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Speech by the Chairman to the financial market

Milan, 5 May 2014

πρὸς εὐδαιμονίαν οὐδὲν ἂν συμβάλοιτο
τηλικαύτην δύναμιν ὅσην περ ἄρετή καὶ τὰ μέρη ταύτης

«nothing in the world can contribute so powerfully [...] to happiness, as virtue and the qualities of virtue»

Isocrates, *On the Peace*, § 32

Authorities, Ladies and Gentlemen,

Today's meeting is a chance to celebrate 40 years of the Commissione Nazionale per le Società e la Borsa [National Commission for Companies and the Stock Exchange]. The law of 1974, which set up an Italian supervisory authority for the capital market, was a fundamental nodal point for our financial system. It was the response to the requirement to balance the need for market development and growth with the need for investor protection. The birth of Consob coincided with a period of weakness and under-sizing of the equity market. The proportion of capitalisation to GDP was about ten times less than the current levels. High inflation had eroded the real value of shares, cancelling almost all the gains accumulated in the period between the post-war reconstruction and economic boom. Many questionable corporate operations had marred the reputation of the market, undermining investors' confidence in the stock market and equity investments.

Since then, the financial market has changed profoundly. Consob's responsibilities have widened and its action has become more penetrating, thanks to greater powers and the widening of the scope of regulation. The fundamental step forward occurred in 1998, when the Consolidated Law on Finance (TUF) was adopted. In this evolutionary process, an important role has been played by EU legislation and in particular the Financial Services Action Plan, which outlined an ambitious project to create an integrated financial market at the European level. The revision of the directives provided for in that action plan has now reached its final stages of completion.

Consob has always actively taken part in the process of producing EU regulations. In recent years, it has also acquired a guiding role in bringing to the attention of the Italian and European institutions significant issues and questions relating to investor protection and the correct operation of the financial markets.

The Commission was one of the first authorities to tackle the complex issues of short selling and transparency of short positions in equities; to urge a more attentive approach to high-frequency trading; and to urge more restrictive guidelines on the sale of complex products to non-professional investors. It was the first to challenge publicly the work of rating agencies, calling them in relation to investigations into market abuse; it requested rigorous rules to discourage mechanical references to ratings in financial contracts; through joint action with the Bank of Italy and Ivass, it limited automatism that would have implied liquidation of positions in government securities following the downgrading of the Italian Republic in collective asset management.

Recent studies have noted how the rating agencies' judgements on sovereign issuers are distorted by qualitative and subjective assessments.

Again recently, when a rating agency placed an important insurance company on negative credit watch, Consob reported to the European Securities and Markets Authority (ESMA) the possible breach of European regulation and brought attention to the issue of correct application of rating methodologies. The negative credit watch was then removed.

In more recent years, coinciding with the worst financial crisis of the post-war period, the complexity and intensity of supervisory activity accelerated in an unprecedented manner in the history of Consob. Globalisation of the markets, and financial and technological innovation have led to increasingly complex and delicate challenges. The response has been to adopt a risk-based supervisory approach, capable of detecting the signs of risk promptly and calibrating the enforcement action more effectively.

Control over corporate disclosure has been intensified, to ensure effective parity of the information available on the market and substantial observance of safeguards to protect shareholders. The activity of preventing conflicts of interest was strengthened, thanks to full operation of the regulation on related-party transactions. In some cases, the economic conditions of transactions, such as mergers or transfers of business units among related parties, were revised so as to be more favourable to minority shareholders. On the subject of take-over bids, effective protection of minority shareholders was ensured, guaranteeing, in more than one case, a fair distribution of the control premium through revising the price. On these occasions, the correctness of Consob's work was confirmed by the administrative judiciary. Statutory auditors, also following a number of sanctionary actions, were called to a more active interpretation of their role as guarantors of the law and of the articles of association. Consob recently presented for consultation a proposed communication with which it asks the largest listed companies to immediately publish information on liquidations and golden handshakes for directors and on the consistency of these payments with the remuneration policy approved by the company.

Consob's action was in synergy with the change in progress. Today, crony capitalism is fading, and being replaced by new balances in the ownership structures of companies. Old and consolidated relationships between important financial institutions and large shareholders are changing towards new forms of control, potentially more open, which see an increasing presence of foreign investors. The turbulence associated with the financial crisis increases the incentives to indulge in opportunistic behaviour. Supervision of insider trading and market manipulation phenomena was strengthened to prevent them. The repression of illegal conduct was more timely, thanks to use of the investigative instruments provided for in EU legislation and greater recourse to inspections compared with forms of control based exclusively on paperwork.

As part of the work of supervising intermediaries, particular attention was paid to the distribution of financial products to retail customers. The revision of the directive on markets in financial instruments (known as the MiFID) incorporates a number of fundamental indications that have inspired Consob's supervisory action over recent years. I refer, in particular, to the intermediaries' duty to assess whether financial products are in keeping with the needs and characteristics of their customers right from the development stage of said products (i.e. product governance) and, more generally, with the need for intermediaries to take into the greatest account the customers' interests right from the stage of defining the commercial policies and systems for rewarding the personnel responsible for placement. Consob intends to implement fully the ESMA's recent opinion, with which the attention of national authorities is called to measures that intermediaries must adopt in the process of designing and distributing complex products. In particular, producers and distributors are asked to implement a rigorous product-approval system, to identify a coherent group of target customers and to adopt a stringent procedure for assessing whether the products are suitable.

On the subject of investment services and financial product distribution, further initiatives were launched with the aim of strengthening investor protection. Together with consumers' associations, Consob established the 'Investors' Charter' project, with the aim of providing investors, in a specific section of its website, with concrete tools for learning the basic notions on the subject of asset management.

The project also provides for a new system of out-of-court resolution of disputes on the subject of investment services, with obligatory acceptance for all intermediaries, in the same way as contemplated by the relevant legislation for banking products.

A consumer testing project is in its final stages. This was developed in collaboration with the leading intermediaries, and is aimed at analysing the comprehensibility and usefulness, for retail investors, of information on the characteristics of financial products. A recommendation is being prepared

to limit the distribution to retail investors of highly-complex products, such as securities linked to loan securitisation transactions or structured products that incorporate a short position on the underlying security. The increased transparency in customer relations, above all in a delicate economic situation like the current one, benefits first and foremost producers and placers of securities.

This initiative is intended to anticipate the entry into force in Italian legislation of a number of provisions contained in the new MiFID directive, where it is envisaged to attribute to the Supervisory Authorities specific product-intervention powers, aimed at prohibiting or limiting the spread of financial products and commercial activities that are harmful for investor protection, for the orderly operation and integrity of the markets, and for the stability of the entire financial system or a part of it.

To reduce to a minimum the duration of sanctionary procedures, Consob revised the internal organisational procedures, halving the length of the proceedings. The result will be greater certainty as regards the regulatory framework of reference and sanctions with a greater informative and warning value. Consob made available to the market new tools for analysing risks and economic trends, statistics, and economic and legal research which contributed to making the debate on institutional matters and on the evolution of the economic framework more informed and attentive. In a *Quaderno di Finanza*, back in October 2012, it had noted clearly, through rigorous quantitative analyses, that the spread was almost 200 basis points higher than the theoretical figure in keeping with the fundamentals of our economy.

Despite the intensification of the supervisory activity, Consob – which is awaiting completion of the Board – managed, in parallel, to carefully review and rationalise spending, which led to a considerable reduction in the contributions demanded from supervised entities. In the last two years, management costs have been reduced by 12 per cent and contributions charged to the market by 16 per cent. The cost-cutting action was positively reflected in the judgements of the Italian Court of Auditors, which stressed that the Commission's management is *«based on the rules of good administration both from a financial point of view and from a more strictly administrative one»*. In particular, the Court noted that the organisational reform, implemented in the years 2011–2013, had created an internal structure *«more consistent with the objective of strengthening the means and resources devoted to pursuing the institutional issues of supervision and investor protection»*.

1 The macroeconomic scenario and the financial markets

In Italy and in the other most vulnerable Eurozone countries, weak signs of recovery are emerging. Growth is instead being consolidated in advanced countries outside the area, which have benefited from strongly expansionary monetary policies.

The misalignment of the economic cycle between the United States and Europe also reflects the differences in monetary policy: the Fed is preparing for a gradual normalising approach, while the ECB is ready to activate, if necessary, a quantitative easing programme, in the event of significant downward revision of growth and inflation forecasts for the next two years. In the main emerging countries, instead, a slowdown in growth is being seen, which should nevertheless not have significant consequences on the recovery in advanced countries. The negative impact of the change in the Fed's monetary policy on the smaller emerging countries, as a result of the outflow of capital, seems less significant than expected.

The easing of tensions on the financial markets and the recent rises in share prices in the Italian market reflect a correction compared with the previous, overly pessimistic, assessments misaligned with respect to the fundamentals of companies. In 2013, the FTSE MIB index increased by 16.6 per cent and the total amount of trading was up by 12 per cent; from the start of the year, after a slight downward correction, share prices recorded an approximately 15 per cent increase, showing the best performance among the major European countries. In the same period, share prices in Spain and France increased by approximately 5.5 and 3.8 per cent respectively, while in Germany they remained substantially unchanged. The ratio of capitalisation to GDP in Italy increased by almost 5 per cent, reaching approximately 28 per cent.

This, however, is a fragile balance. Italy has made significant efforts to rebalance public accounts, based on rigorous policies to reduce current spending. It is now introducing the necessary structural reforms, the only ones capable, together with better market regulation, to affect the efficiency and competitiveness of the Italian productive system. There is, in fact, a series of opportunities that must be seized without hesitation.

It is not enough to act on public finance, if, at the same time, no determined action is taken as regards the factors repressing the competitiveness of the system. The listing of public companies, at both the central and the local levels, is an important sign of the willingness to reduce the sphere of public intervention in the economy and to open it up further to free enterprise and market forces. With the significant privatisations implemented in the 1990s, the stock exchange made an important dimensional and cultural leap. Today, all this could be repeated. Provided that

the privatisations are not a mere instrument to cover the need for financial resources, but, also thanks to the positive effects on the reduction of the debt stock, they represent a driver for the development and competitiveness of the markets.

In the Eurozone, more restrictive fiscal policies than in other advanced countries have curbed growth and employment. The possibility of achieving the objectives of the fiscal compact requires, on the basis of the current GDP growth forecasts, making primary surpluses higher than those recorded in the pre-crisis period. The spread has fallen significantly, but, as long as real interest rates remain higher than the GDP growth rate, the sustainability of public accounts is at risk.

The differences among European Union countries remain considerable. The unemployment rate has reached a very high level in the most vulnerable areas. For Italy, it came out at 12.7 per cent, while in Spain it is approximately double; in both countries youth unemployment is more than 40 per cent. The aggregate figure for Italy hides significant geographical differences, which show no signs of disappearing.

Besides the uncertainty on the speed of recovery and on the consolidation of public accounts, there remain the risks associated with the banks' high exposure in government bonds. The launch of the Banking Union and of single supervisory mechanism for large Eurozone institutions will be preceded by the asset quality review and by stress tests, aimed at checking the banks' ability to withstand extreme negative scenarios, which could reveal the need for additional capital hedging.

2 Financial union

Economic growth continues to be the basic problem.

A precondition for returning to growth is the efficiency and good operation of the financial system, which must perform its due function: directing investment towards production. A prerequisite for this is a clear, efficient and proportionate system of rules and institutions. This must be accompanied by action aimed at restoring investors' confidence in the ability of the markets and of finance to allocate resources in the most efficient way. This ability is one of the fundamental conditions for stable and long-lasting economic development.

Finance must put itself at the service of growth. It must facilitate and create development opportunities and enable people with ideas and talent to launch new business initiatives. It cannot be seen only as an element that amplifies inequality in income and wealth distribution. The excessive financialisation of the economy distances markets from their primary mission of supporting production. It accentuates the risks of

instability and serious systemic crises. The danger of speculative bubbles increases if the value of financial assets grows to offset the imbalances between the real and the potential product, imbalances which tend to be accentuated as a consequence of an ageing population.

To counter the distrust of the role of finance, legislators have given in to the temptation to approve ever more complex and detailed laws. In the United States, the Dodd-Frank Act, approved in 2010 following the financial sub-prime mortgage crisis and the bankruptcy of a number of large merchant banks, requires approximately 240 implementing regulations. Also in Europe the continuous flow of new regulations and directives, although it responds to acceptable purposes of harmonisation among sometimes very different legislations, risks creating a real 'regulatory puzzle', difficult to read and potentially an obstacle to coordination of the powers and responsibilities of the Authorities of Member States.

This legislative unwieldiness could cast a shadow over the role of controls and make the Supervisory Authorities less responsible. Rules which are too complex and highly detailed cannot capture all the exceptions and specificities connected with the evolution of the markets and financial innovation. They risk giving a formalistic imprint to the controls, impeding a substantialist supervisory approach. A new balance is therefore necessary between the level of detail of the rules and the sphere of discretionality of the Supervisory Authorities, capable of ensuring the effectiveness of both.

Legislative rationalisation and simplification are necessary primary objectives, which should lead to the creation of a real consolidated law in European financial legislation, easily readable for operators, in which to combine in a coordinated and structured manner all the directives and regulations on the securities markets, in accordance with the principle dear to Justinian for whom «in laws simplicity is preferable to complications» (*in legibus magis simplicitas quam difficultas placet*).

However, even simplifying and rationalising the rules, the real problem remains that of differences in supervisory practices among countries of the European Union. Competition among legal frameworks has been transformed into competition among supervisory systems. From an approach where you could choose the most advantageous legislation, the *à la carte law* system, we are moving today towards *à la carte compliance*, and competition among countries is increasingly based on competition among administrative and bureaucratic systems. This is the main challenge that awaits us in the future. It is in this field that the competitiveness of our financial system is played for.

The lack of uniform supervisory practices leads to a playing field which is not really level, making room for arbitrage among supervisory systems. In this way, we risk favouring countries with less rigorous approaches, rather than rewarding the more efficient ones.

From this point of view, Italy is a vulnerable country, owing to the widespread presence of small investors that operate directly in financial instruments without making use of the intermediation of a professional manager. The principle of the 'European passport' and of home-country supervision in the cross-border offer of investment services and products can enable intermediaries of European Union countries which adopt less restrictive approaches to offer riskier products more easily to domestic investors.

The most evident example is that of the European rules on prospectuses, which require all necessary information to be provided to investors so that they can arrive at a well-founded judgement on issuer's economic situation and the characteristics of securities. Despite an EU regulation which harmonises the contents of the prospectus, the national authorities still have wide discretionary margins. It follows that, in Italy, products compliant with the disclosure regime applied by Consob can circulate together with 'passported' products, subject to potentially more mild transparency regimes.

The European authority for financial markets (ESMA) has played an important role in facilitating the convergence of supervisory practices among national authorities and coordinating them to deal with cross-border activities. However, resistance remains high, given the different traditions and different degrees of development of the national markets, the innate resistance of the authorities to modifying their practices and the limited tools available to the ESMA itself. On the subject of supervision, in fact, the ESMA can only issue non-binding guidelines, subject to the principle known as 'comply or explain', verification of which is entrusted to a peer review mechanism among national authorities.

In an increasingly global and integrated capital market, decentralisation of supervisory responsibilities to a network of national authorities not only creates an unlevel playing field, but also makes it more difficult to intercept risk factors quickly. Only a wider perspective, at least at the level of the Eurozone countries, can guarantee adequate supervision of activities which are increasingly of a cross-border nature.

The experience gained in these last few years indicates that the most effective way to create real harmonisation and more efficient supervision is to centralise supervisory responsibilities at the European level. For this reason, the opportunity to place a similar institution for the security markets alongside the single supervisory mechanism, recently established to ensure supervision over the large Eurozone banks, should be assessed, thus creating a financial union, similar to the banking union model.

The launch of a financial union would entail, in itself, a rethinking of the fiscal approach of the single countries to investment earnings, in order to make it broadly uniform in the entire Eurozone. If this path is taken, there

will follow a fundamental step towards the construction of the true union of European countries that many people hope for.

The occasion to reflect on the possibility of creating a financial union may be provided by the launch of the revision process of the current architecture of the European System of Financial Supervision, based today on authorities which have almost exclusively regulatory duties (the EBA for the banking sector, the EIOPA for the insurance sector and the ESMA for the markets and securities sector), which should start from the second half of the year. On 11 March 2014, the European Parliament approved a resolution with which it invited the European Commission to present, by 1 July 2014, a bill for revision of the European System of Financial Supervision which would take account of the experience gained up to now.

The revision of the European System of Financial Supervision should make it possible to create a structure in keeping with a model which divides responsibilities according to the purposes of controls, distinguishing between stability, on the one hand, and transparency and correctness of conduct on the other (the twin-peaks model). This was a recommendation contained in the Larosière Report of 2009. It is a model now followed by many Member States and introduced, most recently, also in the United Kingdom.

The effects of such an approach would be positive also for the domestic legislation. The result would be a supervisory model fully compliant with the principle of specialisation according to purpose. On the subject of investment management and investment services – as well as insurance and pension products – this would make it possible to overcome a division of supervisory duties which is not always consistent with a model that distinguishes the purposes of transparency and correctness of conduct from those of stability, with the consequence of overlapping controls and unjustified costs for supervised entities.

3 Simplifying the rules

Consob has adopted, at the domestic level, a rule-simplification approach, in keeping with the aims illustrated above. It has proceeded to wide-ranging rationalisation of the secondary regulations, as far as compatible with the current legislative framework, in order to eliminate all additional obligations with respect to the provisions of the Community rules.

After in-depth consultation with the industry and consumers, two simplification packages were introduced. The first revised the documentation relating to extraordinary operations and take-over bids, streamlined the enquiry process for approval of prospectuses and simplified certain disclosure obligations on the subjects of internal dealing and acceptance of codes of self-discipline. The second package introduced further simplifications on the

subjects of judging equivalence of the offer documentation, price-sensitive disclosures, dissemination and storage of regulated information.

To complete this process it is necessary to completely reform the Consolidated Law on Finance, above all as regards corporate law and sanctions.

One of priorities is to revise the rules on internal controls: a system made up of a plurality of bodies (board of statutory auditors, financial reports manager, oversight committee, internal audit unit, control and risk committee) characterised by potential overlapping roles, which can create inefficiencies and unjustified costs for companies. Greater recourse to the monistic administration and control system, the one most widespread at the international level and preferred in the self-discipline initiatives of listed companies, could be a solution. To this end, it would be appropriate to assess the possibility of regulating it in a more precise manner with respect to the current framework, in which governance is conceived taking as its main reference the traditional model based on the board of statutory auditors.

The many legislative constraints that affect the composition of boards of directors (independent directors, minority directors, plurality of offices), many of which cannot be found in the legislation of other European countries, should make us think about the possibility of leaving more room for self-discipline initiatives and statutory autonomy. This would also be in order to enhance and strengthen the important role played for the market by the Corporate Governance Committee, made up of representatives of business associations, professional investors and Borsa Italiana, in aligning the code of self-discipline of listed companies to international best practices. The enhancement of self-discipline initiatives on the subject of corporate governance is in line with a recent European Commission recommendation, which highlights the need to strengthen disclosure on methods of adopting codes through the 'comply or explain' principle.

The provision in our legislation for the system of multiple-voting shares, accompanied by opportune mechanisms to strengthen minority shareholder protection, such as raising certain quorums at shareholders' meetings and sterilising votes in the event of a take-over bid, could be an important incentive to the listing and growth of companies. These shares in fact have features such as to be able to efficiently balance the need to maintain control with the need to develop.

The current arrangement of the system of sanctions pursuant to the Consolidated Law on Finance is inefficient at the level of dissuasiveness and timeliness of the sanctions.

The introduction of plea bargaining mechanisms, as happens in more advanced jurisdictions, together with deflation measures for minor offences and reward mechanisms for reporting suspicious transactions, could make it possible to ascertain offences much more rapidly, boosting confidence in the

certainty of rules and the warning effect of sanctions on the reputation of entities that carry out incorrect conduct. It is sufficient to think that today, more than ten years after the contested events, the legal dispute on the sanctions imposed by Consob in relation to the placing of Cirio bonds has still not been settled.

Sanctions should also be defined in relation to the company and the directors for infringements of the rules on related-party transactions. This would be an intervention in line with the provisions contained in the recent proposal for a directive on shareholders' rights, which requires adopting countries to introduce, in this context, an effective and dissuasive sanction system.

It may be useful to recall that the International Monetary Fund, in its recent assessment report on the Italian financial system, complained about the multiplicity and fragmentation of the provisions that give Consob powers to investigate on the subject of markets and issuers, recommending that they should be aligned to those provided for in the regulations on market abuse.

The occasion for implementing these interventions could be the EU law for the second half of 2013 (Draft Law No. 1836), currently under discussion in Parliament.

It is, finally, worth paying particular attention to the overlap between administrative sanctions and judicial sanctions in the context of the rules on market abuse. Implementation of the new European legislation, which establishes a harmonised system of administrative and judicial sanctions, must take into account the objections formulated in a recent judgement of the European Court of Human Rights on observance of the *ne bis in idem* principle.

The need to give full implementation to the new European provisions on market abuse – besides taking into due consideration the European Court's judgement – suggests a revision of the 'twin-track' principle, which characterises the Italian legislation on the subject. This revision must include a clearer division in the area of operation of the judicial sanctions and administrative sanctions, without necessarily renouncing the deterrence of the former and the speed and effectiveness of the latter.

4 Attractiveness of the Italian market

Foreign investors are coming back to invest in our market. These are large asset management companies, sovereign funds and non-financial companies interested in making important investments in our equity market.

Italy in fact is a market with savings that, in terms of quantity and quality, make our country comparatively more attractive compared with many other European partners.

These savings, if adequately channelled, can constitute an excellent tool for making pension funds secure and attractive, for financing infrastructure and for offering small and medium-sized enterprises the capital they need.

Savings, if adequately remunerated, can therefore perform the dual function of facilitating development and offering proportionate earnings to investors.

With reference to listed companies only, during 2013 companies in which foreign institutional investors hold a stake of more than the significant threshold (between 2 and 5 per cent depending on the class of investor) increased from 52 to 69. In addition, approximately 90 per cent of total equity investments held by institutional investors refer to foreign entities.

It is significant that many foreign investors hold stakes just over the significant reporting threshold for disclosure of the investment, a sign that could be read as a willingness to make non-speculative long-term investments. In order for the interest shown by investors to persist over time, the legislator and the Supervisory Authorities have the task of supporting the unfolding of market forces, favouring a competitive, open and inclusive environment.

On this point, we should look with interest at the French experience of introducing shares that provide for an increase in the number of votes depending on the period for which the securities are held (loyalty shares), in order to encourage long-term investment and a more active role of institutional investors in corporate governance.

The presence of foreign investors of a financial nature in the capital of listed companies must be interpreted as a positive sign of confidence in the Italian market. It indicates that, from a situation of undervaluation, the levels of share prices are gradually coming back into line with the fundamentals.

Foreign investors are essential for relaunching the Italian economy, strengthening the capital market and the competitiveness of the Italian economic system, especially when savings which are formed at the domestic level are not adequately channelled to finance the growth and internationalisation of companies and investments in new technologies.

There are many hindrances and disincentives that hold back investments. They act on different levels: from the labour market, to the possibility of obtaining rapid resolution of civil and commercial disputes, to red tape. Each new law should be assessed on the basis of an indicator of its

capacity to repel or attract investors. This is what Italian companies also need to start growing again.

The reordering of our legislative production must aim at preparing consolidated laws, formulated in simple and clear language, easily accessible also for foreign investors. In a fully competitive market, the existence of a clear and comprehensible set of laws constitute a decisive discriminants for investment decisions.

The simplification of tax rules can be an important instrument to make our economies more attractive, above all at a stage in which tax havens are in part becoming less interesting for investors. Tax rules must be outlined not only to meet revenue needs or to find financial coverage, but above all to create an incentives system which directs operators towards virtuous conduct and which protects Italy's competitiveness on the international stage. The revision of taxation on financial returns could be the occasion on which to rebalance total tax pressure, but also to design an incentives system which rewards long-term investment, above all for pensions, and facilitates the channelling of savings towards investment forms specialised in the financing of small and medium-sized enterprises. In keeping with this objective, we could consider the idea of introducing a system of progressive reduction of tax rates, according to the duration of the investment.

Greater harmonisation of rules and of the weight of fiscal pressure may make the European Union more competitive also in relation to investors resident in other geographical areas. This objective has not yet been achieved in the case of the Financial Transactions Tax (FTT), which has now been fully operational in Italian legislation for approximately six months.

Savings are a fundamental asset, not only because article 47 of Italian Constitution affirms so, but also because they represent the main tool for development and because they are provided and increased daily by millions of fellow citizens who, as Luigi Einaudi would say, continue to save in spite of everything. Moreover, the Italian savings industry, is one of the main strategic segments of our entrepreneurship, which must be assessed and 'weighed' on the basis of contribution that it offers to the formation of GDP. It is therefore a national industry to be supported with the aim of increasing collective welfare.

5 Financing growth

Loans to industry continues to fall, although at a slower rate than in the second half of last year. Bank loans to non-financial companies decreased at a rate of approximately 3 per cent on an annual basis. This was an even more accentuated contraction than that in 2009, the year in which the

sharpest drop in gross domestic product since the Second World War was recorded.

The financial crisis and the economic recession put the Italian credit system in difficulty; at the moment it is unlikely to continue to be – as it was in the past – the main channel for financing the economy.

The EBA's first stress tests, in July 2010 and July 2011, showed a situation of solidity for Italian banks, while from the third year of stress tests, carried out after the sovereign debt crisis worsened at the end of 2011, there emerged a shortfall of capital for more than 15 billion euro, mostly due to exposures in government bonds.

The capital increases carried out after this year helped to significantly reinforce the capital adequacy of Italian banks. New challenges await the sector (Basel III, Asset Quality Reviews, stress tests) and must be tackled in the coming months.

In any case, more traditional banking systems with assets that are more transparent and concentrated, as in Italy, on loans to businesses, government bonds and real assets, could be penalised.

The valuation at market prices of exposures in government bonds is discriminatory for Italian banks compared with those of other countries that have very significant, and no less risky exposures, in derivatives and structured securities. For these instruments, as there are often no active markets, it is not possible to estimate precisely the potential losses. Paradoxically, exposures in derivatives and illiquid securities, which were at the origin of the financial crisis, are treated less severely in the assessment of capital adequacy. In addition, the criteria used to identify the sample of banks subject to the stress tests in different countries are not always uniform.

The separation between commercial bank and investment bank, in addition to reducing risks of contagion and systemic crises, would make the process of assessing the capital adequacy of banking systems more transparent and less discriminatory, facilitating the move to a 'for-purpose' supervisory model at the European level.

With a view to the outcome of the stress tests, Italian banks have announced significant capital reinforcement plans. It is reasonable to believe that the resources deriving from capital increases will strengthen capital coverages against growing non-performing loans and exposures in government bonds or, at least, raise the capital ratios to levels judged to be more suitable by the stability regulators. The effects on the overall stability of the financial system will be positive, but the impact on growth will be affected by the further shrinking of the margins necessary to support the granting of new loans to firms.

As in other advanced countries, in Italy the capital market is bound to take on a polycentric character. While the equity and bond markets should

have much more significant weight, other innovative forms of non-banking intermediation are developing. These are aimed at establishing closer links between savings and businesses. I refer, in particular, to the collection of venture capital on web portals (crowdfunding), to direct loans between private parties (peer-to-peer lending), to investment funds that disburse loans to businesses (credit funds), and to the issuing of bonds by unlisted small and medium-sized enterprises (mini bonds).

To return to growth, it is necessary to promote the development of alternative financial intermediation channels, other than the banking channel. In particular, it is fundamental to develop the security market.

This is a process in which many different factors come into play: the level of investors' and entrepreneurs' financial culture, the presence of institutional investors that act with a non-speculative long-term view, a high degree of competition and opening up of the financial services and asset management market.

Some recent legislative changes have pursued the aim of stimulating the financing of small and medium-sized enterprises through activating non-banking channels. The tax benefits for subscribers of 'mini bonds', alongside the statutory and fiscal subsidies for the unlisted companies that issue them (considered equivalent, from this point of view, to listed companies), represent an important incentive for encouraging forms of direct funding on the market.

This issue is indicated as a priority also by the European Commission and on which we are seeing a partial redefinition of the regulatory approach. This reflects a more attentive sensibility to the issue of growth and financing of firms, above all those small and medium sized. Evidence of this is a series of EU legislative changes which, in the framework laid out by the directive on alternative investment funds, stressed the issues of development of venture capital, social entrepreneurship and long-term investments.

These regulatory initiatives take on significant importance in the light of the considerations presented earlier. They make it possible, in fact, to facilitate the development of specialised institutional investors with long-term viewpoints, which can perform a significant role in channelling household savings more effectively towards small and medium-sized enterprises. The creation of this category of professional investors in Italy should be supported by public policies.

Consob has been engaged, for quite a long time now, in relaunching the security markets.

Last year the *PiùBorsa* project was launched, as the leading market operators signed a Memorandum of Understanding containing undertakings and measures aimed at promoting a common line of action for developing the national securities market.

The objective is, on the one hand, to assist and facilitate small and medium-sized enterprises in the process of opening up to the venture capital market and, on the other, to increase the interest of institutional investors in these companies.

To this end, action was taken in several closely-related areas.

First of all, action was identified for legislative simplification capable of reducing the burden of red tape connected with the listing process and the subsequent stage of remaining on the market. These are, in some cases, permanent simplifications and, in other cases, temporary simplifications, that provide for a grace period needed to guarantee acclimatisation to the rules that characterise listing in a regulated market. In particular, it is worth noting the measures that affect the contestability of control to facilitate the opening up of the ownership structures and those, which I mentioned earlier, simplifying the internal audit system and removing the ban on issuing multiple-voting shares.

Attention was paid to the fundamental question of developing adequate demand of institutional investors operating on newly listed securities, in particular small caps. The development of an efficient equity market, especially for smaller companies, requires in fact the presence of a stable nucleus of long-term investors and of specialised asset managers.

The creation of a 'fund of funds' which, in a medium/long-term time horizon, invests, according to market logics, in specialised vehicles or in existing or newly established Italian small caps, could be the most effective tool for aggregating resources and professional skills devoted to the market of small and medium-sized enterprises and stimulating, in this way, adequate demand for shares.

A specific web window has been made operational on the Borsa Italiana website, through which market operators can publish specific agreements to make the access route to the market more economical and transparent. More than 25 operators (including investment firms, audit firms and law firms) have already joined the initiative.

The gradual increase of new listings testifies the renewed interest of entrepreneurs in the stock exchange. In 2013, there were 16 new listings, the highest number since 2007, which enabled Italian companies to collect resources for 1.3 billion euro. In the first quarter of this year, there were five more listings. Many of these companies, especially if they are small, choose to list their firm in the multilateral trading system *Aim Italia*, which is gradually establishing itself as the reference market for small companies. The capitalisation of *Aim Italia* doubled during 2013 and, at the end of March, it had reached approximately 1.6 billion euro, with 41 listed companies. Since its foundation, *Aim Italia* has enabled companies to collect more than 400 million euro of capital.

For 2014, there are at least ten companies which have already expressed their intention to list on the Mercato Telematico Azionario (MTA market).

These are encouraging figures, which lead us to believe that the current economic situation may be considered a turning point.

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Authorities, Ladies and Gentlemen,

As Isocrates remind us, «*nothing in the world can contribute so powerfully [...] to happiness, as virtue and the qualities of virtue*». Happiness and virtue are therefore an indivisible hendiadys. To obtain happiness, we need to be virtuous and, at the same time, happiness is an expression of virtue. Those invested with responsibilities in pursuing the public interest are required to direct all their actions towards 'inducing' others to behave virtuously and whoever adopts such conduct can legitimately aspire to happiness.

The Authorities supervising financial markets have increased their control activity, as the economic situation has gradually become more difficult and the traditional rules have proved to be insufficient to bring conduct in line with the new needs imposed by the situation. Thanks to this approach, domestic but not only, the speed of change on the markets has increased. Today, conscious of the effects of a crisis that has still not been overcome, we can build the future with greater awareness.

Every single action taken by policy makers, while an approach of growing rigour is being implemented, is aimed at increasing individual and collective happiness. The primary duty of every public decision-maker is to encourage and protect savings, attract capital, make the markets grow and open up, and enable each individual to set free the energy he or she has available, in an open and inclusive society. In a word, to offer everyone the concrete possibility of achieving a better future.

To this end, all our energies are devoted.