Annual meeting with the financial market

Speech by the Chairman Giuseppe Vegas

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CONSOB

Commissione Nazionale per le Società e la Borsa

Speech by the Chairman to the financial market

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הוּא הָיָה אוֹמֵר, אִם אֵין אֲנִי לִי, מִי לִי. וּכְשֶׁאֲנִי לְעַצְמִי, מָה אֲנִי. וְאִם לֹא
עַכְשָׁיו, אֵימָתַי:

"If I am not for myself, who is for me? But if I am for my own self only, what am I? And if not now, when?"

(Talmud, Rabbi Hillel, *Pirkei Avot, I.14.*)

Authorities, Ladies and Gentlemen,

In the collective imagination, Universal Exposition has always represented the meeting between peoples and higher knowledge. From the enlightenment perspective of an unlimited progress, we have now come to a different perspective, more consistent with the present world, of shared 'knowledge' applicable to solving the great dilemmas of our time and humanity.

Milan past and present is an extraordinary example of coexistence and integration of technical-scientific knowledge, industry and finance, culture and art. Post-war Milan was able to rise from the rubble, maintain its identity and become great due to the audacity and inventiveness of its political, economic and cultural figures.

Public capital companies and private firms at the origin of the 'Italian economic miracle', largely born and developed in this territory, have radically changed in recent years. Today, Milan has all it takes to give the country an extraordinary push towards the future. Its reactions to the events of the past few days also demonstrate this.

As the President of the Republic, Sergio Mattarella, to whom our best wishes go for the start of the seven-year term, recently said, Expo is ‘a great chance and a valuable opportunity for the country as a whole.

I would like to express my and the Commission's deep gratitude to Giuseppe Sala, Sole Commissioner of Expo, for hosting our annual meeting with the market.

1 Consob activity

In the last few months, there have been some important changes to Consob's internal structure.

In July 2014, Anna Genovese was appointed as a member, bringing her competency and experience to Consob. The appointment procedure is underway for the other two members who will complete the board.

At the beginning of the year, Gaetano Caputi resigned as Director General and Angelo Apponi, to whom we wish every success, was appointed to replace him.

The Commission is paying more and more attention to operational efficiency and cost containment profiles. In advance to the public sector reform, Consob made substantial savings, which led to a 12 percent reduction in the overall budget between 2011 and 2013, also taking into account that the transfers by the State were completely eliminated as a result of the spending review provisions.

In 2014, the decrease in spending continued, amounting to 112.3 million euros, down almost 2 percentage points compared to 2013. Overall, since 2011, spending has fallen by around 14 percent. This result was achieved despite Consob's financial contribution of 2.17 million euros to other independent authorities, introduced by the 2014 Stability Law. Supervisory contributions were substantially in line with 2013, amounting to 99.9 million euros. The slight increase, compared to the 98 million euros recorded last year, is largely attributable to the aforementioned contribution to the other Authorities.

The spending trend is positively affected by the rationalised use of resources carried out in recent years (in the management and maintenance of buildings, rental of service cars, databases and publications) and will benefit from interventions already planned, which the Board of Auditors, responsible for controlling Consob's financial management, acknowledged positively.

These initiatives will lead, among other things, to further savings in real estate spending. Today the headquarters in Rome consist of a single owned building, where all the activities previously housed in a rental property have been relocated. The City of Milan offered the Commission a building adjacent to the Milan headquarters, which will allow overall rental costs to be reduced. The Commission is grateful to Mayor Giuliano Pisapia for his attention and sensitivity to Consob's institutional activities.

Other positive effects on containing spending will result, in implementing the public administration reform, from the conclusion of an agreement with the Italian Antitrust Authority for the joint management of certain internal services and an agreement with other independent authorities for the joint execution of competitive procedures to recruit staff.

Consob's new website is now operational. It has been redesigned to make the information assets in Consob's databases available to the public and the entire financial community - starting with the regulatory acts - in a structured and easily accessible form. For supervised entities, the website will be an efficient tool for sending documentation in digital form and, for investors, an important channel of financial education, through dedicated interactive areas.

In a ruling delivered in March of this year, the State Council affirmed the compatibility of Consob's regulation on sanctioning proceedings with the principles of fair trial established in Article 6 of the European Convention on Human Rights (ECHR). Howevery, the ruling, originating from an appeal against a market abuse complaint, revealed that it is appropriate for those who are the subject of a complaint to be able to respond to the findings of the Administrative sanctions office. To this end, Consob has already put under consultation regulatory amendments aiming to further strengthen the adversarial process.

In 2014, 160 sanctioning proceedings were completed. In line with last year, 140 ended with sanctions being applied. The total amount of fines was approximately 21 million euros.

2 Economic situation

In the first half of 2014, European stock markets performed positively, in line with those of the US market, while in the second half of the year the performance of the stock markets was negatively affected by the weakness of the economic recovery, the worsening of tensions in Ukraine and political uncertainty in Greece.

The positive market trend in the first part of 2014 favoured listing new companies on all major stock exchanges in advanced countries.

In Italy 26 new companies were listed (10 more than in 2013), of which 5 on the main market (Mercato Telematico Azionario MTA market) and 21 on Aim Italia. The participation of retail investors in offerings aimed at listing increased, with a share reserved to the public rising from just over 7 percent in 2013 to around 17 percent in 2014. However, the role of institutional investors remains dominant.

At the end of 2014, capitalisation was 28.4 percent of GDP, slightly higher than at the end of 2013 (27.9 percent). In the same period, listed domestic companies increased from 278 to 293 (+ 5.4 percent).

The programme to purchase government bonds, known as quantitative easing, launched in March 2015 by the European Central Bank (ECB), aiming to combat deflationary pressures, led to a radical change in the expectations of operators and financial markets.

Since the beginning of the year, share prices in Italy have grown by 22.6 percent compared to 19.4 percent in Germany and 19.1 percent in France. The indexes are now above the values recorded before the sovereign debt crisis that exploded in the summer of 2011, but still about 40 percent below the levels reached in 2007, before the financial crisis culminating in the bankruptcy of Lehman Brothers. The failed recovery from the pre-crisis levels, already reached and abundantly exceeded in Germany, is largely due to the negative performance of the banking sector, whose weight on our listings is higher than in other European countries.

The ECB's action consolidated expectations of a possible rapid reversal of the cyclical phase and strongly dampened the perception of sovereign risk, especially for the peripheral countries of the Eurozone. However, the fear remains of possible contagion effects from renewed tensions in Greece.

Quantitative easing led to an unprecedented decline in interest rates and yields on government bonds, which will reduce spending on debt service and make it easier for countries with greater public finance imbalances to implement deficit reduction measures.

At the same time, the enormous liquidity on the stock markets contributed to a sudden rise in the value of share prices. In particular, the growth in the price/earnings ratio could signal that speculative bubbles are emerging.

The combination of favourable macroeconomic conditions should lead to a recovery in consumption and investments and reactivate demand for credit. The transfer of sovereign securities held by banks to the ECB will free up resources for the real economy and expand lending to the private sector. This effect could be very significant in countries such as Italy and Spain, where domestic government bonds at the end of 2014 amounted to around 10 percent of bank assets.

The positive performance of the stock market made significant recapitalisation operations possible by Italian listed banks. The capital strengthening process was part of the Asset Quality Review (AQR) and the stress tests preparatory to the entry into force of the Single Supervisory Mechanism (SSM).

The launch of the SSM, with the ECB assuming direct responsibility for prudential supervision, led to further capital adequacy measures. The ECB made assessments on the 2013 and 2014 balance sheet data, taking into account the capital strengthening operations carried out in 2014. The structural soundness of the Italian banking system emerged.

It should be recalled that Italian banks increased their assets almost exclusively through private investors, while the banking systems of some large European countries benefited from significant recapitalisations with public resources (250 billion euros in Germany, 60 billion euros in Spain, 50 billion euros in Ireland and the Netherlands, just over 40 billion euros in Greece, 19 billion euros in Belgium and Austria and 18 billion euros in Portugal; in Italy, public support amounted to around 4 billion euros).

The transformation of the major cooperative banks into public limited companies will not only have a positive impact on their governance structure, but will also grant them easier access to the capital market, with a view to possibly further strengthening their capital base and new mergers. This will make the banking market more transparent and competitive.

A significantly tightening of banks' capital requirements rules would result from the introduction in 2017 of the requirement to hold capital and debt instruments capable of absorbing significant losses (so-called Total Loss Absorbing Capacity - TLAC). This is a regulation that could disadvantage our banking system, because it is relatively more expensive for domestic banking groups characterized by the absence of a non-operating holding.

Extensive consideration is needed on the current tendency of regulation to focus almost exclusively on stability profiles, neglecting the effects that this approach may have on economic growth and the efficiency of the financial system.

Excessive attention by European regulators to stability profiles can introduce new and different risks in financial markets, leading to reduced productive activity. In fact, in case of stricter rules on stability, companies with a lower credit rating are unable to access bank credit and have to give up investing or resort to the market. Therefore an adverse selection mechanism could be created, which brings the least solvent companies to the market with the risk of causing investors to flee to other financial systems.

The search for stability had a cost, which had to be borne in order to avoid greater damage. But now it is time to reflect on the causes of the lack of development of European economies and ours in particular.

In our country, the amount of corporate credit has decreased by approximately 10 percent since 2011; in the same period GDP fell by 4.8 percent.

The gap in the costs and conditions to access credit for companies in the various Eurozone countries also remains wide. The spreads are greater for small and medium-sized companies (SMEs), with consequent negative effects in countries, such as Italy, where SMEs represent a significant share of the entire productive system. In 2013 it accounted for around 70 percent of added value (compared with 58 percent at European level) and 80 percent of employment (67 percent at European level).

3 Listing of companies

The regulation of charges linked to the status of listed company is one of the most sensitive issues in financial market regulations.

A detailed analysis is needed on how to define a system of incentives for companies, which addresses the objective of promoting the growth of the stock market while maintaining an adequate level of investor protection.

In fact, the stratification over time of regulations of various kinds, not always strictly or directly related to investor protection, resulted in a system of incentives that, by unjustifiably raising the regulatory gap between companies, according to whether or not they are listed, tends to reward the choice of remaining outside the stock market. Differentiated treatments act as a disincentive to listing and thus end up by undermining the interest of investors and the economy as a whole.

The purpose of the rules should be to encourage entrepreneurs to seek transparency and submit to market scrutiny, in the knowledge that this is a rewarding choice for their companies, as many successful cases have shown.

Consob, as part of the *PiùBorsa* project, has long since started, together with the main market operators, an in-depth analysis on the possibility of defining rules aimed at satisfying this objective.

Some of the proposals contained in the project have been taken up by the government under the 2014 'competitiveness decree'.

Firstly, the ban on issuing multiple voting shares was removed. Multiple voting shares can be an incentive for listing and growing companies, because they balance the need to maintain control with the need to strengthen capital. This option is gradually gaining ground.

Consob amended the Issuers' Regulation to adapt the rules of the takeover bid and relevant shareholdings to these new instruments.

Secondly, again on the subject of takeover bids, provision was made for the possibility for small and medium-sized companies to define, by provisions of the articles of association, a mandatory takeover bid threshold other than the ordinary 30 percent (within a range of between 25 and 40 percent). The greater flexibility allows more freedom as to the degree of contestability that the company sets itself as an objective and, therefore, allows smaller companies to access the stock exchange without being subject to the rules valid for larger companies.

The disclosure requirements for small and medium-sized companies shareholdings were increased from 2 percent to 5 percent. This reduces the administrative burden and gives investors an incentive to participate in the capital of these companies.

Finally, the competitiveness decree introduced tax relief for companies listing on a regulated market or applying for admission to a MTF, increasing the deduction provided for in the Ace (Aid to Economic Growth) by 40 percent.

An additional topic of reflection is that of internal controls in listed companies. The current set-up is the result of regulation stratified over time, which generated a complex and costly system. There are at least five bodies or functions involved (the board of statutory auditors, internal board committees, the internal audit function, the supervisory body referred to in Legislative Decree 231/2001, the manager responsible for preparing the company's financial reports) without the possibility of grading the organisational structure according to the size of the company. It is a system that leads to high compliance costs, not guaranteeing greater capacity in the prevention of illegal or even inefficient conduct.

Also the issue of applying international accounting standards to the financial statements of listed companies could reasonably be addressed.

More generally, it is necessary to facilitate the use of alternative governance and control models, monistic and dualistic, established and known in the main advanced countries. One of the reasons for their scarce use is that our Civil Code does not provide for an analytical discipline on the subject, while it makes extensive use of the reference to the traditional model, making it particularly difficult to deviate from it.

Finally, the rules governing the powers of the Board of Directors should be reconsidered and specific rules on their functioning, tasks and internal organisation should be laid down. This would avoid concentrating within the board the functions of top management, strategic supervision and operational management and a large part of the controls, without allocating these functions among its different components in a clear and detailed way.

4 Investor protection

When there is a shift from a bank-focused financial system to a system where markets play a growing role, it is crucial to strengthen investor protection, because in such case a direct relationship is established which excludes bank intermediation.

In a context of low interest rates, the appetite for high returns can lead investors to subscribe to highly complex and non-transparent financial products. Non-professional investors are not always able to fully assess the price adequacy and risk profile of this type of product.

With communication of December 2014, Consob adopted an action strategy to protect investors based on identifying an illustrative list of financial products with high complexity and opacity, which by their nature are not suitable for retail investors. Since current regulations do not yet allow a direct placement prohibition for these products, Consob, anticipating the aims of the next product intervention regulation contained in the new MiFID package, has placed explicit constraints on their distribution.

These products can only be distributed by following specific precautions. They consist in the issuer fully assuming responsibility; adopting safeguards for purchasers; the explicit indication of their danger for non-professional investors and, finally, the indication that Consob advises against their purchase by retail investors.

Of course these are safeguards that do not eliminate the need for investors to always be fully informed and aware of the characteristics of the financial products offered to them.

To this end, financial education is one of the cornerstones of the investor protection strategy and is essential to increase the effectiveness of supervisory action.

A public policy of financial education helps to make investors aware of their investment choices and remedies in the event of fraud and deception.

Consob launched an investor education plan that features the identification of different types of recipients (retail investors, trainers and students) and the use of two main disclosure tools: the new financial education internet portal and training through lectures and seminars in schools and consumer associations.

Cooperation with consumer associations, with extensive operational structures throughout the country, has been and will be increasingly important. A training cycle for their contact persons (so-called ‘training the trainers') was launched to help them update themselves on financial issues. The direct communication channel with the Commission will increase investor awareness.

But more can be done. Another step forward is needed to ensure substantial protection. There is a need to reform the current system of out-of-court settlement of disputes concerning financial contracts, according to the Banking and Financial Ombudsman model, which focuses on the mandatory membership of intermediaries.

The new system could allow for a faster and more efficient settlement of disputes, better protecting investors and lowering litigation with the ordinary courts.

The transposition of MiFID II could be an opportunity to move in this direction.

5 European regulatory framework

A major review of the main European financial market directives has just been completed. The debate is now in the national parliaments. In many cases, Consob has anticipated the content and focused attention on issues that were later incorporated into the new EU regulations.

The recent review of the MiFID framework (MiFID II and MiFIR), already approved at European level and scheduled to enter into force in January 2017, gives Supervisory authorities a direct power of product intervention, which will allow them to prohibit or restrict the dissemination of financial products and commercial activities that pose risks to investor protection, the orderly functioning and integrity of markets and the stability of the financial system.

On 8 May, the Council of Ministers definitively approved the delegated decree implementing the Solvency II directive, confirming Consob's supervision of financial-insurance products and also granting it the relevant product intervention powers.

As already mentioned, these are new developments in line with the measures already adopted by Consob regarding the distribution of complex products.

The same process of review of the MiFID directive led to the introducing, for the first time in Europe, a set of specific rules on algorithmic and high frequency trading, on which Consob already intervened to mitigate the possible negative effects in terms of market integrity and orderly trading.

With reference to the new European directive on market abuse, the legislation requires Member States to combine, for serious misconduct, administrative sanctions with appropriate criminal sanctions, i.e. - and this is the most important innovation - opt exclusively for criminal sanctions.

Providing for a dual system of sanctions (administrative and criminal) for the same acts may not be compatible with the principles laid down by the European Court of Human Rights (ECHR) on *ne bis in idem*. The legislator will have the task of establishing a possible dividing line between the most serious and wilful conduct, to be subject to criminal sanctions, and other violations, punishable by administrative sanctions. Without prejudice to Consob exercising the investigation powers provided for by the Consolidated Law on Finance (TUF) and the consolidated and beneficial coordination with the judiciary.

Still on the subject of sanctions, a few days ago the government definitively approved the legislative decree transposing the Directive on capital requirements for banks and investment firms (CRD IV) in which, as long hoped for by Consob, it ruled out the imposition of sanctions for trivial violations (non-serious violations in which there is, moreover, an absolute lack of prejudice to protecting investors and the market).

The new Transparency directive may provide an opportunity to review the reporting threshold for major holdings, currently set at 2 percent. This threshold could be aligned with that of the main European countries (3 percent), maintaining the facilitated regime for SMEs (5 percent), or it could be raised for all companies to the level established by the directive (again 5 percent).

In addition, the same Directive allows Member States to remove the obligation to publish the interim management statement (so-called 'quarterly report'), an option that the EU legislator wanted in order to reduce the administrative burden for listed issuers and to move towards a longer-term performance assessment. The obligation to prepare a quarterly report should be graduated according to the size of the companies and the real information needs of the market, also taking into account the choices made by the other Member States.

The Community regulatory framework will be enhanced by further important initiatives.

The most relevant concerns the proposal for a Regulation on separating commercial and investment banking (‘Proposal for a Regulation on structural measures to enhance the resilience of credit institutions in the European Union’). It requires those banks that exceed certain size thresholds (total assets exceeding 30 billion euros for at least three years and trading activities amounting to at least 70 billion euros or at least 10 percent of total assets) or, in any case, those of systemic importance (identified by the national authorities responsible for prudential supervision) not to engage in proprietary trading in financial instruments.

The discipline is designed to prevent the risks arising from trading activity from being reflected in the typical activities of collecting and using savings and to prevent low-cost funding through deposits, which benefits from specific insurance instruments in favour of investors, from being used to finance speculative transactions.

This is a very important reform proposal. The objectives may be fully acceptable, but the impact on domestic banking systems must be assessed very carefully, taking into account the possible resulting costs, also in light of the limited trading activity of domestic banks, compared to that of their foreign competitors. Otherwise, the new rules could put Italian banks at a competitive disadvantage.

6 Financing SMEs

Returning to the issues of the real economy, for businesses today it is crucial to activate alternative financing channels to bank credit.

In continental Europe and, therefore in Italy, the funding of companies derives almost completely from banks. Only the largest companies - and some small but 'brave' ones – rely directly on the market. Most through the stock exchange; others through corporate bonds or private equity funds.

Even before the crisis, it could have been understood that this was not an efficient system. Looking across the ocean would have sufficed.

The situation has not changed in recent years. At the end of 2013, bank loans to non-financial companies in the United States accounted for only 4 percent of GDP, while in the Eurozone they reached 45 percent and, in Italy, 52 percent. This data is sufficient to highlight an anomaly that has been underestimated, in the belief that the European banking system was substantially more solid and capable, on its own, of ensuring the development of the economy. On the other hand, diversified sources of financing and mutual competition are essential to ensure that the productive sector has adequate and stable supply of capital over time. Relying exclusively on one channel means being tied too closely to its cyclical trends.

A circumstance that has very frequently occurred. While it is true that the overall soundness of the European banking system has been ensured, also through public intervention, it was necessary to adopt specific prudential measures to prevent future systemic crises and preserve investor confidence in the banking system.

These indispensable measures - which led to a series of tightening and subsequent reviews of banks' capital requirements - inevitably led to restricting credit flows to the production system. In fact, granting credit to companies that were not adequately solvent would have negative effects in terms of capital absorption for the lending institution.

An examination of the financial statements conducted by the prudential Supervisory authorities clearly showed that one of the weaknesses of our banking system was the high weight of non-performing loans (about 10 percent of loans). A weakness that amplified with the continuation of a negative cyclical phase.

Therefore the answer to the problem of business financing can only be to work towards a market that is more similar to the American model, where the financial sector tends to have a weight equivalent to that of the banking sector.

Only a market with a better balance between banking and finance can fully play the role of an advanced economic system's development engine. This lack of balance is certainly not due to a lack of private financial resources. Italy is still one of the countries with the highest rate for household savings, even when compared internationally. According to the latest available data, total household wealth is about 4 times the country's public debt. Net of real estate, it is equal to twice the amount of national GDP. The OECD estimated that in 2012 net wealth was 8 times the gross disposable income. This level ranked second among the G7 countries.

Therefore there would be room to develop the capital market in our country.

All the more so today, in a context in which yields on government bonds and deposits have fallen sharply to the point of becoming negative in some cases. Investment in fixed income securities, when it is made through investment management products, is often not remunerative, also due to a fixed fee system.

Investors are looking for more profitable ways of using savings. Figures on mutual fund inflows in Italy in the first quarter of the year, which were positive by 36 billion euros, showed a renewed interest in investment management instruments. This applies to venture capital investments in particular. In fact, compared to negative equity fundraising for 186 million euros in the last quarter of 2014, the first three months of 2015 saw a reversal of the trend with a positive figure of about 5 billion euros.

To enable investors to make rational diversification in their portfolio choices, they need to be offered a well-developed financial market. This goal cannot be achieved unless we proceed resolutely and rapidly along the reform path we have embarked upon, first and foremost by extending at European level the path of regulatory simplification long under way at national level.

To this end, Consob identified a number of possible changes to the EU regulations capable of easing the regulatory burdens to which SMEs are subject. For example, in the field of public offers for subscription or sale, prospectus schemes with extremely simplified content could be envisaged for all offers of securities already listed on regulated markets or MTF (Multilateral Trading Facilities). Consideration could also be given to the possibility of allowing SMEs to make a statutory opt-out with respect to the discipline of the mandatory takeover bid.

In any case, in order to settle the problem of financing SMEs, it is necessary to look for the causes and some basic considerations must be taken into account.

Even if more companies could be listed, there would still be a need to ensure an adequate level of liquidity in the market. Liquidity that would guarantee price stability and greater consistency with the company's core values.

This critical issue, which entails a strong disincentive to listing, may be overcome, as proposed, through a system of funds, pivoting on a 'fund of funds' able to collect from primary institutional investors resources to be channelled into investment instruments dedicated to listed SMEs, in order to guarantee an adequate volume of exchanges.

It is a financial instrument aimed almost exclusively at a professional clientele. Therefore it becomes crucial that the 'fund of funds', similarly to what happens in other countries, involves the participation of pension funds in particular, which have medium-long term investment objectives. The time necessary to achieve an adequate return in this sector.

In Italy, the role played in the stock markets by pension funds is still too small. According to the latest OECD data, the investment of Italian pension funds in shares is about 20 percent of total investments, compared to an average of about 40 percent in OECD countries and 50 percent in the United States. Considering direct investments in Italian equities only, this figure is less than one percent.

A portfolio composition more oriented towards equity markets, which have higher development potential, may result in higher returns on pension products. This is crucial to protect the expectations of future generations. In this respect, adopting portfolio choices that are consistent with the investment horizon and the investor profile, involving risks in proportion with a long-term commitment, seems extremely important.

7 European agency for SMEs

Easy and low-cost access to reliable, standardised and clear financial information on the economic and asset situation of SMEs is essential to enable investors to channel resources to unlisted SMEs, thus developing an efficient capital market. Under EU rules, unlisted SMEs are not required to have their financial statements certified by an independent auditor or to apply IAS/IFRS international accounting standards. This approach is consistent with the need to adjust compliance costs to the size of the company, but has the consequence of making financial reporting on SMEs highly uneven across Europe and of a quality that is not adequate to the investors' knowledge needs.

Essentially, even for the most sophisticated investor, access to SMEs' financial data and their valuation may be too expensive compared to the returns expected. This is a case of 'market failure', due to the fact that the costs of producing information are difficult for small companies to bear. Only the intervention of an entity able to operate on a European basis in a centralised manner can achieve those economies of scale that are indispensable to allow everyone to use the information set necessary to guide investment choices.

A European agency for financial information on SMEs could be an excellent answer.

The Agency would ensure the collection and disclosure of economic and financial information on European SMEs through a single public information system. This would make the broad spectrum of financial investment opportunities in Europe's real economy visible to European and international institutional investors. It would facilitate matching demand for financial assets from investors and supply from small and medium-sized companies desiring to finance their development projects. This would create a sort of showcase for SMEs that want to open up to the capital market.

In particular the city of Milan and the Expo site are the ideal place to set up the agency.

Milan is the heart of Italian manufacturing; the country's financial centre; home to internationally renowned universities and research institutes. Therefore it has the natural vocation to host a knowledge hub to support businesses and investors.

Expo's infrastructure could also offer the ideal functional and organisational space to host a European hub of professional services dedicated to SMEs and innovative start-ups, able to support companies in the start-up process and phases of the company's growth in size and in the international markets.

Today Milan can and must represent the new frontier of development, be able to attract the country's best and brightest and equip itself to become a financial hub at a global level.

8 The Capital Markets Union

2015 is a turning point. The institutional process that gave rise to the banking union has been completed and the

European Commission announced the Capital Markets Union project.

This is a radical change in approach.

Today Europe appears as an unattractive geographical area for investors from other continents. In particular, in Italy such investors are mainly interested in acquiring controlling stakes in the industrial and real estate sectors. There is little interest in purely financial investments and this represents a limit to the development potential of our capital market.

The European Union, while representing one of the most advanced and wealthy areas in the world, is still pursuing true economic and financial integration.

There is still a strong tendency for individual Member States to exploit the room for discretion left by the EU legislator to their sole advantage, without implementing a common strategy to strengthen the Union's competitive position towards other geographical areas. This has led to regulatory uncertainties, opening spaces for arbitrage between legal systems, responded to by increasingly detailed and complex rules that are holding back foreign investment.

In this way, a jungle has formed where it is dangerous just to step into.

What makes the situation more complex is the fact that the European Union, given an increasingly extensive legislative power exercised in recent years, does not have strong powers to monitor the implementation of the rules at national level.

Implementing the banking union represents the first real coordinated and rational response to these issues. The provision of a single supervisory mechanism, together with a system of common rules, could eliminate any form of arbitrage between systems at their root.

With the banking union, the parochial approach, characterising many areas of European banking life, has been definitively left behind. Above all, it has given investors new confidence in the solidity of the big banks in the Eurozone and in the very survival of the common currency.

The process was not painless. As mentioned, it has led to strict policies to strengthen the capital base of the banking sector, but it has shown a way forward, also with reference to the financial markets. The Banking Union is only the first step in this direction. But, as often happens, the first step is fundamental. The one that changes trends.

The banking union is not in itself a complete and definitive harmonisation process. In order to really level the playing field, it is necessary to intervene on many other areas of regulation that persist in the credit market, starting from statutory and bankruptcy rules. Institutional and operational differences in the organisation of the judicial system, which affect the time and complexity of debt recovery procedures, also create disparities between legal systems, possibly affecting the choice of country where to start a banking business.

If the ultimate goal is to have a regulatory and institutional system capable of supporting economic activity, the banking union can only be part of a broader design, aimed at promoting all the different forms of financing productive activities. That is why we can only welcome the European Commission's initiative that, in order to implement the principle of free movement of capital more effectively, decided that the time had come to launch the project of a truly integrated capital market union.

The green paper, containing the Commission's proposals and currently under public consultation, sets a very ambitious objective: to facilitate the financing of businesses, especially small and medium-sized companies (SMEs), by opening up access to the financial market for them and allowing for greater diversification of financing sources.

For the first time in an official document, it is noted that the mechanisms we were accustomed to using in order to promote economic development no longer work. The crisis has changed the face of the banking system, which can no longer be the traditional financing instrument we were used to relying on.

Europe has identified the financial market union as the entity to take on this task in the future.

This choice cannot be reversed.

With a consequence. Stable economic development can never be achieved by a single financial market confined in a purely national context, even if it is wide and sound.

It is necessary to build the critical mass that can only be offered by the entire European market.

To this end, the various parties involved in financing production activities will have to be subject to uniform regulatory and supervisory discipline. This can be achieved by abolishing the areas of discretionary implementation of regulation by individual states and the differences in their supervision and enforcement methods.

A system of rules and supervision decided upon and coordinated at European level is the only instrument capable of achieving both investor protection and market competitiveness at the same time. In this way, the risk of some countries free riding to the detriment of others would be avoided, preventing more permissive jurisdictions from benefiting from competitive advantages.

To accompany this process, it is necessary to start from drafting a real European Consolidated Law on Finance, which codifies in a single source all the rules on the financial markets of the Old Continent, rationalising them, incorporating the endless number of regulations and directives on the subject, simplifying their content and presenting itself as a single corpus of legislation aiming at supporting common economic development.

This goal is not unrealistic. It can be achieved in the current European legislature.

If this is the true extent of the Capital Markets Union, it can be the crucial point of transition towards a true economic and fiscal union.

In order to make a unified European financial market really work, the issue of taxation cannot be neglected. If it remains, as it is today, too diversified between countries, the market can never be 'unique' and Europe will be less competitive than other geographical areas.

For example, if the tax treatment of financial annuities were harmonised, it would be difficult to justify the continuation of uneven tax regimes on business and labour income. With the consequence that, at similar levels of taxation, would correspond similar levels of public expenditure. This would ultimately result in a push for the unification of tax legislation and greater integration of budgetary policies.

As we have seen in recent years, currency alone is not enough. If we want to fulfil the Founders' aspirations and achieve a level of development and prosperity shared by the peoples of Europe as a whole, we must also give ourselves the same taxation and the same law.

Authorities, Ladies and Gentlemen,

implementing the Capital Markets Union project will be crucial for the economic development of the Continent over the next decade. The challenge is demanding, but within our reach.

After difficult years, in which a short-sighted Europe neglected the duties associated with its international role and the bond of internal solidarity, we now find ourselves in a position to take that 'step' postponed for too long.

The real extent of the problems has been understood. Increasing liquidity, favourable exchange rates, low inflation and cheap oil are the indispensable propellant for a unique opportunity.

The Talmud's lesson can help us on this path: ‘If I am not for myself, who is for me? But if I am for my own self only, what am I? And if not now, when?’. Everyone must take action to build their own future, but you cannot build anything solid unless you do it in harmony with your fellow human beings. And you have to be able to seize the right moment to join forces and act. However, the lesson also reminds us that the time we have at our disposal is not endless.

To let it pass in vain would be unforgivable.