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

τὸ δ᾽ ἴσως ὀρθὸν πρὸς τὸ τῆς πόλεως ὅλης συμφέρον
καὶ πρὸς τὸ κοινὸν τὸ τῶν πολιτῶν

that which is right equally keeps in view the advantage
of the whole state and the common advantage of the citizens

(Aristotle, *Politics*, III, 1283b)

Authorities, Ladies and Gentlemen,

last February the composition of Consob's Board was completed with the appointment of two new members, Giuseppe Maria Berruti and Carmine Di Noia.

I wish them all the best in their work.

The integration of the board ensures a contribution of diverse professionalism and skills, providing wider-ranging debates and dialogue within the Commission, aimed at improving the quality of the decision-making process.

1 The economic situation

The economic situation has changed in recent months.

Only a year ago, there was the prospect of an overall recovery as a result of lower interest rates, lower commodity prices and higher consumption, due to stronger household confidence. In many advanced countries share prices exceeded pre-crisis values.

In the euro area, the launch of the quantitative easing programme by the European Central Bank (ECB) to purchase government bonds fuelled expectations of a rapid improvement in the cyclical phase and mitigated the perception of sovereign risk. Positive effects were recorded in terms of price stability, strengthening of credit quality in the private sector, reduction in the risk premium and an increase in the value of financial assets.

Together with the ECB interventions, important European institutional reforms linked to the Banking Union project - such as the launch of centralised supervision with the Single Supervisory Mechanism (SSM) - restored confidence in the markets. At the same time, the European Commission presented the Capital Markets Union (CMU), a key complement to the Banking Union, in order to achieve a balanced financial system, where banks and markets play an equal role in financing the economy.

In just a few months, operators' expectations changed. Recovery has been weak and erratic in many advanced economies, particularly in the euro area. Demand for investment is insufficient to absorb available savings. Today it is hard to interpret the economic situation.

Emerging economies have slowed significantly and their outlook remains uncertain. In 2015, China saw the lowest growth rate in the last twenty-five years. The collapse in the price of oil led to considerable disparities in the balance of payments of large oil-producing countries, with negative consequences not only on their growth prospects and those of the countries exporting to them, but also on geopolitical balances in North Africa and the Middle East.

The crisis has quickly evolved and mutated. The sharp fall in bank loans, which began in 2011, generated the worst recession since the Great Depression. The decline in economic activity and bank bailouts questioned the sustainability of some countries' public accounts, triggering the sovereign debt crisis. The slowdown in the economy impacted the soundness of the banking system financial structure.

The productive and industrial system of the advanced economies were deeply affected. In many European countries, the effects on the real economy are apparent: the industrial system is now less competitive and less productive than in the pre-crisis period. We are faced with more indebted states and companies, and more fragile and volatile financial markets.

Recent unconventional and highly expansionary monetary policies, in addition to using substantial public resources, have mitigated the negative impact of the economic downturn on the financial system and public finances. This has prevented the insolvency of many large banks. However, as President of the ECB Mario Draghi reminded us: 'monetary policy can ensure price stability, but on its own it cannot secure a durable prosperous economy'.

Suitable and convincing structural measures are lacking.

2 The banks in the Italian financial system

The effects of a prolonged period of recession are evident in the financial statements of banks.

It is a crucial issue. Banks are the main instrument to develop the economy and create and distribute products in financial markets.

In euro area countries with more traditional credit-oriented financial systems, such as ours, non-performing loans have reached very high levels. In those countries with more market-oriented systems, the legacy of the lengthy crisis lies in the significant weight of investments in structured securities and derivatives.

These difficult years have changed the attitude of politics towards finance. Protecting taxpayers from the consequences of financial crises has become the priority for governments. The new approach is based on two basic principles: removing any expectation of an implicit public guarantee on large banks ("too big to fail" principle) and placing the burden of losses resulting from banking crises (bail-in) primarily on shareholders and, therefore, on bondholders and large depositors.

In this context, the soundness of the banking system has been commensurate with the suitability of regulatory capital. Non-performing loans, excessive exposures in government securities, derivatives and structured securities have led to a succession of stress tests and the evaluation of the quality of bank assets, leading to progressive increases in capital requirements. To cope with this, many countries have resorted to injecting large amounts of public capital; in others, such as ours, there have been significant capital increases in the market.

From 2008 to 2015, the capital ratios of the main banks in the European Union increased on average from around 7 to 12 percent (more than 70 percent). Nevertheless, in many euro area countries, in particular the peripheral countries, banks now have capital requirements averaging the minimum levels established by prudential rules. Thus, credit to the economy has not had the desired expansion.

In Italy we experienced a long season of recapitalisations conducted in a context of uncertainty, characterised by the difficulty in involving investors with adequate financial means, the need to grant further discounts compared to stock exchange prices to overcome mistrust and backwardness and the reluctance of old shareholders to see their stake heavily diluted.

At current market conditions, additional capital increases are not easily achieved. The problem of non-performing loans particularly influences investor valuations. Data from the Transparency Exercise report, published at the end of 2015 by the European Banking Authority (EBA), shows that Italy is one of the EU countries with the highest incidence of impaired loans over total bank loans. However, these calculations are made using methods that cannot always be agreed upon.

The high level of impaired loans also depends on recovery times. It has been estimated that a reduction of three years (from the current average of seven years to the European four) could reduce non-performing loans by around 40 billion euro (minus 20 percent).

In this context, recent government measures to improve efficiency and simplify collateral enforcement procedures in order to shorten debt recovery times are important.

Reduced recovery times may increase the value of impaired loans backed by collateral and mitigate the negative impacts of these transactions on the income statement.

On the issue of the time taken by civil justice, an ever-widening gap is forming between Italy and the main advanced countries. Urgent action is required, not only to limit its impact on non-performing loans and the banking sector, but also for the broader repercussions on our country's entire production system.

Private initiatives aiming to set up funds specialised in recapitalising the banking sector and in the purchase of the riskiest tranches in securitisations of non-performing loans are extremely important. They will be able to offer effective and immediate responses to the structural problems of Italian banks. These initiatives should contribute to creating an efficient bank non-performing loan market that does not impose inconsistent impairments that cannot be absorbed by bank financial statements and that jeopardise the stability of the system itself, hindering predatory interventions.

The recent regulatory measures proposed by the government and welcomed by the market, regarding the possibility of requiring a public guarantee on the senior tranches of securitisations of non-performing loans, also aim to restore confidence in the market and begin an orderly process of sale of impaired loans.

In addition to the issue of non-performing loans, other factors negatively affect the prospects of our banking system.

Tightening capital requirements, micro-prudential supervisory approaches and the extremely low interest rate level have negative effects on expected profits. In this context, banks need to offset the decline in interest margin with revenue diversification and restructuring processes.

Aggregations, featuring significant industrial synergies and economies of scale, can make the banking system more competitive and efficient. Innovative services, provided through digital channels, and those with the highest added value, such as business advice and investment services, need to be targeted.

The banks that show greater solidity and profitability are those that, seizing the opportunities of the digital revolution, have managed to acquire specialised characteristics in different areas of activity compared to more traditional business models, based exclusively on funding through branches and the granting of credit.

In this context, liquidity tends to flow into government bonds and other instruments with low or zero capital absorption coefficients. Data published by the EBA in the Transparency Exercise report and relating to the major European banks shows that, compared to the end of 2013, investments in government bonds increased by about 12 percent.

Introducing a weighting coefficient or limits on exposure to government bonds, as is being discussed at European and international level, could theoretically have the positive effect of making monetary policy more effective by removing incentives to invest in government bonds rather than in loans to enterprises.

However, in the absence of sector capitalisation levels that are adequately above the regulatory minimums, the measure in question would have the effect of benefiting higher rated states and forcing banks to suddenly and disorderly reduce exposure to lower rated government bonds. This would result in a new wave of upheaval and instability in the government securities market. The resulting increase in rates would have negative effects on the sustainability of public debt, which would add to the current critical issues of making significant corrections to Government budgets as a result of low growth.

At this difficult time for the banking system to remunerate deposits, it is essential to create the conditions for wealth management to grow steadily as a market instrument to finance the real economy and provide a return on investments.

The fee structure of the funds must be such to ensure alignment between the interests of managers and those of investors, avoiding remuneration, such as fixed or performance fees, that is not actually related to the fund's performance or that may constitute an incentive to take excessive risks, which is not consistent with the profile of the target customers. Consob will monitor the sector to ensure that the behaviour of the managers is completely fair and that the obligation to best serve the interests of the subscribers is respected.

The phenomena described above have influenced the dynamics of bank stock prices in all the major countries of the euro area and beyond, negatively affecting the general trend of the stock exchanges.

Since the beginning of the year, the banking stock index has fallen by around 35 percent in Italy, 32.5 percent in Germany, 17.9 percent in France, 14 percent in Spain and 10.3 percent in the United States.

The high volatility is exacerbated in our country by a penalising taxation on financial transactions which, in this context of tensions and uncertainties, becomes a particular disadvantage for our financial market.

Trading predominantly dictated by the intent to earn on very short-term fluctuations, often through intraday and very high frequency transactions, plays an increasingly important role. This is the case of High Frequency Trading (HFT) – representing more than a quarter of the trade on our market. This also applies to automatic mechanisms for increasing guarantees or margins in the case of negative market developments. At the same time, the weight of trading that contributes to the efficiency of the price-formation mechanism, originating from long-term investors, is reducing.

The impact of any news is magnified. Small transactions can have a high impact on price changes, generating continuous automatic suspensions that are disorienting for investors and are increasingly ineffective in calming excess volatility.

We must not overlook the fact that our country's stock exchange is still poorly representative of the productive sector, less liquid and, therefore, more volatile than the stock exchanges of the main advanced countries.

Consob has started a dialogue with market operators in order to anticipate some measures provided for by the Markets in Financial Instruments Directive, MiFID II, whose entry into force is expected to be postponed until January 2018. These measures aim to contain the potential negative impact of algorithmic and high frequency trading on volatility and orderly trading.

The first action concerns the increase in trading ticks (i.e. the minimum price changes allowed to those who submit a trading proposal), in order to minimise the effect of market conduct that does not allow for the correct formation of the price of financial instruments. The second aims to ensure that algorithmic traders carrying out market making activities can do so only through explicit agreements with trading venues. Finally, the third concerns the introduction of a system for identifying orders (flagging) originating from trading algorithms, also in order to reduce the ratio between orders placed and orders executed.

Excess volatility and disorderly market conditions also stem from hyper-dilutive capital increases in our market since 2009. These are transactions where the issue price of the new shares is well below the market price. In these cases there is a significant misalignment of the value of shares and option rights with the theoretical arbitrage value.

In order to mitigate these negative effects, following in-depth analysis and numerous consultations with the market, Consob has defined a solution that consists in the possibility of requesting the delivery of new shares deriving from exercising option rights also during the bidding period and not only at its closure, as in the past. Immediate availability of new securities will facilitate arbitrage operations and make the price formation mechanism (rolling system) more efficient.

3 The European context

The European regulatory framework has been completely redefined since 2008.

An extensive process of reviewing the directives issued before the crisis, which formed the backbone of European securities law and governed financial markets (MiFID), market abuse (MAD), mutual funds (UCITS), transparency of information (Transparency), accounting control (Audit) and the prospectus (Prospectus), has begun and in many cases has already been completed. Rules have been adopted that cover new areas of financial intermediation: rating agencies, derivative clearing, central counterparties, short selling, central securities depositories, securities loans, retail and pre-assembled insurance products, Packaged Retail and Insurance-based Investment Products (PRIIPS) and alternative investment funds.

The work of redesigning the regulatory framework is essentially finished, even though it has resulted in a rather complex structure.

It is an extremely articulate, hypertrophic system, with different areas of overlap and interaction, in some cases difficult to interpret and apply, even for operators. It may not be functional to capital market growth and enforcement of the supervisory authorities.

Although today there is a tendency to favour the adoption of regulations that are directly applicable in the member states, the European legislator has in some cases continued to make use of directives, which leave room for discretion in national transposition or, for the same matter, has combined directives and regulations. There are also cases of regulations allowing implementation autonomy for member states. In essence, the system does not yet guarantee the creation of a truly level playing field.

In some cases, the very complexity of the rules has led the European legislator to postpone their entry into force, precisely to allow operators sufficient time to adapt their structures.

This resulted in postponing very important and urgent regulations to ensure adequate investor protection, such as MiFID II, and in accelerating complex and sensitive regulations, which would have required further reflection, such as the Bank Recovery and Resolution Directive (BRDD).

Following a phase of intensive regulatory production, a pause for reflection is now necessary.

The time has come to simplify and rationalise the existing rules, bringing together all the European regulations and their second-level rules in a single text. This would create a truly European Consolidated Law on financial intermediation, replacing and absorbing the various national rules.

This is an essential market requirement to increase the attractiveness of the European Union to investors in other geographical areas.

However, clear rules are worthless if not applied effectively. To this end, a new balance should be sought in assigning responsibilities and powers between national and supranational authorities.

The issue remains a taboo, despite finding that predominantly domestic supervision systems are unsuitable for controlling increasingly transnational phenomena. Just think of the difficulties encountered in obtaining data in case of violations committed through operators from foreign countries.

Also consider the effects of the announced mergers between large European stock exchanges - such as the union between the London Stock Exchange and Deutsche Börse - which could lead to consolidating trading and post-trading platforms and creating very few large operators with significant cross-border operations.

Implementing full centralisation of financial intermediation supervision along the lines of the model adopted by the banking sector is certainly not easy, because in some areas the decision-making process requires proximity to domestic investors and steps the number of operators is very high. However, it is time to define the steps of a reform process, to be implemented gradually over the next few years.

The first step should be to centralise supervision of cross-border activities, such as market infrastructures and post-trading, as already achieved in relation to rating agencies and trade repositories. The second should be to give the European authority the power to define binding models and procedures for domestic activities and to monitor their operation subsequently, including using replacement measures.

4 The development of the financial market

Simplifying and rationalising the regulatory framework must be suitable to encouraging a shift from a financial system dominated by banking intermediation to one that is more market-oriented and more functional to the needs of small and medium-sized enterprises (SMEs). This is a profound transformation, requiring a long and complex process.

This is the aim of the European Commission's Capital Markets Union project, which is key to the European plan to boost investments to promote the recovery.

The instruments to achieve the capital markets union are set out in the action plan published on 30 September. The plan includes a number of initiatives, such as the review of the prospectus directive and a framework to relaunch the securitisation market. However, some remain vague or refer to further analyses and studies, such as in the case of harmonising the rules on bankruptcy proceedings.

In any case, these are regulatory interventions which alone cannot be sufficient to bring about the transition to a more market-oriented system. This requires private initiatives, starting with the development of instruments and intermediaries specialised in investing in small and medium-sized enterprises (venture capital and private equity, mini-bond market, private placements and crowdfunding).

From this standpoint, financial reporting is one of the most important issues. Indeed, the main obstacle to directly investing in financial instruments issued by unlisted SMEs lies in the lack of reliable, centralised and standardised financial information.

Creating subjects that offer services that reprocess and assess the quality of financial information, possibly aimed at the production of ratings or credit scoring, calibrated to the needs of institutional investors and non-banking intermediaries, is an essential tool. The ultimate aim is to create an open infrastructure, capable of interconnecting businesses and investors, by making reliable financial information on SMEs available to all the stakeholders.

In line with the approach established at European level, in recent years Consob has promoted numerous initiatives aimed at encouraging the development of the stock exchange and the domestic capital market. Documentation relating to extraordinary transactions and takeover bids has been simplified, the preliminary approval process of prospectuses streamlined and some disclosure obligations regarding internal dealing and compliance to self-regulatory codes have been further reduced. Further simplifications concerned the equivalence assessment of the offer documentation, price sensitive information and the distribution and storage of regulated information.

The PiùBorsa project was launched some time ago, from which numerous proposals were made to encourage the listing of SMEs. Many of these have been implemented by the government under the "Finance for Growth" programme. They have been translated into specific regulatory provisions: the introduction of multiple-vote shares, the adoption of flexible takeover bid thresholds, the increase in disclosure thresholds for significant shareholdings, and tax concessions for listing.

Other important innovations concerned the regime for unlisted companies to issue minibonds. Borsa Italiana established a market segment dedicated to their trading (called ExtraMot Pro), open only to institutional investors, with a capitalisation of over 6 billion euro.

On the demand side, further measures are needed to promote the role of institutional investors, in particular long-term investors (insurance and, above all, pension funds). The issue is at the core of the latest developments in the "Finance for Growth 2" programme, under which the government is studying measures to relaunch venture capital, securitisations and, in general, to encourage channelling social security savings into the real economy.

The key initiative, a sort of triggering event, could be clear and stable tax legislation over time that incentivises investments in the venture capital of SMEs, starting with those of pension funds.

The first "Funds of funds" specialised in SMEs are beginning to be set up, an indispensable tool to have an adequate mass of resources that is functional to the aggregation of other operators. This will create a real market for these companies.

Recent initiatives, also promoted by Cassa depositi e prestiti, are moving in this direction and have already achieved impressive results in terms of funding and investments. They will be able to contribute to financing many SMEs, including new ones, and consolidating the success of initiatives such as the AIM Italia (Alternative Investment Market), where over 70 companies are already listed, with a capitalisation of about 3 billion euro.

At the same time, important innovations can be observed in companies already listed on regulated markets.

The action carried out in recent years by Consob has accompanied our financial system in transitioning from a "relational" model to a market model, characterised by a greater openness of control structures, a broader presence of foreign investors and a more active participation of institutional investors in corporate life. Significant mergers operations were completed, benefiting the shareholders, employees and creditors of the companies involved.

But we are halfway there. A significant distance still separates us from countries with more advanced capital markets, featuring high contestability of control, significant weight of operational management in the composition of boards of directors and greater activism of institutional investors in corporate governance. As a matter of fact, at the meetings of some large public companies, the lists for the appointment of management bodies presented by institutional investors have obtained the greatest number of votes, but they have preferred to leave the corporate management to the reference shareholders.

The "little world of the past" of our relational capitalism is gradually crumbling, but, for now, institutional investors prefer to sit on the fence.

5 Supervision of banks

As already mentioned, banking sector securities have featured high volatility in recent months. This reflected both uncertainties about earnings prospects and a reaction to changes in rules and approaches to micro-prudential supervision, also following the introduction of the Single Supervisory Mechanism (SSM).

Consob monitored the correct fulfilment of disclosure obligations for price sensitive information, also through the tool of the request to publish the relevant information contained in the results of the assessments carried out by the prudential supervisory authority.

Consob has promoted this approach also internationally, supporting the need to give full transparency to the results of the Asset Quality Reviews (AQR) and their implications in terms of strengthening capital requirements. More recently, similar information was requested on the Supervisory Review and Evaluation Process (SREP), conducted by the European Central Bank. Consob's supervisory approach was endorsed by the European Securities and Markets Authority (ESMA) and adopted by financial market authorities in other EU countries.

Transparency is essential to ensure overall system stability and the orderly conduct of trading on financial markets. The lack of accurate information on individual banks judged as less robust may lead to widespread divestments driven by irrational behaviour, which could cause significant systemic effects.

An event, though of a relatively limited size, in the last part of 2015 deeply shook the confidence of investors and public opinion in the banking system and had a very strong psychological and emotional impact. As a result, the perception of the risks inherent in investing in deposits and financial instruments issued by banks radically changed.

With decree-law of 22 November, four Italian banks were for the first time the subject of an intervention that adopted some of the criteria set out in the European Bank Recovery and Resolution Directive (BRRD), which entered into force on 1 January

2016. The purpose of the decree, which was released during a transition phase, was to reduce the losses that would be incurred by investors, customers and the economic fabric in the event of the BRRD's validity.

These banks had been in a crisis for a long time. Three had been subject to extraordinary administration procedures for over two years; one since the beginning of 2015. Extraordinary administration provides for a substantial information blackout, as the obligations to prepare periodic financial statements cease to apply. During this period, the banks in question did not place financial instruments with the public.

According to the ranking index provided for in the BRRD, the value of the shares and also that of the subordinated bonds of the institutions involved has been reset, regardless of the issue date.

In this way, the issue of subordinated bonds was brought to the attention of public opinion. The four banks had outstanding subordinated bonds for a total value of just over 1 billion euro, of which around 70 percent were issued before 2008. The last issue to retail customers took place in October 2013. At 30 June 2015, the amount held by retail customers was 374 million euro, equal to 1.17 percent of the total subordinated bonds issued by Italian banks held by retail customers and 0.03 percent of the total financial instruments held by retail customers with banks.

These securities were largely subscribed in a completely different market environment from the one today. The effects of the financial crisis triggered by the collapse of Lehman Brothers in September 2008 had not yet become apparent. Only five years later, the European Commission, in a communication of 30 July 2013 on State aid, highlighted for the first time its willingness to apply the so-called "burden sharing" - to prevent banks from being rescued at the taxpayers' expense, as in the past - which requires a reduction in the value of shares and subordinated bonds before applying State aid to banks in crisis. At the time there was no European Bank Recovery and Resolution Directive (BRRD), which was only introduced in 2014, with substantially retroactive effectiveness criteria.

In recent days, the government has issued a decree-law aiming to provide automatic repayments, when certain conditions are met, for those who had subscribed subordinated bonds before 12 June 2014, as well as procedures for the protection of misled investors.

It should be recalled that the prospectuses and supplements accompanying the subordinated bond issues of the four banks were drawn up in accordance with the transparency rules laid down in the rules on prospectuses, the content of which is governed directly by an EU regulation. During their approval phase, Consob valued all the information in its possession, including that sent by the Bank of Italy.

These prospectuses highlighted all the risk factors related to the complexity of the instruments and the situation of the banks. They specified that investors could have lost all of the invested capital in the event of liquidation or bankruptcy proceedings. These elements were included in the part relating to risk factors and, in the most significant cases, were taken up and summarised on the first page of the prospectuses, in the section entitled "investor warnings".

Investigations are underway by the Commission and the judicial authority regarding compliance with the rules of conduct in the placement of these products with retail customers.

The events relating to the liquidation of the four banks do not question the underlying validity of the supervisory models to provide investment services.

Supervision is conducted according to risk-based logics, based on an approach adopted by the supervisory authorities of all advanced countries.

Our supervisory model was examined and positively evaluated both by the International Monetary Fund, on the occasion of the Financial Sector Assessment Program conducted on Italy in 2013, and by ESMA, during the examination of supervisory practices on applying MiFID adopted by the authorities of the countries of the European Union.

Since 2007, the year when MiFID entered into force, Consob has carried out about a thousand supervisory interventions in the field of investment services. Overall, they covered about 90 percent of the savings invested in financial instruments attributable to retail customers, while inspections covered about 55 percent of the market.

Nevertheless, Consob is building on the experience gained so far in guiding and further refining its supervisory practices.

The changed regulatory framework related to bail-in and the increased level of risk in the sector for investors led Consob to further increase preventive measures, also using unconventional instruments.

During two banks' recent capital increases, also in light of the specific critical issues relating to their economic and financial situation and following inspections that had produced a large number of complaints against banks, their directors and some employees, the Commission ordered to call the boards of directors, asking them to implement adequate measures to protect investors.

To implement these requests, in the former case the bank's board decided to consider the placement of the new shares always as inappropriate for its retail customers and only those customers who had clearly expressed their intention through a holographic statement were allowed to finalise the purchase of the securities. In the latter case, the procedure for defining extraordinary investor protection measures is still underway. Consob prepared checks on the timely execution of these commitments.

The episodes described above show how, in many cases, in addition to the general difficulties of the market and the economic situation, management models lacked an adequate system of checks and balances among decision-makers, management bodies and control bodies. A weak corporate governance mechanism caused damage to businesses and investors, the negative effects of which have in some cases been sanctioned and, in others, are being scrutinised by supervisory authorities and the judiciary. Therefore, the lesson here lies in the need to promote a culture that enhances the centrality of corporate governance in business management. In this way, the control will become increasingly preventive, allowing the market to know *ex ante* the real deployment of decision-making mechanisms.

6 Investor protection

We must acknowledge that the world has changed.

The entry into force of bail-in and the events related to the resolution of the four credit institutions have generated a climate of uncertainty in investors, which had never been recorded in the post-war period.

Extraordinary measures are required at exceptional times. Traditional instruments to safeguard and protect savings must be rethought, placing the investor at the core of the system.

The first issue to consider is transparency. It concerns the information that must accompany a financial product, so that investors can fully grasp its risk and return profile, assessing with full awareness whether it is suitable for their needs.

From this point of view, there is a strong need for investors to have clear, concise and immediately usable information.

The prospectus, conceived by the Community legislator as a repository for collecting all the information on the product and the issuer, has not proved to be an appropriate means to effectively address the need for knowledge.

An excess of information almost always amounts to a lack of information.

The prospectus has become a useful tool for those who prepare it, to prevent possible legal risks, but it remains too long and complex to be read and fully understood by investors. For this reason Consob was among the few European authorities to request the inclusion, in the initial pages of the prospectuses, of a specific paragraph, called "investor warnings", which contains a summarised description of the main risks related to the investment. In the most critical cases, the inclusion of this information on the prospectus cover has been requested in order to better attract the readers' attention.

In very recent cases of bank capital increases, having assessed the critical issues related to the reference context, Consob recommended the systematic delivery of warnings, not required by European regulations, in order to encourage customers to fully understand their content.

Consob, albeit within the narrow margins permitted by European legislation and as far as possible in anticipation of future developments, is constantly engaged in the activity of strengthening information requirements.

To this end, a consultation is launched today on a recommendation containing "guidelines" to define and standardise the contents of "investor warnings", differentiated in relation to different financial instruments and different types of issuers. This will result in clearer, more concise and comprehensive information on the main risk factors.

Again with regard to the transparency profile, a further consultation of the market is being launched today on another recommendation containing some "guiding principles" regarding the key information to be provided to retail customers when distributing financial products. This takes into account the fact that financial transactions take place in a context of significant information asymmetries among the parties, which undermines the investors' ability to make informed investment decisions and increases the possibility for the intermediary to take advantage from its contractual "superiority".

The "guiding principles" are intended to draw intermediaries' attention to the central role they play when transferring information to customers. As a result, they are invited to standardise them using specific "product sheets", drawn up to clearly and concisely represent the main characteristics of the instruments offered, their risks, costs and expected yields.

However, the turning point, with regard to the transparency on financial products, lies in the awareness, now acquired by the European legislator, that "key information" needs to be extracted from "comprehensive information".

Please note, in essence, that it is necessary to select the most significant information content, which should be made known more effectively to investors.

This is the direction European legislation is moving towards, in the process of defining a single model of summary information. The recent European regulation on certain investment products (Packaged Retail and Insurance-based Investment Products - PRIIPS), which is due to enter into force on 1 January 2017, requires that, in the wake of what is already envisaged for mutual funds, the traditional prospectus be accompanied by the Key Information Document (KID).

The KID has no more than three pages, containing the key information on the product offered, which must be delivered to investors before completing the transaction.

Last April, the three European financial sector authorities (ESMA, EBA and EIOPA) defined the KID's drafting model through a common approach, which will now have to be definitively approved by the European Commission.

There are two advantages. The first is to create a document that is easy for investors to read and able to immediately represent the product's features, also by using a sort of "thermometer" that measures market risk and issuer-risk according to increasing levels, from 1 (minimum risk) to 7 (maximum risk).

The second is to adopt a single system throughout Europe, guaranteeing all European investors the same level of protection, for any product purchased and wherever the producer. This will prevent the coexistence of different national regimes, possibly leading to an "uneven playing field", by favouring some jurisdictions to the detriment of others.

Transparency alone is not sufficient to protect investors. It must be accompanied by effective rules on fairness, defining the diligence that an intermediary must use when dealing with customers. This is in order to concretely implement the principle laid down in Article 21 of the Consolidated Law on Finance (TUF), according to which the intermediary must “best serve the interests of customers”.

Consob intervened on this issue in December 2014, well before the events that affected the four banks, with a communication on complex products, which transposed and supplemented the related guidelines adopted by ESMA.

The purpose of the communication was to recommend that intermediaries refrain from distributing certain types of complex products to retail customers, while at the same time strengthening supervision over intermediaries who do not intend to comply with the communication itself. The communication also covered subordinated bonds.

Last November, Consob also published a communication requiring intermediaries to promptly inform customers of regulatory innovations on bail ins and to reconsider whether, in light of these innovations, the investments proposed to customers were still suitable and appropriate.

As an additional investor protection measure, a third market consultation has now been launched on a recommendation regarding the distribution of financial instruments through direct listing on regulated markets or on multilateral trading facilities, rather than through traditional retail branch placement.

In this way, the process of distributing financial instruments (including subordinated bonds) - and the related pricing mechanism – will be more transparent, less subject to conflicts of interest and able to ensure greater liquidability of investments.

One might wonder why we should not wait for the entry into force of the new European rules in this area, which could be a large part of the solution to the problems mentioned. The answer is that, in a market environment characterised by too many uncertainties, waiting can harm investors.

However, for at least a couple of other important measures to take effect, national authorities will have to wait for European decisions.

MiFID II will introduce product governance rules, according to which investment firms will not be permitted to design a financial instrument not suited to the previously identified needs of the customers for whom it is intended. In this way, investor protection will not be limited to the relationship between the customer and the intermediary during the sales process, but will be anticipated to constitute a fundamental aspect of the investment firm's decision-making process and the definition of its commercial strategies.

Product governance will be accompanied by product intervention powers, which will act as tools to "close" the system. They will allow national authorities to prohibit intermediaries, subject to notifying the European authority, from selling product categories or using practices that could pose a risk to investors.

Rules and controls are necessary, but they are not enough. It is essential to have a mechanism for the rapid settlement of disputes possibly arising between intermediaries and investors. Last August's legislative decree transposed the European directive on Alternative Dispute Resolution (ADR) and accepted Consob's proposal to set up a financial ombudsman. Investors will be able to make their case, without having to wait for the time taken by legal proceedings and completely free of charge. This is an out-of-court mechanism with a very rapid turnaround – maximum ninety days – to settle disputes, which envisages the mandatory participation of the intermediary, the centralisation of the decision-making process and sanctions for those who do not comply with the ombudsman's decision.

However, any measure is not enough if investors are not in a position to understand the information they receive, especially in an environment that has become increasingly complex.

This aim can be pursued by spreading a more effective financial education, starting in schools.

Initiatives have been launched for this purpose, also shared by the Bank of Italy and the government. Back in 2014, Consob signed a financial education project with the main consumer associations.

The project has been refined over time, so much so that a portal dedicated to financial education can be visited on Consob's website. It is a simple tool that, also by using games and questionnaires, allows everyone, starting with students, to move from theoretical knowledge to practical experimentation with the basic concepts of finance. By the end of this month, a computer app will be available for everyone free of charge to be used to plan and control personal income and expenditure (budget planner), in order to help individuals and households plan savings and investments.

A few months ago, Consob signed a cooperation agreement with the chancellors of some of the main Italian universities. The agreement provides for the development of joint economic and legal research projects; educational and training activities in the field of economics, finance, regulation of capital markets and financial education. Among other things, this will lead to preparing handbooks on the legislation and related application guidelines.

This knowledge may lead to a better decision-making ability.

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Authorities, Ladies and Gentlemen,

Human activity is never risk-free.

Public authorities cannot eliminate all forms of risk, but must make it reasonable in the given circumstances.

In the world of finance, this means taking all the necessary precautions to ensure that investors are able, according to their abilities, to understand what risk they may face and have the tools to avoid it.

This is the task of the investor protection authorities.

The women and men who guide and work in them can, like any human being, make mistakes. However, the value of the institutions must be safeguarded.

Each institution exists and operates for the sole purpose of the common good.

Each institution exists and operates only in agreement with all the others.

Honest cooperation and working together are key elements in bringing cohesion to society.

Their duty is to determine "the sense of equally right" as Aristotle observed, adding that «this means right in regard to the interest of the whole state and in regard to the common welfare of the citizens".

If people are not convinced that the public authorities are acting for their own good, trust in society and, with it, hope in the future will fail.

We are here to give Italian investors confidence.