end of 2013, for Italian and Spanish banks repo transactions corresponded, respectively, to 4 and 3 per cent of total assets, compared with figures close to or less than one per cent for German and French banks. In the last two years, this funding source, although unstable, has benefited from extremely low interest rates, close to zero.

**Fig. 62 Banks' funding through repo in major European countries**

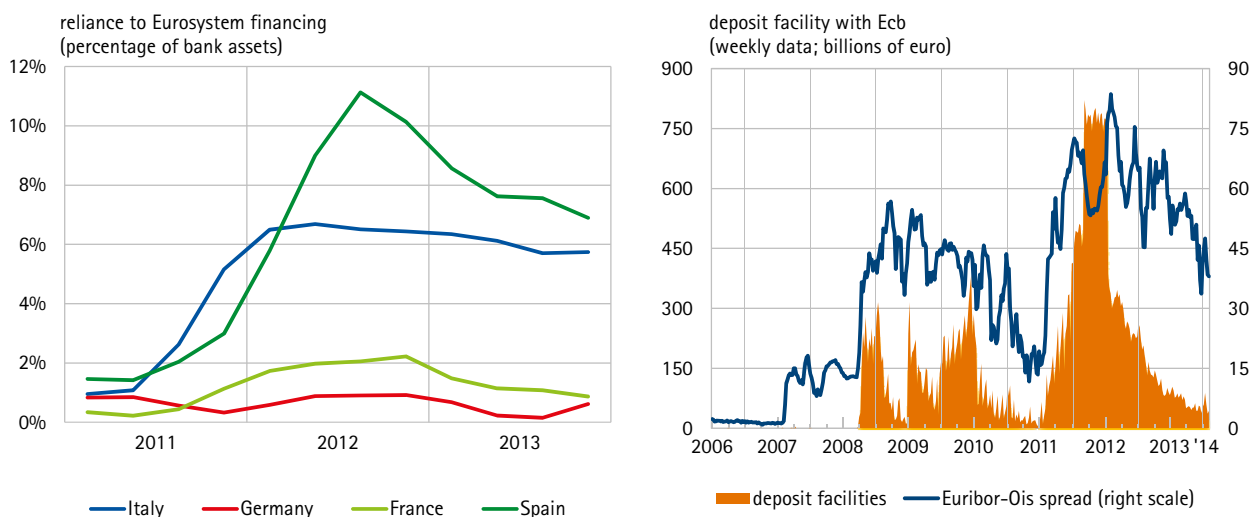


Source: processing of ECB and European Banking Federation data.

In addition, since 2011, Italian and Spanish banks have been turning to refinancing at the Central Bank to a greater extent than those of France and Germany (Fig. 63).

During 2013, refinancing at the ECB fell considerably for Spanish banks, coming out at the end of the year at approximately 7 per cent of total assets (10 per cent at the end of 2012). Italian banks maintained substantially unchanged recourse to the Eurosystem at levels close to 6 per cent of total assets.

**Fig. 63 Banks' reliance on Eurosystem in major euro area countries and Ecb deposit facilities**



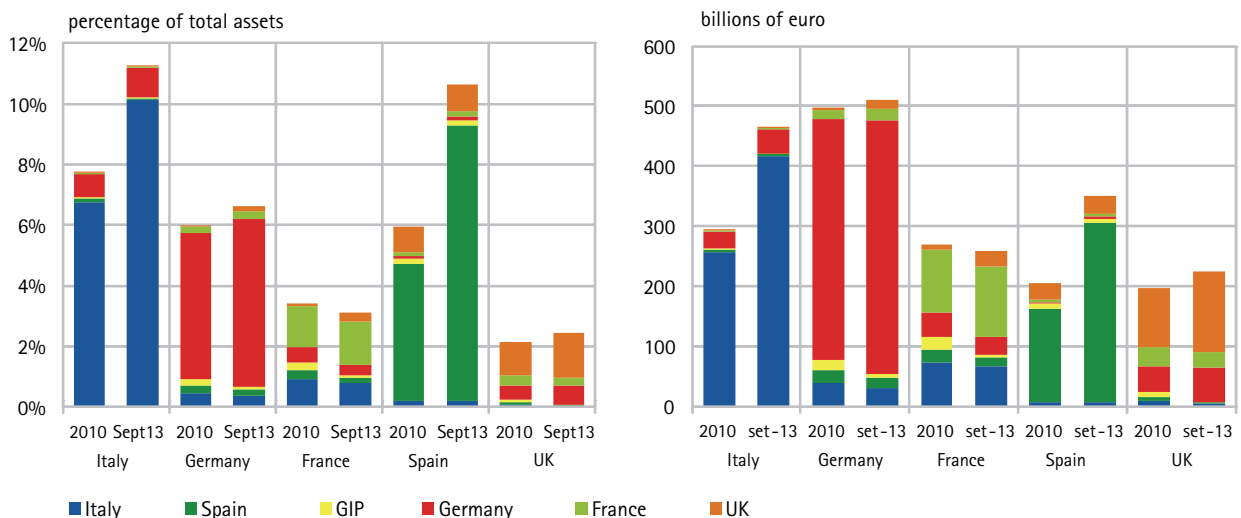
Source: ECB and national central banks. The Euribor-OIS spread is calculated with respect to the Euribor level.

## 5 Exposure to sovereign risk

Exposure to sovereign debt remains one of the main sources of fragility for European banks, above all with reference to countries characterised by larger imbalances in public finances. In particular, the bank investments in domestic government bonds (one of the main channels transmitting sovereign risk to banks) increased during the crisis. Since 2010, in fact, the exposure of Italian and Spanish banks to domestic public debt securities recorded a notable increase, reaching 10 per cent (+3 percentage points) and 9 per cent (+4 percentage points), respectively, of total assets at the end of third quarter 2013 (Fig. 64).

In absolute terms, at the end of September 2013 the amount of domestic public securities held by Italian and Spanish banks exceeded 400 and 300 billion euro, respectively. For German banks, the exposure to domestic sovereign debt was more than 400 billion euro, equivalent to approximately 6 per cent of assets, while much lower figures were recorded for French and British banks, both in absolute terms and compared with total assets.

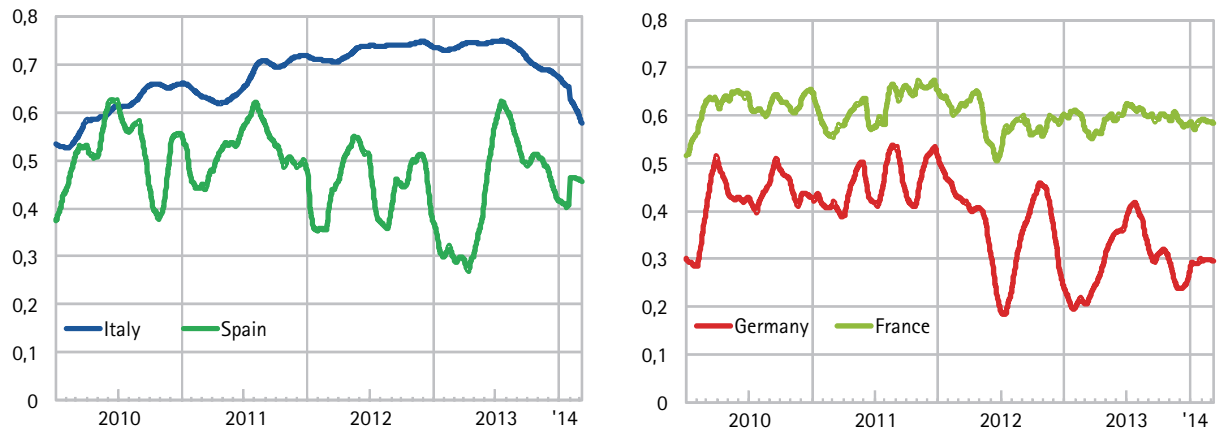
**Fig. 64 Banks exposure to sovereign bonds in major European countries**



Source: processing of Bank for International Settlements data and Bruegel's database on sovereign bond holdings. See the Methodological Notes.

The gradual stabilisation of the secondary government bond market, seen from the second half of 2013 onwards in the peripheral euro area countries, determined however a reduction in the risk of contagion, as emerges from the trend in the dynamic correlation between CDS prices on sovereign debt and those of CDSs of the largest banks. This indicator fell sharply in Italy, coming out at levels in line with those estimated for France but higher than those recorded for Spain and Germany (Fig. 65).

**Fig. 65 Dynamic correlation between sovereign risk and bank risk**  
(daily data; six month moving average; 01/01/2010 – 14/03/2014)

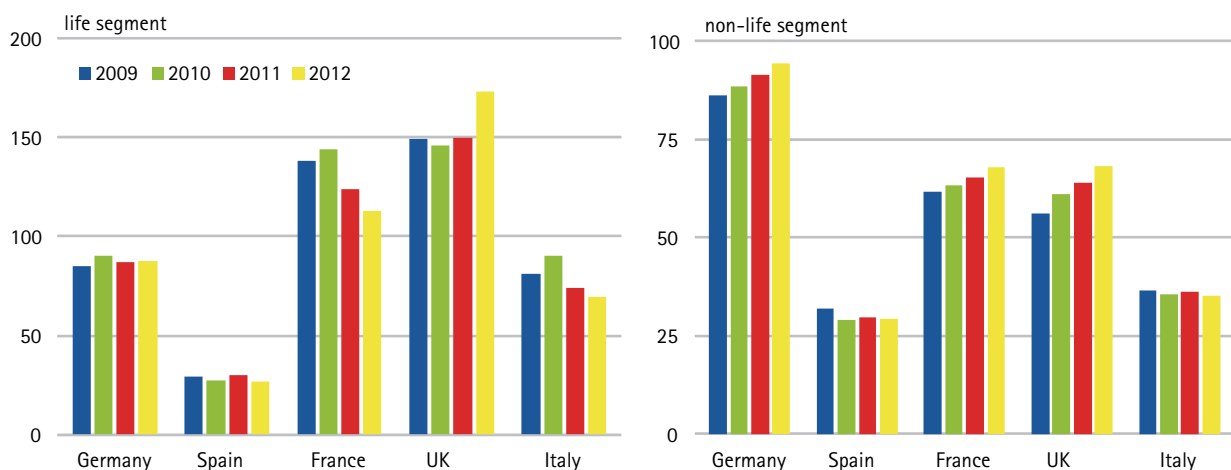


Source: processing of Thomson Reuters data. The dynamic correlation between prices of CDSs on the senior debt of banks was estimated applying Engle's model (2002).

## 6 Insurance companies

In 2012, life assurance premium income fell slightly in Italy, France and Spain, while it remained stable in Germany and grew in the United Kingdom. Non-life insurance, instead, recorded an increase, or substantial stability (Italy and Spain) in the premiums collected (Fig. 66).

**Fig. 66 Premiums collected in major European countries**  
(end of period amounts; billions of euro)



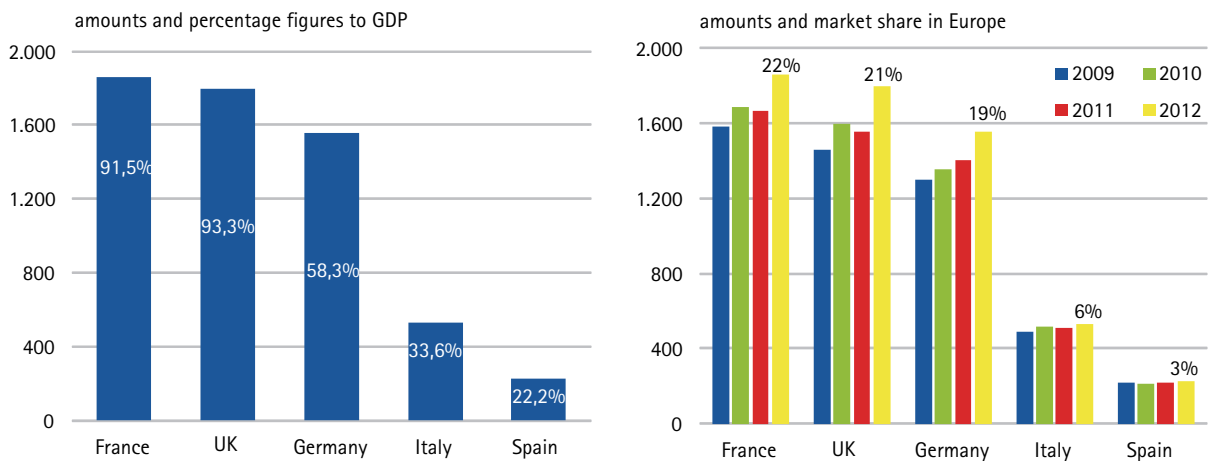
Source: processing of Insurance Europe data.

The Italian and Spanish insurance sectors continue to be considerably smaller in size compared with those seen in the other major European countries.

The total value of the investment portfolio of European insurance companies grew by approximately 10 per cent in 2012 compared with 2011, reaching levels of more than 8 thousand billion euro (Fig. 67).

French, British and German insurance companies show the highest investments both in absolute terms and in terms of proportion with respect to GDP (equal to approximately 92, 93 and 58 per cent, respectively) and the related market share, overall, is more than 60 per cent. In Italy and Spain, instead, the impact of the investment portfolio on GDP seems much more contained, coming out at the end of 2012, at approximately 34 and 22 per cent, respectively, while the related market shares range from 6 to 3 per cent of the European market.

**Fig. 67 Insurance companies investments in major European countries**  
(end of period amounts; billions of euro)



Source: processing of Insurance Europe data.

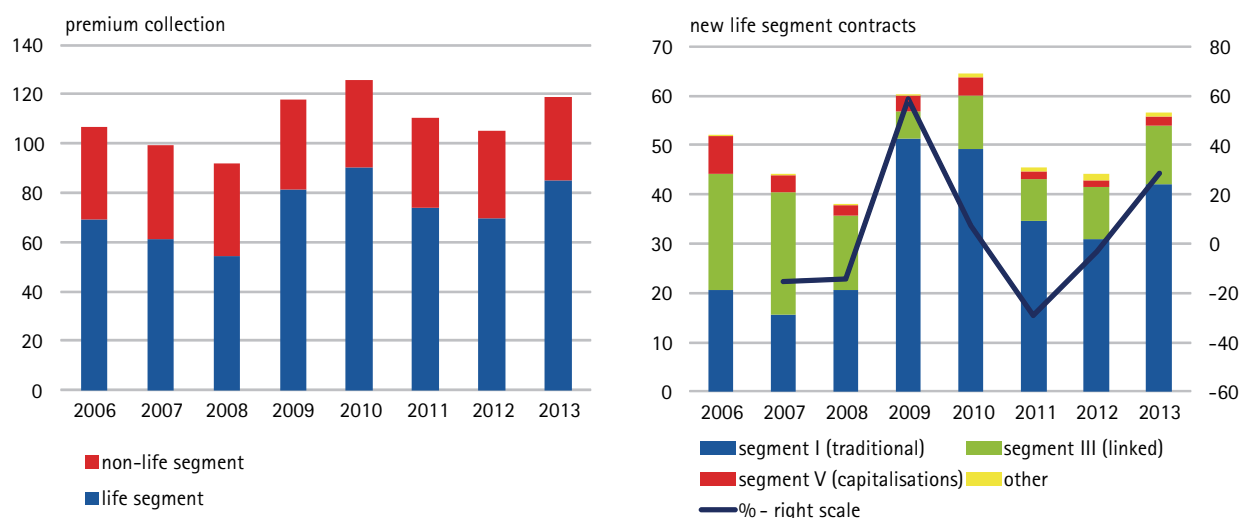
With reference to the Italian insurance sector, in 2013 life assurance premiums collected grew, while non-life premiums remained stable (Fig. 68).

Overall, Italian insurance premiums collected reached approximately 120 billion euro, of which 85 referable to life assurance and 34 to the non-life segment (with a growth rate of approximately 13 per cent compared with 2012). This trend was due to a significant increase in life assurance premiums (approximately +22 per cent) which more than offset the drop in the non-life segment (approximately -5 per cent), consequent also to the reduction in tariffs on third-party car insurance associated with the decline in accidents.

New insurance premiums collected in the life sector grew in 2013, both in Segment I (insurance based on the length of human life) and in Segment V (capitalisation operations), by 35 and 29 per cent respectively and, more moderately, in Segment III (life insurance linked to investment funds and indexes, approximately +15 per cent).



**Fig. 68 Premium collection trend for Italian insurance companies**  
(end of period amounts; billions of euro)



Source: processing of IVASS data. The figures refer to direct Italian business.

During 2012, Italian insurance companies recorded a recovery in profitability compared with the previous year, more marked in the life segment than in the non-life segment (Fig. 69). The Italian insurance sector was also characterised by an improvement in the solvency margins, more significant in the life segment.

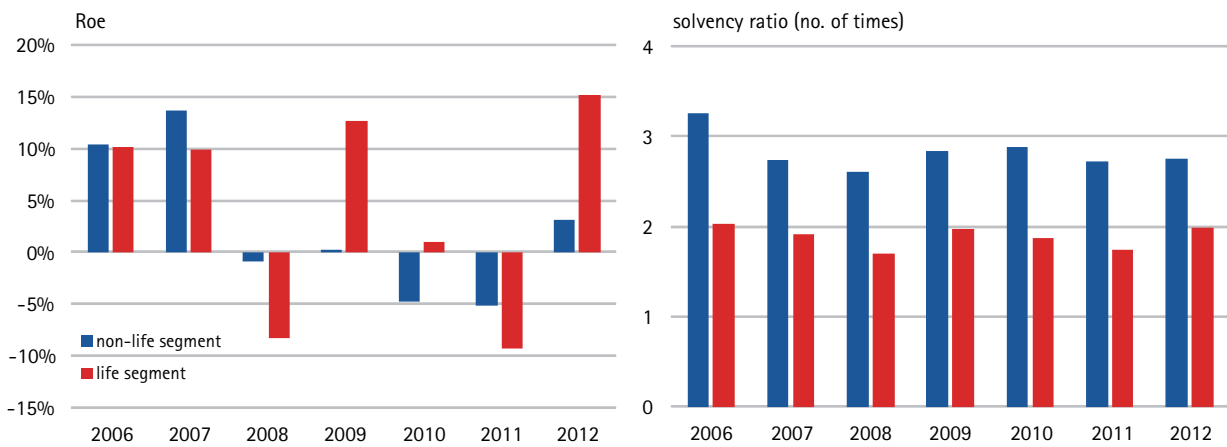
At the end of 2012, the average ROE was approximately 15 per cent in the life segment (-9 per cent in 2011) and 3 per cent in the non-life segment (-5 per cent in 2011), mainly as a consequence of the improvement in financial operations.

In the life segment, the solvency margin returned to the levels of 2006, unlike that in the non-life segment which continues to come out at much lower figures.

New needs for capital could emerge, however, in view of the evolution of the European regulatory framework which, in the context of the new prudential supervisory regime for insurance companies (Solvency II), set to come into force on 1 January 2016, introduces the system of evaluating accounting items at fair value.

In particular, the fair value principle, in evaluating accounting items, exposes insurance companies to the volatility of the markets and to the consequent oscillations of the capital resources necessary to maintain adequate solvency margins. The EIOPA has also recently highlighted the possible negative effects deriving from applying fair value, including the incentive, above all in conditions of market turbulence, to modify the composition of the portfolio so as to reduce the proportion of instruments (namely shares and bonds) subject to this measurement principle.

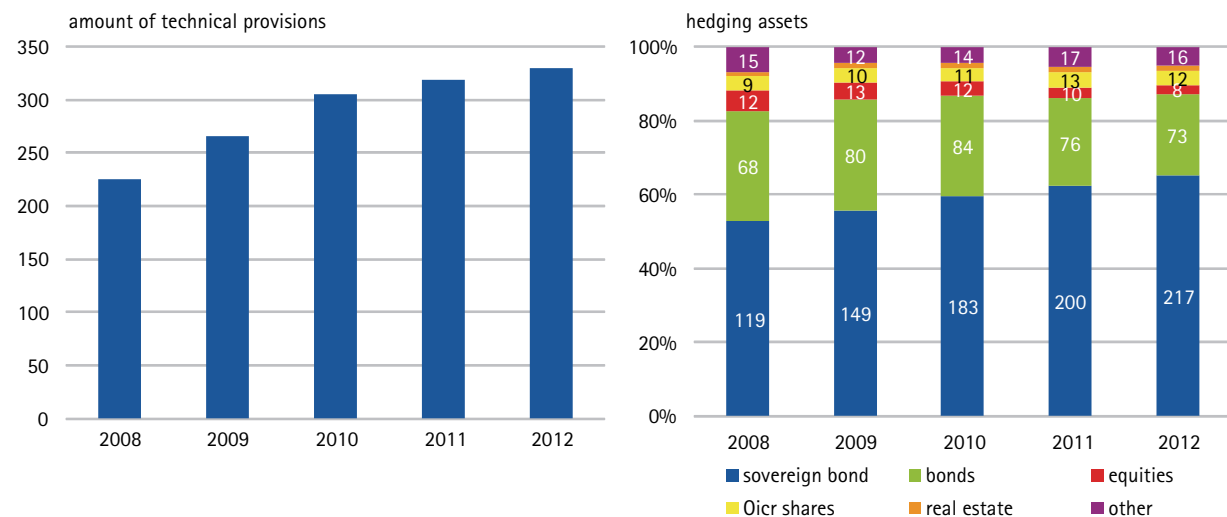
**Fig. 69 Profitability and solvency indicators for Italian insurance companies**



Source: processing of IVASS data.

At the end of 2012, the technical reserves in the life segment, in other words commitments assumed by insurance companies towards policyholders (inclusive of reserves held by reinsurers) amounted to 340 billion euro, an increase of 3 per cent compared with 2011. Government bonds represented the predominant proportion of assets covering technical reserves (Fig. 70).

**Fig. 70 Technical provisions and investments in life segment**  
(end of period amounts; billions of euro)



Source: processing of IVASS data.

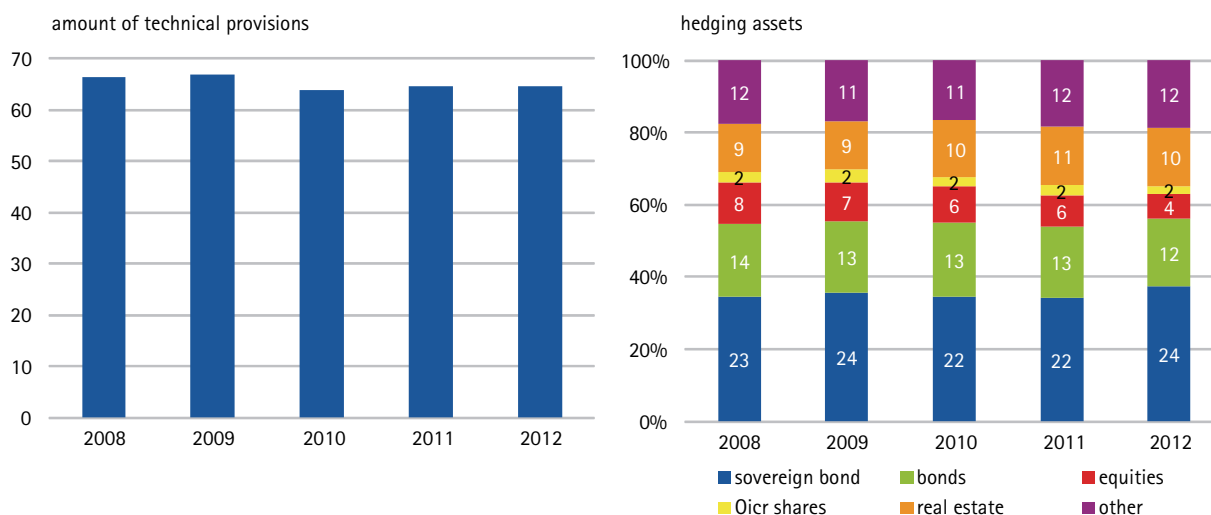
The amount of government bonds in the portfolio of Italian insurance companies operating in the life segment was 217 billion euro (more than 65 per cent of the total) at the end of 2012. The remainder of assets covering technical reserves consisted mainly of bonds, equal to 73 billion

euro (22 per cent of the total), down compared with the previous years. A residual portion was invested in shares and in UCITS (8 and 12 billion respectively) and in the real estate sector (5 billion).

With reference to the non-life segment, the total amount of technical reserves, at the end of 2012, came to approximately 65 billion euro, substantially stable compared with the previous year (Fig. 71).

Assets covering technical reserves were approximately 40 per cent government bonds, approximately 18 per cent other bonds and approximately 16 per cent property, equity investments in real estate companies and real estate mutual fund units. Investments in equities and in UCITS amounted overall to 9 per cent of the total.

**Fig. 71 Technical provisions and investments in non-life segment**  
(end of period amounts; billions of euro)



Source: processing of IVASS data.

# V Households and portfolio management

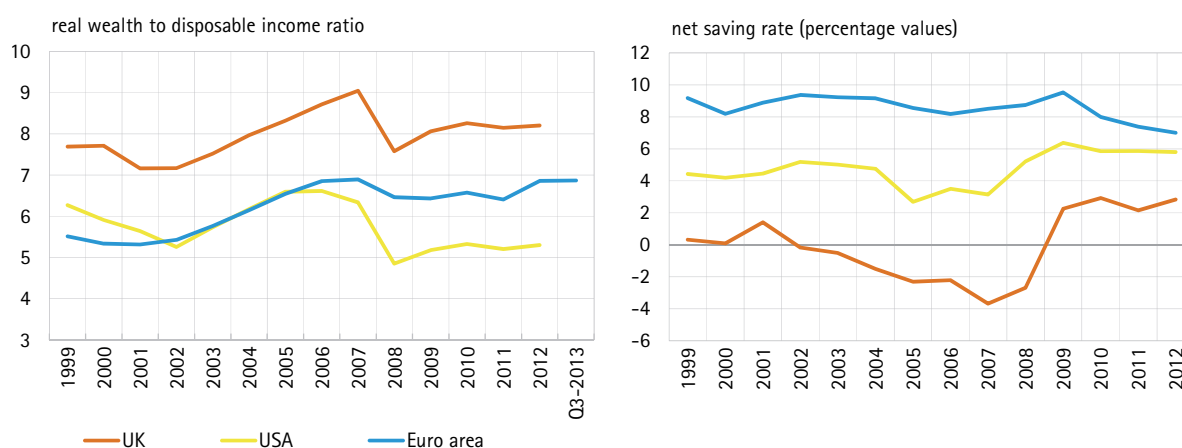
## 1 Households wealth in major advanced countries

In 2012, the net wealth of households, that is the sum of real and financial assets net of financial liabilities, amounted to approximately seven times the gross disposable income in the euro area, returning to the maximum levels reached in 2007. This figure was mainly due to the positive performance of share prices (which, in the period considered, grew by approximately 13 per cent), and to the related effects on the value of financial assets, rather than to the trend in the household saving rate, down from 2009 (Fig. 72). Despite this drop, at the end of 2012 the saving rate in the euro area remained at higher levels than those seen in the major advanced economies.

At the end of 2012, the net wealth of households in the United Kingdom and in the United States was 8 and 5 times disposable income, respectively.

In the United Kingdom, the net saving rate rose, after the subprime crisis, to higher levels than the long-term ones, coming closer to the figures recorded in the euro area. In the United States, instead, the figure has remained substantially stable since 2008.

**Fig. 72 Net wealth and net saving rate of households in major advanced countries**  
(annual data)

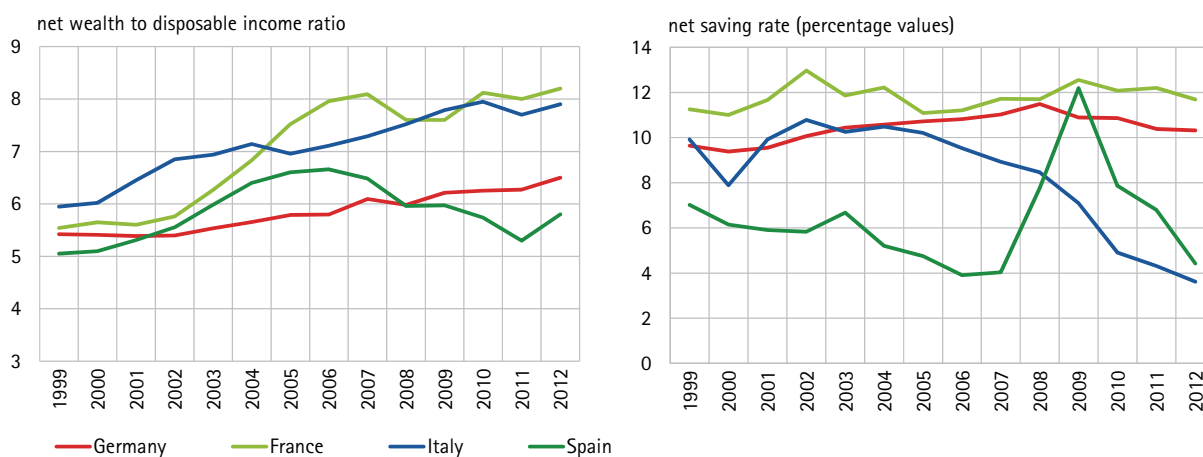


Source: processing of ECB and European Commission data. Net wealth is the sum of real and financial assets net of financial liabilities. The saving rate is given by the ratio between net savings and net disposable income. The institutional sector of households includes non-profit companies.

The evolution of wealth and of the net saving rate in the main euro area countries continues to be uneven (Fig. 73).

In 2012, Spain recorded the fastest growth rate in household wealth, partially recovering the effects of the subprime and sovereign debt crisis and coming back, in this way, to the levels of 2008 (when net wealth was 6 times disposable income). Italy continued to be in line with France, with net wealth at 8 times disposable income. Italian households have recorded, however, a persistent contraction of the net saving rate which, at the end of 2012, reached a record low, coming down to levels close to those seen in the United Kingdom.

**Fig. 73 Net wealth and net saving rate of households in some euro area countries**  
(annual data)



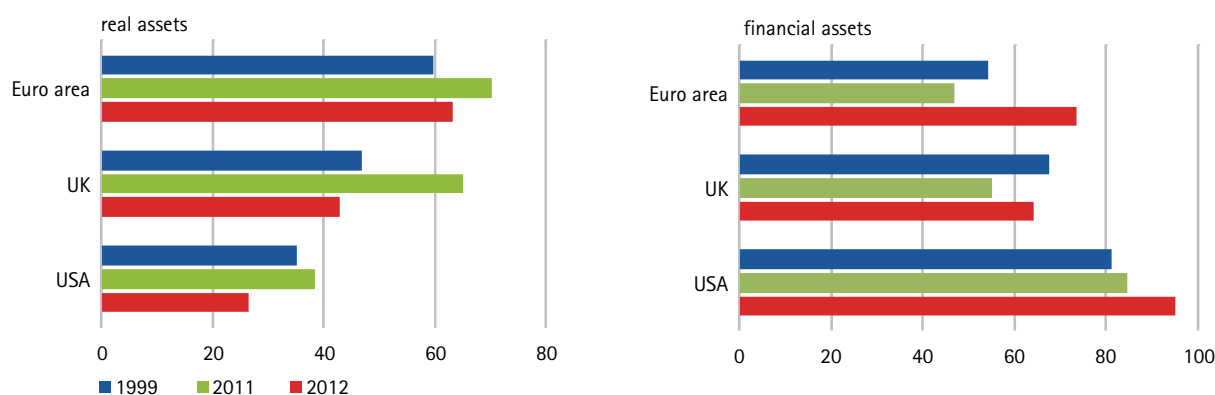
Source: processing of Bank of Italy, Banco de España and European Commission data. Net wealth is the sum of real and financial assets net of financial liabilities. The saving rate is given by the ratio between net savings and net disposable income. The institutional sector of households includes non-profit companies.

At the end of 2012, the composition of wealth in terms of real and financial assets confirmed the structural differences existing among the main advanced economies.

In the euro area, real assets stood at just over 60 per cent of gross household wealth, down by approximately 10 percentage points compared with the previous year. The most significant reduction in the figure was seen in the United Kingdom, where the proportion of real assets to gross wealth fell from a figure of more than 60 per cent in 2011 to approximately 42 per cent in 2012, and in the United States, down from just less than 40 to approximately 25 per cent (Fig. 74).

The proportion of financial assets to household wealth continues to be higher in the United States (97 per cent) compared with the figure for the United Kingdom and the euro area. At the end of 2012 this last, however, recorded an increase of more than 25 percentage points in the proportion of financial assets to wealth compared with 2011 (when it stood at just over 40 per cent), significantly reducing the gap with the United States.

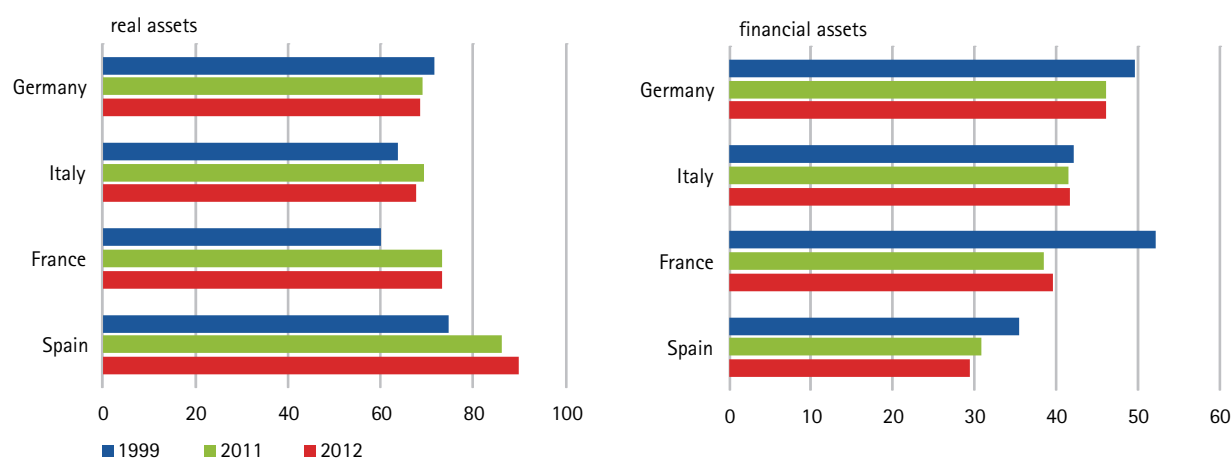
**Fig. 74 Wealth breakdown in major advanced countries**  
(percentage values)



Source: processing of OECD data.

With reference to the main euro area countries, at the end of 2012 the distribution of gross household wealth between real and financial assets did not show significant changes compared with the previous year (Fig. 75).

**Fig. 75 Wealth breakdown in some euro area countries**  
(percentage values)



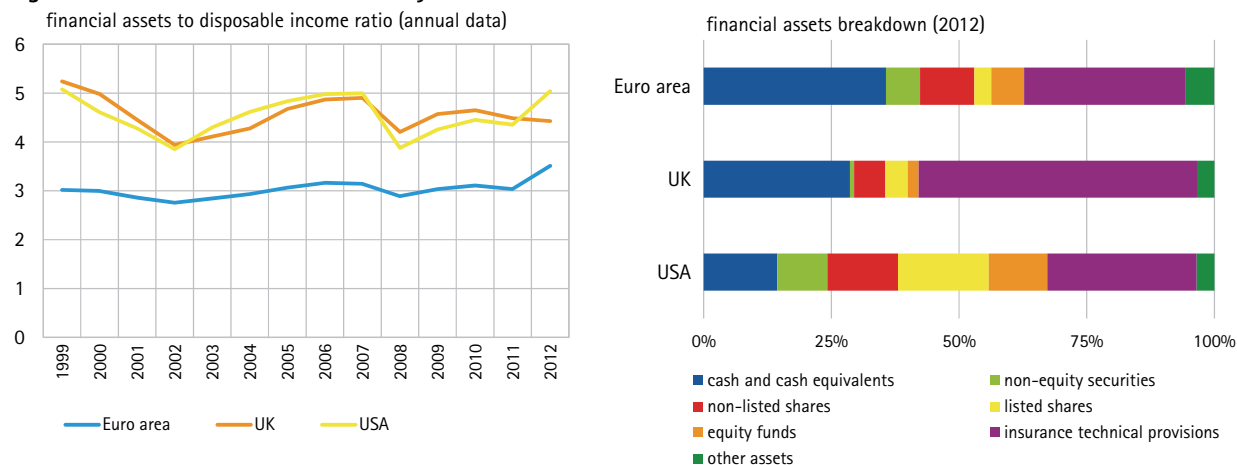
Source: processing of Bank of Italy, Banco de España, Eurostat and OECD data.

Financial wealth grew compared with disposable income, during 2012, in the USA and in the euro area (where it reached levels of 5 and 3.5, respectively), while it declined slightly in the United Kingdom. The composition of financial assets at the end of 2012 reflects the lower propensity of European households to hold wealth in listed shares and equity funds compared with US households (Fig. 76).

In particular, the figure stood at approximately 10 per cent (of which 6.4 per cent referable to equity funds) for the euro area, 6.5 per cent (of which 2.2 per cent represented by equity funds) for the United Kingdom

and 29.3 per cent (of which 11.5 referable to equity funds) for the United States. In the United Kingdom, pension funds and insurance policies were particularly widespread, as can be seen from the figure for technical insurance reserves (approximately 55 per cent). Unlike in the United States, in the euro area and the United Kingdom a large proportion of wealth continues to be held in cash and cash equivalents (36 and 29 per cent respectively).

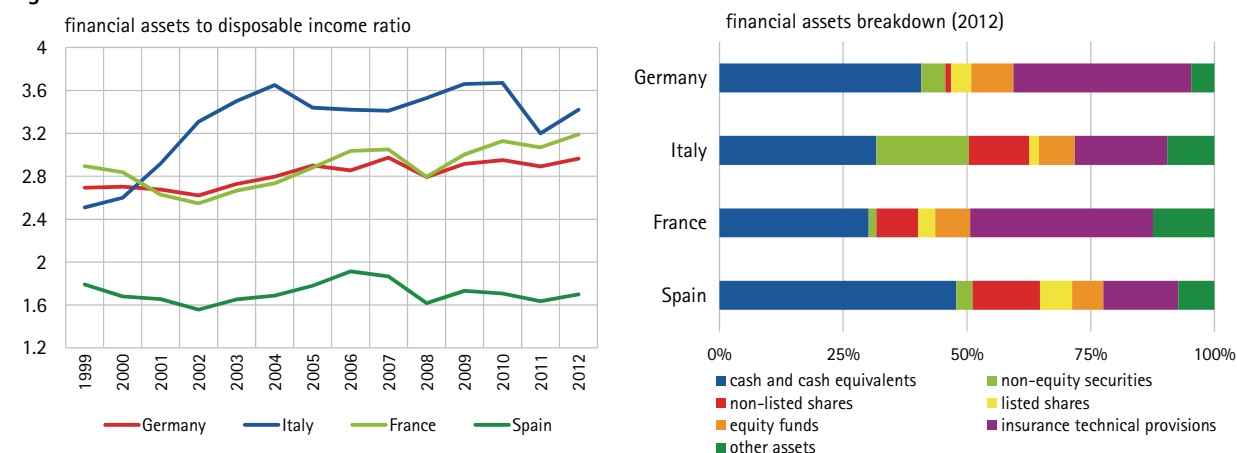
**Fig. 76 Households financial assets in major advanced countries**



Source: ECB, Eurostat, OECD. Financial assets include the following categories: 'cash and cash equivalents' (notes, coins and deposits), 'non-equity securities' (bonds, treasury bills, deposit certificates and derivatives), 'non-listed shares' (these include equity investments) 'listed shares', 'equity funds', 'insurance technical provisions' (which correspond to financial liabilities for insurance companies and pension funds), 'other assets' (trade receivables, payment advances, payables and receivables deriving from time delays in the payment of taxes, contributions and remuneration).

In 2012, the ratio between financial assets and disposable income of households began to grow again in all the main European countries. The composition of the portfolio continues to show great differences among the major euro area countries (Fig. 77).

**Fig. 77 Financial assets in some euro area countries**



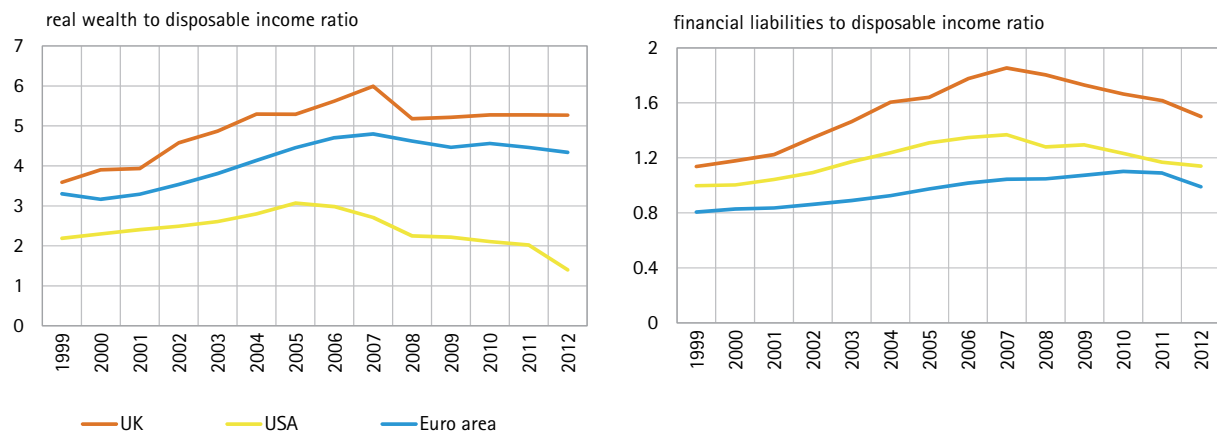
Source: ECB, Eurostat, OECD. Financial assets include the following categories: 'cash and cash equivalents' (notes, coins and deposits), 'non-equity securities' (bonds, treasury bills, deposit certificates and derivatives), 'non-listed shares' (these include equity investments) 'listed shares', 'equity funds', 'insurance technical provisions' (which correspond to financial liabilities for insurance companies and pension funds), 'other assets' (trade receivables, payment advances, payables and receivables deriving from time delays in the payment of taxes, contributions and remuneration).

In Italy, the ratio between financial assets held by households and disposable income has historically been higher than in other European countries (3.4 in 2012 compared with 3.2 in the previous year). As regards composition of the portfolio, direct and indirect (that is through funds) investments in listed and unlisted shares represented approximately 20 per cent of the financial assets of Italian and French households, compared with figures of 14 and 26 per cent referable, respectively, to German and Spanish households. With regard to other asset classes, French and German households held the largest proportion of insurance policies and pension funds, as emerges from the figure for technical reserves (approximately 37 per cent), while Italian households were characterised by a higher proportion of financial wealth invested in bonds and deposit certificates (just less than 20 per cent, compared with figures of or less than 5 for the other major European countries). The proportion of cash and cash equivalents was very high in Spain and Germany.

During 2012, in the USA the proportion of real wealth to disposable income recorded the most significant drop after 2008, down to figures of just over 100 per cent (Fig. 78). Instead the ratio remained substantially unchanged in the United Kingdom and in the euro area.

In the same period, household debt declined in the three areas considered, although more markedly in the United States.

**Fig. 78 Real wealth and financial liabilities**  
(annual data)



Source: ECB and OECD.

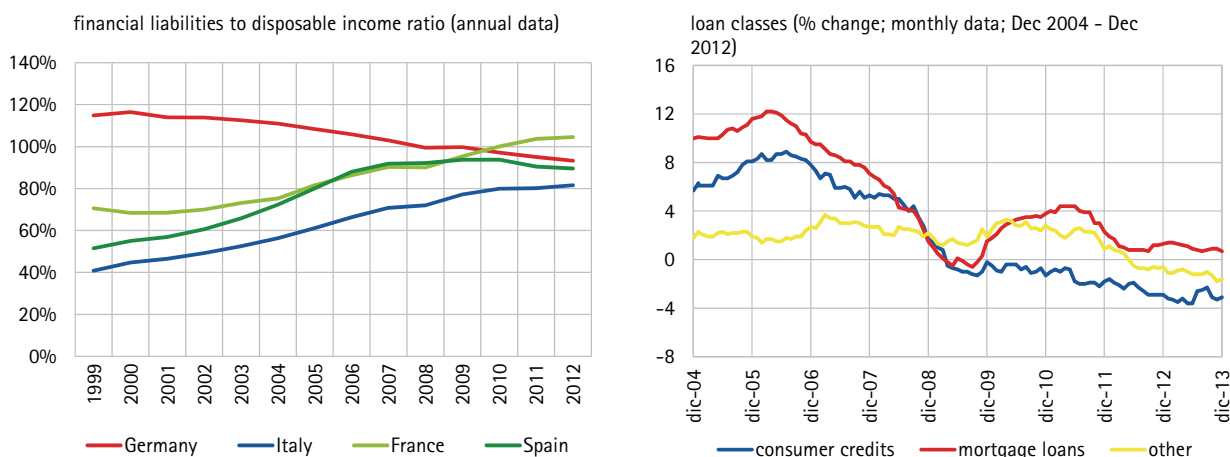
The financial liabilities of Italian households show a certain stability, after the constant increase recorded in the last decade (Fig. 79).

As a result of this increase, the ratio between debt and disposable income went up, in Italy, from 40 per cent in 1999 to 80 per cent at the end of 2012, but remains at levels lower than those observed in the major euro area countries by approximately ten percentage points. In the euro area, the growth rate of loans to households for home purchase remained positive for



the whole of 2013, although at very low levels compared with those recorded in the period before the financial crisis. Consumer credit, instead, continued to decline.

**Fig. 79 Financial liabilities and loans characteristics in the euro area**

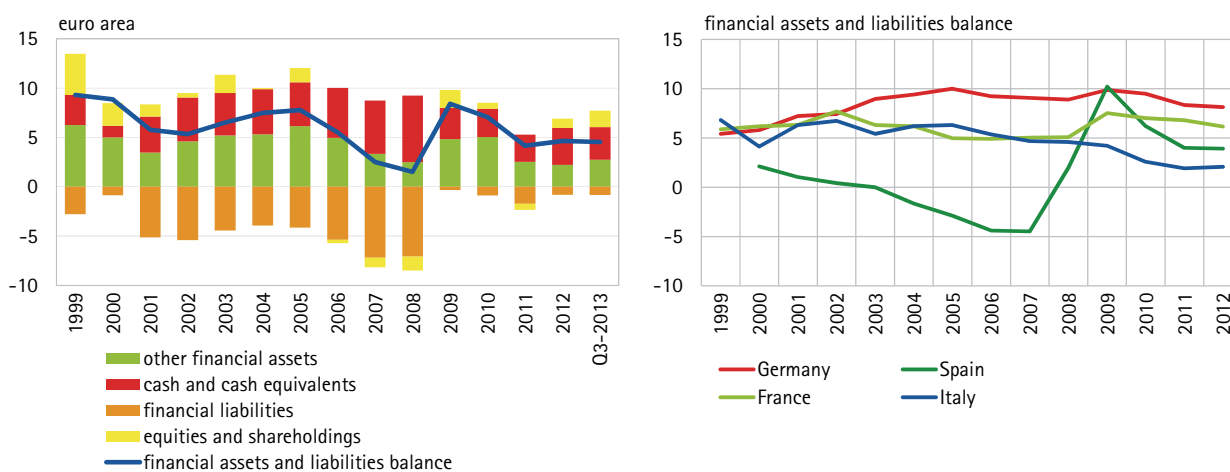


Source: processing of ECB, Bank of Italy, Eurostat and OECD data.

During 2013, the investment flows of households in the euro area showed a net increase in purchase of listed and unlisted shares, after the reduction seen in the years following the subprime crisis and the sovereign debt crisis in Europe. The balance between financial assets and liabilities remained positive in all the main euro area countries, although it is lower in Italy and Spain compared with Germany and France (Fig. 80).

At the end of 2012, in Italy net investment flows amounted to approximately 2 per cent of the disposable income of households. The figure, which was substantially stable compared with 2011, represents the lowest level since 1999.

**Fig. 80 Financial assets and liabilities flows in the euro area**  
(annual data as a percentage of disposable income)

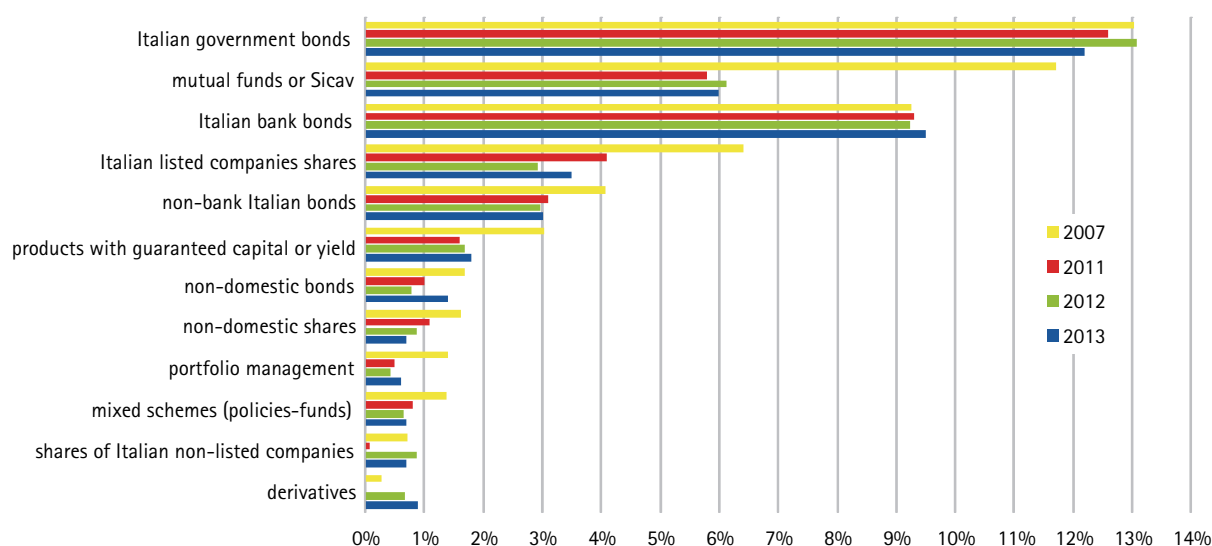


Source: Eurostat.

## 2 Household portfolio choices and advisory services in Italy

In 2013, the participation of Italian retail investors in the financial markets, expressed as the percentage of households that invest in risky instruments (equities, bonds, asset management and life policies), increased slightly compared with 2012 rising from approximately 24.7 to 26.3 per cent. This figure continues to be significantly lower than that of 2007, when it stood at approximately 38 per cent, as a result of the crises that have occurred in the last few years (Fig. 81).

**Fig. 81 Dissemination of financial products among Italian households**  
(percentage of households holding the specified financial product)



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

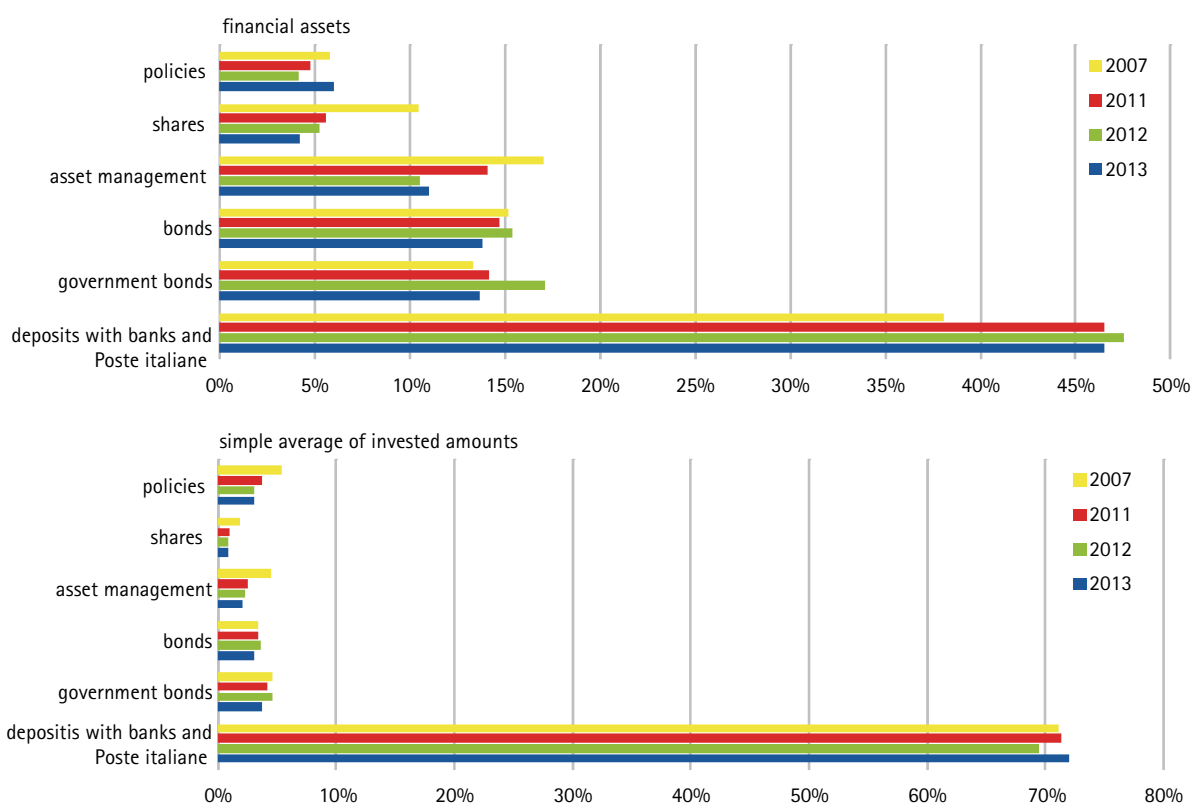
Investment in Italian government bonds continues to see the highest participation rate (just over 12 per cent), although at the end of 2013 it was down by almost one percentage point compared with the previous year. There was substantial stability, instead, in the figures for the proportion of households holding, respectively, bank bonds (9.5 per cent at the end of 2013) and mutual funds or SICAVs (6 per cent). There was a slight increase in the percentage of investors in Italian listed shares (from 2.9 per cent at the end of 2012 to 3.5 per cent) and in foreign bonds (1.4 per cent corresponding to +0.6 per cent).

The data on the composition of household portfolios are in line with those relating to involvement in the financial markets (Fig. 82).

The proportion of financial assets invested in government bonds fell, in fact, by approximately 4 percentage points (going down from 17.1 per cent

in December 2012 to 13.7 per cent in December 2013); in the same period, investment in portfolio management products showed a slight increase going up to 11 per cent (+0.4 percentage points), while that in bonds (Italian and foreign) declined from 15.4 to 13.8 per cent. The figure for equities also dropped, going down from 5.3 to 4.2 per cent of financial assets in portfolios (Fig. 82). Investment in deposits and postal savings remains stable at around 47 per cent, much higher than the figure for 2007, when it stood at approximately 38 per cent.

**Fig. 82 Italian households portfolio composition**



Source: estimates based on GfK Eurisko - *Multifinanziaria Retail Market* data. See Methodological Notes. The 'Deposits and postal savings' item includes deposits in bank and postal current accounts, bank and postal savings books, deposits in currencies other than the euro, repurchase agreements and deposit certificates. The "Portfolio management" item includes Italian and foreign mutual funds and SICAVs, accumulation programmes (dollar cost averaging), asset management in securities and in funds, mixed fund-policy schemes and liquidity management services. The "Policies" item includes Segment III and V policies, capitalisation products, multi-segment policies and supplementary pension plans. Financial wealth does not include cash and cash equivalents.

Recourse to advisory services by retail investors remains quite limited. At the end of 2013, the proportion of households that receive personalised investment proposals from their financial advisor, although up compared with the previous year, continues to be less than the figure recorded before the Lehman default (Fig. 83). Almost half of these households, in addition, cannot distinguish the ways in which they receive the service. This figure is in line with the low level of financial literacy which, as is known, characterises the average Italian investor (Box 2).

## Box 2

### Financial literacy in Italy. Evidence from the survey on 'The approach to finance and investments of Italian households'

In 2013, Consob commissioned a survey to GfK Eurisko aimed at obtaining, from a sample of more than one thousand people, specific information on: level of knowledge in the financial field, behaviour and attitudes most common at the stage of choosing investments, and financial situation, in terms of stability and earnings prospects, indebtedness and membership of complementary pension schemes.

The sample group contacted for the interview was constructed so as to be representative of approximately 20.5 million Italian households in terms of geographical area, gender, age, education, profession and income. Of the 1,020 people interviewed, 787 were men and 233 women, resident almost 49 per cent in the north, approximately 21 per cent in the centre and the remaining 30 per cent in the south and on the islands; 335 had a level of education corresponding to a middle school diploma, 525 continued their studies, but without gaining a degree, 160 graduated or gained post-graduate qualifications.

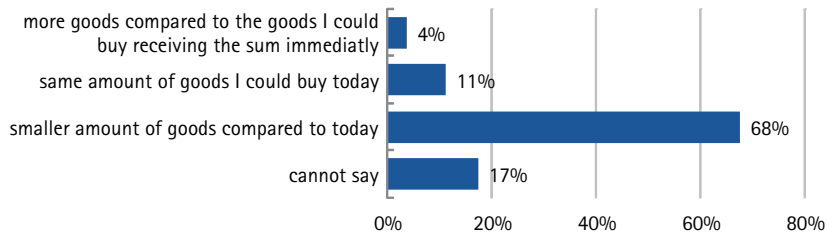
With particular reference to financial literacy, first of all the survey ascertained the knowledge and understanding of fundamental notions, namely the concept of inflation, the principle of risk diversification and the relationship between risk and return.

68 per cent of the people interviewed showed that they knew the concepts of the purchasing power of money and the reduction over time of the value of sums held; the remaining 30 per cent stated that they did not know the answer or indicated wrong options.

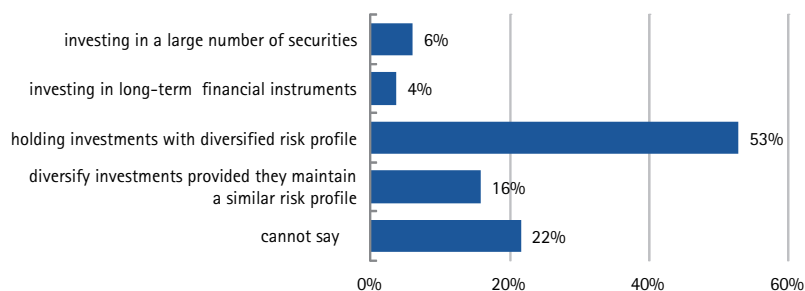
The percentage of people who answered correctly declined when the question on risk diversification was asked: only 53 per cent of the people interviewed indicated the correct alternative, the remainder were unable to answer (22 per cent) or answered incorrectly (26 per cent). Similar percentages were found with reference to knowledge of the relationship between the risk and return of a financial product.

The distribution of people by level of knowledge and gender shows that the percentage of men who answered correctly was higher on average by ten points compared with women. The level of education seems positively correlated with the ability to answer all questions correctly: in the highest education band, the percentage of people who answered the question on risk diversification, in particular, correctly was approximately 35 points higher. The distribution by geographical area also seems significant: people resident in the southern and insular regions who answered each of the three questions correctly were on average 10 per cent less than residents in the centre and north of Italy.

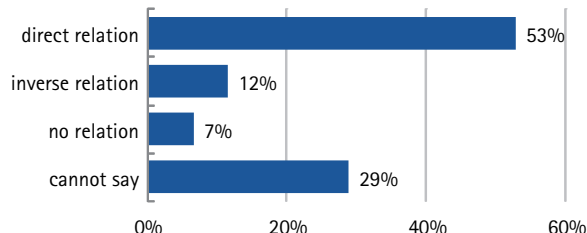
**Q1. Imagine you win € 1,000 euro at the lottery; you will receive the amount of your winning after 1 year time lapse (during that period the amount of your winning is not invested). If the inflation rate is equal to 2%, in one year's time you will be able to buy:**



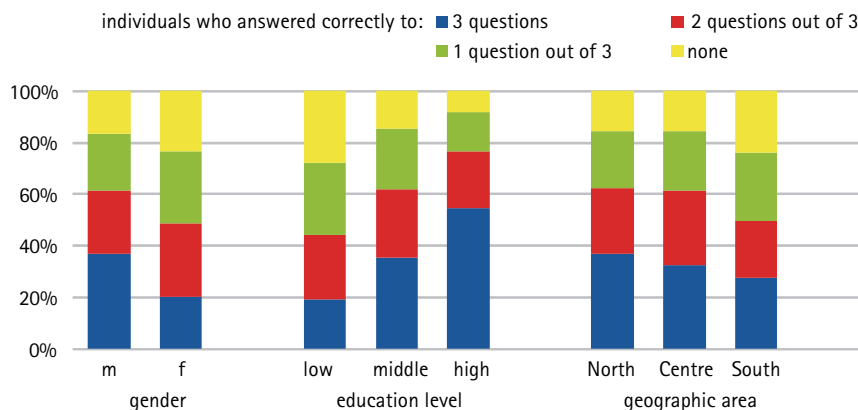
**Q2. What do you think 'investment diversification' means?**



**Q3. Can you explain the relation between risk and return of a financial product?**



**Percentage of individuals who answered correctly to questions relating to inflation, risk diversification and risk/return relation**

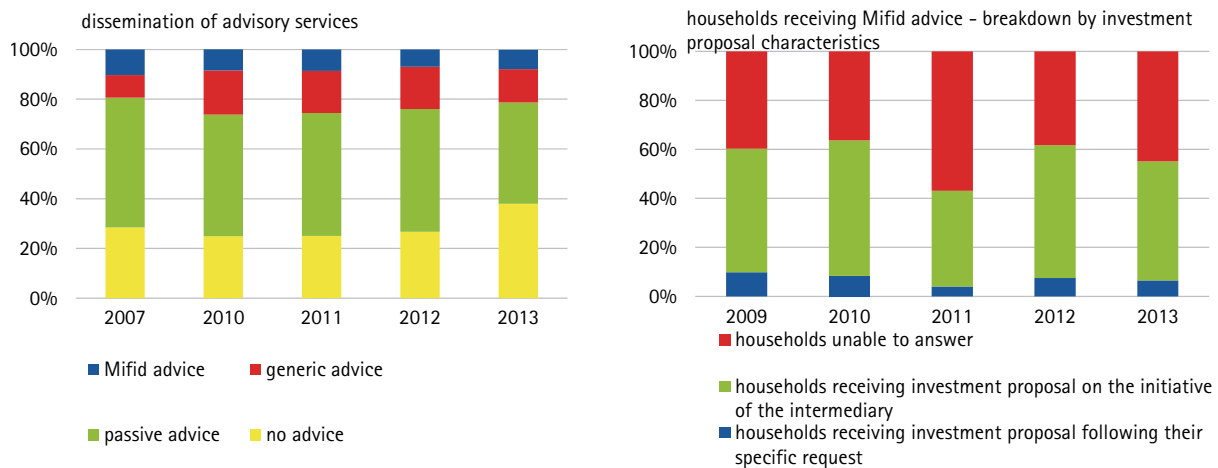


Source: processing of GfK Eurisko data – Observatory on 'The approach to finance and investments of Italian households'.

The percentage of households receiving personalised investment proposals referring to a specific financial instrument ('MiFID advice') arrived, at December 2013, at around 8 per cent (7 per cent at the end of 2012). There was a drop, instead, in the proportion of retail investors receiving proposals not referring to a specific financial instrument ('generic advice'), or who state that they have a trusted adviser from whom, however, they do not receive investment proposals ('passive advice'). In the former case, a drop of approximately 4 percentage points was recorded (from 17 per cent in 2012 to 13.4 per cent in 2013), while in the latter case the reduction was more marked (-10 percentage points), bringing the figure down to approximately 41 per cent. Finally, the percentage of households declaring that they decide with no support from financial intermediaries ('no advice') grew considerably, reaching approximately 38 per cent (+11 percentage points compared with 2012).

Among those who make use of MiFID advising services, there was a drop both in the percentage of investors stating that they had received an investment proposal following their specific request (from 8 to 7 per cent) and in the proportion of households involved by the intermediary (from 54 to 49 per cent). There was a sharp rise, instead, in the proportion of those who do not remember or gave no answer (from 38 to 45 per cent).

Fig. 83 Characteristics of financial advisory services to Italian households



Source: processing of GfK Eurisko - *Multifinanziaria Retail Market* data. See Methodological Notes. The 'passive advice' group includes households declaring that they had their own investment adviser, by whom they had not been contacted within the past 12 months. The 'generic advice' group includes households with their own trusted advisers who were contacted without receiving investment proposals about specific financial instruments. The 'MiFID advice service' group includes households contacted by their own trusted investment adviser, who receive personalised investment proposals in relation to a specific financial instrument.

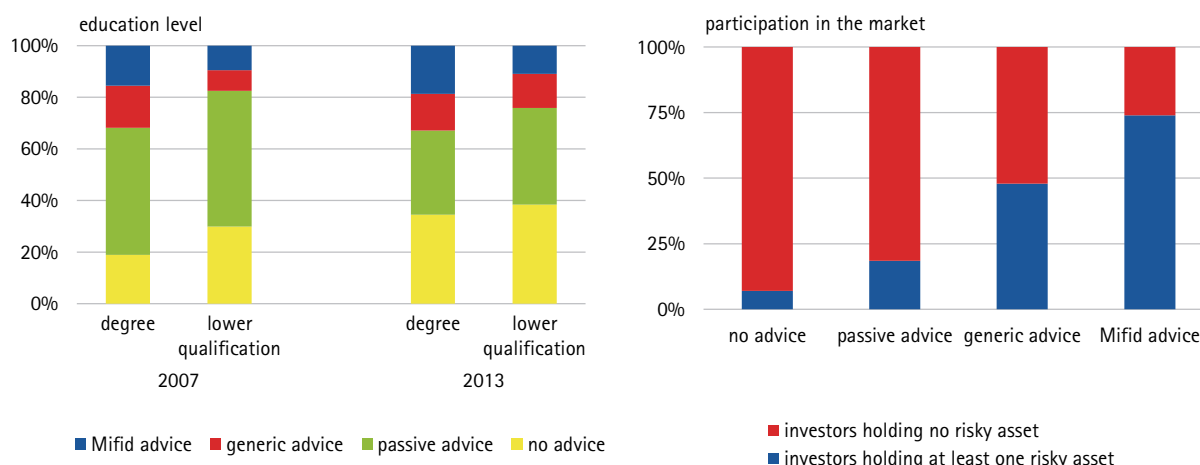
The propensity to invest with the support of an intermediary correlated positively with the level of education, although the proportion of investors with a degree who chose not to make use of advice increased,

compared with 2007, rising to figures comparable with those recorded for other categories of investors (Fig. 84).

The distribution of retail investors by type of advice and educational level shows that the percentage of households making use of MiFID advice services is greater for the sample of people with degrees (approximately 20 per cent at December 2013, against approximately 15 per cent in 2007), compared with the sample of less-qualified people (stable at around 6 per cent).

Also for 2013, there was confirmation of the positive relationship between diversification of financial assets held and recourse to MiFID advice services. The portfolio of those who consult an adviser for their investment decisions includes at least one risky financial product in approximately 75 per cent of cases (compared with approximately 7 per cent recorded for households deciding autonomously).

**Fig. 84 Advisory service by education level and participation in the market**

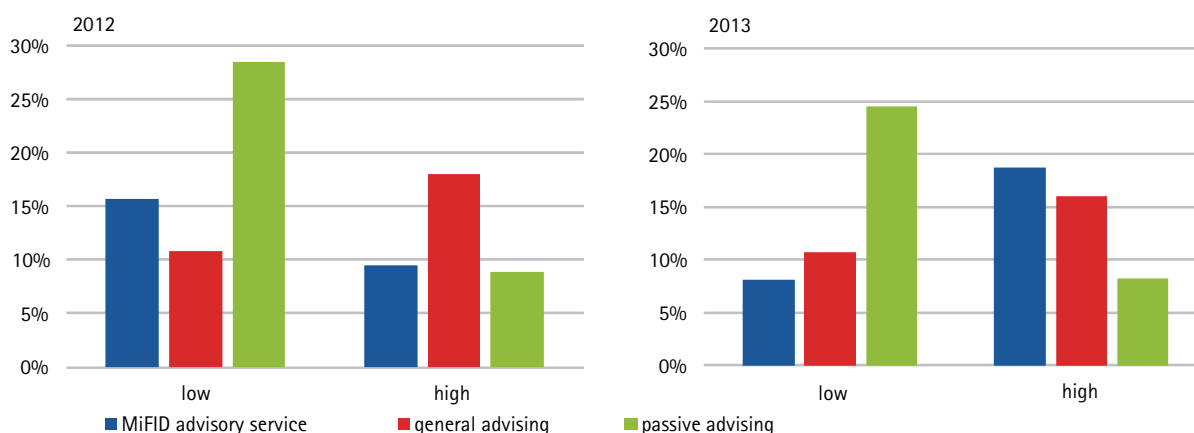


Source: processing of GfK Eurisko - *Multifinanziaria Retail Market* data. See Methodological Notes. The 'passive advice' group includes households declaring that they had their own investment adviser, by whom they had not been contacted within the past 12 months. The 'generic advice' group includes households with their own trusted advisers who were contacted without receiving investment proposals about specific financial instruments. The 'MiFID advice service' group includes households contacted by their own advisers, who receive personalised investment proposals in relation to a specific financial instrument. Risky financial products or instruments are equities, bonds, portfolio management and life policies.

At the end of 2013, there was an increase in the level of satisfaction for the advice received from the adviser, a complete turnaround compared with the previous years (Fig. 85).

In particular, the percentage of investors who declare a low level of satisfaction for MiFID advice services recorded a drop of approximately 8 percentage points (from 15.7 to approximately 8 per cent), equivalent to the increase in the proportion of households expressing, instead, a high level of satisfaction (from just less than 10 per cent to approximately 19 per cent).

**Fig. 85 Italian household satisfaction degree by financial advisory service**  
(percentage of total households grouped by type of received advisory service)



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

### 3 Managed investment products

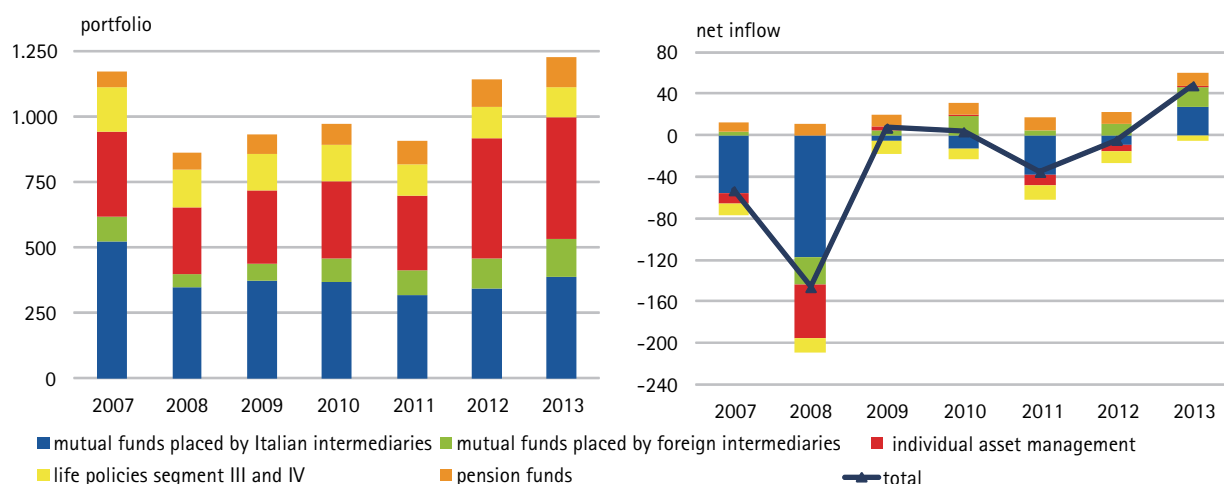
In 2013, the assets referable to portfolio management products placed in Italy continued to increase, going up from 1,140 billion euro at the end of 2012 to 1,225 billion (approximately +7 per cent). This performance was due in part to the trend in net deposits, which was positive at approximately 48 billion euro (Fig. 86).

In particular, mutual funds promoted by foreign intermediaries recorded the most significant increase in assets (+30 per cent), followed by Italian mutual funds (+13 per cent) and by pension funds (+8 per cent), while the figure remained substantially stable for individual portfolios and life policies of Segments III and V.

As regards the performance of deposits, the products that recorded the highest inflow of resources were Italian (+27 billion euro) and foreign mutual funds (+20 billion), followed by pension funds (+12 billion). Life policies of Segments III and V recorded, instead, an outflow of capital of 5 billion.



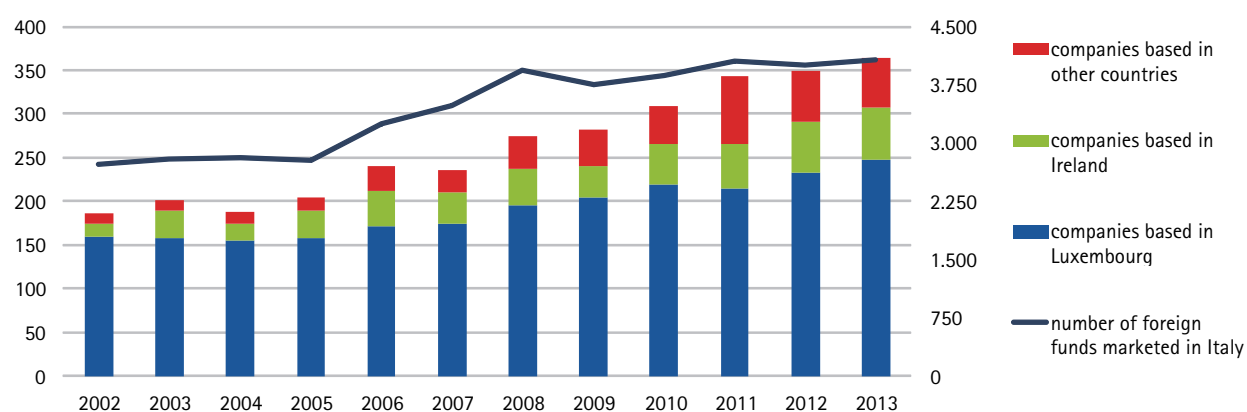
**Fig. 86 Portfolio and net inflow of asset management products placed in Italy**



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

The number of foreign funds marketed in Italy increased in 2013 rising from 4,009 in 2012 to 4,074, as a result of the increase in the number of companies with headquarters in Luxembourg and Ireland (Fig. 87).

**Fig. 87 Number of foreign funds marketed in Italy and number of foreign companies authorised to market funds by registered office**

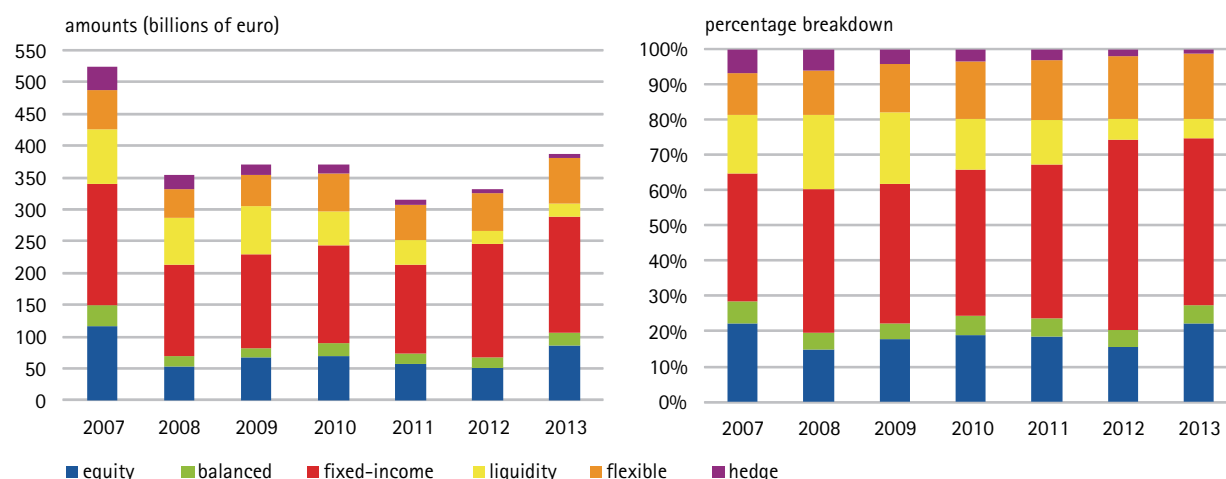


Source: prospectuses.

In 2013, a significant increase was observed in the assets of mutual funds distributed in Italy (Fig. 88).

This trend is ascribable, mainly, to an increase in the assets of equity funds (approximately +60 per cent). The assets of balanced and flexible funds grew (by approximately 19 and 26 per cent respectively), compared with substantial stability of bond and liquidity funds and a drop in assets referable to hedge funds (approximately -27 per cent).

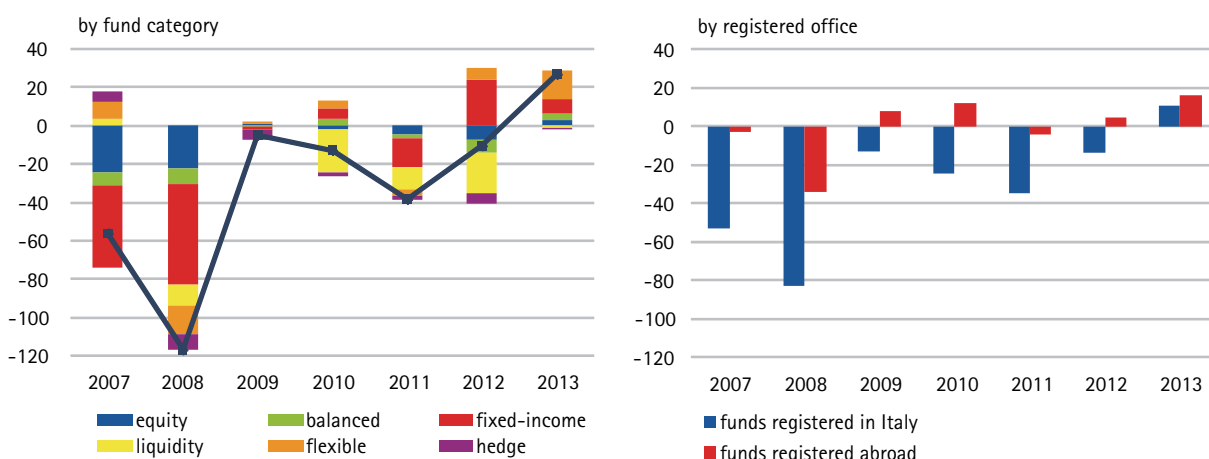
**Fig. 88 Net asset of mutual funds placed in Italy**



Source: Assogestioni. The data refer to Italian funds controlled by foreign intermediaries, Italian open-ended funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds); funds of funds are also included. For funds domiciled abroad, the data refer to total assets.

In the context of mutual funds placed in Italy, net deposits into funds domiciled abroad showed an increase; inverting the trend of previous years, funds domiciled in Italy also recorded similar performance in 2013 (Fig. 89).

**Fig. 89 Net inflows for mutual funds placed in Italy**  
(billions of euro)

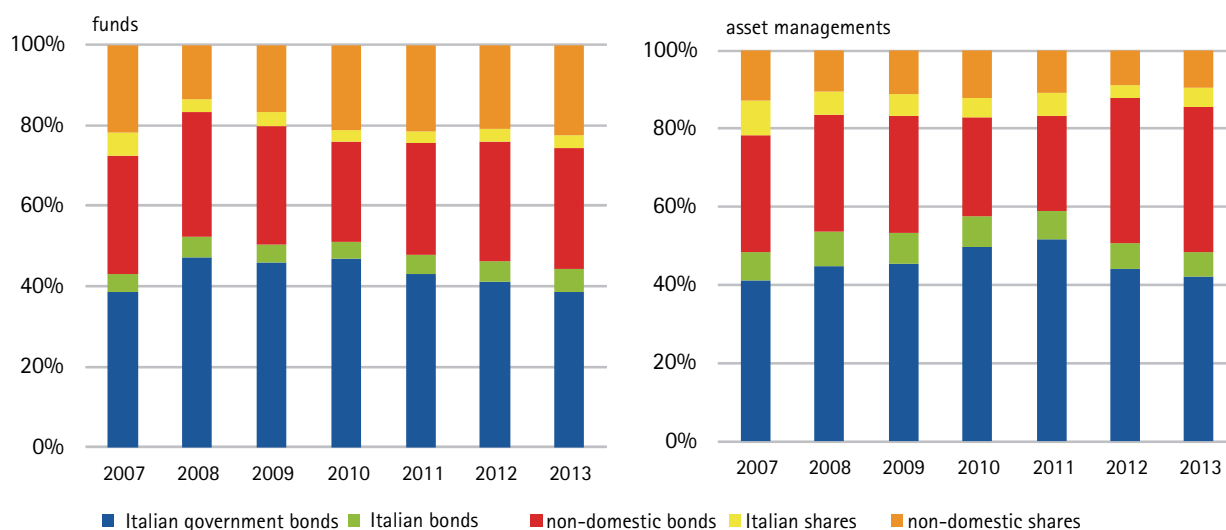


Source: Assogestioni. The data refer to Italian funds controlled by foreign intermediaries, Italian open-ended funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds); funds of funds are also included. For foreign-domicile funds, the data refer only to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

The inflow of capital regarded flexible funds (+15 billion euro), bond funds (+7 billion) and, to a lesser extent, balanced and equity funds; instead, for hedge and liquidity funds, redemptions were more than deposits.

With reference to the composition of assets of Italian open-ended mutual funds and asset management, in 2013 the proportion invested in government bonds fell slightly compared with the previous year, coming down to the levels observed in 2007 (40 and 42 per cent of the total respectively). The proportion referable to Italian and foreign equities rose slightly, while investments in foreign bonds were substantially stable (at approximately 37 per cent) (Fig. 90).

**Fig. 90 Asset breakdown of Italian open-end mutual funds and of individual investment management schemes**

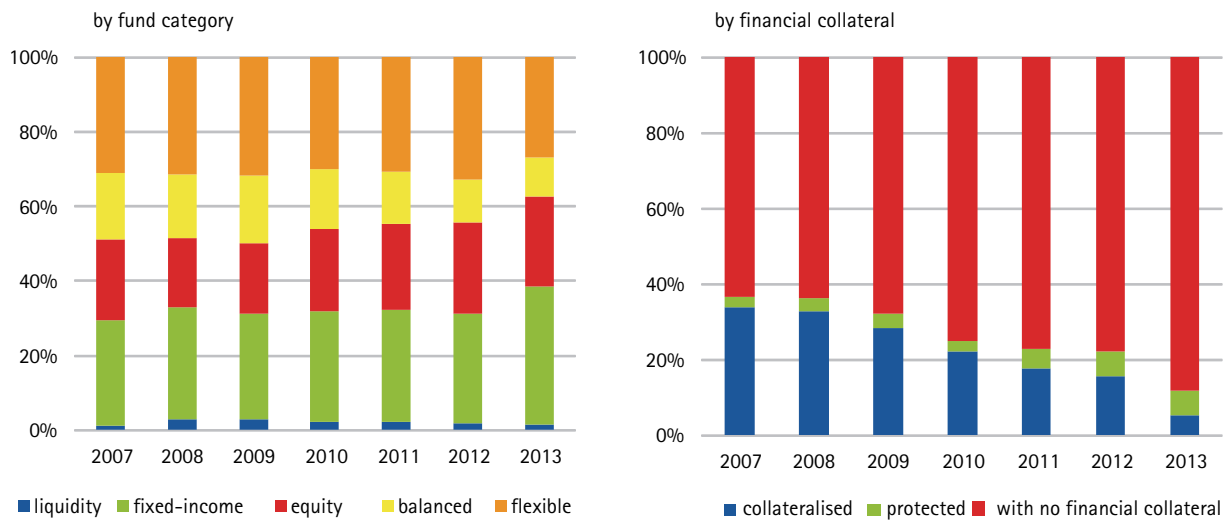


Source: processing of Bank of Italy data. The portion of individual portfolios invested in UCITS was allocated to other financial assets according to the composition of the Italian mutual fund portfolio for the reference year. The figure for foreign bonds includes foreign public securities, and the figures for equities include those in UCITS.

The managed assets of funds connected to unit-linked policies recorded a net increase in bond funds and a significant reduction in flexible funds (Fig. 91).

Bond funds accounted for 37 per cent of managed assets of mutual funds connected to unit-linked policies (29 per cent in 2012). Large proportions are, also, referable to equity and flexible funds (the assets of which represent, respectively, 24 and 27 per cent of the total). In 2013, finally, a sharp drop in guaranteed funds was observed, as they went down from the 16 per cent recorded in 2012 to 5 per cent of total assets managed.

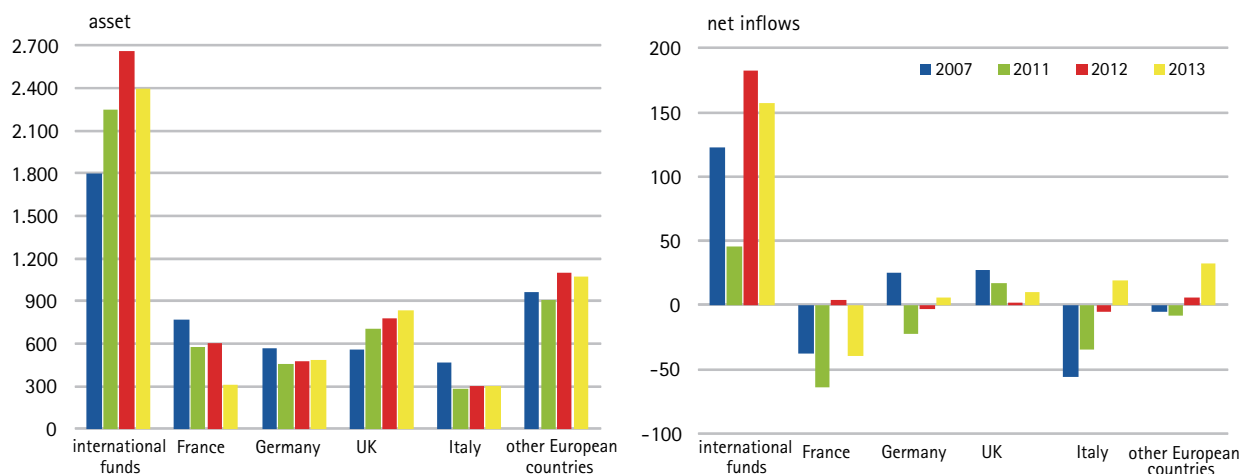
**Fig. 91 Asset breakdown of mutual funds connected to unit linked policies**



Source: processing of Ania data.

In the international comparison, Italy continues to be characterised by a low level of assets invested in mutual funds, although there was substantial stability compared with the previous two years. Net deposits were positive in most European economies although compared with significant reductions recorded by international and French funds (Fig. 92).

**Fig. 92 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 largest proportion of the assets is held. This classification criteria may differ from the fund's country of domicile, as occurs with "roundtrip" funds, or from that of the intermediary's country of residence. "International funds" are those domiciled in Ireland and Luxembourg, for which an individual country with at least 80% of total assets cannot be identified ("pure cross-border" funds). The "other European countries" are Switzerland, Spain, Belgium, Sweden, Austria, the Netherlands, Denmark, Finland, Norway, Portugal and Greece. Funds of funds are excluded.

Assets referable to 'pure' international funds (that is those domiciled in Ireland and Luxembourg, for which an individual country with at least 80% of total assets cannot be identified) and French funds fell (by 10 and 48 per cent, respectively), while those related to funds domiciled in the United Kingdom increased slightly (by approximately 7 per cent). In Germany and in the other European countries, instead, substantial stability was recorded.

With reference to deposits, while in the United Kingdom, Germany and the other European countries the inflow of capital amounted to 9, 6 and 32 billion respectively, in France an outflow of 40 billion euro was recorded. 'Pure' international funds also recorded a reduction in deposits from 180 billion euro to just less than 160 billion (approximately -14 per cent compared with 2012).

# VI EU regulatory framework

## 1 Market rules

### *Revision of the MiFID*

In January 2014, the Council of the European Union reached an outline political agreement with the European Parliament on Directive MiFID2 and Regulation MiFIR, which revise Directive 2004/39/EC, following on from the discussion of the proposal initially presented by the European Commission in October 2011.

The revision of the MiFID proposes to extend the scope of application of the current rules and to bring about maximum harmonisation of the regulations among the Member States of the European Union. In line with this latter objective, numerous rules currently contained in the MiFID (in particular the one relating to transparency) were transposed into the Regulation, which is directly applicable in the national legislations.

Market regulation was revised significantly.

On the subject of transparency, a significant strengthening of existing safeguards was provided for, in line with the orientation expressed several times by Consob.

In particular the rules on exceptions to pre-trading transparency for equities were made stricter and a new transparency regime was introduced for equity-like and non-equity financial instruments. In addition, integrated information-gathering systems (consolidated tape providers) were created, responding to a series of requirements indicated in detail. Instead, no single data consolidation mechanism was defined, even though the difficulty of the financial industry in achieving this solution autonomously has emerged from experience in application.

Particular attention was paid to the development of highly automated trading systems and to rules on the microstructural aspects associated with them, to which Consob has for some time assigned central significance.

In continuity with what was already provided for in the ESMA guidelines on automated trading, the MiFID revision introduces the definitions of algorithmic trading and high-frequency trading techniques,

functional to the organisation of an authorisation regime and to supervision. The rules of some microstructural elements closely connected with the recent evolution of the markets (namely co-location and direct electronic access, the mechanisms for managing volatility or imposing minimum tick sizes) will, in addition, enable regulatory arbitrage spaces to be limited.

The draft directive identifies the information on orders and on transactions which must be conserved by supervised entities (trading venues and investment firms) for subsequent transmission to the competent authorities, on request or continuously.

In the structural area, a trading obligation is introduced for equities together with a new type of trading venue, entitled "organised trading facility" (OTF), which will be subject to the same rules envisaged for regulated markets. The introduction of a new type of trading platform has the aim of reducing the 'grey areas', that is those not subject to regulation, which emerged after the MiFID came into force and the exploitation of which, by market operators, leads to worries about the actual establishment of a level playing field. This platform, destined for trading in non-equity instruments, is characterised by the adoption of a discretionary approach in executing transactions.

In order to facilitate the access of small and medium-sized enterprises (SMEs) to the capital market, the MiFID revision introduces so-called 'SME growth markets'. These are trading platforms included in the scope of multilateral trading facilities (MTFs), where financial instruments issued mainly by SMEs, with average capitalisation of no more than 200 million euro, can be exchanged.

Consob has always agreed with the European Commission's proposal related to the creation of a market devoted to SMEs, characterised by a more flexible structure with respect to other trading venues, which would take account of the specific features of small and medium-sized issuers and of the need, recognised in the text of the directive, to reduce the administrative expenses chargeable to the same. MTFs that intend to operate as SME growth markets must be authorised by the relevant competent authority.

During 2013, ESMA started preliminary work on preparing the level 2 measures implementing the new Directive, such as technical advice to the European Commission and preparation of regulatory technical standards (RTSs).

### *Revision of the Market Abuse Directive*

During 2013, the activity of revising the Directive on market abuse continued. This work is divided into a new Directive (MAD2) and a Regulation (MAR). On the MAD2, a political agreement was reached at the successful end of the Triologue of 10 December 2013. The text was taken, for formal

adoption, to the plenary sitting of the European Parliament, and was approved in first reading on 4 February 2014.

Among the main changes it is worth noting that MAD2 extends the scope of application of the rules to the new trading venues and to the commodities market, and introduces references to high-frequency trading and to benchmark manipulation, *ad hoc* rules for market sounding (intermediaries tasked with gauging the willingness of clients regarding possible offers of the issuer or of other shareholders on the primary or secondary market) and a system to encourage the reporting of potentially abusive operations to the supervisory authorities.

The new MAR also provides for a system of administrative sanctions aimed at overcoming the current national differences. At the same time, however, the Member States were given the freedom to opt out of the precise and detailed administrative sanctions system outlined in the Regulation by providing for criminal sanctions.

#### *Implementation of the EMIR and proposal of regulation on central securities depositories*

In 2013, many of the technical standards provided for in Regulation 648/2012/EU on over-the-counter (OTC) derivatives (EMIR) were published.

In order to contain systemic risk, the EMIR introduces the obligation to offset and guarantee (clearing) for all OTC derivative contracts that present certain characteristics in terms of standardisation, volume, liquidity and availability of reliable prices, through recourse to a European or foreign central counterparty, specifically authorised or recognised. Authorisation to carry on the clearing business is subordinated to observance of a series of prudential, organisational and governance requirements. Financial and non-financial companies are subject to the clearing obligation. For these latter alone, the obligation applies only if the activity carried out for speculative purposes (with the exclusion, therefore, of operations related to hedging of commercial risks or to treasury activity) exceeds one of the 'clearing thresholds'. Transactions classified as intragroup are exempt. For OTC contracts not subject to clearing, alternative risk mitigation measures are laid down.

The Regulation states that all derivative contracts concluded, both traded on the market and out of the market, must be communicated to the trade repositories, which are obliged to register with ESMA and are supervised by the latter. The trade repositories must publish the aggregate positions for each class of derivatives.

With publication of the technical standards, a number of provisions of the Regulation have become applicable.



In the first place, an obligation has been introduced to apply to derivative contracts not subject to clearing certain risk mitigation techniques on a bilateral basis (daily measurement of contracts and operational techniques), differently modulated according to the nature of the counterparty. In addition, non-financial counterparties are now obliged to check whether the speculative activity carried out leads to one of the clearing thresholds being exceeded, a circumstance which itself leads to them acquiring the status of qualified non-financial counterparty and consequently being considered equal to financial counterparties.

When the standards came into force, the process of registration with ESMA of entities interested in providing trade repository services also began. In November 2013, six trade repositories were registered. The reporting obligation applies starting from 12 February 2014 to all categories of contracts.

From the entry into force of the standards concerning central counterparties the Regulation defines a term of six months within which counterparties already operating, before the new rules came into force, are obliged to present a subsequent application for authorisation. All the central counterparties involved presented an application by 15 September 2013; authorisation is expected to be issued in the first half of 2014.

The technical standards that will enable application of the obligations of clearing and collateralisation on a bilateral basis, applicable to financial counterparties and to qualified non-financial counterparties are being prepared.

The framework of Community initiatives on the subject of market infrastructure will be completed by adoption of the Regulation on central securities depositories – CSDs. The proposal was presented by the European Commission on 7 March 2012 and the related negotiations were carried on for the whole of 2013. In December, a preliminary political agreement was reached. Adoption of the Regulation, provided for by the end of the period of office of the European Parliament legislature, will entail the introduction of an obligation to register in electronic form for the most important categories of securities destined for trading, a harmonisation of the settlement interval (which will be set at a maximum of two days after the trading day), the application of penalties chargeable to participants in fails (that is those who have not delivered the securities at the agreed settlement date) and them being made subject to buy-in measures. CSDs will be subject to uniform requirements as regards authorisation, supervision, organisation, risk management. Specific rules will apply to links between CSDs and to the right of access between issuers and CSDs, between CSDs, and between CSDs and other market infrastructure. It will also be possible for CSDs to obtain authorisation to provide ancillary banking services directly or through a bank belonging to their group.

### *The new European Regulation on rating agencies*

During 2013, Regulation 462/2013/EU came into force, modifying Regulation 1060/2009/EC on the subject of rating agencies.

In order to reduce excessive reliance on ratings, financial institutions are required to not take account exclusively or automatically of external ratings for assessing creditworthiness but to develop internal analysis systems. In this regard, the sectoral supervisory authorities were given the task of monitoring the adequacy of the assessment processes adopted and the use of contractual references to ratings on the part of financial institutions.

In addition, the new Regulation provided for gradual elimination, to be completed by 1 January 2020, of references to ratings contained in the various legislative acts of the European Union (on condition that adequate alternatives for assessing credit risk are identified), and the elimination of references to ratings contained in the guidelines, recommendations and draft technical rules issued by the three European Supervisory Authorities (EBA, EIOPA and ESMA), if said references risk producing exclusive or mechanical reliance on rating judgements.

Directive 14/2013/EU, which modified the Directives on the subject of company or professional pension bodies, Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Fund Managers (AIFMs), also introduced rules aimed at reducing excessive reliance on ratings.

As regards ratings on sovereign debt, the Regulation introduces measures aimed at improving their transparency and quality, also in order to minimise effects on the markets, in terms of greater volatility, connected to the release of such judgements.

The new Regulation introduces an obligation for rating agencies to prepare an annual calendar of the dates on which judgements or outlooks must be issued. Also provided for are: an obligation to publish such ratings or outlooks with markets closed and on Fridays; a limitation to three judgements a year in the case of unsolicited ratings; a ban on announcements of collective rating revisions not accompanied by individual reports; a ban on including, in rating judgements, recommendations or economic policy prescriptions directed at Member States. The Regulation also states that public communications relating to potential rating changes, if included in documents other than rating or outlook reports, may not be based on private information received from the entity being rated, unless consent is obtained from the same, and every rating or outlook must be accompanied by a detailed report explaining the assumptions, parameters, uncertainty factors and the other elements taken into consideration in the assessment.

It is envisaged, finally, that the European Commission will present to the European Parliament and the Council, by the end of 2014, a report on the advisability of developing a European assessment of creditworthiness for sovereign debt and, taking account of the conclusions of said report, will present to the European Parliament and the Council, by the end of 2016, a report on the opportunity and feasibility of establishing a European rating agency, responsible for assessing the creditworthiness of the sovereign debt of Member States and/or a European credit rating foundation for all other ratings.

The new Regulation provides for a number of measures aimed at making transparent the conflicts of interest connected to the shareholding structure of rating agencies.

In particular, a ban is introduced on holding a stake of more than 5 per cent in the capital of more than one rating agency (or of companies that control such agencies), if they are not part of the same group, and a disclosure obligation for stakes equal to or larger than this threshold. In addition, a ban is introduced on issuing ratings if the entity being rated, or a significant shareholder or director of it, holds a stake of at least 10 per cent in the rating agency or in a company that controls it.

A civil liability regime is also envisaged for rating agencies, on the basis of which compensation for damages may be requested, if in preparing or releasing a judgement the agency has committed, owing to wilful misconduct or gross negligence, a breach of the European Regulation and said breach has had an impact on the rating issued.

The action for compensation for damages may be initiated either by investors, if they can prove that they put reasonable reliance on the rating judgement for their investment or disinvestment decision, or by issuers, when they can prove that they were rated (or that securities issued by them were rated) and that the breach committed by the agency was not caused by their own negligence in communicating inaccurate or misleading information.

As regards structured financial products, specific disclosure obligations were introduced and an obligation was provided for, in the case of a solicited rating, to give the appointment to at least two agencies that would issue judgements on creditworthiness independently from each other.

With regard to disclosure obligations, publication was envisaged, on a website created by ESMA, of information on the credit quality and performance of the assets underlying the structured financial instrument, on the structure of the securitisation transaction, on the cash flows and on the real guarantees backing the exposures inherent in the securitisation, as well as information on the cash flows necessary for the performance of stress tests and on the value of the real guarantees backing the underlying exposures.

The text of the new Regulation also provides for the establishment, by ESMA, of a European rating platform which will include all the ratings and outlooks produced by registered rating agencies (with the exception of those produced and communicated exclusively to some investors in exchange for a commission) for the purpose of enabling the public to compare easily all the judgements issued in relation to a certain entity.

With reference to the methodologies used, an obligation is envisaged for rating agencies to inform ESMA in advance of the adoption of new methods or of changes in the same, and to carry out public consultation on the new methods or changes introduced. An obligation is also established to communicate any errors in the methods used to ESMA and to the entities involved and, if the errors committed have had an impact on the ratings, to the public.

Finally, a number of measures were introduced in order to encourage more competition in the ratings market.

In particular, if the issuers or third parties related to it intend to request a rating from two or more agencies, at least one of the agencies selected must be the holder of a total market share of no more than 10 per cent and be judged by the issuer or by the third party capable of issuing a rating related to the issue or to the entity itself. If this does not happen the issuer will have to provide adequate documentation on the related reasons, according to the comply or explain model. Further measures in favour of competition are the disclosure obligations related to structured financial instruments for greater transparency and control of judgements and the obligation to rotate agencies in the case of ratings on financial instruments involved in re-securitisation.

## 2 Issuers rules

### *The implementation of the Prospectus Directive*

During 2013, the third Regulation implementing the Prospectus Directive (Regulation 759/2013/EU) was published. It concerns the disclosure obligations on convertible and exchangeable debt securities, and its main purpose is to guarantee the effective harmonisation of disclosure rules in this area.

The Regulation also states that the prospectus must contain information on the essential features of shares that can be purchased or subscribed with conversion or exchange of bonds. If the bonds are convertible or exchangeable into shares of the same issuer or of an entity that belongs to the same group (and the underlying shares are not traded in a regulated market), it is established that the registration document model will be applied in relation to the shares, and the securities note on the financial instruments

shall include the statement on working capital and the statement on the issuer's own resources and debt; finally, the simplified prospectus schemes must be applied to rights issues of shares and, in the case of small and medium-sized enterprises and companies with low capitalisation (SMEs), also to offers and listings of convertible or exchangeable bonds.

In December 2013, ESMA submitted to the European Commission and published, executing the power conferred by Art. 16, Sect. 3, of the Prospectus Directive, the draft regulatory technical standards, aimed at identifying cases that require the publication of a supplement to the prospectus, owing to a significant new factor, material mistake or inaccuracy relating to information contained in the prospectus.

In particular, in the case of prospectuses on shares or other tradeable securities equivalent to shares pursuant to Art. 4(2)(1) of Regulation 809/2004/EC or other equity securities pursuant to Art. 17(2) of this Regulation, an obligation is provided for to publish a supplement after the following events: publication of new annual audited financial statements; publication of a new profit forecast or estimate with respect to that already contained in the prospectus; a change in control of the issuer; launch by another entity of a takeover bid, as defined in Art. 2(1) of Directive 2004/25/EC, and publication of the results of acceptances of the bid in relation to the issuer's shares; working capital statement included in the prospectus no longer valid; and assumption by the issuer of a new significant financial commitment.

In addition, for all prospectuses, publication of a supplement is provided for if admission to trading is requested in a regulated market situated in an additional EU Member State not foreseen in the prospectus and there is an increase in the total amount of an offer programme.

### *Revision of the Transparency Directive*

On 27 November 2013, the Directive modifying the Transparency Directive (Directive 2013/50/EU) came into force, with the dual objective of facilitating better harmonisation of the transparency obligations on major shareholdings and of extending its scope of application to "*all instruments with an economic effect similar to holding shares and the right to buy them*".

As regards the first aspect, the Italian rules provide for communication obligations for those who invest in an issuer of listed shares with a stake of more than 2 per cent. This is the lowest threshold in Europe, introduced by the Italian Parliament with a view to gold plating, taking advantage of the room for freedom left by the Transparency Directive, which sets as a minimum threshold 5 per cent but allows Member States to provide for lower thresholds. With reference to the second aspect, the extension of the scope of application is combined with the communication obligations

related to derivatives with physical delivery already provided for in the Transparency Directive. Consob has recently applied these duties also to derivatives that provide for settlement in cash, to take into account the significance that these instruments have had in recent corporate events, allowing parties that have assumed long positions to acquire, in a non-transparent way, large equity investments in listed companies and to come into possession of the underlying shares. We can agree fully, therefore, with the community Legislators' choice.

By 27 November 2014, ESMA must present to the European Commission the draft regulatory technical standards, aimed at better specifying certain detailed aspects relating to transparency obligations on major shareholdings and to the related exemptions.

In particular, ESMA must identify: the method for calculating the 5 per cent threshold with regard to the exemptions related to transactions performed by market makers or to the trading portfolios of banks or investment firms; the method for calculating voting rights in the case of financial instruments with an economic effect similar to holding shares and the right to buy them, which are linked to a basket of shares or an index; the methods for determining the delta coefficient for the purpose of calculating voting rights linked to financial instruments that envisage exclusively settlement in cash; the scope of applicability of the exemptions provided for in the case of financial instruments held to execute orders received from clients, in response to requests from the client to trade on a non-proprietary basis, or to hedge positions deriving from such transactions. In addition, ESMA is tasked with preparing and periodically updating the indicative list of financial instruments subject to notification obligations.

In order to define the regulatory technical standards, the national supervisory authorities were involved in a complex activity of analysis and discussion, after which a number of proposals were identified and published in a specific Consultation Paper.

#### *Revision of the Directive on statutory audits*

During 2014, the process of amending Directive 2006/43/EC on statutory audits will be completed. This process was launched by the European Commission in 2011, with approval by the European Parliament of a new Directive, containing the general rules on auditing, and a Regulation, directly applicable in the Member States, containing numerous special provisions on auditing Public-Interest Entities (PIEs, that is issuers of securities admitted to trading on regulated markets or which have requested admission, banks, insurance companies, and other entities defined as such by each Member State).

The new rules are aimed at: facilitating the freedom to provide auditing services in the single European market; strengthening the rules on independence of external auditors and the maintenance of internal control systems designed to guarantee the quality of audits; harmonising the technical rules for performing audits; improving communication with the public through a new auditor reporting model; and strengthening the disciplinary system.

With regard to auditing the financial statements of PIEs, the Regulation introduces special rules to protect the independence of auditors with reference to different profiles (including the provision of services other than auditing, the conferment of the auditing appointment and the maximum duration of the same with obligatory rotation). It aims, in addition, to facilitate communications among auditors, audit committees and supervisory authorities; it inserts special rules on the subject of auditor reporting and provision for an additional report to the audit committee; it is intended to strengthen the role and tasks of the audit committee, and the powers of the supervisory authorities on auditors, in particular in the performance of quality controls.

As part of the new regulation, the rules on the independence of the auditors of PIEs regard conflicts of interest, prices, and the conferment and obligatory rotation of the appointment.

Particular attention was devoted to regulating possible conflicts of interest deriving from the provision of services other than auditing to PIEs subject to auditing (and of their parent companies and subsidiaries). The rules forbid the provision of certain services, contained in a list which can be added by the Member States, and assigns to the audit committee of the entity itself the responsibility for approving the provision of services other than those forbidden.

To protect independence it was also established that the prices for providing permitted services to PIEs, and their parent companies and subsidiaries, may not exceed 70 per cent of the average prices for audit services paid, by the same companies, in the last three consecutive years.

A further change regards conferment of the auditing appointment relating to PIEs which must occur after a tender, to be held under the supervision of the audit committee, which in turn must formulate a recommendation to the Board of Directors for appointment of the auditor.

On the subject of independence, a rule was introduced on obligatory rotation of the audit firm or of the single auditor following expiry of the maximum duration of the mandate. The auditing appointment may not have a duration of more than 10 years (with the possibility for Member States to establish a shorter duration) and may not be conferred again on the same auditor until a period of 4 years has passed. As an exception to this ban, Member States may establish that, at the end of the maximum period, the

appointment may be conferred again for another 10 years when a new tender has been put out to confer it, or for 14 more years, when there has been a joint audit or such an audit is still in progress (again following a recommendation from the audit committee and approval by the shareholders' meeting).

In order to facilitate cooperation among the various Member States, the Regulation provides for the creation of a new European organisation for cooperation, the Committee of European Auditing Oversight Bodies (CEAOB), of which all the authorities responsible for supervising auditors will be members. The chairperson of CEAOB will be elected from among its members, while the deputy chairperson will be appointed by the European Commission. ESMA will also be an effective member of CEAOB, but without the right to vote.

Besides being a place for discussion for the individual authorities, CEAOB will be able to formulate opinions for implementing European legislation, contribute to the assessment of auditor supervision systems of third countries and to international cooperation, to the process of adopting international auditing standards and to cooperation for supervision on auditing networks. As regards this last aspect, the possibility is envisaged for authorities to set up colleges, in order to make supervision of networks more effective.

#### *Proposal of directive on gender equality*

On 20 November 2013, the European Parliament in its plenary session approved, in first reading with amendments, the text of the proposed directive of the European Parliament and the Council on improving the gender balance among non-executive directors of companies listed on stock exchanges. The objective of this proposal is *"to promote gender equality in decision-making processes and to fully exploit the existing talent pool of candidates for more equal gender representation on company boards, thereby contributing to the Europe 2020 objectives"*.

The proposed directive does not establish an immediate obligatory minimum share to be reserved for the less-represented gender (unlike the rule laid down in the Consolidated Law on Finance on the subject of gender balance in the composition of Boards of Directors and statutory auditors of listed companies), but states that the objective of rebalancing genders, which listed companies must achieve by 1 January 2020, shall be pursued by means of procedures for comparative scrutiny of candidates which should lead in a natural and physiological manner to said rebalancing.

According to the European Commission's proposal, Member States may *"provide that the objective [...] should be considered to be met where listed companies can show that members of the under-represented sex hold at*



*least one third of all director positions, irrespective of whether they are executive or non-executive".*

In the light of the Italian legislation on the subject of gender balance, which reserves one third of directors elected to the less-represented gender, Italy could therefore take advantage of the exemption option provided for in the directive. However, while the Italian legislation is applied for the first three renewals of the boards of directors and statutory auditors starting from 12 August 2012, the proposed directive, if transposed, could produce effects up to 2028 and even beyond, in the light of the possible extension contemplated in the said proposal.

#### *Definition of acting in concert*

During 2013, ESMA's Takeover Bids Network published a public statement providing information on the notion of acting in concert under the terms of the takeover bid rules. These rules seem substantially in line with the guidelines already developed by Consob on the subject.

The public statement provides indications for institutional investors on the subject of cooperative conduct that the same may carry out in order to encourage good governance practice in listed companies without having to incur the obligation to launch a takeover bid. In particular, it contains a white list, that is a list of situations and/or activities which in themselves will not be considered as acting in concert by the competent Supervisory Authorities. On the subject, Consob had already intervened, on the occasion of the transposition of Directive 2004/25/EC on takeover and exchange bids, in order to prevent interpretative uncertainty from impeding the active participation of minorities in the governance of companies (Art. 44-*quater* of the Regulation for Issuers). In that circumstance, cases were identified in which, unless proven otherwise, it is presumed that certain subjects act in concert and cases of cooperation among shareholders in which this presumption cannot be made.

### **3 Rules on intermediaries and investment products**

#### *Revision of the MiFID*

In the context of rules for intermediaries, the amendments to the MiFID strengthen the safeguards protecting investors through reducing the scope of application of "execution only" and introducing independent advice. In addition, product governance measures were introduced, reserving specific attention to the role and duties of product manufacturers in assessing the compatibility of products intended to be structured with the needs of potential clients for whom they are destined; finally, specific product intervention powers were attributed to the competent authorities.

The innovations on the subject of advice, in addition, confirm the classification, within the scope of the advising service, of the 'independent advice' category, thus introducing a plurality of operating and business models from which operators can choose. The advising activity, in the proposed 'independent' configuration, can encourage, also owing to the prohibition of inducements and to the need to assess a wide set of products, a better alignment to customers' needs and an effective shift from a 'product' logic to a 'service' logic, capable of enabling investors' interests to be catered for.

In particular, the range of financial instruments available on the market, which must be assessed by the intermediary, should be 'sufficiently diversified' in terms of both type and issuers or product providers. In addition, MiFID2 specifies that the subject of the investment recommendations must not be limited to financial instruments issued by the intermediary itself or by entities that have relationships with the service provider such as to compromise the independence of the advice given. The rules, in addition, take the form of a prohibition on accepting and holding commissions, fees and other monetary or non-monetary benefits or paid by other parties than the client, with the exception of minor non-monetary benefits which are able to raise the quality of the service rendered and are such as not to compromise the intermediary's ability to pursue the clients' best interests.

The rules on the subject of product governance aim to ensure pursuance of the clients' best interests, right from the product development stage and in the subsequent activity of defining the product range to be distributed.

To this end, the new directive makes clear the product manufacturer's obligation to implement specific organisational measures that enable assessments to be made, in advance, of the compatibility between the products to be structured and the financial needs of the potential target market.

The same importance is placed on intermediaries that deal with distribution and have a direct relationship with clients. Investment firms, in fact, are obliged to understand the financial instruments they offer or recommend, as they have to assess their compatibility with the needs of the clients to whom they offer investment services and make sure that these are offered or recommended only when this is in the client's interest. In this context, it is expressly specified that distributor intermediaries that offer financial instruments (and structured deposits) engineered by third parties have a duty to adopt instruments that make it possible to acquire from product manufacturers the information necessary to understand fully their characteristics.

The text agreed at the Trialogue expresses, in addition, the need for direct involvement of the intermediary's board of directors in defining the

related commercial business strategies, in order to guarantee that they are consistent with the needs and characteristics of the investors served.

The MiFIR attributes to the competent national authority and, temporarily, to ESMA or to EBA the power to adopt specific product intervention measures, oriented towards prohibiting the distribution of financial products or commercial activities considered prejudicial to investor protection, the orderly operation and integrity of the markets or for the stability of the entire financial system or of a part of it. The product intervention powers can be activated by the national authorities with regard to financial instruments and structured deposits, by ESMA with reference to the category of financial instruments and by EBA with exclusive regard to the category of structured deposits.

More particularly, the national and European authorities can, in the field of their respective competences, prohibit or limit both the marketing, distribution or sale of certain financial instruments/structured deposits or of financial instruments/structured deposits with certain characteristics, either a type of financial activity or practice.

The agreed text also identifies certain criteria (triggers) from which it is possible to deduce the existence of risks for clients, for the operation and integrity of the markets and for the stability of the financial system, leaving to Level 2 the effective identification of the aforementioned criteria in the context of the general guidelines provided for in Level 1. According to the provisions of the MiFIR, the Commission's delegated actions should take into consideration at least the following significant factors and criteria: the degree of complexity of the instrument/structured deposit, also in relation to the type of clients to which the product is offered; the amount of issues concerning financial instruments/structured deposits; the degree of 'innovation' of an instrument/structured deposit, of a commercial activity or practice; and any 'leverage' operations.

The provisions of the MiFIR also enable the competent national and European authorities to impose prohibitions or restrictions 'on a precautionary basis', before the financial instrument/structured deposit has been marketed or distributed to clients. Non-exercise, as a precaution, of the product intervention power cannot be understood as even implicit prior approval by the authorities of products issued on the market or the activities performed.

Exercising, including in advance, the product intervention power presupposes supervision of the phenomena that can be prohibited or limited. Therefore the supervisory authorities, each in the field of its respective competences, are required to monitor the market in financial instruments and structured deposits.

### *The Directive on alternative investment funds*

In July 2013, Directive 2011/61/EU (Alternative Investment Funds Market Directive – AIFMD) and Regulations 345 and 346 of 2013 came into force. These detail, respectively, the rules on European Venture Capital funds (EuVeCa) and on European Social Entrepreneurship Funds (EuSEF), applicable below the preset thresholds of assets managed. These are funds that do not fall within the scope of application of the AIFMD, for which the intention is to introduce a subsidised regime in order to encourage cross-border investments in newly established European SMEs, or engaged in activities with a social purpose.

The AIFMD establishes rules on the subject of authorisation, operation and transparency of 'alternative' investment fund managers, that is those which manage and/or market collective investment undertakings other than those that come within the scope of application of the UCITS Directive (hedge funds, non-harmonised closed-end and open-end funds) and of which the assets managed exceed certain significance thresholds.

The new rules could encourage a larger collection of assets managed to be channelled towards investments connotated by more accentuated liquidity and risk profiles compared with traditional UCITS funds. In fact, EuVeCa and EuSEF funds and, in general, alternative investment funds may operate in any type of financial instrument and are not anchored to observance of the eligibility and concentration limits set by the UCITS rules. In addition, the reduction of barriers to entry into the national market, in virtue of the free circulation of alternative fund managers enabled by the European passport, may entail an increase in products offered on the domestic market and therefore more competition among portfolio management operators.

With Delegated Regulation 231/2013/EU, which supplements the AIFMD, the supervisory activity on alternative fund managers and on the related products can also make use of the detailed information that individual managers must communicate to the respective supervisory authorities.

Finally, the European Commission has proposed specific rules relating to Long-Term Investment Funds (ELTIFs) and to money-market investment funds.

Although we can agree with the general objectives, given the need to support alternative channels to banking for financing the real economy, the technical and legal solutions adopted entail greater specialisation of the rules on the sector, which is likely to lead to a non-uniform and fragmented regulatory framework, with impacts in terms of operational complexity for both supervised entities and supervisory authorities.

### *Proposal of regulation on investment products*

In 2013, work continued on the proposed European Commission regulation on key information (KIIDs) for offers to the public of 'pre-assembled' products destined for retail investors (PRIIPs), published by the European Commission on 3 July 2012.

The proposal provides for uniform rules on the subject of transparency and disclosure obligations in relation to retail investors. In particular, it regulates the format and content of the key investor information document (KIID), which should be prepared by the manufacturer of the product and which should be delivered to retail investors by the distributor intermediary or by whoever provides advice in relation to said product.

The solutions outlined during the work go in the direction, as Consob hoped, of a wider scope of application of the Regulation, to guarantee the comparability of products with similar economic content but with differing legal natures, and also in order to limit possible regulatory arbitrages. In particular, the inclusion of instruments issued by vehicle companies, of 'insurance-based investment products' as defined in the context of the MiFID Review, and of certain forms of pension fund is being assessed.

### *Proposal of regulation on benchmarks*

In September 2013, the European Commission presented a proposed regulation on indexes used as benchmarks for financial instruments and financial contracts. The objective of the rules is to ensure the accuracy, solidity and integrity of these benchmarks (typically indices, such as the Euribor and the Libor) and of the related setting process.

The proposal is a regulatory response to cases of alleged manipulation of the reference indices for short-term interest rates (Euribor and Libor), that have occurred in the last few years, which completes the changes introduced in 2012 to the proposed revision of the MAD. Widening the scope of application of the European rules on market abuse to cases of manipulation of benchmarks, while it is a deterrent to such conduct, does not affect the quality and integrity of the process of setting the same. The imposition of a sanctioning regime, in fact, does not eliminate the risks of manipulation deriving from the presence of conflicts of interest or discretion in the benchmark production process. While awaiting the adoption of first-level regulation forms, in June 2013, ESMA and EBA jointly adopted Principles for Benchmark-Setting Processes (see Chapter VIII '*Internal management, external relations and international activity*').

The proposed Regulation would apply to all reference rates used as benchmarks to determine the amount to be paid for a financial instrument or

financial contract (such as mortgage contracts) and to the reference rates that measure the performance of an investment fund.

One of the most significant aspects consists of the attempt to harmonise, as much as possible in the European context, the rules on benchmark production, on providing the data needed for this purpose and on using benchmarks. The Regulation identifies specific requirements and controls relating both to benchmark administrators (that is entities that control the entire production benchmark process) and to contributors (that is entities that provide the data on which the process is based) on the subject of governance, data quality, rules of conduct, transparency and authorisation.

On the subject of transparency, the Regulation provides for certain obligations aimed at enabling the users of such benchmarks to be aware of all the significant characteristics of the benchmark in order to enable them to choose the one most appropriate to their needs.

Administrators are obliged, in fact, to provide a statement on the benchmark provided, specifying the rate measured, the purposes for which the use of this benchmark is appropriate, any margins of discretion in the calculation, the possible weak points of the same, the presence of external factors that may require changes in or cessation of the benchmark and the underlying data used. With reference to banking intermediaries that provide the underlying data, an assessment is required of the suitability of the benchmark for financial contracts with consumers, such as loans backed by mortgages.

Specific rules are also laid down for indices on interbank interest rates, on those of the commodities sector and on 'critical' indices indicated in a list that must be prepared by the European Commission.

A 'critical' benchmark is defined, in the text of the proposed Regulation, as a benchmark, the majority of contributors to which are supervised entities and that reference financial instruments having a notional value of at least 500 billion euro.

## 4 Rules on banking intermediaries

### *The 'CRD IV' package*

During 2013, provisions were also issued which incorporate the new capital and liquidity requirements laid down by the Basel Committee, that is Directive 2013/36/EU and Regulation 575/2013 (the "CRD IV" package), currently being transposed into domestic legislation. Certain CRD IV profiles apply not only to banking intermediaries, but also to investment firms as defined in the MiFID.

These rules, as well as transposing into community legislation the principles set forth by Basel 3, further strengthened the safeguards of the regulations on financial intermediation with respect to those provided for by the Basel Committee. In particular the rules on corporate governance, remuneration policies and sanctions were revised.

On the subject of corporate governance, the obligations in relation to administrators in performing effective supervision of the risks assumed by the entities were strengthened. In particular, indications were formulated on the composition of administrative bodies and their operation, making the individual administrator fully responsible and involved in order to encourage independence of judgement and avoid "group thinking". The new rules establish the fundamental principles and criteria for defining the internal organisational structures of banks, introducing rules for the identification of tasks (and responsibilities) of corporate bodies (especially with reference to the management body) and for the distribution of positions.

On the subject of remuneration policies, the CRD IV, with a more narrowly prudential viewpoint and while not modifying radically the existing principles, introduces a number of significant changes. In particular, it sets a maximum limit on the ratio between the variable and fixed components, strengthens the adjustment mechanisms for *ex post* risks, and establishes limits on variable remuneration when banks do not comply with specific capital requirements. These innovations go in the direction of encouraging the adoption, by intermediaries, of remuneration policies capable of orienting correctly the work of the management and personnel of financial intermediaries and limiting the conflicts of interest that inadequate policies (for example, ones not correlated with the results obtained or responsibilities assumed or unbalanced towards short-term results) can contribute to exacerbating.

### *The European Banking Union*

During 2013, the reform processes aimed at establishing a European Banking Union continued. This union will be founded on the project for single banking supervision, the creation of a European deposit guarantee system and a common mechanism for intervention and resolution of banking crises.

In particular, European Regulation 1024/2013, which came into force on 3 November 2013, established a Single Supervisory Mechanism (SSM) for the euro area, which assigns banking supervision duties to the ECB starting from November 2014. This mechanism will involve a group of about 150 banks, made up of the three largest banks of each State and those that have requested or received public financial assistance from the European rescue funds (the European Financial Stability Facility, EFSF, and the European Stability Mechanism, ESM), as well as those that present certain size requisites and are involved in cross-border operations.

The ECB will assume responsibility for micro-prudential supervision (with all the associated supervisory inspection, information and sanctioning activities) and will be able to intervene quickly in the event of breaches of the legislation, requesting the adoption of corrective measures. The national authorities will continue, instead, to perform the prudential supervisory functions in relation to smaller banks and to operate autonomously in all the other fields of competence. The transfer of prudential supervisory competences from the national authorities to the ECB will be preceded by an assessment of the risk profile and capital adequacy of all the institutions involved (balance sheet assessment – BSA). This activity will consist in verifying the quality of assets (asset quality review – AQR) and a stress test which will be carried out by the EBA at the end of the AQR.

In December 2013, in addition, an agreement was reached in the European Council on the Single Resolution Mechanism (SRM) for banking crises. On 20 March 2014, an agreement was reached on the definitive text which, in April, was to be approved in the last plenary session of the European Parliament.

The mechanism will apply to all banks subject to prudential supervision by the ECB and will come into force on 1 January 2015, while the rescue and resolution functions will be operational starting from 1 January 2016. The competent authority for managing banking crises will be made up of representatives of the national authorities and will act at the invitation of the ECB.

The guarantee fund will be financed with contributions from banks and will initially be made up of national compartments which will gradually be merged into a single fund, during a transition period of eight years. The gradual mutualisation of the resources will entail the transfer of 60 per cent of the capacity of the national funds to the single European fund within the first two years (40 per cent the first year and 20 per cent the second) in order to ensure that it has ample capacity to intervene in a short period of time. The remaining financial resources will, instead, be transferred in equal parts to the single European fund over the next six years. The SRM entails also a backstop mechanism which ensures bridging loans by States or by the ESM State rescue fund in the initial phase of the fund; these resources may be disbursed only after the bail-in involving shareholders, bondholders and large depositors. Loans among the various national compartments of the fund will also be possible.

The European Banking Authority (EBA) will continue to perform regulatory tasks and, therefore, will continue with the activity of preparing the single rule book for all banks in the European Union.



### *Proposal of regulation on the separation of banks' activities*

At the end of January 2014, the European Commission put forward a proposed regulation on structural measures aimed at increasing the resilience of the EU's banks. This proposal was developed on the basis of the results of the Liikanen Report of 2012 and of the consultations conducted in the last two years at the EU level.

The Regulation aims at reinforcing the Union's financial stability by means of a structural reform of the largest banks and is accompanied by a draft regulation concerning the transparency of loan operations involving securities (see paragraph 5 below) in order to encourage the monitoring of risks deriving from interconnection, from excessive financial leverage and from the pro-cyclical conduct of intermediaries.

More specifically, the regulation on the separation of banks' activities would introduce a ban on proprietary trading in financial instruments and commodities and the separation of certain trading activities.

The new rules, in addition, would give the supervisory authorities the power (and in certain circumstances the obligation) to order trading activities considered at high risk (such as activities in support of trades, complex transactions in derivatives and securitisations) to be transferred to distinct legal entities within the group. The proposal also provides for rules on economic, legal, operational and governance relationships between the trading entity and the rest of the banking group.

With reference to the subjective scope of application, the obligations identified by the Regulation would involve banks of systemic significance and those that exceed certain dimensional and operating thresholds.

In particular European banks that, for three consecutive years, show: a) total assets of more than 30 billion euro and b) total assets and liabilities held for trading of more than 70 billion euro or of an amount such as to represent 10 per cent of total assets would be included in the scope of application of the rules. The calculation excludes the assets of any insurance companies and non-financial companies present in the group.

The mandatory separation would be applied with reference to the corporate group, irrespective of the geographical location of the branches, in order to eliminate the possibility of eluding the rules by moving certain activities out of the European Union.

As regards the geographical scope of application, the proposed regulation will apply to banks in the Union and to their parent companies with headquarters in the EU, and to subsidiaries and branches, even if located in other countries. The application is extended, in addition, to banks with headquarters in other countries for only branches and subsidiaries located in the Union.

Although they are not explicitly indicated in the reform programme agreed within the G20, the measures proposed are in line with similar initiatives adopted, or launched, in other jurisdictions. The United States recently introduced the 'Volcker rule', which prohibits banks from conducting trading activities with their own accounts. Also in Europe, some Member States of the Union (Germany, France, the United Kingdom and Belgium) have launched initiatives to reform the banking sector. The proposed regulation of the European Commission, facilitating the harmonisation of rules, may guarantee equal conditions for European banks, reduce legislative complexity and the room for regulatory arbitrages and promote greater financial integration within the Union.

## 5 Proposal of regulation on shadow banking

In 2013, the European Commission published a draft regulation on money market funds, which fall within the perimeter of the shadow banking system.

Money market funds are short-term investment instruments, characterised by high liquidity, ample diversification and low volatility. In Europe, they make investments mainly in short-term public and private securities and are in many cases managed by companies belonging to banking groups or specialised intermediaries.

These funds may provide for redemption of the units at the market value or at a constant value. Although they have similar features to deposits (in terms of liquidity and stability of the value of the units), this second category of products is not subject to prudential regulations as happens, instead, for banks, nor can it have access to the liquidity offered by central banks to credit institutions. It follows that, in the case of market turbulence and falling prices of the financial instruments in which they are invested, such funds could find it impossible to meet the redemption requests which may be sent to them. This circumstance exposes them to the risk of 'redemption runs' similar to those regarding bank deposits in the event of a crisis of a credit institution. In the absence of prudential regulations and adequate measures to limit risk, the crisis of such funds may cause significant contagion phenomena.

As part of the draft regulation put to the European Parliament and the Council, the Commission defined a framework of harmonised rules for all funds, UCITS or AIFs, characterised by the use of short-term financial instruments, with the dual purpose of preventing systemic risks and of increasing the degree of investor protection. The measures contained in the draft regulation regard, among other things, liquidity risk management, the quality of assets in the portfolio, the adoption of internal procedures for assessing the credit quality of issuers of financial instruments and specific

provisions for money market funds that provide for a constant value of the unit.

At the end of January 2014, the European Commission put forward, in addition, a draft regulation on the reporting and transparency of securities financing transactions (such as sale contracts with buy-back agreements, securities lending and rehypothecation) which typically represent activities falling under the scope of the shadow banking system.

These transactions contribute to the smooth operation of the markets, increasing their liquidity and facilitating the financing of the various parties to the financial system, including through central banks, but at the same time they can cause an increase in financial leverage and in the number and intensity of interconnections among operators of different kinds, amplifying systemic risk.

The draft regulation introduces measures aimed at improving transparency, in order to provide supervisory authorities with the information necessary to monitor the build-up of systemic risks associated with such transactions in the financial system, the disclosure of adequate information to investors by funds and the contractual transparency of rehypothecation activities.

In particular, measures were proposed on the subject of reporting securities financing transactions to trade repositories and reporting obligations for both funds and counterparties engaging in rehypothecation. These measures follow the Financial Stability Board (FSB) Recommendations of August 2013 on the same subject.

## 6 ESMA guidelines

ESMA has the task of preparing guidance and recommendations (henceforth also "guidelines") aimed at facilitating the convergence of supervision practices and uniform application of European Union law. Under the terms of Article 16(3) of Regulation 1095/2010/EU, which set up ESMA, the competent national authorities must notify the European Authority, within two months from the publication of guidelines in each language of the Union, of the intention to comply or otherwise with the indications for application, explaining if necessary the reasons for the decision. Consob has declared compliance or the intention to comply with all the guidelines prepared by ESMA during 2013.

In December 2012, ESMA published Guidelines on ETFs and other UCITS issues, which came into force on 18 February 2013.

The guidelines provide indications on the information that must be communicated on index-tracking UCITS and UCITS ETFs, on the specific rules that UCITS must apply when they carry out transactions on OTC derivatives,

and on efficient portfolio management techniques. The Guidelines also define the criteria that must be observed by financial indices in which UCITS invest.

The subject areas of action of the guidelines are supervised by Consob, as regards transparency, and by the Bank of Italy, as regards the profiles related to risk management diversification, investment limits and the content of the regulations for the accounting documents of UCITS themselves.

Implementing ESMA Guidelines, Consob issued Communication 13015352 of 22 February 2013, with which it provided, in addition, for specific transitory rules. On the basis of the communication, the information to be disclosed by means of the KIID, the prospectus and the marketing communications must be adjusted to comply with the provisions of the Guidelines at the first useful update or, at the latest, within 12 months from the date of application of the guidelines.

During 2013, ESMA issued Guidelines on the subject of alternative investment funds. In February, Guidelines on sound remuneration policies under AIFMD (Directive 2011/61/EU) were published. They have been applicable starting from 22 July 2013 to alternative investment fund managers.

The AIFMD requires Member States to instruct alternative fund managers to adopt remuneration policies consistent with sound and prudent management and such as not to encourage risk-taking which is inconsistent with the characteristics of the fund. ESMA has been given the task of defining guidelines on the subject, taking into account: i) the criteria contained in Annex II of the Directive, devoted entirely to sound remuneration policies; ii) the principles pursuant to Recommendation 2009/384 of the European Commission; iii) the principle of proportionality.

The persons covered by the Guidelines are those who perform key duties (senior management, risk takers, staff with control functions), whose activity is capable of material impact on the risk profiles of the AIFMs or of AIFs they manage, without prejudice to observance of the principle of proportionality. The guidelines apply, in some cases, to alternative investment fund managers and, in other cases, only to staff with more significant functions.

In Italy, the Guidelines apply to alternative managers (management companies and UCITS established as companies) authorised in Italy, subject to the joint supervision of Consob and Bank of Italy. More specifically, the rules on the subject of remuneration policies applicable to authorised financial intermediaries are contained in the joint Regulation on organisation and procedures of intermediaries of 29 October 2007, under the terms of Art. 6, Section 2-bis, Lett. a), of the Consolidated Law on Finance.

The joint Consob-Bank of Italy communication on implementing the AIFMD, published on 26 July 2013, specifically made clear that alternative managers authorised in Italy will continue to apply the current national legislation until the new legislative and regulatory transposing provisions come into force.

In July 2013, the model Memorandum of Understanding (MoU) was published. This is to be used for consultation, cooperation and the exchange of information with authorities of third countries on the subject of supervision under the terms of the AIFMD (ESMA Guidelines on the model MoU concerning consultation, cooperation and the exchange of information related to the supervision of AIFMD entities).

In the following month of August, ESMA published Guidelines on key concepts of the AIFMD, for the purpose of ensuring common, uniform and consistent application of the concepts in the definition of alternative investment fund (AIF) provided for in Article 4(1)(a) of the AIFMD.

In particular, application criteria are provided with regard to each of the elements constituting the definition of AIF pursuant to the aforementioned Art. 4, namely: i) the status of collective investment undertaking; ii) raising capital from investors; iii) existence of a number of investors; iv) investment of the pooled capital in accordance with a defined investment policy.

While awaiting the transposition into the national legislation of the AIFMD and the related implementing provisions, in October Consob communicated to ESMA its intention to comply with the related Guidelines. On 26 July 2013, Consob and the Bank of Italy published a joint communication aimed at identifying the legislative *corpus* in force from 22 July 2013, thus clarifying which EU provisions were applicable up to the adoption of the national transposing rules.

In November, ESMA issued further guidelines (Guidelines on reporting obligations under article 3 (3) (d) and 24 (1), (2) and (4) of the AIFMD), with the objective of identifying uniform methods through which alternative fund management companies must fulfil the reporting obligations to national authorities under the terms of the AIFMD.

This information, which is detailed in a specific annex to community Regulation 231/2013, relates to the following areas: i) detailed list of products; ii) portfolio of products; iii) summary data on the turnover of the portfolio; iv) data on the risk profile of the funds.

The guidelines specify the criteria for preparing this information. They also define the various classes of financial instruments in reference to which the individual exposures of each alternative fund must be determined. They provide, finally, indications aimed at better clarifying the transmission times of the information flow prescribed by Art. 110 of the Regulation

implementing the AIFMD, in particular in the event of a change in the status of the manager or of the amount of assets managed by the same.

In April 2013, ESMA published Guidelines on the exemption for market-making activities and primary market operations under Regulation (EU) 236/2012 of the European Parliament and the Council on short selling and certain aspects of Credit Default Swaps.

Regulation 236/2012/EU, which came into force on 1 November 2012, provides for the exemption for market making activities (also as 'support for trading') from the prohibition on 'naked' short selling on shares and government bonds, from the prohibition on assuming short positions on sovereign CDSs, from the obligation to notify and disclose net short positions on shares and from the obligation to notify net short positions on government bonds. The same Regulation also provides for the exemption for primary dealer activities (also as 'principal') from the prohibition on 'naked' short selling on government bonds, from the prohibition on assuming short positions on sovereign CDSs and from the obligation to notify net short positions on government bonds.

The guidelines clarify: i) the requirements for benefiting from the exemptions; ii) the methods for determining the competent authority for exemption, especially in the case of applicants resident in non-EU countries; iii) the process to be followed to make the notification to the competent authority; iv) the transitory measures relating to exemption requests made before application of said guidelines.

In June 2013, ESMA published Guidelines and Recommendations for establishing consistent, efficient and effective assessments of interoperability arrangements.

The EMIR introduces for central counterparties – as well as organisational, business conduct and prudential requirements – a number of provisions relating to interoperability arrangements with corresponding entities established in other Member States. These provisions have the objective of defining further specific requirements regarding, among other things, risk management policies and the reciprocal exchange of guarantees between central counterparties that are parties to the aforesaid arrangements.

The guidelines identify the factors to be taken into consideration, and the criteria to be adopted, in analysing interoperability arrangements, with specific attention to risks for central counterparties deriving from such arrangements.

With reference to remuneration policies and practices under the terms of the MiFID, applicable to entities authorised to provide investment services, ESMA published the related guidelines in June (Guidelines on remuneration policies and practices (MiFID)). The document stresses the

importance of orienting remuneration policies according to criteria capable of ensuring the pursuance of the clients' best interests and also lays down interpretative guidance on the process of preparing remuneration policies and practices, the remuneration structure and the control action on the part of the supervisory authorities.

The ESMA Guidelines focus, in particular, on the following profiles: i) governance and preparation of remuneration policies and practices in the context of the obligations concerning conduct and conflicts of interest under the terms of the MiFID; b) control of the risks associated with remuneration policies and practices; c) supervision by the competent authorities and application of remuneration policies and practices.

With specific reference to profiles regarding the design and governance of remuneration and incentive systems, the ESMA guidelines make explicit the duty of intermediaries to define the remuneration and incentive schemes for staff, including those responsible for selling to clients, according to a 'service perspective', in order to prevent the need to protect clients from being, in practice, overturned by conduct aimed at privileging the economic and financial interests of the authorised entities.

The Guidelines stress, in addition, the duty of intermediaries to define any variable component of remuneration paid, according to methods such as to not adversely affect the interests of clients, by determining bonus mechanisms based also on assessment of the quality of the service rendered and not exclusively on the total amount of turnover generated.

The guidelines also recommend to intermediaries to take into account the risk of conflict between their interest and that of clients in the context of internal control systems, also by involving the corporate compliance function from the start in the process of defining the staff remuneration policies.

The ESMA document, finally, requires the competent authorities to pay specific attention, in performing their supervisory activity, to considering the profiles associated with remuneration of intermediaries' personnel, adopting, if appropriate, the opportune enforcement actions.

The ESMA Guidelines are part of a wider legislative framework which includes, among other things, rules of a prudential nature at the community level (the 'CRD IV package'), issued on the subject of remuneration and incentive systems in the context of the organisational structures and corporate governance of intermediaries (see paragraph 4 above).

In consideration of the consistency of the remuneration system adopted by intermediaries, steps were taken to coordinate the rules issued by the Bank of Italy and Consob, in order to avoid duplications and divergences

which would reduce the effectiveness of these rules and increase the costs of compliance.

On 29 January 2014, Consob and the Bank of Italy, therefore, issued a joint communication, implementing the ESMA guidelines, aimed at defining the methods and timing with which intermediaries must carry out the necessary tasks. The communication also states that, where established by the prudential rules, intermediaries must submit to the shareholders' meeting the changes to the remuneration system necessary to comply with the ESMA guidelines.

In October 2013, guidelines and recommendations were published on supervisory colleges of central counterparties (ESMA Guidelines and Recommendations regarding written agreements between members of CCP colleges).

The Guidelines define the content of the written agreement that a national authority competent for the supervision of a CCP should propose as part of its establishment of a college under Article 18 of the EMIR (CCP colleges), and that the members of the CCP college should agree to ahead of their participation in such colleges.



Consob activity B



## 1 The regulated markets

During 2013, following the positive performance of share prices, the capitalisation of companies listed on the stock exchange grew by 22 per cent compared with the previous year, reaching 446 billion euro, i.e. levels close to those seen at the end of 2009 (Tab. 1). Its ratio to GDP increased by 5 percentage points, from 23.3 to 28.6 per cent at the end of 2013.

**Tab. 1 Indicators of equity markets operated by Borsa Italiana**  
(amounts in billions of euro)

|      | MTA <sup>1</sup> |                              |                       |                         |                           |                          |                                   | AIM Italia/MAC                    |                |                         |
|------|------------------|------------------------------|-----------------------|-------------------------|---------------------------|--------------------------|-----------------------------------|-----------------------------------|----------------|-------------------------|
|      | Capitalisation   | Capitalisation (as % of GDP) | Share trading volumes | No. of listed companies | No. of admitted companies | No. of revoked companies | Dividend/price ratio <sup>2</sup> | Earnings/price ratio <sup>2</sup> | Capitalisation | No. of listed companies |
| 2007 | 734              | 47.8                         | 1,514                 | 298                     | 30                        | 16                       | 3.7                               | 7.8                               | 0.1            | 3                       |
| 2008 | 375              | 23.8                         | 994                   | 290                     | 8                         | 16                       | 8.0                               | 15.6                              | 0.1            | 4                       |
| 2009 | 457              | 30.1                         | 646                   | 280                     | 2                         | 12                       | 5.0                               | 5.3                               | 0.6            | 11                      |
| 2010 | 425              | 27.4                         | 715                   | 272                     | 2                         | 10                       | 3.9                               | 7.7                               | 0.6            | 19                      |
| 2011 | 332              | 21.1                         | 684                   | 263                     | 3                         | 12                       | 5.0                               | 8.8                               | 0.6            | 24                      |
| 2012 | 365              | 23.3                         | 487                   | 255                     | 2                         | 10                       | 4.2                               | 7.2                               | 0.6            | 27                      |
| 2013 | 445              | 28.6                         | 526                   | 249                     | 7                         | 13                       | 3.1                               | 5.0                               | 1.2            | 36                      |

Source: Borsa Italiana, Bloomberg and Thomson Reuters. <sup>1</sup> Data referred to companies for which the MTA is the market of first listing. The data on the MTA included the MIV (Market for Investment Vehicles) from 2010 and the Expandi Market up to 2009. <sup>2</sup> Year-end percentages.

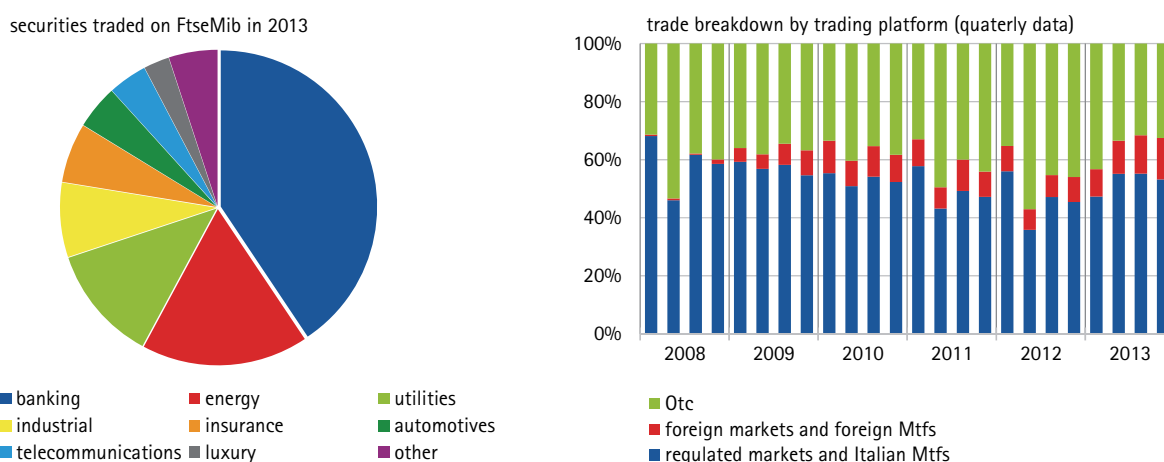
The number of companies listed on the MTA, instead, continued to decline, dropping to 249 in 2013 (255 at the end of 2012). The companies traded on the Alternative Investment Market (AIM) Italia/MAC (the multilateral trading facility managed by Borsa Italiana) increased overall from 27 to 36, while their capitalisation doubled, rising to 1.2 billion euro.

The total volume of trading on shares of companies listed on the MTA returned to 526 billion euro from the ten-year minimum of 487 billion reached in 2012 (approximately +8 per cent).

Around 70 per cent of trades on shares included in the FTSE MIB index are attributable to three sectors (banking, energy and utilities; Fig. 93).

With reference to the phenomenon of fragmentation, during 2013 the proportion of trades in shares of domestic companies made on Italian regulated markets and multilateral trading facilities (MTFs) was on average approximately 52 per cent (an increase of 7 percentage points compared with 2012), while trades made on foreign platforms and over the counter (OTC) represented approximately 12 and 36 per cent respectively (an increase of 4 percentage points for the former and a decrease of 11 for the latter).

**Fig. 93 Trade volume breakdown of Italian listed equities by sector and trading platform**



Source: calculations based on Consob and Borsa Italiana data. The chart on the left shows the breakdown by business segment of issuers of share trading related to securities constituting the FTSE MIB index. The chart on the right shows the distribution of share trades related to domestic issuers by category of trading venue.

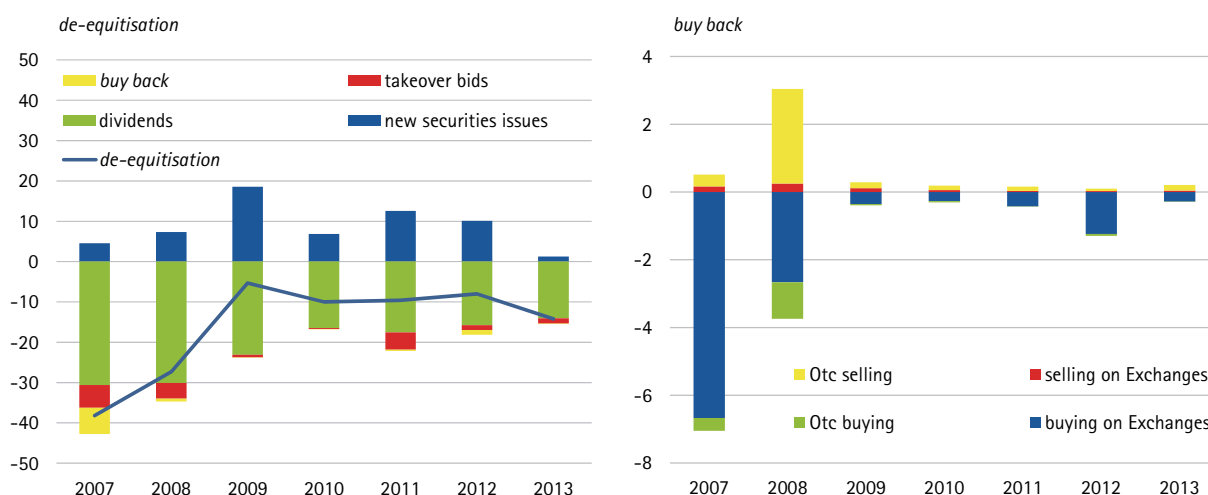
After three largely stable years, in 2013 the negative gap between resources collected on the market and those distributed to shareholders widened, inverting the trend that had emerged in the years 2007-2009. In particular, the collection of risk capital from the market fell by 88 per cent compared with the previous year (from 10.1 to 1.2 billion euro), while the flow of resources returned to shareholders through distribution of dividends, takeover bids and buy backs fell by 14 per cent (Fig. 94).

In detail, while new securities issued amounted to approximately 1.25 billion euro (8.9 billion less than in 2012), dividends of 14.1 billion were distributed (15.8 in 2012).

Purchases on the market and off the market of own securities (buy backs), resulting from communications sent to Consob under the terms of the Issuers' Regulation, amounted to a total of 0.3 billion euro, down by a billion compared with 2012, while sales were approximately 0.2 billion. The total value of takeover bids in 2013, 1.3 billion euro, was in line with the figure for the previous year (1.2 billion; for more details on the trend in bids see Chapter III 'Supervision on corporate disclosure' below).

Overall, from 2007, approximately 61 billion euro was collected from shareholders through capital increases and subscription offers, while in the same period dividends distributed amounted to approximately 148 billion, expenditure on takeover bids amounted to approximately 17 billion and buybacks of own shares amounted to approximately 9 billion.

**Fig. 94 Balance of fund collected 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 the MTA. The de-equitisation indicator is calculated on the difference between new issues and the sum of dividends, takeover bids and buybacks. The figures on buybacks relate to net acquisitions of own shares, disclosed by the issuers to Consob. Dividends are estimated.

At the end of 2013, managed assets represented by exchange-traded products (ETPs) traded on Borsa Italiana's ETFplus market reached a new peak, rising to approximately 26.7 billion euro (approximately +29 per cent compared with the previous year; Tab. 2).

**Tab. 2 Assets managed by ETPs admitted to trading on the ETFplus market**  
(cash amounts in billions of euro)

|      | amount | percentage change compared to previous year |
|------|--------|---|
| 2007 | 10.3   | 36  |
| 2008 | 10.5   | 2   |
| 2009 | 14.6   | 39  |
| 2010 | 19.8   | 36  |
| 2011 | 18.6   | -6  |
| 2012 | 20.7   | 11  |
| 2013 | 26.7   | 29  |

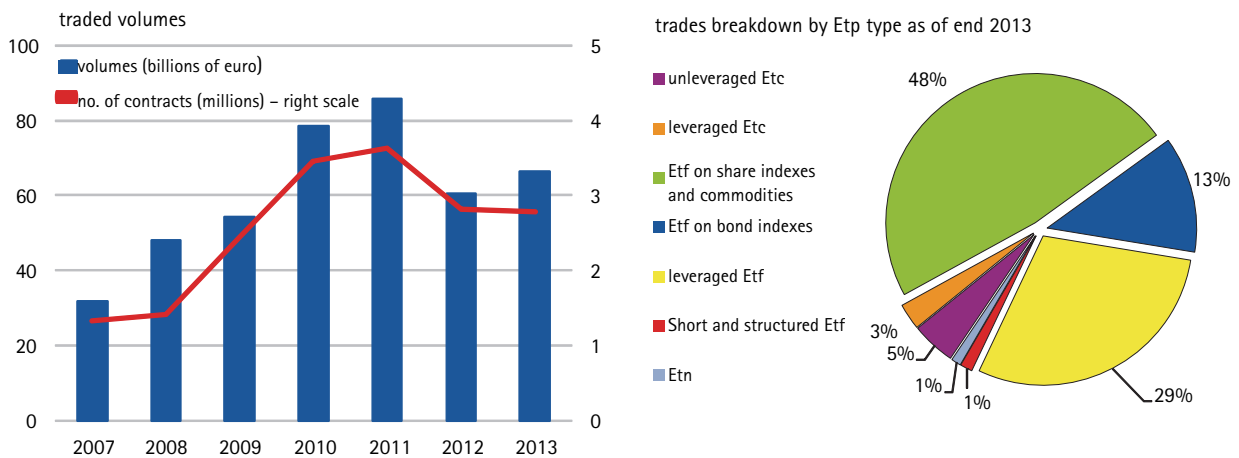
Source: Borsa Italiana

The portion of assets ascribable to exchange-traded funds (ETFs) came to 24.8 billion euro, compared with approximately 1.9 billion corresponding to exchange-traded commodities (ETCs).

Also on the Etfplus market, and to a similar extent as with share trading, the total trading volume increased, reaching 66.4 billion euro (approximately +10 per cent compared with 2012). The number of contracts, however, decreased, although only marginally (from 2.81 to 2.78 million; Fig. 95).

As regards the breakdown of the total trading volume by ETP type, in 2013 most of the trading concerned ETFs linked to equity indexes or the performance of commodities and leveraged ETFs (respectively, approximately 48 and 29 per cent).

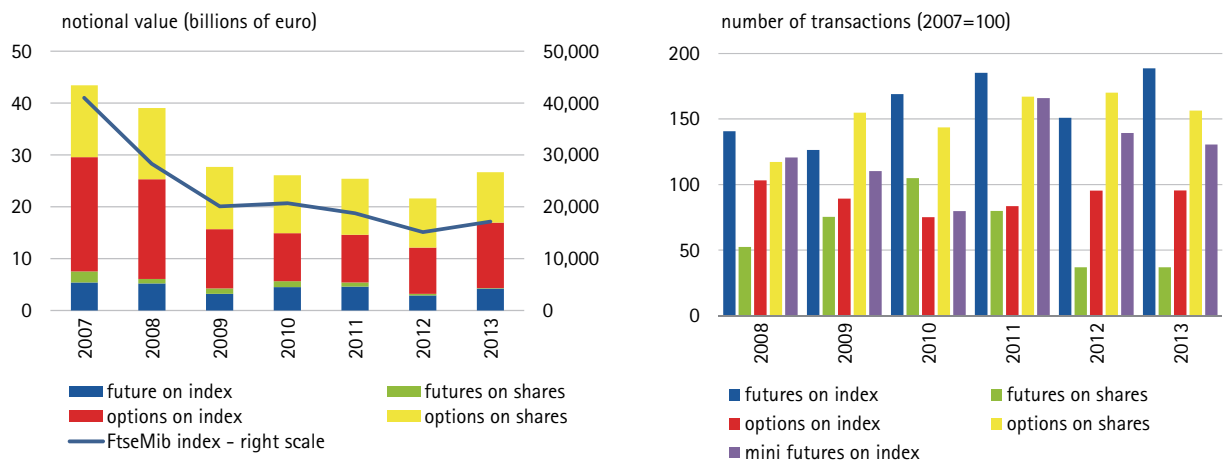
**Fig. 95 Exchange traded products listed on EtfPlus**



Source: Borsa Italiana.

With reference to derivative instruments traded on the IDEM market managed by Borsa Italiana, during 2013 the daily average notional value of open positions (open interests) increased from 21.6 to 26.7 billion euro (approximately +23 per cent; Fig. 96).

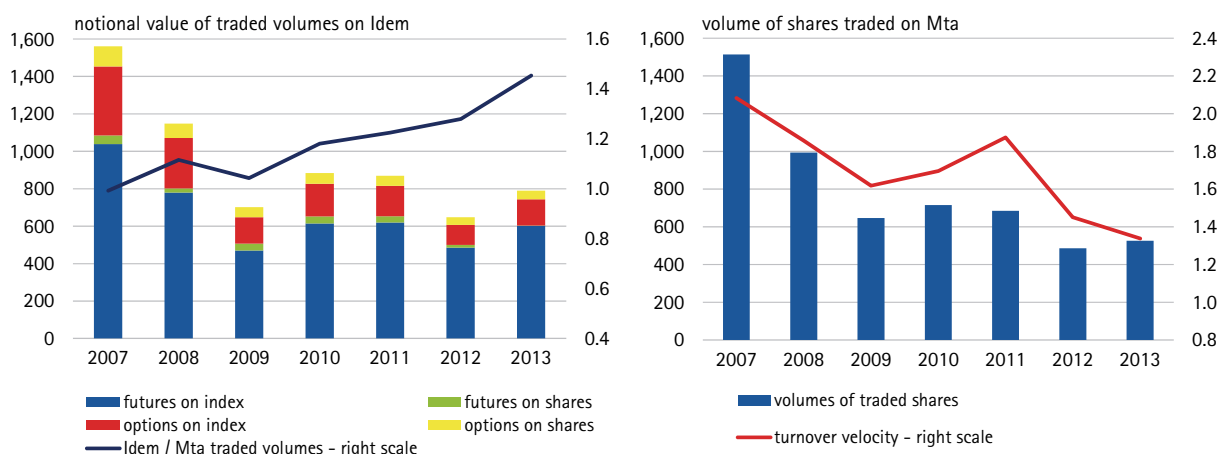
**Fig. 96 Notional value and number of open positions of derivatives traded on Idem market** (daily average data)



Source: Borsa Italiana and Thomson Reuters data. The graph on the notional value of positions opened in the 'index futures' category includes index mini futures. The annual figures for the FTSE MIB index are the average end-of-month figures.

In line with the recovery of trading on the spot equity market, in 2013 the notional countervalue of equity derivatives traded on the IDEM increased significantly compared with the previous year, rising from 648 to 789 billion euro (approximately +22 per cent; Fig. 97). Futures and options on indexes were again the most traded derivatives.

**Fig. 97 Financial instruments transactions on Idem and share transactions on Mta**  
(billions of euro)



Source: calculations based on Borsa Italiana data. "Index futures" include index mini futures.

During 2013, the volume of trades on covered warrants and certificates traded on the SeDeX managed by Borsa Italiana increased by approximately 70 per cent, rising from almost 10 to more than 16 billion euro, a strong recovery after the drastic drop following the financial crisis of 2008 (Tab. 3).

**Tab. 3 Covered warrants and certificates listed on the SeDeX market**  
(cash amounts in billions of euro)

|      | number of issues         |                  |                      | trading volume |
|------|--------------------------|------------------|----------------------|----------------|
|      | outstanding <sup>1</sup> | new <sup>2</sup> | matured <sup>3</sup> |                |
| 2007 | 4,408                    | 7,609            | 7,848                | 88.8           |
| 2008 | 3,192                    | 6,148            | 7,364                | 22.8           |
| 2009 | 3,289                    | 4,029            | 3,625                | 10.2           |
| 2010 | 3,343                    | 3,508            | 3,454                | 12.7           |
| 2011 | 3,880                    | 4,769            | 4,232                | 11.3           |
| 2012 | 4,759                    | 4,917            | 4,038                | 9.6            |
| 2013 | 5,140                    | 5,425            | 5,044                | 16.3           |

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

Plain vanilla covered warrants were again the most significant category of instruments, with approximately 70 per cent of existing issues at the end of 2013 and 39 per cent of trades; these were followed by

investment certificates (which accounted, respectively, for approximately 18 and 25 per cent of outstanding issues and trades) and leverage securities (approximately 11 and 36 per cent), while the exotic-instruments category remained marginal (Tab. 4).

**Tab. 4 Categories of covered warrants and certificates listed on the SeDeX market**  
(situation at 31 December; amounts in billions of euro)

| segment and category | plain vanilla |                | investment    |                | leverage      |                | exotic        |                | total         |                |
|----------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
|                      | no. of issues | trading volume | no. of issues | trading volume | no. of issues | trading volume | no. of issues | trading volume | no. of issues | trading volume |
| 2007                 | 2,839         | 33.2           | 1,016         | 53.7           | 399           | 1.8            | 154           | ..             | 4,408         | 88.8           |
| 2008                 | 1,728         | 10.2           | 1,149         | 11.5           | 215           | 1.2            | 108           | ..             | 3,200         | 22.8           |
| 2009                 | 1,672         | 7.1            | 1,122         | 2.6            | 399           | 0.5            | 96            | ..             | 3,289         | 10.2           |
| 2010                 | 1,846         | 9.7            | 959           | 2.4            | 438           | 0.6            | 100           | ..             | 3,343         | 12.7           |
| 2011                 | 2,176         | 8.2            | 1,101         | 2.2            | 511           | 0.9            | 92            | ..             | 3,880         | 11.3           |
| 2012                 | 2,935         | 6.3            | 1,070         | 2.3            | 667           | 0.9            | 87            | ..             | 4,759         | 9.6            |
| 2013                 | 3,575         | 6.3            | 941           | 4.0            | 546           | 5.9            | 78            | ..             | 5,140         | 16.3           |

Source: calculations based on Borsa Italiana data. <sup>1</sup> Percentage figures. Rounding may cause discrepancies in the total figure.

In 2013, although trading in plain vanilla securities was largely stable, trading in leverage instruments more than quintupled, in particular in those at fixed leverage with the FTSE MIB index as their underlying, replicating the daily performance of the benchmark index with a leverage effect of up to seven times. The instrument on which trading was most concentrated, in 2013, was the covered warrant with leverage, with approximately 32 per cent of the volume traded on the SeDeX attributable to the top 5 securities, followed by plain vanilla covered warrants for which the figure came out at approximately 20 per cent (Tab. 5).

**Tab. 5 Concentration of trades on the SeDeX**  
(percentages of total trades)

| category                       | no. securities most traded | percentage of total volume traded on the SeDeX |             |
|--------------------------------|----------------------------|--|-------------|
|                                |                            | 2012   | 2013        |
| covered warrants with leverage | 5                          | 5.5  | 31.6        |
| plain vanilla covered warrants | 5                          | 29.3   | 19.8        |
| investment certificates        | 5                          | 1.9  | 2.3         |
| <i>Total</i>                   |                            | <i>36.7</i>                                    | <i>53.8</i> |

Source: calculations based on Borsa Italiana data.

As regards bond markets, in 2013 the volume of trades on Italian regulated markets grew by approximately 29 per cent recovering partially from the decline recorded from 2008 onwards (Tab. 6).



**Tab. 6 Bond trading volumes on Italian markets<sup>1</sup>**  
(billions of euro)

|      | MTS –<br>wholesale<br>market for<br>government<br>bonds | BondVision –<br>wholesale<br>market | MTS –<br>wholesale market<br>for non-<br>governmental<br>bonds | MOT <sup>2</sup> | EuroTLX <sup>3</sup> | other<br>multilateral<br>trading<br>systems <sup>4</sup> | <i>total</i> |
|------|---|-------------------------------------|--|------------------|----------------------|--|--------------|
| 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        |
| 2013 | 904   | 804                                 | 0  | 330              | 90                   | 36   | 2,164        |

Source: calculations based on MTS, Borsa Italiana and EuroTLX data. <sup>1</sup> Rounding may cause discrepancies in the total figure. <sup>2</sup> Includes bonds previously traded on the EuroMOT market. <sup>3</sup> From 2010, EuroTLX multilateral trading system. <sup>4</sup> Includes BondVision Corporate, ExtraMOT and Hi-MTF.

Trades on the wholesale government bonds market (MTS) recovered strongly, increasing from 567 (ten-year low) to 904 billion euro in 2013 (+59 per cent).

As regards the MOT retail market managed by Borsa Italiana, after the sharp increase recorded in the previous year, in 2013 trades grew much less (approximately +3 per cent), rising from 321 to 330 billion euro.

## 2 Supervision of trading platforms

During 2013, the Commission continued to monitor high-frequency trading (HFT). In the first half of 2014 the portion of trades on the MTA ascribable to a group of operators identified as high frequency traders was on average 22 per cent, in line with the figure for the previous year.

Particular attention has been devoted to supervision on observance of the ESMA Guidelines on systems and controls in an automated trading environment (henceforth, Guidelines), which came into force on 1 May 2012, and which are directed at trading platforms and authorised entities.

The managers of regulated markets and multilateral trading facilities (MTFs) other than wholesale ones for government bonds and 74 intermediaries (banks and investment firms) sent Consob a self-assessment on observance of the Guidelines, indicating both the areas for which an organisational and operational review was already in progress and the measures necessary to tackle further critical issues or weaknesses and the related implementation times. From these self-assessments there emerges significant attention on the part of supervised entities to preparing

organisational, functional and operational measures aimed at mitigating the risks posed by highly-automated trading environments.

The analysis of a number of specific safeguards (in particular of systems and controls put in place in the areas of trading system resiliency, access to the markets, pre- and post-trading controls and market abuses) was also the subject of inspections aimed at checking observance of the reasoning and provisions of the Guidelines.

During 2013, in addition, two fact-finding investigations were carried out. The first concerned the micro-structural profiles of trading platforms (regulated markets, multilateral trading facilities and systematic internalisers) with the aim of acquiring useful evidence both for the supervisory activity and for a first assessment of the impact, at the domestic level, of the rules contained in the revision of the MiFID.

The second investigation, instead, involved examining the execution policies of a sample of intermediaries, with particular regard to dynamic best execution systems (smart order routing), in order to acquire relevant information for both supervision of intermediaries and supervision of markets.

As regards regulatory supervision, in April 2013, with Resolution 18514/2013, under the terms of Art. 67, Section 2 of the Consolidated Law on Finance, Consob recognised the market in financial derivatives 'Ice Futures US', managed by the company Ice Futures US Inc, with headquarters in New York.

In 2013, the Commission conducted intensive supervision of the amendments made by Borsa Italiana to the Regulation of the markets managed and run by the said management company and the related Instructions.

With a Decision of 17 April 2013 the Commission approved an ample package of amendments passed by the ordinary shareholders' meeting of Borsa Italiana SpA on 6 March 2013 concerning the Articles of Association and the Regulations for Markets Organised and Managed by Borsa Italiana, respectively under the terms of Art. 73, Section 3, and 63, Section 2, of the Consolidated Law on Finance.

In July and September 2013, the Commission expressed its consent for a number of further amendments to the Instructions accompanying the Regulations for Markets Organised and Managed by Borsa Italiana SpA which concerned the MOT and IDEM markets. These were approved, respectively, on 14 June and 22 July 2013.

With the Decision of 25 September 2013, the Commission also gave its consent to the amendments to the Instructions approved by the board of directors of Borsa Italiana SpA on 25 July 2013 in relation to the method of operation of the trading stage at the closing bid price (approved in April 2013) and to admission to trading on the ETFplus market of open-ended

UCITS compliant with the UCITS Directive, with provision for specific trading methods.

In March 2013, Consob approved the amendments to the Regulation of the Electronic Market of non-governmental bonds and securities issued by international organisations in which states have an investment (Corporate MTS), after a favourable opinion issued by the Bank of Italy under the terms of Art. 63, Section 3, of the Consolidated Law on Finance.

In September 2013 an operation was completed for the acquisition by Borsa Italiana of 70 per cent of the EuroTLX Sim SpA share capital.

During 2013, in addition, Borsa Italiana established a new segment as part of the ExtraMOT system, named ExtraMOT Pro, reserved for professional investors. In this segment financial bills of exchange, corporate bonds, equity instruments, project bonds and money market instruments are traded.

During the year, Consob conducted 22 inquiries into changes made to the operating rules of MTFs, and 5 inquiries into changes to the operating rules of systematic internalisers, in order to verify their compliance with community guidelines.

At the end of 2013, there were 18 active internalising systems, of which 17 related to instruments other than shares admitted to trading in a community regulated market and one to shares and swaps (two at the end of the previous year).

In 2013 supervisory activity continued on fulfilment of pre- and post-trading disclosure obligations. Work also continued on verifying the accuracy of information transmitted in connection with transaction reporting obligations, with particular reference to monitoring of the speed and accuracy of reports received by the Commission. The controls revealed cases of omitted or incorrect reporting, in the face of which disciplinary proceedings were initiated against the parties considered responsible (see Chapter V '*Supervisory activity and disciplinary measures*').

### 3 Supervision of trading transparency

In 2013 the supervisory activity was based, as usual, on constant checks on potential information anomalies likely to alter the regular performance of trading.

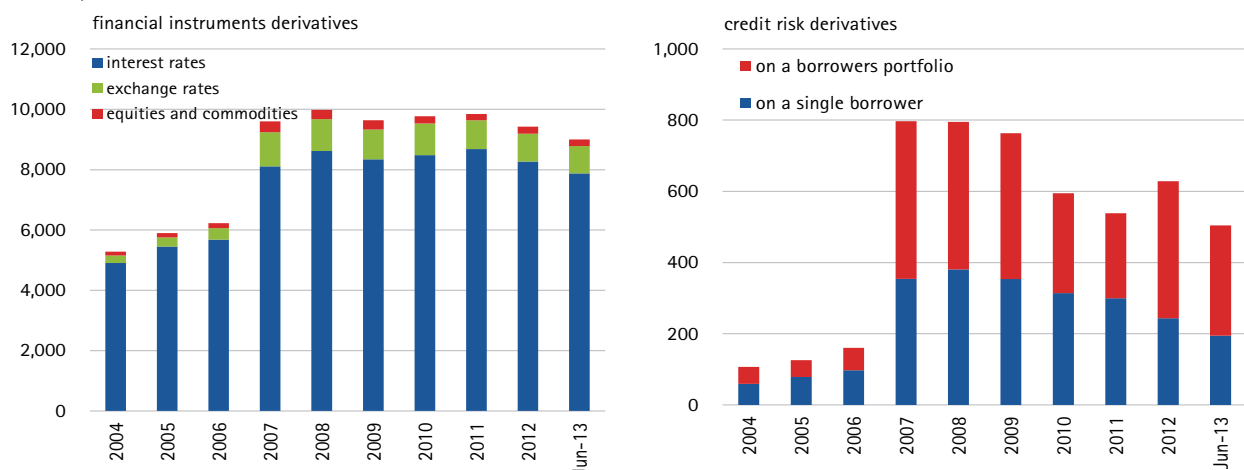
To this end the communications released to the public, their impact on prices and the correspondence with news released by the media were monitored, together with information channelled through the web (specialised websites, blogs, forums and social networks) concerning the issuers of listed or widespread financial instruments.

Following the controls carried out, 63 requests to 33 issuers were formulated, under the terms of Articles 114, Section 5, and 115, Sections 1 and 2, of the Consolidated Law on Finance, in order to restore the integrity of disclosure to the market, above all on the occasion of particularly complex corporate operations or ones relating to situations involving financial difficulty.

## 4 Supervision of post-trading and OTC derivatives

In Italy the notional value of OTC derivative contracts amounted, at June 2013, to 9 thousand billion US dollars, slightly down compared with December 2012. The notional value of derivatives on credit risk fell by approximately 20 per cent (from 628 to 504 billion dollars; Fig. 98).

**Fig. 98 Gross notional value of Otc financial instruments derivatives in Italy**  
(end of period amounts; billions USD)



Source: Bank of Italy.

During 2013, as a result of the entry into force of the EMIR Regulation, Consob saw the number of supervised entities grow and the sphere of operations of those already supervised widen. In particular, under the terms of the new provisions of the Consolidated Law on Finance, introduced by Italian Law 97/2013, Consob is the competent authority on 'non-financial counterparties' (NFCs) defined by EMIR as all entities 'other than financial counterparties and central counterparties' (Art. 4-*quater* of the Consolidated Law on Finance).

As regards identification of the authorities competent on financial counterparties - which include investment firms, harmonised UCITS and the asset management companies that manage them, and funds managed by Alternative Investment Fund Managers (AIFMs) - EMIR does not require an explicit designation by the member states but proceeds to an identification *per relationem* making reference to the competent authorities under the terms of the community law on the sector relating to each category.

The Regulation states that counterparties and CCPs must ensure that information on derivative contracts concluded and on any change or termination of the contract must be sent to a trade repository which is registered or recognised under the terms of the Regulation (reporting obligation). The Regulation also states that the counterparties of a contract must be identified by a single code. The code used at the international level and also by EMIR is the Legal Entity Identifier (LEI). The assignment of this identification code to each party is intended to promote transparency of counterparties in financial transactions and improve risk management, at both the company and the system levels. Consob participated in the international group of experts which defined the LEI system.

At the end of 2013, Consob was asked to take part in the board of authorities set up to authorise *Cassa di Compensazione e Garanzia*, under the terms of EMIR, as it is the competent national authority, together with the Bank of Italy, for authorising and supervising Italian central counterparties. Consob is also a member of four boards for authorising the same number of European CCPs (the German Eurex Clearing AG, the French LCH Clearent SA, the British LCH Clearent Ltd, the Dutch EuroCCP NV).

During 2013, Consob and the Bank of Italy completed the audit activity on the compliance of Monte Titoli with the 19 recommendations for settlement systems issued by the European System of Central Banks (ESCB) and by the then Committee of European Securities Regulators (CESR), now ESMA. The assessment, published on the Consob and Bank of Italy websites, shows full compliance with each of the aforesaid recommendations.

The audit on Monte Titoli was the last carried out on the basis of the ESCB/CESR recommendations. From 2014 onwards, in fact, the Principles for Financial Market Infrastructure and the related assessment method have been adopted as standards of reference by the Bank of Italy and Consob in exercising their respective functions, supplementing the European and national legislation applicable to the supervised parties.

In August 2013, 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 markets on which settlement is envisaged at the international central depositories Euroclear Bank and Clearstream Banking Luxembourg. This service, which provided for establishment, by the Cassa, of an *ad hoc* segment, was activated in the last few months of 2013 for EuroMOT, ExtraMOT, Hi-MTF and EuroTLX on bonds settled in euro at the said foreign systems.

In 2012, in response to the global financial crisis, the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements and the Technical Committee of the International Organisation of Securities Commissions (IOSCO) published the Principles for Financial

Market Infrastructure as international standards for the supervision of systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.

In the second quarter of 2013, the CPSS-IOSCO began to monitor progress on implementing the principles in the various countries. In this context, Italy is in line with the other Eurosystem countries.

## 5 Supervision of short selling

Since 1 November 2012, Regulation (EU) 236/2012 on short selling has been in force. This introduced an obligation to report short net positions on equities and government bonds and prohibited short selling on such instruments without a guaranteed supply of securities ("naked short selling").

In addition, the Regulation provides for the possibility of adopting exceptional bans on short selling and/or on short net positions when certain market stress conditions occur. Exemptions for market making activities on equities and government bonds and for primary dealer activities on government bonds are also provided for.

At the national level, a division of responsibilities among Consob, the Bank of Italy and the Ministry of the Economy has been provided for. In particular, Consob is the only competent authority with reference to action and for relations with the other authorities in the EU; Consob and the Bank of Italy are the competent authorities for supervising short sales on government bonds; the Ministry, on the proposal of the Bank of Italy, and after consulting Consob, is the authority responsible for exercising the exceptional powers provided for in the Regulation for government bonds. In order to coordinate the activity on government bonds, the three Italian Authorities signed a memorandum of understanding on 13 April 2013.

With regard to the exemption system, 17 national intermediaries have been authorised by the Italian authorities to benefit from the exemptions for market-making activities. Twenty intermediaries, the majority foreign, were instead exempted in their capacity as primary dealers in Italian government bonds.

During 2013, on nine occasions the Commission decided to prohibit exceptionally short sales on single Italian equities, under the terms of Art. 23 of the said Regulation, owing to the significant price reductions that had occurred. These bans had a duration limited to a few days.

As far as short net positions are concerned, during 2013 approximately 3,000 notifications on shares were received. Short net positions on Italian shares accounted, on average, for 1.3 per cent of the capitalisation of the FTSE MIB index.

## 6 Supervision of rating agencies

During 2013, Consob continued its supervisory activity on the release of rating judgements, monitoring their effects on the market. The controls concerned methods and timing of release of ratings and outlooks, consistency and transparency of the assessment criteria used and of the elements on which judgements and outlooks are based, as well as prevention and transparency of possible conflicts of interest.

For some cases concerning the preparation and release of ratings and outlooks both on Italian sovereign debt and on a listed issuer, elements were noted that may represent a breach of European law and these were reported to the ESMA, under the terms of Regulation 1060/2009 as later amended.

With reference to these cases, we verified the correctness of the information and of the market operations carried out at the time the related rating judgements and outlooks were released, in order to identify any potential market abuse.

Consob also intensified supervision on the production and release of investment recommendations, including through the use of significance parameters and criteria, with reference to both disclosure and effects on the market and on operations on the securities involved, for the purpose of promptly identifying signs of manipulative conduct or abuse of inside information connected with the release of these recommendations. The monitoring was also aimed at checking the correctness of the information contained in the investment recommendations and of the indication of any conflicts of interest.

In eight cases, finally, in the face of significant changes in the prices of the financial instruments with which the research was concerned, Consob exercised the powers pursuant to Section 2 of Art. 69-*novies* of the Issuers' Regulation asking the authorised entities to publish the investment recommendation, for the purpose of reducing the information asymmetries present on the market at the time of news on the contents of a recommendation already released to qualified investors.

## 7 Prevention and repression of market abuse

During 2013, as part of its activities aimed at preventing market abuse, Consob completed a study of the internal procedures adopted by listed issuers to keep inside information confidential, with particular reference to managing such information, communicating transactions carried out by relevant parties (internal dealing) and keeping a register of people who have access to inside information.

The analysis highlighted a number of areas of improvement, but also a widespread awareness on the part of the supervised entities of the need to put in place adequate procedures in order to prevent illegal conduct.

Consob will review Communication DME/6027054 of 28 March 2006, taking into account the results of the study carried out, and the revision in progress of the European legislation on market abuse (which should, however, leave the system of prevention measures substantially unchanged).

The prevention activity also made use of the information flows regarding issuers' operations on their own stock (buy backs) and internal dealing, which can contribute to creating the conditions for illegal conduct to be carried out and to artificially determining the price of a security.

In 2013, the ascertainment of market abuse made use, as usual, of preliminary investigations in order to arrive at a more effective and rapid selection of possible offences to be examined more deeply in a subsequent inquiry phase.

In particular, the Commission received 231 suspicious transaction reports (compared with 208 in 2012), of which 184 sent by Italian supervised entities (intermediaries, stock exchange companies and MTFs).

As regards repression of market abuse, during 2013 Consob completed 22 investigations, ascertaining administrative offences in 13 cases. Of these, four refer to alleged abuse of inside information, four to market manipulation of an informative nature and the remaining five to manipulation of an operational nature. Ten investigations resulted in transmission of reports to the Judicial Authority, of which nine relating to alleged manipulation (Tab. 7).

**Tab. 7 Results of investigations into market abuse**

|      | cases of administrative and/or criminal offences |                                     | cases in which no offence was found | <i>total</i> |
|------|--|-------------------------------------|-------------------------------------|--------------|
|      |  | <i>of which for insider trading</i> |                                     |              |
| 2007 | 10   | 3                                   | 3                                   | <i>13</i>    |
| 2008 | 6  | 2                                   | 4                                   | <i>10</i>    |
| 2009 | 8  | 2                                   | 6                                   | <i>14</i>    |
| 2010 | 10   | 3                                   | 19                                  | <i>29</i>    |
| 2011 | 15   | 7                                   | 14                                  | <i>29</i>    |
| 2012 | 12   | 4                                   | 14                                  | <i>26</i>    |
| 2013 | 13   | 4                                   | 9                                   | <i>22</i>    |

Source: Consob. See Methodological Notes.

As regards the type of inside information, in two cases it concerned the acquisition or disposal of equity investments in listed companies, in another the promotion of a takeover bid and in the last the imminent release



of a communication by the issuer in relation to a reduction in its estimates on the results expected for 2012 and 2013 (Tab. 8).

**Tab. 8 Type of inside information in cases of insider trading**

|      | change of control<br>– takeover bids | economic results –<br>financial<br>performance and<br>position | capital<br>transactions –<br>mergers – spin-<br>offs | other | of which cases of<br>front running | <i>total</i> |
|------|--------------------------------------|--|--|-------|------------------------------------|--------------|
| 2007 | 1                                    | 1  | 1  | --    | --                                 | <i>3</i>     |
| 2008 | 1                                    | --   | --   | 1     | 1                                  | <i>2</i>     |
| 2009 | --                                   | --   | 1  | 1     | 1                                  | <i>2</i>     |
| 2010 | 2                                    | --   | 1  | --    | --                                 | <i>3</i>     |
| 2011 | 5                                    | --   | --   | 2     | --                                 | <i>7</i>     |
| 2012 | 4                                    | --   | --   | --    | --                                 | <i>4</i>     |
| 2013 | 1                                    | 1  | --   | 2     | --                                 | <i>4</i>     |

Source: Consob. See Methodological Notes.

A first case of insider trading originated from investigations conducted, also with the cooperation of the competent Authorities of Luxembourg and the United States of America, on transactions carried out at the same time as the sharp rise in the quantities traded and in the share price of a listed company operating in the energy sector.

A second case of insider trading concerned market-sounding activity, that is the illicit communication of inside information in the context of placing on the market a large equity interest in an issuer operating in the energy sector, and the sale of shares ordered using said information. Thanks also to the collaboration of the competent Authorities of Germany and the United Kingdom, Consob was able to trace the transmission of inside information among several entities, which came into possession of it both in the course of their business and outside the same.

Another investigation concerned the illicit communication of inside information relating to the launch of a takeover bid on the shares of a listed company specialised in the sector of salary-backed loans, and the share purchases ordered using said information.

A last case of insider trading emerged at the end of investigations carried out, making use also of co-operation with the competent Authority of the United Kingdom, in relation to sales of shares carried out before the issue of a press release with which a listed company, operating in the supply of engineering services for the oil & gas sector, made known a reduction in its estimates on the results for the year just ended and the next one (profit warning).

A first investigation of market manipulation originated from elements sent to Consob by the Judicial Authority regarding the release by a leading Italian bank of false data, relating to regulatory capital and capital ratios.

Another ascertainment for manipulation of disclosure concerned the false information released in the period from December 2010 to January 2013 by an Italian citizen resident in Switzerland on claimed investments and investment intentions in the share capital of twelve listed issuers, made by himself, by companies traceable to him, or by third-party investors who were said to have used the advisory services provided by these last companies.

Another case of market manipulation concerned the false information released by a listed company, operating in the auto components sector, in its separate and consolidated financial statements.

Consob's supervisory activity regarding cases of disclosure-based market manipulation also concerned the false information disseminated by two leading Italian insurance companies in their consolidated financial statements.

Three distinct investigations concerned the creation by three different online traders of the same market manipulation scheme put in place on certain Italian government bonds traded at the same time in different trading venues.

Another investigation concerned a manipulation scheme put in place on bonds traded on the MOT by an investor who fixed the market price at an artificial level by means of orders issued at the same time from a plurality of different accounts.

**Tab. 9 Parties involved in cases of market abuse**

|                            | authorised intermediaries <sup>1</sup> | institutional insiders <sup>2</sup> | other parties <sup>3</sup> | foreign operators | total |
|----------------------------|--|-------------------------------------|----------------------------|-------------------|-------|
| <b>insider trading</b>     |  |                                     |                            |                   |       |
| 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     |
| 2013                       | 3                                      | 1                                   | 10                         | 3                 | 17    |
| <b>market manipulation</b> |  |                                     |                            |                   |       |
| 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    |
| 2013                       | 2                                      | 12                                  | 12                         | --                | 26    |

Source: Consob. See Methodological Notes. <sup>1</sup> Banks, investment firms, asset management companies and stockbrokers. <sup>2</sup> Shareholders, directors and executives of listed companies. <sup>3</sup> Secondary insiders (Art. 187-bis, Section 4, of the Consolidated Law on Finance).

A last case of operational market manipulation concerned purchases made over a period of approximately two years by an Italian bank, on behalf of the parent company, regarding shares of the bank itself.

In 2013, Consob commenced administrative proceedings for market abuse against 27 individuals and 16 corporations, for joint liability and administrative liability (Tab. 9).

In addition, requests for information, data and documents were sent to 349 parties. In 22 cases, Consob co-operated with foreign supervisory authorities, while in 11 cases the requests were aimed at assisting foreign authorities in investigations carried out by these latter (Tab. 10).

**Tab. 10 Requests for data and information on market abuse**  
(number of addressee entities)

|      | authorised intermediaries <sup>1</sup> | listed companies and their parent companies or subsidiaries | private parties | of which hearings | public administrations | foreign authorities | total | of which on behalf of foreign authorities |
|------|--|---|-----------------|-------------------|------------------------|---------------------|-------|---|
| 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  |
| 2013 | 154                                    | 14  | 78              | 39                | 81                     | 22                  | 349   | 11  |

Source: Consob. <sup>1</sup> Banks, investment firms, asset management companies and stockbrokers.

During 2013, Consob brought civil action in five new criminal proceedings on the subject of market abuse (of which one for abuse of inside information, three for market manipulation and one for both crimes) which were reported to the Judicial Authority at the end of the investigations carried out (Tab. 11). The charges formulated by the Public Prosecutor in the indictments set out events ascribed to the alleged offenders in terms generally in line with those ascertained.

In 2013, five proceedings were judged in the first instance in relation to market abuse, in which Consob joined the case as a civil claimant. In two cases the accused were found guilty and ordered to pay damages to Consob; two cases were defined with a judgement applying the penalty at the request of the parties; one with a declaration extinguishing the offence due to the statute of limitations.

Two more criminal proceedings were defined with judgements handed down by the competent Courts of Appeal. In relation to one case of insider trading, the Milan Court of Appeal, 2nd Criminal Division, with Judgement 336 of 23 January 2013 confirmed the judgement of the Court of Milan, 2nd Criminal Division, 14647 of 20 December 2012, also with regard

to the order to pay compensation for damages already issued in the first instance in Consob's favour.

**Tab. 11 Civil proceedings brought by Consob in criminal cases regarding insider trading and market manipulation**

| Year | proceedings     | offence <sup>1</sup>                 | outcome as at 31 December 2013  |
|------|-----------------|--------------------------------------|---|
| 2007 | 12 <sup>2</sup> | insider trading, market manipulation | 4 convictions <sup>3</sup><br>5 plea-bargaining judgements<br>2 acquittals by prescription<br>1 judgement of no case to answer <sup>4</sup><br>2 acquittals |
| 2008 | 5               | insider trading, market manipulation | 1 conviction<br>1 plea-bargaining judgement<br>1 acquittal by prescription<br>3 acquittals <sup>5</sup>   |
| 2009 | 1               | market manipulation                  | 1 conviction  |
| 2010 | 3               | insider trading, market manipulation | 1 conviction <sup>6</sup><br>1 acquittal  |
| 2011 | 6 <sup>7</sup>  | market manipulation                  | 2 convictions<br>1 plea-bargaining judgement<br>1 acquittal by prescription   |
| 2012 | 2 <sup>8</sup>  | insider trading, market manipulation |   |
| 2013 | 5               | insider trading, market manipulation | 2 plea-bargaining judgements<br>1 acquittal by prescription   |

Source: Consob. <sup>1</sup> 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. <sup>2</sup> In one case, following regression to the preliminary investigation phase, the case was dismissed in 2008. <sup>3</sup> 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 owing to the statute of limitations 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 owing to the statute of limitations, and reducing the sum paid to Consob by way of compensation. <sup>4</sup> In this judgement, 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. <sup>5</sup> In one case, while conducting an immediate review, the Court of Cassation annulled the lower court's acquittal, referring the matter to the competent Court of Appeal for the second level of the proceedings. On appeal the Turin Court of Appeal found the accused guilty, rejecting, however, the demand for compensation put forward by Consob. <sup>6</sup> The competent Court of Appeal confirmed the guilty verdict, granting the accused the benefit of non-mention of the conviction. <sup>7</sup> Of the six, after the civil action was filed, two proceedings were combined on the grounds of objective and subjective links. <sup>8</sup> First-instance proceedings pending.

Contrarily, we can mention an isolated precedent of the Turin Court of Appeal, 1st Criminal Division (Judgement 702 of 21 February 2013) which, in the context of an appeal concerning alleged market manipulation on Fiat shares, rejected the demand for compensation put forward by Consob, despite having sentenced the accused to the legal penalty.

One trial for manipulation was decided by the Court of Cassation. The Supreme Court, 5th Criminal Division, with Judgement 4324 of 29 January 2013 cancelled the criminal law effects of the judgement of the Milan Court of Appeal, 2nd Criminal Division, 2361 of 16 July 2010 as the statute of limitations had come into effect, but rejected the accused's appeal for civil law purposes.

# Supervision of issuers and audit firms

II

## 1 Ownership structure of listed companies

At the end of 2013, approximately 85 per cent of Italian listed companies (208 out of 244) are controlled by one or more shareholder through a shareholders' agreement (Tab. 12).

**Tab. 12 Control models of Italian listed companies**  
(situation as of 31 December)

|      | controlled companies |                         |                   |                         |   |                         | non-controlled companies |                         |             |                         |                 |                         | total |                         |
|------|----------------------|-------------------------|-------------------|-------------------------|---|-------------------------|--------------------------|-------------------------|-------------|-------------------------|-----------------|-------------------------|-------|-------------------------|
|      | majority controlled  |                         | weakly controlled |                         | controlled by a shareholders' agreement |                         | cooperative companies    |                         | widely held |                         | non-widely held |                         | No.   | proportion <sup>1</sup> |
|      | No.                  | proportion <sup>1</sup> | No.               | proportion <sup>1</sup> | No.                                     | proportion <sup>1</sup> | No.                      | proportion <sup>1</sup> | No.         | proportion <sup>1</sup> | No.             | proportion <sup>1</sup> |       |                         |
| 1998 | 122                  | 31.2                    | 33                | 21.8                    | 28                                      | 8.3                     | 10                       | 3.1                     | 10          | 24.1                    | 13              | 11.5                    | 216   | 100.0                   |
| 2010 | 128                  | 20.6                    | 51                | 43.3                    | 51                                      | 12.0                    | 8                        | 3.4                     | 11          | 20.3                    | 21              | 0.4                     | 270   | 100.0                   |
| 2011 | 123                  | 23.0                    | 54                | 45.8                    | 49                                      | 11.3                    | 8                        | 3.2                     | 8           | 16.4                    | 18              | 0.3                     | 260   | 100.0                   |
| 2012 | 123                  | 22.7                    | 48                | 44.0                    | 45                                      | 10.2                    | 8                        | 3.2                     | 10          | 19.2                    | 17              | 0.7                     | 251   | 100.0                   |
| 2013 | 119                  | 24.0                    | 45                | 35.5                    | 44                                      | 15.1                    | 8                        | 3.3                     | 11          | 21.6                    | 17              | 0.5                     | 244   | 100.0                   |

Source: Consob. Data on Italian companies with ordinary shares listed on the MTA. See the Section Methodological Notes. <sup>1</sup> Ratio as a percentage of capitalisation of ordinary share capital of companies subject to each control model, and capitalisation of the ordinary share capital of all listed Italian companies.

The reference shareholder exercises *de jure* control in most cases, holding more than half the ordinary share capital in 119 companies which, overall, represent approximately one quarter of market capitalisation. In 45 cases, corresponding to the largest companies, equivalent to 35.5 per cent of total capitalisation, majority shareholders seemed able to exercise dominant influence although they only hold an interest of less than half of the share capital. Companies controlled by a coalition of shareholders number 44 and account for approximately 15 per cent of stock exchange capitalisation.

Compared with 1998 (the date of introduction of the Consolidated Law on Finance, TUF), the proportion in terms of capitalisation of *de facto* controlled companies declined, although their numeric representation had not substantially changed. The proportion of 'weakly controlled' companies and of those controlled by agreements has, instead, increased since 1998, in both numerical and market value terms.

Among 'non-controlled' companies, only 11 have 'widely-held' shares, as they are characterised by a float over more than 70 per cent of the ordinary share capital; they are large companies, whose capitalisation represents almost 22 per cent of the total. Approximately 3 per cent of stock exchange capitalisation concerns listed cooperatives, corresponding to eight issuers operating in the financial sector,

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.

At the end of 2013, the average equity interest held by the leading shareholder was approximately 46.8 per cent of the ordinary share capital with voting rights, substantially in line with the figures recorded in the last few years and a little less than the figure for 1998. The total average shareholding held by the other key shareholders was 16.5 per cent, a slight reduction compared to the previous three 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. In this case too, the figures do not differ very much from those recorded in previous years (Tab. 13).

**Tab. 13 Ownership concentration in Italian listed companies <sup>1</sup>**  
(situation as of 31 December)

|      | primary shareholder | other key shareholders | market <sup>2</sup> |
|------|---------------------|------------------------|---------------------|
| 1998 | 48.7                | 14.7                   | 36.5                |
| 2010 | 46.0                | 17.9                   | 36.1                |
| 2011 | 46.1                | 17.6                   | 36.3                |
| 2012 | 46.8                | 16.9                   | 36.4                |
| 2013 | 46.8                | 16.5                   | 36.7                |

Source: Consob. Data on Italian companies with ordinary shares listed on the MTA. Cooperatives are excluded. <sup>1</sup> Simple average of the share of ordinary voting capital of all listed Italian companies. <sup>2</sup> Simple average of the quota of ordinary capital not held by major shareholders.

## 2 Shareholders' meetings and corporate bodies

The figures for participation at shareholders' meetings of Italian listed companies shows substantial differences depending on the size of the issuers: in 2013, in fact, the average figure came out at approximately 600 subjects for companies belonging to the FTSE MIB and the Mid Cap and at only 28 for other companies. The presence of institutional investors at shareholders' meetings is particularly significant, on average 496 participants in FTSE MIB and Mid Cap companies, compared with 17 in smaller companies.

The figures also confirm a marked difference in the behaviour of Italian and foreign investors. The total proportion represented at shareholders' meetings by institutional investors is, in fact, mostly attributable to foreign investors, both in larger and in smaller companies (Tab. 14).

The institutional investors that attended shareholders' meetings of companies belonging to the FTSE MIB and Mid Cap indexes hold approximately 15.3 per cent of the share capital present at the shareholders' meetings. Foreign institutional investors remain mostly majority shareholders: the average value of their stake is 14.4% (0.9% for Italian investors, while the median value is 13.5% (zero for Italian investors).

**Tab. 14 Attendance at 2013 AGMs of Italian listed companies by market index**

|                      |         | number of participants |                         | percentage of share capital represented at shareholders' meeting |                         |                                 |                                 |
|----------------------|---------|------------------------|-------------------------|--|-------------------------|---------------------------------|---------------------------------|
|                      |         | total                  | institutional investors | total  | institutional investors | Italian institutional investors | foreign institutional investors |
| FTSE MIB and Mid Cap | Average | 601                    | 496                     | 69.5   | 15.3                    | 0.9                             | 14.4                            |
|                      | Min     | 7                      | 4                       | 44.4   | 0.0                     | 0.0                             | 0.0                             |
|                      | Max     | 3,886                  | 3,850                   | 90.5   | 48.6                    | 9.5                             | 47.6                            |
|                      | Median  | 276                    | 245                     | 70.8   | 15.5                    | 0.0                             | 13.5                            |
| other companies      | Average | 28                     | 17                      | 64.6   | 3.7                     | 0.6                             | 2.9                             |
|                      | Min     | 1                      | --                      | 3.6  | 0.0                     | 0.0                             | 0.0                             |
|                      | Max     | 251                    | 238                     | 92.9   | 54.5                    | 13.2                            | 54.4                            |
|                      | Median  | 13                     | 1                       | 66.7   | 0.3                     | 0.0                             | 0.0                             |

Source: based on minutes of shareholders' meetings held in 2013 to approve the financial statements of Italian companies. Data on Italian companies with ordinary shares listed on the MTA; cooperatives are excluded. Companies whose minutes were not available as of 30 September 2013 were excluded (35 out of 251 companies).

The composition of Boards of Directors seems to be correlated to the index to which the companies belong.

Issuers with higher capitalisation, on the FTSE MIB and Mid Cap indexes, are characterised by larger Boards (an average of 12.3 and 13.2 members 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 boards of directors (respectively 9.2 and 8.2 members). The largest Board of Directors had 25 members, while the smallest had only two (Tab. 15).

With reference to composition by gender, at the end of 2013, 17.8% of the Board members of Italian listed companies were female, while 83.5% of companies had both genders represented on their Boards.

**Tab. 15 Composition of Board of Directors of Italian listed companies by market index**  
(situation as of 31 December 2012)

|                      | no.        | proportion of capitalisation <sup>1</sup> | number of board members |          |           |          |
|----------------------|------------|---|-------------------------|----------|-----------|----------|
|                      |            |   | average                 | min      | max       | median   |
| FTSE MIB             | 37         | 85.8                                      | 12.3                    | 5        | 24        | 11       |
| Mid Cap <sup>2</sup> | 39         | 8.4                                       | 13.2                    | 7        | 25        | 13       |
| Star <sup>2</sup>    | 67         | 3.7                                       | 9.2                     | 5        | 15        | 9        |
| other                | 108        | 2.1                                       | 8.2                     | 2        | 17        | 7        |
| <i>total</i>         | <i>251</i> | <i>100.0</i>                              | <i>9.9</i>              | <i>2</i> | <i>25</i> | <i>9</i> |

Source: processing of data from corporate governance reports of Italian companies with ordinary shares listed on the MTA published in 2013 for financial year 2012. Companies whose reports were not available as of 30 September 2013 were excluded (9 out of 251). Supervisory boards are excluded. <sup>1</sup> Percentage ratio between capitalisation of ordinary capital of companies referable to each index, and capitalisation of ordinary capital of all listed companies. <sup>2</sup> Companies on the Star segment and the Mid Cap index are only included in the Star category.

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 rose by more than 6 percentage points compared with 2012, while the number of companies with at least one female director has risen by approximately 17% (Tab. 16).

**Tab. 16 Female representation on corporate boards of Italian listed companies**  
(situation as of 31 December 2013)

|      | female directorship |                         | companies with at least one woman on the Board of Directors |                         |
|------|---------------------|-------------------------|---|-------------------------|
|      | no.                 | proportion <sup>1</sup> | no.   | proportion <sup>2</sup> |
| 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                    |
| 2013 | 421                 | 17.8                    | 202   | 83.5                    |

Source: Consob data on the composition of corporate bodies. <sup>1</sup> Percentage of the total members of Boards of Directors. <sup>2</sup> Percentage of the total number of Italian listed companies.

This development is a result of Italian 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.

In particular, the law states that the less-represented gender has the right to at least one third of the corporate bodies. Gradual application of the obligation is however provided for. In fact, for the first renewal after the law comes into force, companies must guarantee attribution of at least one fifth of places to the less-represented gender.



An analysis of the relationship between gender composition and market indexes reveals that the relative proportion of female directors is higher in companies in the Mid Cap index and those not included in any of the indexes in question (21.4 and 22.8% respectively Tab. 17).

The Mid Cap index, in addition, contains the highest percentage of companies in which at least one woman is present (92.5 per cent).

**Tab. 17 Female representation on corporate boards of Italian listed companies by index**  
(situation as of 31 December 2013)

| index                | no. company <sup>3</sup> | proportion of capitalisation <sup>1</sup> | percentage of companies with at least one woman | average percentage of women on boards of directors <sup>3</sup> |
|----------------------|--------------------------|---|---|---|
| FTSE MIB             | 32                       | 67.5                                      | 84.2  | 19.8  |
| Mid Cap <sup>2</sup> | 37                       | 92.0                                      | 92.5  | 21.4  |
| Star <sup>2</sup>    | 53                       | 78.3                                      | 79.1  | 19.5  |
| other                | 20                       | 91.3                                      | 82.5  | 22.8  |
| <i>total</i>         | <i>202</i>               | <i>71.4</i>                               | <i>83.5</i>                                     | <i>21.2</i>   |

Source: Consob data on the composition of corporate bodies. <sup>1</sup> Percentage ratio between the capitalisation of ordinary capital of companies referable to each index, and capitalisation of ordinary capital of all listed Italian companies. <sup>2</sup> Companies on the Star segment and the Mid Cap index are only included in the Star category. <sup>3</sup> The data refer only to companies in which at least one woman is present.

Members of the board of directors of Italian companies listed on the FTSE MIB have an average age of around 61 and are almost all graduates; meetings of the board are well-attended and, among directors linked to the controlling shareholder, more men than women attend (Box 3).

As at the end of 2013, "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 issuers (Tab. 18).

There were 168 issuers with at least one director who also held offices in other listed companies, equivalent to 70% of the market in numerical terms, and 93% in terms of capitalisation. This phenomenon is particularly apparent in 30 cases, in which more than half the directors are involved in interlocking. In 77 per cent of financial companies and 51 per cent of non-financial companies, less than half the board members held positions in other listed companies. Finally, there is no interlocker in 17 per cent of financial companies (9 cases out of 53), while the figure came out at 34 per cent for corporate companies (65 cases out of 189).

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 Italian Legislative Decree 201/2011 converted into Italian Law No. 214 of 22 December 2011).

### Box 3

## The Boards of Directors of companies listed on the FTSE MIB

The average age of directors of Italian companies listed on the FTSE MIB index is approximately 61; this figure is uniform across sectors. Almost all directors are graduates (97.4 per cent), while only 17.4 per cent also hold a post-graduate qualification (Master's, PhD or both). More than half the members of Boards of Directors hold a degree in economics (approximately 52 per cent); they are followed by those with degrees in law (14.2 per cent) and engineering (13.5 per cent). The main profile is managerial (in 80 per cent of cases); academics represent 10.2 per cent of the total, in line with professionals/consultants.

Only 9.6 per cent of board members are foreign; in the services sector this falls to 6.5 per cent. On average, directors attend 93 per cent of board meetings; the figure is slightly higher for companies operating in the services and financial sector, compared with industry.

In FTSE MIB companies, directors who are also controlling shareholders or linked to them by family relationships (family directors) take a more active part in board meetings compared with other directors (non-family directors), with an average of 94.2 and 92.6 per cent respectively. The greater attendance of family directors is due only to men. In fact, among women, non-family directors are characterised by an attendance rate considerably higher than that of other women (96.2 compared with 91.6 per cent), while the contrary is true for men, who are on average present at 94.6 per cent of meetings if family and at 92 per cent of meetings if non-family.

Some characteristics of directors of Italian companies listed on the FTSE MIB index (situation as of 31 December 2012)

|              | no. companies | no. directors | average age | proportion % graduates | proportion % post-graduates | proportion % foreigners |
|--------------|---------------|---------------|-------------|------------------------|-----------------------------|-------------------------|
| financial    | 12            | 173           | 60.9        | 98.3                   | 16.5                        | 10.4                    |
| industrial   | 15            | 179           | 60.8        | 96.1                   | 17.4                        | 10.6                    |
| services     | 10            | 107           | 61.1        | 98.1                   | 19.0                        | 6.5                     |
| <i>total</i> | <i>37</i>     | <i>459</i>    | <i>60.9</i> | <i>97.4</i>            | <i>17.4</i>                 | <i>9.6</i>              |

Source: calculations based on Consob data and corporate governance reports of Italian companies with ordinary shares listed on the MTA published in 2013 for financial year 2012 and belonging to the FTSE MIB index; Borsa Italiana sectorial classification.

**Degree and professional profile of directors of Italian companies listed on the FTSE MIB index**  
(situation as of 31 December 2012)

|         |                         | no.<br>directors | proportion   |
|---------|-------------------------|------------------|--------------|
| degree  | economics               | 238              | 51.9         |
|         | law                     | 65               | 14.2         |
|         | engineering             | 62               | 13.5         |
|         | other <sup>1</sup>      | 94               | 20.5         |
|         | <i>total</i>            | <i>459</i>       | <i>100.0</i> |
| profile | academic                | 47               | 10.2         |
|         | manager                 | 367              | 80.0         |
|         | professional/consultant | 45               | 9.8          |
|         | <i>total</i>            | <i>459</i>       | <i>100.0</i> |

Source: processing of Consob data. Data on Italian companies with ordinary shares listed on the MTA; belonging to the FTSE MIB index. <sup>1</sup> The figure includes 37 cases in which no information is available.

**Average attendance at board meetings of directors of Italian companies listed on the FTSE MIB index**  
(situation as of 31 December 2012)

|                                 |       | no.<br>directors | average<br>attendance |
|---------------------------------|-------|------------------|-----------------------|
| directors                       |       | 459              | 92.9                  |
|                                 | women | 52               | 95.0                  |
|                                 | men   | 407              | 92.6                  |
| <i>of whom family directors</i> |       | 62               | 94.2                  |
|                                 | women | 7                | 91.6                  |
|                                 | men   | 55               | 94.6                  |
| <i>non-family directors</i>     |       | 201              | 92.6                  |
|                                 | women | 27               | 96.2                  |
|                                 | men   | 174              | 92.0                  |

Source: processing of Consob data. Data on Italian companies with ordinary shares listed on the MTA; belonging to the FTSE MIB index. The figures on family/non-family directors refer to 20 issuers; companies controlled by the State or by public bodies, widely-held companies, cooperative companies and companies controlled by a widely held company or by a cooperative are excluded.

**Tab. 18 Multiple directorship (interlocking) in Italian listed companies**  
(situation as of 31 December 2013)

| percentage of members of the Board of directors with more than one position | financial companies |                         | non-financial companies |                         | total      |                         |
|---|---------------------|-------------------------|-------------------------|-------------------------|------------|-------------------------|
|   | no.                 | proportion <sup>1</sup> | no.                     | proportion <sup>1</sup> | no.        | proportion <sup>1</sup> |
| 0%  | 9                   | 4.8                     | 65                      | 8.3                     | 74         | 7.1                     |
| < 25%   | 20                  | 33.0                    | 57                      | 22.1                    | 77         | 25.7                    |
| from 25 to 50% <sup>2</sup>   | 21                  | 61.9                    | 40                      | 51.9                    | 61         | 55.2                    |
| from 50 to 75% <sup>2</sup>   | 3                   | 0.3                     | 25                      | 17.6                    | 28         | 11.9                    |
| ≥ 75%   | -                   | -                       | 2                       | 0.1                     | 2          | 0.1                     |
| <i>total</i>  | <i>53</i>           | <i>100.0</i>            | <i>189</i>              | <i>100.0</i>            | <i>242</i> | <i>100.0</i>            |

Source: Consob data on the composition of corporate bodies. Borsa Italiana sectorial classification. The data refer to Italian companies which were not in liquidation on 31 December 2012. <sup>1</sup> Percentage of total capitalisation in the sector. <sup>2</sup> The interval includes the lower limit.

The 2012 corporate governance reports of Italian listed companies published in 2013 reveal that the average 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 financial companies, followed by companies operating in the services sector and industrial enterprises.

Overall, independent directors, as defined in the Consolidated Law on Finance, represent 39.9% of the total, while the average percentage of independent directors as defined in the Code of Corporate Governance is slightly lower (39.1%); Tab. 19).

**Tab. 19 Independent directors on the boards of Italian listed companies**  
(situation as of 31 December 2012)

|              | independent directors<br>(by the TUF) |                         | independent directors<br>(by the Code of Corporate Governance) |                         | independent directors<br>(by the Code of Corporate Governance<br>and/or from the TUF) <sup>1</sup> |                         |
|--------------|---------------------------------------|-------------------------|--|-------------------------|--|-------------------------|
|              | average                               | proportion <sup>2</sup> | average  | proportion <sup>2</sup> | average  | proportion <sup>2</sup> |
| financial    | 5.8                                   | 43.1                    | 5.0  | 39.0                    | 5.9  | 45.7                    |
| industrial   | 3.7                                   | 37.4                    | 3.4  | 36.2                    | 3.8  | 40.9                    |
| services     | 4.5                                   | 42.9                    | 4.8  | 46.0                    | 5.0  | 49.5                    |
| <i>total</i> | <i>4.3</i>                            | <i>39.9</i>             | <i>4.1</i>   | <i>39.1</i>             | <i>4.5</i>   | <i>43.9</i>             |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251). <sup>1</sup> Independent directors according to both definitions are considered only once. <sup>2</sup> Percentage of independent directors present on Boards of Directors.

Directors elected by minority shareholders are present in 93 companies, mostly industrial ones, numbering on average less than two (1.7; the figure is 0.7 if all listed companies are considered; Tab. 20).

On average, minority directors represent 6.6 per cent of members of the Board of Directors; this figure is higher for companies operating in the services sector (8.4 per cent), followed by industrial (6.3 per cent) and financial companies (5.7 per cent).

**Tab. 20 Minority directors on the board of directors of Italian listed companies**  
(situation as of 31 December 2012)

|              | companies with at least one minority director | minority directors   |                         | minority and/or independent directors <sup>1</sup> |                         |
|--------------|---|----------------------|-------------------------|--|-------------------------|
|              |   | average <sup>2</sup> | proportion <sup>3</sup> | average  | proportion <sup>4</sup> |
| financial    | 21  | 0.8 (1.8)            | 5.7                     | 6.2  | 43.4                    |
| industrial   | 47  | 0.6 (1.7)            | 6.3                     | 3.8  | 41.7                    |
| services     | 25  | 0.8 (1.8)            | 8.4                     | 5.1  | 44.0                    |
| <i>total</i> | <i>93</i>                                     | <i>0.7 (1.7)</i>     | <i>6.6</i>              | <i>4.6</i>   | <i>42.6</i>             |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251). Two-tier companies are not included. In the supervisory boards of these companies, directors representing minorities are present in 5 cases (average number of minority directors 3.5). <sup>1</sup> Directors who are both of a minority and independent are considered only once. <sup>2</sup> Average number of minority directors. The first figure is calculated considering all listed companies; the figures in brackets refer to companies with at least one minority director. <sup>3</sup> Percentage of minority directors present on Boards of Directors of all listed companies. <sup>4</sup> Percentage of minority and/or independent directors present on Boards of Directors.

As regards the establishment of committees within the Board of Directors, the data show the wide spread of the remuneration committee, present in 215 companies, and of the control and risk committee, set up by 218 companies; less widespread, instead, is the appointments committee, adopted by only 93 issuers, most likely as a consequence of the fact that its establishment was explicitly recommended by the Code of Corporate Governance only in 2011 (Tab. 21, Tab. 22 and Tab. 23).

**Tab. 21 Remuneration committee in Italian listed companies by industry**  
(situation as of 31 December 2012)

|              | adopted                       |   | size and composition   |                      |   | average no. of meetings |
|--------------|-------------------------------|---|------------------------|----------------------|---|-------------------------|
|              | no. of companies <sup>1</sup> | proportion of capitalisation <sup>2</sup> | average no. of members | average no. of women | average no. of independent directors <sup>3</sup> |                         |
| financial    | 52                            | 99.9                                      | 3.3                    | 0.5                  | 2.7   | 4.2                     |
| industrial   | 114                           | 98.0                                      | 3.0                    | 0.3                  | 2.3   | 2.9                     |
| services     | 49                            | 99.7                                      | 3.0                    | 0.3                  | 2.3   | 3.6                     |
| <i>total</i> | <i>215</i>                    | <i>98.9</i>                               | <i>3.1</i>             | <i>0.4</i>           | <i>2.4</i>  | <i>3.4</i>              |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251). <sup>1</sup> Number of companies which have established the committee. In 61 companies, the remuneration committee coincides with the appointments committee. <sup>2</sup> Percentage ratio between the capitalisation of ordinary share capital of companies which have set up the committee in each sector, and the market value of the ordinary capital of all companies in the same sector. <sup>3</sup> Average number of independent directors according to the criteria of the Code of Corporate Governance or, in its absence, of the Consolidated Law on Finance.

The three committees do not differ significantly in terms of composition: the average number of members is approximately 3, of whom on average 0.4 women, while the average number of independent directors varies from 2.4 to 2.7. As regards their operation, instead, control and risk committees meet more frequently, holding on average almost 7 meetings a year, compared with the 3.4 meetings held on average by the remuneration committee and the 4.1 meetings of the appointments committee. In all cases, the number of meetings is higher among financial companies.

**Tab. 22 Nomination committee in Italian listed companies by industry**  
(situation as of 31 December 2012)

|              | adopted                       |   | dimensions and composition |                      |   | average no. of meetings |
|--------------|-------------------------------|---|----------------------------|----------------------|---|-------------------------|
|              | no. of companies <sup>1</sup> | proportion of capitalisation <sup>2</sup> | average no. of members     | average no. of women | average no. of independent directors <sup>3</sup> |                         |
| financial    | 30                            | 94.0                                      | 4.0                        | 0.5                  | 2.8   | 5.1                     |
| industrial   | 45                            | 72.1                                      | 3.0                        | 0.3                  | 2.4   | 3.5                     |
| services     | 18                            | 38.7                                      | 3.1                        | 0.3                  | 2.5   | 3.7                     |
| <i>total</i> | <i>93</i>                     | <i>69.9</i>                               | <i>3.3</i>                 | <i>0.4</i>           | <i>2.5</i>  | <i>4.1</i>              |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251).  
<sup>1</sup> Number of companies which have established the committee. In 61 companies, the remuneration committee coincides with the appointments committee. <sup>2</sup> Percentage ratio between the capitalisation of ordinary share capital of companies which have set up the committee in each sector, and the market value of the ordinary capital of all companies in the same sector. <sup>3</sup> Average number of independent directors according to the criteria of the Code of Corporate Governance or, in its absence, of the Consolidated Law on Finance.

**Tab. 23 Internal control and risk management committee in Italian listed companies by industry**  
(situation as of 31 December 2012)

|              | adopted                       |   | dimensions and composition |                      |   | average no. of meetings |
|--------------|-------------------------------|---|----------------------------|----------------------|---|-------------------------|
|              | ao. of companies <sup>1</sup> | proportion of capitalisation <sup>2</sup> | average no. of members     | average no. of women | average no. of independent directors <sup>3</sup> |                         |
| financial    | 51                            | 98.5                                      | 3.5                        | 0.8                  | 3.0   | 9.3                     |
| industrial   | 115                           | 98.6                                      | 3.0                        | 0.4                  | 2.5   | 5.6                     |
| services     | 52                            | 99.9                                      | 3.2                        | 0.4                  | 2.6   | 6.5                     |
| <i>total</i> | <i>218</i>                    | <i>98.9</i>                               | <i>3.2</i>                 | <i>0.5</i>           | <i>2.7</i>  | <i>6.7</i>              |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251).  
<sup>1</sup> Number of companies which have established the committee. <sup>2</sup> Percentage ratio between the capitalisation of ordinary share capital of companies which have set up the committee in each sector, and the market value of the ordinary capital of all companies in the same sector.  
<sup>3</sup> Average number of independent directors according to the criteria of the Code of Corporate Governance or, in its absence, of the Consolidated Law on Finance.

The Code of Corporate Governance recommends that Boards of Directors 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 2012, 177 issuers (approximately 70% of the market) confirmed that they had carried out the self-assessment. Finally, only seven companies confirmed that they had prepared succession plans. Of these, five related to directors, and two only to executives (Tab. 24).

The preparation of succession plans for Executive Directors was recommended explicitly in the Code of Corporate Governance starting only from December 2011. The new version of the Code recommends that the Board of Directors consider whether or not to adopt a plan for the succession of Executive Directors and, if such a plan is adopted, that the issuer state the relevant information in the corporate governance report.

**Tab. 24 Self-evaluation of the Board of Directors and succession plans in Italian listed companies by industry**  
(situation as of 31 December 2012)

|              | self-evaluation               |                                  | succession plans              |                                  |
|--------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
|              | no. of companies <sup>1</sup> | proportion of total <sup>2</sup> | no. of companies <sup>3</sup> | proportion of total <sup>2</sup> |
| financial    | 44                            | 17.5                             | 3                             | 1.2                              |
| industrial   | 96                            | 38.2                             | 7                             | 2.8                              |
| services     | 37                            | 14.7                             | 3                             | 1.2                              |
| <i>total</i> | <i>177</i>                    | <i>70.5</i>                      | <i>13</i>                     | <i>5.2</i>                       |

Source: based on corporate governance reports of Italian companies with shares listed on the MTA published in 2013 for financial year 2012; Borsa Italiana sector classification. Data on companies whose corporate governance reports were available at the reporting date (242 out of 251).<sup>1</sup> Number of companies declaring that the Board of Directors has carried out the self-assessment process. <sup>2</sup> Percentage of the total number of listed companies. <sup>3</sup> Number of companies declaring the existence of a succession plan. Includes five cases in which the plan does not relate to Directors but only to Executives. In addition three companies state that they have planned to adopt a succession plan.

Lastly, the evidence on alternative administration and control systems confirms that two-tier and one-tier systems are not widespread, as they are referable only to seven companies.

In particular, two issuers adopt the one-tier and five the two-tier system. These latter, which represent almost 9 per cent of the market, include a number of issuers with high capitalisation, unlike the two one-tier companies which are small (Tab. 25).

**Tab. 25 Italian listed companies by management and control model**  
(situation as of 31 December 2013)

| model        | no. of companies | proportion <sup>1</sup> |
|--------------|------------------|-------------------------|
| traditional  | 237              | 91.3                    |
| two-tier     | 5                | 8.6                     |
| one-tier     | 2                | 0.1                     |
| <i>total</i> | <i>244</i>       | <i>100.0</i>            |

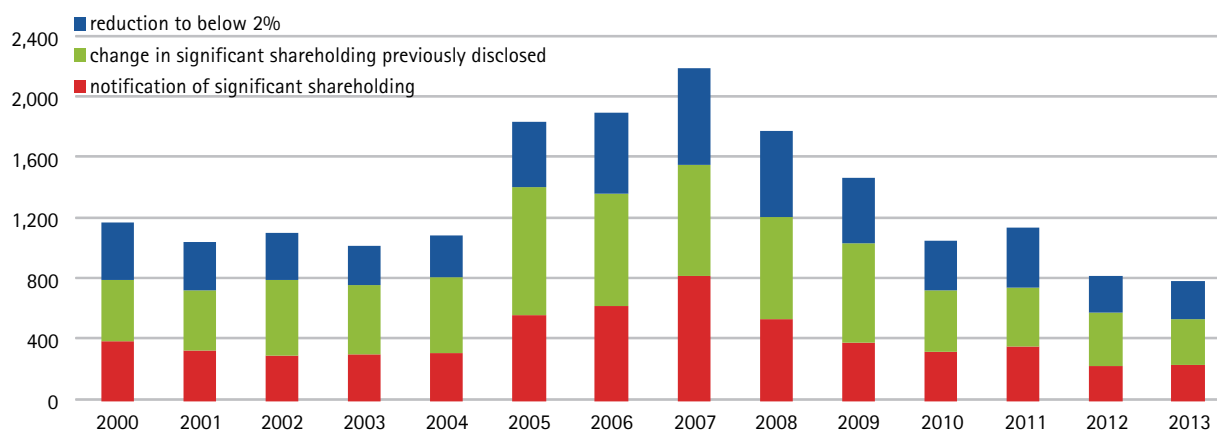
Source: Consob. Data on Italian companies with ordinary shares listed on the MTA. <sup>1</sup> Percentage ratio between capitalisation of ordinary capital of companies subject to each control model, and capitalisation of ordinary capital of all Italian companies with shares listed on the Stock Exchange.

### 3 Disclosure of relevant shareholdings

In 2013, 792 disclosures were published relating to investments in listed companies made pursuant to Article 120 of the Consolidated Law on Finance (Fig. 99). The drop recorded compared with the previous year, when the figure came to 830 disclosures, was mainly due to the exemption from the obligation to disclose equity investments of less than 5 per cent granted mid-2012 to asset management companies.

During 2013, disclosures by listed issuers in relation to transactions on treasury shares were approximately 4 per cent of the total, in line with the previous year, with regard to both the number of declarations and the number of transactions.

Fig. 99 Disclosure of major shareholdings in Italian listed companies



Source: Consob.

During the year, three declarations regarded the acquisition, sale or modification of potential shareholdings and four (relating to three listed companies) disclosure of the 'overall long position', a case introduced in 2011 with the aim of providing investors with an as-faithful-as-possible picture of the potential shareholders of listed companies.

In 2013, finally, Consob challenged infringements of Art. 120 of the Consolidated Law on Finance against two trusts which for various years had hidden major shareholdings held by them in companies.

At the end of the investigations, in addition, Art. 158, Section 1, of the Italian Criminal Code was considered applicable because of the permanent nature of the offence. This derives from an infringement of Art. 120 of the Consolidated Law on Finance.

During 2013, 156 announcements of shareholders' agreements were published (155 in 2012) in relation to 65 listed companies, referable to 76 cases of changes to existing shareholders' agreements, in 34 cases to the dissolution or cessation of the purposes of the agreement itself, and in the remaining 46 to the publication of extracts of new agreements. Of these, three were signed in companies admitted to listing during 2013.

## 4 Supervision of related-party transactions

During 2013, in application of the transparency regime for the most significant related-party transactions provided for in the Consob Regulation (henceforth the Regulation), 77 information documents were published (79 in 2012 and 80 in 2011; Tab. 26).

In 31 cases, the information documents concerned loan operations carried out with related parties, mostly with majority shareholders or other shareholders holding significant interests, or with directors or companies



referable to the same. In almost one case out of three, the transaction consisted of transferring assets and equity investments, above all with reference shareholders or with companies controlled by these latter. Less frequently, the information documents published during 2013 concerned operations on the share capital, such as mergers between the listed company and other related parties, recapitalisation commitments assumed by shareholders of the listed company or other operations that resulted in an increase of the relative equity interest of the related counterparties with respect to the other shareholders. Finally, in eight cases, the information document dealt with other contracts, for example for supply of goods or provision of services, with the majority shareholder or other shareholders with significant interests in the issuer's share capital.

**Tab. 26 Information documents on major related-party transactions disclosed in 2013 by Italian listed companies**

| type of transaction                                     | counterparty                                  |   |                      | total     |
|---|---|---|----------------------|-----------|
|   | directors/companies<br>Referable to directors | parent<br>company/reference<br>shareholders | subsidiary/associate |           |
| supply and service contracts,<br>sponsoring, investment | -   | 8   | -                    | 8         |
| loans   | 3   | 28  | -                    | 31        |
| mergers   | -   | 13  | -                    | 13        |
| transfer of assets                                      | 1   | 23  | 1                    | 25        |
| <i>total</i>  | <i>4</i>                                      | <i>72</i>                                   | <i>1</i>             | <i>77</i> |

Source: Consob.

As permitted by Art. 13, Section 3, of the Regulation, ordinary transactions concluded at market or standard conditions can be excluded from application of the procedural and public disclosure obligations, although they must be communicated to Consob if the amount is more than the thresholds that identify transactions of greater significance. These, in particular, are transactions that relate to the ordinary exercise of operating activities or the related financial activity, according to the classification contained in IAS 7, and concluded at market or standard conditions. During 2013, Consob received 22 communications relating to related-party transactions of greater significance qualified as ordinary and at market conditions, and subject to exemption from the public disclosure obligations. These communications refer to companies on the FTSE MIB index in 10 cases.

The communications received in 2013 regarded both loan operations (12 cases), relating above all to non-financial companies, and contracts for the supply of goods or performance of services falling within the operating activity of the companies which made the communication.

In most cases, the 'ordinary' operations were carried out with the parent company, with companies controlled by the same or with shareholders holding significant stakes in the share capital of the listed company (16

cases). The transactions of greatest significance carried out with subsidiaries (five cases) and with a company referable to a director (one case) are shown below.

In line with the objectives of the 2013-2015 strategic plan, supervision on the subject of corporate governance concentrated on conflicts of interest among controlling and non-controlling shareholders and on the associated risk of expropriation carried out through related-party transactions.

With a view to the development of a risk-based approach, part of the supervisory activity on application of the Regulation on related-party transactions was directed at transactions performed in exemption from the disclosure and/or procedural obligations provided for therein, in order to check their correct classification as 'exemptible'.

Further areas of interest of the supervision, instrumental to correct application of the rules on related-party transactions, consisted of users identifying related parties and assessing the requirement of independence of directors.

## 5 Supervision of corporate governance and of internal control bodies

During 2013, the first measures were adopted on warnings for failure to observe the rules on the subject of gender quotas introduced into the Consolidated Law on Finance with Italian Law 120/2011. The warnings were adopted in relation to companies when the composition of their Board of Directors (Ternienergia SpA) or of statutory auditors (Banca Intermobiliare SpA) was not compliant with the gender division criterion required for the first renewal after the law came into force. Both companies adjusted the composition of their boards to the legislative prescriptions within the terms provided for.

With Communication 0061499/13 of 18 July 2013, Consob adopted an interpretative guideline on the adaptation of companies being listed to the rules on the subject of gender balance provided for in Arts 147-*ter*, Section 1-*ter*, and 148, Section 1-*bis*, of the Consolidated Law on Finance, believing that issuers, at the moment of admission to listing, have exclusively the obligation to adapt their articles of association to said law, so as to have a corporate governance structure that enables them to comply on first renewal of the corporate bodies after admission to listing. This conclusion is motivated, on the one hand, by the circumstance that the imperative prescription laid down by the Consolidated Law on Finance for listed companies are applicable starting from the first day of admission to trading of shares in a regulated market and, on the other, is supported by the literal wording of the laws on the subject of gender balance, on the basis of which

it is the company's by-laws that must provide for the rules aimed at ensuring that, in the election of members of the boards of directors and statutory auditors, the gender quotas are observed.

Again with regard to the appointment of corporate bodies, Consob supervised the connecting relationships between lists with a view to guaranteeing that the majority list effectively had no connection with the minority representatives, in line with the purposes of the list vote.

During the 2013 shareholders' meeting season, Consob continued to attend a number of shareholders' meetings of listed companies with the intention of observing the conduct of the meeting and the methods of participation actually offered to minority shareholders. The participation of the personnel, as mere observers and in a reserved form, regarded shareholders' meetings characterised by resolutions connected with corporate crisis situations, conflicts of interest among shareholders, proposals to revoke the Board of Directors, promotion of liability actions, appointment of corporate bodies with presentation of several lists, solicitations of delegated voting powers.

As part of its supervision on boards of statutory auditors, Consob asked statutory auditors, continuously, to formulate their considerations on observance by directors of specific legislative or regulatory provisions and of practices recommended by self-discipline in relation to several questions that, for each listed company, emerged as significant in supervision on corporate governance. The aim of this approach is to facilitate the most timely assessment by boards of auditors of the possible critical profiles of governance and fulfilment of their supervisory duties preventively and continuously.

## 6 Supervision of independent auditors

There are 25 companies that perform independent auditing activities on Public Interest Entities (PIEs) and which, under the terms of current legislation, are supervised by Consob (of which 17 are already present in the former Consob Register), against a total number of independent auditing appointments on PIEs concerning more than 1,500 entities.

The legislative innovations, which entailed the abandonment, in the second half of 2012, of the Register previously held by Consob, produced quite modest effects on the auditing market.

The PIE independent auditing market continues to be highly concentrated. An analysis of the distribution of appointments to independently audit 2013 annual separate and consolidated accounts of listed issuers shows a domestic market share of independent auditing referable to the four leading operators (the "big four"), of just over 86 per

cent (Tab. 27). The individual market shares of the "big four" vary between approximately 14 and 26 per cent.

The distribution of appointments was not affected by the advance interruptions of nine-year mandates, provided for in Art. 13 of Italian Decree 39/2010 and governed through a specific Regulation issued by the Ministry of the Economy and Finance in December 2012.

**Tab. 27 Italian listed companies by appointed audit firm**

| independent audit firms | no. of appointments in companies with listed shares | market share <sup>1</sup> |
|-------------------------|---|---------------------------|
| <i>Big four</i>         | 211   | 86.5                      |
| medium-sized firms      | 30  | 12.3                      |
| small firms             | 3   | 1.2                       |
| <i>total</i>            | <i>244</i>  | <i>100.0</i>              |

Source: Consob. <sup>1</sup> Percentage figures.

With reference to the possibility of interrupting independent auditing appointments in advance, the new rules enable the parties, if the legislative requisites provided for are met, to use, besides the existing revocation for a good reason (on the initiative of the audited entity), also the system of resignation from the appointment (on the initiative of the independent auditor) and consensual termination of the auditing contract.

**Tab. 28 Cases of dismissal of independent auditors**

(1 Jan 2013 – 31 Dec 2013)

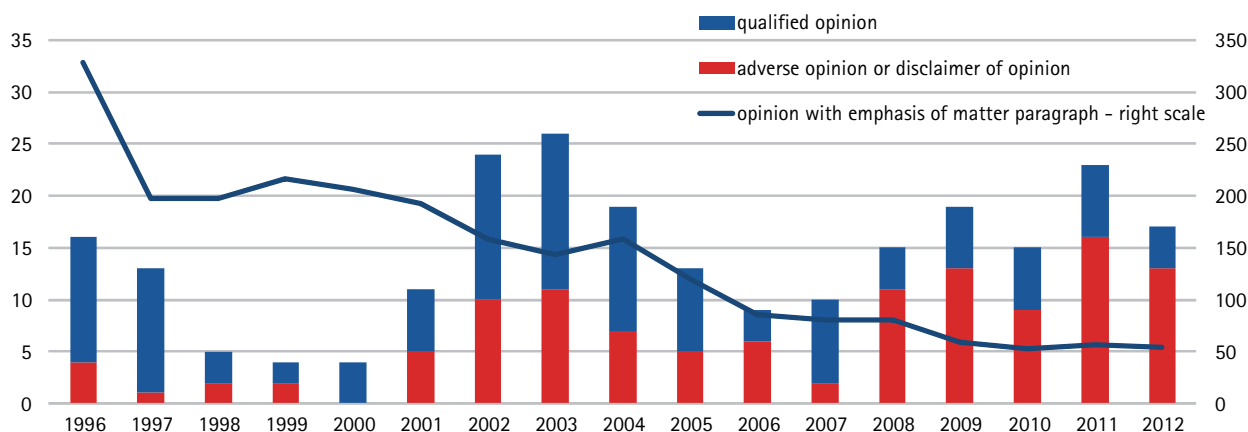
|   | dismissal | consensual termination | resignation |
|---|-----------|------------------------|-------------|
| change of controlling party   | 3         | 12                     | --          |
| change of group auditor   | 7         | 18                     | --          |
| changes within the group  | 2         | 2                      | --          |
| loss of public interest entity status   | 16        | 2                      | --          |
| contingent situation capable of compromising independence   | 1         | --                     | 1           |
| contingent non-existence of the obligation of independent auditing for loss of the legal requisites | 6         | 8                      | --          |
| non-payment/adjustment of fees after default  | --        | --                     | 2           |
| contingent incompatibility situation following change in controlling shareholder                    | --        | 2                      | --          |
| other <sup>1</sup>  | 2         | 1                      | --          |
| <i>total</i>  | <i>37</i> | <i>45</i>              | <i>3</i>    |

Source: Consob. <sup>1</sup> In the cases of dismissal, the replacement was requested by official receivers and authorised by the Bank of Italy pursuant to Art. 72 Sect. 5-*bis* of the Consolidated Law on Banking (TUB). The case of consensual termination occurred following a disciplinary proceeding launched by the Bank of Italy against the board of statutory auditors, during which shortcomings were found in the work of the audit firm.

During 2013, 85 early terminations of independent auditing appointments were communicated to Consob by public interest entities, compared with 92 in 2012, 25 in 2011 and 9 in 2010. Compared with 2012, cases of consensual termination increased significantly (up from 25 to 45) and revocations fell (from 67 to 37). The independent auditor resigned in three cases (none in 2012; Tab. 28).

With particular reference to the judgements expressed by the audit firms on the annual separate and consolidated financial statements of financial year 2012 of Italian listed issuers, we can note a slight departure from the data related to financial year 2011, although there was confirmation of the prevalence, which has emerged in the last five years, of the circumstance in which the impossibility of expressing a judgement was declared with respect to qualified judgements (Fig. 100).

**Fig. 100 Opinions of independent auditors on Italian listed companies financial statements**



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

The supervision of auditing firms in 2013 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 Art. 22(1) of Italian Legislative Decree 39/2010, the supervisory activity, launched the previous year, in relation to the second cycle of controls, continued during 2013. New investigations were also launched in relation to large audit firms operating on the market, with requests for information and documentation aimed at acquiring up-to-date evidence on the existing system of quality controls at the same.

This supervisory activity aimed to verify the effective operational implementation and efficacy of the organisational and procedural measures

adopted by audit firms in response to the shortcomings found by Consob at the end of the first cycle of controls. An examination was also carried out of the amendments and additions made autonomously by audit firms to the quality control procedures with respect to the framework outlined in the previous verification cycle, in order to identify any shortcomings and assess their impact both on the configuration of the single procedures and on the system of controls as a whole.

With reference to small and medium-sized audit firms, the controls carried out highlighted the presence of a number of areas of improvement.

The results of the checks carried out on the appointments were considered also in the light of the overall procedural structure of the firms and of any weaknesses. Where necessary, specific actions were identified with the aim of supplementing the procedures and strengthening the existing system of controls at the firms.

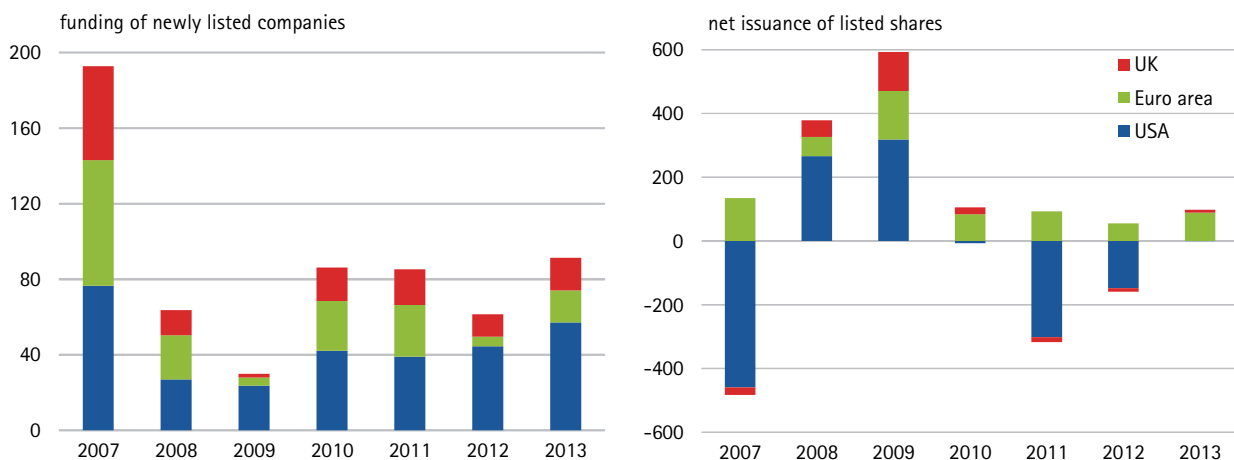
As regards, finally, the enforcement action carried out in 2013, four letters of charges were sent to three independent audit firms, following the investigation into irregularities in the fulfilment of the auditing duties relating to the financial statements of a bank and the financial statements of three listed issuers.

## 1 Risk capital funding and extraordinary corporate finance transactions

In 2013, the total amount of resources collected by newly listed companies on the major stock exchanges of the advanced economies was 48.5 per cent higher than in the previous year, reaching 91 billion dollars. The renewed climate of confidence on the markets was also reflected in issues of listed shares, which recorded a positive net balance of almost 100 billion dollars, compared with an equivalent negative figure in 2012 (Fig. 101).

In particular, resources collected through IPOs on the main euro area markets more than tripled (from 5 billion dollars in 2012 to almost 17), while they grew by 45 per cent in the United Kingdom (from 12 to approximately 17 billion) and by 28 per cent in the United States (from 45 to approximately 57 billion). Net issues of listed shares increased considerably in 2013 reaching approximately 89 billion dollars in the euro area (56 billion in 2012) and 8 billion in the United Kingdom, where in the two previous years a negative flow of more than 10 billion had been recorded; in the United States, the negative balance fell to approximately one billion (from 150 billion in the previous year).

**Fig. 101 Funding via IPO and net share issue in major advanced countries**  
(billions of USD)

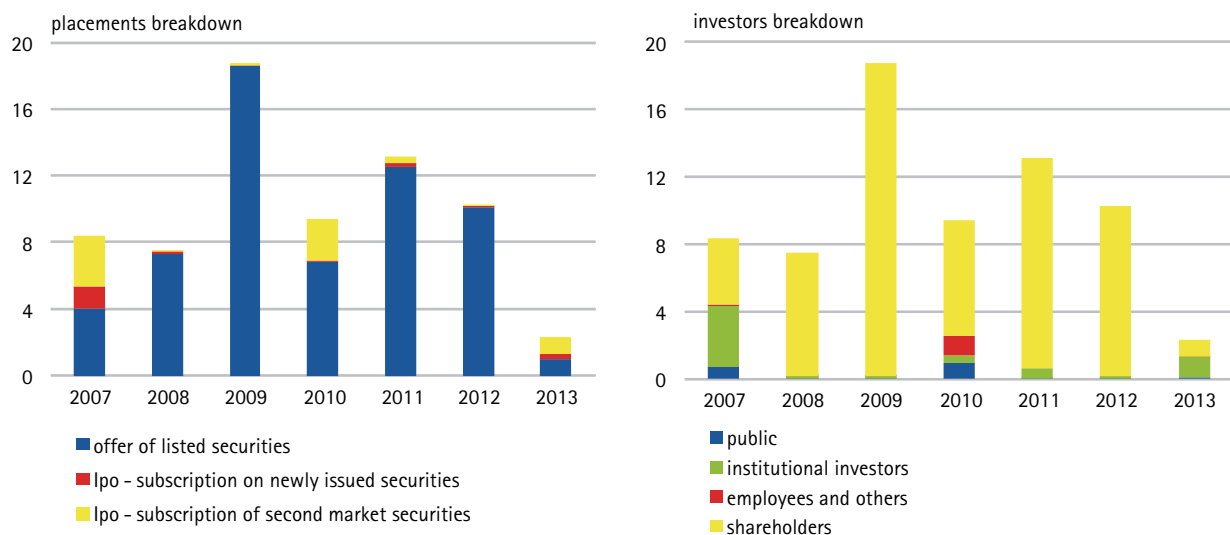


Funding on the US market refers to placings on the NYSE and on the NASDAQ. The figure for net US issues is deseasonalised. Processing of World Federation of Exchanges and London Stock Exchange data (resources collected); Fed, ECB and Bank of England data (net issues).

In 2013, the Italian equity markets recorded a considerable reduction in total funding, which, at the end of the year, amounted to approximately 2.3 billion euro (-77.6 per cent compared with the previous year). In line with the international figure, the total amount of offers aimed at listing, instead, increased considerably, going up from less than 200 million in 2012 to almost 1.4 billion in 2013 (Fig. 102).

Although they were still of a smaller total amount than the levels of 2010, IPOs carried out in 2013 were the main channel for collecting capital. The sale of securities held by shareholders, in particular, accounted for 45 per cent of total funding (one billion euro compared with 113 million in 2012, 1 per cent of total funding in that year). On the contrary, capital increases recorded a sharp drop compared with previous years, coming out at an amount of just less than one billion euro (10 billion in 2012), 41 per cent of the total amount of placings.

**Fig. 102 Total placement of listed shares and convertible bonds in domestic market**  
(issue of new securities and sale of second market securities; billions of euro)



Source: Borsa Italiana

In 2013, 16 initial public offerings of Italian companies aimed at listing on the equity markets managed by Borsa Italiana were made, of which two on the Mercato Telematico Azionario (MTA market) and one on the Mercato Telematico degli Investment Vehicles (MIV; for the supervisory activity relating to approval of prospectuses for admission to listing, see the next paragraph).

The signs of recovery recorded on the MTA – where admissions to listing grew compared with the previous year – emerged also with reference to the Alternative Investment Market (AIM) Italia/Mac, which recorded 13 new admissions (as well as two relating to foreign issuers).



The companies that applied to the AIM, which are characterised by limited dimensions, were able to make offerings while exempt from publication of the prospectus under the terms of Directive 2003/71/EC, providing for distribution of the shares among institutional investors, and in some cases to the public, under the threshold of 5 million euro.

The total amount of offerings and the size of Italian companies were significantly greater than in 2012, although far from the levels recorded in 2007 (Tab. 29).

**Tab. 29 Initial public offerings by Italian companies<sup>1</sup>**  
(monetary amounts in millions of euro)

|                   | no. of companies | capitalisation pre-offering <sup>2</sup> | IPO value    |       |       | proportion of capitalisation post-offering <sup>3</sup> |
|-------------------|------------------|--|--------------|-------|-------|---|
|                   |                  |  | subscription | sale  | total |   |
| 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 <sup>4</sup> | 10               | 8,354                                    | 46           | 2,636 | 2,682 | 31.9  |
| 2011              | 8                | 1,602                                    | 61           | 379   | 440   | 26.4  |
| 2012              | 6                | 602                                      | 71           | 113   | 184   | 29.6  |
| 2013              | 16               | 3,389                                    | 314          | 1,031 | 1,344 | 35.8  |

Source: Consob and Borsa Italiana. See Methodological Notes. <sup>1</sup> Includes initial public offerings for trading on the AIM Italia/Mac since 2012 and on the single MTFs in the periods before unification. <sup>2</sup> Capitalisation of companies admitted to listing, calculated on the basis of the public offering price and the pre-offering number of shares. <sup>3</sup> In ratio to post-listing capitalisation, measured at the public offering price. Percentage values, weighted for the sum total of public offerings. Figures do not include Eni in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004. <sup>4</sup> The figures include the tranche of the Enel Green Power bid, aimed at the general public and the Spanish employees (71 million euro).

In detail, the amount of domestic IPOs in 2013 came out at approximately 1.3 billion euro, almost 6 times that recorded in 2012, while total pre-offering capitalisation, calculated at the public offering price, was almost 3.4 billion euro, compared with only 0.6 billion in 2012.

The most significant operation in 2013 was the Moncler public offering, with a counter-value placed of almost 800 million euro (58 per cent of the total) and pre-offering capitalisation of more than 2.5 billion (75 per cent of the total). The offering concerned almost 67 million ordinary shares offered for sale by three shareholders. Considering the importance of Japan for the issuer's business, as part of the institutional placing it was envisaged that approximately 6.7 million Moncler shares would be destined for a public offering reserved for Japanese citizens, without the offering being aimed at admission to listing of these shares on the Japanese equity markets.

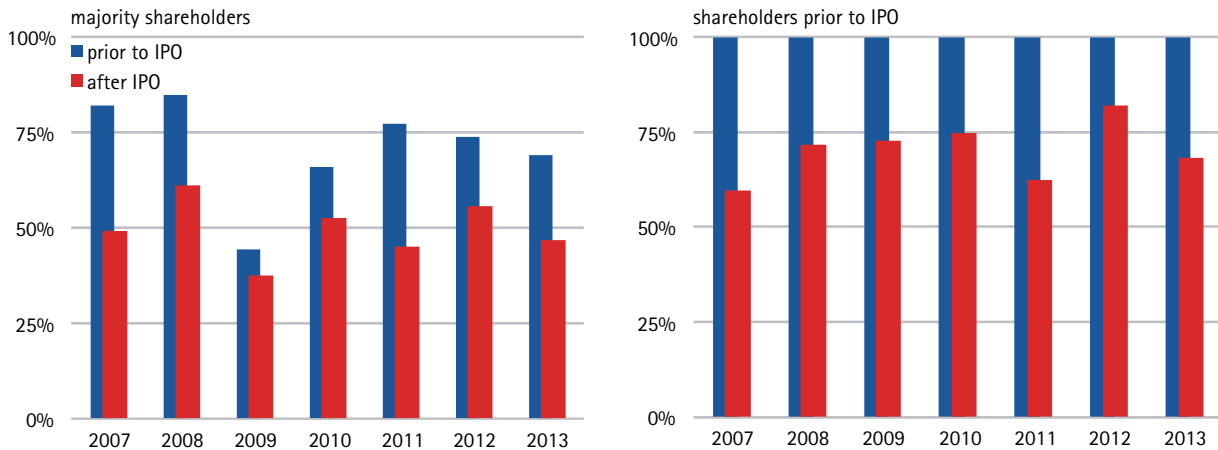
The global offer of sale and subscription launched by Moleskine SpA, for an amount of almost 270 million euro (a fifth of the total) concerned more than 106 million ordinary shares, of which approximately 94 put on sale by the two shareholders and 12 newly-issued.

The Moncler and Moleskine IPOs prove the attractiveness of the financial market of companies in the fashion and luxury segment, after the important IPOs of Brunello Cucinelli and Salvatore Ferragamo in previous years.

An analysis of the ownership structure of domestic companies that go public confirms the low contestability. In 2013, however, the stakes of share capital held by controlling shareholders declined following listing (on average from approximately 69 per cent to 46.7 per cent of the share capital with voting rights), reflecting a considerable increase in the float compared with the previous year; a similar trend can be seen with reference to the stake of shareholders prior to listing, down after the offering to 68.3 per cent (82 in 2012; Fig. 103).

The ownership structures of Italian newly-listed companies in the last few years have presented also a modest decline in controlling equity investments prior to listing. In 2013, in particular, the average controlling stake before the offering was approximately 69 per cent, compared with an average long-term figure close to 80 per cent.

**Fig. 103 Ownership structure of Italian newly listed companies**  
(percentage of company's voting shares; average values)



Source: Consob and Borsa Italiana. Includes the initial public offerings for trading on AIM Italia/Mac since 2012 (on AIM Italia since 2009). See Methodological Notes.

The demand/supply ratio, higher than in previous years, is a sign of growing interest for newly listed Italian companies on the part of investors. Institutional investors, in any case, were the main targets of placements also in 2013, confirming the growing role that they play in the creation of offerings aimed at listing. In particular, the total proportion assigned to them came out at 92 per cent of the total (slightly more than 2012), compared with 7.8 per cent destined for the public (a reduction compared with the previous year; Tab. 30).

**Tab. 30 Italian listed companies: results of offerings<sup>1</sup>**

|                   | percentage allocated <sup>2</sup> |                                 |                                 |                            | supply-demand ratio <sup>3</sup> |                        |
|-------------------|-----------------------------------|---------------------------------|---------------------------------|----------------------------|----------------------------------|------------------------|
|                   | public                            | Italian institutional investors | foreign institutional investors | other parties <sup>4</sup> | public offering                  | institutional offering |
| 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 <sup>5</sup> | 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                   |
| 2013              | 7.8                               | 26.2                            | 66.0                            | --                         | 11.0                             | 21.3                   |

Source: Consob and Borsa Italiana. See Methodological Notes. <sup>1</sup> Averages weighted according to the amounts of the public offerings, in percentages. Rounding may cause discrepancies in the total figure. Includes initial public offerings for trading on the AIM Italia/Mac since 2012 and on the single MTFs in the periods before unification. <sup>2</sup> Where the breakdown of allocations between Italian and foreign institutional investors is not known, the figure has been estimated. <sup>3</sup> The supply-demand ratio averages are based only on offerings for which both the public and institutional figures are known. <sup>4</sup> These are named parties for which a certain amount of shares is reserved, also as a result of agreements reached prior to listing. <sup>5</sup> The figures include the tranche of the Enel Green Power bid, aimed at the general public and the Spanish employees (71 million euro).

With reference to the Moncler IPO, in particular, the ratio between demand and placement was 14.5 for the public offering and 28.4 for the institutional offering.

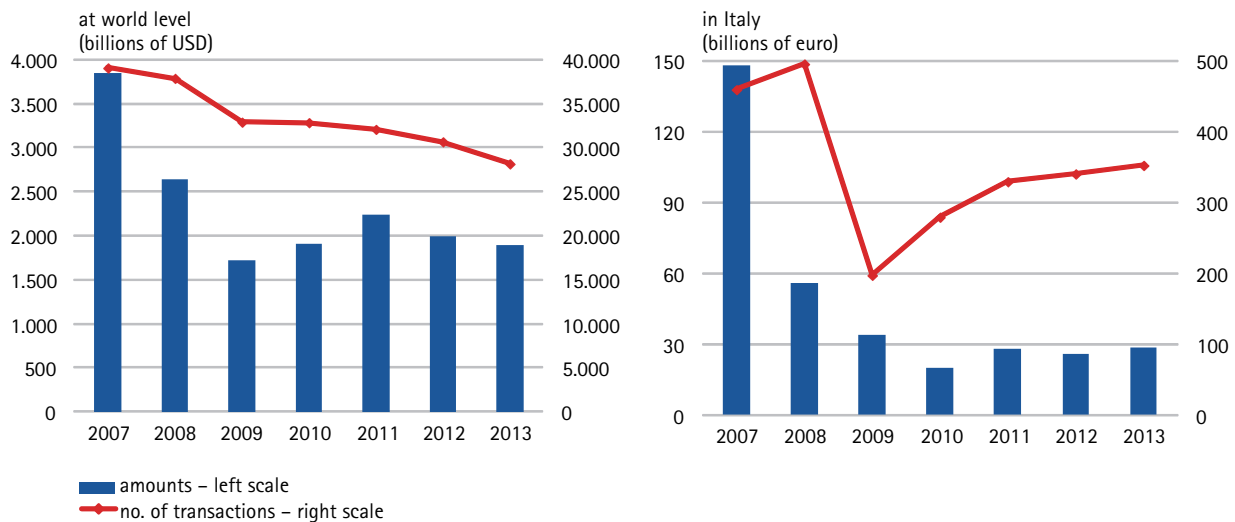
As regards international merger and acquisition (M&A) operations, in 2013 the decline that began, although discontinuously, in 2009 continued. In particular, the counter-value of operations completed recorded a drop of almost 100 billion dollars (approximately -5 per cent) compared with 2012, against an approximately 8 per cent reduction in volumes. The Italian segment, however, showed signs of recovery with an increase both in the number of operations completed in the year (352 operations compared with 340 in 2012) and in the counter-value of transactions, close to 12 per cent (28.7 billion euro compared with 25.7 in 2012; Fig. 104).

Although this is still far from the levels of 2007, the counter-value of operations relating to Italian companies was slightly higher than the figure recorded in the last four years (with reference to offerings made on the occasion of extraordinary corporate actions, see the next paragraph for an illustration of the supervision carried out by Consob).

Of the more than 350 operations completed in 2013, nine were for more than one billion euro (the 'big deals'). Compared with 2012, the proportion of acquisitions of Italian companies by foreign investors grew considerably (from 7.3 to approximately 12.8 billion euro; +75 per cent); Italian investments in foreign companies also showed a significant increase (from 1.8 to 4.2 billion; +133 per cent). Domestic operations, instead, recorded a reduction, going down from 16.5 billion euro (64 per cent of the total counter-value) in 2012 to approximately 12 billion in 2013. The dimensional characteristic of the Italian market was confirmed, finally, with

80 per cent of the amount of the transactions attributable to the top 20 operations.

Fig. 104 Mergers and acquisitions



Source: Thomson Reuters and Kpmg Corporate Finance.

## 2 Supervision of public offerings and admission to trading of equity instruments

During 2013, Consob approved the publication of three prospectuses for admission to listing on the Mercato Telematico Azionario (MTA), corresponding to the companies Moncler, Moleskine and Savino del Bene (Tab. 31). The public offerings were successful in the first two cases, while Savino del Bene, faced with insufficient acceptances, revoked the offering, after obtaining its extension and lowering the price fork.

Tab. 31 Supervision of public offerings and admission to trading of equity instruments (number of prospectuses)

|   | 2007      | 2008      | 2009      | 2010      | 2011      | 2012      | 2013      |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Admission to listing of shares <sup>1</sup>                       | 38        | 17        | 6         | 7         | 7         | 2         | 5         |
| of which through offering   | 27        | 9         | 1         | 2         | 5         | 2         | 3         |
| Judgements of equivalence   | --        | 6         | 2         | 4         | 6         | 7         | 6         |
| Share capital increases as an option to shareholders <sup>2</sup> | 14        | 16        | 23        | 16        | 23        | 7         | 11        |
| Other offerings <sup>3</sup>                                      | --        | --        | --        | --        | --        | 1         | 1         |
| Offerings of unlisted securities by Italian issuers <sup>4</sup>  | 18        | 23        | 28        | 29        | 31        | 24        | 10        |
| <i>Total</i>  | <i>70</i> | <i>62</i> | <i>59</i> | <i>56</i> | <i>67</i> | <i>41</i> | <i>33</i> |

Source: Consob. <sup>1</sup> Figures refer to transactions for which authorisation was granted during the year for filing of the listing prospectus. <sup>2</sup> Share capital increases in listed companies (including increases associated with warrants and convertible bonds). <sup>3</sup> 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. <sup>4</sup> Includes 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.

Further admissions to listing concerned, respectively, an operation carried out on the MIV and the admission on the MTA of Sesa SpA, which occurred through transfer from the AIM.

With reference to the former, the Commission authorised the publication of a prospectus in relation to admission to listing on the MIV of ordinary shares and market warrants issued by Space SpA.

Space is a Special Purpose Acquisition Company (SPAC) set up in order to obtain, through an institutional placement, financial resources for a maximum amount of 150 million euro in order to proceed, within two years from the start of trading, to the performance of a major operation. In the event of failure to carry out the major operation (business combination) within the maximum term of two years, the issuer will be placed into liquidation. The placement concerned a total of 13 million ordinary shares, at a unit subscription price of 10 euro, for a total counter-value of 130 million euro.

In 2013, six listed companies took advantage of the exemption from publishing the listing prospectus, provided for in Article 57(1)(d) of the Issuers' Regulation, by providing the public with documents, deemed by Consob to be equivalent to the prospectus.

The investigation relating to the cross-border merger between Fiat Industrial SpA and CNH Global NV was, in particular, very complex. This operation led to the incorporation of a Dutch-law company, CNH Industrial NV, with shares listed in Italy and on the New York Stock Exchange. Moreover, following the interpretation provided by the ESMA, it became necessary to activate co-operation with Autoriteit Financiële Markten (the Supervisory Authority of the financial market of the Netherlands).

Another judgement of equivalence which Consob issued concerned the merger by incorporation of Gemina SpA into Atlantia SpA, both issuers listed on the MTA (see also paragraph 4 below).

In 2013, again in the context of a judgement of equivalence to the prospectus, Consob examined the merger by incorporation of Premafin Finanziaria Spa, Milan Assicurazioni Spa and Unipol Assicurazioni SpA into Fondiaria-Sai SpA, a company which, after the merger, changed its name to UnipolSai Assicurazioni SpA. This operation brought to completion the wider and more complex integration project between Unipol Gruppo Finanziario SpA (Ugf) and Fondiaria-Sai SpA launched in 2012 (as regards this operation see also paragraph 4 below).

During 2013, the Commission also pronounced on three questions raised by supervised parties. Of these, two referred to the interpretation of cases of exemption from the rules of the Consolidated Law on Finance on the subject of public offering and listing, as specified in Arts 34-ter and 57 of the

Issuers' Regulation, while the third concerned the admission to listing of a particular financial instrument.

In 2013, the Commission examined the recapitalisation operations of eleven listed companies as part of inquiries for approval of the prospectus. A number of these operations were particularly noteworthy because they were an integral part of wider financial rebalancing and capital strengthening projects and were closely connected to renegotiation, at the same time, of bank loans, to the assumption of subscription commitments by shareholders before the launch of the offering, to the establishment of guarantee consortia and to the implementation of new industrial plans. Given the complexity of these operations, the Commission assessed with particular attention the adequacy of the information contained in the prospectus for the purposes of the 'well-grounded judgement' as per Art. 94, Section 2, of the Consolidated Law on Finance.

Among the offerings of non-listed securities of Italian issuers, during 2013 6 offerings were made for which the Authority was asked to approve a prospectus.

In 2013, three prospectuses were presented to Consob for the purpose of a public subscription offer for shares of banks to be set up. On this subject, Consob strengthened its supervisory activity, above all in order to reduce the risks of fraud, since the investors are called upon to invest in an entity not yet set up and subject to a long and complex incorporation and authorisation procedure. In particular, in addition to the disclosure made in the prospectus, the supervisory activity was also focused on verifying the requisites of stable organisation and decision-making autonomy of the secondary offices of the organising committees in which it was possible to accept the public offering, on the transparency and correct provision for recognising benefits and assuming expenses by promoters who signed the activity programme, pursuant to Art. 2337 of the Italian Civil Code, for developing the initiative.

### **3 Supervision of public offerings and admission to trading of non-equity instruments**

With reference to the public offerings and/or admissions to trading community non-equity financial instruments, during 2013 the Commission issued approval orders for more than one thousand prospectuses; of these 517 referred to debenture loans (2 of non-financial companies and 515 of both Italian and foreign banking issuers), 104 referred to covered warrants and certificates and 478 referred to UCITS (Tab. 32).

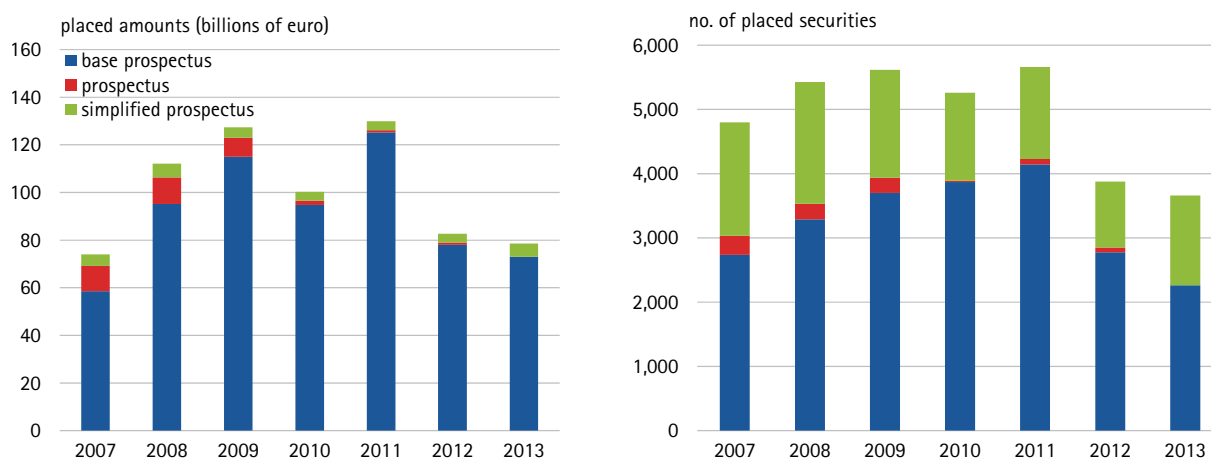
**Tab. 32 Supervision of public offerings and admission to trading of non-equity instruments**  
(number of prospectuses)

|  | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| debenture loans                                | 1,163        | 986          | 748          | 655          | 777          | 535          | 517          |
| of which: base prospectuses                    | 870          | 639          | 472          | 405          | 416          | 286          | 196          |
| prospectuses                                   | 115          | 45           | 36           | 24           | 14           | 7            | 3            |
| registration documents and supplements         | 178          | 302          | 240          | 226          | 347          | 242          | 327          |
| covered warrants <sup>1</sup> and certificates | 109          | 99           | 102          | 27           | 66           | 52           | 104          |
| admission to listing of warrants               | 3            | 2            | 10           | --           | --           | --           | --           |
| UCITS <sup>2</sup>                             | 422          | 428          | 337          | 380          | 330          | 415          | 478          |
| <i>Total</i>                                   | <i>1,697</i> | <i>1,515</i> | <i>1,197</i> | <i>1,062</i> | <i>1,173</i> | <i>1,002</i> | <i>1,009</i> |

Source: Consob. <sup>1</sup> Number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants. The total includes 34 base prospectuses, 5 registration documents and 65 supplements. <sup>2</sup> Includes public offerings of units of mutual funds and SICAV shares, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies. The figure also includes sales of new sub-funds of harmonised foreign UCITS. It is noted that: i) from 1 July 2009, no prior 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.

The evidence confirms, overall, the decline in the number of applicants and base prospectuses approved already recorded during 2012, as a result of the regulatory changes which raised the significant threshold for adoption of the simplified rules pursuant to Art. 34-ter, Section 4 of the Issuers' Regulation (Fig. 105).

**Fig. 105 Bonds, certificates and covered warrants offered by Italian banks**



Source: Consob.

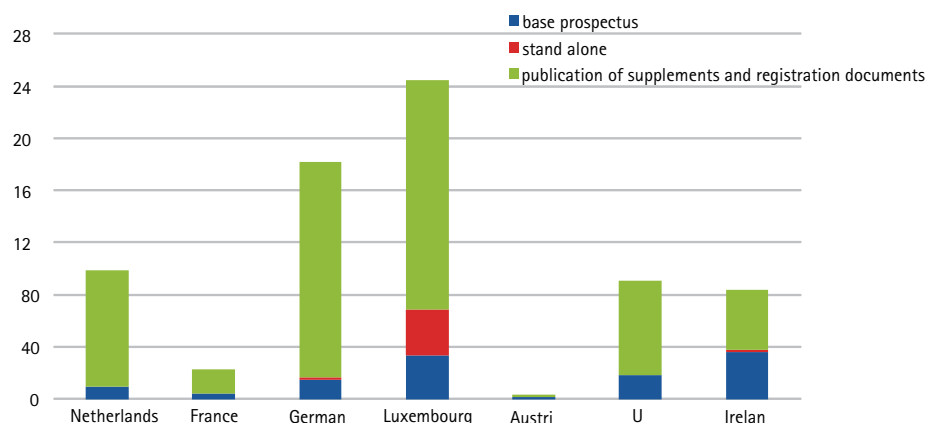
With reference to 'passport' prospectuses relating to non-equity products of financial companies, that is prospectuses notified to Consob by authorities of the European Union under the terms of Directive 71/2003/EC, during 2013 the Commission verified the documentary completeness and regularity of the approval certificate of 727 documents, under the terms of Directive 71/2003/EC (872 in 2012). Said documents are attributable for 16

per cent to base prospectuses, for 5 per cent to stand-alone prospectuses and for 79 per cent to supplements (Fig. 106).

In 2013, in addition, 1,280 final terms were transmitted to Consob in relation to passported base prospectuses (981 in 2012) given the obligation for issuers to transmit this documentation also to the competent authorities of the home member states.

During the year, ten entities (46 in 2012) were authorised to proceed with 14 issues of 'Savings Securities for the Southern Economy' (64 in 2012), for a total amount of 221.5 million euro (approximately 970 million in 2012). Against these requests, as of 16 February 2014 the counter-value placed was approximately 197 million euro.

**Fig. 106 Offer to the public and admission to trading of non-equity financial instruments – passported documents**



Source: Consob.

With regard to financial products issued by insurance companies, of the 410 prospectuses filed with Consob during 2013 (545 in 2012) half presented potential critical disclosure issues (Tab. 33).

**Tab. 33 Enforcement on insurance products in 2013**

| type of contract | prospectuses filed | prospectuses subject to enforcement | breakdown of supervisory action by area |                 |       |       |
|------------------|--------------------|-------------------------------------|---|-----------------|-------|-------|
|                  |                    |                                     | financial structure and risk            | yield scenarios | other | total |
| unit linked      | 325                | 198                                 | 198                                     | 71              | 102   | 371   |
| index linked     | 6                  | 3                                   | 3                                       | 3               | 2     | 8     |
| capitalisation   | 79                 | 1                                   | 1                                       | --              | 1     | 2     |
| <i>total</i>     | 410                | 202                                 | 202                                     | 74              | 105   | 381   |

Source: Consob.



In order to identify any areas of improvement in representing the characteristics of the products, approximately 80 prospectuses were examined (60 relating to unit-linked and 21 relating to index-linked products), as well as 37 advertising messages found on websites, selected on the basis of volume relating to gross premiums accounted for during 2012 for "Line III" products.

## 4 Takeover and exchange bids

During 2013, the Commission approved the publication of eight offer documents (13 in 2012) relating to five purchase offers and three exchange offers, concerning, in seven cases, securities listed in regulated markets. In five cases, the offers organised were voluntary, while the remaining three cases were mandatory offers (Tab. 34).

**Tab. 34 Financial instruments subject to takeover and/or exchange bids for which publication of the bid document was authorised in 2013**

|  | on listed shares | on unlisted shares <sup>1</sup> | <i>total</i> |
|--|------------------|---------------------------------|--------------|
| voluntary                                  | 3                | 1                               | 4            |
| unsolicited                                |                  |                                 |              |
| subsequent/mandatory                       | 3                |                                 | 3            |
| on treasury shares                         | 1                |                                 | 1            |
| <i>Total</i>                               | <i>7</i>         | <i>1</i>                        | <i>8</i>     |
| <i>obligation/right to buy<sup>2</sup></i> | <i>3</i>         |                                 |              |

Source: Consob. <sup>1</sup> The offering concerned units of a closed-end real-estate mutual investment fund. <sup>2</sup> In cases of obligation/right to buy, no offer document was prepared because the disclosure was released to the market through a specific notice/press release.

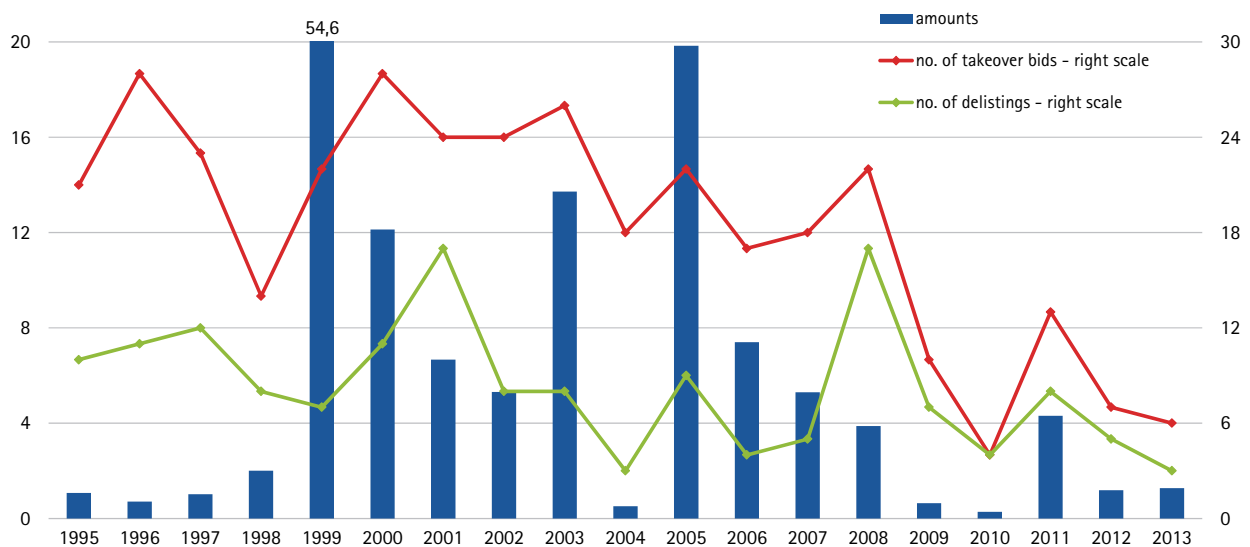
Six offers were organised by the entities indicated in Art. 39-*bis* of the Issuers' Regulation. Therefore, under the terms of said article, the issuer's independent directors prepared a grounded opinion containing the assessments of the bid and the congruity of the price offered; in all cases mentioned, the independent directors issued a positive assessment. Article 40-*bis* of the Issuers' Regulation was also applicable as regards the re-opening of the terms of the public offer.

The evidence on the counter-values of the takeover and exchange bids on the stock of listed companies in 2013 were in line with the figures recorded in the previous year (1.3 billion euro compared with 1.2 in 2012; Fig. 107).

Revocations of trading amounted, in 2013, to 50 per cent of the total number of operations, in line with the long-term average.

Between 1995 and 2013, delisting was carried out following mandatory residual takeover bids, that is merger by incorporation operations of two or more companies; in the last few years revocations have mainly followed mandatory or voluntary bids.

**Fig. 107 Takeover bids and exchange bids on Italian listed companies shares**  
(billions of euro)



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

Of particular interest was the structure of the exchange offer launched by Mittel on its treasury shares, characterised by the presence, at the same time, of two inter-connected operations: i) a partial voluntary exchange tender offer on treasury shares with consideration in newly issued bonds and listing and ii) a public subscription offer (OPSO), for the same bonds (possibly with a different issue price) open to all (irrespective of the type of shareholder). The effectiveness of the exchange bid was subject to a number of conditions including the subscription of a certain quantity of bonds in the OPSO (for a face value of at least 20 million euro).

In the context of the full mandatory public offering launched by Lauro Sessantuno SpA on Camfin SpA shares, Consob officially began, under the terms of Art. 106, Section 3, Lett. d), No. 2, of the Consolidated Law on Finance and of Articles 47-*sexies* and 47-*octies* of the Issuers' Regulation, a proceeding to increase the price of the takeover bid, at the end of which, considering as verified the collusion between Malacalza Investimenti Srl and Lauro Sessantuno SpA and the dealers acting in concert with the latter increased the offer price from 0.80 to 0.83 euro, with a grounded measure of 25 September 2013.

Of particular significance was the affair relating to acquisition of control over Impregilo SpA by the Salini Group, which was thought to be a

case of 'acting in concert' significant under the terms of Arts 122, 101-*bis*, Section 4 of the Consolidated Law on Finance, between the Salini Group, and the Amber and Equita Sim investment funds. More specifically, the allegation on which the investigation was carried out was that of the existence of a pact, relevant under the terms of Art. 122 of the Consolidated Law on Finance, between the Amber fund and Salini, or, irrespective of the existence of the agreement, acting in concert under the terms of Art. 101-*bis*, Section 4, of the Consolidated Law on Finance.

With regard to the complex Prelios SpA rescue operation, the Commission excluded the applicability in relation to the parties involved of the rules on mandatory bids, applying by way of analogy the rules pursuant to Art. 106, Section 6, of the Consolidated Law on Finance.

Of particular interest was the affair relating to Telecom Italia SpA, which arose from the signing, on 24 September 2013, of an agreement amending the shareholders' agreement in relation to Telco (main shareholder of Telecom, with an approximately 22 per cent stake) on the part of the Telco Generali, Intesa Sanpaolo, Mediobanca and Telefonica shareholders.

As regards the integration that occurred between the two insurance groups Unipol and Premafin, during 2013 Consob acted to verify the correspondence between what was laid down in the resolutions of May and July 2012, with which the Commission had affirmed the non-applicability of the mandatory bid rules, and the events that had occurred subsequently.

During the year, the Commission intervened as usual to provide clarifications and interpretative guidelines on the subject of takeover bids in response to questions connected with specific transactions.

In the context of a partial voluntary bid concerning units of a listed closed-end real estate mutual investment fund, Consob was asked to assess the application of further distribution criteria with respect to the proportional (or *pro rata*) one commonly used, in order to ensure an effective application of the principle of equal treatment between addressees/acceptors of the takeover bid in the event of more acceptances than the quantity of financial instruments involved in the operation. Considering, in fact, the number of units and the impossibility of proceeding to divide them, the application of the *pro rata* method would have made it impossible to satisfy a greater or lesser number of accepting unit holders.

In response to a query submitted by a company belonging to the category of 'supervised Confidi loan guarantee consortia' – entered in the register pursuant to Art. 106 of the Consolidated Law on Banking – the Commission ruled excluding the possibility that the trade of shares of the Confidi company and the units of a consortium under construction can be classified as a public purchase and exchange offer in accordance with Art. 1, Section 1, Letter v) of the Consolidated Law on Finance.

Two queries were also received in relation to the applicability of the exemption from the takeover bid rules to two rescue operations of listed issuers in crisis.

The Commission was interrogated also on the significance of a corporate restructuring operation aimed at creating a strategic agreement between a listed company and its industrial partner, for the purposes of applicability of the mandatory bid rules.

In addition, the Commission made a statement, at the request of the companies involved, as regards the irrelevance with respect to the mandatory bid rules of the integration operation between the two listed holding companies Gemina SpA and Atlantia SpA, carried out through merger by incorporation.

In the context of the supervisory activity on the transparency of major equity investments a number of critical profiles emerged associated with the operations of trusts. More specifically, use of the trust arrangement, which in most cases determines an 'equity segregation' effect may be aimed at eluding the ownership structure regulations by virtue of the ambiguous distribution of powers amongst the various trust figures and the results on the identification of the subject to whom to assign the exercise of voting rights, regardless of ownership of the equity investment.

## 5 Corporate disclosure

During 2013, as usual, the supervisory activity on corporate disclosure made use of numerous requests for information, under the terms of Art. 115 of the Consolidated Law on Finance, and of publications of data and information, under the terms of Art. 114 (Tab. 35).

During 2013, 18 grounded applications were received, under the terms of Art. 114, Section 6, of the Consolidated Law on Finance, with which the temporary suspension of disclosure obligations was requested.

13 communications of delayed release of information were also received from listed issuers, which intended to make use of the option provided for in Art. 114, Section 3, of the Consolidated Law on Finance, to postpone the communication of inside information.

During the year, Consob also ordered the publication of a number of investment recommendations, under the terms of Art. 69-*novies* of the Issuers' Regulation, for the purpose of reducing the information asymmetries present on the market at the time of release of significant news and considerable changes in the price of the instruments with which the recommendations were concerned.

**Tab. 35 Supervision of corporate disclosures and ownership**

|   | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       |
|---|------------|------------|------------|------------|------------|------------|------------|
| <b>Requests for information under Art. 115 of the Consolidated Law on Finance</b>   |            |            |            |            |            |            |            |
| <i>Information acquired from directors, statutory auditors, independent auditors, general managers, parent and subsidiary companies</i> | 59         | 132        | 155        | 198        | 178        | 141        | 258        |
| <i>Requests for data and information</i>  | 151        | 392        | 422        | 244        | 404        | 404        | 472        |
| <i>Requests for confirmation of major shareholdings</i>   | 44         | 30         | 214        | 33         | 20         | 18         | 12         |
| <i>Requests for information to identify the persons responsible for issuing disclosures in the event of an alleged infringement</i>     | 48         | 102        | --         | --         | --         | --         | 2          |
| <i>Requests for information about the shareholder body</i>  | 14         | 12         | 20         | 31         | 9          | 7          | 4          |
| <i>Total</i>  | <i>316</i> | <i>668</i> | <i>811</i> | <i>506</i> | <i>611</i> | <i>570</i> | <i>748</i> |
| <b>Requests to publish data and information pursuant to Article 114 of the Consolidated Law on Finance</b>                              |            |            |            |            |            |            |            |
| <i>Supplements to information for disclosure at shareholders' meetings</i>  | 5          | 11         | 38         | 24         | 18         | 30         | 16         |
| <i>Supplements to periodic financial reports</i>  | 1          | 21         | 59         | 7          | 15         | 20         | 15         |
| <i>Information for disclosure to the market (press releases)</i>  | 100        | 90         | 112        | 109        | 76         | 55         | 104        |
| <i>Monthly disclosures</i>  | 1          | 8          | 3          | 9          | 10         | 12         | 6          |
| <i>Quarterly disclosures</i>  | --         | --         | 20         | 6          | --         | --         | 8          |
| <i>Supplements to documentation on mergers and other extraordinary transactions<sup>1</sup></i>   | 3          | 8          | 25         | 1          | 6          | 4          | 15         |
| <i>Supplements to takeover bid documents</i>  | 49         | 30         | 10         | 8          | 4          | 2          | --         |
| <i>Supplements to prospectuses on proxy solicitation</i>  | --         | --         | --         | --         | --         | 5          | --         |
| <i>Total</i>  | <i>159</i> | <i>168</i> | <i>267</i> | <i>164</i> | <i>129</i> | <i>128</i> | <i>164</i> |
| <b>Waivers of disclosure requirements pursuant to Art. 114, Sect. 6 of the Consolidated Law on Finance</b>                              | 3          | 5          | 4          | 2          | 9          | 1          | 18         |
| <b>Delays in disclosures under Art. 114, Sect. 3 of the Consolidated Law on Finance</b>   | 20         | 4          | 1          | 2          | 4          | 6          | 13         |
| <b>Requests for immediate publication of research reports in the event of rumours</b>   | 14         | 5          | 4          | 4          | 2          | --         | 9          |
| <b>Reports to legal authorities</b>   | --         | 5          | 10         | 6          | 3          | 8          | 13         |
| <b>Written reprimands</b>   | 1          | --         | --         | 2          | --         | --         | 2          |
| <b>Financial statements challenged</b>  | 3          | 2          | 1          | 1          | --         | 1          | 1          |
| <b>Non-compliance proceedings pursuant to Art. 154-ter, Section 7, Consolidated Law on Finance</b>                                      | --         | --         | 1          | 3          | --         | 10         | 5          |

Source: Consob. <sup>1</sup> The figure for 2012 also includes a request for information concerning related-party transactions.

The Commission carried out the usual monitoring of communications on the subject of issuers' operations on their own securities (buy-backs) and of internal dealing operations, as well as careful control of information, concerning issuers of listed or widely distributed financial instruments, channelled through the internet (specialised websites, blogs, forums and social networks).

In 2013, Consob received, under the terms of Art. 69-*novies* of the Issuers' Regulation, more than 22 thousand studies, with reference to which it verified observance of the rules on the subject of correctness of the information contained, disclosures of conflicts of interest and the appropriateness of distribution methods (Tab. 36).

**Tab. 36 Breakdown of monographic studies on listed companies according to type of recommendation**  
(percentages)

|      | Recommendation |      |           |      | Total number of studies |
|------|----------------|------|-----------|------|-------------------------|
|      | Buy            | Hold | No rating | Sell |                         |
| 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                   |
| 2013 | 43.7           | 38.2 | 1.2       | 16.8 | 6,497                   |

Source: Consob.

During the year, monographic studies concerned 239 listed companies (227 in 2012; Tab. 37). Of these, approximately 25 per cent of companies were the subject of more than 50 studies, while the same number were covered by less than 5 studies.

**Tab. 37 Breakdown of listed companies which were the subject of monographic studies, by level of coverage**

|      | No. of companies involved in monographic studies <sup>1</sup> | Breakdown of companies according to number of studies <sup>2</sup> |         |         |        |      | Total |
|------|---|--|---------|---------|--------|------|-------|
|      |   | ≥ 51   | 25 - 50 | 13 - 24 | 5 - 12 | ≤ 4  |       |
| 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 |
| 2013 | 239   | 24.6   | 10.8    | 16.9    | 22.1   | 25.6 | 100.0 |

Source: Consob. <sup>1</sup> Companies listed on regulated markets managed by Borsa Italiana. <sup>2</sup> Percentages.

## 6 Financial reporting

Supervision of the financial and accounting disclosure of listed companies, as provided for in Articles 118-*bis* of the Consolidated Law on Finance and 89-*quater* of the Issuers' Regulation, was mainly carried out on the basis of samples and in accordance with the usual risk-based approach. Specific in-depth studies were also made of some sectors considered particularly exposed to the crisis.

The investigatory activity regarded both specific profiles of selected issuers and issues identified by the ESMA in the document of 12 November

2012, "European Common Enforcement Priorities" for annual financial statements.

As mentioned in the previous paragraph, as part of the supervision on Issuers' information, during 2013 numerous requests were made for data and information and hearings of corporate bodies were held under the terms of Art. 115 of the Consolidated Law on Finance.

Pursuant to Article 114, in many cases requests were made to supplement the information contained in the periodic accounting documents and those prepared for shareholders' meetings or to release information to the market.

At the end of the investigations, in five cases proceedings were launched pursuant to Art. 154-ter, Section 7, of the Consolidated Law on Finance relating to non-compliance of the accounting documents with the rules on preparation and in one case the powers pursuant to Art. 157, Section 2, of the Consolidated Law on Finance were activated (challenging the financial statements).

The activity related to issuers, including issuers of primary standing, involved in financial and corporate restructuring operations or for which it was necessary to conduct in-depth investigations in relation to significant accounting items was particularly intense.

During 2013, under the terms of Art. 114 of the Consolidated Law on Finance, two requests to release information to the public were made together with two requests to supplement information documents to companies of the Premafin-Fondiaria Sai group.

Supervision of accounting correctness, and the exercise of the powers pursuant to Art. 154-ter, Section 7, of the Consolidated Law on Finance, regarded also the Carige group, with respect to which Consob commented, in a first investigation, on the accounting treatment of deferred tax profiles associated with the reorganisation project carried out by the Group and highlighted, also, critical issues in the preparation of the annual separate and consolidated financial statements at 31 December 2012 and the condensed interim financial statements at 30 June 2013.

Consob also verified the accounting correctness of the financial information provided by Saipem SpA following the critical issues that emerged in January 2013 on the projects in the portfolio.

Two requests to release information to the public concerned also Enel's financial report at 31 December 2012 and interim report at 30 June 2013.

Consob also carried out several actions aimed at ensuring an adequate degree of transparency concerning the re-launch plans announced

by companies involved in recapitalisation operations to deal with situations of economic/financial crisis.

In 2013, Consob also declared the non-compliance with the accounting standards of the financial statements of the companies Sintesi Società di Investimenti e Partecipazioni SpA, Investimenti e Sviluppo SpA, K. R. Energy and Ergy Capital SpA. The criticisms concerned mainly the measurement of controlling equity investments and those in associates, and the measurements provided for in IAS 36 'Impairment of Assets'.

The Commission also resolved to activate the powers provided for in Art. 157, Section 2, of the Consolidated Law on Finance in relation to the financial statements at 31 December 2011 of Aiòn Renewables SpA (formerly Kerself SpA).

Of particular significance, owing to its complexity, was the supervisory activity on the financial information regarding Banca Monte dei Paschi di Siena (MPS), taking into account also the co-operation with the Public Prosecutor investigating operations carried out in the years 2008 and 2009.

Of particular importance was also the monitoring activity on the financial information of the major listed banks. The continuation of tensions on the price trends in the banking sector, associated with the persistent negative economic situation and the growing deterioration in the quality of banking assets, led the Commission, in keeping with the risk-based supervisory approach, to intensify the monitoring activity on the financial information of the leading listed credit institutions. The Commission's actions were in line with the work begun by various European and international authorities (ESMA, EBA, FSB, ESRB) aimed at strengthening the transparency of financial statements and increasing the comparability of the accounting reports of financial institutions, thus contributing to boosting the market confidence in the financial information of such issuers.



# Supervision of intermediaries IV

## 1 Authorised providers of investment services

At the end of 2013, 723 banking intermediaries and investment firms were authorised to perform investment services, compared with 744 in 2012 (Tab. 38). The reduction in the number of entities authorised regarded both banks (down from 643 to 629) and investment firms (from 101 to 94).

**Tab. 38 Authorised investment service intermediaries**

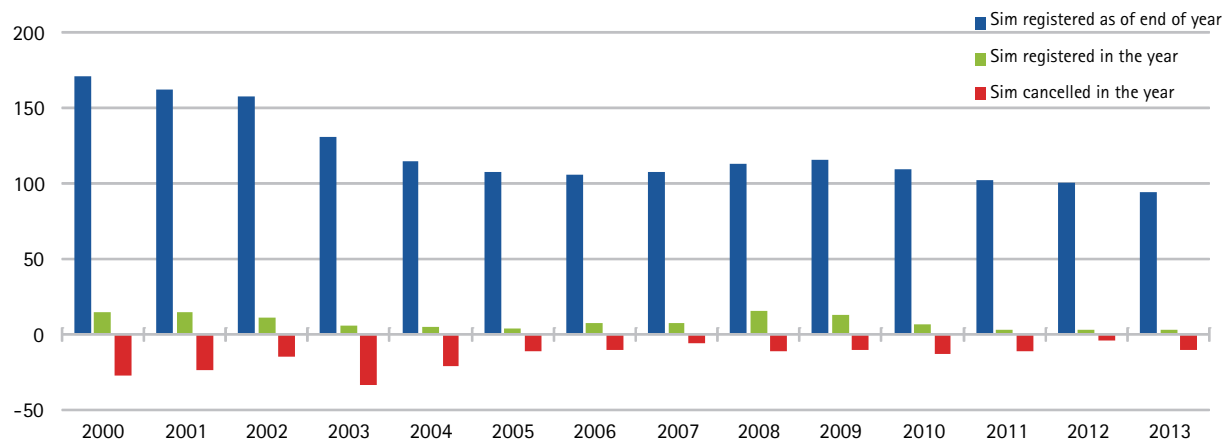
|   | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|------|
| <b>investment firms</b>                           |      |      |      |      |      |      |      |
| <i>no. of authorised providers</i>                | 108  | 113  | 115  | 110  | 102  | 101  | 94   |
| consulting  | 108  | 109  | 110  | 103  | 94   | 92   | 84   |
| trading on own account                            | 24   | 20   | 17   | 15   | 14   | 14   | 15   |
| trading on behalf of third parties                | 35   | 31   | 25   | 23   | 20   | 20   | 22   |
| placement with prior subscription <sup>1</sup>    | 12   | 9    | 8    | 6    | 5    | 5    | 5    |
| placement without prior subscription <sup>1</sup> | 74   | 68   | 61   | 53   | 47   | 46   | 44   |
| individual management                             | 56   | 50   | 49   | 47   | 46   | 44   | 43   |
| receipt and transmission of orders, and mediation | 59   | 60   | 54   | 52   | 49   | 50   | 48   |
| MTF management                                    | --   | 2    | 2    | 3    | 3    | 3    | 3    |
| <i>average number of services per provider</i>    | 3.30 | 3.01 | 2.77 | 2.69 | 2.68 | 2.67 | 2.81 |
| <b>banks</b>                                      |      |      |      |      |      |      |      |
| <i>no. of authorised providers</i>                | 742  | 734  | 725  | 701  | 676  | 643  | 629  |
| consulting  | 723  | 700  | 692  | 673  | 651  | 617  | 602  |
| trading on own account                            | 559  | 540  | 535  | 516  | 500  | 467  | 461  |
| trading on behalf of third parties                | 561  | 541  | 536  | 515  | 499  | 466  | 461  |
| placement with prior subscription <sup>1</sup>    | 267  | 261  | 261  | 242  | 225  | 208  | 201  |
| placement without prior subscription <sup>1</sup> | 713  | 705  | 699  | 674  | 651  | 616  | 603  |
| individual management                             | 222  | 212  | 208  | 195  | 181  | 170  | 169  |
| receipt and transmission of orders, and mediation | 722  | 713  | 705  | 683  | 660  | 624  | 614  |
| MTF management                                    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| <i>average number of services per provider</i>    | 4.72 | 4.65 | 4.66 | 4.65 | 4.65 | 4.60 | 4.63 |

Source: Consob and Bank of Italy. <sup>1</sup> Includes placement with underwriting commitment, i.e. stands surety for the issuer.

Reorganisation processes also involved the securities brokerages activities referable to investment firms, the number of which continued to fall also in 2013. During the year, in fact, there were eight cancellations from the Investment Firm Register (compared with three new registrations),

resulting from voluntary withdrawals from the market, and acquisition by other intermediaries and, in two cases, measures of the Ministry of the Economy and Finance revoking the authorisation to perform investment services and activities and putting the firms in compulsory administrative liquidation under the terms of Art. 57 of the Consolidated Law on Finance (Fig. 108).

Fig. 108 Italian investment companies (SIM) and trust companies register



Source: Consob.

At the end of 2013, there were 2,449 community investment firms authorised to operate in Italy with the freedom to provide investment services and activities (2,377 at the end of 2012) and 58 firms authorised to operate in Italy by the establishment of a branch (55 at the end of 2012).

During 2013, three entities authorised to provide investment services manifested insolvency (two investment firms and an asset management company), bringing to 36 the total number of interventions by the National Investor Compensation Fund (of which 33 with statement of liabilities filed; Tab. 39).

In 2013, Consob set up the Register of Equity Crowdfunding Portal Managers, under the terms of Art. 4 of Regulation 18592/2013, containing the 'Regulation on the collection of risk capital on the part of innovative start-ups via on-line portals', in force since 27 July 2013) and consequent to the entry into force of Italian Law Decree 179/2012 (the '*decreto crescita-bis*'), converted into Italian Law 221/2012, which introduced into Italy the legislation regarding collecting venture capital on the part of innovative start-ups through online portals (equity crowdfunding). This decree inserted into the Consolidated Law on Finance Arts 50-*quinquies* (management of portals for collecting capital for innovative start-ups) and 100-*ter* (offers through portals for collecting capital), which give Consob the task of determining the criteria for the establishment and maintenance of said Register.

The Register is divided into two sections: ordinary, containing the list of subjects – other than banks and investment firms – authorised by

Consob after presenting a specific registration application, and special, containing the list of banks and investment firms which have communicated their intention, in advance, to perform portal management activities.

At 31 December 2013, one entity was registered in the ordinary section of the Register, and one investment firm was registered in the special section.

**Tab. 39 National Investor Compensation Fund intervention**

(as at 31 December 2013; monetary amounts in thousands of euro)

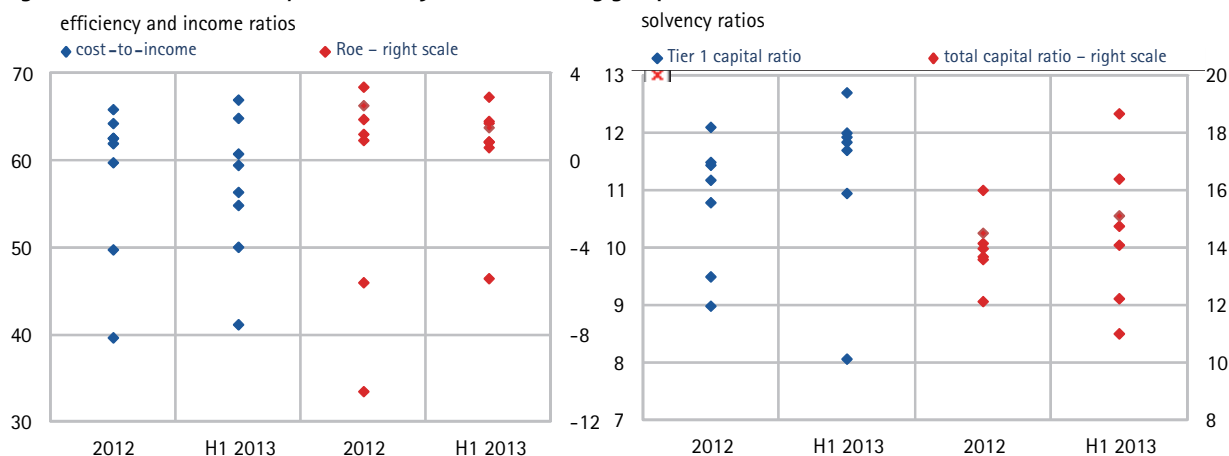
|  | Insolvencies <sup>1</sup> |              |          |          | Total     |
|--|---------------------------|--------------|----------|----------|-----------|
|  | Investment firms          | stockbrokers | AMCs     | Banks    |           |
| 1997-2007  | 16                        | 8            | --       | --       | 24        |
| 2008   | --                        | 1            | --       | --       | 1         |
| 2009   | --                        | --           | 1        | --       | 1         |
| 2010   | 2                         | --           | 1        | --       | 3         |
| 2011   | --                        | --           | 1        | 1        | 2         |
| 2012   | --                        | 1            | --       | 1        | 2         |
| 2013   | 2                         | --           | 1        | --       | 3         |
| <i>Total insolvencies</i>                                  | <i>20</i>                 | <i>10</i>    | <i>4</i> | <i>2</i> | <i>36</i> |
| <i>for which statements of liabilities have been filed</i> | <i>18</i>                 | <i>10</i>    | <i>3</i> | <i>2</i> | <i>33</i> |
| <b>No. of creditors admitted</b>                           | 2,616                     | 1,008        | 1        | --       | 3,625     |
| <b>Amount of claims admitted<sup>2</sup></b>               | 27,674                    | 42,338       | 3,751    | --       | 73,763    |
| <b>Fund intervention<sup>3</sup></b>                       | 9,306                     | 11,183       | --       | --       | 20,189    |

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

## 2 Italian banks

In the first half of 2013, the profitability of the leading Italian banking groups fell slightly, despite some slight improvements in operating efficiency, faced as they were with a general increase in capital adequacy ratios (Fig. 109).

**Fig. 109 Income and solvency ratios in major Italian banking groups**



Source: calculations based on consolidated financial statements. Data on the top 8 banking groups in terms of total assets. See Methodological Notes.

In particular, the cost-to-income ratio fell for numerous banks, coming down to levels of less than 60 per cent for five institutions (three at the end of 2012); the ROE, instead, was positive but declining for all Italian banks considered except for one. The capital adequacy ratios improved considerably: the tier 1 ratio and the total capital ratio were, in fact, close to or higher than the 11 and 12 per cent, respectively, for all the groups considered except one.

**Tab. 40 Aggregate income statement for the major Italian banking groups**  
(millions of euro and year-on-year percentage changes)

|   | 2009    | 2010    | 2011    | 2012    | 30 June 2013 | % change <sup>1</sup> | 30 Sept 2013 <sup>2</sup> |
|---|---------|---------|---------|---------|--------------|-----------------------|---------------------------|
| net interest income (a) <sup>3</sup>  | 40,331  | 37,428  | 36,944  | 34,779  | 15,576       | -14.4                 | 21,437                    |
| net commissions (b = b.1 + b.2 + b.3)   | 18,888  | 20,653  | 19,815  | 19,372  | 10,063       | 4.7                   | 14,019                    |
| <i>of which: from investment services and collective asset management (b.1)</i> | 7,982   | 8,603   | 8,164   | 7,947   | 4,629        | 13.7                  |                           |
| securities and currency trading and order receipt                               | 1,257   | 1,499   | 1,257   | 1,172   | 658          | 2.4                   |                           |
| individual portfolio management:  | 668     | 690     | 668     | 626     | 364          | 9.2                   |                           |
| collective portfolio management   | 3,063   | 2,838   | 3,063   | 3,017   | 1,653        | 18.3                  |                           |
| depository bank   | 104     | 118     | 104     | 83      | 48           | -0.1                  |                           |
| securities custody  | 73      | 106     | 73      | 53      | 22           | 52.1                  |                           |
| placement and distribution of financial and insurance products                  | 2,773   | 3,147   | 2,773   | 2,825   | 1,778        | 15.5                  |                           |
| consulting  | 227     | 204     | 227     | 170     | 106          | 11.5                  |                           |
| <i>from banking services (b.2)<sup>4</sup></i>                                  | 10,496  | 7,239   | 7,312   | 7,088   | 3,415        | 5.5                   |                           |
| <i>other net commissions (b.3)<sup>5</sup></i>                                  | 410     | 4,332   | 4,338   | 4,337   | 2,019        | -12.4                 |                           |
| profit/loss on financial transactions (c) <sup>6</sup>                          | 3,899   | 2,562   | 2,994   | 5,545   | 3,564        | 1.1                   | 4,001                     |
| other net operating income (d)  | 1,051   | 958     | 691     | 825     | 575          | 62.2                  | 842                       |
| gains/(losses) on insurance operations (e)                                      | 468     | 613     | 540     | 828     | 449          | -0.9                  | 653                       |
| net banking and insurance income (f = a+b+c+d+e)                                | 64,636  | 61,979  | 60,984  | 61,349  | 30,228       | -5.9                  | 40,952                    |
| operating costs (g) <sup>7</sup>  | 37,178  | 37,130  | 36,522  | 35,557  | 16,967       | -4.4                  | 22,072                    |
| operating profit/(loss) (f-g)   | 27,458  | 24,849  | 24,462  | 25,792  | 13,261       | -7.9                  | 18,879                    |
| net adjustments on loans  | -16,358 | -13,965 | -14,146 | -20,930 | -8,088       | 9.2                   | -11,624                   |
| net adjustments on other financial transactions                                 | -1,649  | -523    | -1,882  | -1,696  | -419         | -25.9                 | -523                      |
| net profit <sup>8</sup>   | 6,136   | 6,524   | 2,836   | 1,306   | 1,585        | -46.5                 | 2,056                     |

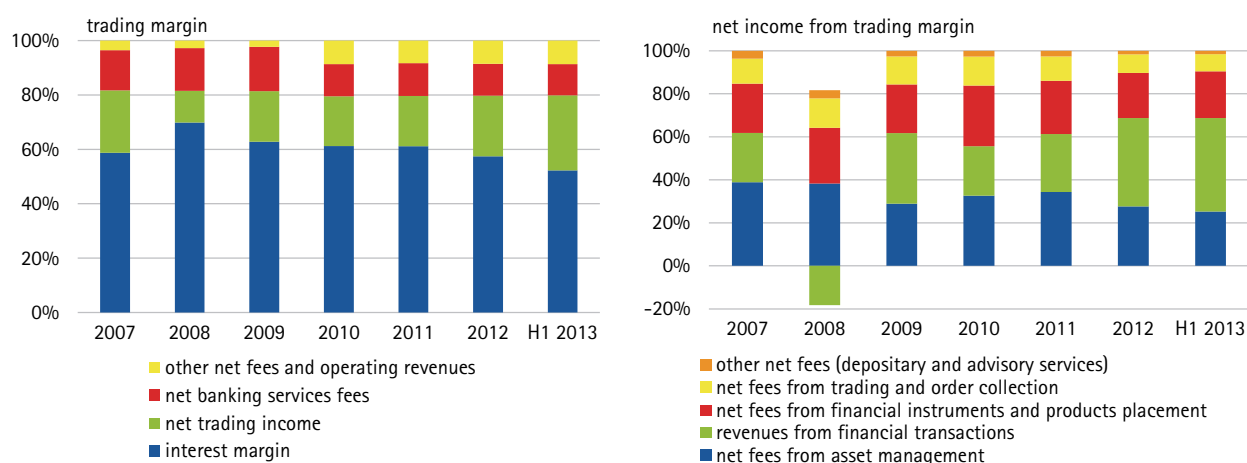
Source: based on consolidated financial statements and interim reports. Rounding may cause discrepancies in the total figure. See Methodological Notes. The data also take into account the major banking groups later merged via M&A into existing groups, except for HVB (consolidated into UniCredit as from 1 November 2005). <sup>1</sup> Percentage change in the first half of 2013 compared to the first half of 2012. <sup>2</sup> The figures on 30 September 2012 do not include the BNL group. <sup>3</sup> Includes dividends on equity investments, gains and losses on equity investments carried at net equity and the balance of interest rate hedging transactions. <sup>4</sup> Net commissions for guarantees issued and credit derivatives, collection and payment services, net commissions on current accounts, credit cards and ATM services. <sup>5</sup> Net commissions for servicing on securitisation transactions, factoring and tax collection services. <sup>6</sup> The item includes the net result of trading, hedging and assets and liabilities measured at fair value, plus gains or losses from the disposal or buyback of financial assets and liabilities. <sup>7</sup> Administrative expenses plus value adjustments on plant, property and equipment and intangible fixed assets. <sup>8</sup> Including profit pertaining to non-controlling interests.

In the first six months of 2013, in aggregate terms, the net profit of the major Italian banking groups declined, in particular as a result of the reduction in net interest income (-14 per cent) which was not offset by the growth in net commissions (around 5 per cent). Profits from financial

operations were substantially stable. The improvement in operating efficiency at 30 June 2013 compared with the figure recorded at the end of 2012, was not however confirmed in comparison with the aggregate accounting figures referring to the period from the first half of 2012 to the first half of 2013, in which a reduction was observed in both net banking income (-6 per cent) and operating costs (approximately -4 per cent). Write-downs for impairment of loans also increased (by approximately +9 per cent). These trends determined a drop in net profit of more than 46 per cent (Tab. 40).

As regards the breakdown of revenues, in the first six months of 2013 the proportion of net interest income of total revenues came down to close to 50 per cent (compared with figures of more than 60 per cent recorded before 2012). With the recovery of the markets, instead, the proportion of revenues deriving from securities brokerage activities grew significantly reaching figures of just less than 30 per cent, mainly as a result of an increase in profits from financial operations. The proportion out of total revenues of net commissions on banking services and other operating commissions and income remained, instead, substantially stable (Fig. 110).

**Fig. 110 Revenue breakdown for major Italian banking groups as of mid-2013**



Source: processing of consolidated financial statements and interim reports. See Methodological Notes.

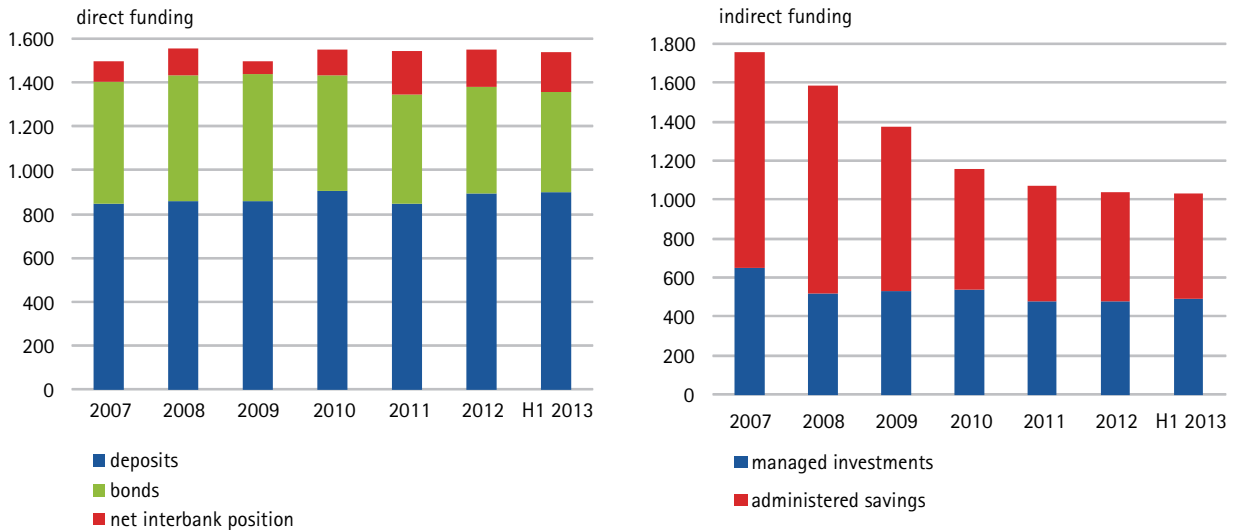
With reference to the structure of bank funding, in the first six months of 2013 substantial stability emerged both in customer deposits in the area of direct funding, and of indirect funding, which recorded a slight drop in the administered savings component (Fig. 111).

During the year, in addition, issues of bonds by Italian banks fell further, going down from approximately 150 billion euro in 2012 to 135 billion in 2013 (Fig. 112).

Bonds placed with institutional investors fell by four billion euro (-17 per cent approximately), while those placed on the domestic market with retail investors decreased by ten billion (-7 per cent). These last recorded a marked reduction of issue of plain vanilla (from 84 to 75 billion euro) and

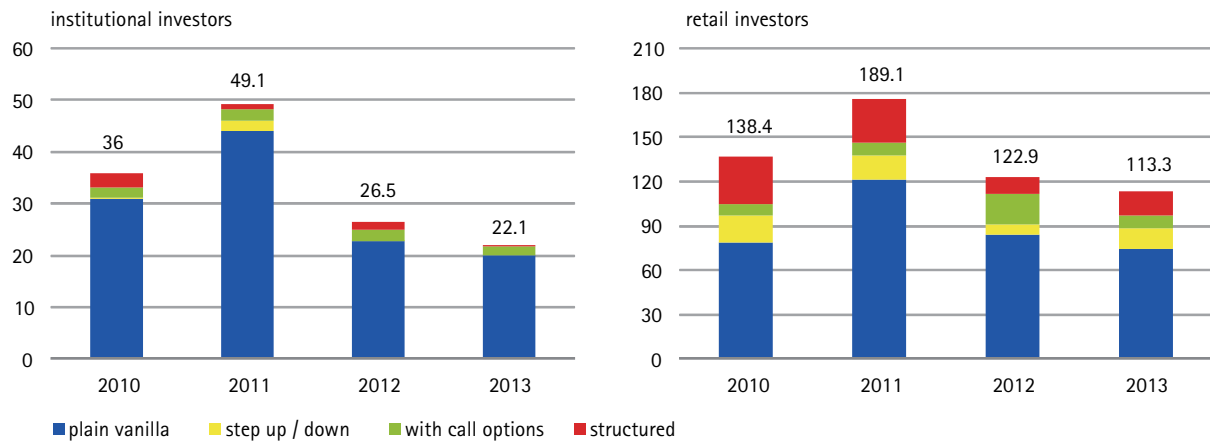
callable bonds (from 20 to 8 billion); on the contrary, structured and step up/down bonds increased (going up, overall, from 18 to 30 billion).

**Fig. 111 Major Italian banking group funding**  
(end of period amounts; billions of euro)



Source: processing of consolidated financial statements and interim reports. See Methodological Notes. Investment management includes technical reserves for insurance and welfare products for group companies. Subordinated and trading liabilities are excluded from direct deposits.

**Fig. 112 Bank bond issues**  
(placed amounts in billions of euro)



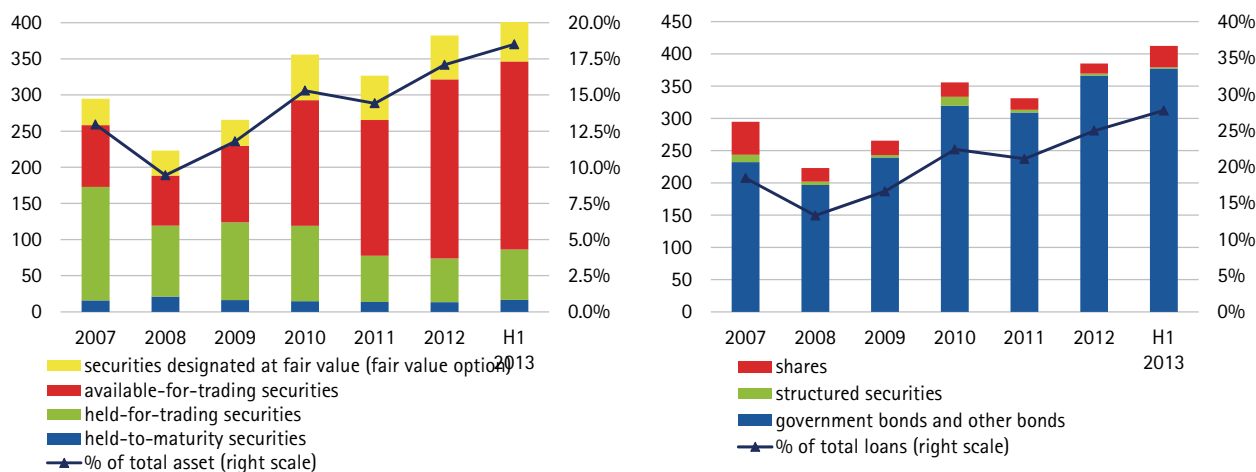
Source: statistical supervisory reports. Provisional data and partial estimates. Excludes bonds guaranteed by the State.

In the first six months of 2013, the securities portfolio of major Italian credit institutions grew, reaching 400 billion euro (that is 20 per cent of total assets) as a result of the increase in financial assets held for trading and those available for sale (Fig. 113).

A prevailing portion of the securities portfolio consists of debt instruments, that is government bonds and other bonds, the amount of which at 30 June 2013 exceeded 350 billion euro (approximately 33 per cent of

investments), while a residual portion consists of equities (less than 5 per cent of banking investments); investment in structured securities was substantially zero even at the end of 2012.

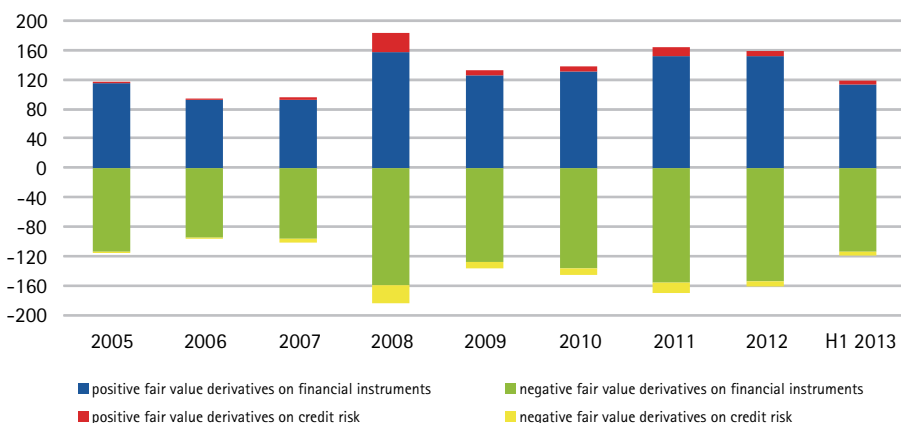
**Fig. 113 Security portfolio breakdown for major Italian banking groups**  
(end of period amounts; billions of euro)



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

In the first half of 2013, the leading Italian banking groups showed a decided drop in the gross market value of trading derivatives (understood as the amount in absolute terms of the fair value of derivative assets and liabilities), down from 320 billion euro at the end of 2012 to 240 billion at 30 June 2013. The net fair value of derivatives (understood as the difference of the market value of derivative assets and liabilities) was, instead, negative by approximately 500 million euro, a recovery compared with the figure recorded at the end of 2012 (-3.6 billion; Fig. 114).

**Fig. 114 Traded derivatives fair value for major Italian banking groups**  
(end of period data; billions of euro)

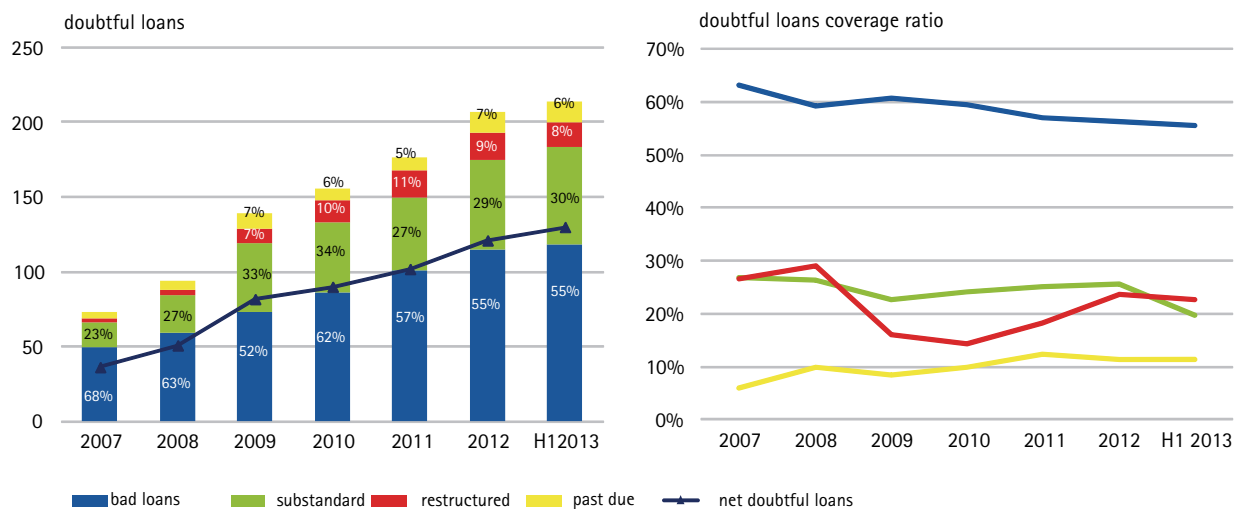


Source: processing of consolidated financial statements and interim reports. See Methodological Notes.

Credit quality continued to deteriorate for the main Italian banking groups also in the first half of 2013, recording the most significant increases in the amount of bad loans in 2009 and in 2012 (Fig. 115).

In particular, the stock of non-performing loans of the leading Italian banking groups has doubled in the last six years, while that relating to watch-list positions approximately quadrupled. In the same period, the coverage rate fell for all categories of bad loans, with the exception of past-due loans.

Fig. 115 Credit quality evolution for major Italian banking groups



Source: processing of consolidated financial statements and interim reports.

### 3 Supervision of banks and investment companies

The supervisory activity on banks and investment companies during 2013 made use of the usual instruments, including the convocation of corporate officers, formal requests for data and information, analysis of complaints, inspections and investigations.

In particular, banking intermediaries received 101 formal requests for data and information, aimed at finding out more about signs of critical issues noted in performing the supervision activity, and were summoned in 20 cases also to call attention to specific questions or clarify certain aspects of the rules related to investment services.

At the end of complex investigations which also entailed inspections, in addition, under the terms of Art. 7, Section 1, letter *b)* of the Consolidated Law on Finance, the Commission adopted three orders summoning the administrative bodies of large banks, aimed at requesting prompt correction of critical issues that had emerged during the investigations. In two cases, the corrective initiatives were accompanied by



the launch of disciplinary proceedings, owing to the significance of the irregularities found. During 2013, disciplinary proceedings launched against a total of 5 banks involved a total of 73 corporate officers (see Chapter V '*Supervisory activity and disciplinary measures*').

With reference to supervision of investment firms, and on "SIM" investment firms in particular, in 2013 work continued on verifying the transparency and fairness of the conduct of intermediaries in providing investment services to their clients.

More specifically, two summonses were issued to corporate officers, under the terms of Art. 7, Section 1, lett. *a*) of the Consolidated Law on Finance, 68 formal requests were made for data and information, under the terms of Art. 8, Section 1, of the Consolidated Law on Finance (of which 60 to "SIM" investment firms and 8 to community investment firms operating in Italy through branches) and one request was made to an audit firm under the terms of Art. 8, Section 2 of the Consolidated Law on Finance (on the occasion of the supervisory activity performed in relation to an investment firm).

When cases of infringement of the legislation governing the sector were ascertained, 42 letters of charges were sent to the corporate officers of four investment firms.

The investment firms were also, in close coordination with the Bank of Italy and the IVASS, checked for any existence of "interlocked" positions, in breach of the prohibition on taking on or exercising positions among competitor companies or groups of companies operating in the lending, insurance and financial markets (prohibition of interlocking, introduced by Italian Law Decree 201/2011, converted into Italian Law 214/2011).

With reference to community investment firms operating in Italy through branches, supervision focused on entities in constant growth, the operating models of which enable Italian investors to make, through them, trades on contracts for difference (CFDs) and on Forex. In several cases the supervision made use also of co-operation with the competent authorities of home countries.

As a result of this activity, a disciplinary administrative proceeding was launched against officers of one of the above community investment firms.

## 4 Supervision of asset management companies

During 2013, the supervisory activity on asset management companies (AMCs) made use mainly of meetings with corporate officers and requests for data and information. In particular, 8 meetings were held with corporate officers (under the terms of Art. 7, Section 1, lett. *a*) of the

Consolidated Law on Finance) and 18 formal requests for data and information were sent (under the terms of Art. 8, Section 1 of the Consolidated Law on Finance).

The supervision on open-ended mutual funds focused mainly on procedures overseeing the launch of new products in the context of analysing the commercial policies followed by AMCs.

As regards the segment of closed-end real estate funds, during 2013 the supervisory activity developed in two main directions, related to checking on the relationship between the AMC and independent experts and to the maturity of closed-end real estate funds destined for the general public (retail funds).

Following the ascertainment of cases of infringement of regulations on the subject of correct provision of the collective investment scheme service, 65 letters of notice were sent to officers of eight AMCs. Corrective action was also requested with the aim of making internal procedures and the related operating practices more compliant with the provisions of the legislation governing the sector.

The number of AMCs active in the real estate fund sector fell slightly (down from 58, at the end of 2012, to 55 at the end of 2013), despite an increase in the number of funds operating in the sector in the same period (from 343 to 348). Net asset values and total assets referable to these funds also showed a moderate increase; these trends determined a drop of approximately one per cent in net debt (Tab. 41).

**Tab. 41 Closed-end Italian real estate funds<sup>1</sup>**  
(amounts in billions of euro)

|      | no. of AMCs | no. of operational funds | net asset value | total assets | borrowing<br>((B-A)/B) % | percentage breakdown of assets  |                          |                             |              |
|------|-------------|--------------------------|-----------------|--------------|--------------------------|---------------------------------|--------------------------|-----------------------------|--------------|
|      |             |                          | (A)             | (B)          |                          | property and<br>property rights | financial<br>instruments | securities and<br>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                      | 31.3            | 53.6         | 41.5                     | 87.7                            | 4.0                      | 4.4                         | 3.8          |
| 2012 | 58          | 343                      | 31.5            | 53.4         | 41.1                     | 88.1                            | 4.4                      | 3.4                         | 4.2          |
| 2013 | 55          | 348                      | 32.9            | 55.1         | 40.2                     | 87.6                            | 4.9                      | 3.7                         | 3.9          |

Source: processing of reporting data. <sup>1</sup> Rounding may cause discrepancies in the total figure.

From the point of view of supervision on transparency, the activity carried out during 2013 regarded checks on correct presentation, in the offer documentation (KIID and prospectus), of the information relating to the investment policy of funds managed by the main Italian AMCs.

Particular attention was also paid to the advertising activity carried out by the AMCs, mainly in order to check its ability to channel correctly to investors the information characterising the investment policy, the related risks and the commission structure of the products.

Under the terms of the European Directives on investment funds, for the purposes of documentary completeness and regularity, numerous notifications sent by foreign authorities for the sale in Italy of investment management products were also checked.

The examination of the structure of the asset-management firms' Boards of Directors, and their directors' independence requirements also continued in 2013. In particular, the composition of the Boards of Directors of the top 17 AMCs (in terms of managed assets) in the banking and insurance sector was analysed. With total assets at the end of 2013 of approximately 195 billion euro, these firms represented approximately 92 per cent of the assets of all Italian-law open-ended funds. The data was then compared against the same figures for 2012. (Tab. 42).

**Tab. 42 Offices held by directors of asset management companies in other companies of the same group**  
(no. of directors)

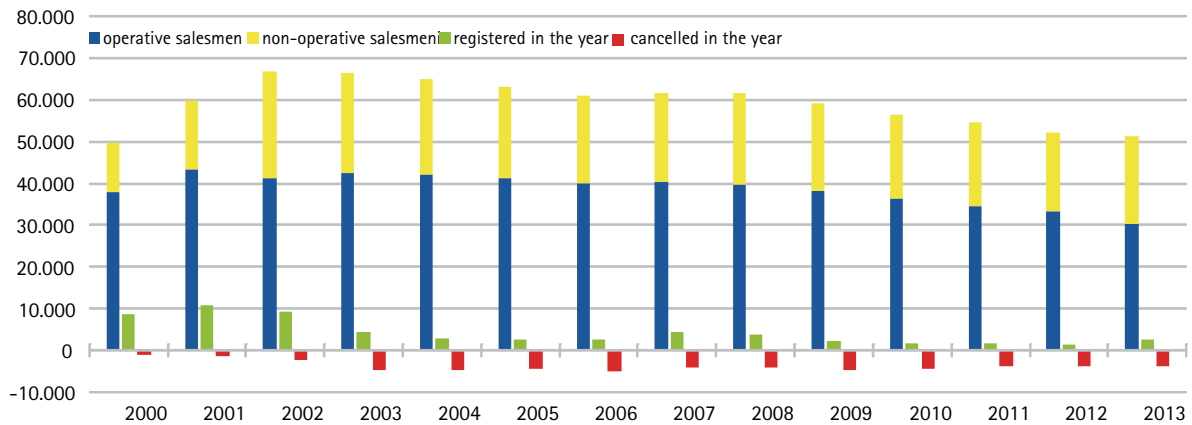
|      |   | office held in AMCs             |                   |                    |                                   |                      |             |           |            |
|------|---|---------------------------------|-------------------|--------------------|-----------------------------------|----------------------|-------------|-----------|------------|
|      |   | executive                       |                   |                    | independent                       |                      | other       |           | total      |
|      |   | Chairperson, Executive Director | Managing Director | Executive Director | Chairperson, Independent Director | Independent Director | Chairperson | Director  |            |
| 2013 | offices held in the parent company      | 4                               |                   | 1                  |                                   | 3                    | 4           | 12        | 24         |
|      | offices held in other group companies   |                                 | 7                 | 5                  | 1                                 | 5                    | 2           | 18        | 38         |
|      | no office held in other group companies | 1                               | 5                 | 1                  | 2                                 | 38                   | 3           | 17        | 67         |
|      | <i>total</i>                            | <i>5</i>                        | <i>12</i>         | <i>7</i>           | <i>3</i>                          | <i>46</i>            | <i>9</i>    | <i>47</i> | <i>129</i> |
| 2012 | offices held in the parent company      | 1                               | 1                 | 1                  |                                   | 2                    | 9           | 9         | 23         |
|      | offices held in other group companies   | 1                               | 10                | 1                  | 1                                 | 7                    | 1           | 29        | 50         |
|      | no office held in other group companies |                                 | 5                 | 1                  | 2                                 | 33                   | 3           | 15        | 59         |
|      | <i>total</i>                            | <i>2</i>                        | <i>16</i>         | <i>3</i>           | <i>3</i>                          | <i>42</i>            | <i>13</i>   | <i>53</i> | <i>132</i> |

Source: information sheets. Figures relate to a sample based on the top 17 asset-management companies from the banking or insurance sector, according to assets managed in 2013. 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 Italian Civil Code, while the definition of Independent Director comes from the definition given by Assogestioni.

## 5 Supervision of financial salesmen

At the end of 2013, the number of financial salesmen entered in the Register was 51,314 (of whom 30,351 holders of a mandate from an intermediary), down compared with the end of 2012 (52,265; Fig. 116).

Fig. 116 Financial salesmen register



Source: Consob and APF.

The supervisory action on financial salesmen made use, during 2013, of the usual tools such as reports from intermediaries, complaints received from investors, the results of inspections carried out at intermediaries, communications from the Judicial Authorities, from the Police and from the Organisation holding the Register of financial salesmen.

Finally, particular attention was paid by the Commission to financial salesmen networks, above all with respect to the models for distributing investment services to retail customers and to the control methods put in place by the intermediaries in relation to their network of salesmen.

# Supervisory activity and sanctions V

## 1 Inspections

In 2013, the Commission launched 31 inspections of supervised entities and completed 36. In 20 cases, assistance was obtained from *Nucleo Speciale di Polizia Valutaria della Guardia di Finanza* (Tab. 43).

**Tab. 43 Inspection activity**

|                   | investigations launched against: |                      |  |                               |                    |             |                            | investigations concluded against: |                  |                      |  |                               |                    |             |                            |              |
|-------------------|----------------------------------|----------------------|--|-------------------------------|--------------------|-------------|----------------------------|-----------------------------------|------------------|----------------------|--|-------------------------------|--------------------|-------------|----------------------------|--------------|
|                   | Listed companies                 | Independent auditors | Market management companies <sup>1</sup> | Investment firms <sup>2</sup> | Banks <sup>3</sup> | AMCs\SICAVs | Shareholders' associations | <i>Total</i>                      | Listed companies | Independent auditors | Market management companies <sup>1</sup> | investment firms <sup>2</sup> | Banks <sup>3</sup> | AMCs\SICAVs | Shareholders' associations | <i>Total</i> |
| 2007              | 4                                | 5                    | --                                       | 4                             | 2                  | 3           |                            | 18                                | 1                | 2                    | --                                       | 2                             | 4                  | 3           |                            | 12           |
| 2008 <sup>4</sup> | 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           |
| 2013              | 12                               | 6                    | --                                       | 6                             | 2                  | 3           | 2                          | 31                                | 13               | 4                    | --                                       | 9                             | 2                  | 6           | 2                          | 36           |

Source: Consob. <sup>1</sup> The figure includes companies managing regulated markets, clearing services and central depositories. <sup>2</sup> The figure includes trust companies and Italian branches of community investment companies. Includes inspections carried out on behalf of the Bank of Italy, with regard to capital stability and anti-money laundering provisions. <sup>3</sup> The figure for 2012 includes one investigation that was commenced and then closed, into the organising committee of a new bank being formed. <sup>4</sup> Includes one investigation that was commenced and then closed, against a stockbroker.

With reference to listed issuers and their subsidiaries, the investigations launched regarded observance of the rules on the subject of managing confidential information in one case, alleged manipulation of the market price of the shares of a listed company in two cases and, respectively, the disclosure provided to the market as regards operations on the share capital and related party transactions in the remaining two cases.

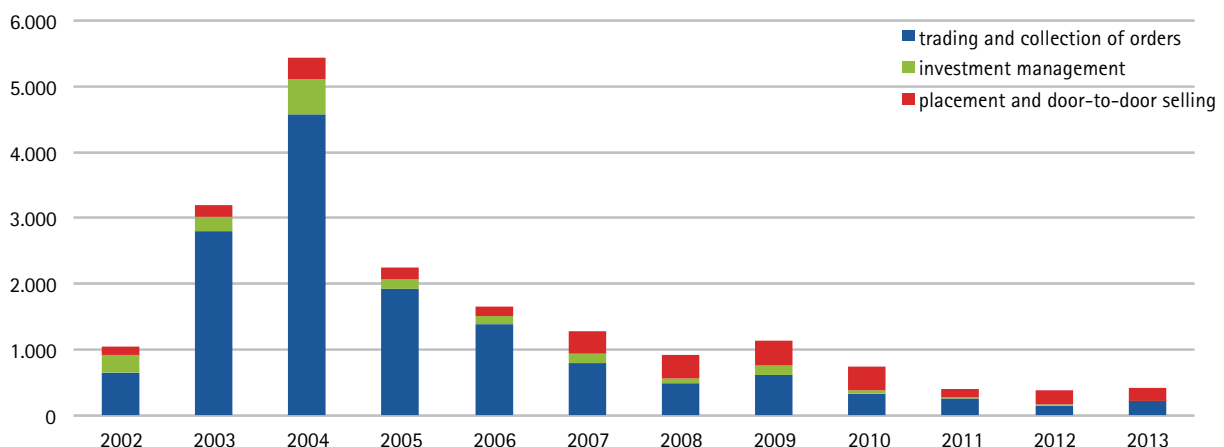
Seven investigations involved listed issuers and the related shareholders, with reference to ownership restructuring operations. Two inspections, finally, regarded shareholders' associations and the existence of shareholders' agreements on control over listed companies.

As regards audit firms, in three cases inspections launched in 2013 involved quality controls on auditing work, in one case the correct performance of specific auditing appointments and in two cases the oversight adopted on the subject of combating money-laundering.

The investigations in relation to intermediaries, numbering 11, in six cases regarded observance of the rules of conduct and transparency in investor relations and in one case alleged manipulation of the market price of a listed company. In addition, at the request of the Bank of Italy, four inspections were carried out regarding corporate governance, the internal control structure and capital stability, and the safeguards adopted on the subject of combating money-laundering. With reference to AMCs, three requests for co-operation were sent to the Bank of Italy to extend the investigations on inspections in progress.

As usual, inspections of intermediaries were based on complaints received during the year. 414 complaints were made in 2013, up by more than 10 per cent from the 374 received in the previous year (Fig. 117).

Fig. 117 Complaints about investment services



Source: Consob.

With reference to abusive phenomena carried out over the Internet and falling within Consob's powers, in 2013 115 investigations were carried out, entailing analysis and in-depth studies relating to 433 websites.

In the context of alleged infringements of the law on public offerings of financial products, during 2013 a decrease was recorded in the number of investigations launched for cases of abuse, which was reflected in a reduction in precautionary measures (two compared with six the previous year) and the consequent prohibition orders, relating to activities carried out through the Internet (Tab. 44).

Communications to protect Italian investors that Consob published on its institutional website increased instead (25 compared with 16 in 2012), as did reports to the Legal Authorities sent in the presence of well-grounded suspicion of infringement of the rules of the Consolidated Law on Finance

(TUF) on the subject of intermediation and infringement of other provisions of the legislation (such as those provided for on the subject of multilevel marketing; 50 compared with 41 in 2012).

**Tab. 44 Enforcement initiatives for unauthorised provision of investment services**

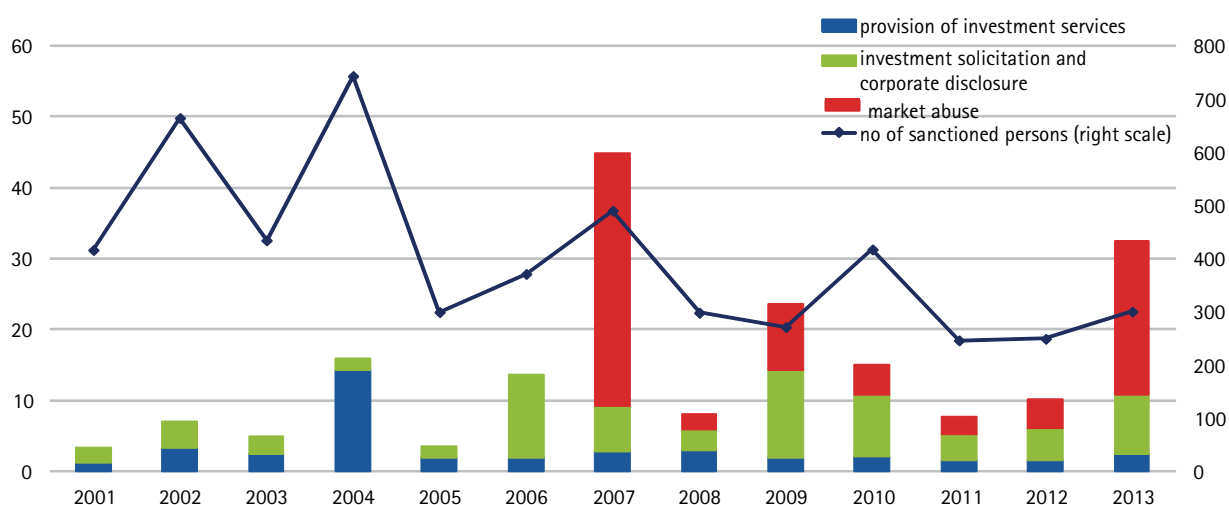
|                   | Precautionary suspension orders | Prohibition orders | Communications for investor protection | reports Legal authorities |
|-------------------|---------------------------------|--------------------|--|---------------------------|
| 2007              | --                              | 1                  | --                                     | ....                      |
| 2008 <sup>1</sup> | 2 <sup>1</sup>                  | 1                  | --                                     | ....                      |
| 2009              | 6                               | 4                  | --                                     | ....                      |
| 2010              | 5                               | 5                  | --                                     | ....                      |
| 2011              | 3                               | 6                  | 1                                      | ....                      |
| 2012              | 6                               | 6                  | 16                                     | 41                        |
| 2013              | 2                               | 2                  | 25                                     | 50                        |

Source: Consob. <sup>1</sup> The figure includes an order which subsequently generated a prohibition order during 2008.

Finally, the Commission continued to make use of the co-operation of the Finance Police and international co-operation with the competent supervisory authorities of foreign countries, whose support turned out in several cases to be fundamental in identifying the persons responsible for abusive activity and in blocking their operations effectively.

In 2013, 142 final measures were adopted in relation to disciplinary proceedings (183 in 2012), of which 135 ended with the imposition of sanctions (162 in 2012). The total amount of financial penalties was approximately 32.5 million euro, more than three times the figure of the previous year (Fig. 118).

**Fig. 118 Financial penalties imposed by Consob<sup>1</sup>**  
(millions of euro)



Source: Consob. <sup>1</sup> The figures include reduced payments and precautionary measures in relation to financial salesmen. For the years prior to 2006, the figures refer to the penalties proposed at the Ministry of the Economy and Finance.

## 2 Sanctions for market abuse

In 2013, the Commission inflicted sanctions for market abuse offences in a total of 14 cases (12 in 2012), of which five concerned insider trading and nine market manipulation.

The total amount of fines imposed increased significantly compared with the previous year, coming out at approximately 21.6 million euro (3.9 million in 2012). The disciplinary measures regarded 28 subjects, of which 20 natural persons and eight entities jointly liable.

Breaches of Article 187-*quinquies* (Corporate liability) of the Consolidated Law on Finance (TUF) were also ascertained with regard to six entities, and financial penalties totalling 4.6 million euro were inflicted as a result (Tab. 45).

**Tab. 45 Disciplinary measures for market abuse offences<sup>1</sup>**  
(cash amounts in thousands of euro)

|      |                 | no. of cases | no. of persons involved | amount of sanctions | amount of confiscations | no. of subjects given additional penalties | additional penalties (months) |
|------|-----------------|--------------|-------------------------|---------------------|-------------------------|--|-------------------------------|
| 2008 | Insider trading | 5            | 6                       | 2,052               | 5,478                   | 6  | 18                            |
|      | Manipulation    | --           | --                      | --                  | --                      | --   | --                            |
|      | <i>total</i>    | 5            | 6                       | 2,052               | 5,478                   | 6  | 18                            |
| 2009 | Insider trading | 11           | 16                      | 7,490               | 20,893                  | 14   | 130                           |
|      | Manipulation    | 6            | 7                       | 1,729               | 14.6                    | 6  | 22                            |
|      | <i>total</i>    | 17           | 23                      | 9,219               | 20,908                  | 20   | 152                           |
| 2010 | Insider trading | 11           | 13                      | 2,404               | 2,025                   | 12   | 55                            |
|      | Manipulation    | 4            | 7                       | 1,810               | --                      | 7  | 28                            |
|      | <i>total</i>    | 15           | 20                      | 4,214               | 2,025                   | 19   | 83                            |
| 2011 | Insider trading | 2            | 4                       | 1,720               | 1,139                   | 4  | 16                            |
|      | Manipulation    | 5            | 5                       | 700                 | 101                     | 4  | 20                            |
|      | <i>total</i>    | 7            | 9                       | 2,420               | 1,240                   | 8  | 36                            |
| 2012 | Insider trading | 6            | 8                       | 1,975               | 5,958                   | 7  | 48                            |
|      | Manipulation    | 6            | 11                      | 1,900               | 6                       | 9  | 78                            |
|      | <i>total</i>    | 12           | 19                      | 3,875               | 5,964                   | 16   | 126                           |
| 2013 | Insider trading | 5            | 7                       | 1,120               | 1,844                   | 7  | 54                            |
|      | Manipulation    | 9            | 19                      | 20,450              | 3                       | 13   | 177                           |
|      | <i>total</i>    | 14           | 26 <sup>2</sup>         | 21,570              | 1,847                   | 20   | 231                           |

Source: Consob. <sup>1</sup> Insider trading is punishable under the terms of Arts 187-*bis*, *quater*, *quinquies* and *sexies* of the Consolidated Law on Finance (TUF); manipulation is punishable under the terms of Arts 187-*ter*, *quater*, *quinquies* and *sexies* of the Consolidated Law on Finance. <sup>2</sup> Of which 20 natural persons and 6 legal persons; entities jointly liable with the perpetrators of the breaches are not included.

Among the most significant disciplinary proceedings completed in 2013 were those launched against three natural persons for having executed, acting jointly through a number of foreign-law companies, transactions to



purchase Premafin shares during the closing auction of the Mercato Telematico Azionario (MTA market) of Borsa Italiana SpA in breach of Art. 187-ter, Section 3, Letters a) and b), of the Consolidated Law on Finance (TUF).

Another disciplinary measure of notable importance adopted on the subject of market abuse in 2013 is that resolved against five natural persons who, acting jointly and for a long period, had manipulated the share prices of the companies Mariella Burani Fashion Group and Antichi Pellettieri (part of the corporate group controlled and managed by two of the perpetrators of the offence), masking their difficult economic and financial situation (which was so serious as to lead, in a short time, to bankruptcy of said Mariella Burani Fashion Group and its subsidiaries).

### 3 Sanctions on intermediaries and financial salesmen

A total of 14 disciplinary measures for infringements of the rules on the subject of securities broking were adopted in 2013. They regarded three investment firms (of which one without a branch in Italy), five banks and six AMCs. The related financial penalties, totalling around 2.3 million euro, were imposed on 102 corporate executives (Tab. 46).

**Tab. 46 Financial penalties inflicted on investment intermediaries**  
(cash amounts in thousands of euro)

|      | no. of intermediaries involved |                  |              |      |       | no. of persons fined |                  |              |      |       | amount of penalties <sup>1</sup> |                  |              |       |       |
|------|--------------------------------|------------------|--------------|------|-------|----------------------|------------------|--------------|------|-------|----------------------------------|------------------|--------------|-------|-------|
|      | banks                          | investment firms | stockbrokers | AMCs | total | banks                | investment firms | stockbrokers | AMCs | total | banks                            | investment firms | stockbrokers | AMCs  | 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 |
| 2013 | 5                              | 3 <sup>2</sup>   | --           | 6    | 14    | 30                   | 17               | --           | 55   | 102   | 820                              | 199              | --           | 1,288 | 2,307 |

Source: Consob. <sup>1</sup> Rounding may cause discrepancies in the total figure. <sup>2</sup> The figure includes a community investment firm without a branch in Italy.

With regard to financial salesmen, 63 disciplinary measures were imposed in 2013 (85 in 2012), including 44 disqualifications from the register, 18 fixed-term suspensions (minimum one month and maximum four), and one financial penalty. The Commission also sent 27 reports to the Legal Authorities for criminal offences emerging during the course of the investigations (38 of 2012; Tab. 47).

Tab. 47 Sanctions and precautionary measures regarding financial salesmen

|      | sanctions |                                    |   |                   |       | percentage of the number of advisers entered in the register | precautionary measures                         | reports to legal authorities |
|------|-----------|------------------------------------|---|-------------------|-------|--|--|------------------------------|
|      | reprimand | disqualification from the register | fixed-term suspension from the register | financial penalty | total |  | fixed-term suspension from business activities |                              |
| 2007 | 5         | 64                                 | 44                                      | 3                 | 116   | 0.35   | 26   | 51                           |
| 2008 | 4         | 44                                 | 43                                      | 2                 | 93    | 0.28   | 20   | 42                           |
| 2009 | 5         | 43                                 | 25                                      | 1                 | 74    | 0.26   | 23   | 43                           |
| 2010 | 6         | 78                                 | 61                                      | 1                 | 146   | 0.51   | 40   | 57                           |
| 2011 | 1         | 92                                 | 23                                      | --                | 116   | 0.42   | 28   | 68                           |
| 2012 | --        | 70                                 | 14                                      | 1                 | 85    | 0.35   | 32   | 38                           |
| 2013 | --        | 44                                 | 18                                      | 1                 | 63    | 0.27   | 20   | 27                           |

Source: Consob.

## 4 Sanctions on issuers

A total of 38 disciplinary measures for breaches of the rules on the subject of issuers and disclosures to Consob and to the public were adopted in 2013 (54 in 2012). The related financial penalties were 8.2 million euro (almost double the figure for 2012; Tab. 48).

Tab. 48 Administrative sanctions imposed for breaches of the rules on the subject of issuers and corporate disclosure (amounts in millions of euro)

|      | no. of cases                           |               |                      |  |                      |                                   |       | no. of persons fined                   |               |                      |  |                | total penalties                   |  |               |                      |  |                      |                                   |       |
|------|--|---------------|----------------------|--|----------------------|-----------------------------------|-------|--|---------------|----------------------|--|----------------|-----------------------------------|--|---------------|----------------------|--|----------------------|-----------------------------------|-------|
|      | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Independent auditing | Board of auditors' responsibility | Total | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Legal auditing | Board of auditors' responsibility | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Independent 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   |
| 2013 | 10                                     | 4             | 11                   | 8  | 1                    | 4                                 | 38    | 18                                     | 4             | 11                   | 26   | 1              | 18                                | 1.8                                    | 0.6           | 1.1                  | 0.6  | ..                   | 4.1                               | 8.2   |

Source: Consob.

In particular, 27 disciplinary measures regarded breaches of the rules on the subject of issuers and led to the application of financial penalties for a total amount of approximately 7.1 million euro. Seven measures related to the breach of obligations to communicate significant equity investments and one case of non-fulfilment of the disclosure obligations provided for in

Art. 122, Section 1, of the Consolidated Law on Finance on the subject of shareholders' agreements.

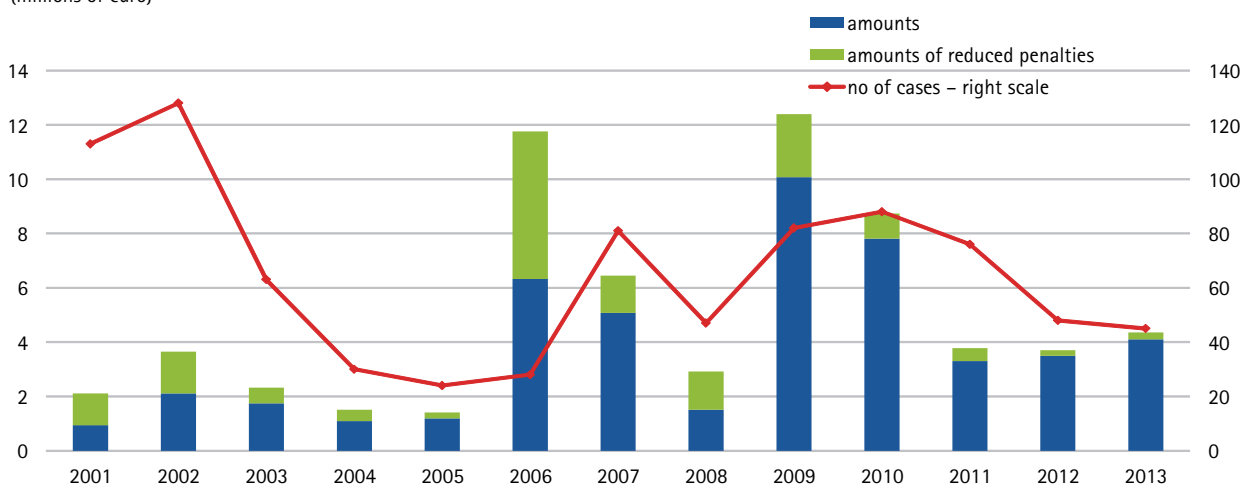
In the context of measures on the subject of corporate disclosure, 5 disciplinary measures were also adopted, for breach of disclosure obligations on the subject of internal dealing, which entailed the imposition of total financial penalties of 290 thousand euro (Tab. 49, Fig. 119).

**Tab. 49 Reduced payments following notification of infringement of regulations on solicitation of public savings, corporate disclosure and voting proxy**  
(monetary amounts in millions of euro)

|      | no. of cases                           |               |                      |  |       | no. of persons                         |               |                      |  | amount of reduced payments             |               |                      |  |       |
|------|--|---------------|----------------------|--|-------|--|---------------|----------------------|--|--|---------------|----------------------|--|-------|
|      | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Total | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Public offers of sale and subscription | Takeover bids | Corporate disclosure | Significant shareholdings and shareholders' agreements | Total |
| 2007 | 4                                      | 1             | 1 <sup>1</sup>       | 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   |
| 2013 | --                                     | --            | --                   | 12   | 12    | --                                     | --            | --                   | 11   | --                                     | --            | --                   | 0.25   | 0.25  |

Source: Consob. <sup>1</sup> 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. 119 Administrative sanctions regarding solicitation of public savings and corporate disclosure<sup>1</sup>**  
(millions of euro)



Source: Consob. <sup>1</sup> From 2006 the figures refer to sanctions inflicted directly by Consob. For previous years, the figure refers to sanctions proposed at the Ministry of the Economy and Finance.

In 2013, one disciplinary measure was also adopted for infringement of the rules on the subject of independent auditing.

On the subject of public offerings and associated advertising activities, ten disciplinary measures were adopted (four for breaches of Art. 94, Section 1, of the Consolidated Law on Finance and six for breaches of Art. 101 of the Consolidated Law on Finance) for a total of 1.8 million euro.

During 2013, supervisory action on the work of the statutory auditors of listed companies took on particular importance, and led to the imposition of fines totalling 4 million euro for 18 members of boards of statutory auditors of 4 listed companies for infringements of Art. 149 of the Consolidated Law on Finance.

## 1 Implementation of primary legislation

In the early part of the year, Consob carried out the activities necessary to implement Art. 30 of Italian Decree-Law No. 179 of 18 October 2012 (the '*decreto crescita-bis*', converted with amendments into Italian Law No. 221 of 17 December 2012), which regulated, in Italian legislation, the professional exercise of collecting venture capital through online portals (equity crowdfunding) for innovative start-ups and provided for other supporting actions in favour of these latter.

Said primary legislation reserved this activity for banks and investment firms ('managers by right', noted in the special section of the register of managers), and for subjects authorised by Consob and entered in the specific register ('registered managers'), delegating to the Commission, under the terms of Art. 50-*quinquies* of the Consolidated Law on Finance, the definition of principles and criteria related to certain aspects regarding the establishment and updating of the register, the requisites of honourability and professionalism of the registered managers, and the rules of conduct to be observed in relations with investors. In addition, as regards the rules on public offerings made exclusively through the aforementioned online portals (pursuant to Art. 100-*ter* of the Consolidated Law on Finance), Consob was given the task of defining the size of the portion of financial instruments reserved for professional investors or for particular categories of investors and protecting investors other than professional clients in the event of transfer of control over the innovative start-up subsequent to the offering. Said offerings, under the terms of the primary law, must have a total price of less than 5 million euro, the threshold below which the publication of a prospectus approved in advance by Consob is not prescribed.

The Commission issued the 'Regulation on the collection of risk capital on the part of innovative start-ups via on-line portals', under the terms of Article 50-*quinquies* and Article 100-*ter* of the Consolidated Law on Finance with Resolution 18592 of 26 June 2013 (Box 4).

The rules issued were the result of a process in which Consob applied in full the principles of better regulation, involving intense consultation and identifying parameters for *ex post* assessment of the effectiveness of the regulatory action.

## Box 4

### The Regulation on the collection of risk capital on the part of innovative start-ups via online portals

In order to protect subjects that subscribe the financial instruments issued by innovative start-ups, the Regulation states that, before being admitted to the section of the authorised online platforms in which it is possible to accept offers, investors must reply to a questionnaire aimed at ascertaining the extent to which they understand the characteristics and risks associated with the type of investments promoted. In addition, the information to be provided to investors is regulated in detail, with reference to management of the portal, investment in innovative start-ups and the single offers.

In accordance with the rules laid down by Decree 179/2012, for finalising the orders, the Regulation provides for the intervention of a bank or an investment firm which must operate in relation to the investors under the terms of the MiFID rules. In order to graduate the expenses and facilitate development of equity crowdfunding, significant transaction thresholds were defined (500 euro per investment and 1,000 euro per year for natural persons; 5,000 euro per investment and 10,000 euro per year for legal persons), above which the intermediaries that complete the offer acceptance orders must apply, in relation to the investors, the protection provided for in Part II of the Consolidated Law on Finance and in the related implementing rules (client profiling on the basis of financial knowledge and individual assets/income, and verification of the appropriateness/adequacy of the investments made through the intermediary).

With specific reference to implementation of Art. 100-ter of the Consolidated Law on Finance, the Regulation also establishes certain conditions related to conducting offers on portals. In particular, for the purposes of acceptance of the offer by the portal, it is essential for the issuer's by-laws to contemplate, for retail investors, the right to withdraw from the company or the right to co-sell their equity investments, and the related methods and conditions of exercise, in the event that, subsequent to the offer, the controlling shareholders transfer control to third parties. In addition, for the purposes of completing the offer on an online portal, a portion of at least 5 per cent of the financial instruments offered must be subscribed by professional investors or by bank foundations or by incubators of innovative start-ups.

Finally, the Regulation defines the disciplinary and precautionary measures that Consob may adopt in relation to managers of authorised portals.

To complete all of the above, with Communication 0066128 of 1 August 2013, Consob provided indications and clarifications on the subject of the rules applicable to the 'managers by right' (banks and investment firms authorised to provide the related services), which directly perform the activity of managing online portals for collecting capital for innovative start-ups, clarifying that they are obliged, in relations with customers, to apply the same transparency standards required of portal managers, other than banks and investment firms, authorised by Consob and entered in the register, as well as the specific requirements laid down with regard to presenting and managing offers.

Consob also published on its website an ample investor education section which illustrates equity crowdfunding and its risks in a clear and detailed manner.

As regards the implementation of other provisions of primary importance already present in Italian legislation, in July, the public consultation was launched on the rules relating to adequate checks on customers by financial salesmen, to be adopted under the terms of Italian Legislative Decree No. 231 of 21 November 2007, issued to implement Directive 2005/60/EC (the 'Third Anti-Money Laundering Directive'), on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The consultation was concluded in September and, after obtaining the agreement of the Bank of Italy and the IVASS, as required by the aforementioned decree, Resolution 18731 of 18 December 2013 was adopted, and came into force on 1 January 2014.

Implementing Italian Legislative Decree No. 231 of 21 November 2007, in September a public consultation was launched on the rules relating to adequate checks on customers by independent auditors and audit firms with auditing appointments on public interest entities (PIEs). The consultation was completed in November and, once the agreement of the Bank of Italy and the IVASS had been obtained, as required, Resolution No. 18802 of 21 February 2014 was adopted, with entry into force on 1 June 2014.

The rules in question made reference mainly to the Bank of Italy's Order of 3 April 2013 which, on the same subject, lays down rules on banks and other financial intermediaries. The specific nature of independent auditing was, however, taken into account. This activity consists of a coordinated series of accounting audits which take place after the operations of the audited entities/companies and which are performed independently and with no involvement in the related decision-making processes.

With Resolution 18751 of 19 December 2013, lastly, the Regulation concerning the disclosure and transparency obligations relating to Consob's organisation and activity was adopted, as a consequence of the adoption, by Parliament, of Italian Legislative Decree No. 33 of 14 March 2013, (the 'Transparency Decree'), which, *"in order to encourage widespread forms of control over the pursuit of institutional functions and the efficient use of public resources"*, defined transparency *"as access to information concerning the organisation and activities of public administrations"*, by publishing the same in specific sections of the websites of each administration.

## 2 Revision of Consob Regulations

With Resolution 18523 of 10 April 2013, a number of amendments were made to the regulations that apply to cooperatives with listed shares, consequent to the important legislative changes made to the Consolidated

Law on Finance, regarding the disclosure obligations prior to shareholders' meetings and rules on voting lists for the election and appointment of members of corporate bodies. In particular, Italian Legislative Decree No. 91 of 18 June 2012 (known as the 'Shareholders' Rights Corrective Decree') made the rules on calling shareholders' meetings for cooperatives uniform with those envisaged, in general, for other listed companies, so that the terms for calling shareholders' meetings provided for in Art. 125-*bis*, Sections 1 and 3, of the Consolidated Law on Finance apply to cooperatives.

With Resolution 18523 of 10 April 2013, in addition, a number of provisions of the Issuers' Regulation on the subject of independent auditing were abolished, as they had become inapplicable following the changes made to the Consolidated Law on Finance with Italian Legislative Decree No. 39 of 27 January 2010, and on the subject of communicating major shareholdings in companies with non-listed shares or in limited companies, as this obligation had ceased to apply as a result of the change made to Art. 120 of the Consolidated Law on Finance by Italian Legislative Decree No. 184 of 11 October 2012.

The Issuers' Regulation was further amended, with Resolution 18612 of 17 July 2013, also following the update to the European legislation on prospectuses to be published for public offerings or admission to trading of financial instruments, and the legislative changes made to the Consolidated Law on Finance on price sensitive communications, shareholders' rights and price quotations.

With Resolution 18612/2013, in addition, other amendments were made to the Issuers' Regulation with the aim of creating greater coordination between some rules contained in it and the primary legislation.

The Issuers' Regulation was modified also owing to the application procedure on the subject of takeover bids, in order to strengthen the disclosure requirements, providing for the obligation to make known to the market some information of significant interest for the public.

A number of changes were made to the Issuers' Regulation, aimed at improving the intelligibility of the regulatory provisions and the accessibility for users to the system of regulated information as a whole, and aimed at transposing a number of amendments made to the Transparency Directive by the aforementioned Directive 2010/73/EU.

Further changes to the Issuers' Regulation became necessary also owing to the publication, on 25 July 2012, of the ESMA document containing Guidelines on Exchange-Traded Funds (ETFs) and other UCITS Issues. These Guidelines aim to provide interpretation clarifications on the application of some obligations prescribed by Directive 2009/65/EU (the so-called UCITS IV), through certain general application instructions of European reference legislation and the related national enactment provisions.



In October, Consob and the Bank of Italy approved the amendments to the measure of 22 February 2008 containing rules on central clearing and settlement services, guarantee systems and the related management companies, after a long procedure which saw the exchange of reciprocal understanding of various parts of the structure and, above all, after careful analysis and discussion of the solutions finalised on the subject of payment of market insolvencies, which had become necessary following the changes made to Art. 72 of the Consolidated Law on Finance.

In 2013, Consob's interpretative activity continued, through the publication of Communications for the purpose of clarifying certain parts of the relevant rules, that is providing concrete indications so that the addressees of the rules can comply with them in a correct manner.

In the context of supervisory activity related to the transparency of the ownership structures of listed companies, a number of critical issues emerged associated with the operations of trusts in the risk capital market, which made it necessary, after ample consultation with the market, to issue a general communication under the terms of Art. 115, Section 2, of the Consolidated Law on Finance (Communication 0066209 of 2 August 2013).

Following the publication, on 1 February 2013, of the ESMA Guidelines on the exemption from some of the rules of Regulation (EU) 236/2012 on short selling and certain aspects of Credit Default Swaps with regard to market-making activities and primary market operations, translated into Italian and published on 2 April 2013, Consob and the Bank of Italy adopted a joint communication, dated 5 June 2013.

In the field of work on transposing Directive 2011/61/EU on alternative investment funds (AIFMD) and the related community implementing provisions, Consob provided its contribution to the Ministry of the Economy and Finance for the preparation of a draft legislative decree transposing the community rules.

The term for transposing the AIFMD expired on 22 July 2013 (the legislative decree transposing the Directive is currently being definitively adopted; it was approved by the Cabinet on 3 December 2013); on the same date Regulations (EU) 345/2013 and 346/2013 (EuVECA and EuSEF) came into force. Considering the direct effectiveness in national legislation of said Regulations and of the AIFMD provisions that must be considered, owing to constant case law, self-executing, Consob and the Bank of Italy published (on 26 July 2013) a joint communication for the purpose of providing some indications aimed at clarifying the rules in force from 22 July 2013, thus ensuring full operation of the directly applicable EU provisions until they are adopted in the national transposing legislation and regulations.

### 3 The Regulation on disciplinary proceedings

With Resolution 8750 of 19 December 2013, following a prior analysis of the disciplinary proceedings conducted and their timing, and the usual public consultation procedure, the new 'Regulation on Consob's disciplinary proceedings' was approved. This applies to disciplinary proceedings launched after the date on which it came into force (10 March 2014).

The Regulation was adopted under the terms of Art. 24 of Italian Law No. 262 of 28 December 2005, which, in keeping with what was, besides, prescribed also by Arts 187-*septies* and 195 of the Consolidated Law on Finance, requires, for the disciplinary proceedings of the Supervisory Authorities for the financial system, "*observance of the principles of full knowledge of investigatory activities, adversarial proceedings, recording, and the distinction between investigative and decision-making functions with respect to application of the sanction*", stating that the same Authorities shall govern "*with their own regulations*" the application of said principles.

In the light of these needs, Consob therefore identified an organisational model which, while fully observing the legal principles enunciated above, made it possible to reduce, even halve, the overall duration of disciplinary proceedings, down from 360 days (540 in the case of persons resident abroad) to the single term for completion of the proceeding of 180 days.

Adoption of the Regulation, in which provisions previously contained in several different measures were combined, also made possible an overall rationalisation of the matter and helped to ensure greater information transparency in relation to the Commission's disciplinary measures.

### 4 Measurement of administrative burdens incurred by supervised subjects

In implementing the provisions of law concerning the measurement of administrative charges (Art. 6, Section 3 of Italian Law Decree No. 70 of 13 May 2011, converted by Italian Law No. 106 of 12 July 2011), Consob carried out a survey of the disclosure obligations on the supervised entities established by the regulatory provisions it has issued by virtue of the delegated powers set forth in the Consolidated Law on Finance.

The survey revealed a complex regulatory framework, associated with a set of sources which have become stratified over time in a non-harmonised manner. The disclosure obligations amount to 619, according to an estimate which takes into account the total number of reports received on an annual basis (approximately 452 thousand).

On completion of this survey, certain types of action were identified, according to a programme of activities, launched in 2013 and to be completed by the end of 2014, divided into legislative, organisational and IT changes, aimed at achieving a reduction in expenses for supervised entities and at increasing the benefits for the market as a whole.

With reference to 2013, the actions aimed at reducing administrative expenses regarded the creation of IT systems for the acquisition and digital filing of documentation relating to prospectuses for offering and/or listing of community financial instruments. Further initiatives were aimed at simplifying the regulations, by eliminating any provisions no longer applicable. As of today, work is in progress to expand the information technology infrastructure (project to revise Consob's website and 'Investors' Charter'), capable of determining a substantial reduction in the costs of transmitting data and of access to the same by investors.

# VII Internal management, external relations and international activity

## 1 Financial management

In line with what happened in 2012, the preliminary total expenditure for financial year 2013, of 117.2 million euro, was 1.2 million euro less than the final figure for the previous year (Tab. 50).

**Tab. 50 Revenues and expenditure<sup>1</sup>**  
(millions of euro)

| items  | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>REVENUES</b>  |              |              |              |              |              |              |              |
| Previous year surplus <sup>2</sup>   | 24.0         | 29.7         | 11.5         | 6.5          | 14.5         | 14.3         | 18.3         |
| State funding  | 10.7         | 9.8          | 7.9          | 1.0          | 0.4          | 0.4          | 0.0          |
| Supervisory fees   | 75.1         | 75.0         | 87.8         | 108.9        | 116.6        | 108.9        | 98.0         |
| Sundry revenues  | 9.9          | 17.2         | 11.1         | 6.8          | 12.0         | 12.2         | 10.1         |
| <i>total revenues</i>  | <i>119.7</i> | <i>131.7</i> | <i>118.3</i> | <i>123.1</i> | <i>142.5</i> | <i>135.8</i> | <i>126.4</i> |
| <b>EXPENDITURE</b>   |              |              |              |              |              |              |              |
| Current expenditure  | 90.0         | 119.6        | 109.7        | 105.8        | 128.5        | 114.1        | 113.5        |
| <i>Expenditure for members of the Commission</i>                             | <i>2.6</i>   | <i>2.6</i>   | <i>2.6</i>   | <i>2.0</i>   | <i>2.3</i>   | <i>2.3</i>   | <i>1.4</i>   |
| <i>Staff</i>   | <i>60.2</i>  | <i>70.6</i>  | <i>72.5</i>  | <i>80.5</i>  | <i>82.0</i>  | <i>88.1</i>  | <i>89.8</i>  |
| <i>Goods and services</i>  | <i>23.0</i>  | <i>23.3</i>  | <i>17.3</i>  | <i>18.2</i>  | <i>21.5</i>  | <i>16.0</i>  | <i>16.9</i>  |
| <i>Restoration and extension of fixed assets</i>                             | <i>4.1</i>   | <i>4.0</i>   | <i>3.4</i>   | <i>3.9</i>   | <i>3.6</i>   | <i>3.7</i>   | <i>5.0</i>   |
| <i>Provisions for risks in relation to potential claims for compensation</i> | <i>0.0</i>   | <i>18.3</i>  | <i>12.2</i>  | <i>0.4</i>   | <i>17.8</i>  | <i>0.0</i>   | <i>0.0</i>   |
| <i>Unclassified expenditure</i>  | <i>0.1</i>   | <i>0.8</i>   | <i>1.7</i>   | <i>1.3</i>   | <i>1.3</i>   | <i>4.0</i>   | <i>0.4</i>   |
| Capital expenditure  | 1.7          | 2.0          | 3.2          | 2.8          | 1.4          | 4.3          | 3.7          |
| <i>total expenditure</i>   | <i>91.7</i>  | <i>121.6</i> | <i>112.9</i> | <i>108.6</i> | <i>129.9</i> | <i>118.4</i> | <i>117.2</i> |

Source: Consob. <sup>1</sup> Up to 2012 the figures presented are final. For 2013, the figures presented are definitive estimates. <sup>2</sup> 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 2012 surplus is recorded among 2013 revenues.

In particular, there was a reduction of 0.6 million euro both in current expenditure, which, at the end of 2013, amounted to 113.5 million euro, and in capital expenditure, which came down to 3.7 million euro.

The notable decline in current expenditure was due essentially to the reduction to zero of *Provisions for risks on the return of amounts paid to the Commission following non-definitive court orders* and to the reduction (from 2.3 to 1.4 million euro) of expenses for members of the Commission;

there was a slight increase in personnel expenses and in those for the acquisition of goods and services.

Capital expenditure is mainly ascribable to work on the systems and structures at the Rome office, as well as the acquisition of hardware and software.

Total revenues for 2013, net of the previous year surplus, amounted to 108.1 million euro. They were referable for 9.3 per cent to sundry revenues (interest income, use of provisions for restoration of fixed assets and amounts paid to the Commission following court orders) and for 90.7 per cent to supervisory contributions paid mainly by entities that solicit investments from the public, issuers, intermediaries (banks, investment firms and stockbrokers) and independent audit firms (Tab. 51).

**Tab. 51 Fees by category of supervised entity<sup>1</sup>**  
(millions of euro)

|      | investment firms and stockbrokers | banks | independent auditors | financial salesmen | market entities <sup>2</sup> | issuers | UCITS <sup>3</sup> | entities that solicit public investment | other | <i>total revenues from supervisory fees</i> |
|------|-----------------------------------|-------|----------------------|--------------------|------------------------------|---------|--------------------|---|-------|---|
| 2007 | 1.0                               | 10.4  | 5.5                  | 12.9               | 4.8                          | 13.1    | 8.3                | 16.3                                    | 2.8   | <i>75.1</i>                                 |
| 2008 | 1.1                               | 11.3  | 6.3                  | 11.7               | 4.7                          | 12.7    | 7.1                | 18.4                                    | 1.7   | <i>75.0</i>                                 |
| 2009 | 1.3                               | 13.1  | 9.0                  | 5.0                | 5.4                          | 14.7    | 8.6                | 29.1                                    | 1.6   | <i>87.8</i>                                 |
| 2010 | 1.6                               | 16.9  | 11.9                 | 5.5                | 5.7                          | 19.8    | 10.7               | 34.8                                    | 2.0   | <i>108.9</i>                                |
| 2011 | 1.7                               | 20.1  | 12.1                 | 5.2                | 5.7                          | 23.1    | 11.5               | 34.7                                    | 2.5   | <i>116.6</i>                                |
| 2012 | 1.4                               | 17.7  | 12.7                 | 4.9                | 5.7                          | 23.5    | 10.4               | 30.5                                    | 2.1   | <i>108.9</i>                                |
| 2013 | 1.5                               | 16.2  | 12.5                 | 4.7                | 5.2                          | 22.5    | 8.8                | 23.9                                    | 2.7   | <i>98.0</i>                                 |

Source: Consob. <sup>1</sup> From 2007 to 2012 the figures presented are final. For 2013 the figures presented are preliminary. <sup>2</sup> 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). <sup>3</sup> Includes the supervisory fees paid by asset management companies for individual portfolio-management services.

## 2 Organisation

During 2013, the process of revising the organisational structure was consolidated; this is aimed at optimising the distribution of the responsibilities assigned to the operating structures, in support of the institutional mandate.

After the wide-ranging internal reorganisation carried out at the end of 2011, a need emerged to perform a series of actions which regarded the organisational and functional structure and the responsibilities held by Divisions and Offices that operate in specific sectors of supervision.

With a view to simplifying operating methods, the protection of information, handling of complaints, reporting of cases of conflicts of interest in performing inspection duties and coordinating inspection activity were all regulated, as were the methods of holding proceedings pursuant to Italian Law 241/1990 and of accessing the Bank of Italy's Central Risks Bureau.

### 3 Human resource management

During 2013, Consob's workforce fell effectively by 9 members of staff, down to 618 employees.

During the year Consob availed of a staff member seconded from another Administration and considered equal to one of the functional grades provided for in the Regulation on Personnel, while another member left the service on expiry of the secondment period (Tab. 52 and Tab. 53).

**Tab. 52 Personnel<sup>1</sup>**

|      | permanent employees |                  |                         | total | fixed-term employees | total |
|------|---------------------|------------------|-------------------------|-------|----------------------|-------|
|      | management career   | operating career | general services career |       |                      |       |
| 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   |
| 2013 | 317                 | 232              | 17                      | 566   | 52 <sup>2</sup>      | 618   |

Source: Consob. See Methodological Notes. <sup>1</sup> Situation at 31 December. <sup>2</sup> Includes 7 employees seconded from other administrations and considered equal to one of the functional grades provided for in the Regulation on Personnel.

**Tab. 53 Breakdown of staff by grade and organisational unit<sup>1</sup>**

| organisational unit                                   | executives | managers   | employees  | other <sup>2</sup> | total      |
|---|------------|------------|------------|--------------------|------------|
| General Management                                    | 3          | 4          | 8          | 5                  | 20         |
| Secretary General                                     | 2          | 0          | 1          | 0                  | 3          |
| Attorney General                                      | 1          | 0          | 0          | 0                  | 1          |
| Legal Advisor   | 6          | 21         | 7          | 1                  | 35         |
| Offices not coordinated within Divisions <sup>3</sup> | 8          | 34         | 36         | 3                  | 81         |
| <b>Divisions</b>                                      |            |            |            |                    |            |
| Information for Issuers                               | 5          | 31         | 15         | 0                  | 51         |
| Corporate governance                                  | 6          | 28         | 12         | 0                  | 46         |
| Markets   | 8          | 37         | 33         | 0                  | 78         |
| Intermediaries  | 5          | 43         | 33         | 0                  | 81         |
| Inspectorate  | 3          | 29         | 17         | 1                  | 50         |
| Studies   | 4          | 16         | 12         | 0                  | 32         |
| Administration  | 11         | 34         | 50         | 9                  | 104        |
| Regulatory strategies                                 | 3          | 8          | 3          | 1                  | 15         |
| Consumer protection                                   | 6          | 6          | 8          | 1                  | 21         |
| <i>total divisions</i>                                | <i>71</i>  | <i>291</i> | <i>235</i> | <i>21</i>          | <i>618</i> |

Source: Consob. <sup>1</sup> Situation at 31 December 2013. Contract workers are classified according to the equivalent permanent grades. <sup>2</sup> The "other" category includes general-services staff. <sup>3</sup> Offices not coordinated within divisions.

At the end of the experimental phase, launched in 2012, the new tele-working system began with the identification of 11 positions, which only 10 members of staff made use of (8 in Rome and 2 in Milan).

As far as training is concerned, in 2013 there was a reduction in training expenditure which amounted to 300 thousand euro (390 thousand in 2012), also as a result of recourse to a high number of internal initiatives.

In the first nine months of the year, in addition, two amicable settlement procedures were defined in relation to fulfilment of the legal prescriptions on the subject of mandatory placing of protected categories.

## 4 Information technology systems

During 2013, the containment of costs continued in relation to the Information and Communication Technology (ICT) area, driven both by the spending review legislation and by internal initiatives, aimed at optimising investments. It became necessary, however, to postpone other important activities determining an extension of the related implementation times.

The DEMACO (Dematerialisation of Acts and proceedings of Consob) project was the initiative that most involved the internal structure, in terms of developments of both applications and infrastructure. The dematerialisation of document flows entailed the digitalisation of Consob's paper files, activation of the new IT protocol, innovation and simplification of administrative processes and activities.

There was also intense activity relating to new systems for supervising and filing documents sent to Consob by supervised entities.

In consideration of the new formalities that provide for establishment at the ESMA of the European central registers (pursuant to the Omnibus Directive), we can note the establishment of centralised mechanisms for collecting information at the EU level which have involved the internal structures in a series of cross-board activities.

## 5 External relations, investor education and research

In the field of relations with the public and with investors Consob's website was again the main tool for its external communications. The large number of visits is confirmation of its importance in terms of allowing operators, students and investors to obtain information (Tab. 54).

During 2013, Consob received more than 1,600 written requests for assistance and reports on matters regarding corporate operations and the market from the public and investors. Of these, 1,200 were sent through the Integrated Externals System (Sistema Integrato Per l'Esterno - SIPE) and the

specific form published on this system. The numerous requests for clarifications, figures and information received over the telephone during the year must also be added to the total of these requests.

**Tab. 54 Visitors to Consob's website**  
(thousands of visits)

| pages  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|--|-------|-------|-------|-------|-------|-------|-------|
| Home page (What's new)                       | 2,130 | 1,803 | 1,873 | 1,819 | 1,275 | 1,305 | 1,178 |
| For investors                                | 344   | 188   | 173   | 193   | 199   | 180   | 159   |
| For supervised entities                      | 367   | 510   | 309   | 388   | 322   | 340   | 271   |
| For journalists <sup>1</sup>                 | –     | 12    | 12    | 12    | 5     | 6     | 4     |
| Consob                                       | 847   | 1,127 | 1,454 | 1,254 | 1,154 | 1,160 | 968   |
| Issuers                                      | 2,791 | 2,879 | 3,679 | 3,275 | 3,177 | 3,119 | 2,706 |
| Intermediaries and markets                   | 1,691 | 1,436 | 1,020 | 1,121 | 1,090 | 1,088 | 988   |
| Consob Decisions/Newsletter                  | 696   | 734   | 968   | 935   | 977   | 982   | 891   |
| Regulations                                  | 2,117 | 2,395 | 1,906 | 2,127 | 2,065 | 2,100 | 1,618 |
| Publications and press releases <sup>2</sup> | 750   | –     | –     | –     | 191   | 188   | 126   |
| Other websites                               | 10    | 9     | 209   | 9     | 4     | 4     | 5     |
| Site search engine                           | 313   | 256   | 209   | 196   | 116   | 112   | 147   |
| Help and site map                            | 26    | 58    | 15    | 16    | 9     | 10    | 7     |
| Interactive area <sup>4</sup>                | –     | –     | 44    | 97    | 51    | 54    | 36    |
| English version                              | 297   | 274   | 845   | 290   | 322   | 340   | 343   |

Source: Consob. <sup>1</sup> The pre-2007 data on journalists have been included under the "Home Page" heading. <sup>2</sup> In 2008, the data was included under the heading "Consob". <sup>3</sup> The figures for 2008 (available from October) refer to access to the Automated Integrated System for Supervision and Financial Salesmen Register (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 Externals System (SIPE) and the Automated Integrated System for Supervision of Insurance Companies (SAIVIA). <sup>4</sup> Data available from June 2009, when the new interactive area was launched.

Consob continues to pay the maximum attention to reports and complaints received, and to financial education.

The investor education initiatives regarded, in particular, crowdfunding, that is the collection of risk capital by innovative start-ups using online portals.

Equity crowdfunding, as regulated by the Italian Legislator, is open to a wide range of investors taking advantage of the potential of the Internet. At the same time as the adoption of Regulation 18592/2013, Consob made a financial education initiative available to the public which, as well as illustrating the legislation, highlighted the risks of investing in an innovative company in the start-up stage. Article 15, Section 2, of the Regulation, in fact, states that before accepting an offer presented on a portal, retail investors must read and understand the information present on the Commission's website, replying to a questionnaire on the characteristics and risks connected to the investment (Tab. 55).



**Tab. 55 Applications for documentation and information on Consob activities**

|      | applicants                                   |                               |       | subject of applications                   |                                       |                      |       |       |
|------|--|-------------------------------|-------|---|---------------------------------------|----------------------|-------|-------|
|      | institutional investors and market operators | investors, students and other | 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 |
| 2013 | 340  | 1,265                         | 1,605 | 175                                       | 260                                   | 830                  | 340   | 1,605 |

Source: Consob.

As regards the activity of the Conciliation and Arbitration Chamber, the new Regulation implementing Italian Legislative Decree No. 179 of 8 October 2007, and the related procedures approved by Consob with Resolution 18275 of 18 July 2012, profoundly innovated the operation of the Chamber as a technical and instrumental body that performs the duties assigned by the legal provisions and by the regulations in full autonomy.

As regards the research activity during the year, the six-monthly publication of the Risk Outlook continues. This is a report analysing the short-term phenomena and the trends that characterise the evolution of the financial markets. Research also continued with the aim of contributing to the academic debate on questions of economics, finance and law.

Consob, in addition, published the second and third issue of the Statistical Bulletin, a six-monthly document containing Consob's data on institutional sectors of interest, based on statistical supervisory reports. It is also worth highlighting the second issue of the *Corporate Governance Report of Italian Listed Companies*, an annual document based on statistical supervisory reports and public information, which contains data on ownership structures, corporate bodies, shareholders' meetings and related-party transactions of Italian listed issuers.

## 6 International cooperation

In 2013, Consob continued its international cooperation with the supervisory authorities of the EU Member States and of other countries (Tab. 56).

**Tab. 56 Exchange of information between Consob and foreign supervisory authorities**

| subject   | 2007      | 2008       | 2009      | 2010      | 2011      | 2012       | 2013       |
|---|-----------|------------|-----------|-----------|-----------|------------|------------|
| <b>Information requests to foreign authorities</b>                    |           |            |           |           |           |            |            |
| Insider trading   | 18        | 25         | 23        | 20        | 27        | 16         | 12         |
| Market manipulation   | 9         | 27         | 14        | 23        | 18        | 14         | 11         |
| Unauthorised public offerings and investment services                 | 1         | 2          | 3         | 10        | 14        | 33         | 42         |
| Transparency and corporate disclosure                                 | 1         | 2          | 1         | 8         | --        | --         | 2          |
| Major shareholdings in listed companies and authorised intermediaries | 3         | 2          | 2         | 9         | 5         | 1          | 1          |
| Integrity and professionalism requirements                            | 9         | --         | --        | --        | 1         | 1          | 1          |
| Infringement of rules of conduct                                      | --        | --         | 3         | 3         | 1         | 1          | 8          |
| 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         | 97         |
| Reports of suspicious transactions                                    | --        | 1          | 6         | 9         | 5         | 9          | 3          |
| <i>total</i>  | <i>41</i> | <i>113</i> | <i>61</i> | <i>91</i> | <i>95</i> | <i>142</i> | <i>177</i> |
| <b>Information requests from foreign authorities</b>                  |           |            |           |           |           |            |            |
| Insider trading   | 18        | 18         | 5         | 9         | 11        | 9          | 7          |
| Market manipulation   | 2         | 3          | 2         | 4         | 5         | 5          | 1          |
| Unauthorised public offerings and investment services                 | 3         | 2          | 8         | 6         | 4         | 2          | 1          |
| Transparency and corporate disclosure                                 | --        | 1          | 1         | 2         | 3         | --         | --         |
| Major shareholdings in listed companies and authorised intermediaries | 1         | 1          | --        | 1         | 1         | --         | --         |
| Integrity and professionalism requirements                            | 37        | 18         | 36        | 41        | 50        | 30         | 38         |
| 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         | 41         |
| <i>total</i>  | <i>64</i> | <i>48</i>  | <i>59</i> | <i>77</i> | <i>85</i> | <i>70</i>  | <i>88</i>  |

Source: Consob.

The Commission also addressed a total of 177 requests for information to foreign authorities (compared to 142 in 2012), and received 88 requests from other supervisory bodies (70 in the previous year). Most of the requests related to reports on suspicious transactions and verifications of integrity and professionalism.

During the year, a Memorandum of Understanding was signed by Consob and the Dubai Control Authority (DFSA) to strengthen co-operation for the purposes of supervising market participants operating cross-border.

The Commission also held bilateral meetings with delegations from several countries.

In particular, it is worth noting the study meetings with a delegation of the Ukraine Supervisory Authority, involving an in-depth study of supervision on observance of the rules on investment services and operation of the securities markets in Italy.

## 7 Workstreams within the ESMA

During 2013, as usual, Consob took part in the working groups established by the ESMA. As regards activity relating to regulating the markets, Consob chaired the Post-Trading Standing Committee (PTSC), the work of the Task Force on central securities depositories (CSDs) and the working group on implementing the MAR Regulation. It also took part in the Market Integrity Standing Committee (MISC) and the Secondary Markets Standing Committee (SMSC).

The PTSC is engaged in developing regulatory and supervisory policies on the subject of transactions in OTC derivatives, central counterparties and trade repositories under the terms of the European Market Infrastructure Regulation (EMIR). In particular, the Committee has prepared implementing measures of the said Regulation and provided technical clarifications on application of the related provisions by publishing Q&As in December 2013. It also published a final report on the technical standards for implementation in relation to the EMIR and formulated technical opinions on the equivalence of the systems of third countries under the terms of the EMIR.

In October, it issued a document for consultation relating to the procedures for the ESMA to impose financial penalties on trade repositories. This document regards: the procedures to guarantee the right to defence and those relating to access to documents; the documents contained in the investigation dossier; the period of prescription for imposing penalties and for enforcement of the same; the methods for collecting fines or periodic financial penalties.

In November 2013, the working group on market abuse published a Discussion Paper which marked the beginning of the activity aimed at defining the measures of application of the new rules laid down by the MAR Regulation. The document identifies the possible regulatory options that the ESMA could adopt in the fields in which it is called upon to propose specific measures. After studying the observations that the operators will send in reply to the Discussion Paper, the ESMA will prepare the consultation documents, the draft technical regulatory standards and the technical opinion that it has to provide to the European Commission.

The MISC published an update of the Q&As on the subject of short selling, which also includes a new section devoted to application of the restrictions on short positions in CDSs.

In the context of the Committee devoted to secondary markets, work continued on preparing the measures to implement the MiFID2 Directive and on preparing the binding technical rules. A discussion paper is expected to be published by the middle of 2014.

On the subject of rating agencies, the Commission took part in the work of the Technical Committee set up for the purpose of assisting the ESMA in preparing guidelines and recommendations on the areas of application of the Regulation on said agencies (Regulation 1060/2009 as amended by Regulation 462/2013).

Consob collaborated, in addition, on the work that the ESMA, jointly with the EIOPA and the EBA, carried out for the removal of all mechanistic references to ratings from existing guidelines and recommendations, by the competent national authorities, implementing Directive 2013/14/EU (on measures to reduce over-reliance on credit ratings) and Regulation 462/2013.

The Commission also took part in the joint ESMA and EBA Task Force, set up in response to the so-called Libor and Euribor scandal to lay down principles for the processes of defining benchmarks at the European level. The final report, published in June, covers all the stages of the process, that is data transmission, administration, calculation, publication, use and continuity of the benchmarks.

The international activity was intense, also with reference to the areas relating to rules on investment products and intermediaries. In particular, Consob took part in the work of the Investor Protection & Intermediaries Standing Committee (IPISC), contributed to the task forces set up to revise the MiFID rules, coordinating the group devoted to operating problems and cooperation among competent national authorities, and took part in the work of the Committee on asset management.

Consob took part in the work of the Committee devoted to financial innovation which contributed, among other things, to the work begun by the European Commission on the subject of crowdfunding. In cooperation with the EBA, the group prepared a questionnaire for the purpose of examining the regulatory framework applicable to crowdfunding activity in each country and assessing any initiatives to be taken at the European level on the subject.

On the subject of financial information, Consob operated in the context of the Committee devoted to Corporate Reporting and contributed to publication of a consultation document containing guidelines on enforcement.

The Commission took part in the work carried out by the Committee devoted to corporate finance on the subject of prospectus liability. The final

report on the subject, published according to the mandate of the European Commission in June, provides information on the national liability regimes in European countries, in particular, on the sanctioning regimes (administrative and criminal) for infringements of national legislation and rules transposing the Prospectus Directive and Regulation 809/2004.

Finally, as regards corporate governance, in 2013 a specific Task Force was set up which provided guidelines on the subject of adoption of a code of conduct in relation to acting in concert pursuant to the Takeover Bids Directive (Directive 2004/25/EC).

In 2013, Consob contributed to the work of the Review Panel, a group devoted to promoting the convergence of supervision practices through implementing community legislation and identifying areas that need further harmonisation.

The group worked on a new methodology for the performance of peer reviews which, under the terms of Art. 30 of the Regulation establishing it, the ESMA must organise and carry out regularly in order to facilitate more convergence in supervisory practices, on the basis of methods that enable an assessment and an objective comparison between the authorities under review.

The Commission also coordinates the peer reviews to strengthen convergence in supervisory practice involving MiFID rules of conduct. For the purpose of acquiring more information on the subject of the supervisory practices and tools adopted by the authorities involved, it was planned to carry out on-site visits for a small number of competent authorities, among which Consob, selected on the basis of the number of entities supervised and the supervision tools adopted.

## **8 Workstreams within the IOSCO and other international organisations**

In 2013, Consob's participation in the activities of the IOSCO continued, also with reference to the wide-ranging reorganisation undertaken by said Organisation the previous year.

The activity within the Standing Committees of the IOSCO was particularly intense on the subjects of accounting profiles, auditing and transparency (Committee 1), secondary markets (Committee 2), intermediaries (Committee 3), international cooperation and acceptance of the IOSCO MMoU (Committee 4 and Screening Group), collective investment undertakings (Committee 5) and retail investor protection (Committee 8).

Among the work of the Committee on secondary markets, it is worth noting the final report published last December on the supervision problems associated with changes in the structure of the markets.

In addition, again in December, a report was published that analyses the impact of the various models of fees applied by trading venues in the different jurisdictions on trading behaviour.

The group worked, finally, in cooperation with the Committee on the payment and settlement systems of the Bank for International Settlements (BIS) on the subject of market infrastructure.

As regards the issues related to security market intermediaries, in January 2013 a report was published containing new principles on the subject of suitability in the distribution of complex financial products. This report was developed by a working group chaired by Consob. In February, the group issued a report on the different approaches used by the supervisory authorities of the various countries on the subject of financial education and investments in financial products commonly distributed by intermediaries. The Commission also contributed actively to the work on the subject of protecting customers' assets. This led to a final report, released in January 2014, which clarifies the roles of intermediaries and supervisory authorities.

As regards international cooperation, in 2013 measures were adopted with the aim of encouraging the jurisdictions to accept the IOSCO MMoU, reducing the ability to exercise an influence on the organisation's most significant decisions on the part of non-signatory members.

On the subject of collective asset management, three reports were prepared in relation to, respectively, managing liquidity risk for collective investment schemes (CISs), principles of regulation of CISs and principles of regulation of ETFs organised as CISs, on which a specific Task Force worked. This was made up of a small group of five Committee members, of which Consob was one.

The Commission also took part in the work of the Assessment Committee, set up in February 2012 with the task of encouraging the closest convergence of national regulations to the IOSCO's international principles.

As part of the initiatives launched by the IOSCO in response to the financial crisis and in support of the indications of the G20, Consob chaired, jointly with the Supervisory Authority of the United Kingdom (the FCA), the Task Force on Unregulated Entities and took part in the work of the Task Force on Unregulated Markets and Products.

In addition, the Commission, within the Task Force on Financial Benchmarks set up in September 2012, participated in the publication of policy guidelines and principles which establish a general framework in relation to the benchmarks used in the financial markets, with particular reference to governance, quality, methods and accountability mechanisms.

Lastly, Consob took part in the work of the task force on the subject of cross-border regulation, set up in July 2013, for the purpose of providing assistance to supervisory authorities and policy makers.

The Commission also took part in the initiatives organised by the Joint Forum and by the Financial Stability Board (FSB).

Finally, in 2013 there was intense cooperation among supervisory authorities on the subject of independent auditing, in the context of the European Group of Auditors' Oversight Bodies (EGAOB) and of the International Forum of Independent Audit Regulators (IFIAR), forums for discussion on issues relating to quality controls, cooperation and principles of auditing and independence.





# Methodological notes



# Methodological notes

## Instructions

The following conventional signs are used in the tables:

- quantity identified as zero;
- non-existent phenomenon;
- .... the phenomenon exists but the figures are unknown;
- .. the figures are below the significance threshold.

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

## Figures 38–49

Major Italian non-financial listed groups are represented by a 'closed' sample of groups for which a complete series of financial statements is available and included in Mediobanca's R&S yearbook. This analysis therefore covers almost the entire share list range of the Stock Exchange with regard to the services and industry sectors. The groups considered are as follows (with the main listed companies consolidated as of the 2010 financial statements indicated in brackets): Eni (Saipem; since 2012 Snam - formerly *Snam RG* - is considered separately because it is no longer consolidated in Eni), Enel (EGP; since 2005 Terna is considered separately because it is no longer consolidated in Enel), Telecom Italia (TI Media, since 2003), Exor (formerly *Ifi*; it consolidated *Ifil*, then incorporated in 2009; Juventus; Fiat, which was considered separately from 2004 to 2009 because it was not consolidated in Exor; Fiat Industrial, since 2011, then incorporated in 2013 in CNH Industrial), Tenaris (up to 2000 the data are for Dalmine, delisted in 2003), Edison, Italmobiliare (Italcementi), Edizione (which consolidates Autogrill; Benetton Group, incorporated in 2012; and Atlantia - formerly *Autostrade* - considered separately up to 2006), Finmeccanica (Ansaldo STS), Fininvest (Mondadori; Mediaset; E! Towers - formerly *DMT* - since 2012), Luxottica, A2A (formerly *AEM*), Buzzi Unicem, Cofide (Cir; L'Espresso; Sogefi), Pirelli & C., Caltagirone (Cementir Holding; Vianini Industrie; Vianini Lavori; and, since 2004, Caltagirone Editore), Erg, Aurelia (Autostrada TO-MI; Sias), Davide Campari, Acea, Impregilo, RCS MediaGroup (Dada), Indesit Company (formerly *Merloni*), Intek Group (up to 2006 the data are for *Gim*, incorporated into *Intek* in 2007; it consolidated the KME Group up to 2009, formerly *SMI*, which is also considered separately; Ergy Capital, since 2008). In order to maintain consistency in the historical series of the Telecom Group financial statements, the Seat Pagine Gialle Group was also considered (formerly consolidated into Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (in particular, for Fininvest, Edizione and

Aurelia). Indicators relating to market indexes are averages calculated by adding up balance sheet items each companies.

Cyclical sectors include: basic materials, energy, chemicals, aerospace, automobiles and components, personal and household products, media, distribution, travel and leisure, telecommunications, transport, construction, industrial machinery. As of January 2014, the listed companies of these sectors included in the selected sample are: 23 for France, 23 for Germany, 22 for Spain, 17 for the UK and 22 for Italy.

Defensive sectors include: food (and drinks), tobacco, pharmaceuticals, health, utilities. As of January 2014, the listed companies of these sectors included in the selected sample are: 7 for France, 7 for Germany, 8 for Spain, 13 for the UK and 7 for Italy.

### Figures 53-57

Data refer to the following European banking groups: Unicredit, Intesa SanPaolo, Banca Monte Paschi, Banco Popolare, UBI Banca, Deutsche Bank, Commerzbank, Deutsche Postbank, Landesbank Berlin, Société Générale, Credit Agricole, BNP Paribas, Natixis, Credit Industriel et Commercial, Banco Bilbao Vizcaya Argentaria, Santander, Bankia (since 2011), Caixa Bank, Banco Popular, Banco Espanol de Crédito, Banco de Sabadell, Barclays, HSBC, Lloyds and Royal Bank of Scotland. The income statement data as of 30 June and 30 September are annualised.

### Figures 61-64

Figures on exposure of banking system in major European countries to domestic sovereign debt do not include loans; figures on exposure to foreign sovereign debt include both loans and bonds. Figures on foreign exposures include loans to private and public sectors in Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands Netherlands, Poland, Portugal, Spain, Sweden and the UK.

### Figures 81-85

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

## Figure 82

The GfK Eurisko questionnaire contains data on financial wealth and on the portions invested in the different categories of financial assets; financial wealth includes deposits and other forms of cash equivalents, government securities, shares, bonds, life policies, pension funds, managed assets and postal products. Since the data are provided for bands, for each household a precise amount of financial wealth and investments was attributed, calculating the average of the furthest points of the band (the only exception being the last open band of financial wealth, for which the lowest amount in the band has been considered).

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

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

According to the second method, GfK Eurisko weights are multiplied by the punctual value of each household's investments in order to obtain the simple average of investments in each financial asset type.

## Tables 7-9

For the years 2005-2009, the data were restated in order to distinguish between allegations of administrative breaches by the Institute and reports of criminal allegations to the Judicial Authority. Any incongruities with respect to the data presented in the Reports for previous years are ascribable to this restatement.

## Table 12

Control models of Italian listed companies are listed below.

- Majority controlled: companies not controlled by a shareholders' agreement where a single shareholder owns more than half of the ordinary shares.
- Weakly controlled: companies neither controlled by a shareholders' agreement nor majority controlled, included in one of the following categories: i) a single shareholder holds at least 30 percent of the ordinary shares; ii) a single shareholder holds a stake at least equal to 20 percent of the ordinary shares and higher than half of the sum of the ordinary shares held by all the major shareholders (i.e. by shareholders holding more than 2%).
- Controlled by a shareholders' agreement: companies classified in one of the following categories: i) listed companies, not controlled by a single shareholder, on whose capital exists a shareholders' agreement regarding at least 20 percent of the ordinary shares; ii) listed companies controlled by an unlisted company, not

controlled by a single shareholder, on whose capital exists a shareholders' agreement regarding the majority of the capital.

- Cooperative companies.
- Widely held: companies neither controlled by a single shareholder (majority controlled and weakly controlled) nor by a shareholders' agreement with a free float higher than 70 percent of the ordinary shares.
- Non-widely held: companies not included in any of the previous models.

### Figure 100

The types of opinion issued by independent auditing firms are described below.

- 1) Opinion with reservations. The auditor expresses an opinion with reservations if it ascertains: significant failures to comply with rules governing financial statements; significant disagreement with directors regarding accounting standards; errors in their application or inadequate information; significant limitations in performing the audit due to technical obstacles or restrictions imposed by the directors; a situation of significant uncertainty not adequately described in the financial statements or of seemingly unacceptable action taken by the directors.
- 2) Adverse opinion. Auditors are required to express an adverse opinion where the effects of their findings concerning significant failures to comply with the rules governing financial statements, significant disagreement with the directors regarding accounting standards, errors in their application or inadequate information, are such as to cast doubt on the reliability and information content of the financial statements as a whole.
- 3) Opinion impossible owing to serious limitations. Auditors must issue a disclaimer where the possible effects of limitations encountered in performing the audit are sufficient to deprive them of elements needed to express an opinion.
- 4) Opinion impossible owing to uncertainties. When faced with one or more situations of uncertainty such as to cast doubt on the reliability of the financial statements as a whole or on the business continuing to be a going concern, auditors must issue a disclaimer when they consider that the action taken by the directors is based on highly questionable assumptions.

### Tables 29, 30, Figure 103

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

- offerings made by foreign companies are excluded;
- data regarding the amounts of offerings refer to the results of placements, including any shares allotted to institutional investors as part of an over-allotment at the close of the public offering. Note, therefore, that the data are independent of the fact that, after stabilisation by the placement agents, the

greenshoe option might not be exercised, either wholly or in part, in the 30 days following the public offering;

- the overall total of the offering also takes into account shares sold under agreements in force prior to the listing;
- data on ownership structure development are taken from the prospectuses and take account of the results of offerings, including the exercise of greenshoe options. If the number of shares offered for sale is lower than that envisaged in the prospectus, and in the absence of accurate information in this respect, the calculation of each selling shareholder's post-offering equity interest is based on proportional distribution of the shares sold in accordance with the specifications in the prospectus;
- determination of the percentage held by the controlling shareholder is based on a substantial approach which takes into account all shares held by members of the same family, those held by companies owned by the same person and those not conferred in any shareholders' agreements by parties to such agreements. In the absence of a controlling shareholder, the largest shareholder is indicated;
- non-voting shares are deducted from the share capital of the issuer for the purpose of calculating percentages held by major shareholders and for capitalisation.

#### Figures 109–111, 113–115, Table 40

Data refer to the following Italian banking groups: Intesa SanPaolo, Unicredit, MPS, BNL, Mediobanca, UBI, Banco Popolare and Banca Popolare di Milano. This sample essentially represents 2/3 of the entire Italian banking system in total asset terms. For the years prior to 2009 the figures include the main banks subsequently incorporated into the banking groups considered through merger and acquisition operations, with the exception of HVB which is included in the data only from the date of consolidation in the Unicredit financial statements (1 November 2005).

#### Figure 110

Net interest income includes the balance of interest rate hedging transactions, dividends on holdings and profits and losses on holdings carried at equity. Revenues from investment services include gains on financial transactions (i.e. from the 2005 financial statements, prepared according to IAS/IFRS standards, net gains/losses from trading, hedging, assets and liabilities carried at fair value and gains/losses from the disposal or buyback of receivables and financial assets and liabilities) and net commissions from investment services and collective management (including foreign currency trading, consulting, custody and administration of securities, depository bank services and the placement of insurance and financial products). Net commissions from banking services include net commissions on guarantees issued and credit derivatives, collection and payment services, and net commissions on current accounts, credit cards and ATM cards. The item "Other net commissions" include net commissions for securitisation transaction servicing, factoring and tax collection services.

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

## Table 52

Senior management comprises the following grades: Director General, Deputy Director General, Official General, Central Co-manager, General Manager, Manager and Co-manager. Junior management comprises the following grades: First Officer, Grade 1 Officer and Grade 2 Officer. The operating career comprises the following grades: Chief Deputy, Deputy, Senior Assistant, Assistant and Deputy Assistant. The general services career includes the grades of First Head Operator, Head Operator, First Operator, Operator.



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