CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETÀ E LA BORSA

ANNUAL REPORT 2006

ROME, 31 MARCH 2007

CONTENTS

SPEECH BY THE CHAIRMAN TO THE FINANCIAL MARKET

MILAN, 9 JULY 2007

Minister of the Economy and Finance, Authorities, Ladies and Gentlemen,

On behalf of Consob, I wish to warmly thank the Minister, Parliamentary members, Government representatives, the civil, military and religious authorities and all participants.

Their presence confirms the attention paid to the life of the market and the interest in understanding the problems that arise, that are faced and solved in any increasingly fast-moving and complex scenario; their presence duly reminds us that we are operating in due respect of the law and of the principles on which our system is founded and in order to protect all of those who participate in the market, first and foremost savers.

The Commission operates with a legally compliant structure, which has seen the renewal of three of its members.

In 2006, Mr. Enrico Cervone concluded his mandate, which he performed with enthusiasm and competence. In the same year Mr. Vittorio Conti and Mr. Michele Pezzinga were appointed to the Commission, which immediately enjoyed the benefit of their extensive experience and their professional expertise.

In 2007, Prof. Carla Rabitti Bedogni left Consob, at the end of her mandate, to take up office as Antitrust commissioner. Prof. Luca Enriques, the youngest ever Consob commissioner, was promptly appointed in her place, providing his skills and professionalism to the Board.

We offer our sincere thanks to these retiring Commissioners for their invaluable support; and our warmest welcome and heart-felt wishes to the new entries.

The Commission thanks Borsa Italiana for its renewed hospitality offered once again for this meeting and the City of Milan where Consob operates in the prestigious venue of Palazzo Carmagnola.

1. The evolution of the legislative framework and of the market

Last year, the traditional meeting with the market took place at the end of a long and difficult period, marked by corporate crises and serious violations of regulations, whose impact on the reputation of the Italian market and on the trust of savers is far from over.

At that time, the system started to demonstrate its ability to react, thanks to significant legislative reforms, to the result of a considerable effort and of a renewed focus of supervisory activities, and thanks to the strong drive of business strategy towards international competition.

One year on, many signs of change are now firmly established, but the process of evolution of the regulations and of the markets continues to present new requirements and opportunities.

The season of reforms, which started in 2005 with the regulations on market abuses, continued with the law on savings, supplemented and improved along the lines solicited by the market and by the Authority itself.

Consob contributed to this process and adopted the envisaged implementing regulations. The opinions of various market components were sought, providing a certainly useful contribution, even though the diverse expectations were not always compatible.

The season of reforms is far from over. Increasing European integration means that the market and the authorities will be operating in an open legislative building site for some time to come.

In particular, legislation to transpose the Markets in Financial Instruments Directive (MiFID[(1)]) is destined to profoundly change not only the structure and the aspect of the market, but also the way in which supervisory activities are performed.

On one side, the development prospects of the financial services industry are at stake; on the other the ability to guarantee adequate protection to Italian investors, who directly purchase financial products which often have high risk components that are not always easy to perceive.

The transposition of the directive on takeover bids[(2)], which is redesigning the characteristics of the corporate control market in Europe, has fallen behind European deadlines. A tendency to reduce market openness and business contestability is emerging. It is in all our interests that Italy adopts this new legislation as soon as possible to overcome any uncertainties as to its interpretation and to give the market clear guidelines, especially as regards the protection of minority shareholders. The implementation of the directives on corporate transparency, shareholders' rights and auditing of accounts will bring the commitment of the European Union to harmonization to its conclusion.

One year ago, in this same room, I expressed our wish for the rationalisation of legislation aimed at restoring to the Consolidated Law on Finance (Tuf) the systematic coherence which has in part been lost.

Today I reiterate that wish, sharing the widespread conviction that any new regulatory intervention must be justified by benefits which exceed costs. The major countries, including the United States, are moving in this direction, the latter in particular responding to the crisis with prompt regulatory measures. To this end, the Committee for the Italian financial market place, which has made a promising start, will play an important role.

The market also experienced a year packed with events. The underlying trend towards national and international mergers has accelerated.

This phenomenon regarded the banking sector in particular. In less than one year, two large-scale transactions capable of changing the Italian and European panorama were concluded: Intesa-Sanpaolo and Unicredit-Capitalia. Other mergers regarded co-operative banks. The same trend was also witnessed in the insurance, public utilities and energy sectors.

Changes in the organisational and ownership structure of the Telecom Italia group led to uncertainties and tension in market trends and prompted proposals for legislative reform.

Right from its privatization, it has been allocated an almost symbolic role and a systemic significance, although not always justified, in the evolution of the group's control structures.

In 2006, the performance of the Italian stock market was positive for the fourth year running, in line with international trends. The Mibtel index rose by 19.1 percent. Signs of a slow-down and of increasing uncertainty emerged in the first six months of 2007, with a modest rise in share prices(3).

The commitment of the Italian production system, which sought and, at least in part, found the competitiveness it had lost in the period immediately following the introduction of the euro, contributed to market performance. The largest growth in share prices regarded the industrial sector.

Also by virtue of the positive cycle, the stock market demonstrated its ability to attract investors. 21 were listed on the stock market in 2006, and 15 in the first six months of 2007. The total number of listed Italian companies rose from 275 in 2005 to 284 in 2006, reaching 289 in June 2007. A significant growth in capitalization and trading volumes was recorded(4).

The primary objective, however, is to encourage the listing of companies that represent an important and dynamic part of the Italian economy.

It is hoped that a boost may come from the Alternative Capital Market (Mac), conceived as a system for the organised trading of equity funds on which only professional investors may operate. These characteristics highlight its complementary function to regulated markets. It is an innovative project that may encourage the growth of businesses, also from the perspective of preparing them for listing on regulated markets.

The industry of stock market infrastructure is experiencing a period of intense transformation; competitive pressure linked to globalisation appears to prevail as regards opportunities for consolidation at European level.

A process of concentration is taking shape, dominated by highly internationalised groups, based on a model which envisages the integration of operating facilities, leaving the functions of admission, regulation and supervision in the hands of individual management companies and national authorities.

The integration project of Borsa Italiana and the London Stock Exchange (LSE), destined to create a leading group in terms of capitalization and liquidity is on its way to being established according to this model.

This represents an important opportunity for the Italian financial marketplace, with benefits envisaged for companies, savers and intermediaries. The integration between market structures that display strong complementary elements will encourage synergies and increased efficiency which should translate into lower costs for operators and investors in better liquidity conditions.

The task of the authorities is to closely supervise the process of integration and its future developments, in order to protect investors and market integrity. In this scenario, also given the access of intermediaries to the common trading platform, the coordination of regulatory decisions and the supervision of possible abuse will become necessary. In establishing specific cooperation agreements, preliminary discussions are already underway between Consob and the British Authority (*Financial Services Authority*).

The listing of the holding that will control the two management companies on both the Italian and British stock markets will be important to provide the national authorities with further tools of transparency and control; the major Italian banks will hold a significant portion of the shareholding. Preserving and enhancing the current strengths of the Italian trading and post trading services industry, also in the future evolution of the new group's business strategies is of joint interest, and could be an area of interest for the Committee for the financial marketplace.

2. Towards a stable and shared structure of the market regulation system in Europe and Italy

The European dimension has today become the natural benchmark for the processes of legislative evolution and market strategies.

In many sectors, a high level of regulatory harmonization has been achieved and consequently the substantial equivalence of legal systems.

The convergence of legislation is largely the result of a regulatory system structured on several levels, in accordance with the recommendations of the *Lamfalussy* Report(5).

The principle of the single passport is founded on the equivalence of the legal systems; business activities can be performed throughout the European Union, according to the regulations and under the supervision of the country of origin.

As yet, sanctioning systems lack real equivalence(6). Difficulties are also still being encountered in the convergence of interpretative and supervisory procedures.

At international level, Consob has always encouraged the harmonisation of supervisory standards and, as far as possible, of sanctioning systems. An initial response to these requests has arrived from the recent launch, by the *Committee of European Securities Regulators* (Cesr), of an analysis of the sanctioning systems in force in member States with regard to market abuses.

The work of the Cesr group on investment management, supervised by Consob, will be central to encouraging better coordination of supervisory procedures, also as regards the reform of regulations for collective investment management, launched by the European Commission.

In this framework of imperfect harmonization, a margin has emerged for competition between national regulatory and supervisory systems. Legislative arbitrage may represent a challenge to improve the efficiency of the Italian system, but may also expose it to some risks.

There is a recent case of an Italian company that established a holding company in a member state to list it in Italy on the basis of the recognition of the prospectus approved by the authority in the country of origin(7). The content of the prospectus complied with a unified model, as analytically regulated by a regulation of the European Commission. The same equivalence is not guaranteed for the control and approval procedures of the competent authorities and for the sanctions applicable if regulations are violated, as these are aspects that have not been harmonized.

The convergence of supervisory authorities behaviour is supported by an institutional status and by consistent powers within the European sphere, which valorise the principles of independence, authority and responsibility.

The Government bill to reform independent authorities[8] moves in this direction, promoting the full implementation of a model which allocates responsibilities on the basis of the purpose of the supervision (stability and correctness).

Innovations regarding relations between authorities and political bodies (Government and Parliament) are particularly important: the reform scheme establishes and regulates new institutional channels.

The Committee for financial stability, which appears destined to replace the Cicr, may constitute a useful opportunity to examine the operating strategies of the authorities that supervise the financial market[9].

The reform could also be improved to enhance and strengthen the independence, organisational and management autonomy of the authorities, in line with the requirements of the major international bodies[10].

A number of concerns have been raised on the envisaged "*general policy and high supervisory functions of the Government and Ministries*". The indeterminate award of powers to the Executive could affect the independence of the authorities if it lies beyond the limits already envisaged by institutive laws.

Nevertheless, the best way to ensure that independent authorities take responsibility for their actions remains the transparency of their conduct, of their procedures and of their functioning, submitted to public judgement, not only of the institutions, but also market operators, as well as, obviously, to jurisdictional protection on such measures.

As regards organisational, management and financial autonomy, any legislative standardisation may be justified where it is aimed at achieving benefits to guarantee the general system.

There is widespread agreement on the need to increase the impartiality of sanctioning decisions, according to the principle of separation between the investigative function of the offices and the decision-making functions of the board, something which is already covered by the savings reform.

Consob has already implemented this distinction and is currently discussing the idea of establishing an independent committee for the imposition of sanctions, in line with the approach adopted in several countries[11].

As regards financing, Consob currently adopts a mixed system, which over time has witnessed a gradual increase in the contribution of the market[12]. A mixed system is reflected by the functions of the authority, that at the same time provides supervisory

services over different categories of parties operating in the stock market system, and protects public interests.

In order to guarantee maximum transparency in the use of resources, the activity of an independent auditing body, much like a streamlined board of auditors, could be flanked by the control of the Italian Court of Auditors for financial management.

3. The role of Consob in a rapidly evolving scenario

Investors, market operators and the authorities themselves have to operate in a world in which both conduct and the role of regulation are changing rapidly.

Authorities are expected to be able to adapt quickly. They cannot limit themselves to reacting to new events: they have to anticipate the emergence of critical situations, as far as possible.

The Commission intends to enhance discussion with Parliament and the Government and with the market on the results achieved and on regulations and control strategies, making the decisions and priorities of its intervention transparent.

Market consultation is consolidating. A specific regulation will establish the procedures and the timing of discussion on new proposals for regulations and on the verification of the efficacy of existing legislation. The voices of operators, companies and savers help better define the needs for protection and the most efficient tools to achieve them; they help identify what costs can be controlled though self-regulation initiatives.

In establishing the regulations of the law on savings, Consob interacted with the market, in a spirit aimed at encouraging the sharing of principles and the progressive introduction of innovations.

In the corporate governance sector, the interventions resulting from the law on savings have been particularly incisive, in some cases inverting the tendency to strengthen the statutory autonomy that inspired the Consolidated Law on Finance and the reform of corporate law.

The effects of a more prescriptive approach, resulting from recent corporate crises, will be assessed on the basis of experience.

As regards the transition of financial statements to new international accounting standards, dialogue with companies has been privileged, given the considerable difficulties encountered in terms of their interpretation and application, and approaches have been promoted aimed at guaranteeing the correctness of the financial information rather than the formal application of the standards.

Collaboration with the other supervisory authorities is increasingly intense and essential in a market of integrated segments and fungible products. Concerning the

application of accounting standards, memorandums of collaboration have been drawn up with the Bank of Italy and Isvap.

Consob will very soon be able to directly access the data and information of the Central Credit Register. There is new scope for coordination between Consob and the Bank of Italy for the implementation of the MiFID directive. The envisaged joint or coordinated exercise of regulatory and supervisory powers will reduce the impact on the parties supervised and avoid duplications and overlapping.

Since the substantial correctness of conduct and the self-governance ability of parties are recognized, supervisory bodies should direct their attention and resources to the greatest risks for investments and market development. This approach requires sophisticated analysis models, flexible organisational structures and procedures that are able to be easily adapted.

Consob is committed to this process of transformation, through the far-reaching reform of its own organisational structure and of its modus operandi.

A good system of rules and effective supervision may not suffice to guarantee an adequate level of savings protection, if the ability of investors to protect themselves is not progressively enhanced.

The evolution of the market and of the legislative framework implies increasing responsibility and awareness of the risks undertaken, risks that are both inherently related to the decisions taken, and pathologically to any incorrect conduct by the providers of financial products and services.

Even the current trend of the stock market warrants particular attention in evaluating investment options. Experience shows how individual investors tend to enter the market during periods of prolonged price growth, often followed by intense periods of readjustment.

Establishing a widespread financial culture must become a priority which involves the responsibilities of Institutions, supervisory authorities and market operators.

There is a very apparent need to encourage investors to take action to claim compensation, up until today restricted by the long timescales of the civil justice system.

An important role may be played by the new settlement and arbitration procedures and by the system to indemnify savers introduced by the law on savings. In order to make them effective, the new system, as well as guaranteeing procedural efficiency, must be able to represent a genuine reliable alternative to seeking a solution in the courts.

4. Market's integrity

The transparency of complex and rapidly evolving company events became an area in which Consob has shown a high level of commitment: the right balance between free expression of market phenomena and correctness of conduct has to be found.

In 2006 and in the first six months of 2007, the market experienced periods of uncertainty which required considerable intervention.

In particular, considerable tension was caused by the ownership and control structures of listed companies, the organisational structure of corporate groups, situations of financial difficulty of banking and non-banking issuers.

The evolution of events that take shape according to a structured and prolonged course inevitably create conditions of uncertainty, sometimes emphasized by the media, especially if such events involve companies considered core to the system's general stability.

Over the past year, developments regarding the Telecom Italia group, the troubled procedure for the privatization of Alitalia, the planned merger between Autostrade and the Spanish Abertis and concentration transactions in the banking sector have taken centre stage.

The need for supervision increases when the scope is extended abroad and involves the simultaneous application of systems that are not yet fully compatible. Attempts to acquire leading foreign companies by two major Italian energy firms required continuous monitoring by Consob and foreign authorities as well as considerable coordination.

In complex events, a need is often felt to force timescales and contents of the information flow towards the market, even when the issuers and their holding companies do not consider the event to be sufficiently mature.

This generates continuous tension between opposing objectives: on one side, to promptly correct inaccurate information originating from indiscretions or irregular trading patterns; on the other, to avoid fuelling the uncertainty with the continuous circulation of immature or incomplete information.

The balance between transparency and confidentiality is more difficult in a market characterized by very short-term, often infra-day trading activity. The intensity of any indiscretion or expectation is multiplied, mini speculative bubble are fuelled leading to irregular trading.

The disclosure framework becomes even more difficult to protect when, in addition to current or potential issuers and holding companies, other supervisory authorities (think of the case of banks and insurance firms) and Government bodies (in the case of public concessions or activities of considerable public interest) are involved.

It is the responsibility of all parties involved to adopt conduct that is consistent with the rules and with best practices, guaranteeing adequate privacy to the negotiations

underway, avoiding making any misleading or premature signs, establishing and discussing any lines of policy on company premises.

In this context, the press plays an important role. Last 5 June, Consob recognised the Charter of the duties to provide economic information of the National Council of the Federation of Journalists as a form of self-regulation that corresponds to the regulations regarding the correctness and transparency of conflicts of interest required by the directive on market abuses.

It is in the interests of everyone that it produces the desired effects.

Disclosure-related tensions, due to complex corporate situations and to the peculiar nature of the procedure of disposal of public shareholdings, were very evident in the case of Alitalia. Since July 2004, the company has been bound to provide monthly information on its financial situation to the market, as elements of risk regarding business continuity had been presented. At present, these obligations regard a total of 15 listed companies. In December 2006, a competitive procedure with private negotiation was launched for the sale of the controlling interest in Alitalia held by the Ministry of the Economy.

As referred at a parliamentary hearing last April, Consob intervened with continuity, also toward the majority shareholder, to ensure that the market received the appropriate information. Nevertheless there are implicit limitations to transparency in procedures that envisage different stages of bid formation.

Problems regarding market information also recently emerged with regard to Banca Italease. Initially, the presence of significant claims toward a group in a condition of financial crisis led to the commencement of supervisory assessments in March 2007.

The subsequent emergence, in May 2007, of considerable exposure in derivatives, which was reflected in a sharp fall in the share price, also resulted in the involvement of the Bank of Italy, which was conducting an investigation on the issuer at the time.

The use of derivative instruments is becoming increasingly widespread and is closely monitored by supervisory authorities due to its effect on the overall level of risk for the system and its distribution between individual users.[(13)]

Safeguarding market integrity enjoys the benefit of the most effective tools of prevention, assessment and sanctioning offered by the new regulations on market abuses.

The first sanctioning resolution adopted by Consob in February 2007 in application of the new regulations regarded a case of the manipulation of information related to news divulged to the public in August 2005 regarding the Fiat share. Consob worked together with the judicial authorities on the case, which saw the involvement of Ifil and Exor.

Sanctions were applied in a further two cases for offences regarding the abuse of privileged information relative to trading on shares of Cmi s.p.a. (now Enertad s.p.a.) and on Unipol bonds.

Pecuniary administrative sanctions were imposed on 12 parties, for a total figure of over 21 million euro, and accessory administrative sanctions in the form of bans were imposed on 10 parties, for a total of 72 months.

In the cases of the abuse of privileged information, following authorisation from the judicial authority, Consob prescribed the seizure of the funds generated by the offences in question, totally around 40 million euro. The Commission worked together with the Guardia di Finanza (Economic and Financial Police), on the basis of a bilateral agreement signed in May 2006. As envisaged by the law, a confiscation ordered by Consob followed the seizure, once the sanctioning measures has reached their conclusion.

Administrative sanctions of over 6 million euro were imposed for conduct damaging market integrity - in particular for failure to inform of shareholders' agreements, of significant equity interests and of privileged information, as well as for violations of takeover bid obligations – with relation to the Antonveneta takeover bid. Representatives of Banca Popolare Italiana resorted to settlements for a total figure exceeding 4 million euro for the same violations, to extinguish the relative sanctioning proceedings.

Pecuniary sanctions were also imposed for the violation of the obligation to disclose shareholders' agreements made during the attempted takeover bid of Banca Nazionale del Lavoro (BNL) by Unipol.

The prevision of so-called double-track criminal and administrative sanctioning entails considerable effort to coordinate the activities of Consob with those of the judicial authorities, in order to safeguard the system's overall coherence.

In fact, the majority of potential cases of abuse are significant in both spheres. Consistency therefore has to be assured in identifying the tangible matter in hand. The legislative system has attributed a technical function to Consob in the assessment of alleged offences, given the experience the Commission has acquired and its knowledge of market practices. The timing and the coordination formalities between the judicial authorities and Consob are essential to the performance of this function.

The changes introduced to the Consolidated Law on Finance (Tuf) by Italian Law no. 62/2005 aimed at implementing EU legislation regarding market abuses attribute great importance to the relationship between the administrative and the judicial authorities, not only in repressing criminal cases, but also in verifying administrative violations, which may be independently sanctioned by the Commission.

Information collaboration activities were particularly intense during the criminal investigations related to the takeover bids on Banca Antonveneta and BNL and to the role played by the former Banca Popolare di Lodi and by Unipol.

Similar collaboration is also underway for events regarding the Magiste group, the Ipi group and a football company.

Supervisory activities are still in progress with regard to some of the above vicissitudes.

In this context, Consob offices have been, and continue to be constantly involved in a useful exchange of documents, deeds and information with the public prosecutor's offices assigned to the investigations; this may also entail interviews with the Institute's executives and officers as informed sources.

Consob has continued to provide assistance to the investigating judiciary relating to the numerous requests for data and information (approximately 100) received with regard to criminal investigations underway.

The year has also been one of intense support of the examining judicial authorities in court proceedings: over the past eighteen months, Consob sued for damages in 22 criminal prosecutions regarding alleged insider trading, manipulation and hindering of supervisory functions. In the majority of cases, the criminal action has been filed following reports transmitted by Consob resulting from supervisory activities it has performed. In five separate judgments (three of which on market manipulation and two on insider trading) the Court of Milan ordered the accused to indemnify the pecuniary and non pecuniary damages caused to Consob by conduct harming the market, confirming the authority's right to represent the public interest within its sphere of competence, even in claims for compensation.

Of the pending proceedings in which Consob is suing for damages, the most important are those concerning representative, employees and auditors of Parmalat group for the offences of market manipulation and hindering the supervisory functions of Consob (the trial is currently at an advanced stage), as well as those regarding representatives and employees of several foreign banks accused of manipulating Parmalat shares, recently referred to the courts; the trial for the latter will start next autumn. For the same offence, representatives of an asset management company, which has already received administrative sanctions, have recently plea-bargained.

A further two proceedings regarding representatives of Unipol and a bank trader accused of market manipulation have reached the trial stage. Lastly, the preliminary hearings of three proceedings for offences of manipulation of listed shares have commenced.

The Lazio Regional Administrative Court (TAR) has confirmed the legitimacy of the assessment document in which the intervention of foreign mutual funds, managed by a company from the Cayman Islands, in purchases of Banca Antonveneta shares was stated. The same Judge confirmed the cancellation of the audit firm that issued a positive judgement on the financial statements of Parmalat and its subsidiary Bonlat from the register for serious shortcomings.

Despite the large number of civil judgments brought against Consob for alleged failure to supervise, all 36 sentences delivered to date have rejected the claims formulated toward the Institute.

In 2006, the dispute regarding the sanctions imposed on numerous intermediaries in the "Cirio" and "Argentina" cases was concluded before the competent Courts of Appeal. Just like the decisions taken in 2005, the judgments passed in 2006 recognised the existence of the violations ascertained by Consob; only in one case, the entity of the sanction imposed on a bank for the prescription of the offences committed by two company representatives was reduced.

Intense supervision of intermediaries continued, leading to the application of substantial administrative sanctions in 2006 and in the first six months of 2007(14).

5. Corporate governance, ownership and control dynamics of listed companies

The separation between ownership and control is a structural feature of listed companies that raise equity funds on the market.

In Italy, the plurality of different ownership structures of listed companies reflects the high value that control has historically held and continues to hold. The traditional reluctance to open up ownership to the market, which has only partially diminished in recent years, stems from the considerable benefits enjoyed by owners.

The objective of maintaining control leads to a high degree of proprietary concentration, to the formation of pyramidal groups structured on different levels of listed companies, to the issue of shares without voting rights, and to the formation of influential coalitions of shareholders as well as phenomena of circular ownership.

The progressive opening up of the markets to international investors and a growing awareness of the potential critical elements associated to these traditional control structures is diminishing the intensity of these phenomena.

Ownership concentration appears to be progressively decreasing, even though such is limited to larger-scale companies and banks(15).

The presence of pyramidal groups has become less widespread(16). The degree of complexity and the depth of these groups have drastically fallen(17). The achievement of merger operations has led to the disappearance of various Chinese boxes. The major groups have surrendered the control of non-strategic listed companies.

The number of listed companies with shares without voting rights and the weight of these on share capital has fallen drastically(18).

There has been a significant reduction in the value of the key indicators that measure the market's disapproval of instruments to separate ownership and control(19). The voting premium, calculated as the difference between the price of ordinary shares and the price of

savings shares, has fallen to levels comparable with those of the major markets. Underpricing on evaluations of companies that hold controlling interests in other listed companies also appear to be lower.

This evolution points to a higher selective ability of the market in penalising situations considered more risky for the interests of investors.

In parallel, coalitions and the increase in ownership relations between banks and non-financial companies, something which is not new to the Italian market, have been playing an increasingly important role in recent years[20].

The result is that the instruments and the structures through which control is exercised are changing, at least in part, whereas the degree of contestability of listed companies remains modest.

Structural weaknesses of the Italian system have contributed to curbing business dynamism.

In the case of large companies, the dynamics of the corporate control market suffer the influence of industrial policy, or more generally, of interests that are considered strategic to the stability of the national system. This leads to the perception that there is little room for parties external to the current scenario and therefore the strengthening of existing positions of control.

Furthermore, despite legislative improvements, the risk that private benefits can be enjoyed to the detriment of minority shareholders still remains.

The task of Parliament and the Government, each within its own sphere of responsibility, is to establish the best level of conciliation between the objective of developing the capital market and that of pursuing other public interests, such as the control of strategic sectors or businesses, assessing the impact of the choices made on the degree of protection afforded to investors.

As regards the risks of expropriation conduct toward minority shareholders, it is possible to intervene to make the regulation of transactions with conflicts of interest more effective, in particular in the area of transactions with related parties. Consob is already working on future regulations which, as well as guaranteeing conditions of adequate transparency, will also affect the substantial and procedural correctness of such transactions. The Commission will shortly be seeking market reaction to this project. Individual companies will be expected to undertake considerable responsibility in establishing adequate criteria for their application and supervisory practices for internal auditing and management bodies, which will be assigned specific powers and related obligations.

Consob is also examining the idea of subjecting companies that present a higher risk of conflict of interest to more stringent obligations to disclose information on transactions

with related parties. These companies could be identified on the basis of their ownership structures or by the structure of the activities of the group they belong to.

Organisational autonomy and responsibility are fundamental to an effective system of corporate governance. Today, companies enjoy wider margins of freedom in terms of capital structure and the organisation of management and control functions.

The savings reform has introduced several measures which improve corporate dialectic. The role of the minorities has been enhanced, also by means of including representatives of the same in control and management bodies. The independence and efficacy of internal audits have been improved, also by limiting the number of offices which members of control bodies may hold.

Consob has adopted a gradual approach to the implementation of regulations which impact corporate life and the performance of activities by professional categories, identifying solutions which it has submitted to the market for open debate. The specific nature of particular sectors, such as that of listed co-operative companies, and of certain figures, such as members of the supervisory council, have been had due consideration.

The efficacy of the regulations adopted will be assessed in the light of experience and of the results achieved.

At this difficult time of adjustment, it does not appear wise to introduce new regulations which further restrict market autonomy in establishing organisational and control structures. However, several phenomena, including that of pyramidal groups, appear to be heading spontaneously toward physiological dimensions.

On the contrary, in order to encourage the greater use of listing, the legislator could evaluate the opportunity of increasing the margins of statutory freedom, continuing in the direction it had already taken with the reform of corporate law. The possibility of extended structures of ownership and control rights, especially for companies that reach listing, merits further exploration. The legal systems of some countries envisage margins of freedom in the issue of shares with differentiated voting rights that extend as far as shares with multiple voting rights(21).

The regulation of company models also presents some elements of inflexibility. Problems emerged from the recent adoption of the dualistic corporate model by important listed companies, especially in the banking sector. Consob has been working towards ensuring the widest transparency to the organisation of responsibilities which, especially in merger operations, has created complex governance mechanisms, often integrated by shareholders' agreements.

From an analysis of the choices made, a tendency to award the supervisory committee extensive powers to resolve on strategic transactions and business and financial plans is emerging. This leads to an often unclear distinction between management and

control functions and between the respective responsibilities. Also in this case, it is the task of companies to identify solutions able to safeguard the efficacy, integrity and independence of the control functions which represent the main responsibility of supervisory council members, who are assigned the tasks and requirements of auditors.

Current experience will enable us to improve the legislative framework, possibly envisaging the award of control functions, with the related requisites, to a specific committee established within the supervisory council. The assignment, to one member of said committee, of the task of attending management board meetings would also enable the problems of liaison between the supervisory and administrative body, that have recently emerged in important listed companies, to be overcome.

In the sphere of corporate controls, the auditing function plays a fundamental role. The intensity of the activities performed by auditing firms has been enhanced by the savings reform. Closer supervision has been envisaged and the independence of auditing firms and of individual auditors has been increased by means of a more analytical regulation of situations in which incompatibilities arise.

In the second half of 2007, Consob will commence the envisaged quality control of auditing activities. As required by the Consolidated Law on Finance, the market will be informed of their outcome, in order to create shared practices and improving the system's reliability.

The new VIII directive has allowed member states margins of discretion in organising the supervision of auditors; preference is shown for Consob to retain responsibility for monitoring only auditors whose activities are subjected to the supervision of the Institute. The supervision of other auditors could be usefully assigned to a newly-established body.

At European level, wide debate is underway on the topic of the civil liability of auditors. However, any changes to the current system must be carefully evaluated.

Swift legislative decisions are needed to transpose the directive on takeover bids. The delays with respect to the established term are creating uncertainties, particularly as regards the determination of the price in the case of compulsory takeover bids. Moreover, the current system does not attribute all of the powers envisaged by the directive for supervision and international co-operation in cases of cross-border bids to Consob. The disclosure powers of Consob could be extended, as in the case of other systems, toward any party potentially involved in launch of a bid, removing the current asymmetry that restricts our power to listed issuers and their parent companies.

It is especially important that the market is provided with certainty with regard to the options that insufficient harmonization at European level has left to national systems.

The decisions taken in other EU countries outline an inconsistent framework of the conditions of contestability of businesses in the European market.

Consob has emphasised on more than one occasion how the definition of the takeover bid regulation contained in the Consolidated Law on Finance has demonstrated its efficacy in protecting investors and the efficiency and transparency of the corporate control market.

In continuity with said definition, it would be wise to maintain the centrality of shareholders' decision-making powers in establishing the conditions and the conduct of the company as regards any possible transfer of control.

The preservation of a fixed threshold, currently 30%, in excess of which the conditions for takeover bid obligations are determined, also appears to be consistent with the market's need for certainty and transparency. Other choices, based for instance on identifying ex post cases of actual transfer of control, which would also enable the limitations of the fixed threshold system to be overcome, would require complex procedures and long decision-making timescales and would not be in line with the prevailing stances of other European countries.

New types of institutional investors, such as private equity and hedge funds, are playing an increasingly important role in the functioning of the market. Common characteristics of these funds include the large scale of the flows managed, the high level of financial leverage employed and the widespread use of the more innovative financial instruments.

Their development has had a positive impact on the diversification of operators' portfolios and on trading liquidity, but it entails risk to the system's stability, market integrity and investor protection.

Private equity funds and some hedge funds are increasingly committed to developing forms of activism toward the management and the evolution of the control structures of listed companies. The activism of these parties could contribute to increasing top management responsibility toward shareholders and to making the corporate control market more dynamic. However, the intensive use of strategies and financial instruments that enable economic interests to be disassociated from the exercise of voting rights or to conceal the purchase of large shareholdings, could lead to situations of inexpressiveness and the reduced efficacy of the corporate governance regulation.

A stance which privileges the market's self-regulation ability is emerging within supervisory authorities and important international bodies, such as the Financial Stability Forum and the OECD[(22)].

The increasing use of some types of derivative instrument, such as equity swaps, could lead to an adaptation of the ownership transparency and takeover bid systems,

including these instruments with those utilised to calculate the entity of the interest held. This would enable the dynamics of ownership structures to be more effectively represented. The level of excellence of the Italian system on ownership transparency, whose 2% threshold has proven to be suited to market requirements, would be further augmented.

6. Investor protection in the new MiFID framework

The regulation for the implementation of the MiFID directive will come into force by November 1st, 2007 and will significantly change Italy's existing legislation.

It is common knowledge that the majority of regulatory decisions are made by EU bodies. Explicit restrictions have been envisaged for the introduction, at national level, of additional requirements with respect to EU ones.

The implementation measures set in place by the Government confirm the approach of the Consolidated Law on Finance, by introducing principles of law and assigning supervisory Authorities with extensive regulatory responsibility.

Consob and the Bank of Italy will exercise their powers in an innovative way. Without prejudice to the principle of the breakdown of responsibilities by their purpose, in certain areas, the joint issue of regulations is envisaged, as well as an agreement between the two Authorities for the exercise of supervisory powers.

Consob is working to ensure that the reference legislative framework is in place as soon as possible. By the end of this month, the Commission expects to start consultations on the format of implementing legislation of the Consolidated Law on Finance within its scope of responsibility.

In the period immediately following the issue of the regulations, the Commission intends to work with trade associations with the aim of defining enforcing models, also on the basis of indications which will emerge from in-depth discussions with operators.

A plan of training schemes will be addressed to consumer associations.

The new system of regulations will have considerable impact on the competitive strategies of intermediaries.

The MiFID is adopting a scaled approach to the rules of conduct of intermediaries in relation to the type of investor (professional or retail) and to the different ways in which the service chosen by the customer can be provided (with or without advice or "execution only"). Varying levels of intensity of the obligations to protect customers will correspond to different costs for the provision of the service and therefore different levels of commission.

Intermediaries will have to make strategic choices with regard to the market segments to specialise in, clearly indicating the content and the costs of the various services provided to customers.

The principle of correspondence between the services provided on one hand and the costs and obligations of intermediaries on the other, is also reflected in new provisions regarding the payment of inducements.

A general prohibition to perceive or pay inducements that are not justified by an improvement in the quality of the service provided to the customer will be introduced.

The various cost components of the service paid by the final investor, often split between distributor and producer, will have to be transparent and correspond to the services actually provided. This leads to distribution architectures open to various sources of financial instrument production, and benefits for investors.

The Italian asset management industry – still linked to the distribution channels of holding groups – could benefit from a wider scope of operating autonomy and higher incentives for innovative products. The achievement of this process is conditional on the adoption of corporate governance structures that guarantee independence from group logic, even in the absence of changes in ownership set-ups.

The extension of the principles of correctness and transparency to the distribution of the financial products issued by banks and insurance companies, envisaged by the savings reform, will reduce the risks of competitive distortion and opportunistic behaviour.

New legislation on “best execution” represents another important innovation.

Intermediaries will have to adopt specific execution strategies and identify, through comparative analysis, the best conditions for the customer, as they will no longer be able to consider their best execution obligation fulfilled simply because executed in a regulated market.

These innovations will generate new business opportunities. Several large intermediaries will be able to directly manage an electronic trading platform; others will be able to specialise by permanently trading several securities with their customers (“systematic internalizers”).

The MiFID tackles the fragmentation of trading between various venues by introducing new and more detailed conditions for pre and post-trading transparency for the stock market.

With regard to the bonds market, which in Italy sees the widespread presence of retail investors, the lack of a European legislative framework makes it more difficult to

achieve adequate transparency without penalising domestic operators in the European competitive arena.

Regulated markets in Europe appear to spontaneously support maintaining existing levels of transparency.

It will be more difficult to find the right balance for the trading of unlisted securities. In Italy, a significant portion regards unlisted bank securities, traded on alternative trading systems. The evolution of these systems represents an opportunity to identify, starting from existing standards of transparency, solutions that are shared by and suited to the characteristics of the Italian situation.

The importance of the involvement of retail investors in the bank bonds market is demonstrated by the number and the volume of public offer transactions of these instruments. Consob approved over 1,000 prospectuses, between May 2006, a period during which the regulation of solicitation of public savings was extended to these offers, and today. A further 350 prospectuses have already been submitted and are at the approval stage[(23)].

Over 40 percent of the volume placed is represented by structured bonds and this percentage is set to increase, especially for bonds that entail higher complexity in the definition of contractual clauses.

Consob has been engaged for some time now in monitoring the potential problems resulting from the difficulties of representing and perceiving the risk profiles of these instruments. This activity, which has led to the virtual disappearance of categories of products that are particularly unsuitable for retail investors, will be extended further with the support of specific analysis models.

Conclusions

Trust in the good functioning of the financial markets is built on the establishment of adequate rules and on the expectation that they will be observed.

Experience has taught us that this objective has to be pursued with a structured system of tools that distributes tasks and responsibilities at all levels: public supervision, self-regulation, corporate internal auditing, individual responsibility, also based on ethical principles, as well as the control of a fully informed public opinion.

Each component must exist and must be able to develop within a harmonious and balanced framework. It would be unrealistic to expect a single party to be able to guarantee the generalised correctness of conduct.

The system of regulations has today reached a high level of maturity thanks to legislation introduced by the EU and to the savings and corporate law reforms.

Although EU regulations are set in a highly harmonized context, they leave operators margins for legislative arbitrage. Member States compete against one another in the remaining spaces left to national legislators, but above all in the tangible exercise of supervisory and sanctioning activities.

This represents a risk factor for investors, exposed to levels of protection that in reality can reveal themselves to be rather heterogeneous, and a challenge for the supervisory authorities.

Consob is ready to face this challenge, increasing the efficiency and efficacy of its supervision, promoting co-operation and the utmost convergence of operating practices at European level and in bilateral relations.

In order to improve our ability to analyse the main risk factors that emerge from the rapid and continual evolution of the market in advance, this spring, the Institute adopted a new structure.

Based on a number of models of different information sources evaluation, specific warning systems are being developed to provide continuous support to the direction of supervisory plans. A systematic analysis of the impact of regulations will guide the Institute's policies in the evolution of the legislative framework.

The enhancement of co-ordination functions aims at promoting and checking improvements in operating efficiency. Since the timescales and costs of authorities' procedures are considered as key drivers of system's competitiveness, further intervention is being considered.

The Italian system still has to develop new schemes for the self-regulation of operators and to establish best practices. These are useful if they lead to real improvements in current practices.

As regards issuers, there are wide margins for improving the internal auditing function, also through the more effective composition of boards of management. A clearer indication of the minimum number of independent board members in the self-regulation code would provide a very positive sign to the market(24). Even the size of boards – an area not covered in the code – should be the subject of specific debate. Excessively large boards, even more frequent after the adoption of the dualistic system, can reduce the assumption of responsibility by individual members and the efficacy of joint efforts(25).

The ownership structures of listed companies cannot be conditioned by regulations that impose prohibitions and limitations to the organisational autonomy of control formalities. Strict rules on operations with conflicts of interest are necessary to avoid that majority shareholders take power away from minorities.

The transparency and the prevention of conflicts of interest are values that are also protected by the ability of qualified, active minority shareholders, including institutional investors, to participate and intervene.

The transposition of the directive on the exercise of shareholders' rights at general meetings, which requires a review of the current regulations on proxies and on voting formalities, could represent an opportunity to reduce the costs of participation encouraging the adoption of electronic means and a simpler system for awarding proxies.

In Italy, the role of institutional investors has not yet reached the dimensions of the market or its potential.

Delays in the growth of pension funds have only partly been offset by other forms of asset management.

The mutual funds sector is experiencing a prolonged period of crisis, while the weight of other forms of investment, such as insurance policies with financial content and bank bonds, often characterised by complex structures and more difficult assessment, is increasing in investors' portfolios.

This evolution substantially reflects the objectives of distribution networks, which in recent years have witnessed a preference for sales of financial products with higher profit margins for distributors, functional to the financing strategies of the holding groups.

High distribution costs not only reduce final returns for investors, but also diminish the resources that can be used to improve the quality of the asset management.

The application of the MiFID represents an opportunity for intermediaries to recognise that an improvement in the quality of the services provided to their customers is the best way to make profits, in a market scenario that is open to competition from parties belonging to systems already guided by these principles.

Under the MiFID, intermediaries are once again responsible for making organisational decisions to guarantee transparency and correctness in handling conflicts of interest. To this end, they should set in place incentives for employees and should pay increased attention to their professional training, in order to conduct themselves correctly and in a highly qualified manner; the propagation of a corporate culture directed toward development that is compatible with the protection of the customer's interests should be encouraged.

The Authorities are called to supervise on the choices made.

One priority area for Consob is to improve transparency in defining the characteristics and the placement procedures of structured bonds. In any event, the

investor's full awareness of the risk profiles associated with these instruments is a requirement that must be met by the intermediary.

Developing a system of ethics for intermediaries must be supported by schemes that increase the awareness of investors and discourage "morally hazardous" conduct, through investment education.

Lastly, Italian investors need to have higher guarantees on the efficacy of judicial and moral sanctions toward those that commit serious offences.

The continued valuable collaboration with the judicial authorities, though the coordination of information retrieval and management, has brought to light conduct in serious violation of the rules.

Beyond the necessarily repressive function of criminal courts, the legal system of the EU privileges administrative sanctions, which permit faster procedures and valorise the technical function of supervisory authorities and their opportunity to operate within the framework of an effective system of cooperation at international level.

The option of using administrative plea bargaining, widespread in other legal systems, in cases regarding the violation of regulations by supervised parties, should be further explored. The result of any settlements should, however, be made public and be subject to measures to correct the ascertained irregularities, unlike that which occurs today with settlements.

The ability of savers to join forces in order to take legal action against directors or intermediaries could be reinforced, with necessary caution in order not to encourage mere annoyance action.

Effective out-of-court settlement and arbitration procedures, the development of which is encouraged by the EU legislator, could guarantee the tangible repair of the damages incurred, relieving individual investors from costly legal action in civil courts.

The Country System therefore has to act with a united spirit. Each component has to contribute to creating competitive conditions in terms of regulations, conduct and ethical values, so that opportunities for development in the medium and long-terms can be seized in full.

The European and international dimension of economic activities, and increasingly the rules and values of the same, offers us this great opportunity. The growth strategies, even at international level, of several of our major banks and other businesses, as well as the planned integration between the Italian and British stock markets, are important signs of the Italian system's ability to react. They must be encouraged and sustained to ensure that the benefits extend to all market components, especially savers and consumers.

Minister, Authorities, Ladies and Gentlemen,

During previous meetings, Consob drew attention to the need for new, more incisive regulations and for the development of the Institute.

From 2005 to date, particularly significant laws and increases in staff numbers have provided Consob with better legislative tools and additional means and have set in place, to a considerable extent, the conditions for more effective operations.

On its part, the Institution has not neglected its duties by any means, even considering the almost exponential growth of the tasks it is called to perform and of the events to analyse and tackle.

Its commitment has been sustained by a particularly fertile collaboration with all the Judiciaries, with the State Legal Office, the Bank of Italy and the Guardia di Finanza.

The Commission extends its sincere thanks to all of the above institutions.

We would also like to express our gratitude to all executives and staff, for their highly professional conduct, their dedication to the Institute and their commitment made with a commendable spirit of sacrifice.

The Trade Union Associations have provided stimulation and support in protecting the interests of staff and in the improved organisation of the Institute, completion of which is still underway.

Last year, in confirming Consob's intention to continue to operate with a serene and neutral spirit, "*nec spe nec metu*", I mentioned that in the real world fears and hopes are ever-present.

Today, those fears and hopes remain and are nourished by the new challenges that we are called to face.

The fear of not succeeding in always grasping all of the implications of an intense, at times even volatile scenario, in time, is always present.

Through continuous and open dialogue with all market components, we hope to contribute to the overall maturation of the financial system, helping it find the inner force to make the profound changes that new conditions impose, working on the basis of ethical principles, increasing the value of savings that are at the root of all potential development.

NOTES

(1) Directive no. 2004/39/EC, *Markets in Financial Instruments Directive*.

(2) Directive no. 2004/25/EC, *Directive on Takeover bids*.

(3) In the first six months of 2007, the general Mibtel index rose by 3.1 percent, while the *Standard & Poor's Mib* index of major companies rose by 1.3 percent.

(4) The capitalization of Italian listed companies rose from 676 billion euro at the end of 2005 to 778 billion euro at the end of 2006. At the end of June 2007, capitalization was equal to 814 billion euro. Trading volumes rose from 894 billion euro in 2005 to 1078 in 2006. In the first six months of 2007 trading worth 797 billion euro took place.

(5) The pivot of the recommendations of the *Lamfalussy* Report is the distinction between first level legislation, regarding general principles, and second level legislation, containing the implementing regulations adopted by the European Commission, with the technical opinion of the *Committee of European Securities Regulators* (Cesr), of which Consob is an active member. A third level has been added, in which the Cesr defines common applications standards, and a fourth level which involves verifying that the legislation has been correctly implemented by Member States. Directives on market abuses 2003/6/EC, information prospectuses 2003/71/EC, on markets and financial services (MiFID) 2004/39/EC and on transparency obligations of listed securities' issuers (*Transparency*) 2004/109/EC have all been conceived according to the *Lamfalussy* model.

(6) All directives regarding the financial markets require the imposition of effective and dissuasive administrative sanctions, however none of them establishes parameters to determine the amount.

(7) This concerns the *D'Amico International Shipping Sa* based in Luxembourg, listed on the Star segment of Borsa Italiana S.p.a. since 3 May 2007.

(8) The government bill regards "*Provisions on the regulation and supervision of markets and on the functioning of the independent authorities responsible for the same*" (Senate Bill no. 1366).

(9) It is envisaged that the Committee for financial stability will comprise the Minister of the Economy and Finance, who will chair it, the Governor of the Bank of Italy and the Chairman of Consob. The Committee chairman may invite the Chairman of the Antitrust Authority, other ministers and other parties whose consultation is considered appropriate, to attend single committee meetings.

(10) The international principles established by Iosco (International Organization of Securities Commissions) require Authorities to perform their functions in a context of full independence, also operational. In its periodic programmes to assess financial systems, the International Monetary Fund also attributes fundamental importance to the autonomy and independence of Authorities in supervisory activities and in the imposition of the consequent sanctions.

(11) In some important European systems, the application of the principle of separation between investigative and decision-making functions in the application of administrative sanctions has been extended as far as assigning sanctioning responsibilities to internal committees of the Authority, composed fully or partly by figures that do not belong to the same.

(12) In 2007, the contribution of the market remained substantially unchanged compared to the previous year, even in the presence of a reduction in the state transfer of around two million euro.

(13) The exposure of Italian banks on derivative financial instruments has grown considerably in recent years: the notional counter-value of derivative positions at the end of 2006 corresponded to over 6,000 billion euro, concentrated almost entirely on the leading ten banking groups. Non-financial listed companies have also significantly increased their use of derivative instruments to manage financial and business risks; the notional counter-value of these derivative positions was estimated to be in excess of 100 billion euro at the end of 2006, and is held essentially to hedge interest rate and exchange risks.

(14) The supervision of intermediaries has led to the application of administrative sanctions in 2006 totalling 1.8 million euro with relation to 96 company representatives, and for a total of 900 thousand euro relating to 69 representatives in the first six months of 2007. In 2006, sanctions were also imposed on 82 financial salesmen, 49 of which were struck off the register. In the first six months of 2007, there were 61 sanctions, 32 of which were debarments.

(15) The average holding held by the largest shareholder of listed companies, weighted for capitalization, fell from 47.9 percent in 1990 to 42 percent in 2001 and to 27.6 percent in 2006. The reduction of the holding of the largest shareholder is much less if simple averages are considered (falling from 54.7 percent in 1990, to 45.4 percent in 2001 and to 44 percent in 2006), indicating that the phenomenon has particularly concerned larger-scale companies. As regards listed banks, the reduction has been particularly significant: the average holding of the largest shareholder has actually fallen considering both figures weighted for capitalization (from 54.3 percent in 1990 to 28.3 percent in 2001 and to 14.9 percent in 2006) and non-weighted figures (from 64.7 percent in 1990 to 34.3 percent in 2001 and to 31.3 percent in 2006).

(16) A recent survey made on behalf of the European Commission, which reports a higher presence of pyramidal groups in Italy than in other European countries, adopts a definition of "pyramid" that does not consider a qualifying aspect for the purposes of a full representation of the phenomenon, namely the presence of more than one listed company at different levels of the chain of control. Once this criterion has been adopted, the presence of pyramids in the sample of listed Italian companies considered in the survey falls from 45 to 25 percent.

(17) The number of listed companies belonging to the 10 most-capitalized non-financial groups has fallen from 68 in 2000, to 34 in 2001 and to 25 in 2006. The maximum number of listed companies belonging to the same group was 21 in 1990, 7 in 2001 and 4 in 2006. Even the length of the chain of control has been reduced: in the 10 most-capitalized non-financial groups, the average number of levels in which a listed company is present has fallen from 2.6 in 1990 to 2.1 in 2001 and to 1.6 in 2006.

(18) The number of companies with savings shares has almost halved in the last ten years. At the end of 2006, only 11.6 percent of companies had savings shares compared to 12.7 in 2001 and 26% in 1997. The average weight of savings shares on the capital of the company that had issued them also fell from 19.3 percent in 1997 to 17.1 in 2001 and to 11.1 in 2006.

(19) The voting premium, calculated as the difference between the price of ordinary shares and that of savings shares, has progressively fallen in the last ten years both in terms of average values (from around 55.9 percent in 1997 to around 20 percent in 2001, and to just over 6 percent in 2006) and in terms of median values (equal respectively to 50 percent, 17 percent and 5 percent in the three years considered). The so-called holding discount measures the discount, respect to the value of its business activities, with which the shares of listed companies holding controlling interests in other listed companies are valued on the market. The holding discount has shown a tendency to fall over the past 10 years, although with fluctuations influenced by the stock market cycle. The average value, corresponding to around 23 percent in the second half of the 90's, fell in 2006 to around 18 percent. The discount appears to be higher in companies belonging to more structured groups, in terms of the number of listed companies controlled.

(20) Over a quarter of the total stock market capitalization at the end of 2006 regarded companies controlled by coalitions formalised in shareholders' agreements. Companies controlled directly by a shareholders' agreement corresponded to around 10 percent of the total, with a weight in terms of capitalization of over 22 percent. Listed companies controlled by a non-listed company controlled in turn by a shareholders' agreement corresponded to 5 percent both in terms of number and capitalization.

(21) The option of issuing shares with multiple voting rights is envisaged in the United States, United Kingdom, Japan, France, Sweden, Ireland and Finland.

(22) In May 2007, the Financial Stability Forum published an in-depth update of the survey conducted in 2000 on hedge funds (*Report of the Working Group on Highly Leveraged Institutions*).

Also in May 2007, the Steering Group of the OECD on Corporate Governance, chaired by Consob, published a report on the role of private equity funds and of hedge funds in corporate governance (*The Role of Private Pools of Capital in Corporate governance: Summary and main Findings about the Role of Private Equity Firms and "Activist" Hedge Funds*).

(23) The volume of bonds placed by over 350 bank issuers in the period between 12 May and 31 December 2006 corresponded to around 15 billion euro.

(24) The annual survey conducted by the Association of joint-stock companies (Assonime) shows how the reports of companies regarding compliance with the self-regulation code of the committee for corporate governance established at Borsa Italiana are today considerably more complete, easier to read and more transparent, both in the case of compliance with the recommendations of the code, and in the event of failure to comply. However, there is substantial variability in the degree of compliance with the principles recommended by the code with respect to the level of transparency on the application of individual provisions.

(25) From a comparison between large-scale Italian and British listed companies (the 50 Italian companies and the 150 British companies whose capitalization, at the end of 2006, exceeds 2,500 million euro), it appears that the average size of the board of management is 14.3 members in Italian companies against 10.8 in British ones. Around one third of the Italian companies considered had less than 12 board members, while the corresponding percentage for British companies was over 60 percent. With regard to the presence of independent board directors, their weight on the total number of board members is 53 percent in Italian companies and 63 percent in British ones. Furthermore, while in British companies almost all non-executive directors are also independent (95 percent), in Italian companies the corresponding figure is only 60 percent.