Annual Report 2011

Rome, 31 March 2012

CONSOB

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

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Speech by the Chairman to the financial market

Milan, 14 May 2012

«People are not disturbed by things,
but by the view they take of them»

Epictetus, *Handbook*, 5,1

Mr President of the Republic, Mr Vice-President of the Senate,
Mr Minister, Mr Governor, Ladies and Gentlemen,

First I would like to offer my respectful greeting to the President, Giorgio Napolitano, who honours us with his presence.

The Commission, once again, thanks the City of Milan and Borsa Italiana for the hospitality we've been shown at this meeting.

In 2011, Consob underwent an important reorganisation in order to adapt to the new needs of the financial system. The number of people directly involved in inspections and supervisory tasks has been increased and their respective functions are better organised. A new division has been created with the mission to co-ordinate regulatory activities. Instrumental activities have been concentrated under one division, out of the previous three. This reform will help us optimise staff distribution and thus reduce Consob's staff costs.

Compared to the previous year, in 2012, cost savings of approximately 10 million euro were made. With public contributions substantially down to zero, it was thus possible to reduce contributions from supervised entities by approximately 11 million (-9.2 per cent compared with 2011). A review of the charging criteria for 2013 was launched to better correlate contributions to supervised entities' size.

The Commission set up a Board of Auditors, chaired by Mr Maurizio Meloni, Presiding Judge of the Joint Divisions of the Court of Auditors, to ensure the financial resources requested to the market were put to good use.

Mr Gaetano Caputi was appointed General Manager. Mr Giuseppe D'Agostino was appointed Deputy General Manager and Manager of the Milan office, thereby confirming its strategic significance. Mr Claudio Salini was appointed Secretary General.

I would like to take this opportunity, on behalf of the Commission, to thank everyone for their diligence and hard work in fulfilling their duties, which were made even heavier by the current economic situation.

Consob intends to fully exercise its independence, granted by law, in order to make more effective its mission of protecting investors and safeguarding the financial system. Independence, an internationally well established principle, and required by European Union legislation, today assumes an ever-increasing importance in ensuring fairness for all supervised entities. It is a necessary condition for attracting investors to an open capital market and for encouraging the country's growth and development.

1 Macroeconomic scenario

2011 was an *annus horribilis*. In July 2011, it became clear how serious the crisis was going to be, and that its roots were intertwined with the financial turmoil of 2007-2008. The imbalances in public finance, exacerbated by the bail-outs of ailing banks in some countries, coupled with a slowdown in global growth characterised a new step of the crisis, when financial markets turned the spotlights on sovereign debt. It was most bitterly felt in the peripheral countries of the euro area (Portugal, Ireland and Greece). But during 2011 the contagion spread to other countries, including Spain and Italy.

An increasingly interconnected and volatile financial system has transmitted uncertainties about one country's financial conditions to other countries, undermining their stability.

With an increased perception of sovereign risk, the spread on Italian government bonds yields, with respect to the German Bund, rose significantly. After rising to more than 570 basis points in November last year, the spread fell considerably at the beginning of 2012, before settling down to about 400 basis points.

The renewed tensions on sovereign debt were also reflected in share prices. Since July 2011, the EuroStoxx50 index, representing the top 50 European stocks by market capitalisation, has fallen by roughly 22 percent; the FtseMib is down 32.2 percent. The value of banks' stocks has fallen even further: the Italian and French indices have dropped by more than 50 percent, followed by Spain (-39.8 percent) and Germany (-26.5 percent).

Governments have reacted to the crisis in public finance by adopting, in accordance with the Treaties, exclusively national emergency measures. They have taken significant steps to contain their deficits and debt, acting on the spending side and, in many cases, acting as well more rigorously on the revenue side.

At the same time, European institutions have begun the process of reforming the rules of economic governance and public accounts auditing. The ECB has eased tension in credit markets launching two long-term refinancing operations (LTROs), which have alleviated the shortage of liquidity, making it less dramatic. European rules, needed to rescue and sustain public finances, reduce the ability to use fiscal policy anti-cyclically or in response to external shocks. Unlike what is happening in America, continental economies have to face heavier restrictions in choosing how to finance their deficit spending. Indeed, they are constrained by several substantially incompressible expenses – such as health, education and pensions – unless the established social model is given up. In this context, further constraints are added by demographic trends, the structure of the economic system itself and the single currency. The euro has appreciated considerably against the dollar since it was introduced (by about 30 percent), with significant effects on the foreign competitiveness of most European countries.

The crisis in public finances, combined with falling growth rates has already impacted people's quality of life, causing a real 'household income crisis'. In Italy, according to the latest ISTAT data, the percentage of families on the brink of poverty and social exclusion continues to be higher than any other advanced economy. Purchasing power declined by 0.5 percent in 2011 and savings fell to 12 percent, the lowest level since 1995. The reduction in savings mainly affected middle-class families and widened the gap between rich and poor, really putting at risk the country's wealth growth prospects and its fair distribution.

Decision making difficulties at European level, caused by disagreements among member states, contributed to the speed at which the contagion spread, exacerbating tensions on the government bonds of the economies considered most vulnerable and exposed to the negative stage of the cycle. The sharp rise in interest rates and, consequently, in debt refinancing costs, acted as the detonator for public accounts imbalances For the first time since its establishment, the very stability of the eurozone seemed in doubt.

We are at a crossroads. The policies adopted so far have turned out to be ineffective. Alongside the deficit reduction measures, it's now time to make choices to guarantee stable growth. To obtain this, however, European countries must adopt common, long-term solutions, which serve everyone. Sharing public debt in the euro area would, for example, have positive consequences on aggregate interest expense, facilitating the economic recovery of the entire zone.

2 Evolution of the financial system

In the last few years, the financial system has, in part, failed to perform the fundamental function of channelling savings into the real economy and economic development. Over the last fifteen years, in major countries, the market has been characterised by speculative bubbles and financial scandals which have increasingly conditioned share prices performance with respect to the underlying real trends.

Moreover, while offering more investment opportunities and portfolio diversification for investors, financial innovation has introduced new sources of risk, which cannot always be governed by the supervisory authorities.

In an increasingly globalised world, the links between markets and financial intermediaries are becoming stronger and harder to track. It is becoming increasingly more complex to assess the dimension of risk that is embedded in financial markets and it is increasingly hard to define regulations and exercise control. New products and new operating practices emerge from grey areas where the rules of prudential supervision, which are intended to ensure the stability of individual intermediaries, overlap with those governing correctness and transparency.

Financial innovation can be positive, but legislators and authorities have a duty to prevent it from being transformed into a machine that burns household savings. Legislators and authorities have to ask themselves whether, for an investor, a certain type of innovation is good or bad. If it's not a good thing then, leaving aside any intellectual remorse, they must prohibit it, preventing the spread of harmful products and practices, and avoiding systemic repercussions.

On this point, there are two examples.

The first is credit default swaps (CDSs), particularly the so-called 'naked' ones, in which there is no underlying position to be hedged. In brief, these instruments are very apt for pure speculation. If we also consider that they are traded outside regulated markets and without any transparency and clearing guarantees, we can well understand why the European Union decided to ban 'naked' CDSs on public debt securities. Consob strongly supported this position.

The second example, which is much more alarming, is algorithmic trading and in particular HFT (high frequency trading). This is a trading technique which uses mathematical algorithms and high-speed connections to trading platforms and enables orders to be entered, executed and cancelled in a matter of milliseconds, taking advantage of marginal price fluctuations. Operators who use this technique are not interested in investing in an asset and generally close their positions at the end of the day. Prices formed in this way do not always reflect the company's fundamentals. It is a phenomenon that can create distortions and accentuate market volatility. To deal with it, micro-structural measures have to be put in place in order to minimise risk, even in the absence of human intervention. In some countries, the phenomenon is considered a source of systemic risks. At the end of 2011, Borsa Italiana, at Consob's request, introduced a penalty mechanism for orders issued and cancelled within a reasonable threshold. This measure is a first step in trying to limit the phenomenon. Further rules to guarantee market integrity are contained in the guidelines prepared by a standing committee coordinated by Consob under the aegis of ESMA.

Moreover, talking about risk profiles associated with financial innovation, we have to mention exchange-traded funds (ETFs). These instruments are listed investment funds that replicate a market index. They have rapidly spread in Italy, too. Introduced originally as simple low-risk products, they have undergone rapid changes in management practices and methods applied to replicating the underlying indices, thus making them complex products, source of potentially new liquidity and counterparty risks. In addition, ETFs have become a managed savings product that banks can use as an alternative funding channel. The result has been a more uncertain boundary between different sectors of the financial system. The growing complexity and riskiness of such funds require careful examination by supervisory authorities. An ESMA standing committee, led by Consob, has delivered operating instructions to dissipate the opacity of these instruments, enable proper risk assessment and rein in potential systemic effects.

3 Regulatory issues

Given this scenario, we have to ask ourselves what legislative and regulatory instruments are most appropriate to adopt.

The European Union is already providing an answer through the processes of revising sectorial directives, also in order to take into account the indications emerged at international level, including G20's recommendations. These are actions aimed at encouraging the emergence of over-the-counter markets and at bringing the so-called shadow banking system under the roof of transparent and common rules.

The complexity of the phenomena to be regulated has led to an extremely detailed legislative technique. The fact that many of the new European legislative measures come out of a compromise makes the transposition of new rules at national level quite difficult. This process does not even necessarily guarantee the level playing field that it was meant to create, and, in particular, the goal of introducing a single rule book. All this in the illusion that an exasperated taxonomy can bring diversified phenomena and products under control. The result is a very cumbersome legislation which may prove difficult to implement. Legislators have often regulated products and conducts in detail, hoping to correct undesirable effects. In practice, this has not stopped the distribution of toxic products from causing damage to investors and being at the root of systemic crises. In view of the unsatisfactory results, a different cultural approach is emerging, in which regulators are beginning to consider the idea of formulating specific prohibitions. As well as the case of the ban on 'naked' sovereign CDSs, the proposed revision of the MiFID, the Markets in Financial Instruments

Directive, gives the European Authority and, in particular cases, also the competent national authorities, the power to prohibit certain types of commercial practices, or to ban or restrict the distribution of financial products considered harmful.

It is opportune to aim for a slim and easily understandable regulatory corpus. This must be accompanied by incisive enforcement by national and European authorities, which must pay increasing attention to timely understand financial markets evolution.

Decision making is often too long and not in line with market velocity. The legislative process, already organised on several levels, is further slowed down by multiplication, mainly at the EU level, of consultation procedures, which do not always lead to better regulation of the phenomena. In fact, while they should be a tool for transparency, consultations are often dominated by vested interests. These are expression of the most organised bodies, often to the detriment of the indistinct multitude of small investors. It is the responsibility of the regulators to assess the value of the proposals put forward every time.

Nowadays, financial markets are globally interconnected. However, political and economic institutions often act as if territorial borders still provide shelter from the unwanted effects of global integration. Instead, thanks to capital mobility, which is almost free and instantaneous, integration means that trading can be easily moved to more permissive jurisdictions. Standalone countries simply do not have enough tools to compete against it, despite the fact that some national legislators continue to believe that autonomous initiatives may, in any case, be effective. An example is the recent debate on the financial transaction tax, proposed by the European Commission. Some countries are willing to act even without international coordination. If, on the other hand, we wish to meet the challenges of the global market with a reasonable chance of success, we need to have a harmonised financial regulation at least at the European level. It is therefore necessary to facilitate the adoption of EU regulations, directly applicable in every member state legislation, as it is already happening in the European directive revision process.

Anticipated impact assessment of new regulations is also important to make sure that isolated measures, which in theory might seem desirable, do not produce combined pro-cyclical effects. For example, the current requests for continuous strengthening of banks' assets could cause unwanted consequences.

Markets short-term trends make it necessary to rethink some structural aspects of supervision in the European context. A first critical step is the division of roles in the new European architecture, which came into force on January 1st, 2011. The ESMA, EBA and EIOPA authorities share the same general goals (investor protection, market integrity and a stable

European financial market), with possible duplication and overlap of tasks, which would be particularly pernicious in periods of crisis.

A second open issue is how each European authority should facilitate coordination among national authorities in the event of a crisis, also by drawing up common action plans. The difficulty of reconciling sometimes contrasting interests and visions, and the lack of a toolbox of emergency measures might, however, prevent this objective from being achieved.

The enhancement of a more centralised decision making process by the European authorities according to a supervisory model by objectives, could enable better prevention and management of any future crises and avoid the risk of free riding by some countries, to the detriment of other countries' investors.

In a financial context characterised by the emergence and consolidation of few large areas of economic and political influence, it is desirable for Europe to establish itself as a cohesive interlocutor, also as far as supervisory practices and the management of emergency situations are concerned.

The European Commission should begin revising the regulation establishing the European Authorities by 2 January 2014. This could be the chance to eliminate current overlapping tasks among the three Authorities and to modify the powers of ESMA, so as to make it more effective and efficient, particularly in the event of a crisis.

4 Consob activity

During 2011, Consob worked along three main lines: introducing structural simplification of regulation; tackling, pro-actively, the market crisis emergency; consolidating a supervisory method where substance prevails over formality. All this with the aim to create favourable conditions for market development, once confidence is restored.

The Commission launched a project to completely revise domestic regulations. It has the following aims: to maintain the necessary investor protection; to reduce listing costs for companies, so that they in line with foreign competitors; to attract savings and businesses, especially medium-sized ones, to the Stock Exchange and financial markets.

Particular attention is being paid to eliminating rules that apply EU legislation in a more restrictive manner (so-called gold plating). Consob's initiative was supported by the stability law for 2012 (Law 183/2011), which has imposed a ban on introducing or maintaining higher levels of regulation than the minimum required by EU directives.

Following intense discussions with the financial industry and with investors, two packages of changes to the Issuers' Regulations and the Market Regulations were approved. The first aims, among other things, to lighten the burden of documentation required for promoting public offerings of financial instruments or for admission to listing and to widen the margins of statutory autonomy on certain aspects of disclosure. The second, which was approved last week, mainly relates to continuous disclosure obligations, transparent ownership structure, disclosure under takeover bids and rules for issuers of widely-distributed securities.

The actions for regulatory simplification were accompanied by the adoption, since July last year, of emergency measures to backstop extreme volatility and sharply falling prices, in order to guarantee market integrity. On this occasion Consob anticipated some measures which were later adopted at European level.

Two examples are short selling and rating agencies regulation.

In coordination with the other European countries authorities, considering the highly volatile markets, in August 2011 Consob introduced a ban on maintaining net short positions on financial firms securities, a ban then repealed on 24 February 2012. As provided for in the community regulation which will come into force on 1 November 2012, the ban on short selling without availability of the related securities and the obligation to notify the authority on assuming or changing net short positions on all securities has, instead, remained in place permanently.

Moreover, last July Consob was the first European authority to summon exponents of rating agencies, when a particularly significant change in the BTP-Bund spread coincided with an agency announcing possible downgrades of Italian government bonds. This circumstance, which was subsequently investigated by the judiciary, revealed a number of organisational shortcomings in rating agencies.

The European regulation, which Consob took an active part in drawing up, also within ESMA, provides for an authorisation system and a series of stringent requirements in order to issue ratings.

To avoid possible conflicts of interest, as well as ensuring the maximum transparency of ownership structures, rigorous limits have to be set on commingling between agencies and rated entities. In addition, also in order to limit the pro-cyclical effects of ratings, it is opportune to restrict their regulatory value.

At the supervisory level, as usual, particular attention was paid to the offering of financial instruments to retail investors. That, in order to identify the critical issues and any corrective actions relating to the characteristics of the products, in terms of complexity, riskiness, and distribution channels. This will obviously not eliminate the possibility of fraudulent conduct, which, by its nature, can only be prosecuted *ex post* or falls under the exclusive jurisdiction of the criminal courts.

The distribution of financial products has been monitored, with the purpose of bringing intermediaries' conduct increasingly in line with the spirit of the MiFID, i.e. pursuing customers' best interest. Specific attention was therefore paid to distribution policies and to incentive systems for intermediaries' sales staff. Consob carried out targeted inspections, whose follow-up consisted in recommending to the intermediaries and, in particular, to eight main banks, the review of their commercial policies and internal procedures to ensure that investment services are fairly provided. This is an indication of the increasing need to make intermediaries feel more responsible, in order to ensure effective protection of small investors.

As far as issuers are concerned, and with particular reference to the market for corporate control, during 2011 Consob changed the takeover bid rules to define more precisely waivers and fair pricing methods. The greater certainty of rules does not however relieve us from the need to consider (especially the most critical) issues from a substancial and not only formal point of view.

Related parties dealing rules have become more demanding on transparency of operations which, by their nature, may be in conflict with non-controlling shareholders' interests. This is a cultural change, which needed to be tackled and which will help make our capital markets more attractive.

Consob issued the regulation implementing the law laying down gender quotas for boards of directors (Italian Law 120 of 12 July 2011). Today, the average proportion of women in boardrooms is 8 per cent of total positions and this falls to 5 per cent in larger companies. The new rules are an opportunity to renew the boards of directors, bringing in new experiences. The Commission will oversee its application.

The Parliament acted to prohibit the accumulation of positions in firms in the financial industry. This phenomenon, known as interlocking, had already been noted in last year's report and, at the end of 2011, involved more than 70 per cent of listed companies, that represent 96 per cent of Borsa Italiana market capitalisation. Despite some difficulties in application and the need to clarify the scope of the law, the new system, which Consob is called upon to oversee as one of its responsibility, is likely to bring in some fresh air in rooms which have been shut for too long, to protect a kind of family capitalism no longer abreast with the times. The first effects can already be seen. Others will follow. Market transparency and competitiveness will benefit.

Investors' confidence in the markets and the growth of the financial system are dependent on enforcement based on criteria of adequacy, proportionality and dissuasion.

Consob bases its assessments on a priority principle, using the instrument of supervisory inspections and focusing its disciplinary powers on conduct which most damages market integrity. But this is not enough. Punishing serious misconduct in a way not very dissimilar from small offences reduces the deterrent effect of sanctions. It is therefore opportune to reconsider the penalties for less serious illicit conduct and concentrate repressive action on more significant infringements. It is regrettable that the occasion provided by the 2010 EU law to revise the disciplinary system, was not exploited.

5 Prospects for the Italian market

The chief weakness of our financial industry is the modest development of the domestic capital market. The problem is even more serious in the current situation, in which the banking industry may have difficulty in supporting corporate growth with adequate levels of lending, above all to companies more exposed to competition in foreign markets.

International comparisons for 2011 show a gap with major EU countries which, in some cases, has widened. The number of listed companies on the Italian stock market (Mercato Telematico Azionario - MTA) declined from 272 to 263, while capitalisation fell, both in the amount (from 425 to 332 billion euro), and as a ratio to GDP (from 27 to just less than 21 per cent). In other major European countries, instead, despite the crisis, the capitalisation to GDP ratio continued to stand at significantly higher levels: just over 37 per cent for Germany, 55 per cent for France and more than 140 per cent for the United Kingdom.

Moreover, the Italian stock market, in which the financial industry is predominant, does not adequately represent the manufacturing sector, which still represents a large share of the Italian economy.

The evolution of IPOs and delistings in the Italian stock market over the past six years shows that the annual rate of voluntary delisting has remained at a physiological level and stable over time. Market weakness stems from an insufficient number of new listings (just five in the last three years). The last two IPOs were however successful: this shows that even during a crisis there is interest in and demand for solid companies with good growth prospects.

We need to work on attracting companies towards the market. A significant step in this direction should be represented by new listings of public companies.

The development of listed investment vehicles, such as private equity funds, real estate funds and Listed Real Estate Investment Companies, (Società di Investimento Immobiliare Quotate - SIIQ), whose regulation needs to be rationalised and simplified, might represent a further step in enlarging the stock market and in developing a modern and transparent real estate industry in Italy and also facilitate the indispensable process of revaluing state-owned properties.

However, the main task is to attract mid-size companies - which are the backbone of our entrepreneurial fabric - to the financial market, in the same way as other European countries have done. As of 30 March 2012, companies capitalising less than 50 million euro accounted for just 29 per cent of listed companies in Italy, compared to 68 per cent in Germany and 53 per cent in France and the United Kingdom.

To expand the market it is indispensable to remove certain structural obstacles which affect both supply and demand.

On the supply side, the sectorial composition of the entire Italian economy is not particularly different from that of other major continental economies (France and Germany *in primis*). Therefore, it cannot be considered an explanation of the lower propensity to go public by Italian companies. On the contrary, obstacles are factors such as the too small size of many companies, the peculiar reluctance to open ownership structures and to provide transparent disclosure, the predominance of bank financing and the costs of the listing process.

Thinking about market infrastructures dedicated to medium-sized companies, over the last few years the development of trading platforms has not obtained the hoped-for results. Borsa Italiana's recent initiative, the merge of its Aim and Mac segments, may encourage the most dynamic companies to approach the financial markets, facilitating their growth and internationalisation process.

On the demand side, there are elements of weakness relating to both institutional and retail investors.

As far as institutional investors are concerned, the asset management industry has been affected by the crisis, gradually reducing assets invested in equities. A sign of the limited presence of these operators in the Italian stock market is the fact that while in 1998 they were present in approximately one out of four companies, in 2011 they had significant investments (with a stake of about 6 per cent) in less than 5 per cent of listed companies. In the same period foreign institutional investors have increased their presence, from one out of four companies in 1998 to one out of three companies today.

In addition "small caps" specialised funds are not developed enough to give adequate financial support to small and medium-sized companies, both during the listing and later on.

The main barrier to an increase in the demand for equities by retail investors is attributable both to the orientations of distributors and intermediaries, and to the insufficient development of the asset management industry, which have not helped families overcome their reluctance to invest in equities. Moreover, the low level of financial literacy and the limited diffusion of professional advising lead investors to hold under-diversified portfolios, made up mostly of bonds and above all government bonds. The component of savings directly invested in equities follows mainly a short- and very short-term logic, as shown by the growing significance of intra-day trading.

To encourage the development of the stock market of medium-sized companies, Consob has acted recently, setting up a working group with the industry. The aim is to simplify market access regulations, identify and select the features of the companies which may potentially go public, and finally define the structural and functional requisites of funds capable of playing a role as a potential 'investors factory' specialised in small caps. This will leave companies interested in going public with an easier route. For the best ones, a facilitated listing, with reduced obligations for a limited period of time and reduced listing costs, will be available.

More generally, the listing of new companies would be facilitated by a process of legislative revision. From this point of view, the time has probably come to align the Italian system with that of the major European countries, eliminating those obligations for listed companies which in turn do not guarantee any particular protection for investors. More recourse to self-regulation and statutory autonomy could facilitate the achievement of this objective.

This is an action which requires a revision of both the Consolidated Law on Finance, and the Civil Code. Almost fifteen years have passed since the reference framework law for financial markets came into force and almost ten years have passed since the last full reform of company law. In the meantime, the world has changed.

The best way of doing this work with sufficient depth is to set up a specific commission with the task of preparing a systematic revision of the Consolidated Law on Finance and to update the Civil Code, simplify and rationalise the entire subject of the law governing listed companies.

Further revisions of the Consolidated Law on Finance have become necessary in order to reach a mature model of supervision by objectives. The way forward could be to review supervisory powers in the fields of asset management and market and post-trading management, replicating the choice made at the European level in assigning the responsibilities to EBA and ESMA.

The attractiveness of a market cannot however derive exclusively from the rules governing it. Much depends on the context in which the market operates. A context which is not determined only by economic variables, such as the level of taxation, but also by other features.

Among them, particularly important are the efficiency of the judiciary, the civil service and the expected observance of the law. As regards the first aspect, the establishment of court divisions specialised in company law, with jurisdiction on corporate matters and class actions, can only improve quality and accelerate judicial response times. The experience of the Court of Milan, which deals with the highest number of cases of this kind in Europe and in which the duration of trials is much shorter than the national average, shows that this is the road to follow.

As for the observance of the rules, recent political and economic news items have had a very negative impact on public opinion. All public powers must certainly work to ensure that this does not happen again. It is equally up to individuals to comply, in all their actions, with the principles of individual ethics, in the absence of which the harmony of social life is compromised.

* * * * *

Mr President of the Republic, Ladies and Gentlemen,

the crisis is challenging our certainties. The level of well-being, social fairness, and the future of new generations are in doubt.

However, we need to ask ourselves whether this depends on real conditions or whether, as Epictetus reminds us, *"people are not disturbed by things, but by the view they take of them"*.

Today, our fears are summarised by a number, which represents a spread.

This spread is based on the fundamentals of the economy. It incorporates, however, a summary and subjective value judgement which, often, goes beyond them.

In many European countries, irritation is growing with the 'spread dictatorship', which is seen as an obstacle to peoples' hopes. Citizens do not agree with paying for decisions on which they are not called upon to make.

Entrusting our future to a number is also a way to abdicate our duties. Our duties also derive from a fundamental right: participating democratically in taking decisions that involve us. And the spread, which essentially depends on the choices of an invisible entity, the market, attributes all decision-making powers to people who hold economic power, in practice nullifying the principle of universal suffrage.

The exceptional nature of what happened last year means that leaders face the need to protect the democratic system from the continual attacks of speculation.

If we want to avoid a rebellion with self-destructive effects, we need to look at the economic fundamentals and we need to work to make them more solid.

While it is true that the whole of Europe is living beyond its means and that it is indispensable to quickly rethink the scale of public spending, we cannot however ignore the positive factors that do exist. We need only to think about the agreed action to rebalance public finance, the sustainability of debt, the presence of a successful manufacturing system, especially the export-oriented one, household savings and the tenacity of entrepreneurs and workers.

Today, more than ever, confidence is needed. Without it the institutions, businesses and the financial market cannot exist.

As far as we are concerned, confidence can be regained if we are capable of adopting simple and stable rules, incentive medium-sized companies to go public, perform friendly but rapid and inflexible supervision of market conduct. It is time to remove the slowness of administrative and judicial action and nourish a social fabric resistant to corruption.

And above all, it is time to refind the desire to start anew and to feel ourselves as proud citizens of a Europe which, in the difficult search for the common good beyond all contrasts, has always been the greatest centre of well-being and civilisation in the world. Then we will be able to bask in that ray of sun which is beginning to peek out from behind the clouds of a sky still too overcast and grey.