CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETÀ E LA BORSA

ANNUAL REPORT 2001

ROME, 31 MARCH 2002

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

Chairman
Luigi SPAVENTA

Members of the Commission
Lamberto CARDIA
Renato RORDORF
Filippo CAVAZZUTI
Enrico CERVONE

Director General
Massimo TEZZON

CONTENTS

This document presents data and analyses concerning Consob's activity and changes in the regulatory framework. It provides supporting material for the report submitted to the Minister of the Treasury in accordance with Article 1/1(13) of Law 215/1974 and for the Chairman's address to the annual meeting held on 8 April 2002.

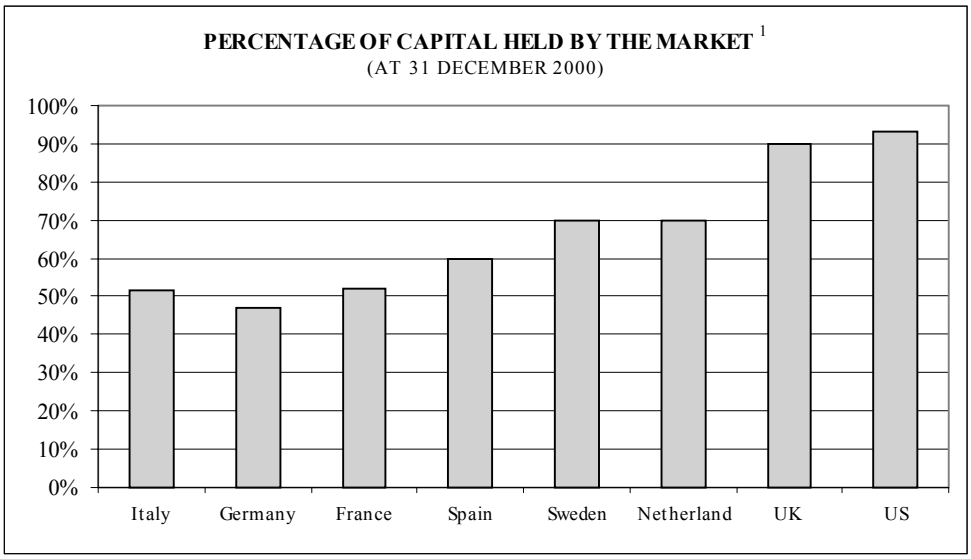
I. OWNERSHIP OF LISTED COMPANIES

The ownership structure and control of listed companies

The changes that occurred in the ownership structures of some large companies in 2001 did not significantly alter the average concentration of ownership of companies listed on the stock exchange, which remains high. The percentage of total market value with reference to ordinary shares held by the largest shareholder of each listed company at 31 December 2001 declined only slightly compared with the end of 2000, falling from 44 to 42.2 per cent. The share of capital held by the market, i.e. holdings of less than 2 per cent of the voting capital, continued to be less than 50 per cent, although it rose slightly over the year (Table aI.1).

International comparison of the end-2000 data — with reference to holdings of more than 5 per cent, the lowest disclosure level adopted in most countries — shows that the concentration of ownership of listed Italian companies is in line with that of the main continental European countries (in France and Germany the share of capital held by the market is estimated to be between 45 and 55 per cent) but much higher than that of the Anglo-Saxon countries (where it is estimated to be more than 90 per cent). The level of concentration is lower in some other European countries such as Spain, Sweden and the Netherlands, where the share of capital held by the market is estimated to be between 60 and 70 per cent (Figure 1).

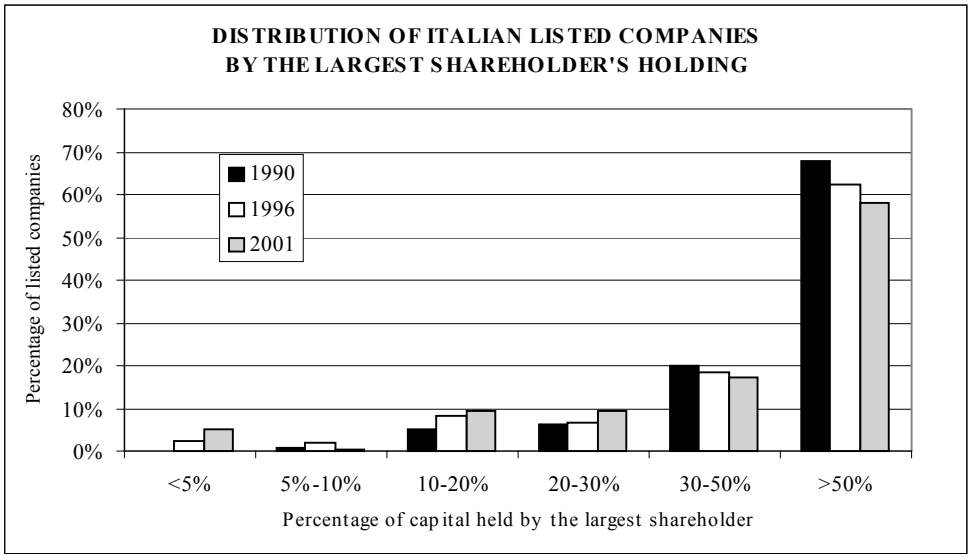
FIGURE 1



Sources: Based on Consob and Fibv data. [1] Share of total market value held by shareholders with holdings of less than 5 per cent of the voting share capital.

The high concentration of ownership is reflected in the prevalence of a low level of contestability of control. At the end of 2001 the share of voting rights of the largest shareholder in nearly 60 per cent of Italian listed companies exceeded 50 per cent, while only in about 15 per cent of such companies was it less than 20 per cent, conventionally adopted in international comparisons as the lower limit of working control. The limited contestability of the control of Italian listed companies appears to be a structural feature of the Italian financial market, although it is now less than in the early and mid-1990s (Figure 2).

FIGURE 2



The share of total market value of companies with a shareholder with the majority of voting rights is around 50 per cent; that of companies with a shareholders' agreement permitting the participants to exercise a dominant influence in shareholders' meetings appears to be rising steadily (at the end of 2001 it was more than 11 per cent). By contrast, the share of companies for which it is not possible to identify a shareholder or group of shareholders able to exercise control has declined to around 16 per cent, the same level as in 1996 (Table aI.1). The ownership structure of the latter companies nonetheless still shows a high degree of concentration.

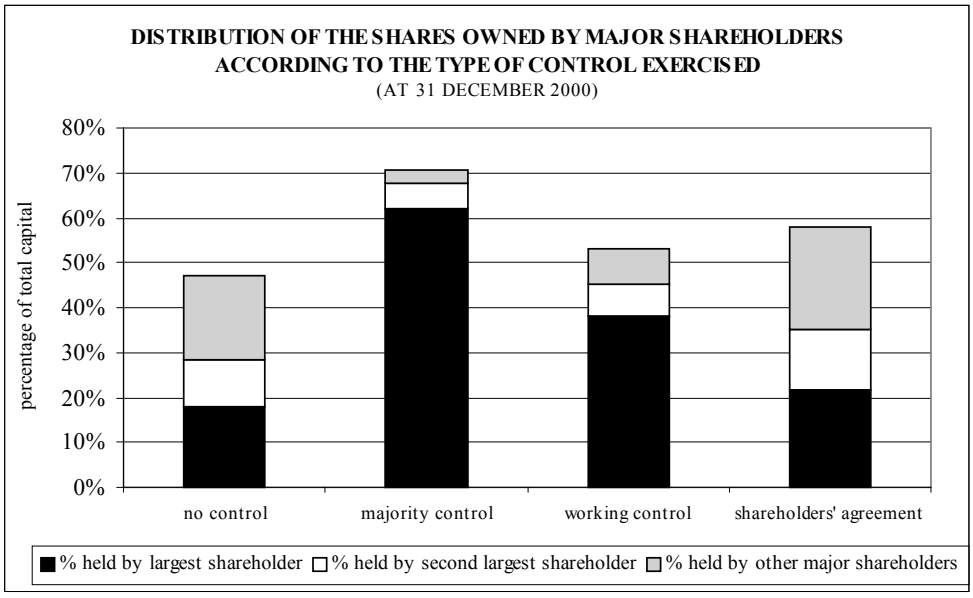
Excluding from the 39 companies subject to no control the 11 companies set up in the form of cooperative companies (mostly cooperative banks), for which the bylaws establish restrictions on share ownership, the average free float of such companies is 47 per cent, which is actually lower than that of the companies subject to working control (49 per cent).

A peculiar feature of the ownership structures of Italian listed companies is the large size of the holding of the second largest shareholder, which in many cases would appear to be in a position

to monitor the management of the company effectively, even where the largest shareholder holds a substantial percentage of the voting rights. The presence of a second shareholder with a major holding (i.e. more than 2 per cent of the voting capital) is nonetheless more common among companies that are not subject to majority control.

The average holding of the second largest shareholder is equal to 9 per cent of the ordinary share capital and goes from a minimum of 6 per cent for companies subject to majority control to a maximum of 13 per cent for those controlled under a shareholders' agreement (Figure 3). A second major shareholder is present in 85 per cent of the listed companies subject to majority control and in 75 per cent of those subject to working control. The holding of the second largest shareholder exceeds 10 per cent of the capital in 15 per cent of the companies subject to majority control and in about one third of those subject to working control. For companies subject to control, the second largest shareholder is an institutional investor or a financial institution in four cases out of ten.

FIGURE 3



The presence of a second shareholder with a large holding is a structural feature of the ownership structure of Italian listed companies: the proportion of companies in which the second largest shareholder had a holding of more than 10 per cent was around one third in 1990, one fifth in 1995 and one quarter in 2001; these companies' share of total market value fell from around 20 per cent in 1990 to 9 per cent in 1995 and to 8 per cent in 2001.

The distribution of major holdings by type of shareholder at the end of 2001 was basically unchanged compared with the end of 2000 (Table aI.3). The largest proportions were held by "Other companies" and the State, thus confirming the major role played by pyramidal ownership structures and the persistence of an important public-sector presence. The proportions held by banks and insurance companies appear to be declining and are concentrated in companies in the financial sector.

Banks and insurance companies hold respectively 4.4 and 1.8 per cent of the total market value of the companies listed on the Stock Exchange. Their presence is minimal in companies in industrial and services sectors, but their holdings in companies in the financial sector amount to nearly 11 per cent and 5 per cent respectively. Foundations are the shareholders with the largest holdings in the latter category of companies (12.5 per cent; Table I.1).

TABLE I.1

MAJOR HOLDINGS IN COMPANIES LISTED ON THE STOCK EXCHANGE - DISTRIBUTION BY COMPANY SECTORS AND TYPE OF SHAREHOLDER IN 2001[1] -

TYPE OF SHAREHOLDER	COMPANY SECTORS		
	FINANCIAL	INDUSTRIAL	SERVICES
FOREIGN RESIDENTS	7.8	7.2	2.3
INSURANCE COMPANIES	4.4	0.5	0.0
BANKS	10.9	0.6	0.1
FOUNDATIONS	12.5	0.0	0.0
INSTITUTIONAL INVESTORS	0.1	0.1	0.0
OTHER COMPANIES	5.8	10.1	36.1
STATES	1.0	16.3	18.3
INDIVIDUALS	3.4	10.2	3.5
TOTAL	*45.8*	*45.0*	*60.4*
NUMBER OF COMPANIES	86	103	43
WEIGHT ON MARKET CAPITALIZATION[2]	39.2	23.1	37.7

Source: Consob ownership transparency archive. See the methodological notes. [1] As a percentage of each sector's total market value, Year-end data. [2] Percentage ratio of the market value of the ordinary share capital of the companies in each sector to the total market value of the ordinary shares listed on the Stock Exchange.

In 2001 there was an increase in the separation between ownership and control obtained through the use of pyramidal group structures, especially as a consequence of the purchase of substantial holdings in large listed companies by groups that were already listed. Considering the 10 largest groups not subject to public-sector control, the proportion of capital controlled for each unit of capital owned rose from 1.8 at the end of 2000 to 2.4 at the end of 2001, close to the levels recorded in the early 1990s. It should be noted, however, that the present situation reflects particularly high values in a few groups, whereas in the early 1990s the values were more uniform.

The number of listed companies controlled by another listed company has fallen significantly in the last 10 years: in 1990 and 1995 such companies were around 35 per cent of all listed companies, whereas in 2001 they were 20 per cent of the total. However, in terms of market value the reduction was much smaller: from 42 per cent in 1990 the proportion fell to 40 per cent in 1995 and 37.6 per cent in 2001.

The role of savings shares as a means of separating voting rights from ownership rights is less important than in the mid-nineties.

The number of listed companies with savings shares fell from 38 per cent of the total in 1990 to 33 per cent in 1995 and 22 per cent in 2001, while the ratio of the market value of such shares to the total market value of the companies listed on the Stock Exchange fell from 15 per cent in 1990 to 7.6 per cent in 1995 and 3.6 per cent in 2001.

One feature of pyramidal group structures made up of several levels of listed companies is the existence of a holding discount, i.e. the fact that the value the market attributes to holding companies is systematically lower than that which it attributes to the assets they own. The average holding discount for listed companies whose assets consist mostly of holdings in other listed subsidiaries is substantial (around 22 per cent at the end of 2000), although lower than in the mid-nineties (Box 1).

BOX 1

Holding discounts in groups of Italian listed companies at the end of 1995 and 2000

The holding discounts is substantial both at the end of 1995 and at the end of 2000 for nearly all the financial holding companies that control at least one listed company and whose assets consist prevalently of holdings in such listed companies. There are two possible reasons for the presence and persistence of a holding discount: factors that reduce the value of the holding company and systematically increase its cost of capital, in the absence of arbitrage between the securities of the holding company and those of the investee companies; and private benefits that can only be achieved (or increased) by means of the holding company and that justify the controlling shareholder keeping it in existence.

The average holding discount was 34 per cent in 1995 and 22 per cent in 2000. The substantial reduction over the period appears to be related to the simplification that occurred in group structures (with a decrease both in the number of levels of control and participation and in the number of listed companies controlled by the various holding companies), which may have reduced the information asymmetries that appear to be a feature of holding companies' fund-raising. In fact the holding discounts for the holding companies in groups that simplified their structures during the period in question showed a larger-than-average decrease, while those of the holding companies in groups whose structures remained unchanged actually increased.

Among the factors that explain the cross-sectional differences in the holding discount, the most important appears to be the level of the holding company's financial debt; as this rises, so does the holding discount. Holding companies' debt may be seen as increasing the effects of the information asymmetries concerning the allocation of funds within the group (*inter alia* because the pyramidal structure may increase the overall borrowing capacity of the group). In particular, minority shareholders of the holding company have access to less information and are less able to verify how funds are invested than the minority shareholders of an operational subsidiary (which normally raises funds to finance more specific investments).

The diversification of a holding company's holdings does not appear to influence the discount. By contrast, this appears to be related to the contestability of control, especially in 1995, when the average discount for the holding companies subject to majority control was nearly twice that for the others.

HOLDING DISCOUNT AND STRUCTURE OF LISTED PYRAMIDAL GROUPS IN 1995 AND 2000[1]
- AVERAGES; END-OF-PERIOD DATA -

	1995	2000
HOLDING DISCOUNT	- 34.1 %	- 22.3 %
DEGREE OF DIVERSIFICATION (HERFINDAHL INDEX)[2]	67.5 %	61.8 %
NUMBER OF LISTED INVESTEE COMPANIES	4.2	4.7
- OF WHICH: SUBSIDIARIES	2.2	1.9
LEVEL OF DOWNSTREAM INVESTMENT:		
- WEIGHTED AVERAGE NUMBER[3]	1.5	1.3
- TOTAL NUMBER OF LEVELS[4]	3.2	2.4
NUMBER OF CONTESTABLE HOLDING COMPANIES[5]	5	8
HOLDING OF THE HOLDING COMPANY'S LARGEST SHAREHOLDER	44.7 %	35.4 %
FINANCIAL LEVERAGE OF THE HOLDING COMPANY[6]	56.3 %	57.6 %

[1] Data on 12 listed holding companies for both years. [2] With reference to the ratio of each investment in listed companies to the latter's total market value. [3] On the basis of the market value of each investment; with reference only to the levels considered in calculating the holding discount. [4] Average of the sum, for each holding company, of the maximum number of levels used in calculating the holding discount and the number of additional downstream levels containing a listed subsidiary. [5] A holding company is considered to be contestable if the holding of the largest shareholder is less than 50 per cent. [6] Percentage ratio of the net financial position of the holding system (the holding company and any unlisted subholdings in the downstream chain of control) to the market value of the holding company.

The companies listed on the Nuovo Mercato have different ownership and control structures from those of the companies listed on the Stock Exchange, in view of their particular structural features and recent listing. These are reflected in a higher concentration of ownership, a larger role for individuals in terms of both ownership and control, and a more significant presence of shareholder coalitions, in which foreign investors are often present, and the limited presence of pyramidal group structures.

TABLE I.2

OWNERSHIP STRUCTURE OF COMPANIES LISTED ON THE NUOVO MERCATO
(YEAR-END DATA)

	2000		2001	
	NUMBER	%[1]	NUMBER	%[1]
TYPE OF CONTROL				
MAJORITY CONTROL	14	51.1	15	42.0
WORKING CONTROL	8	32.4	7	36.3
SHAREHOLDERS' AGREEMENT	13	14.6	9	12.7
NO CONTROL	4	1.9	13	9.0
TOTAL	*39*	*100.0*	*44*	*100.0*
CONCENTRATION				
LARGEST SHAREHOLDER		44.8		41.8
OTHER MAJOR SHAREHOLDERS		25.9		23.7
MARKET		29.3		34.5
TOTAL		*100.0*		*100.0*

Source: Consob ownership transparency archive. See the methodological notes. [1] As a percentage of the total market value of the ordinary share capital of all the companies listed on the Nuovo Mercato.

At the end of 2001 the share of total market value held by the market, i.e. by shareholders with holdings of less than 2 per cent, was around 35 per cent, which was up on the end of 2000. The increase was due to the expiry during the year of many lock-up agreements (whereby the controlling shareholders and directors of newly-listed companies undertake at the time of listing not to sell shares for a given period) and to the listing of a relatively small number of new companies, which tend to have a high ownership concentration.

The holding of the largest shareholder of companies listed on the Nuovo Mercato averaged 42 per cent of total market value, in line with the figure for companies listed on the Stock Exchange, while the share of the other major shareholders was much larger: 23 per cent as against 9 per cent. These shareholders can therefore play an important role in determining the control of companies listed on the Nuovo Mercato and in monitoring the actions of the largest shareholder.

The larger presence of other major shareholders on the Nuovo Mercato is reflected in the smaller proportion of companies subject to majority control compared with the Stock Exchange and the larger proportions of those subject to working control or controlled by shareholder coalitions (Table I.2).

Individuals account for the largest proportion of the total market value of Nuovo Mercato companies, with more than 40 per cent, followed by foreign residents, with 16.7 per cent. The small proportion held by other companies indicates that pyramidal groups play a minor role (Table I.3).

TABLE I.3

MAJOR HOLDINGS IN COMPANIES LISTED ON THE NUOVO MERCATO[1 - 2]

	2000	2001
FOREIGN RESIDENTS	14.2	16.7
INSURANCE COMPANIES	0	0
BANKS	0.7	0.6
FOUNDATIONS	0	0.1
INSTITUTIONAL INVESTORS	1.1	0.5
OTHER COMPANIES	4.2	4.8
STATES AND LOCAL AUTHORITIES	0	0
INDIVIDUALS	50.4	42.7
TOTAL	*70.7*	*65.5*

Source: Consob ownership transparency archive. See the methodological notes. [1] Holdings of more than 2 per cent of the voting capital. [2] Percentage ratio of the market value of major holdings of ordinary share capital to the total market value of the ordinary shares listed on the Nuovo Mercato.

The importance of shareholder coalitions in determining the control of companies listed on regulated markets is confirmed by the growing number of shareholders' agreements, which are now found in about one third of the companies listed on the Stock Exchange and more than half those listed on the Nuovo Mercato. In most cases these agreement covers both the exercise of voting

rights and the transfer of shares (global agreement). On the Nuovo Mercato there is a higher proportion of agreements that only impose restrictions on the transfer of shares (blocking agreement), supplemented by lock-up agreements, some of which are required by the Nuovo Mercato rules for newly-listed companies while others are voluntary.

During 2001 54 new shareholders' agreements were concluded, 8 of which concerned newly-listed companies. At the end of the year the agreements falling within the scope of Article 122 of the Consolidated Law on Financial Intermediation totaled 138 and the companies concerned 93, of which 70 listed on the Stock Exchange and 23 on the Nuovo Mercato (Table I.4).

The lock-up agreements in force at the end of 2001 concerned 13 companies listed on the Nuovo Mercato. Three agreements were voluntary, while the other 10 were compulsory, of which 7 had voluntary supplements.

TABLE I.4

SHAREHOLDERS' AGREEMENTS INVOLVING LISTED COMPANIES
(AT 31 DECEMBER 2001)

	NUOVO MERCATO			STOCK EXCHANGE		
	NUMBER OF AGREEMENTS	SHARE CAPITAL COVERED[1]	NUMBER OF COMPANIES	NUMBER OF AGREEMENTS	SHARE CAPITAL COVERED[1]	NUMBER OF COMPANIES
BLOCKING	24	19.5	8	32	15.0	18
VOTING	3	49.4	2	11	32.0	7
GLOBAL[2]	15	51.9	13	53	47.4	45
TOTAL	*42*	*33.2*	*23*	*96*	*34.8*	*70*

Source: Disclosures pursuant to Article 122 of the Consolidated Law on Financial Intermediation. See the methodological notes. [1] As a percentage of the total ordinary share capital. Averages. [2] Agreements containing both blocking and voting clauses.

Transfers of control and tender offers involving listed companies

The total value of tender offers for shares of listed companies completed in 2001 amounted to €6.7 billion, an amount lower than that of the previous year (€12.1 billion), although above the average of the six years preceding the entry into force of the Consolidated Law on Financial Intermediation (€1.2 billion). The fall compared with 1999 and 2000 was mostly due to the large reduction in takeover bids, while the number of mandatory bids increased (Table aI.7).

Nine offers were related to the transfer of control, compared with 13 in 2000. The most important was the bid by Italenergia for Montedison and Edison, which alone accounted for 75 per cent of the total value of the tender offers completed last year.

Italenergia's acquisition of 52.09 per cent of Montedison's ordinary share capital resulted in its acquiring an indirect interest in Edison and consequently being subject to a "cascade" obligation to make a tender offer for all the latter's capital.

Initially, Montedison's board of directors gave a negative opinion on the offer in a press release in which it expressed doubts about the legitimacy of the transaction and the clarity of the information received. The board argued that the offer failed to take account of the 2 per cent limit imposed by Decree Law 192/2001 on the holding of EDF, the publicly-owned French company operating in the electricity and gas field that owned 18 per cent of Italenergia's capital. The objections extended to the inadequacy of the offer price (€2.82 for each Montedison share) on the grounds that, although formally determined in accordance with the provisions on mandatory bids of the Consolidated Law on Financial Intermediation, it failed to take account of the purchases made before the transfer of Montedison shares to Italenergia.

Following the issue of the press release, Montedison's board submitted a complaint to Consob in which it asked for the terms of Italenergia's offer to be reformulated in a way that would postpone the application of the so-called passivity rule. In the wake of this complaint Italenergia increased the offer price to €3.16 and simultaneously reached an agreement with Montedison serving to confirm the latter's strategic plan. This led Montedison's board of directors to give a unanimously positive opinion on the offer.

The takeover bids completed in 2001 included the "partial" offer by Sacmi Imola for 60 per cent of the share capital of Negri Bossi under Article 107 of the Consolidated Law on Financial Intermediation.

A total of 11 mandatory bids were carried out during 2001, of which one was for shares of a company listed on the Mercato Ristretto (Banca Popolare di Crema).

Rulemaking and interpretative guidance concerning tender offers

During 2001 Consob Regulation 11971/1999 was amended with reference to issues related to tender offers and takeovers. The most important concerned the rules on competing bids and the exemption from the obligation to make an offer in connection with mergers and spin-offs.

As regards competing bids, the regulatory system established by the amendments is intended to clarify the way in which the competition takes place by providing for alternate bids and requiring bidders to provide the market with information on their real intentions without delay, so as to reduce, if not completely eliminate, the wavering and tactical behavior that create uncertainty as to the outcome of the competition and are hardly compatible with the orderly functioning of the market.

The changes mainly concern the bidding system and the revocability of acceptances.

As regards the raising the price of bids, the rule requiring a minimum increase of 2 per cent has been eliminated, with the consequent liberalization of increases both for competing bids and in any other circumstances. In this way an auction system has been created in which all bidders are required to declare their intentions within five days of the announcement of the last bid or price raise, without prejudice to the universally applicable time limit of the tenth day preceding the close of the last bid. At the expiry of that time limit, the new version of Article 44.5 allows all the bidders for which the five-day time limit has not expired and the bidder who made the last raise to make another bid; these additional bids are all announced at the same time. The operation of the system requires, however, that once the time limit for raising bids has expired it should not be possible to renew the right fictitiously by making market purchases at a higher price, with a consequent adjustment of the corresponding bid. Accordingly, the new version of Article 44.9 forbids bidders from making purchases at a higher price during the whole period in which competing offers are in force. Substantially, the rule ensures that the competition among bidders takes place exclusively in accordance with the orderly mechanism providing for the alternation of bids and price raises.

As regards the revocability of acceptances, the main change concerns shareholders who accept a bid that in the end is unsuccessful. Since the announcement of the winning bid is often made only after the close of the acceptance period, it has been made possible for shareholders who have accepted an unsuccessful bid to accept the winning bid within a short period of the result being announced.

As regards the exemption from the obligation to make an offer in connection with mergers and spin-offs, the exemption eligibility requirements have been amended by adding parameters that are as objective and verifiable as possible.

To this end, the new and decisive factor that has been introduced for exemption eligibility is the existence of a resolution of the shareholders' meeting of the listed company that is potentially the subject of an offer based on "effective industrial needs for which the reasons are given", whereas the earlier version of this rule had simply required the existence of "rationalization needs or industrial synergies".

Consob took the view that where the minority shareholders of the listed company in question were effectively able to participate in the formation of the corporate will leading to the approval of the merger/spin-off, so that they enjoyed the special protection provided by law in such cases, the need for a tender offer could be excluded, provided a verification of the plans underlying the operation showed that the approval had been granted on the basis of effective industrial needs for which the reasons had been given.

Other amendments to the rules on tender offers concerned the lengthening of the offer period for partial-acquisition takeover bids and complete-acquisition mandatory bids, in order to allow more time for the preparation of competing bids and for shareholders to assess bids aimed at obtaining control, and the introduction of rules governing announcements intended to promote an offer that is under way, in view of the importance such releases have acquired in tender offers.

During 2001 the Commission was also asked to clarify some important aspects of the applicability of the rules on tender offers.

The most important questions concerned the relevance of own shares for the application of the rules on mandatory "complete-acquisition" tender offers referred to in Article 106 of the

Consolidated Law on Financial Intermediation; and the applicability of the exemption from the obligation to make a tender offer in a complex case of an increase in capital.

The Commission reaffirmed the relevance of own shares in exceeding the thresholds established in the rules on mandatory tender offers on the grounds that their purchase could strengthen the position of the controlling shareholder by limiting or even excluding the contestability of control of the listed company in question. It also ruled that purchases of own shares triggered the tender offer obligation only for the majority shareholder, since the decision of the listed company to buy such shares could be traced back to the intention of the majority shareholder, and that the actual percentage of the controlling shareholder's holding in the ordinary shareholders' meeting of the listed company was to be calculated as the ratio of the shares held directly or indirectly via third parties by the controlling shareholder, obviously excluding the own shares, and 100% of the ordinary shares, less the own shares, the voting rights of which are suspended under Article 2357-ter of the Civil Code.

As regards the applicability of the exemption from the obligation to make a tender offer where the reference shareholder of the issuer exceeds the 30 per cent threshold because the other shareholders do not immediately subscribe an increase in capital in full, the Commission deemed it necessary to consider the behavior of the shareholder in question following the close of the increase in capital as well. In particular, any purchases made by the reference shareholder that had the effect of maintaining, increasing or in any case not reducing the percentage holding acquired in virtue of the pre-emption rights originally attributable below the 30 per cent threshold would have been unequivocal evidence, albeit a posteriori, that the exceeding of the threshold had not really been independent of that shareholder's will, as required by Article 106.5 of the Consolidated Law on Financial Intermediation.

The Commission also intervened in two cases of failure to notify shareholders' agreements whose existence could be deduced from the behavior of the parties involved and, in particular, from the ways in which they had made purchases that had led to the 30 per cent threshold for the mandatory tender offer obligation being exceeded. The existence of the shareholders' agreements in question triggered the tender offer obligation since the purchases made by the parties to an agreement - even if it is null and void, as in the case of an agreement that has not been notified - are considered relevant, under Article 109 of the Consolidated Law on Financial Intermediation, in determining whether the 30 per cent threshold has been exceeded.

Boards of directors of listed companies

The companies listed on the Stock Exchange at the end of 2001 had an average of around ten directors, of whom about one third performed executive functions. The number of directors is influenced by the sector companies belong to and the type of control: those in the banking and insurance industries tend to have more directors, as do those controlled by a coalition of shareholders.

The average size of the boards of insurance companies (around 17) is nearly twice that of industrial and financial companies (around 9), whereas for banking companies it is the average number of executive directors that is much higher than in the other sectors (Table I.5).

The number of directors is inversely related to the degree of concentration of control and voting rights, reflecting the need for the various relevant shareholders to be represented in the board. The number rises from 9 for majority control, to 10 for working control, to 11 for control under a shareholders' agreement, and to 12 in the absence of controlling shareholders.

TABLE I.5

AVERAGE NUMBER OF DIRECTORS OF COMPANIES LISTED ON THE STOCK EXCHANGE BY INDUSTRIAL SECTOR

	2000			2001		
	EXECUTIVE	NON-EXECUTIVE	*TOTAL*	EXECUTIVE	NON-EXECUTIVE	*TOTAL*
INSURANCE	4.5	9.2	*13.7*	5.6	11.3	*16.9*
BANKING	5.6	8.8	*14.4*	6.2	8.4	*14.6*
FINANCIAL	3.0	5.2	*8.2*	3.0	6.2	*9.2*
INDUSTRIAL	2.9	5.3	*8.2*	3.0	5.5	*8.5*
SERVICES	3.2	6.8	*10.0*	3.3	7.0	*10.3*
TOTAL	*3.5*	*6.4*	*9.9*	*3.6*	*6.5*	*10.2*

As regards boards of internal auditors, at the end of 2001 just 20 companies had more members than the minimum prescribed by law, thus permitting at least two auditors to be elected by minority shareholders, as provided for in Article 148 of the Consolidated Law on Financial Intermediation. Only in these cases can the auditors elected by the minority shareholders autonomously exercise the powers granted by Article 151 of the Consolidated Law whereby at least two auditors can call the shareholders' meeting and meetings of the board of directors or the executive committee.

The number of companies with a board of auditors with more than 3 members has decreased since the entry into force of the Consolidated Law on Financial Intermediation. Ten companies, including one in 2001, reduced the number of auditors from 5 to 3, while only one company increased the number above the legal minimum.

Interlocking directorships continue to be common among Italian listed companies. At the end of 2001 about 16 per cent of the directors of listed companies held about 33 per cent of the total

number of directorships, with basically no change compared with the end of 2000 (Table I.6). The phenomenon is partly due to the existence of pyramidal groups made up of listed companies, where the same persons are often on the boards of the various companies involved. Where the interlocking concerns companies not linked by control relationships, it often reflects "horizontal" links between listed companies, so that the presence of the same directors is a consequence of industrial and/or strategic agreements.

TABLE I.6

INTERLOCKING DIRECTORSHIPS AMONG COMPANIES LISTED ON THE STOCK EXCHANGE

	2000			2001		
	NUMBER	DIRECTORSHIPS		NUMBER	DIRECTORSHIPS	
		SAME GROUP	OTHER GROUP		SAME GROUP	OTHER GROUP
DIRECTORS ON ONE BOARD	*1,539*	*1,539*	*--*	*1,574*	*1,574*	*--*
DIRECTORS ON MORE THAN ONE BOARD	*298*	*312*	*490*	*299*	*292*	*493*
OF WHOM:						
- 2 DIRECTORSHIPS	188	144	232	196	142	250
- FROM 3 TO 5 DIRECTORSHIPS	97	126	206	94	116	214
- MORE THAN 5 DIRECTORSHIPS	13	42	49	9	34	29

The average number of directorships held by persons with more than one is equal to 2.6, while the maximum is 9. About 30 per cent of the directors with interlocking directorships were only on the boards of companies belonging to the same group, while 60 per cent were only on the boards of companies not linked by control relationships.

The total compensation paid to the members of the boards of directors and boards of internal auditors of the 54 listed companies included in the Mib30 and Midex indexes averaged around €4 million (Table I.7). More than 71 per cent of this amount was due to compensation to the chairman of the board of directors and the executive directors, 22 per cent to the other directors, and the remaining 7 per cent to the board of auditors. A substantial proportion (about 30 per cent) of executive directors' total remuneration consisted of bonuses.

TABLE I.7

COMPENSATIONS PAID TO MEMBERS OF THE BOARDS OF DIRECTORS AND INTERNAL AUDITORS OF THE MAIN LISTED COMPANIES IN 2000[1]

	DIRECT COMPENSATIONS	FRINGE BENEFITS	BONUSES	OTHER[2]
NON-EXECUTIVE DIRECTORS	513	8	39	309
EXECUTIVE DIRECTORS	1,382	7	830	606
INTERNAL AUDITORS	170	2	1	88
TOTAL	*2,065*	*17*	*870*	*1,002*

Sources: Annual accounts for fiscal year 2000. [1] Average per company in thousands of euros. The data refer to 54 companies included in the Mib30 and Midex indexes. [2] Includes fees for positions held in group companies and one-off payments.

II. PUBLIC OFFERINGS, MERGERS AND SPIN-OFFS

Public offerings for listing purposes and other public offerings

The offerings for which listing particulars were approved in 2001 involved 18 shares and 21 bonds, for a total of around €4 billion for both types of security, and some 8,200 new covered warrants (Table II.1).

TABLE II.1

PUBLIC OFFERINGS FOR LISTING ON REGULATED MARKETS AND OTHER PUBLIC OFFERINGS
(AMOUNTS IN MILLIONS OF EUROS)

	2000		2001	
	NUMBER	VALUE	NUMBER	VALUE
OFFERINGS FOR LISTING PURPOSES				
- SHARES[1]	44	6,903	18	3,935
- BONDS[1]	....	....	21	4,038
- COVERED WARRANTS[2]	3,343	—	8,194	—
CAPITAL INCREASES AND ISSUES OF CONVERTIBLE BONDS[3]	23	3,477	33	8,307
OTHER OFFERINGS INVOLVING LISTED SECURITIES[4]	2	6,613	1	2,721
OFFERINGS OF UNLISTED SECURITIES BY ITALIAN ISSUERS[5]	3	97	2	31
OFFERINGS BY FOREIGN ISSUERS				
- RECOGNITION OF FOREIGN PROSPECTUSES	11	25	7	23
- PAN-EUROPEAN PUBLIC OFFERINGS	3	985[6]	1	63[6]

[1] The data refer to offerings for which the listing particulars were approved during the year. The figures for bonds do not include offerings of convertible bonds. [2] The figures refer to the number of new covered warrants admitted to listing during the year. No figure is given for their value since both the price and the number of securities included in the particulars are purely indicative. In 2001 there was also an issue of 19 new instruments that were only offered to the public, but not listed. [3] Includes public offers for the subscription of securities other than Initial Public Offerings (IPOs), rights offerings and offerings for employee stock option plans. [4] Public offers and private placements for the sale of securities other than for listing purposes. The figures for 2000 include, with reference to the Finmeccanica offering, a private placement of convertible bonds amounting to €878 million. [5] Excludes offerings reserved to employees. [6] The figure refers to the Italian part of the offerings.

Other public offerings during the year included 33 capital increases and issues of convertible bonds for a total of around €8.3 billion and an offer for the sale of previously listed securities amounting to around €2.7 billion. In addition, Italian issuers made 2 offerings of unlisted securities and foreign issuers made 8, for a total of €117 million.

The difficulties in financial markets had an adverse effect on the offerings of securities in 2001. This was especially true for companies coming to the market for the first time, for which the increased uncertainty led to a sharp rise in the cost of capital; both the number and the value of IPOs decreased considerably compared with the preceding years.

There were also decreases in offers for the sale of previously listed securities, which in the preceding years had been fueled above all by privatizations, and in the Italian part of Pan-European offerings.

By contrast, there was an increase in the funds raised by listed companies through rights issues of shares and issues of convertible bonds, which had been crowded out in the preceding years by the massive offerings made on the market by newly-listed companies and privatizations. The rapid growth in covered warrants continued, with an increase of 145 per cent in the number of new instruments.

Initial Public Offerings (IPOs)

Last year 18 companies made IPOs to gain admission to listing, 13 on the Stock Exchange and 5 on the Nuovo Mercato (Table II.2). The number of newly-listed companies and the amount of funds raised were considerably down on the previous year; the reduction mainly concerned the Nuovo Mercato, owing to the large falls in the share prices of the companies in the sectors most representative of that market.

In fact, whereas on the Stock Exchange the number of newly-listed companies remained unchanged compared with the previous year and the amount offered rose from €2.5 billion to €3.8 billion, on the Nuovo Mercato both the number of newly-listed companies and the value of their offerings fell sharply. Consequently, the Nuovo Mercato accounted for no more than 6 per cent of the total funds raised via the issue of new securities, reversing the situation in 2000, when the Nuovo Mercato had accounted for nearly 80 per cent of the total.

Last year the flow of companies going public contracted sharply in all the leading European countries and in the United States. Monthly data show that the contraction began in the early months of the year and became even more pronounced in the last quarter. Compared with the averages of the three preceding years, the number of newly-listed companies fell considerably in both France and Germany (Table II.3) and was close to that recorded in Italy. There was also a pronounced fall in the number of IPOs in the United Kingdom, although the number of newly-listed companies was only slightly down on the average for 1998-2000 and the volume of funds raised was basically unchanged. In the United States, the number of newly-

listed companies fell from 380 in 2000 to around 120 in 2001 and the value of IPOs from $54 billion to $37 billion.

TABLE II.2

INITIAL PUBLIC OFFERINGS
(MILLIONS OF EUROS)

	NUMBER OF COMPANIES	MARKET VALUE[1]	OFFERINGS		TOTAL OFFERINGS[2]
			NEW SHARES	EXISTING SHARES	
STOCK EXCHANGE (MTA)					
1995	10	22,638	267	3,391	33.2
1996	12	5,550	721	945	26.6
1997	10	2,126	227	606	35.4
1998	15	3,831	609	1,230	41.7
1999	21	65,069	1,187	21,567	33.6
2000	13	14,296	1,130	1,379	16.3
2001	13	7,820	2,078	1,722	36.1
NUOVO MERCATO					
1999	6	719	227	39	27.9
2000	31	14,012	3,840	554	24.6
2001	5	372	121	14	27.3

See the methodological notes. [1] Market value of the companies admitted to listing, calculated on the basis of the offering price and the pre-offering quantity of shares. [2] As a percentage of the post-offering market value, calculated on the basis of the offering price and weighted by the size of offerings. The figures for the Stock Exchange do not include Eni in 1995, Enel in 1999 and Snam Rete Gas in 2001.

For the companies admitted to the Stock Exchange, offerings of existing shares declined as a percentage of total offerings, in line with the trend of the last few years. For the first time in the last seven years offerings of new issues exceeded those of existing shares (55 and 45 per cent respectively). The ratio of total offerings to the post-offering market value of the newly-listed companies rose from 16.3 to 36.1 per cent.

As regards the Nuovo Mercato, the bulk of offerings continued to consist of new issues, which accounted for 90 per cent of total offerings (87 per cent in 2000). The ratio of total offerings to the post-offering market value of the companies admitted to listing also remained stable.

TABLE II.3

ADMISSION TO LISTING ON THE MAIN EUROPEAN EQUITY MARKETS

	FRANCE (EURONEXT PARIS)		GERMANY (DEUTSCHE BÖRSE[1])		UK (LONDON STOCK EXCHANGE[2])	
	NUMBER OF COMPANIES[3]	FUNDS RAISED[4]	NUMBER OF COMPANIES[3]	FUNDS RAISED[4]	NUMBER OF COMPANIES[3]	FUNDS RAISED[4]
1998	226	12.2	67	3.2	124	5.6
1999	68	6.9	134	12.9	106	8.5
2000	76	11.6	135	25.5	172	18.1
2001	20	....	21	2.9	113	11.3

Sources: Fibv and National Stock Exchanges. [1] Does not include the Freiverkehr segment. [2] Does not include the AIM segment. [3] Newly-listed domestic companies. [4] Billions of euros.

The ownership structures of the companies listed on the Stock Exchange in 2001 do not differ significantly from those of newly-listed companies in the preceding years. Before listing, the controlling shareholder held 88 per cent of the voting rights on average and afterwards around 59 per cent (Table aII.1). Only in one case did the voting rights exercisable by the controlling shareholder fall below 50 per cent of the total.

By contrast, the ownership structures of the companies listed on the Nuovo Mercato in 2001 (Table aII.2) differ quite considerably in comparison with the preceding years. The average pre-offering holding of the controlling shareholder, which in 1999 and 2000 had already been smaller than for companies newly listed on the Stock Exchange, fell sharply (to 54 per cent from above 70 per cent in 1999 and 2000), primarily because for two of the five companies listed there was no controlling shareholder (consideration was given, in these cases, to the holding of the largest shareholder). The average post-offering holding of the controlling (or largest) shareholder fell even further, to 39 per cent, primarily owing to the dilution produced by the new shares issued.

The results of the IPOs carried out last year were severely affected by the equity market crisis: oversubscription (the ratio of demand to supply) declined compared with 2000, both for public offerings and for private placements (Table aII.3). The impact was especially pronounced on the Nuovo Mercato, where oversubscription had been considerable in 2000. Stock Exchange IPOs saw a sharp fall in the portion taken up by the public (from 49 to 29 per cent), while that taken up by Italian and foreign institutional investors rose. As regards Nuovo Mercato IPOs, the portion taken up by the public remained virtually unchanged, while that taken up by Italian institutional investors rose by 33 percentage points and that taken up by foreign institutional investors fell by the same amount.

TABLE II.4

BOOKBUILDING IN PLACEMENTS WITH ITALIAN INSTITUTIONAL INVESTORS FOR COMPANIES ADMITTED TO LISTING ON THE STOCK EXCHANGE IN 2001
(PERCENTAGES)

COMPANY	UNDERPRICING[1]	PORTION REQUESTED BY LARGEST INVESTOR[2,3]	PORTION ALLOTTED TO LARGEST INVESTOR[2,3]	AVERAGE PORTION ALLOTTED TO INVESTORS[2]	EXCESS PORTION ALLOTTED TO THE PUBLIC[4]
FIRST GROUP[5]					
AIR DOLOMITI L.A.R.E.	..	3.8	1.8	0.5	3.2
GIACOMELLI S.G.	- 2.9	3.7	2.9	0.6	- 0.9
I VIAGGI DEL VENTAGLIO	- 9.8	4.0	3.5	0.7	- 0.1
LOTTOMATICA	- 1.1	2.0	1.4	0.1	5.6
NEGRI BOSSI	- 1.6	3.8	3.8	0.8	1.7
AVERAGE	*- 3.1*	*3.5*	*2.7*	*0.5*	*1.9*
SECOND GROUP					
AC.E.GA.S.	1.3	4.6	2.0	0.3	--
AMPLIFON	1.2	10.2	1.4	0.1	- 1.3
BIESSE	6.7	5.3	4.7	0.6	- 0.6
DAVIDE CAMPARI MI[6]	- 6.3	3.1	2.1	0.4	- 3.0
DE' LONGHI	1.9	2.7	2.5	0.3	1.0
GRANITIFIANDRE	..	4.6	3.4	0.4	- 9.1
JUVENTUS F.C.	- 1.7	1.3	1.0	0.2	10.7
SNAM RETE GAS	4.7	2.9	0.2	0.1	..
AVERAGE	*1.0*	*4.4*	*2.2*	*0.3*	*- 0.3*

See the methodological notes. [1] Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the Mib index. [2] In relation to the post-offering share capital. [3] The largest investor is the Italian institutional investor that requested the largest quantity of shares; where the largest quantity was requested by more than one institutional investor, the largest investor is the one that was allotted the largest quantity. [4] With respect to the minimum specified in the prospectus. [5] The first group shows the offerings in which the largest investor was controlled by one of the Italian intermediaries that acted as global coordinator or lead manager. [6] The figures refer to the second-largest investor since the largest was the company itself.

The data on bookbuilding for Italian institutional investors confirm the evidence found for IPOs in 2000 that the performance on the first day of trading is worse where the largest institutional investor belongs to the same group as the global coordinator or the lead manager. In 2001 this result applies only to the admissions to listing on the Stock Exchange since none of the largest

institutional investors in the five companies admitted to listing on the Nuovo Mercato belonged to the same group as the global coordinator or the lead manager (Tables II.4 and II.5).

More specifically, where the largest institutional investors in IPOs were linked to these intermediaries, the market price on the first day of trading fell by an average of 3 per cent compared with the offering price after adjusting for the movement of the index, while in the other cases it rose by around 1 per cent. On the other hand, there does not appear to have been a significant difference between the two groups of shares as regards the portions requested by and allotted to the largest Italian institutional investor. Nevertheless the gap between these two aggregates narrowed considerably compared with 2001, probably as a result of the downward trend in admissions to listing over the year.

TABLE II.5

BOOKBUILDING IN PLACEMENTS WITH ITALIAN INSTITUTIONAL INVESTORS FOR COMPANIES ADMITTED TO LISTING ON THE NUOVO MERCATO IN 2001
(PERCENTAGES)

COMPANY[1]	UNDERPRICING[2]	PORTION REQUESTED BY LARGEST INVESTOR[3,4]	PORTION ALLOTTED TO LARGEST INVESTOR[3,4]	AVERAGE PORTION ALLOTTED TO INVESTORS[3]	EXCESS PORTION ALLOTTED TO THE PUBLIC[5]
ALGOL	- 4.1	6.0	6.0	0.9	- 6.7
DATALOGIC	- 0.3	3.2	2.1	0.5	2.4
ESPRINET	15.0	3.3	2.9	1.0	- 0.7
IT WAY	5.1	6.3	6.2	1.0	- 6.1
PCU ITALIA	6.6	11.7	6.4	0.9	- 1.4
AVERAGE	*4.5*	*6.1*	*4.7*	*0.8*	*- 2.5*

See the methodological notes. [1] The offerings are not divided into two groups because in no case was the largest investor controlled by the Italian intermediary that acted as global coordinator or lead manager. [2] Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the Nuovo Mercato index. [3] In relation to the post-offering share capital. [4] The largest investor is the Italian institutional investor that requested the largest quantity of shares; where the largest quantity was requested by more than one institutional investor, the largest investor is the one that was allotted the largest quantity. [5] With respect to the minimum specified in the prospectus.

Comparison between the offering prices of IPOs and the prices recorded on the first day of trading shows a continuation of the downward trend in underpricing that had emerged in 2000, probably in connection with the poor performance of the stock market. For the Nuovo Mercato IPOs, the average underpricing fell from around 16 per cent to around 5 per cent, while for the Stock Exchange IPOs there was a swing from an average underpricing of just 1 per cent in 2000 to an average premium of the same size in 2001 (Table II.6).

TABLE II.6

UNDERPRICING IN INITIAL PUBLIC OFFERINGS

	NUMBER OF OFFERINGS[1]	AVERAGE UNDERPRICING[2]	MEDIAN UNDERPRICING[2]
STOCK EXCHANGE (MTA)			
1995	9	9.7	9.3
1996	11	8.9	8.7
1997	9	5.3	8.8
1998	14	5.2	2.0
1999	17	13.2	- 0.8
2000	9	0.9	4.9
2001	11	- 1.3	- 1.1
NUOVO MERCATO			
1999	6	26.9	14.1
2000	31	15.6	8.8
2001	5	4.5	5.1

Source: Calculations based on Datastream data. See the methodological notes. [1] Does not include offerings of privatized companies or those of companies controlled by foundations or public entities. [2] Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the stock market index (Mib storico and Nuovo Mercato index from 2000).

The role of intermediaries in IPOs

The declarations sent by sponsors to Borsa Italiana SpA and the information contained in prospectuses concerning sources of potential conflicts of interest for the intermediaries placing the shares provide a picture of the credit and equity relationships existing between these intermediaries (and the groups they belong to) and newly-listed companies (Table II.7).

Of the 18 companies admitted to listing on the Stock Exchange or the Nuovo Mercato last year, 10 (i.e. 56 per cent, or virtually the same as in 2000) had credit relationships with their sponsor, global coordinator, lead managers of the offering or companies related to them. At the end of 2001 some 28 per cent of the financial debts of the companies in question were towards these intermediaries. In 2 cases the proportion exceeded 50 per cent.

In 2 cases (i.e. 11 per cent, or much less than in 2000), the sponsor, the global coordinator, the lead managers and companies related to them were shareholders of the newly-listed companies, with an average holding of around 20 per cent.

TABLE II.7

CREDIT AND EQUITY RELATIONSHIPS BETWEEN NEWLY-LISTED COMPANIES AND MAIN FINANCIAL INTERMEDIARIES INVOLVED IN THE IPO[1]

	2000	2001
COMPANIES WITH CREDIT RELATIONSHIPS WITH INTERMEDIARIES INVOLVED IN THE IPO		
- NUMBER OF COMPANIES	23	10
- PERCENTAGE OF NEWLY-LISTED COMPANIES[2]	52.3	55.6
- DEBT FINANCING PROVIDED BY INTERMEDIARIES INVOLVED IN THE IPO[3]	27.2	27.8
COMPANIES WITH EQUITY RELATIONSHIPS WITH INTERMEDIARIES INVOLVED IN THE IPO		
- NUMBER OF COMPANIES	11	2
- PERCENTAGE OF NEWLY-LISTED COMPANIES[2]	25.0	11.1
- EQUITY HELD BY INTERMEDIARIES INVOLVED IN THE IPO[4]	18.1	19.8

Sources: Consob and Borsa Italiana SpA data. See the methodological notes. [1] On the Stock Exchange (MTA) and the Nuovo Mercato. The financial intermediaries are the sponsor, the global coordinator and the lead managers of the offering. [2] As a percentage of total financial debt. [3] As a percentage of the pre-offering share capital.

Last year saw a slight increase in the concentration of investment banking as regards the listing of companies. The market shares of the first five intermediaries acting as the global coordinator of global offerings and the lead manager of Italian public offerings rose respectively from 60 to 63 per cent and from 80 to 84 per cent (Table aII.4). By contrast, the market shares of the first and the first three intermediaries decreased. There was little change in the market share of foreign global coordinators, which alone, or together with an Italian intermediary, coordinated 50 per cent of the offerings in 2001, compared with 53 per cent in 2000. It should also be noted that small and medium-sized Italian intermediaries acted as global or joint global coordinator in one third of last year's offerings.

Institutional investors specialized in the acquisition of equity interests played a larger role in the companies listed on the Stock Exchange in 2001 than they had in those listed in 2000. They held interests in 38 per cent of the newly-listed companies, with an average holding of 33 per cent before the listing and of 15 per cent immediately afterwards (Table II.8). In one case out of five

these institutional investors held a majority interest. As regards the Nuovo Mercato, these institutional investors were present in one case out of five and their holdings were much smaller. Although the number of newly-listed companies was rather low, this result is in sharp contrast with those of the first two years of the Nuovo Mercato's existence.

TABLE II.8

INSTITUTIONAL INVESTORS' EQUITY HOLDINGS IN NEWLY-LISTED COMPANIES[1]

	COMPANIES		NUMBER OF INSTITUTIONAL INVESTORS[4]	PRE-OFFERING EQUITY HOLDING[5]	POST-OFFERING EQUITY HOLDING[6]
	NUMBER[2]	% OF TOTAL[3]			
STOCK EXCHANGE (MTA)					
1995	6	60.0	2.3	27.7	8.5
1996	6	50.0	3.7	47.3	23.2
1997	2	20.0	1.5	40.9	7.1
1998	4	26.7	4.3	48.3	18.9
1999	6	28.6	1.7	20.1	5.4
2000	4	30.8	2.0	26.9	15.6
2001	5	38.5	1.6	32.6	15.0
NUOVO MERCATO					
1999	3	50.0	2.7	42.3	19.9
2000	14	45.2	2.9	25.6	16.4
2001	1	20.0	1.0	5.0	3.6

See the methodological notes. [1] Institutional investors include closed-end investment funds, venture capital companies and commercial and investment banks, excluding foundations and savings banks. [2] Number of companies listed during the year in which institutional investors held an interest at the offering date. [3] Percentage of companies listed during the year on the reference market that had institutional investor shareholders. [4] Average number of institutional investors holding an equity interest at the offering date. [5] Average percentage of the share capital held by institutional investors at the offering date. [6] Average percentage of the share capital held by institutional investors immediately after the offering.

New equity issues by listed companies, mergers and spin-offs

The new equity capital raised in 2001 by newly-listed and previously-listed companies amounted to more than €10 billion, slightly more than in 2000 but much less than in 1999 (Tables II.9 and aII.5).

TABLE II.9

OFFERINGS OF SHARES AND CONVERTIBLE BONDS BY LISTED COMPANIES[1]
(MILLIONS OF EUROS)

	ISSUES OF NEW SECURITIES	OFFERINGS OF EXISTING SECURITIES	*TOTAL*
1995	4,370	3,391	*7,761*
1996	2,306	5,612	*7,918*
1997	5,400	18,427	*23,827*
1998	8,879	11,273	*20,152*
1999	23,171	25,795	*48,966*
2000	9,379	7,614	*16,993*
2001	10,505	4,457	*14,962*

Sources: Consob archive of prospectuses and Borsa Italiana SpA notices. See the methodological notes. [1] From 1999 onwards includes companies listed on the Nuovo Mercato.

There was a further decline in offerings of existing securities to around €4.5 billion, the lowest level since 1995. This result was primarily due to the large contraction in offerings in connection with privatizations. Nonetheless, about 61 per cent of the total raised was accounted for by the fifth Eni tranche, which amounted to €2.7 billion (Table aII.6).

Among the rights issues made in 2001, it is worth noting the two made by Olivetti, which were completed in March and December respectively. These issues required the preparation and clearance of a prospectus because, in addition to shares, they included the offering of unlisted financial instruments (convertible bonds).

More specifically, the second capital increase completed a complex operation begun on 30 July 2001, whereby Pirelli SpA and Edizione Finance SA acquired, via the newly created company Olimpia, the interest in Olivetti owned by Bell SA, the previous reference shareholder of Olivetti itself, for a consideration of around €8 billion (Box 2).

BOX 2

The transaction on Olivetti's capital and the restructuring of the Montedison group

On 30 July 2001 Pirelli SpA and Edizione Finance SA signed an agreement with Bell SA for the purchase of the latter's interest of around 23.3 per cent in Olivetti. The agreement provided for the purchase of 1,552,662,120 ordinary shares and 68,409,125 Olivetti 2001-2002 ordinary share warrants, for a total consideration of €6,557 million. In a subsequent agreement concluded after the collapse of the markets in the wake of the terrorist attacks of 11 September it was agreed that the interest in Olivetti would be transferred in two tranches to a new company, Olimpia SpA, set up by Pirelli and Edizione, which also contributed the Olivetti shares they had bought in the market. The agreement also contained an undertaking by the majority shareholders of Bell that it would take up the approximately €1,033 million of bonds Olimpia would issue when it paid the consideration for the purchase of the interest in Olivetti on 5 October 2001.

In the period between the setting up of Olimpia and the completion of its purchase of the interest in Olivetti a series of changes were made in its capital, which resulted in this being held as follows: Pirelli (60 per cent), Edizione (20 per cent), IntesaBci (10 per cent) and UniCredito Italiano (10 per cent).

In the last few months of 2001 approval was given to a rights issue of Olivetti ordinary shares and a bond issue, "Olivetti 1.5%, 2001-2010 convertible with premium at the redemption". These operations were decided by the company's board of directors on 13 October 2001 on the basis of a mandate conferred by the extraordinary shareholders' meeting held on the same day, the first in which the new reference shareholder, Olimpia, was present. The net proceeds of the operations, amounting to around €3.8 billion, were to be used to reduce Olivetti's net debt. The offering gave shareholders the right to subscribe for one new share or one new convertible bond at par (€1) for every two shares/convertible bonds owned.

The right granted posed a potential threat to Olivetti's main shareholder, Olimpia, since it already owned an interest of around 27 per cent, which risked rising above the 30 per cent limit and triggering the tender offer requirement under Article 106 of the Consolidated Law on Financial Intermediation. The risk derived from Olimpia's undertaking to take up all its subscription rights (albeit by subscribing for 50 per cent shares and 50 per cent bonds). At the end of the operation Olimpia owned an interest of 28.7 per cent, which was below the 30 per cent mandatory tender offer threshold. In any case the Commission had excluded the applicability of the rules on mandatory tender offers, subject to certain conditions. On 7 December 2001, after the stock exchange offering of all the unexercised rights (amounting to 0.2 of the total), the offering had been taken up in full, with the subscription of 1,491,373,698 shares and 2,412,962,875 bonds without the intervention of the underwriting banks.

Last year also saw control of the Montedison group change hands and the subsequent restructuring of the group. In July 2001 Italenergia SpA (owned by the Fiat group, EdF, Tassara SpA, the SanPaolo IMI group, Banca di Roma and IntesaBci)

launched a mandatory cascade takeover bid for Montedison SpA under Article 106 of Legislative Decree 58/1998 and its subsidiary Edison SpA, at the price of respectively €3.16 and €11.6 per share, for a total consideration of around €8.1 billion, of which around €5.6 billion was debt financed.

On 30 October the new controllers of the Montedison group presented the financial community with a complex plan for its restructuring aimed at focusing its activity on the energy sector by disposing of non-core businesses, consisting basically in the holdings in agribusiness (the companies belonging to the form Eridania Beghin Say group), chemicals (Ausimont and Antibioticos), plant engineering (Tecnimont) and insurance (La Fondiaria), with a consequent improvement of around €7 billion in the group's net financial position and a simplification of the chain of control.

In particular, the restructuring plan envisages the partial non-proportional division of Falck SpA, with the transfer to Montedison of its holdings in Sondel SpA (equal to 73.7 per cent of the share capital) and Ipse SpA (equal to 2 per cent of the share capital), other assets of less importance and financial debts amounting to around €41 million. Other steps in the restructuring will be taken (the completion of the entire operation is expected by April 2002) and include the merger with Montedison of Sondel, Edison and Fiat Energia, the conversion of Montedison savings shares into ordinary shares, a change in the company's object, the transfer of its registered office and the renaming of Montedison SpA as Edison SpA.

The extraordinary shareholders' meetings of the companies involved approved the restructuring measures in December 2001. The strategic plan also provides for the absorption of the new Edison, the company born from the foregoing mergers, by Italenergia, with the reproduction of the same controlling shareholder structure in a new company, in the second half of 2002 in order to transfer the debt deriving from the takeover bid, amounting to €5.6 billion, to the operating company.

One important operation on the Nuovo Mercato was the capital increase carried out by Eplanet SpA.

The operation consisted in a rights issue of shares for cash and a bonus issue of warrants convertible into shares. The rights issue was part of the rescue operation designed to overcome the company's serious financial situation. The funds raised, amounting to around €101 million allowed the company to meet its debt obligations and to finance a restructuring plan. The share issue was mainly taken up by third parties. Consob ruled that, where there was a debt restructuring plan, subscribing for a capital increase of a listed company in crisis fell within the scope of the exemptions from the requirement to make a tender offer.

Last year also saw numerous mergers and spin-offs that required the filing of an information document in accordance with Article 70 of Consob Regulation 11971/1999 on issuers. Notable among these operations was that involving Montedison, which saw a change in control and the subsequent restructuring of the group (Box 2).

In addition, in July 2001 Zucchi SpA filed a document for its merger with Bassetti SpA. The prior transfer of the operations of the absorbing company (Zucchi SpA) to a new company in which the holding company participated directly made it possible to conserve the previous commercial situation, with Bassetti and Zucchi both present in the market with their own trademarks.

The new structure of the group also results in major administrative simplifications in view of the elimination of a listed company and the complexities associated with the management of a subholding company with its own consolidated accounts and different shareholders to those of Zucchi SpA.

Last year also saw Autostrada Torino-Milano complete the implementation of a plan for the spinning off to a new company called Società Iniziative Autostradali e Servizi SpA of the part of the business consisting basically in the holdings in SALT (Società Autostrade Ligure Toscana SpA) and ASTM Telecomunicazioni SpA. The spin-off is an important step in the reorganization of the ASTM group since, by dividing the activities of the companies operating under government licences according to their geographical location, it will be possible both to pursue growth strategies by attracting new shareholders with strong local roots in the areas in which major investment in motor way infrastructure is envisaged and more easily to involve other leading operators in the field in view of the more suitable forms of aggregation that will be feasible in the future.

Public offerings of unlisted securities and public offerings by foreign issuers

In 2001 Consob cleared the publication of the prospectuses for two public offerings of unlisted securities; the total amount involved was around €32 million, a sharp fall compared with the previous year (Table II.10)

TABLE II.10

PUBLIC OFFERINGS OF UNLISTED SECURITIES[1]

	NUMBER OF OFFERINGS				TOTAL VALUE (MILLIONS OF EUROS)			
	1998	1999	2000	2001	1998	1999	2000	2001
EXISTING SHARES	2	--	--	1	90	--	--	4
NEW SHARES	4	4	3	1	19	62	97	28
TOTAL	*6*	*4*	*3*	*2*	*109*	*62*	*97*	*32*

[1] Excludes offerings reserved to employees.

The first operation involved the offer for sale by the Sondrio municipality of 1.75 million existing ordinary shares in Azienda Sondriese Multiservizi for a total of €3.6 million, together with a greenshoe option for institutional investors to take up an additional 290,000 shares. The public took up 954,000 shares at a price of €3.75 per share. At the close of the offering the Sondrio municipality (which had previously held 99.4 per cent of the share capital) was still the controlling shareholder, with a holding of 64.5 per cent (in fact Article 22.3 of Law 142/1990 requires the municipality to conserve a controlling interest of at least 51 per cent).

The second operation consisted in the offering of around 1.4 million new shares by Cassa di Risparmio di Ferrara at a price of €20 per share for a total of €27.8 million euros.

Turning to offerings by foreign issuers, as provided for in Community law, the Commission recognized a series of foreign prospectuses in 2001. It should be noted in this respect that the amendments made in April 2001 to the provisions of Consob Regulation 11971/1999 made it possible in the case of offerings reserved to employees for issuers of EU countries to prepare a prospectus in accordance with the simplified model that issuers listed in Italy can use instead of having Consob to recognize the prospectus approved by their home-country authority. Again with reference to offerings reserved to employees, provision has also been made for issuers with shares listed on a regulated market in an OECD country to prepare a prospectus in accordance with the simplified model.

All the foreign prospectuses recognized in 2001 (7 operations for a total of around €23 million) were for offerings reserved to employees of the Italian subsidiaries of the offeror.

Last year saw only one pan-European operation involving Italy, compared with 3 in 2000. The public offering in Italy was made by Orange SA and was for shares amounting to more than €63 million.

Rulemaking and interpretative guidance concerning public offers and mergers and spin-offs

As part of the activity of updating the regulations implementing the Consolidated Law on Financial Intermediation, a number of amendments were made to Consob Regulation 11971/1999 on issuers. In particular, these concerned the rules on public offerings, listing particulars and the disclosure requirements applicable to certain types of transactions.

In the first place, specific rules were introduced for issues of bonds and covered warrants under a program.

Under the new rules, where the offering or listing involves such financial instruments, the prospectus may have the following structure: a) an information document on the issuer; b) a supplementary note on the program containing, for each type of product, all the information specified in the annexes to the regulation except for the items, indicated in the note, that can only be determined at the time of each issue; and c) a

supplementary notice, to be published on the occasion of each issue not later than the day before the start of trading or of the acceptance period, containing all the information not set out in the supplementary note.

As regards listing particulars, the regulation on issuers was amended in two other ways.

In the first place, a provision was added whereby issuers with shares listed on regulated markets of OECD countries may draw up the prospectus for a public offering reserved to employees, referred to in Article 33.2d) of Consob Regulation 11971/1999, using the simplified model that issuers with shares listed in Italy can use.

Previously, issuers whose shares were not listed on an Italian regulated market were required to prepared a "complete" prospectus. This imposed an excessive burden on issuers that, insofar as they were listed on non-EU regulated markets, were able to draw up simplified prospectuses in their home countries but were not able to benefit from the mutual recognition provided for in EU directives and therefore had to draw up a prospectus in accordance with model 1 in Annex 1B of Consob Regulation 11971/1999.

In addition, all the rules on exemptions from the requirement to prepare listing particulars were brought together in the same article. In particular, it will be possible to use prospectuses or listing particulars published in the twelve preceding months, even if for other financial instruments, provided they contain equivalent information and are accompanied by a note updating the information they contain and describing any significant events that have occurred in the meantime.

Furthermore, an issuer with shares that have been traded on an Italian regulated market for at least two years that applies for admission to listing on another Italian regulated market may also benefit from the exemption. Following the elimination of the reference only to shares traded on the Stock Exchange, this exemption now also applies to companies moving from the Nuovo Mercato to the Stock Exchange.

As regards the information documents required for significant mergers/spin-offs and acquisitions/disposals, following the establishment on a general basis of "significance parameters" for determining the existence of the requirement (released in Consob Communication DIS/98081334 of 19 October 1998), the provision whereby Consob had to request the preparation of a document was replaced by one calling for issuers to prepare one in the event of a transaction that triggered the significance condition referred to above.

Last year also saw the extension to companies listed on other markets of some disclosure requirements concerning corporate events previously applicable only to companies listed on the Stock Exchange. In particular, in view of the importance to investors of some transactions involving companies listed on the Nuovo Mercato, the rules regarding the information documents required for significant mergers/spin-offs and acquisitions/disposals were extended to such companies.

Lastly, rules were introduced for the conversion of shares of one class into shares of another class.

More specifically, after the shareholders' meeting has approved such a conversion, the new rules require issuers to make the directors' report — drawn up in accordance with a new model form included

in Annex 3A of Consob Regulation 11971/1999 and supplemented by the information on the conversion that was not available before the shareholders' meeting — available to the public in order to permit investors interested in the conversion to make an informed assessment of the transaction. The directors' report model contains information of particular interest for conversions of preference and savings shares into ordinary shares, such as the loss of preferential capital rights, the reduction in the liquidity of the shares in question in the event of incomplete conversion and subsequent delisting of the unconverted shares, and significant changes in the ownership and control structure as a result of the conversion. The information is divided according to whether the conversion involves a cash consideration or whether the conversion rate is one-to-one or some other.

III. CORPORATE DISCLOSURE

Supervision and enforcement

The Commission's controls on disclosure by listed issuers resulted in 397 requests for information and 40 requests of publication of information (Table III.1). Three listed companies and one auditing firm were inspected during 2001. In four cases the Commission issued cease-and-desist orders prohibiting unauthorized offerings of shares or bonds of unlisted issuers. Finally, as in 2000, in one instance Consob invoked its powers to challenge the annual accounts of a listed issuer.

In the case of a new share issue by a listed company, the Commission requested that the information document be supplemented with additional information on the controlling shareholders. On that occasion the Commission established general criteria for determining the existence of control for the purposes of Article 2359, first paragraph, point 2, of the Civil Code.

The criteria in question serve to identify the existence of a situation of "dominant influence in the ordinary shareholders' meeting", the condition adopted by the above-mentioned provision of the Civil Code for control. Dominant influence cannot be transient and due to contingent circumstances; it must be at least relatively stable, as determined on the basis of an analysis of the results of shareholders' meetings over a reasonably significant period, but not necessarily subsequent to the time at which the presumed controlling shareholder acquired the holding (provided there have not been other significant changes in the ownership structure in the meantime). For this purpose particular importance is attributed not only to the size of the relative majority shareholding but also to how widely the remaining shares are distributed, the usual level of absenteeism among the smaller shareholders, and the percentage of votes needed, on average, to establish a quorum in earlier ordinary shareholders' meetings.

In 2001 the Commission asked the Ministry for the Economy and Finance to impose fines or raised objections that led, where they were not contested, to the payment of reduced penalties in a total of 111 cases for violation of the rules on corporate disclosure (including disclosure of significant shareholdings and shareholders' agreements) and on offerings. The reduced payments levied and the fines proposed to the Ministry for the Economy amounted to more than €2 million.

With regard to public offerings, the most frequent instances of alleged violation concerned Regulation 11971/1999 on listed issuers, which lays down that allotments relative to security offerings must be carried out directly by the intermediary responsible for the placement on a centralized basis. In two cases objections were raised for non-compliance with the rules regarding the publication of the prospectus on the occasion of issues of reverse convertible bonds. As for corporate disclosure, 4 of the 17 cases in which fines were proposed or reduced payments levied were for non-compliance with the requirements for the dissemination of price-sensitive information. The remaining cases were for non-compliance with the requirements for disclosure in the annual accounts.

TABLE III.1

CONTROLS ON CORPORATE DISCLOSURE AND OWNERSHIP STRUCTURES

	2000	2001
REQUESTS FOR INFORMATION	89	397
REQUESTS UNDER ARTICLE 115.3 OF LEGISLATIVE DECREE 58/1998 (NAMES OF SHAREHOLDERS)	68	52
INSPECTIONS	--	4
REQUESTS TO PUBLISH DATA AND INFORMATION	17	40
REPORTS TO THE COURTS UNDER ARTICLE 2409 OF THE CIVIL CODE	2	—
WRITTEN REPRIMANDS	12	5
CHALLENGES OF THE ANNUAL ACCOUNTS	1	1

TABLE III.2

ENFORCEMENT IN CONNECTION WITH OFFERINGS AND CORPORATE DISCLOSURE
(2001)

	FINES PROPOSED TO THE MINISTRY OF THE ECONOMY		REDUCED PAYMENTS	
	CASES	AMOUNT [1]	CASES	AMOUNT [1]
PUBLIC OFFERINGS	27	545	13	344
TENDER OFFERS	—	—	—	—
CORPORATE DISCLOSURE	6	160	11	258
MAJOR HOLDINGS AND SHAREHOLDERS' AGREEMENTS	3	238	51	537
PROXIES	—	—	—	—
TOTAL	*36*	*943*	*75*	*1.139*

[1] In thousands of euros.

Numerous reduced payments were levied following objections concerning late notification or non-notification of significant shareholdings. In two cases the Commission's objections also concerned non-notification of shareholders' agreements.

Disclosure to shareholders

In 2001 the Commission acted on several occasions to require listed companies to supplement the information disclosed to the shareholders in ordinary or extraordinary shareholders' meetings.

The most important instances were the cases in which the directors were requested to supplement their draft 2000 annual reports by adding more detailed information on particularly complex financial transactions, specifically as regards their impact on the companies' profits and losses, financial position and assets and liabilities.

One such operation concerned a complex plan for the reorganization of a listed company's foreign shareholdings, another the sale to the group's major shareholder of a sub-holding company that owned the group's operating companies.

In a third case, the Commission asked five listed companies belonging to the same group to supplement the information disclosed to the shareholders regarding numerous and complex transactions carried out during the 1999 and 2000 financial years for the setting up and listing of one of the companies belonging to the group in question. As these were transactions with related parties, in the Commission's opinion specific and detailed information needed to be provided concerning the way the transactions were to be carried out (and, in particular, the manner of valuing the assets transferred to the newly-listed company by the other group companies and the percentage of the share capital subscribed by each of the these at the time the new company was set up) and the economic advantageousness of these transactions and their consistency with the company's interests.

Other noteworthy actions involved requests for companies to make the accounting data presented to the annual meeting for 2000 more complete and precise.

In the case of a company listed on the Nuovo Mercato, the Commission requested that the information presented in the draft annual report for 2000 be supplemented so as to permit comparison between the figures for the two halves of that financial year. In point of fact, between the first and the second halves a slump in sales had caused a sharp deterioration in turnover, in contrast with the forecasts of the business plan that the company had prepared with a view to determining the share price for the listing placement. The Commission also instructed the company to summarize the expenses it had incurred from the time of listing (in particular, those arising from transactions with related parties and consulting fees). Subsequently, as the information requested was still not sufficiently clear and complete, the Commission directed the company to make a further supplementary disclosure in a specific press release.

In a second case, the Commission considered that the information contained in the documentary records it had obtained in the course of its controls on disclosure to the market and shareholders was not adequately presented in the accounting documents that the company had made available to the shareholders up to then. The records referred, in particular, to some transactions carried out by the managing director of a listed issuer without providing adequate and timely information to the board of directors. The Commission consequently requested a supplement to the disclosure made to the annual meeting convened to approve the report and accounts for 2000.

The Commission also issued reprimands to boards of auditors of listed companies for failing to comply with its communications on disclosure to the annual meeting as regards transactions approved by the directors, particularly those with related parties and atypical or unusual transactions.

In the case of a listed company belong to a group, the Commission found that the board of directors had not documented the performance of checks on the way in which some large transactions with related parties had been approved by the directors, had not attributed due importance to these transactions in its report to the shareholders, and had not expressed its own independent assessment of the completeness of the information provided by the directors in their report on operations and of the compatibility of the transactions in question with the company's interests. The Commission accordingly reprimanded the internal auditors and called on them to scrutinize the transactions carried out by the directors more carefully and to observe the principles set out in Consob communications on corporate controls.

Financial reporting and controls by registered external auditors

Consob's periodic checks on the annual accounts of listed companies in 2001 led to its invoking its powers under Article 157.2 of the Consolidated Law in one case and challenging a listed company's consolidated accounts for 2000.

It was the Commission's opinion that the accounts in question had not been drawn up in accordance with the Consolidated Law. The most problematic aspect was the failure to eliminate an intra-group capital gain from the consolidated accounts for the amount corresponding to the actual equity interest. Consob requested the issuer and the external auditors for specific information serving to evaluate the correctness of the accounting treatment of the capital gain arising from the aforementioned intra-group transaction. In view of the Commission's indications, the company subsequently issued a press release announcing that it had decided to restate the consolidated accounts and have them reapproved.

Another intervention originated from a report of censurable actions transmitted to the Commission by a listed bank's board of auditors pursuant to Article 149.3 of the Consolidated Law. Specifically, the board of auditors notified Consob of operational and accounting irregularities in the 2000 annual accounts basically in connection with guarantees illegitimately issued by the bank in respect of the capital and/or yield of portfolio management services performed on behalf of some customers.

In a general communication addressed to banks with financial instruments listed on regulated markets, Consob requested that the notes to their 2000 annual accounts include specific information on the actions taken in view of several legislative measures that could have affected their profits and losses and assets and liabilities (tax reliefs, subsidized mortgages, non-subsidized fixed-rate mortgages and compound interest).

In 2001 registered auditing firms examined 281 company accounts and 246 consolidated accounts of issuers listed on Italian regulated markets. In their audit reports, registered auditors

made 207 calls for additional disclosure and in four cases issued a qualified opinion. There was no instance of an adverse opinion or disclaimer (Table aIII.1).

The calls for additional disclosure mainly involved the charging of accelerated depreciation in order to enjoy tax benefits, the contents of the notes to the accounts, the revaluation of tangible fixed assets and investments, the adoption of new accounting policies, changes in the structure of groups and the existence of legal disputes. In particular, in two cases the auditors, after initially declaring that it was impossible to issue an opinion owing to the limitations encountered in carrying out the audit and the uncertainty bearing on the going-concern assumption, subsequently reformulated their report and expressed a positive opinion, albeit with some calls for additional disclosure.

One of the qualified opinions was issued because the auditors had been unable to verify the correct calculation of the production costs of a subsidiary's stocks of finished products, owing to the limits found in the information systems. In a second case, the auditors reported they had been unable to obtain formal records concerning contractual agreements and adequate economic and financial information regarding a company whose shares were part of the agreed price for the sale of a subsidiary to a third party; they also reported that they had been unable to confirm the transactions outstanding between the listed company and a foreign counterparty.

In the third case, the auditors disagreed with the accounting treatment of a capital gain realized by a subsidiary following a sale and lease-back contract regarding a building. In the fourth, the auditors pointed out the lack of evidence sustaining the directors' observations concerning the decision not to write down an investment and the recoverability of the issuer's claims on the investee, and noted a situation of uncertainty as to the actual amount of the consequent losses.

At the end of 2001 there were 24 auditing firms registered with Consob, the same number as in 2000.

In 2001 the Commission amended its resolutions for the registration of four firms following changes in their legal form, name or registered office. At the end of 2001 an application for registration submitted during the year was under examination (Table aIII.2).

The Commission's examinations of the audit engagements conferred for the three years 2001-2003 found a greater degree of compliance by companies and auditing firms with the legislative and regulatory provisions regarding auditing than in the first two years in which the Consolidated Law was in effect. However, in some cases deficiencies in the information submitted required action to obtain supplementary documentation, and in others there was misinterpretation of the rules on the auditing of groups. Accordingly, Consob urged issuers to expand the scope of compulsory auditing within the group where some subsidiaries had not engaged auditors.

The data on registered auditors' revenues and new engagements in 2000 reflect a slight increase in the degree of concentration of the market for auditing services in Italy. The market share of the first three auditing firms increased from 55 per cent in 1999 to about 60 per cent in terms of revenue and from 48 to 60 per cent in terms of the number of new engagements (Table aIII.3). The gain in market share for the first six firms was more limited.

Disclosure of price-sensitive information

The Commission acted in numerous case in 2001, notably on the occasion of particularly important corporate actions, to guarantee accurate and timely disclosure to the market by listed companies. Its interventions took the form of both informal contacts with issuers and formal requests for the publication of information.

Issuers were requested to publish press releases or to communicate information directly to Consob on more occasions than in 2000. In particular, in four cases the Commission requested listed issuers, in the presence of anomalies in the behavior of the prices of their financial instruments, to deny or confirm rumors that had appeared in the press. In two cases it also addressed requests for information to authorized intermediaries. In addition, it examined nine requests for the suspension of the requirements for the public disclosure of price-sensitive information.

The Commission paid particular attention to price-sensitive information on football teams with listed securities, since the rumors about purchases and sales of players that appear almost daily in the press and on websites (specialized and not) are potentially able to provoke significant changes in the prices of the securities. On five occasions it solicited clarifications from listed football teams concerning rumors about sales or acquisitions of players.

The dissemination of potentially price-sensitive information over the Internet was another area in which the Commission carried out controls.

In particular, Consob identified a group of more than 100 financial information websites (excluding the financial sections of national newspapers' websites and the websites of financial intermediaries, however controlled) and monitored them daily for rumors and leaks that were likely to determine changes in securities prices and had not been picked up by other channels of information. In one case, a listed company was asked to deny rumors that had been published on a website but had not appeared anywhere else in the media.

In analyzing the information disseminated by financial news websites, it was found that in the early hours of the day these sites picked up and summarized items published the same morning in the economic press. During the day, by contrast, they picked up news published by the leading press agencies. The number of news items picked up, written up and reported on an exclusive basis, or at least ahead of other sources, by the sites' editors was low but nonetheless significant.

Particular attention was also paid to monitoring the messages posted by user-investors in the chat rooms of the sites in question. Forty financial chat rooms were selected and analysis of their content showed that the discussion groups on specific securities were fueled by news and rumors found in other organs of information or by trading suggestions that the user-investors themselves sent to the group.

Controls on the disclosure of price-sensitive information to the market and investors were accompanied by interpretative activity aimed at clarifying and supplementing the regulatory provisions.

With Communication DME/1000796 of 4 January 2001 concerning the use of Internet sites for the dissemination of information by issuers of listed financial instruments, the Commission, while acknowledging that use of the Internet contributed to more homogeneous dissemination of information among the public, requested that companies comply with the requirements concerning the accuracy, transparency and equality of disclosure. In particular, the Commission recommended that companies post integral versions of documents on their websites (or summaries faithfully reflecting the information provided in the original documents) and make available the annual report and accounts, the half-yearly report on operations and the quarterly reports.

In Communication DME/1039328 of 18 May 2001 Consob addressed the subject of profit warnings by listed companies. In view of the obligations laid down by Article 68 of Regulation 11971/1999 and the need to provide investors with regular and frequent financial information, the Commission stressed the advisability of issuing profit warnings in the light of the consensus estimate, and urged issuers to monitor all the information available to the market, including published financial analyses, and to examine any significant divergence between the results the market expects and those the company expected, for prompt correction of the expectations of the generality of investors.

Analysis and research reports on listed companies

In 2001 Consob received a total of 23,500 research reports on listed companies prepared by intermediaries, compared with 12,000 in 2000. These included 5,900 company specific research reports, whose share of the total rose by around 5 percentage points to more than 25 per cent.

There also were changes in the percentage breakdown of the recommendations contained in research reports (Table III.3). The proportion of those with a buy recommendation fell from 58.2 to 48.3 per cent, partly owing to the unfavorable performance of the market but also because of the market's recent closer scrutiny the of validity of analysts' advice. The proportion of reports with a hold recommendation rose from around 26 to 33.7 per cent, and that of reports advising investors to sell from 6.1 to 9.1 per cent.

There is a high degree of concentration in the research market. In 2001 forty-five intermediaries issued research reports on listed Italian companies; the top nine accounted for more than 54 per cent of all reports. Nearly all listed companies were the subject of reports, but coverage in terms of the frequency of updates and the diversity of analysis was satisfactory only for a small proportion of them. Some 55 companies were the subject of more than 24 per cent of all reports, while 65 companies (or 30 per cent of those covered) were examined by fewer than four reports a year (Table III.4). Moreover, for many of the companies that received less cover, the reports were issued almost exclusively by intermediaries contractually bound to do so (for example, sponsors). Obviously, for these companies there is a higher risk of the dissemination of research being affected by conflicts of interest arising from the simultaneous performance of other activities or roles. More generally, fewer companies were covered than in 2000 (but considerably more than in 1998 and 1999). The reduction last year was basically due to the decline in attention to the companies listed on the Nuovo Mercato.

TABLE III.3

DISTRIBUTION OF RESEARCH REPORTS BY TYPE OF TRADING RECOMMENDATION
(PERCENTAGES)

RECOMMENDATION	1998	1999	2000	2001
BUY	59.1	57.5	58.2	48.3
HOLD	25.5	26.7	26.1	33.6
IMPORTANT NEWS	9.9	9.1	9.6	9.0
SELL	5.5	6.6	6.1	9.1
TOTAL NUMBER OF REPORTS	*2,288*	*2,260*	*2,368*	*5,912*

TABLE III.4

DISTRIBUTION OF COMPANIES COVERED BY RESEARCH REPORTS BY NUMBER OF REPORTS

	NUMBER OF COMPANIES COVERED BY REPORTS[1]	DISTRIBUTION OF COMPANIES COVERED BY NUMBER OF REPORTS[2]						
		MORE THAN 51	FROM 25 TO 50	FROM 13 TO 24	FROM 5 TO 12	4	UP TO 3	*TOTAL*
1998	179	4.5	10.1	21.2	25.1	7.8	31.3	*100*
1999	146	4.9	8.9	16.4	27.4	7.5	34.9	*100*
2000	261	9.9	9.3	15.6	27.4	6.3	31.5	*100*
2001	217	7.8	17.5	14.7	24.4	5.6	30.0	*100*

[1] Companies listed on the regulated markets operated by Borsa Italiana. [2] Percentages.

In view of the growing importance of research in completing and enhancing the information available to the market, the Commission regulated the disclosure of research reports as early as 1991 with Article 15 of Regulation 5553/1991, implementing Article 6 of Law 157/1991, which required that they be filed at the stock exchange and indicate the possible existence of conflicts of interest. The regulatory provisions implementing the Consolidated Law (Article 69 of Regulation 11971/1999) took over the earlier provisions without substantial amendment.

In 2001, at the conclusion of a consultation with market participants, Consob approved several amendments to Article 69 of Regulation 11971/1999. In particular, the new version requires that reports prominently display a warning that the document has been prepared by a person who may have a specific interest in the issuer, the financial instruments or the transactions analyzed and that it specify the cause of the interest and its extent (previously, it was sufficient to indicate the existence of a generic potential conflict of interest). It also requires that research reports and statistics addressed to shareholders and customers be filed to the Stock Exchange within 10 days of the date of their release (previously, the time limit was 15 days).

These changes, made necessary by findings of frequent situations in which reports were disseminated by entities with a potential conflict of interest (not always adequately reported to the market), were accompanied and supplemented by Communication DME/1029755 of 20 April 2001.

That communication provided examples of what might be the specific interests whose cause and extent were to be indicated. It also contained recommendations on transparency with regard to sources, the independence and correct conduct of financial analysts, transparency with regard to the manner and timing of the dissemination of reports, and transparency with regard to the continuity of research cover and to the series of opinions expressed.

However, the effectiveness of Italian regulation of research reports is blunted by the delays in the international convergence of regulatory approaches, which encourage regulatory arbitrage, and by the absence of effective forms of self-regulation supplementing and reinforcing official regulation.

At the international level, it is worth noting the initiative of IOSCO, which has established a working group (including representatives of Consob) mandated to make a comparative study of the regulations and practices adopted in the leading countries and on that basis to identify the main problems connected with the production and dissemination of research reports and the possible options for their effective regulation.

With regard to self-regulation, it is worth pointing out that in the wake of the Enron affair the self-regulatory organizations of American brokers have recently adopted stricter and more detailed rules, backed up by heavy penalties.

Lastly, with regard to verification of compliance by those who produce research reports with the new rules adopted in 2001, a first check was made on observance of the rules for the disclaimer on conflicts of interest. Where this was found to be less than optimal, the intermediaries involved were reminded of the need for stricter compliance. Finally, several indictment procedures were initiated for violations of the provisions in question.

Rulemaking and interpretative guidance

In a general communication to auditing firms pursuant to Article 162 of the Consolidated Law, Consob renewed a request it had already made in 1995, under the laws then in force, for

auditing firms to prepare annually a control report concerning the data and information contained in listed companies' annual accounts.

In 1995 the Commission had emphasized the links between its controls on the annual accounts of listed companies and its power to acquire data and information from the auditing firm. To make the flow of information from auditors more systematic and useful for the Commission's activity, Consob requested auditing firms to compile a control report summarizing the main data and information acquired during their statutory audit of accounts. Experience since then has demonstrated the value of these reports, not only for controls on the information disclosed by listed companies but also for more efficient supervision of auditing firms. The Commission accordingly renewed the requirement placed on auditing firms in 1995 but modified the format and contents of the control report, so that it now gives more prominent and complete treatment of the problems that emerged in the course of the audit and allows greater compactness and standardization of the information.

The Commission also issued a communication with rules of conduct and disclosure requirements that could serve as guidelines for boards of auditors in the correct performance of their control functions.

In the communication in question, the Commission reaffirmed the principles laid down in earlier communications on the same subject (particularly that of 20 February 1997) and provided indications for the preparation of the report by the board of auditors on its activity to the annual shareholders' meeting. In particular, the board of auditors is required to include in its report complete and detailed information on any significant transactions with related parties or atypical and/or unusual transactions, with an indication of its own assessment of the congruousness of such transactions and their compatibility with the company's interests and its evaluations as to the adequacy of the information disclosed by the directors in the annual report. The board of auditors is also required to provide indications regarding its evaluations of compliance with the law and the company's instrument of incorporation, observance of the principles of correct administration, the adequacy of the administrative structure and internal control system, and the adequacy of the instructions issued by the company for its subsidiaries to provide all the information necessary to the parent company in order to satisfy the notification requirements established by law. Set out in this way, the assessments by the board of auditors in its report can give the shareholders' meeting an accurate view of the company's economic, financial and administrative situation, thanks also to the constant cooperation between the board of auditors and the auditing firm, which constitutes an essential prerequisite for the correct functioning of the system of corporate governance.

The Commission also recommended that boards of auditors prepare and send it a summary report on the audit activity performed. A summary report of this kind can be a valid aid to a board of auditors in preparing its report to the shareholders' meeting.

The Commission also determined that the external auditors of listed companies should be asked to provide information similar to that to be supplied by boards of auditors, by means of a checklist.

In compiling the checklist, the external auditors will have to include information on atypical and/or unusual transactions (with related parties, intragroup and with third parties) and their evaluations of the functioning of the internal control system in place at the audited company. The checklist will allow Consob

to know the evaluations of the board of auditors and those of the external auditors regarding the same transactions.

During the year Consob issued three general interpretative documents concerning the auditing of accounts.

In a communication issued in July 2001, the Commission established, with the contribution of the relevant professional associations, the criteria for the drawing up and presentation of pro forma financial information. Subsequently, in a recommendation published in August 2001 it specified the procedures for checking pro forma figures and the report format auditing firms are to use for expressing their opinion on pro forma accounts.

Regulation 11971/1999 on issuers requires the inclusion of pro forma financial figures in information documents and offer prospectuses in cases in which the issuer is a party to transactions involving substantial changes in the company's assets and liabilities. Since pro forma figures are obtained by adjusting the data on profits and losses, assets and liabilities and financial position to reflect retroactively the effects of corporate events that occurred subsequently, the significance of such data depends crucially on the reasonableness of the assumptions underlying them. The Commission's intervention was prompted by the lack of common rules on the drawing up of pro forma financial figures, a situation which had contributed in the past to the spread of different accounting practices.

In particular, since one of the major problems of pro forma financial information is that of the period to which the data are to refer, the Commission established that the data were only to refer to the pro forma balance sheet, profit and loss account and statement of cash flows for the last financial year closed before the date of the corporate event. This reflects the Commission's view that the presentation of pro forma figures for periods excessively remote from the transactions involved the risk of adjustments producing unreliable or even misleading results.

Finally, in a communication issued in July 2001, Consob recommended a standard, for auditing the annual accounts of intermediaries, with rules of conduct and terms of reference for auditing the accounts of companies authorized to provide investment services, asset management companies, Sicavs and stockbrokers and for auditing the statements of operations of investment funds.

The Commission's document starts out from the consideration that the activity of intermediaries is characterized by high risk and involves interests protected by law, such as the safeguarding of investors and the integrity of the market, thereby demanding highly detailed and complex sectoral regulation. Accordingly, it was considered necessary to draft a specific standard to provide auditing firms with adequate instruments for the correct performance of accounting control. This standard, which is added to the general rules and will enter into force with the auditing of the annual accounts for 2001, addresses two crucial aspects of auditing, i.e. the evaluation of internal controls, for an assessment of the overall auditing risk, and the rules requiring auditing firms to notify the supervisory authorities. Special technical guidelines have been prepared showing, both on a general basis and by type of service supplied to customers, the objectives that an intermediary's internal control system must satisfy for the correct performance of the activity.

In 2001 the Commission expressed its opinion on accounting issues of general interest where, owing to the lack of statutory provisions and national accounting standards governing the matter or because of difficulties in interpreting the existing rules, listed issuers had encountered problems in preparing accounting documents.

Two opinions that the Commission issued with regard to the accounting treatment of derivative instruments were especially important.

In the first case, in response to a query, the Commission gave its opinion on the possibility of considering an Interest Rate Swap as a hedge against the risk of fluctuations in the interest rate on an existing bond loan.

In the absence of specific legal provisions concerning the treatment of derivative contracts, the Commission took the view that reference had to be made not only to the second paragraph of Article 2423 of the Civil Code but also to the prudence and accruals basis principles laid down in the first paragraph of Article 2423-bis of the Civil Code. It stated that general guidance on the interpretation of these principles could be found in the provisions governing the annual accounts of banks and financial companies and in IAS 39 ("Financial Instruments: Recognition and Measurement"). In fact, the Commission considered that the rules for identifying hedging transactions laid down in IAS 39 were compatible with Italian and Community law. On the basis of these references, the Commission stated that the possibility of considering that a financial instrument served as a hedge depended on a series of conditions, including that of a high correlation between the characteristics of the asset or liability being hedged and those of the hedging instrument. The existence of these conditions needed to be carefully evaluated by the directors and verified by the independent auditors.

In the second case, in response to a query from a bank, Consob provided guidance on the accounting treatment to be applied in the 2001 half-yearly report to a commitment to buy own shares in connection with the possible exercise of put warrants issued when it made a public offer to exchange shares with a view to obtaining control of another bank.

The warrants originally issued gave holders the right to sell the bidder additional shares of the target bank. During the 2001 financial year the bank submitting the query approved the proposal to merge with the bank whose shares underlay the warrants, so that its own shares became the underlying. As of the 2001 financial year the warrants had to be valued taking account of their market value since, in accordance with the decision approved by the shareholders' meeting, the underlying shares had been earmarked for subsequent disposal. This gave rise to a valuation deficit.

The Commission was asked whether it would be possible to treat the valuation deficit as contributing to the merger surplus on the grounds that the decision to dispose of the shares was an immediate consequence of the decision to carry out the merger. Consob took an unfavorable view of this approach and considered that it would be more correct for the capital loss on the warrants to be included in income. The Commission stated that the loss was due to the decision to use the shares as the underlying of the warrants and that this decision was entirely independent of the decision to carry out the merger. Accordingly, it was of the view that it was not possible for the merger balances to include an income item deriving from an autonomous management decision whose effects necessarily had to be shown in the income statement.

Lastly, with a general communication the Commission provided guidance concerning the classification and valuation of listed banks' securities portfolios in their periodic financial reports.

The communication replaces that issued in 1995 on the same subject, taking account of the evolution of Community law and innovations introduced by IAS 39 ("Financial instruments: Recognition and Measurement"), in force since the beginning of 2001. In particular, the Commission noted that the part of IAS 39 defining the essential features for the classification of securities in the segment that an enterprise intended to hold to maturity provided a useful reference point. On the basis of those indications, which may be applied to interpret the rules in force only insofar as they are compatible with the provisions of Legislative Degree 87/1992, the Commission stated that securities were to be classified as financial fixed assets only where a bank, in conformity with the criteria established in its framework resolution, really intended to hold the securities to maturity or as a stable investment and was likely to be able — considering its profitability, financial position and operational situation — to fulfil that intention. A bank's framework resolution is the necessary point of reference for the classification of the securities it owns by segment and their transfer between segments, and hence must logically and temporally precede such operations. The possibility of adopting a framework resolution having retroactive effects is therefore to be excluded.

In view of the evolution of Community law and international accounting standards the Commission was of the opinion that where it proved necessary to transfer securities from one segment to the other, the transfer value could coincide with the value deriving from the application of the valuation rules of the origin segment. As regards the information to be disclosed in the notes to the accounts, the Commission pointed out that the transfer of a security from one segment to the other did not give rise to a change in accounting policy and did not need to be included in the information on such changes. The Commission noted that in preparing the annual accounts (or another accounting document), the application to a security of a different valuation rule than that utilized in the last report constituted the necessary initial application of a valuation rule appropriate to the new segment. It therefore concluded that there was no need to provide the summary pro forma financial reports referred to in Communication DAC/99059009 of 30 July 1999.

IV. REGULATED MARKETS AND OTHER TRADING SYSTEMS

Regulated markets

In 2001 the prices of Italian listed shares fell sharply, continuing the slide that had begun in the second half of 2000, which had reversed the long upward trend of the 5 previous years. After rising slightly in 2000, the main Stock Exchange indexes fell by around 25 per cent in 2001; the Nuovo Mercato index plunged by around 45 per cent, or by nearly twice as much as in the previous year (25 per cent).

The performance of the Italian market was in line with that of the other leading European markets and reflected, amplifying it, the downward trend of the US market that had begun in 2000 (overall, the Dow Jones index dropped by 15 per cent in the last two years).

All the main financial centers were adversely affected by the poor performance of the economy, which was aggravated by the effects of the events of 11 September, which had a significant impact on cyclical developments and the international prices of financial assets. The repercussions on the US economy and those of the other leading industrial countries were substantial, owing to the effects of the climate of pronounced uncertainty by households and firms. In the short term the former reacted by increasing their precautionary savings and investing in less risky assets, while the latter postponed their capital spending. In fact the confidence indicators of firms and households recorded large falls until October, reflecting primarily the emotive impact of the terrorist attacks but also the worsening of the prospects for economic activity and employment caused by the crises in the sectors most directly affected.

In line with developments on the other main international markets, the prices of shares traded on Italian regulated markets slumped in the wake of the events of 11 September (Box 3). However, it should be noted that they had already begun to spiral down before 11 September. In particular, after a period of relative stability, the bearish trend revived in August, when the Mib index fell by more than 6 per cent; it then lost another 9 per between 3 and 10 September.

The falls in the two weeks prior to 11 September occurred across the board, although they were not equally large in every sector. The worst hit were technology and telecommunications (Olivetti -35.09 per cent, Pirelli -26.94 per cent, Telecom Italia -19.24 per cent), banking (Unicredito -18.32 per cent, Banca di Roma -13,32 per cent) and asset management (Banca Fideuram -19,3 per cent, Mediolanum -24,17 per cent). Only the most defensive stocks succeeded in holding out, at least until 11 September, (Eni -2,11 per cent, Italgas -1,42 per cent), while the insurance industry moved with the market (Alleanza -5,93 per cent, Generali -9,88 per cent).

BOX 3

The performance of international stock markets in the wake of the events of 11 September 2001

In the morning of 11 September the main European stock markets had seen significant gains, with the largest recorded by the German DAX index, which rose by more than 2 per cent. After the news of the attacks had broken, trading continued regularly apart from a few exceptions. In London the City was evacuated and it was only the activation of the emergency system that allowed trading on the London Stock Exchange to continue, while at around 4 p.m. trading on the Lisbon and Helsinki markets was suspended briefly, for 40 and 60 minutes respectively. Trading on the Frankfurt stock exchange, which is the only one in Europe to stay open until 8 p.m., was halted at 7 p.m. after the DAX index had fallen by more than 11 per cent (at the close it had recovered somewhat and the fall was limited to around 8.5 per cent). In Italy the TAH after-hours market was closed from 11 to 14 September.

In the Americas the main stock exchanges outside the United States, including those of Canada, Argentina and Brazil, halted trading about two hours after the first attack on New York, with losses of around 4 per cent The suspension was subsequently extended to 13 September, except in Brazil. In Asia the markets were closed when the attacks occurred but, even though they opened only several hours later, there were large and widespread losses. Trading on the markets of Kuala Lumpur, Taiwan and Bangkok was suspended for the whole day on 12 September.

Trading started again on the main US markets on Monday, 17 September, when, despite the measures adopted by the regulatory authorities to attenuate the fall in prices (the SEC's suspension of some restrictions on buy backs and the Federal Reserve's half-point reduction in interest rates), prices recorded large falls, justified in part by the prolonged closure of the markets. In the week from 17 to 21 September the Dow Jones index fell by 14.3 per cent and the Nasdaq index by more than 16 per cent.

In the same period share prices continued to lose ground in Europe, with falls ranging from a minimum of 6.5 per cent on the French stock exchange and a maximum of 12.6 on the Italian stock exchange. Overall, between 3 and 21 September the index of Italian shares fell by around 30 per cent, that of German and French shares by around 27 and 22 per cent respectively; U.K. shares suffered a little less, falling on average by around 20 per cent. From 24 September onwards, benefitting from the recovery in US share prices, there was a generalized rise in Europe that in just a few days made good more than half the losses recorded in the preceding days.

MOVEMENTS IN STOCK INDEXES IN THE DAYS FOLLOWING 11 SEPTEMBER 2001

	11 SEPTEMBER	11 - 14 SEPTEMBER	17 - 21 SEPTEMBER
ITALY	- 7.8	- 12.1	- 12.7
FRANCE	- 7.4	-10.8	- 6.6
GERMANY	- 8.5	-11.9	- 8.0
U.K.	- 5.7	- 5.8	- 10.8
U.S.A. (NYSE)	—	—	- 14.3
JAPAN [1]	- 6.6	- 6.6	- 4.5
HONG KONG [1]	- 8.9	- 7.3	- 7.4
SINGAPORE [1]	- 7.4	- 10.6	- 11.4

Source: Calculation based on Datastream data. [1] Data for 12 September and 12-14 September.

Prices continued to fall until 21 September, when the Mib index reached its lowest point, down by 42.7 per cent on the beginning of the year. Subsequently it recovered to a level just above that recorded before the international crisis triggered by the terrorist attacks.

In the wake of the events of 11 September there was a significant increase in trading volumes. Turnover in shares on the regulated markets operated by Borsa Italiana amounted to about €3.7 billion on the 11th and the daily average was about €3.1billion in the period from 12 to 21 September, compared with €2.9 billion in the period from 3 to 10 September.

The rise in turnover was accompanied by a pronounced increase in price volatility. That implied by the prices of Mibo30 options on Fib30 contracts traded on IDEM, the derivatives market operated by Borsa Italiana, rose considerably after 11 September, when the implied volatility of put options was more than twice that for call options with a similar strike price, indicating that most traders expected share prices to fall further (Table IV.1). Subsequently, this differential was eroded during the recovery in prices that got under way on 21 September.

The reduction in share prices diminished the flow of new listings on the regulated markets operated by Borsa Italiana compared with the three previous years. In 2001 the number of new companies listed on the Stock Exchange and the Nuovo Mercato dropped to 13 and 5 respectively. Despite these additions, the number of Italian companies with shares listed on the markets operated by Borsa Italiana decreased from 291 at the end of 2000 to 288 at the end of 2001, primarily as a consequence of delistings in the wake of mergers and residual-acquisition tender offers following changes in companies' ownership structures.

TABLE IV.1

INDICATORS OF SHARE PRICE VOLATILITY IN ITALY BEFORE AND AFTER 11 SEPTEMBER 2001

	27 AUGUST	10 SEPTEMBER	11 SEPTEMBER	21 SEPTEMBER
HISTORICAL MIB30 VOLATILITY[1]	16.8	23.3	39.2	48.9
VOLATILITY IMPLIED BY MIBO30 CALL OPTIONS[2]	17.6	33.9	43.2	47.7
VOLATILITY IMPLIED BY MIBO30 PUT OPTIONS[2]	18.4	33.5	97.2	52.6
OPEN INTEREST IN FIB30 CONTRACTS [3]	22.8	23.8	23.8	30.8

[1] Annualized standard deviation of the daily changes in the Mib30 index in the 20 trading days preceding the reference date; percentages. [2] Value observed for at-the-money contracts (with strike closest to the current value of the underlying index); percentages on an annual basis. [3] Thousands of units.

The negative performance of share prices in 2001 also caused a significant reduction in the total capitalization of the Stock Exchange and the other share markets operated by Borsa Italiana (Table aIV.1). The reduction in the capitalization was much larger for the Nuovo Mercato (about 44 per cent) than for the Stock Exchange (about 27 per cent). Overall, the capitalization of the Stock Exchange and the other share markets operated by Borsa Italiana fell from €818.4 billion at the end of 2000 to €592.4 billion at the end of 2001.

The reduction in share prices led to an almost parallel reduction in the total value of trading in shares, although both on the Stock Exchange and on the Nuovo Mercato the turnover ratio remained well above one, as in 2000. There was also an increase in issuers' transactions involving their own shares (Box 4).

In its fourth year of life the MCW, the electronic covered warrants market operated by Borsa Italiana, saw a sizable reduction in trading, in terms of both value and number of contracts, despite an increase in the number of products offered. Similar contractions in volume of business occurred on all the main European covered warrants markets. On the basis of the latest data available (end-June 2001) the market operated by Borsa Italiana nonetheless ranked second in Europe in terms of turnover, preceded only by that operated by Deutsche Borse.

BOX 4

Listed companies' trading in their own shares in 2001

Last year saw a large increase in trading in their own shares by listed companies. In particular, 116 companies approved a plan to buy or sell their own shares, compared with an average of about 60 in the two years 1999-2000. In 7 cases the main aim was to finance a stock-option plan for directors and employees.

The duration of the authorizations to buy shares in the resolutions approved by the shareholders' meeting was equal to the maximum allowed under civil law (18 months). Analogously, the buyable quantity was set, especially for small cap companies, equal to the maximum allowed (10 per cent of the share capital). A small proportion of companies indicated a maximum buy price or a minimum sell price, with the latter usually equal to the face value. More often, however, recourse was made to algorithms that identify a reference price on the basis of the market prices in the period (from 1 to 5 sessions) immediately preceding each transaction, with a subsequent adjustment obtained by applying a positive and negative spread that is normally quite wide (between 10 and 15 per cent).

The total value of purchases of own shares in the first ten months of 2001 was around €2.3 billion (0.4 per cent of total turnover in the same period), while sales of own shares amounted to around €0.7 billion. Purchases rose well above the average in September (to more than €550 million) in conjunction with the sharp downward correction in share prices. The transactions in own shares of 12 small cap companies for which there was only a thin market exceeded 20 per cent of total turnover.

RESOLUTIONS AND PURCHASES/SALES OF OWN SHARES BY LISTED COMPANIES IN 2001

COMPANIES THAT APPROVED A PLAN TO BUY/SELL OWN SHARES	116
(AS A PERCENTAGE OF LISTED ITALIAN COMPANIES)	*(40)*
OF WHICH: MIB30	18
MIDEX	13
NUOVO MERCATO	4
COMPANIES THAT BOUGHT/SOLD ON THE MARKET	93
OF WHICH: ONLY PURCHASES	40
ONLY SALES	3
PURCHASES AND SALES	50
PURCHASES/SALES OF OWN SHARES AS A PERCENTAGE OF TOTAL TURNOVER	
>20 %	12
10 - 20 %	11
5 - 10 %	13

TABLE IV.2

LISTED COVERED WARRANTS

	NUMBER OF ISSUES			TURNOVER VALUE[3]
	OUTSTANDING[1]	NEW[2]	EXPIRED	
1998	122	122	--	2.5
1999	1,565	1,660	217	14.2
2000	3,107	3,343	1,801	31.0
2001	5,866	8,194	5,435[4]	20.8

Sources: Consob and Borsa Italiana. [1] Year-end data. [2] Admitted to listing during the year. [3] Billions of euros. [4] Including 351 that were delisted before maturity (146 maturing in 2001 and 205 maturing in 2001.

At the end of 2001 there were about 5,800 covered warrants listed, an increase of 89 per cent on the end of 2000 (Table IV.2). This figure is the result of the listing of 8,194 new covered warrants and the delisting of 5,435 that expired. The number of issuers, mainly banks and other financial intermediaries, also increased, rising from 13 at the end of 2000 to 23 at the end of last year.

The volume of trading in covered warrants on the market operated by Borsa Italiana amounted to around €20.8 billion in 2001, a reduction of about 33 per cent on the previous year. The number of contracts exceeded 50 million and was down by about 20 per cent.

By contrast, last year saw a sizable increase in turnover on Borsa Italiana's after-hours market (TAH) which permits trading in shares listed on the Stock Exchange and the Nuovo Mercato and covered warrants listed on the MCW electronic covered warrants market.

Compared with 2000, when the market was created, the daily average number of contracts concluded rose from around 5,800 to around 7,900, while, notwithstanding the fall in share prices, the daily average value of trades remained basically unchanged at around €25 million. The value of trades per unit of time in after-hours trading was about 3 per cent of that recorded in daytime trading, while the number of contracts per unit of time was about 15 per cent of that recorded in daytime trading.

In terms of notional value, trading in equity derivatives on the IDEM market showed a smaller contraction in 2001 (about 14 per cent) than the value of trading in shares on the regulated cash markets operated by Borsa Italiana (about 25 per cent). By contrast, there was an increase of about 28 per cent compared with 2000 in the total number of standard contracts concluded.

In particular, just over 17 million contracts were concluded on the IDEM market in 2001, with a daily average of about 68,000. The most traded contracts were stock options, with an increase in the number of

transaction of 42 per cent (Table IV.3) and the Fib30. The most frequently traded stock options were those on Tim, Generali, Eni and Telecom Italia shares.

TABLE IV.3

DERIVATIVES TRADED ON THE IDEM MARKET[1]
(SUMMARY DATA FOR 2001)

	NUMBER OF CONTRACTS CONCLUDED[2]	DAILY AVERAGE[2]	PERCENTAGE CHANGE[3]
FIB30	4,634	18	9
MIBO30	2,717	11	- 4
STOCK OPTIONS	8,332	33	42
MIDEX FUTURE	0.743	..	- 63
MINI FIB[4]	1,400	6	114

Sources: Based on Borsa Italiana SpA and Cassa di compensazione e garanzia SpA data. [1]The figures refer to the IDEM and MIF markets. [2] Thousands. [3] Compared with the previous year. [4] Trading began on 3 July 2000.

In 2001 the volume of trading in the Mib30 index option (Mibo30 contracts) was basically in line with that recorded in 2000 (2.7 million contracts, down by 4 per cent), while there was significant growth in trading in the new futures contract, MiniFIB, in its second year (1.4 million contracts, an increase of 114 per cent).By contrast, there was a further decline in interest in the futures contract on the Midex index and the number of contracts concluded fell by 63 per cent to just 743.

The lack of interest on derivatives on government securities and interest rates, that had emerged in 2000 continued and led to trading on MIF drying up completely. This development can be attributed to the fact that, following the switch to the euro, traders have focused almost exclusively on futures based on German government securities (Bunds); in fact, LIFFE also decided to suspend trading in its BTP futures contract during the year.

As regards the regulated markets for fixed income securities operated by Borsa Italiana, the number of government securities listed on MOT declined from 128 to 117, while the total number of bonds listed on MOT and EuroMOT fell from 479 to 437. Turnover in both government securities and bonds on MOT continued the downward trend that has been under way for several years, with a further reduction in average daily volume. By contrast, trading in bonds on EuroMOT grew considerably, albeit with respect to the very low values recorded in 2000. Trading on the MTS

wholesale market for government securities also recorded a significant increase of 12.6 per cent in trading volume (Table aIV.2).

Structured bank bonds listed on regulated markets operated by Borsa Italiana amount to about 27 per cent of all listed bonds in terms of nominal value, while in September 2001 they were about 18 per cent of all structured bank bonds. Again in September 2001, outstanding structured bonds were about 50 per cent of all bank bonds, unchanged compared with end-2000 (Table IV.4).

TABLE IV.4

OUTSTANDING STRUCTURED BANK BONDS

	1996	1997	1998	1999	2000	SEPT. 2001
PURE CALLS/PUTS	25.0	44.4	58.9	56.9	63.7	62.2
PURE STOCHASTIC INTEREST RATE	2.3	7.1	14.5	22.7	26.7	28.4
MIXED STOCHASTIC INTEREST RATE	1.4	14.3	18.6	21.1	25.8	29.0
PURE INDEXED	0.2	4.8	15.1	21.3	29.8	37.2
MIXED INDEXED	—	0.5	1.3	2.7	3.3	3.0
REVERSE CONVERTIBLES	—	—	0.3	3.4	2.5	0.3
TOTAL	*29.0*	*71.0*	*108.7*	*128.1*	*151.9*	*160.1*
AS A PERCENTAGE OF ALL BANK BONDS	19.5	34.8	43.7	47.9	50.9	49.5

Sources: Based on Luxor-Fi.data and Bank of Italy data. Billions of euros.

Structured bank bonds have ever more complicated indexation mechanisms with an increase in the number of cases in which there was more than one reference clause for calculating interest or the principal amount at maturity (known as "mixed" structured bonds). There were sharp contractions in 2001 in outstanding reverse convertibles and in bonds that only contain put or call clauses, while there was a sizable increase in outstanding bonds where the rate of return is linked to the performance of financial instruments or indexes of various kinds.

The contraction in some types of structured bonds was accompanied by the expansion of other derivative products, mostly covered warrants, with increasingly complicated structures and indexation mechanisms. "Exotic" covered warrants differ considerably from the characteristic structure of call and put options. In some cases they combine the two, as in the case of spreads (which involve the purchase of a call with a certain strike and the simultaneous sale of a put with a higher strike) and straddles (which involve the simultaneous purchase of a call and a put); other new types include "digital" covered warrants and those with combinations of knock-in and knock out conditions (i.e. where the gain changes if the price of the

underlying reaches a certain level) and, lastly, those that combine options with a zero strike with ordinary options.

Unregulated trading systems

Notifications of new unregulated trading systems rose to 27 in 2001 (14 in 2000); they were made by 25 banks, one investment firm and one market operator. The latter's system is for trading in public and private-sector bonds of Italian and foreign issuers, including structured bonds and atypical securities for minimum lots of €1 million. No closures of trading systems were notified in 2001, whereas in 2000 there had been 12 such notifications.

Last year saw further growth in the leading organized trading system, which is called TLX and operated by a company belonging to the Unicredito Italiano group. The system handles shares listed on other Italian and foreign regulated markets, covered warrants and bonds. While the turnover in Italian shares and covered warrants is modest, even in comparison with Borsa Italiana's after-hours market (less than 5 per cent), the volume of trading in foreign shares is larger (Table IV.5).

TABLE IV.5

TRADING VOLUMES ON TLX UNREGULATED TRADING SYSTEM
(2001)

	NUMBER OF SECURITIES HANDLED	NUMBER OF CONTRACTS CONCLUDED [1]	VALUE OF TRADES [2]
ITALLIAN SHARES	40	31	208
FOREIGN SHARES	103	236	1,176
COVERED WARRANTS	1,200	30	63
BONDS	332	59	1,810
STRUCTURED BONDS	37	48	704
TOTAL	*1,712*	*404*	*3,961*

Source: Tradinglab banca SpA. [1] Thousands. [2] Millions of euros.

The supervision of the operators of unregulated trading systems was intensified last year, with requests for data and information on the business and the manner of functioning of the systems.

A survey covering a sample of 57 unregulated trading systems, mostly operated by cooperative banks and savings banks and with similar rules and volumes of business, showed that nearly all the systems were marked by the lack of a plurality of buyers and sellers in competition with each other and that only in rare cases were prices actually formed by the matching of supply and demand. In fact the price formation mechanism usually involved automatic rules based on criteria laid down by the board of directors of the operating company. The survey also showed that the users of the systems consisted almost entirely of clients of the intermediaries that organized them.

Examination of the survey data showed that the total turnover of the 57 systems (of which only 39 had recorded transactions in the period considered) amounted to around €30 million in the first quarter of 2001, or about 20 per cent of the turnover on the Mercato Ristretto operated by Borsa Italiana, which is comparable in terms of the number of securities traded and types of issuer. Of the 39 systems in operation in the quarter, only 6 had a monthly average turnover of more than €500,000.

In addition to its normal monitoring and supervisory activities on unregulated trading systems aimed at ensuring transparency and orderly trading, the Commission adopted some specific measures to protect investors in 2001. In October it prohibited a foreign company from operating an organized system for trading financial instruments. The measure was adopted to prevent clients from running serious risks, considering that the system in question had continued to operate despite the Commission having issued a cease and desist order in 2000.

As regards the supervision of unregulated trading systems, the Commission is studying amendments to the rules to adjust them to international developments and the changes that have taken place in Italy. The aspects under examination include the definition of unregulated trading systems, their classification according to the persons allowed to use them, and the consequent introduction of differentiated reporting requirements and a register with different sections according to the category they belong to.

Analysis of the 372 notifications of the start of operations submitted by operators of unregulated trading systems under Consob Communication 98097747 of 24 December 1998 showed that in only 17 cases was the participation of authorized intermediaries or institutional investors envisaged and that the great majority of systems was aimed at retail clients with the operator (nearly always a bank) as the counterparty. In systems of this type the frequency of trading was not always daily since transactions depended on clients' specific needs.

Supervision on regulated markets

The Commission's main activity in 2001 as regards the supervision of regulated markets consisted in the approval of amendments to the market rules in connection with Borsa Italiana's adoption of a new market model (Box 5).

BOX 5

The market model adopted by Borsa Italiana SpA

One of the main changes to Borsa Italiana' market model for the share markets it operates was the introduction of a closing auction. This change to the market's microstructure was in response to the need to provide a price signal for the last phase of trading sessions, when transactions are quite often carried out at prices that are not in line with those recorded during the rest of the session. By concentrating the supply and demand present on the market in a given interval, the closing auction is a price formation mechanism that is less easily influenced by traders.

Like the opening auction, the closing auction has a validation and an auction phase. The latter brings together the compatible orders on the trading book, the orders entered in the closing pre-auction phase and the orders that are only valid at the close, which can be entered from the start of the continuous trading phase onwards but are only considered in the closing pre-auction phase. As in the opening pre-auction phase, traders have access to real-time information on reference prices, control prices, theoretical closing prices and the total quantities tradable at those prices. The real-time information available to the public in the closing pre-auction phase for each financial instrument is similar to that available in the pre-auction opening phase: the theoretical closing price and related quantity tradable; the price and quantity of the best buy and sell orders; the control price; and the quantities on the book for the 5 best buy and sell prices.

Under the new market model the closing times of the pre-auction phases are not known in advance. Accordingly, all the pre-auction phases of a session (opening, closing and intraday) close at a moment selected using a random process within a given interval specified by Borsa Italiana.

A second change in the market model is the replacement of the reference price with the control price as the parameter to be considered by the automatic mechanisms for the suspension of trading. The control price is the reference price in the opening auction and the opening auction price during continuous trading and in the closing auction (in the absence of an opening auction price, the control price is taken to be the reference price).

Furthermore, following the introduction of the closing auction, and hence of a closing price, a change has been made to the notion of reference price, which is now the closing-auction price or, in the circumstances specified in the market rules, the quantity-weighted average price of the last 10% of the quantity traded, excluding the quantity traded using the cross-order function. The new rules also state that in the absence of transactions during a session the reference price is equal to that of the previous day.

Another change consists in the removal of the obligation requiring transactions to be equal to or a multiple of the minimum lot specified by Borsa Italiana (in line with its earlier removal on the Nuovo Mercato). This will give final investors greater flexibility in their investment decisions and will also eliminate the need for frequent adjustments to minimum lots to take account of increases in capital and significant

price movements. In addition, the opening phase, which is currently configured to permit the grouping into single lots of odd lots entered for execution at the auction price, will be simplified. Borsa Italiana nonetheless reserves the right to specify a minimum lot for each financial instrument where this is necessary for the efficient functioning of the market, investors' easy access to it and the cost-efficient execution of orders.

In order to ensure the efficient functioning of the market following the elimination of minimum lots, Borsa Italiana has amended the rules on partially-displayed orders by requiring the quantity displayed to be at least equal to a minimum amount specified in the Instructions accompanying the market rules. In particular, in the case of limit orders the value of the quantity displayed must be between the minimum specified by Borsa Italiana in the Instructions and the total value of the order; such orders are automatically canceled at the beginning of a pre-auction phase. The Instructions specify that in the case of partially-displayed orders the value of the partial quantity displayed must be at least €10,000.

The Commission also approved some amendments to the rules governing specific markets operated by Borsa Italiana. As regards the MTA electronic share market, the Commission approved the creation of a new segment called Star.

This segment is reserved to medium and small cap companies that are already listed or about to be listed and satisfy a series of requirements, primarily concerning: the free float (which must be at least 35 per cent of the share capital for a company to enter the segment and above 20 per cent for it to remain there); corporate disclosure (posting of annual and quarterly reports, notices and press releases on the company's website in Italian and English; the provision of liquidity support by a specialist (with commitments regarding daily quantities and the maximum spread and an undertaking to publish at least two research reports each year); and corporate governance (compliance with the standards laid down in the self-regulatory code of corporate governance for listed companies).

As regards the IDEM derivatives market, the Commission approved some amendments to the rules serving to permit the introduction of some new functions not previously provided for.

One of the most important changes concerned the introduction of rules governing the obligations of market makers, which provide for two sets of quotation obligations for each contract traded on the market (continuing obligations and obligations in respect of requests). Another change concerned the rules governing stop orders (which are executed only if a condition specified at entry occurs), whereby a trigger price may now be specified with reference to an instrument other than the one the order refers to).

The Commission also approved some amendments to the methods used to calculate the Mib30 and Midex indexes and to adjust both these indexes and stock option contracts in the event of extraordinary dividends.

The main change to the methods used to construct the indexes gave greater weight to the liquidity of securities than to market capitalization in selecting those to be included in the indexes. For their part the changes to the rules governing the adjustment of the indexes and stock option contracts served to introduce an objective and simple criterion for identifying extraordinary dividends. Provision was also made for the inclusion in the Mib30 and Midex indexes of the shares of foreign companies listed on MTA.

As regards the MCW covered warrants market, the most important amendment made provision for the admission of covered warrants with underlying shares traded on regulated markets other than the Stock Exchange.

Turning to the wholesale markets for government securities organized and operated by MTS SpA, the Commission issued the prescribed opinion to the Ministry for the Economy and Finance for authorization of a new market segment called Bondvision and approval of the related rules.

It is worth noting that the Ministry's approval of the Bondvision rules was subject to adoption of the amendments indicated in the text attached to the ministerial decree granting the authorization. The decree also provided for the admission to trading in the new segment of persons other than the authorized intermediaries referred to in Article 66.2 of Legislative Decree 58/1998: Italian insurance companies and asset management companies (exclusively for the purposes of collective management or management on behalf of persons admitted to trading), foreign insurance companies and foreign residents that perform collective asset management where adequate forms of supervision exist in their home country.

Bondvision operates on the basis of an electronic system linked to the Internet for the trading of government securities by means of a competitive auction mechanism involving one or more dealers. Trading is carried on exclusively by way of connections to a special system that allows the submission of requests for quotes from dealers, the display of quotes by the main dealers and the conclusion of contracts. The financial instruments eligible for trading are Italian and foreign government securities; there is also a grey market for securities whose issue has been announced.

Rulemaking and interpretative guidance

In 2001 the Commission approved some amendments to Regulation 11768/1998 on regulated markets. They mainly concerned: the exclusion of traditional option contracts and other derivatives from the requirement for trading to be concentrated on regulated markets; the lengthening of the time limit for reporting off-market transactions to the market operating company from 5 to 15 minutes from the time they are concluded; and the definition of electronic links with foreign markets.

The reason for the increase in the time allowed for reporting off-market transactions is that intermediaries not admitted to trading on the Stock Exchange report such transactions by sending a fax to SIA (the company that runs the electronic systems used by Borsa Italiana), which in turn enters the information manually in the system for the dissemination of such news. With this procedure 5 minutes proved not always to be sufficient to fulfil the notification obligation, so that there was the risk of sanctions being imposed for delays that were not the fault of the intermediaries involved.

The addition of a definition of electronic links with foreign markets was necessary to dispel interpretative doubts about the functioning in Italy of foreign organized trading systems. In fact, the amendment restricts the concept of foreign market for the purpose of notifying electronic links to the markets recognized under Articles 67.1 and 67.2 of Legislative Decree 58/1998 and to organized trading systems operated by intermediaries authorized to provide investment services in Italy.

Lastly, the exclusion of traditional option contracts and other derivatives from the requirement for trading to be concentrated on regulated markets was necessary because the concentration principle cannot apply to off-market transactions involving derivatives (commonly known as OTC transactions) in view of the contractual nature of such transactions. In fact, the interpolation of Cassa di compensazione e garanzia SpA in transactions effected on the regulated market makes a derivative contract traded on that market different from any other contract with the same features concluded bilaterally on the OTC market. The effects of the interpolation on the contractual relationships, and especially the counterparties' settlement and guarantee obligations, are such that they are essential elements of the contract. It therefore follows that maintaining the concentration requirement for OTC derivative transactions had virtually no practical importance, even when their characteristics were otherwise identical to those of contracts traded on regulated derivative markets.

In 2001 the Commission continued to cooperate closely with the Bank of Italy on coordinating the supervision of the companies operating regulated markets, central securities depositories, clearing and guarantee systems, and settlement systems. The aim of protecting investors and ensuring the transparent and efficient operation of markets and support systems led Consob and the Bank of Italy in January 2002 to approve a joint measure containing the Supervisory Instructions for the above-mentioned entities. These Instructions constitute an integrated and systematized body of rules based on the implementing provisions of the Consolidated Law on Financial Intermediation concerning market supervision.

The document is divided into five parts, each of which addresses a specific area of supervision (wholesale government securities markets and market operating companies, regulated markets other than wholesale government securities markets, central securities depositories, gross settlement systems and clearing and settlement systems for transactions involving other than financial derivatives, and clearing and guarantee systems for transactions involving financial derivatives). Each part contains three sections (concerning the performance of the activity, the shareholders and corporate officers, and the manner of carrying out supervision). In particular the main requirements concerning the disclosure of information refer, in accordance with the legislation in force, to reports on the functioning of the markets and systems operated, related and instrumental activities, equity interests acquired by operating companies, plans to amend the bylaws and the rules, shareholders and governing bodies, financial statements and annual reports, company planning documents and cooperation agreements, and, lastly, organizational structures and technological/electronic systems.

In view of the importance of information in the practical performance of supervision, the Instructions identify the time limits and procedures for ensuring an adequate flow that can be revised and supplemented as necessary in response to changes in the legal framework and/or in the operating environment.

V. INSIDER TRADING AND MARKET MANIPULATION

Investigations and enforcement

In 2001 Consob transmitted 28 reports to the judiciary authorities on investigations of anomalies it had found during its market supervision (Table V.1). In 18 cases (21 in 2000 and 30 in 1999) the reports contained evidence of market abuses, insider trading in 14 cases (17 in 2000) and market manipulation in 4 (as in 2000). The remaining 10 reports, 3 concerning insider trading and 7 market manipulation, excluded the perpetration of a crime.

TABLE V.1

OUTCOMES OF INVESTIGATIONS

	1997	1998	1999	2000	2001
REPORT OF A SUSPECTED CRIME[1]	19	21	30	21	18
CASE CLOSED AT END OF PRELIMINARY INVESTIGATION[2]	18	3	1	--	--
CASE CLOSED AT END OF FULL INVESTIGATION[2]	15	12[3]	7	5	10
TOTAL	*52*	*36*	*38*	*26*	*28*

[1] In 1997 and in 10 cases in 1998, the reports were transmitted under Article 8.3 of Law 157/1991, which was repealed by the Consolidated Law on Financial Intermediation. [2] Article 186 of the Consolidated Law requires Consob to transmit a report to the public prosecutor on every investigation it carries out. [3] Of which 9 cases in which the investigation was closed before the entry into force of the Consolidated Law.

The number of requests for data and information sent to intermediaries, listed companies and foreign authorities dropped from 570 in 2000 to 413 last year, despite the increase in the overall number of investigations carried out (Table aV.1). The requests for data and information included 33 sent to the supervisory authorities of other countries. The reduction in the total number of requests sent was primarily due to the larger number of investigations of cases of market manipulation, which by their nature involve a limited number of persons. Seven persons were heard as part of the investigations.

As in previous years, the inside information most frequently used in the cases of insider trading investigations concerned changes in the control of listed companies (in 9 of the 17 cases reported), achieved by means of a tender offer or the sale of a major holding; in 2 cases the event likely to influence regular price formation was the conversion of savings shares into ordinary

shares, in another 2 cases it was an event likely to have a significant impact on the issuer's profitability. There was also one suspected case of front running in 2001 (Table V.2).

TABLE V.2

TYPES OF INSIDE INFORMATION IN THE REPORTS TO THE JUDICIARY AUTHORITIES ON SUSPECTED CASES OF INSIDER TRADING

	1997	1998	1999	2000	2001
CHANGE OF CONTROL - TENDER OFFER	7	13	13	6	9
PROFITABILITY - ASSETS AND LIABILITIES OR FINANCIAL POSITION	4	1	4	1	--
CORPORATE EVENTS	2	3	3	3	2
OTHER	3	--	2	7[1]	3[2]
TOTAL	*16*	*17*	*22*	*17*	*14*

[1] Of which 2 suspected cases of front running. [2] Of which 1 suspected case of front running.

Of the 4 market manipulation cases reported to the judicial authorities where an offence was suspected, one involved the spreading of false information and the other three involved sham transactions aimed at influencing the prices of financial instruments and classifiable as trade-based manipulation.

The investigations carried out in 2001 in connection with market manipulation often required Consob to analyze trading in derivatives by the persons concerned. In fact 6 of the 11 cases examined involved trading of this type and in 3 of these cases, having to do with options based on reverse convertibles, the transactions were reported as appearing to constitute an offence.

A total of 117 persons were reported to the judicial authorities on suspicion of having committed offences, of which 109 for insider trading and 8 for market manipulation (Table aV.2). More generally, last year the number of persons reported for insider trading fell by half, from 218 to 109. About 50 per cent of the persons reported were individuals (of whom one third were so-called institutional insiders) and another 22 per cent consisted of intermediaries. The remaining 30 per cent consisted of non-residents.

The presence of authorized intermediaries among the persons suspected of market manipulation (4 out of 8) is clear evidence of the importance of professional financial and operating structures in market strategies aimed at influencing the formation of prices.

In 2001 the total value of the gains attributed to primary and secondary insiders increased in comparison with the previous year. More specifically, the gains from the 14 cases reported in 2001 amounted to around €61 million, as against 17 cases and just over €50 million in 2000. The gains in the cases reported in 2001 ranged from a minimum of €37,000 to a maximum of around €21.5 million, compared with €52,000 and €1.4 million in 2000; the average gains per case were around €4.8 million, compared with €2.8 million in 2000. In 7 cases the gains exceeded €1 million, compared with 9 cases in 2000.

As in 2000, the cases that involved most persons were those that produced the greatest gains for the insiders. In fact where up to five persons were involved, the average gains per case amounted to around €2.2 million, while where more than five persons were involved, they exceeded €3.7 million; in 2000 the difference had been even more pronounced with average values of around €500,000 and more than €5 million respectively. The fact that the more profitable cases were those in which intermediaries (both Italian and foreign) played a greater role and with a larger number of persons involved suggests that there is a direct correlation between the gains achieved and the resources employed.

It is also worth noting that most of the insider trading cases involved large cap securities. In fact while the number of cases reported decreased by 3, the securities involved accounted for more than 16 per cent of the total market capitalization, compared with just under 9 per cent in 2000.

Analysis of the suspected offences reported to the judicial authorities also shows that in the last 2 years the cases of market manipulation produced gains ranging from €15,000 to €780,000. The average number of persons involved in these operations was smaller than for the cases of insider trading (in 6 cases only one person was involved), indicating that this type of offence is of a more "individual" nature.

Outcome of the reports submitted to the judicial authorities

In 2001 the judicial authorities dismissed 10 reports (2 partially) of suspected violations of the law on insider trading and market manipulation submitted by Consob in earlier years (Table V.3).

In 2001 four reports lead to indictments. Two cases involved the suspected violation of Article 180 of the Consolidated law on Financial Intermediation in connection with tender offers, one the suspected violation of the same article in connection with the collapse of a company and the fourth suspected front-running. In addition, indictment decrees were issued at the end of the preliminary hearing in two other criminal cases already under way; both cases referred to alleged market manipulation, one involving sham transactions and the other the spreading of false information in periodic reports.

TABLE V.3

OUTCOME OF THE REPORTS SUBMITTED TO THE JUDICIAL AUTHORITIES

	1991-1998	1999	2000	2001
DISMISSAL	11	10	6	8
PARTIAL DISMISSAL	--	1	4	2
INDICTMENT	6	2	2	4[1]
PLEA BARGAIN	3	1	3	2
CONVICTION	2	--	--	1[2]
ACQUITTAL	--	1	--	--
SENTENCE OF NO GROUNDS	--	1	--	--
SENTENCE OF LIMITATION OF ACTIONS	--	--	1	--
TOTAL	*22*	*16*	*16*	*17*

[1] Of which 2 under Article 550 of the Code of Penal Procedure. [2] The sentence of the first-level court has been appealed.

There were also two plea-bargaining judgements in penal proceedings that involved market manipulation, by means of sham transactions aimed at reducing the price of a security in one case and the spreading of false information via the press in the other.

Lastly, 2001 saw one conviction, the third in proceedings involving market abuse. In one case the first-level court condemned two persons for making use of inside information about the collapse of two companies. The sentence has been appealed.

Some types of insider trading and market manipulation

The investigations of suspected cases of market abuse in 2001 revealed some courses of conduct that are of special interest, regardless of whether they were considered to constitute an offence, for the analysis of market anomalies in view of the operating strategies adopted or the underlying aims. These practices can be classified as front running and operational manipulation.

Front running involves persons acting in advance of orders that will have a major impact on the price of a security: a broker charged with executing an order whose size and price will cause a significant increase (decrease) in the price buys (sells) the security for own account before entering the order into the market and then sells (buys) it after entering the order, usually acting as the counterparty to the transaction. Such strategies constitute abuse of the inside information consisting in the expected impact of the order on the price of the security in question.

Operational manipulation is achieved by means of transactions actually carried out on the market. Such transactions may nonetheless be without any economic effects because, for example, the trader who buys and the trader who sells are the same person (action-based manipulation). Alternatively, they may not be sham transactions and produce the normal economic effects for the counterparties (trade-based manipulation). In this case the manipulator carries out transactions whose costs are lower than the benefits he expects to derive from the manipulative strategy. The manipulative intention, deduced from other evidence as well, appears to be the distinctive aspect of such transactions, although it is not explicitly envisaged by Article 181 of the Consolidated Law on Financial Intermediation.

One case of front running concerned a trader who handled a share buy-back for a listed company. The trader carried out transactions in the shares in question on his own personal accounts before entering the company's buy-back orders; he then closed his positions against the orders that he entered on behalf of the listed company.

Turning to operational manipulation, in one case of suspected action-based manipulation a trader simultaneously displayed the best buy and sell prices on the book for large quantities of some shares, often separated by just one tick. The trader would frequently carry out "cross" transactions, i.e. he would match buy orders with his own sell orders (or vice versa), thereby generating transactions with no economic effects.

In this case Consob's investigation aimed at verifying whether the transactions were part of a manipulative strategy serving to hold the price of a security at a given level or to give the appearance of an active market. This suspicion was not confirmed. In fact it was found that the trader's objective was only to "gain the tick" by acting as a sort of de facto market maker, which he was able to do as long as purchases and sales were in balance, and that the "cross" transactions served to eliminate the trader's own orders from the book (a procedure that nonetheless did not comply with the rules) faster than by canceling them when large orders were entered that put the balancing of his position at risk.

Another particularly important investigation concerned the sale of a large quantity of a share in the opening auction by an intermediary that was the market maker for two series of call covered warrants which had that share as their underlying and which were due to expire on the same day in the money (i.e. to the advantage of their holders). The sale resulted in an opening price that was significantly lower than the theoretical opening price prior to the entry of the market maker's order. Since holders of call covered warrants receive the difference between the opening price and the strike price in cash, they received much less as a result of the fall in the opening price produced by the market maker's sale.

The investigation nonetheless led Consob to conclude that the market maker's conduct did not amount to operational manipulation (if it had, it would have been a case of trade-based manipulation). In fact, since the call covered warrants in question expired well in the money, the method of hedging risk based on the delta of the options (known as delta hedging) had led the market maker to hold, against its short position in the covered warrants (which it had taken over from the issuer), a long position equal to the entire quantity of underlying shares. In view of the method of settlement applicable to the covered warrants, the market maker had dismantled its hedge on the expiry day of the covered warrants by selling the shares in the

opening auction while being indifferent to the price obtained (since the lower the opening price, the smaller the amount to be paid on the covered warrants but also the lower the proceeds of the sale of the underlying shares). Here again, the intermediary had no interest in reducing the opening price of the shares nor did it do so deliberately. In the light of experience, possible measures have been studied, however, to reduce the impact of transactions by market makers on the cash market on the expiry day of covered warrants and a warning in this respect has been posted in the "Investor Education" section of Consob's website.

Other investigations were carried out into three cases of suspected operational manipulation in the form of transactions aimed at affecting positions in put options related to issues of reverse convertibles; they are described in Box 6.

BOX 6

Reverse convertibles, their functioning and operational manipulation

Reverse convertibles incorporate a European put option on the underlying shares that the subscriber of the bonds implicitly sells to the issuer. As a rule the latter immediately eliminates the risk deriving from the purchase of the option by selling another that is equal in every respect to one or more intermediaries on the OTC market. At issue the two options are normally at the money (the strike price is equal to the current price of the underlying shares). At the expiry of the reverse convertibles and the options:

- the holders of the bonds will benefit if the price of the underlying shares is not less than the strike price (i.e. the price at the time the reverse convertibles were issued). If this is the case, the put option they have implicitly bought will not be exercised and they will not incur capital losses on the bonds, which will be redeemed at their nominal value;
- the intermediaries that have bought the put option from the issuer will benefit, instead, in the opposite case, i.e. if the price of the shares is less than the strike price, so that the option is exercisable;
- since the issuer has bought and sold similar put options for the same amount, it is in a price-neutral position;

The two put options are normally of the exotic type, i.e. have complex structures. Frequently, they are put options with a knock in of the down-and-in type, which, in their simplest form, require among the conditions for their exercise that the price of the underlying shares has fallen below a given level below the strike price (the knock in) at least once during their life.

Another characteristic of such options is that they do not permit so-called anomalous exercise: if they are exercisable at maturity, they must be fully exercised; if they are not exercisable, they cannot be exercised, even partially.

Both the intermediaries that hedge the risk of the issuer of the bonds (buyers of options) and the bondholders (sellers of options) have an incentive to manipulate the price of the underling shares. A description is given below of some of the operating

methods used by intermediaries that had bought puts in cases of suspected market manipulation reported to the judicial authorities in 2001.

One strategy saw the intermediary attempt to break the barrier (the knock in). The day before the expiry day the option was deep in the money (i.e. the market price of the underlying share was well below the strike price of the option), but the price of the underlying had never fallen below the barrier during the life of the option, so that the option was not exercisable. By means of a very substantial sale at the very start of continuous trading, the intermediary cleaned the buy side of the book of the underlying share down to an order it had placed just below the knock-in price. The price fell by nearly 4 per cent and then promptly returned to its level preceding the intermediary's sale (i.e. to the opening price). The next day the intermediary was able to exercise the option while the bondholders were redeemed in shares that were worth about 11 per cent less than the nominal value of the bonds.

In another case, in which the anomalous exercise of the option was excluded and no barrier had been fixed, the options could only be exercised if the opening price of the underlying shares on the expiry day was below the strike price. The day before the expiry day the options were at the money, so that the five intermediaries holding them could choose between two strategies. The first, based on the delta of the option, required them to have about half the quantity of underlying shares in portfolio and to try and buy or sell, depending on the opening price, the same quantity in the opening auction on the following day. The alternative required the intermediaries to "bet" on the outcome of the option, i.e. whether it would expire in or out of the money and to hedge accordingly (i.e. completely or not at all). On the expiry day the theoretical opening price of the underlying shares remained above the strike price of the options (which were therefore out of the money) until about thirty seconds before the end of the opening pre-auction phase, when sale orders entered by three of the five intermediaries pushed the opening price below the strike price. Consequently, the options expired in the money and the intermediaries were able to exercise them and deliver the shares to the issuer, which in turn redeemed the bonds in shares instead of in cash at the nominal value.

The converse of this operational strategy is that in which two shares were the underlyings of five put options linked to five issues of reverse convertibles maturing, together with the options, on the same day. The options, which were all bought by a single intermediary, excluded anomalous exercise and could therefore be exercised only if the reference prices of the underlying shares on the expiry day were below their respective strike prices. On the expiry day very large purchases of the underlying shares were made in the last ten seconds of continuous trading. These orders cleaned the sell orders on the book for the shares and pushed up their prices (one by nearly 10 per cent and the other by 3 per cent). The reference prices of the two shares were fixed on the basis of these purchases since they largely exceeded 10 per cent of the volume of trading during the day. Three put options that were in the money or deep in the money were pushed out of the money, thus preventing the intermediary that had bought them from exercising them. The investigations found that the manipulative purchases had been made by or on behalf of the persons holding all the reverse convertibles linked to the options in order to obtain their redemption in cash.

The three strategies described above can be classified as trade-based manipulation because they involved transactions carried out on the market with costs for the manipulators that were exceeded by the gains they made.

Developments in the regulation of market abuse

The limited effectiveness of the European rules on insider trading and the need to harmonize the law on market manipulation, the international scale of market abuse and the competition with non-EU financial systems led the European Commission to propose a directive on market abuse on 30 May 2001. The Commission had already indicated the need for such a directive in the 1999 Financial Services Action Plan in order to achieve a fully integrated single market. The Stockholm European Council set the end of 2003 as the deadline for achieving this goal. If it is adopted, the directive will make it necessary to amend the Consolidated Law on Financial Intermediation as regards the definition of market abuse offences, the introduction of administrative sanctions, Consob's investigative powers and the rules on continuous disclosure by listed companies.

The EU Commission's proposal incorporates several of the suggestions made by FESCO (now CESR) in September 1999 (Box 7), including: the desirability of defining forbidden courses of conduct that did nor require proof of intentionality ("effect-based" and not "intent based"); a definition of manipulation based on the macro-categories of manipulative strategies (trade-based, action-based, market-power and information-based manipulation); provision for a wide range of preventive measures; the introduction of administrative sanctions; the selection by each Member State of a single competent authority with effective powers of enforcement, possibly in collaboration with or under the control of the judicial authorities; the introduction of obligations to cooperate for regulatory authorities; and the creation of a European network of competent authorities.

It should be noted, however, that, exclusively as regards the definition of possible forms of manipulation, the rules in Italy are being amended. In fact, pursuant to Article 11 of Law 366/2001, the Council of Ministers recently approved a draft legislative decree governing penal and administrative offences involving commercial companies. The draft decree was then transmitted to Parliament, which is now examining it. In particular, in order to provide a single definition of market manipulation, the draft decree incorporates Article 181 of the Consolidated Law on Financial Intermediation, Article 138 of the 1993 Banking Law and Article 2622 of the Civil Code in the new Article 2637 of the Civil Code, which provides for the penal punishment of "Any person who disseminates false information, or sets up sham transactions or other devices concretely likely to produce a significant alteration in the price of financial instruments (...)".

Compared with the existing rules of the Consolidated Law, the new text omits the reference to "exaggerated or misleading information", deemed to be pleonastic with respect to "false information", since this implies every type of divergence from the truth. It also adds the requirement that the dissemination of information or the setting up of transactions be "concretely" likely to alter the price of securities. This confirms, expressis verbis*, the nature of market manipulation as a crime involving a concrete danger, which was already deducible at the interpretative level, according to which, for conduct to be considered penally significant, it had to be able to influence prices on the basis of an ex ante evaluation. Lastly, it is worth noting the removal of the prohibition on conduct aimed at giving the impression of an active market,*

although this aim may fall within the scope of conduct aimed at altering prices, in which the concept of alteration implies every kind of divergence from the normal economic model of price formation. In short, a first examination of the provisions on market manipulation about to be approved suggests that their scope, although it appears reduced, is not really much narrower than that of Article 181 of the Consolidated Law, unless restrictive interpretations prevail.

Although the proposed text can be interpreted non-reductively with respect to the facts constituting an offence, it diverges from the proposed directive (in the same way as Article 180 of the Consolidated Law on insider trading already diverges), so that, as noted in the Government's report to Parliament on the draft decree, the rules will have to be amended in the future, with special reference to the need to provide for administrative sanctions.

BOX 7

The proposed directive on market abuse and the CESR proposals on preventive measures

Among the key aspects of the EU Commission's proposed directive on market abuse, it is worth noting the enlargement of its scope to include face-to-face transactions, transactions on primary and grey markets and those on derivatives markets, including those for commodities. A further enlargement of the directive's scope concerns territoriality. Some of the changes are already covered by the Consolidated Law on Financial Intermediation.

As regards the definition of privileged information, the Commission has proposed only a few amendments to the existing rules. It nonetheless appears desirable (as also noted by the European Parliament) to include market information that has only an indirect impact on listed companies.

With reference to the courses of conduct that are forbidden, the Commission has carried over the present ban on "taking advantage"of privileged information. This, however, appears excessively difficult to prove, so much so that in many Community jurisdictions it has not been transposed and in others has undoubtedly contributed to reducing the effectiveness of the legislation. The ban on entering into transactions "on the basis of" privileged information laid down in Article 180 of the Consolidated Law in place of the more generic obligation to abstain (from entering into transactions where a person possesses privileged information) established in the earlier law on insider trading (Law 157/1991) gives rise to serious applicative problems, as the then Chairman of Consob pointed out in 1998. It therefore appears important to arrive at a definition permitting the protection of licit courses of conduct and the effective punishment of illicit behavior. This need would be met if the proposal to ban "the use" of privileged information put forward by the competent parliamentary committee were approved.

As regards the actors, the proposed directive maintains the distinction between

primary or institutional insiders - i.e. persons who have access to privileged information in the performance of their duties - and other persons, so-called tippees, who receive the information directly or indirectly from the former. It should be noted, however, that the proposed directive redefines tippees as persons "with full knowledge of the facts". In addition, it extends to tippees the ban applicable to institutional insiders on disclosing privileged information to third parties. This change appears likely to limit the spread of rumors on markets as well.

As regards market manipulation, the proposed directive adopts the indications of CESR concerning the definition of the macro-categories of operational informational manipulation. The former is then divided depending on whether the manipulative strategies are based on the transmission of false signals to the market or actions intended to push prices to artificial levels. The proposed directive also contains an annex with a non-exhaustive list of the main manipulative strategies (identified by IOSCO and regulatory authorities). The list is to be updated by the Commission using the comitology procedure. This approach also performs an important preventive function by making it clear to market participants which courses of conduct are illicit. If it is adopted, the proposed directive will give substance to the more cryptic ban of Article 181 of the Consolidated Law on setting up "sham transactions or other devices".

The EU Commission has also taken the important decision to adopt CESR's suggestion to introduce a system of administrative sanctions. Experience has highlighted the difficulties inherent in penal proceedings. CESR found that in Europe out of a total of 688 cases initiated between 1995 and 2000, in 216 there was a dismissal, in 97 administrative sanctions were imposed, in 13 penal sanctions were imposed and the remainder were still under way at the end of 2000.

An inevitable shortcoming of the proposed directive with the legislative framework in force is that it does not establish the amount and manner of calculating sanctions since, under the Treaties, this falls within the competence of the Member States. In view of the complexity of the matter and the importance of achieving effective harmonization, it appears worth considering the proposal put forward by the competent parliamentary committee to draw up a list of examples of sanctions using the comitology procedure to which Member States can refer on a voluntary basis.

The EU Commission also accepted CESR's view on the need to strengthen preventive measures. In fact prevention in its various forms appears to be the most effective way to counter market abuse, especially because it helps to foster a culture of respect for the market as a whole among its participants.

Article 6 of the proposed directive contains a series of preventive measures, starting with disclosure requirements for issuers, which, if they are adopted, will result in substantial changes to the provisions of Community and national law governing this matter. In fact the EU Commission proposes that listed companies be required to inform the public as soon as possible of inside information and hence no longer of "any major new developments in its sphere of activity" as laid down in Article 68 of Directive 2001/34 and incorporated in Article 114 of the Consolidated Law. Since information becomes privileged when it is still not certain, i.e. when it still not a "fact", it is clear that the proposed directive will require issuers to disclose information much earlier. In order to protect issuers, Article 3 of the proposed directive states that "an issuer may at its own risk delay the public disclosure" of information, provided "such

omission would not be likely to mislead the public and that the issuer is able to ensure the confidentiality of this information". Lastly, it should be noted that issuers would not be required to notify the regulatory authorities of the decision to delay disclosure, as they are under the law in force today.

Although the rule requiring privileged information to be made public as soon as possible is clearly intended to increase transparency, it could prove excessively burdensome for issuers; the latter would therefore tend to hold back information, without, moreover, having to clear the decision with the regulatory authorities, which in turn would not be able to monitor the situation adequately and intervene in cases of excessive delay. In order to overcome this problem, the competent parliamentary committee has proposed reintroducing a role for regulatory authorities. There would nonetheless appear to be objections to making privileged information public as soon as possible. If issuers were to comply blindly with the rule, there could be an unnecessary increase in price volatility. For example, in cases in which various forms of corporate financing are being considered or in the case of mergers where different scenarios are being considered leading to different share exchange rates. In addition, some forms of information manipulation would be hard to detect.

As regards preventive measures, the proposed directive also intends to harmonize the provisions with the principles of "fair disclosure" recently introduced in the United States and substantially already present in Italian secondary legislation. Issuers are also required to keep a register of the persons who have access to privileged information. This provision will have the dual effect of developing a culture of attention to the confidentiality of privileged information and of facilitating controls.

Intermediaries will be required to apply a general duty of care whereby they must avoid carrying out orders that it is reasonable to suspect are based on privileged information or would constitute market manipulation. This rule had already been suggested by CESR and is present in the best practice of the sector.

Of great importance is the harmonization of the production and dissemination of research reports on financial instruments and their issuers in the light of transparency and fairness criteria to be established in detail using the comitology procedure. The addition of this provision to the proposed directive reflects the importance of such reports for the growth of markets and the international scale of the phenomenon. Similar criteria are also to be complied with by all those who make important information public, including financial journalists. The regulation of issuers' buy-back transactions has also been entrusted to the comitology procedure.

Prevention received further attention in 2001, leading to CESR's orientation paper "Measures to Promote Market Integrity". This was published in February 2002 following a period of public consultation that began in August 2001 (both the paper and the comments received during the consultation are posted on the CESR website). The document describes a series of preventive measures that should be put in place by market participants: market operating companies, listed companies, authorized intermediaries, financial journalists, independent analysts and regulatory authorities. The underlying idea is that joint action by all the actors involved can help to protect the integrity of markets and the quality of price formation.

Among the main preventive measures is the request that listed companies, intermediaries and institutional investors adopt an internal code of conduct, set up a compliance office and possibly introduce procedures for monitoring and separating

information flows (Chinese walls). Additional criteria are proposed for the microstructure of markets as regards their liquidity and transparency, the manner of calculating reference prices and the procedures for suspending securities. Institutional investors and other persons with significant market power are requested to consider the effect of their transactions on the market. Financial journalists are invited to comply with codes of best professional practice. Other recommendations are directed to independent analysts, rating agencies, consultants and regulatory authorities.

The investigations in connection with the events of 11 September

In addition to its normal activity of investigating possible market abuses, Consob investigated whether there had been violations of the rules in question by persons who knew in advance of the planned terrorist attack on New York. These enquiries were also part of a more far-reaching fight against financial crime and the illicit use of financial instruments. It should be noted, however, that any transactions concluded by persons who knew about the intention to carry out the 11 September attacks would not qualify as insider trading as defined in Article 180 of the Consolidated Law. In fact for information to be privileged, it must "concern financial instruments". In response to international requests for cooperation, Consob's activity in this field was intense.

It is worth stressing that the downward trend of share prices in the early days of September hindered the investigations owing to the difficulty of discriminating between disposals that were normal in a period of sharply falling prices and purely speculative short-term transactions.

As regards the share market, attention was focused on both intermediaries and securities with the aim of finding large short positions opened before 11 September and possibly covered in the immediately following days.

As a first step, the overall trading of intermediaries was examined to identify the largest net sellers. The transactions of these intermediaries were then examined with reference to the shares with the largest volumes of sales. The day of 11 September was divided into two parts and an analysis made of trading before and after 14.50, when the first plane hit the twin towers. In particular, a check was made to see whether the traders who had built up net negative positions of at least €10 million between 27 August and 10 September had unwound them from the afternoon of 11 September onwards. This led to the selection of 43 cases concerning 19 securities and 17 intermediaries for which it was deemed necessary to request information on the main clients involved (with special reference to those that had sold short) in order to proceed with the investigations.

The transactions specified in the replies were basically normal, especially in view of the combination of falling prices (even before 11 September) and very high volatility. There were some sales (sometimes accompanied by the borrowing of securities) followed within a few days by repurchases, but these cases did

not show pronounced discontinuities (from the technical point of view) with respect to trading in earlier periods. The nature of the anomalies did not appear to justify further investigation, not least because the transactions and gains did not appear particularly large in the light of the normal trading volumes of the intermediaries concerned and the exceptional nature of the events.

Trading in derivatives was also investigated by analyzing intermediaries' positions with Cassa di compensazione e garanzia in futures and put options on the Mib30 index. Such open positions are in fact an indicator of intermediaries' exposure to the market and a useful instrument for identifying strategies aimed at building up buy or sell positions over time.

The analysis focused on intermediaries that had positions before 11 September involving sales of Fib30s and purchases of puts. A check was also made on how these positions had been built up and when they were closed. Preliminary examination of the data showed that in the two weeks prior to 11 September there had not been a significant increase in the open interest in Fib30 contracts (639 contracts or 3.07 per cent for the September maturity and 267 contracts or 14.42 per cent for the December maturity).

In order to select the most significant accounts, Consob made detailed analyses only of the 27 intermediaries that had more than 100 positions open on 10 September. From this sample Consob selected the 11 intermediaries that had increased their open positions on the sell side and subjected them to further investigation. Of the 11 intermediaries selected, 7 were found to have traded for own account and 4 for customer account.

It needs to be stressed that intermediaries' own account transactions were more difficult to analyze than those concluded on behalf of customers, since the intermediaries in question were active in the market and traded in the Fib30 contract and option contracts with a certain regularity in connection with other transactions they concluded whose performance could impinge on their securities portfolios (generally it was a question of hedging positions of the opposite sign in relation to the issue of covered warrants).

As regards the trading for customer account, Consob found a certain concentration of positions opened for individual clients. With one exception, these were Italian or foreign institutional customers; the exception was an Italian bank that declared a single client had held an open short position of 500 Fib30 contracts on 10 September. In view of the information it received, Consob deemed it unnecessary to investigate this case further.

Similar investigations were carried out for the market in options on the Mib30 index. Consob first identified the intermediaries that had an overall open long position of more than 100 puts on 11 September; these intermediaries were then asked to provide the names of clients with an open position of more than 100 puts.

The analysis of the positions in put options did not produce evidence of anomalies or otherwise noteworthy situations. The only exception in this respect was a client of a bank that built up a position of a certain size between 9 and 10 September. The company in question was found to manage the investments of a number of private customers, which were subjected to further investigation.

VI. INVESTMENT SERVICES AND ASSET MANAGEMENT

Industry structure

After several years of rapid growth, the ratio of managed assets to households' total financial wealth stabilized in 2000 and 2001. In particular, assets managed by individual and collective investment services amounted to 29.3 per cent of households' financial wealth at the end of the first half of 2001, compared with 30.5 per cent at the end of 1999 (Table VI.1).

TABLE VI.1

INDIVIDUAL AND COLLECTIVE ASSET MANAGEMENT

	BREAKDOWN OF TOTAL ASSETS BY TYPE OF SUBJECT					TOTAL ASSETS UNDER MANAGEMENT	
	ITALIAN FUNDS	FOREIGN FUNDS CONTROLLED BY ITALIAN GROUPS	OTHER FOREIGN COLLECTIVE INVESTMENT UNDERTAKINGS	INDIVIDUAL PORTFOLIO MANAGEMENT SERVICES[1]	TOTAL	AMOUNT[2]	AS A PERCENTAGE OF HOUSEHOLDS' TOTAL FINANCIAL ASSETS
1995	38.9	2.1	....	59.0	100.0	168.4	10.1
1996	42.7	2.9	....	54.4	100.0	239.1	13.3
1997	52.6	3.5	....	43.9	100.0	361.9	18.6
1998	63.9	3.9	....	32.2	100.0	582.6	26.5
1999	65.1	8.5	....	26.4	100.0	730.0	30.5
2000	59.6	12.4	3.6	24.4	100.0	764.2	29.4
2001[3]	57.1	13.8	2.8	26.4	100.0	764.9	29.3

Sources: Based on Assogestioni and Consob data. [1] Net of investments in investment fund shares/units. [2] In billions of euros. [3] The figures refer to the first half of 2001.

As a proportion of assets under management, the share entrusted to Italian mutual funds and to foreign collective investment undertakings controlled by foreign intermediaries continued the downward trend that had begun in 2000, whereas the share entrusted to foreign funds controlled by Italian intermediaries and to individual portfolio management services rose (the latter with an upswing after several years of decline).

The mutual fund industry's results last year failed to match its already poor performance in 2000. Although the number of open-end Italian funds in operation increased by around 10 per cent

and that of management companies rose from 55 to 61, there were total net outflows by around €21 billion (Table aVI.1). The phenomenon concerned all categories of funds (and particularly equity and balanced funds, which recorded a total net outflow of around €35 billion), with the exception of liquidity funds, a traditional "safe haven" in times of financial market turmoil. Net redemptions, together with the fall in financial asset prices, reduced the value of assets under management from €450 billion to around €404 billion over the year.

The rise in the proportion of assets under management attributable to foreign collective investment undertakings was accompanied by a further increase in the number of these intermediaries, from 124 to 149. The number of funds and sub-funds they offered rose from 1,534 to 2,132 (Table aVI.2).

At the end of the year there were 12 Italian closed-end securities investment funds in operation, only slightly more than at the end of 1998. The sector's growth remained sluggish, despite the regulatory changes introduced by the measures implementing the Consolidated Law on Financial Intermediation. The assets of these funds totaled €714 million at the end of 2001.

The ownership structures of asset management companies continued to be dominated by banking groups; the share of total assets attributable to bank-controlled management companies rose over the year from 91.6 to 93.9 per cent (Table VI.2). The market share attributable to insurance groups remained broadly unchanged at 4 per cent; that of asset management companies owned by other kinds of controller is marginal.

Among the different types of investment funds on offer, it is worth mentioning so-called funds of funds, i.e. mutual funds that invest in units of other funds. Most funds of funds came into operation in 2001 and they still account for a modest share of the total of collective investment portfolios (1.7 per cent of the total assets of Italian mutual funds and Sicavs at the end of September 2001). However, the sector is growing rapidly and raises a number of problems concerning the transparency of the costs borne by investors (Box 8).

Turning to individual portfolio management services, the total assets managed by banks, asset management companies and investment firms amounted to €401 billion at 30 June 2001, in line with the year-earlier figure (Table aVI.3). The breakdown of assets by category of manager confirms the growing importance of asset management companies, which accounted for 40 per cent of total assets, against a further decline in the share attributable to banks. The share of investment firms remained unchanged.

BOX 8

Funds of funds and management fee rebate agreements

In the first nine months of 2001 funds of funds recorded positive net inflows, in contrast with the result for Italian funds and Sicavs as a whole and notwithstanding the high volatility of the equity markets. The balanced funds account for 60 per cent of total assets, followed by the equity funds (around 21 per cent). On the supply side, the number of asset management companies offering these products rose from 6 at the end of 2000 to 15 in September 2001. There was also a large increase in so-called multi-brand funds of funds.

FUNDS OF FUNDS: ASSETS AND FUND-RAISING BY CATEGORY[1]
(JANUARY-SEPTEMBER 2001)

	NUMBER[2]	SUB-SCRIPTIONS	REDEM-PTIONS	NET FUND-RAISING	ASSETS[2]	
					TOTAL	% SHARE
EQUITY	33	731	332	399	1.372	20,8
BALANCED	44	1.961	648	1.312	3.954	59,8
BOND	8	598	58	540	651,4	9,9
FLEXIBLE	6	256	115	141	630,1	9,5
TOTAL	*91*	*3.545*	*1.152*	*2.393*	*6.608*	*100,0*

Source: Based on Assogestioni data. [1] Millions of euros. [2] At 30 September 2001

Analysis of the mechanisms used by asset management companies for selecting the products to include in multi-brand funds of funds showed that agreements for rebates of management fees are widespread. Under such agreements the management company promoting a fund of funds benefits from a partial rebate of management fees from the management company of the so-called target funds.

A survey of a sample of management companies that promoted funds of funds confirmed that such agreements were common and constituted an important source of revenue for the companies concerned. The latter were found to invest a high percentage of the assets of funds of funds in units/shares of collective investment undertakings managed by companies with which rebate agreements had been concluded and tended to select products, and in some cases classes of units/shares, that offered the highest refunds. Although this pattern does not have direct implications for the efficiency of managers' investment choices, it does affect the level and transparency of the costs incurred by funds of funds. Moreover, it points to a potential divergence of the interests of the managers of funds of funds from those of investors. Finally, regular recourse to rebate agreements for multi-brand products may negatively affect competition in terms of costs and help to drive them up, to the detriment of investors.

SUMMARY OF MANAGEMENT COMMISSION COSTS AND DISTRIBUTION OF INVESTMENTS OF FUNDS OF FUNDS[1]

	AVERAGE	MAXIMUM	MINIMUM
COSTS[2]			
MANAGEMENT COMMISSIONS AS PER PROSPECTUS (A)	0.97	1.20	0.60
MANAGEMENT COMMISSIONS DUE TO TARGET FUND (B)	0.90	1.00	0.82
TOTAL COSTS BORNE BY THE FUND OF FUNDS (C=A+B)	1.87	2.19	1.47
COMMISSIONS REFUNDED BY THE TARGET FUND (D)	0.48	0.57	0.36
TOTAL MANAGEMENT COMMISSIONS APPLIED DIRECTLY OR REFUNDED (E=A+D)	1.45	1.60	1.14
DISTRIBUTION OF INVESTMENTS[2]			
FUNDS WITH REBATE AGREEMENTS	85.16	100.00	81.00
PROPORTION INVESTED IN UNITS/SHARES WITH HIGHEST MANAGEMENT COMMISSIONS	42.33	60.00	28.00

[1] The figures refer to a sample of 6 funds of funds managed by 3 asset management companies. [2] As a percentage of total assets under management.

TABLE VI.2

OWNERSHIP STRUCTURE OF INVESTMENT FUND MANAGEMENT COMPANIES[1]
(PERCENTAGES OF TOTAL ASSETS UNDER MANAGEMENT)

TYPE OF CONTROLLER	1997	1998	1999	2000	2001
BANKING GROUP	83.9	93.9	94.0	91.6	93.9
INSURANCE GROUP	7.9	5.1	4.9	3.9	4.3
JOINT VENTURE	6.0	0.1	0.2	--	--
NON-BANK FINANCIAL INTERMEDIARY	1.2	0.2	0.2	4.3	1.1
INDIVIDUAL	1.0	0.7	0.7	0.2	0.7
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Sources: Consob archive of prospectuses. See the methodological notes. [1] Situation at 31 December with reference to the management companies of Italian mutual funds.

The percentage composition of individual portfolios managed by banks, investment firms and asset management companies confirmed the similarity of the investment choices of banks and investment firms, as noticed in the preceding years. In fact, both these types of intermediaries mostly invested in units/shares of collective investment undertakings (63 per cent of the total assets under management for securities firms

and 61 per cent for banks), reduced their holdings of government securities and maintained a stable (and similar) proportion of their investments in equities and bonds (Table aVI.4). By contrast, the portfolios of asset management companies showed a higher proportion of government securities (37.5 per cent at mid-2001) and a lower proportion of units of collective investment undertakings. Asset management companies' portfolios also included a higher proportion of Italian shares and bonds than those of banks and investment firms, and a lower proportion of foreign bonds. Overall, the leading form of investment for the three types of intermediaries consisted of units/shares of collective investment undertakings (more than 50 per cent of the aggregate portfolio at mid-2001), followed by government securities; equities accounted for 8 per cent of total assets under management (Table VI.3).

TABLE VI.3

ASSET ALLOCATION OF INDIVIDUAL PORTFOLIO MANAGEMENT BY BANKS, ASSET MANAGEMENT COMPANIES AND INVESTMENT FIRMS
(PERCENTAGE COMPOSITION OF ASSETS)

	1997	1998	1999	2000	2001[1]
GOVERNMENT SECURITIES	55.1	42.5	30.2	25.0	27.2
ITALIAN BONDS	5.9	3.6	3.9	5.4	6.6
FOREIGN BONDS	7.2	6.8	5.9	4.8	5.0
ITALIAN SHARES	5.5	4.9	5.7	5.6	5.6
FOREIGN SHARES	1.6	1.6	2.7	2.5	2.4
INVESTMENT FUND SHARES/UNITS	17.9	35.3	46.8	52.4	50.1
LIQUIDITY AND OTHER SECURITIES	6.8	5.3	4.8	4.3	3.1
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Source: Based on Bank of Italy data. [1] The figures refer to the first half of the year.

Comparison of the first half of 2001 with the first half of 2000 shows a large contraction in revenues from securities intermediation for investment firms and banks. Fee income declined by 48 per cent for the former and 25 per cent for the latter, reversing the rising trend of the five years up to 2000 (Table VI.4).

As regards the individual revenue components, the most marked decline was in fees from securities dealing and the reception of orders, which fell by 50 and 53 per cent, respectively. The fees earned from placement activity, portfolio management and door-to-door selling decreased by 21, 20 and 24 per cent, respectively.

In the first half of 2001 the leading source of fee income for investment firms was dealing on customer account, which rose from 30.6 to 38.6 per cent of the total (even though it declined in absolute terms). Next came door-to-door selling, which diminished from 39 to 23 per cent of fee income and fell by 70 per cent in value. There was also a major reduction (57 per cent) in the value of placement fees.

TABLE. VI.4

FEES FROM SECURITIES INTERMEDIATION
(MILLIONS OF EUROS)

FEE INCOME	1996	1997	1998	1999	2000	2000[1]	2001[1]
INVESTMENT FIRMS							
TRADING	283	407	654	581	925	505	332
PLACEMENT	107	86	149	229	409	227	98
PORTFOLIO MANAGEMENT	189	253	451	328	301	144	126
RECEPTION OF ORDERS	29	40	67	395	253	121	104
DOOR-TO-DOOR SELLING	582	804	1.113	980	1.133	650	201
TOTAL	*1.190*	*1.590*	*2.434*	*2.513*	*3.020*	*1.648*	*861*
BANKS							
TRADING	201	363	915	807	1,068	632	241
PLACEMENT	646	1,389	2,682	4,157	5,344	2,665	2,200
PORTFOLIO MANAGEMENT	358	559	851	1,236	1,189	712	557
RECEPTION OF ORDERS	314	510	967	948	1,563	897	376
DOOR-TO-DOOR SELLING	178	273	463	529	755	306	529
TOTAL	*1,697*	*3,094*	*5,878*	*7,677*	*9,919*	*5,213*	*3,902*
BANKS AND INVESTMENT FIRMS							
TRADING	484	770	1,569	1,388	1,993	1,138	573
PLACEMENT	753	1,475	2,831	4,386	5,753	2,892	2,298
PORTFOLIO MANAGEMENT	547	812	1,302	1,564	1,490	857	683
RECEPTION OF ORDERS	343	550	1,034	1,343	1,816	1,018	480
DOOR-TO-DOOR SELLING	760	1,077	1,576	1,509	1,888	956	730
TOTAL	*2,887*	*4,684*	*8,312*	*10,190*	*12,939*	*6,861*	*4,763*

Source: Based on Bank of Italy data. [1] The figures refer to the first half of the year; those for 2001 are provisional.

For banks, placement fees were the leading source of securities intermediation income in the first half of 2001 (as in the same period of 2000) and accounted for 56 per cent of the total, despite a decline of 17 per cent in value. Fee income from portfolio management accounted for 14 per cent, that from door-to-door selling for 13 per cent. The latter was the only item that increased in value (by 73 per cent) between the first half of 2000 and the first half of 2001.

Placement activity was performed almost entirely by banks, which earned 96 per cent of the related fees in the first half of 2001. Investment firms overtook banks in their share of dealing fees, whereas banks overtook investment firms for fees earned from door-to-door selling. Finally, fee income from portfolio management and the reception of orders fell more sharply for banks (22 and 58 per cent respectively) than for investment firms (13 and 14 per cent), although banks' market share remained much larger.

As in the past several years, the number of registered investment firms decreased in 2001. However, the number of entries and exits remained high. Turnover, defined as the ratio of the change in the number of registered firms in 2001 to the number of registered firms in 2000, was equal to 23 per cent, broadly the same as in 2000 (Table aVI.5).

TABLE VI.5

INVESTMENT FIRMS: DELETIONS FROM THE REGISTER[1]

REASON	1992-1997	1998	1999	2000	2001
CRISIS OF THE INTERMEDIARY[2]	37	2	1	1	1
MERGERS AND SPIN-OFFS	29	7	9[3]	3	3
VOLUNTARY LIQUIDATION	49	11	4	9	2
CHANGE IN ACTIVITY	51	5	--	2	4
TRANSFORMATION INTO A BANK	5	4	--	3	10[4]
TRANSFORMATION INTO AN ASSET MANAGEMENT COMPANY	—	--	4	7	3[5]
TRANSFORMATION FROM TRUST COMPANY INTO INVESTMENT FIRM	2	--	2	1	--
NON-OPERATIONAL[6]	38	—	—	—	—
FAILURE TO PROVIDE AUTHORIZED SERVICE	--	1	--	1	--
TOTAL	*211*	*30*	*20*	*27*	*23*

[1] The figures refer to the total number of resolutions deleting a firm from the register, including those deleting trust companies from the special section of the register. [2] Includes Ministry for the Economy decrees, measures adopted by Consob, failures and firms placed in compulsory administrative liquidation. [3] Includes an investment firm that transferred the business to another company belonging to the same group. [4] In 3 cases the investment firm was merged with a bank. [5] In all 3 cases the investment firm was merged with an asset management company. [6] At the entry into force of Legislative Decree 415/1996 (Article 60).

In the last two years the average number of different services investment firms were authorized to provide rose from 2.3 to 2.7 (Table aVI.6). The average number of authorized services also rose for banks (from 4 to 4.1), while the number of banks authorized to provide investment services declined from 813 to 753.

The tendency towards the adoption of a multifunction model is confirmed by examination of the reasons investment firms adduced in their requests for deletion from the register (Table VI.5). Ten of the firms (out of a total of 23 deleted) decided to turn themselves into banks so as to be able to provide the wider range of services that banks can offer customers. Three other deletions resulted from firms being merged into asset management companies, reflecting the continuing tendency of groups to adopt the "single manager" organizational model provided for by the Consolidated Law.

Italy's compensation system for claims arising from the provision of investment services and from the custody and administration of financial instruments is the National Investor Compensation Fund, originally established by Article 15 of Law 1/1991 and legally recognized by Article 62 of Legislative Decree 415/1996 and, subsequently, by the Consolidated Law on Financial Intermediation.

TABLE VI.6

INTERVENTIONS BY THE NATIONAL INVESTOR COMPENSATION FUND
(SITUATION AT 31 DECEMBER 2001)

		INVESTMENT FIRMS	STOCK-BROKERS	*TOTAL*
INSOLVENCIES[1]	1997	4	1	*5*
	1998	2	3	*5*
	1999	1	1	*2*
	2000	1	--	*1*
	2001	1	--	*1*
	TOTAL INSOLVENCIES	*9*	*5*	*14*
OF WHICH: WITH STATEMENT OF LIABILITIES FILED		*9*	*5*	*14*
NUMBER OF CREDITORS ADMITTED		915	630	1,545
TOTAL VALUE OF CLAIMS ADMITTED[2]		21,028	20,169	41,196
INTERVENTIONS BY THE FUND		*4,162*	*8,074*	*12,335*

Source: Based on National Investor Compensation Fund data. [1] For which the statement of liabilities was filed before 1 February 1998. [2] Thousands of euros, net of partial allotments made by the bodies responsible for the bankruptcy proceedings. [3] Interventions for claims entered in the statement of liabilities, of which around 131,000 euros for claims that have been challenged. Thousands of euros.

The Fund continued the ordinary operations, begun under Article 59 of the Consolidated Law, for bankruptcy proceedings whose statements of liabilities were deposited from 1 February 1998 onwards. The Fund intervened with respect to one investment firm in 2001 and in total has intervened in 14 cases of insolvencies, involving 9 investment firms and 5 stockbrokers (Table VI.6). In addition to ordinary operations, the Fund has carried out special operations, financed in part by the Ministry for the Economy and governed by the rules predating the Consolidated Law (Table aVI.7); these operations concerned 25 insolvencies in which the statement of liabilities was deposited before 1 February 1998.

Supervisory activity

In 2001 the Commission decided to carry out a total of 8 inspections involving 3 asset management companies, 3 investment firms and 2 banks. Nine inspections were actually started during the year, including 2 of investment firms prevalently engaged in door-to-door selling by means of extensive networks of financial salesmen (Table aVI.8).

The majority of the inspections focused on organizational arrangements and procedures or on specific aspects of investment services. The remainder were broader in scope and aimed at verifying the intermediary's general level of compliance with the statutory and regulatory provisions governing the sector.

Last year 13 inspections were concluded involving 5 asset management companies, 4 investment firms, 3 stockbrokers and 1 bank.

On-site controls at asset management companies tended to be targeted but nonetheless were highly complex owing to the size of the intermediaries inspected, which had an average of around €20 billion of assets under management.

In parallel with these on-site controls, Consob also carried out an investigation involving 11 smaller asset management companies.

The investigation, which covered the period 1999-2000 and concerned the flows of information between the different sectors of the company's organization, with particular reference to investment decisions and procedures (including internal controls), was designed to evaluate their consonance with efficient provision of services. It was found that organizational and procedural safeguards needed to be strengthened, especially with regard to decision-making and control systems in the field of asset management.

However, these findings do not apply only to small asset management companies. The results of the inspections begun in 2000 and concluded last year showed that there were significant organizational deficiencies in the controls on management activity even in large asset management companies. The entire organization of asset management activity, from the acquisition of information in order to determine investment strategies to the implementation of strategies and the recording of transactions and ex-post controls, is characterized by a fundamentally unstructured decision-making process.

Many of the intermediaries inspected also displayed significant shortcomings in the formalization of internal procedures: non-mapping of corporate processes was symptomatic of a potentially ineffective overall system of operational controls. These intermediaries regarded the identification of internal procedures as a merely formal act of compliance with a regulatory requirement rather than as an instrument for managing flows of information both within the company and with outside fund managers.

Last year Consob also made use of its powers under Article 101.3a) of the Consolidated Law for the first time by ordering the precautionary suspension of a collective investment undertaking's advertising campaign.

The Commission also monitored the provision of investment services over the Internet in view of the increasing importance of the Internet channel for contacts with customers. As part of this activity, which is matched by increasing attention to these issues at the international level, Consob analyzed 37 websites.

Of the supervisory controls concluded, 5 cases concerned the behavior of intermediaries that used the Internet to provide online trading services.

As in the past, supervisory activity made use of the information contained in complaints lodged by investors (Table VI.7). In 2001 the Commission received a total of 771 complaints against banks, investment firms and stockbrokers, 84 per cent of which concerned banks. The number of complaints lodged more than doubled compared with 2000. The number of those concerning asset management companies rose from 34 to 46.

Some 61 per cent of the complaints about dealing, the reception of orders and placement concerned failure to provide information and the execution of orders, compared with 58 per cent in 2000. The number of complaints concerning portfolio management fees almost quadrupled and there was also an appreciable rise in the number concerning the execution of management mandates and observance of operating rules. Finally, with reference to Internet trading services, the proportion of complaints lodged in connection with the execution of orders rose to 81 per cent, compared with 59 per cent in 2000.

The number of registered financial salesmen rose by more than 10,000, the largest increase since 1995, to stand at 59,610 at the end of the year (Table aVI.9).

Supervisory activity in respect of financial salesmen originated both from reports submitted by investors (71) and intermediaries (118) and from irregularities found in the course of on-site controls at 3 intermediaries.

TABLE VI.7

COMPLAINTS LODGED BY INVESTORS

SUBJECT OF COMPLAINT	BANKS		INVESTMENT FIRMS[1] AND STOCK-BROKERS		ASSET MANAGEMENT COMPANIES		TOTAL	
	2000	2001	2000	2001	2000	2001	2000	2001
TRADING AND RECEPTION OF ORDERS								
FAILURE TO PROVIDE PRIOR INFORMATION ON FINANCIAL INSTRUMENTS	45	37	1	1	—	—	46	38
FEES	2	1	3	--	—	—	5	1
UNSUITABLE TRANSACTIONS WITHOUT CUSTOMERS' PRIOR CONSENT	21	52	5	13	—	—	26	65
EXECUTION OF ORDERS	7 2	94	21	15	—	—	93	109
OTHER	41	22	27	7	—	—	68	29
PORTFOLIO MANAGEMENT								
FAILURE TO PROVIDE PRIOR INFORMATION ON THE SERVICE	7	15	2	2	8	10	17	27
FAILURE TO OBSERVE CONTRACTUAL PROVISIONS	20	80	15	45	22	27	57	152
UNSATISFACTORY RATES OF RETURN	4	10	3	1	4	8	11	19
OTHER[2]	14	236	13	1	--	1	27	238
PLACEMENT/DOOR-TO-DOOR SELLING								
ALLOTMENT OF QUANTITY ORDERED	6	1	1	--	—	—	7	1
DESCRIPTION OF PRODUCTS/SERVICES	22	43	--	4	—	—	22	47
EXECUTION OF INSTRUCTIONS	2	28	2	10	—	—	4	38
SUSPECTED UNAUTHORIZED ACTIVITY	1	10	--	15	—	—	1	25
OTHER	6	21	7	7	—	—	13	28
TOTAL	*263*	*650*	*100*	*121*	*34*	*46*	*397*	*817*

[1] Includes trust companies. [2] Includes a large number of complaints, regarding a single bank, that cannot be classified elsewhere in the table.

Sanctions and precautionary measures

Last year the Commission concluded 11 proceedings under Articles 190 and 195 of the Consolidated Law for the imposition of penalties on corporate officers of intermediaries for

breaches of the legislation governing the sector. It submitted proposals for a total of more than €1.1 million of fines to be imposed on 83 persons performing administrative, management and supervisory functions, as well as employees, of 7 investment firms and 4 banks (Table VI.8). Fines amounting to around €115,000 were also proposed for two of these intermediaries for events that had occurred while Law 1/1991 was in force.

During the year Consob concluded the task of reformulating, in accordance with the indications contained in Council of State opinion 1317 of 3 December 1998, proposals for penalties submitted to the Ministry for the Economy in connection with events that had occurred while Law 1/1991 was in force. In addition, penalty proceedings involving 4 intermediaries (3 investment firms and 1 bank) were concluded on the basis of the procedure governed by the Consolidated Law with the application of the principle of favor rei, *with fines totaling €144,000.*

The Commission also submitted a proposal to the Ministry for the Economy for fines amounting to €39.000 to be imposed on a stockbroker. In the light of the findings of inspections, the Chairman of the Commission ordered the precautionary suspension of 3 stockbrokers and simultaneously appointed special administrators under Article 201.14 of the Consolidated Law. A proposal was submitted to the Ministry for the deletion of one stockbroker from the register (Table aVI.10).

TABLE VI.8

FINES PROPOSED BY CONSOB FOR CORPORATE OFFICERS OF INTERMEDIARIES
(2001)

	INVESTMENT FIRMS		BANKS	
	NUMBER	AMOUNT[1]	NUMBER	AMOUNT[1]
DIRECTORS	28	608	18	199
MEMBERS OF THE BOARD OF AUDITORS	16	169	4	19
GENERAL MANAGERS	2	53	1	20
HEADS OF INTERNAL CONTROL	5	27	2	6
OTHER	1	2	6	8
TOTAL	*52*	*860*	*31*	*252*

[1] Thousands of euros.

As regards the reports of suspected crimes concerning securities intermediation, during the year Consob sent the judicial authorities 11 reports on suspected cases of unauthorized provision

of investment services, of which 3 involved use of the Internet, and one report of suspected commingling of assets in violation of Article 168 of the Consolidated Law (Table VI.9).

TABLE VI.9

SUSPECTED CRIMES CONCERNING SECURITIES INTERMEDIATION REPORTED TO THE JUDICIAL AUTHORITIES[1]

TYPE OF CRIME	1997	1998	1999	2000	2001
UNAUTHORIZED INVESTMENT SERVICES	28	6	10	7	11
BREACH OF DUTY	2	--	--	--	--
COMMINGLING OF ASSETS	2	5	1	6	1

[1] Does not include suspected crimes by financial salesmen.

Consob also imposed 128 penalties and 50 precautionary suspensions on financial salesmen. It dropped proceeding in another 108 cases. In addition, Consob sent the judicial authorities 72 reports of suspected crimes committed by financial salesmen (Table VI.10).

TABLE VI.10

MEASURES CONCERNING FINANCIAL SALESMEN AND REPORTS TO THE JUDICIAL AUTHORITIES

TYPE OF MEASURE	1997	1998	1999	2000	2001
PENALTIES					
REPRIMAND	8	11	2	21	29
DELETION FROM THE REGISTER	39	86	70	49	36
SUSPENSION FROM THE REGISTER	5	73	51	73	48
FINE	--	--	4	26	15
PRECAUTIONARY MEASURES					
SUSPENSION FROM ACTIVITY	64[1]	76[1]	74	39	50
TOTAL	*116*	*246*	*201*	*208*	*178*
REPORTS TO THE JUDICIAL AUTHORITIES	*58*	*137*	*106*	*134*	*72*

[1] Includes measures adopted under Article 45.4 of Legislative Decree 415/1996 and, from 1 July 1998 onwards, under Article 55.2 of the Consolidated Law on Financial Intermediation.

As in 2000, there was a decline in the more severe disciplinary measures (the number of deletions from the register fell by more then 26 per cent, from 49 to 36), but a substantial increase in the number of precautionary suspensions (from 39 to 50) and reprimands (from 21 to 29). The further decline in severe measures appears to reflect a greater efficacy of controls by intermediaries, their trade associations and the organizations of financial salesmen, and more effective dissemination of information regarding the imposition by Consob of penalties on financial salesmen. The increase in reprimands reflects a rise in the number of reports on minor irregularities and verification of these by the Commission.

Rulemaking and interpretative guidance

During the year the consultation procedure with securities intermediaries and consumer organizations on the document prepared by the Committee of European Securities Regulators, "Standards and rules for harmonizing core conduct business rules for investor protection", was completed in two phases (April and October). The document is designed to create a corpus of principles and rules for investor protection harmonized at European level.

As regards interpretation of the provisions in force, in 2001 Consob replied to 21 queries concerning the rules on securities intermediaries.

In responding to specific queries from trade associations or individual intermediaries, the Commission addressed several problems concerning the rules governing the service of placement.

In the first place, the Commission clarified that an intermediary authorized to provide the service both "with" and "without firm commitment underwriting or standby commitments" could also provide the service in only one of these ways without thereby risking forfeiture of its authorization.

In addition, Consob recognized the compatibility of the provisions in force with the practice of so-called vertical integration of distribution, whereby the mandate to act as distributor did not come directly from the person (normally the issuer) making the offer but from another "distributor", called the "primary distributor". For this operational scheme to be adopted, however, the Commission stated that the "secondary distributor" had to be explicitly identified in the prospectus among the "persons participating in the operation".

The Commission also provided clarifications on specific operational procedures in connection with subscriptions of initial public offerings over the Internet. In a query Consob was asked to consider the possibility for the intermediary providing the service of placement or reception of orders to receive an investor's orders with payment in the form of a direct debit on the investor's current account at his own bank. In this hypothetical case, the intermediary would hold the securities allotted to the customer as collateral and reserve the right, under a specific mandate from the customer, to sell them in the event of default by the customer. In this regard, the Commission clarified, firstly, that the procedure described amounted to the financing of the client by the intermediary (even if for a limited period of time) and, secondly, that the irrevocable mandate to sell the securities allotted produced only obligatory effects between the parties but not a constraint of unavailability of the securities that was effective erga omnes. *Furthermore, the Commission stressed that the collateral the customer was required to provide had to be "congruous"*

with the amount of financing granted and could not be limited to the financial instruments acquired with the financing granted but had to provide for appropriate "haircuts".

In response to another query, in Communication DIN/1047275 of 13 June 2001 the Commission clarified that the legislation in force regarding intermediaries did not forbid the opening by a private party (neither an intermediary nor a related person) of a "center for services and assistance for online trading" divided into "areas" (reception, advice on the financial markets, technical and tax advice) where certain activities would be performed possibly in support of the provision of investment services. In particular, the Commission found it admissible for there to be an "online trading area" equipped with workstations connected with the Internet for online trading only for enabled customers. According to Consob, the transmission and reception of orders via the Internet was a way of providing the authorized dealing service; given the particular features of the technical instrument employed, the actual location of the workstations used for transmitting orders was considered not relevant by the Commission.

With regard to collective investment undertakings, after focusing its activity in 2000 mainly on controlling the standards for the preparation of disclosures to investors, in April 2001 the Commission amended its Regulation 11971/1999 on issuers to modify the layout of offer prospectuses. Major changes had already been made in the quality of the information to be disclosed to the public when the new offer prospectus layout was first introduced by Consob in May 1999. The changes adopted last year further refined the structure and content of the prospectus, with the aim of allowing investors to be better informed.

Essential in this respect was the rearrangement and rationalization of the content of the prospectus into homogeneous logical areas, to ensure both greater simplicity of presentation and full comparability of products in terms of investment policies and costs. The clearer highlighting of the "qualities" of the product by the detailed information in the prospectus was intended to underscore the distinctive features on which investors base their ex ante decisions to purchase the product and ex-post evaluations of the manager's performance.

More extensive changes were made in the layout of the prospectuses of open pension funds, whose structure was completely aligned with that of mutual funds.

The new version of the Consob Regulation on issuers also introduced an important change in the supervision of advertisements, now to be conducted *ex post* instead of *ex ante*.

This allows the interested intermediaries to publish advertisements concerning units or shares of collective investment undertakings from the day following that of their transmission to Consob, without the 10-day waiting period previously envisaged. This regulatory change made it necessary to develop and define clear operational criteria for the drafting of advertisements, and the Commission accordingly issued a communication containing detailed drafting standards, with the twofold objective of ensuring the full comparability of the information contained in advertisements through the application of objective criteria defined ex ante *and disclosed to the market, and of preventing unfair behavior on the part of intermediaries. To this end, the Commission laid particular stress on the criteria for describing funds' performance, which were evaluated in the light of international experience in advertising.*

On the subject of funds of funds, *inter alia* following investigations carried out by Consob, with the aim of making the costs arising from fee rebate agreements fully transparent, the Commission decided that asset management companies must state the existence of any such agreements both in the part of the offer prospectus describing the various types of costs and in that describing potential conflicts of interest. The fees rebated by target funds must also be included in calculating the total expense ratios of funds of funds.

The Commission's attention to pension funds focused on the statutory and regulatory framework in force, which does not fully clarify the powers of the Pension Fund Supervisory Authority, owing to lacunae in the provisions or deficient coordination between Legislative Decree 124/1993 and the Consolidated Law. As the authority responsible for supervising compliance with the rules on solicitation of investors and correct conduct on the part of asset management companies, Consob is evaluating possible ways to enhance the efficiency of overall supervisory action through the exchange of information with the other sectorial authorities.

Last year the first offering of units of an exchange trade fund, established in Ireland, was authorized with the publication of the offer prospectus.

Exchange traded funds (ETFs) are open indexed collective investment undertakings, i.e. passive funds that replicate a benchmark portfolio, whose units (or shares) can be traded in organized markets like any other financial instrument. The dual nature of ETFs derives from the presence of a primary market in which blocks of the units/shares are subscribed and redeemed and a secondary market in which investors (generally retail) can buy and sell the units/shares at the market price without any restriction as to quantity.

Arbitrage by market makers in the primary market ordinarily ensures that the price of an ETF is close to the net asset value (NAV) of the theoretical benchmark portfolio, but it cannot guarantee perfect correspondence. By the same token, misalignments may occur between the current price of the units/shares of an ETF and its NAV. These spreads have to be considered an implicit cost over and above the ordinary transaction costs applied by the intermediaries dealing in ETFs and the product's management fees, which are normally lower than those of mutual funds.

Already well established in the American market, ETFs are rapidly spreading to the main stock markets of Europe, where they are traded in dedicated segments: Next Track on the Euronext system of Paris and Amsterdam, the XTF segment on Deutsche Borse AG, Extramark on the London Stock Exchange and the ETF segment on SWX Swiss Exchange.

To arrive at a more precise definition of the tasks of the body responsible for keeping the register of financial salesmen pursuant to Article 31 of the Consolidated Law, Consob partially reformulated Articles 79, 86 and 91 of Regulation 11522/1998, essentially empowering the body to deny entry in the register where the requirements were lacking and entitling the party concerned to petition Consob to re-examine the measures adopted by the body. An "implied consent" rule was also introduced: a proposal for entry in the register will be deemed accepted if the body fails to make any decision within 45 days from the time it receives the proposals for registration from the territorial commissions. It is worth recalling that these changes will enter into effect, pursuant to

Article 99 of Regulation 11522/1998, when the date is set for the start of operations of the body responsible for keeping the register and of the territorial commissions.

In its interpretative and guidance activity, the Commission responded to 145 queries regarding financial salesmen from private individuals, entities, trade associations and regional commissions. The queries involved both matters of broad interest and specific questions mainly concerning *de jure* entry in the register of financial salesmen and satisfaction of the experience and integrity requirements by candidates.

With regard to the organizational structure by which the financial salesmen can perform their activity, the Commission believed that the broadest freedom have to be granted to financial salesmen in the choice of this structure, though in conformity with the legislative and organizational standards. Therefore, it affirmed the principle that a salesman may perform his/her activity in the form of a family business as defined by Article 230-bis of the Civil Code, provided that the other members of the family involved in the business were exclusively assigned to tasks and activities merely instrumental to those typical of a financial salesmen and constituting the object of the business. On the other hand, consistently with the provisions in force and its previous orientation, the Commission ruled out the possibility of financial salesmen performing their activity in the form of a company. However, the Commission found that financial salesmen could use the organizational model of the associazione in partecipazione *referred to in Article 1549 of the Civil Code, provided the financial salesman acted as the associating party.*

On another issue, the Commission reiterated that the provision of investment advice was an unrestricted activity governed by common law where it was not provided by or on behalf of authorized intermediaries; in the latter circumstances, it constituted a non-core service and was subject to the provisions of the Consolidated Law and the implementing regulations governing the provision of investment services and non-core services. The Commission also specified that the activity classifiable as constituting an advisory relationship while remaining independent of that of promotion and placement did not consist only in advising specific investment choices but also in providing general and systematic planning of the customer's portfolio.

The Commission also issued various clarifications regarding the compatibility of the activity of financial salesmen. For example, it determined that the activity of financial salesman was compatible with that of credit broker, provided that financial salesmen had informed the intermediary they worked for and only if the latter did not itself grant financing.

VII. JUDICIAL CONTROL

Disputes concerning sanctions and other supervisory measures

During the course of 2001 76 appeals were made against sanctions and other supervisory measures adopted or proposed by Consob (Table VII.1); of the total number 36 were to administrative courts (Table aVII.1) and 40 to ordinary courts (Table aVII.2), compared with respectively 43 and 27 in 2000.

TABLE VII.1

OUTCOME OF APPEALS AGAINST MEASURES ADOPTED OR PROPOSED BY CONSOB[1]
(AT 31 DECEMBER 2001)

	ADMINISTRATIVE COURTS[2]			ORDINARY COURTS[3]		
	1999[4]	2000[4]	2001	1999[4]	2000[4]	2001
GRANTED	3	3	2	30	9	3
REJECTED	6	6	2	14	15	13
PENDING	42	34	32	1	3	24
OF WHICH:[5]						
- SUSPENSION GRANTED	12	6	4	--	2	1
- SUSPENSION REJECTED	16	15	11	--	--	--
TOTAL	*51*	*43*	*36*	*45*	*27*	*40*

[1] The appeals are shown according to the year they were presented. [2] Regional Administrative Tribunals and the Council of State. [3] Magistrate's courts and courts of appeal. [4] Some of the appeals were followed by Consob's lawyers, sometimes jointly with lawyers from the Avvocatura dello Stato. (Table aVII.3). [5] Includes only appeals in which an application for suspension was made.

Of particular note in 2001 were decisions no. 7143, no. 8257, no. 8342, no. 8343, no. 8657 and no. 11347, in which the Corte di Cassazione (Supreme Court) ruled on the manner of calculating the time limit referred to in Article 14.2 of Law 689/1981, according to which charges for violations subject to pecuniary administrative sanctions must be brought within 90 days of the violations being ascertained. This rule had not been uniformly applied by the various appeal courts applied to pursuant to Article 195 of Legislative Decree 58/1998.

In the above-mentioned decisions the Corte di Cassazione (Supreme Court) clarified that the time limit of 90 days under Article 14.2 of Law 689/1981 begins from the time when the Commission, acting in a collegial capacity, comes into possession of the results of the investigations carried out by its inspectors and is called up to decide on the apparent violations revealed by the findings.

The Corte di Cassazione (Supreme Court) specified that the time limit established in Article 14 of Law 689/1981 referred to the bringing of charges and not to the ascertainment of violations, which was not subject to predefined time limits. According to the Court, in calculating the time limit, it was necessary to "take account, on the one hand, of the (...) preceding investigative phase, which does not allow violations to be ascertained until the investigations have been completed or while further checks are required, and, on the other hand, of the spatium deliberandi*, which the nature and importance of the individual infraction require in each concrete case for a correct assessment of whether the circumstances found justify the act of ascertainment". The Court also stated that "The ability of the determination of the facts to constitute ascertainment, and hence to mark the start of the time limit for bringing charges (...) presupposes, however, that the determination and the ascertainment fall within the scope of the authority of the same person. If, instead, the powers in question are divided, the act of ascertainment cannot occur until the one has learnt of the results of the investigation carried out by the other.*

On the basis of these premises, the Court concluded by stating that "Only when Consob acting in its collegial capacity comes into possession of the results of the investigations by its inspectors and is called upon to decide whether there is a case for bringing charges in respect of administrative offences are the conditions met for the determination of the facts to constitute ascertainment of the infraction, with the consequent start of the time limit for the ascertainment to be followed by the bringing of charges.

In the auditing field it is worth noting a decision handed down by the Lazio Administrative Tribunal (no. 7798 of 2001), which rejected the appeal of an auditing firm and one of its partners against the measure adopted by Consob requiring the firm not to avail itself of the services of that partner in audits for 24 months. The decision provides useful indications for the orientation of Consob's supervision of auditing firms in the future.

In the first place, the Tribunal ruled that the interruption of the relationship between the auditor and the auditing firm in question and the fact that, following a spin-off, the latter had transferred its auditing division to a new company entered in the special register did not cancel the reasons for which the law provides for the adoption of the organizational sanction in question. As presented, the interruption did not preclude the possibility of Consob's ascertaining the existence of irregularities in the audit work and applying the measure in question to the auditor who had committed the irregularities and to the auditing firm in its new form, which was found to have been appointed to carry out the audit previously carried out by the company that had made the spin-off.

Another general point was made in the decision with regard to the inapplicability of the time limit of 90 days for the bringing of charges (referred to in Article 14 of Law 689/1981) to the procedure for imposing sanctions on auditing firms, since it clarified that the time limit referred exclusively to pecuniary administrative sanctions.

Lastly, in response to the appellants, who claimed that it was not possible to put the auditing standards recommended by Consob or issued by the same in communications on the same footing as the binding rules governing the activity performed by the auditor, with the consequent impossibility of imposing sanctions on the grounds of failure to comply with such standards, the Tribunal made a further important clarification. It stated, in fact, that in performing the functions attributed to it by law, the auditing firm and the auditor, «in line with the duty of correctness in providing the service (Article 1176 of the Civil Code) (Milan Court of Appeal 7.7.1998; Turin Tribunal 18.9.1993) and in line with the Community Directive (Article 23 of 84/253/EEC) (Council of State VI 28.4.1998 no. 570)), are required - vis-à-vis the company that conferred the engagement, injured third parties and in general the market supervised by Consob - to observe professional diligence, i.e. to apply the "rules of the trade" as can be deduced from professional practice or trade associations and which constitute a parameter of diligence (...). The yardstick of diligence with which to measure the correctness of the work of the auditing firm or the individual auditor is therefore to be seen as being provided on a general basis by the auditing standards laid down by the Consiglio nazionale dei dottori commercialisti e dei ragionieri, and this is the sense of the provision contained in Article 10 of Presidential Decree 136/1975 (the substance of which is now reproduced in Article 162 of the Consolidated Law on Financial Intermediation) on the basis of which Consob can "recommend" the adoption of auditing standards and methods after obtaining the opinion of the Consiglio nazionale dei dottori commercialisti e dei ragionieri».

In an appeal by an auditing firm against a decision by Consob not to supply documents relevant to a case, the Lazio Administrative Tribunal clarified that the right of the defense recognized by the Constitutional Court in decision no. 460 of 2000 as having precedence over professional secrecy, can be applied to Consob when it is authorized to supervise the applicant and does not extend, for example, to a civil case against third parties. This decision was challenged by the auditing firm and the appeal is pending.

In 2000, for the first time, Consob exercised its power under Article 152.2 of the Consolidated Law and submitted a report to a Tribunal pursuant to Article 2409 of the Civil Code on suspected serious irregularities in the performance of their duties by the members of the boards of auditors of two listed companies.

The trials based on these two reports were both concluded in 2001. In fact, pending the start of proceedings, the members of the two boards in question resigned and were replaced by new auditors. The Tribunal took note of these developments and in both cases declared that there were no grounds for further proceedings.

In 2001 there was an increase in appeals to the various appeals courts against pecuniary administrative sanctions imposed by the Ministry for the Economy and Finance acting on a proposal from Consob for violations of the provisions governing issuers contained in the Consolidated Law. The seven appeals made are still pending, except for one concerning a fraudulent solicitation by an intermediary, which was rejected.

Legal proceedings involving Consob

As has been the case since 1999, in some of the legal proceedings in which it is involved, Consob is defended directly by lawyers from its Legal Services Division (Table aVII.3).

Last year five actions for damages were brought against Consob; in all these cases the proceedings are still pending (Table aVII.4).

One action was brought by a company (now in liquidation) that alleged omission and/or negligence on the part of Consob in checking a public offering prospectus. In particular, the plaintiff referred to the loss of the investment it had made in the light of the encouraging information contained in the prospectus in question concerning the assets and prospects of the issuer, which subsequently failed.

In another case a savers' association sought damages, alleging omission and/or negligence on the part of Consob in its checking of the information in the prospectus for the listing and simultaneous public offering of a company's shares, whose price subsequently recorded a large fall.

In a third case a group of investors brought an action alleging omission of supervision on a group of companies, which were subsequently declared bankrupt, in connection with public offerings for which the prospectuses had not been filed with Consob.

This was the only appeal made in 2001 to a Regional Administrative Tribunal under Articles 33 and 35 of Legislative Decree 80/1998 as amended by Law 205/2000. Consob decided to make a preliminary appeal to the Corte di Cassazione (Supreme Court) to settle the issue of jurisdiction, thus confirming - even after the legislative innovations concerning the allotment of jurisdiction between administrative courts and ordinary courts - the choice made in the past for similar actions for damages brought before a Regional Administrative Tribunal.

Another action was brought against Consob et al. by an Italian investment firm in liquidation and its shareholders. In particular, the claim for damages was based on alleged illegitimate conduct by Consob towards the plaintiff company and other intermediaries belonging to the same group, which had been subjected to supervision deemed to have been oppressive.

Lastly, a former financial salesman, two years after being deleted from the register of financial salesmen for failing to pay his supervision fees (so that the legal time limit for challenging the deletion had expired), applied to the civil courts for damages in respect of the impossibility of working as a financial salesman owing to the alleged undue deletion from the register.

In 2001 Consob was also cited for civil liability in two criminal cases pursuant to Article 83 of the Code of Penal Procedure.

One case - which was dismissed early in 2002 for limitation of actions - had been brought against defendants, including some former members of the Commission, accused of abuse of power for having omitted to control an intermediary that had failed.

Consob was cited for civil liability at the request of the civil plaintiffs (all of whom were former clients of the intermediary in question) on the basis of the relationship of organic identification referred to in Article 28 of the Constitution. It was found, however, that the parties who had brought the civil action in

the criminal proceedings included some investors who, in connection with the same events, had already brought an action against Consob in a Civil Tribunal in 2000. Consob's lawyers drew the judge's attention to this fact and, in conformity with established court decisions, he dismissed the case at the beginning of 2002 on the grounds that "bringing a civil action in criminal proceedings entails, pursuant to the first paragraph of Article 75 of the Code of Penal Procedure, renouncing the civil court proceedings with immediate and final effect".

The other case of civil liability occurred in criminal proceedings against two persons accused of having committed offences in their capacity as corporate officers of an Italian investment firm that had subsequently been declared bankrupt.

In this case the persons who had applied for damages as injured parties (former clients of the investment firm in question) claimed that the supervisory authority was jointly and severally responsible for the losses caused by the two defendants for having omitted to control the investment firm.

Of particular importance is the fact that in this criminal case the Commission decided for the first time ever to apply for damages as an injured party, emphasizing the harm the supervisory authority had suffered by its functions having been fraudulently hindered and prejudiced by the behavior with which the defendants were charged in accordance with Article 171 of the Consolidated Law on Financial Intermediation.

Last year saw Consob apply for the second time for damages as an injured party in a criminal case initiated on the basis of the report it had submitted involving some corporate officers of a listed company accused of having disclosed false corporate information and market manipulation.

In this way the Commission - which had already intervened as an aggrieved party and as the body representing the interests harmed by the alleged crime - intended to stress its position as an "injured party". It had been found, in fact, that on the one hand the false information contained in the corporate disclosures had hindered Consob's performance of its control functions and on the other that the manipulative behavior with which the defendants were charged had impinged on the regular operation of the financial market, which it is Consob's institutional duty to protect.

Last year also saw the first five appeals against orders to pay issued for the collection of supervision fees due to Consob under the self-financing rules adopted in implementation of Article 40 of Law 724/1994. Four of the appeals were presented to judicial authorities other than the competent ordinary tribunal pursuant to Article 9 of the Code of Civil Procedure. Consob nonetheless attended the proceedings in order to respond to the merit of the appellants' claims.

At present three of the above-mentioned cases are pending; the other two cases were dismissed after the appellants had withdrawn their appeals and paid the amounts due. Lastly, it should be noted that in three of these cases Consob was defended by lawyers from its Legal Services Division.

Insider trading and market manipulation cases

In accordance with Article 187 of the Consolidated Law on Financial Intermediation, in criminal trials for suspected insider trading and market manipulation Consob exercises the rights and powers attributed by the Code of Penal Procedure to entities and associations representing the interests injured by the offence.

In order to exercise the prerogatives attributed to Consob by law, its lawyers intervene, in the preliminary hearing or in the preliminary phases of the debate, by filing the documents provided for in Article 93 of the Code of Penal Procedure. The role of supplying the public prosecutor with "technical support" is performed as the trial proceeds by filing technical and legal briefs and by exercising the right referred to in Article 505 of the Code of Penal Procedure. This recognizes the right of entities representing the interests injured by the offence to prepare questions for the judge to put to witnesses, professional assessors, technical consultants and other parties who are examined and to request the admission of new evidence serving to ascertain the facts of the case.

In 2001 Consob intervened in five penal proceedings, of which two concerned insider trading and the other three market manipulation. Among the latter it is worth noting two that were concluded during the year with plea agreements (Table VII.2).

The first case was based on a report Consob had submitted to the Milan prosecutor's office in 1999 concerning anomalous transactions involving a listed security that had been entered into over several trading days in 1997 by an employee of an Italian investment firm.

The strategy used can be classified as trade-based manipulation and consisted in a series of combined transactions: purchases on the odd-lot market of a bank's shares, the price of which was determined by the opening price on the MTA electronic share market; entry on the MTA market just a few seconds before the start of the opening phase of a very large sell order for the same shares at a price considerably below that recorded the previous day and such that it produced a fall in the opening price; and lastly, the sale of the remaining shares on the odd-lot market once the price had returned to the level of the previous day.

The conduct was deemed to be fraudulent in that it was objectively both intended and likely to produce a significant reduction in the share price and therefore constituted an offence under Article 5 of Law 157/1991 (now Article 181 of Legislative Decree 58/1998). In plea agreement 3222 of 7 March 2001, the Milan Tribunal imposed a fine of 16 million lire on the accused.

The second case, which was also based on a report submitted by Consob, saw a person accused of market manipulation for having used the press to disseminate false and misleading information that was both likely to have and subsequently did have a significant effect on the price of a listed security. In plea agreement 2073 of 15 October 2001 the Milan Tribunal imposed a fine of 10 million lire on the defendant and a (suspended) sentence of 6 months of imprisonment.

Of fundamental importance is decision 6405 of 29 May 2001, in which the Milan Tribunal found two persons guilty of insider trading. This is the second case leading to a conviction since the entry into force of Law 157/1991.

The proceedings, which had their origin in a report submitted by Consob to the prosecutor's office of the Trieste Tribunal in March 1997 with the results of its investigation of suspected violations of Law 157/1991 in connection with trading in the shares of two listed companies in the period from 1 November 1993 to 20 May 1994, the day on which an announcement was made concerning the serious balance sheet and financial situation of the group to which the two companies belonged.

TABLE VII.2

CONSOB'S REPRESENTATION OF INJURED INTERESTS IN LEGAL PROCEEDINGS

	NUMBER OF CASES	OFFENCE[1]	OUTCOME AT 31 DECEMBER 2001
1996	1	INSIDER TRADING	PLEA AGREEMENT
1997	1	»	DISMISSAL FOR LIMITATION OF ACTIONS[3]
	1	»	ACQUITTAL
	1	»	PLEA AGREEMENT
	1[2]	INSIDER TRADING AND MARKET MANIPULATION	PENDING; PLEA AGREEMENT FOR ONE DEFENDANT
1998	1	»	PENDING
1999	1	»	PLEA AGREEMENT FOR 4 DEFENDANTS; 2 DEFENDANTS CONVICTED
2000	1	»	PENDING[4]
	1	MARKET MANIPULATION	PENDING[5]
2001	3	»	ONE CASE PENDING; PLEA AGREEMENTS IN THE OTHER TWO CASES
	2	INSIDER TRADING	PENDING

[1] Insider trading:: Article 2 of Law 157/1991, now Article 180 of Legislative Decree 58/1998; market manipulation: Article 5 of Law 157/1991, now Article 181 of Legislative Decree 58/1998. [2] Proceedings have also been initiated for the offence of obstructing Consob in the exercise of its supervisory function in matters concerning insider trading (Article 8.2 of Law 157/1991). [3] Proceedings are still pending for other suspected offences. [4] In one case the proceedings had already begun in 1999 but, following the re-opening of the preliminary investigation phase it was necessary to initiate them again in 2000. [5] In 2001 Consob applied to recover damages as an injured party.

The trial before the Trieste Tribunal ended on 2 July 1998 with a plea agreement under Article 444 of the Code of Penal Procedure for the managing director of one of the two companies for violation of Articles 2 and 5 of Law 157/1991. As regards the other defendants, the proceedings were transferred, on jurisdictional grounds, to the Milan Tribunal, which in 2000 accepted plea agreements for three of them under Article 444 of the Code of Penal Procedure.

In the session of 29 May 2001 the Milan Tribunal sentenced the two remaining defendants to four months of imprisonment and a fine of 120 million lire each. It also imposed the ancillary penalties referred to in Article 2.5 of Law 157/1991 (now provided for in Article 182 of Legislative Decree 58/1998): interdiction for 6 months from holding a public office, engaging in the profession of financial operator, and acting as managers of companies and publication of the judgement in the "Corriere della Sera" and in "Il Sole 24 Ore". The decision has been appealed.

The decision in question affirms, on a preliminary basis, a principle regarding the succession of criminal law over time that is also of importance for the other insider trading and market manipulation cases which were initiated under Law 157/1991 and are still pending.

The Tribunal clarified, in fact, that the charges brought referred to "offences established, at the time of the facts, by Article 2 of Law 157/1991, which maintain their criminal force under the legislative changes brought about by the introduction of Legislative Decree 58/1998; in Article 180 this provides for the offence of 'unauthorized use of inside information', which undoubtedly covers the conduct of the defendants in this case. Having made this premise from the standpoint of legal continuity, which permits the succession of criminal provisions to be hypothesized pursuant to the second paragraph of Article 2 of the Penal Code, it is necessary to take note that the penalties provided for in the new law are much more severe than those provided for in the repealed law, which must therefore be applied as offering more favorable treatment within the meaning of the third paragraph of Article 2 of the Penal Code".

As regards the substance of the accusation, both defendants were found to be guilty as secondary insiders of entering into speculative securities transactions in full awareness of the confidential nature of the information used, "obtained from the so-called primary insider (i.e. from the person who originally possessed the information in virtue of the functions he performed within the company that had issued the securities ...)". The decision went on to state that "the news concerning the economic crisis of the group (...)" had to be recognized as confidential information" since it was undoubtedly specific information having a precise content, insofar as it concerned the economic conditions of the issuer of the securities involved in the transactions, that had not been made public at the time of the conduct with which the defendants are accused and that if it had been made public would certainly have influenced the price of the securities". Thus, according to the Tribunal, there was no doubt that "the use of such confidential information and the related items of news concerning from time to time concrete aspects of the group's performance (...), including possible action in relation to the disposal of holdings in group companies (...), permitted speculative transactions to be carried out that generated very substantial profits for the defendants".

Lastly, in its capacity as the aggrieved party, in 2001 Consob was notified of 10 requests for dismissal (of which 2 were partial, i.e. they referred to only some suspects or one of the suspected crimes) made by the public prosecutor upon completion of the preliminary investigations into possible cases of insider trading or market manipulation reported by Consob.

As regards the grounds for the requests for dismissal, in two cases the limitation of actions applied, in one case of partial dismissal the public prosecutor did not find evidence of market manipulation (but will bring charges of insider trading under Article 180 of Legislative Decree 58/1998), and in the seven remaining cases the evidence was deemed insufficient to support the accusations.

VIII. INTERNATIONAL AFFAIRS

International cooperation

In 2001 Consob continued to cooperate intensely with its counterparts abroad and received requests for help in 72 investigations (61 in 2000). In particular, there was a fourfold increase in the number of requests with regard to insider trading. Only a small part of the increase was due to the tragic events of 11 September, which saw Consob subsequently involved in the investigations by the Securities and Exchange Commission and the Commodities Futures Trading Commission into the activity of persons linked to the terrorist organizations responsible for the attacks. Consob also received requests for cooperation from other regulatory authorities investigating trades in securities in the insurance and air transport sectors.

The regional distribution of the requests received by Consob with regard to insider trading shows that the increase was mainly due to requests from other European authorities, which rose from 3 to 17.

There was a small reduction in the requests Consob sent to foreign authorities, as a result of the fall in the number of those with regard to insider trading from 32 to 24. By contrast, the requests concerning market manipulation and fraudulent behavior both increased in number (Table VIII.1).

TABLE VIII.1

INTERNATIONAL COOPERATION
(REQUESTS FOR COOPERATION)

SUBJECT OF THE REQUEST	FROM CONSOB TO FOREIGN AUTHORITIES					FROM FOREIGN AUTHORITIES TO CONSOB				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
INSIDER TRADING	11	17	43	32	24	5	2	3	5	20
MARKET MANIPULATION	4	2	--	1	4	1	1	3	--	1
UNAUTHORIZED SOLICITATION AND INVESTMENT SERVICES ACTIVITY	8	7	4	3	10	4	3	3	1	2
TRANSPARENCY AND DISCLOSURE	2	--	--	1	--	2	1	--	2	--
MAJOR HOLDINGS IN LISTED COMPANIES AND AUTHORIZED INTERMEDIARIES	3	--	--	--	1	12	--	--	--	--
INTEGRITY AND EXPERIENCE REQUIREMENTS	3	12	10	19	14	15	30	44	53	49
VIOLATION OF CONDUCT OF BUSINESS RULES	--	--	--	2	--	--	--	--	--	--
TOTAL	*31*	*38*	*57*	*58*	*53*	*39*	*37*	*53*	*61*	*72*

In order to further extend the network of contacts with regulatory authorities, two cooperation and information sharing MOUs were concluded in 2001, with the Commissions of the Czech and Turkish Republics. Last year also saw numerous contacts with other EU regulatory authorities to give locals, i.e. intermediaries not possessing a European passport under Directive 93/22/EEC on investment services, access to trading on the markets operated by Borsa Italiana.

Consob took part in the initiatives of the EU Commission in matters related to the enlargement of the Union.

In October Consob hosted the meetings of the Technical and Executive Committees of IOSCO, during which a Special Project Team was set up to study internationally coordinated contingency plans for exceptional events capable of affecting the regular operation of securities markets. The Team will examine the provisions governing cooperation and information sharing to ensure they are sufficient to combat market abuse and explore the most appropriate means of identifying the final beneficiaries of transactions concluded on financial markets.

During the year Consob organized meetings of Standing Committee 2 of the IOSCO Technical Committee, which is concerned with the regulation of secondary markets, and, jointly with the Bank of Italy, a meeting of the Joint Forum on Financial Conglomerates. These meetings were in addition to those of the Committee of European Securities Regulators (CESR) that Consob periodically hosted.

The activity of the European Union in the financial services field

In 2001 there was a sharp acceleration in the drive to implement the measures outlined in the Financial Services Action Plan with the aim of creating a fully integrated market for financial services by 2005. Consequently, there was an increase in the number of meetings held at the EU Commission and the Council to prepared new proposals for directives.

One development that gave new impulse to EU activity was the presentation in February of the report of the Committee of Wise Men, also known as the Lamfalussy Committee, set up to identify new procedures for legislating in the field of securities markets. The solutions proposed were approved by the European Council, which recommended their implementation at its meeting in March 2001. The European Parliament adopted a resolution in February 2002 in which it accepted the solutions proposed by the Committee with some limitations.

Among the directives approved during 2001, it is worth noting the two on undertakings for collective investment in transferable securities (UCITS), which the Action Plan had indicated as a top priority. The first removes more barriers to the cross-border distribution of units within the European Union and broadens the range of financial products in which investors' funds can be

invested. The second grants the European passport to asset management companies and broadens the range of services they can provide to include portfolio management on an individual basis.

In 2001 there was the definitive approval of the directive on money laundering, the directive introducing fair value for accounting purposes, the regulation on the Statute for a European company and the directive complementing this with regard to employees' rights.

The directive on money laundering (2001/97/EEC) was approved in December. It has a broader scope than the earlier directive in this field (91/308/EEC), which was limited to drug trafficking and the proceeds of particularly serious criminal activity, and therefore provides an additional defense against the activities of terrorist organizations. The new directive extends the requirements with regard to the identification of clients, the recording of transactions and the reporting of suspect transactions to include persons other than financial intermediaries, such as auditing firms.

The directive on the valuation of financial instruments makes it easier for issuers to raise capital by allowing them to draw up financial documents on the basis of international accounting standards. The aim of the directive is to make it possible to apply the rules of IAS 39 (Financial Instruments Recognition and Measurement). In fact, under the directive Member States may require financial instruments to be valued at fair value.

The approval of the regulation on the Statute for a European company makes it possible for EU companies to operate in the internal market on the basis of a single set of rules, without having to incur the costs of complying with the administrative provisions in force in different countries. The regulation is accompanied by a directive on employees' rights.

In addition, important progress was made last year in the negotiations on other proposed directives aimed at achieving the objectives of the Action Plan for Financial Services, in particular those on market abuse, collateral and distance marketing, as well as the proposed regulation on accounting standards.

In particular, a powerful impulse was given to the work on market abuse by the tragic events of 11 September. In fact a common position has been adopted by the Council on the proposed directive on market abuse and it is now being examined by the European Parliament. The proposal takes over some of the suggestions made by FESCO (now CESR) in September 2000. The proposed text also conforms with the indications of the Lamfalussy Committee, whereby directives should only lay down general principles while detailed implementing provisions should be adopted by the Commission, assisted by the Securities Committee.

As regards collateral, it proved particularly difficult in the Council to arrive at a compromise between the desire of some countries to restrict the scope of the directive to collateral arrangements between authorized intermediaries and/or public entities and that of other countries to include those between persons other than natural persons.

The directive on distance marketing is intended to complete the legal framework for contracts concluded using means of distance communication (Directive 97/7/EEC). The proposal envisages the introduction of means of consumer protection, such as the provision whereby a contract is not validly

concluded without the explicit agreement of the person being solicited, the restriction on the use of means of distance communication where the agreement of the person concerned has not been obtained (opt-in) or the possible use thereof in the absence of manifest opposition by the interested party (opt-out), the detailed description of the obligations concerning the information to be provided prior to the conclusion of contracts and consumers' right of withdrawal without penalty.

The proposed regulation on accounting standards provides for the introduction of harmonized rules on financial reporting and the adaptation of national systems to permit the application of international accounting standards. In line with the communication issued in June 2000 on the future of financial reporting in Europe, the common position requires companies listed on regulated markets to prepare their consolidated accounts on the basis of the international accounting standards adopted by the International Accounting Standards Board, as endorsed by a committee provided for in the regulation.

In 2001 the proposed directive on takeover bids, despite its having been discussed at length and an agreement reached by the members of the Conciliation Committee, was rejected by the European Parliament in a plenary session held in July. The wide differences between the positions of the Member States made it impossible to resolve an issue that had dragged on for twelve years.

In order to overcome the impasse, in 2001 the Commission set up an Expert Group, whose report will help to guide the Commission's evaluation of the possibility of preparing a new proposal for a directive.

In particular, the Group's mandate requires it to prepare proposals aimed at reducing the impact of the disparities in national laws on the market for corporate control, identifying methods for determining the equitable price, and introducing the right for the person who has become the majority shareholder as the result of a bid to acquire all the remaining shares and the right for the minority shareholders to sell their shares to the majority shareholder.

The proposed directives on the introduction of a European passport for issuers of financial instruments, on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, and on pension funds have not yet reached the stage of a common position in the Council.

The proposed directive on prospectuses provides for the automatic recognition of those approved by issuers' home countries. It also envisages the introduction of other innovations, such as a shelf-registration mechanism, a harmonized definition of public offering, alignment of the information to be provided with the standards established by IOSCO, incorporation by reference to previously filed documents, concentration of the powers of approving prospectuses and carrying out supervision in the hands of the competent administrative authority, and, in accordance with the indications of the Lamfalussy Committee, the authorization of the Commission to issue regulations implementing the rules of the directive.

The proposed directive on financial conglomerates lays down rules on prudential supervision, identifies the authority that is to act as coordinator and defines its role. One possibility under consideration is to give this authority an information coordinating role with respect to the prudential supervision of conglomerates, without any power to impose sanctions or take decisions. However, the solution that is gaining ground is that of strengthened coordination, whereby the coordinating authority would be able to

request information from all components of the group and their supervisory authorities in order to establish a common approach.

The aim of the proposed directive on pension funds is to create a Community legal framework for the operation of occupational pension funds. At present the proposal is incomplete as regards the types of funds covered, authorization (required only for cross-border activity), investment rules (the proposal contains only a reference to the prudent man approach), information requirements, conflicts of interest and the method of calculating technical reserves.

Lastly, work continued at the Commission on a proposal for the amendment of the investment services directive (93/22/EEC). In 2001 a first round of public consultation on the document "Upgrading the Investment Services Directive " was concluded; the comments received led to a second round of public consultation.

The activity of the Committee of European Securities Regulators

Following the publication of the report by the Committee of Wise Men, the EU Commission set up the Securities Committee for the technical implementation of the principles contained in legislation and the Committee of European Securities Regulators to coordinate supervisory activity and the administrative application of Community rules. FESCO (Forum of European Securities Commissions) consequently adapted its charter to the decisions of the Commission and at the same time took on a new name CESR. In addition to advising the Commission, CESR is required to ensure the application of Community law in the Member States, while continuing to carry out all the coordination and cooperation functions among regulatory authorities previously performed by FESCO.

One of CESR's activities worth noting is that of the Experts Group set up to identify transparency rules for prospectuses. Following the publication of the document on the basis of which the EU Commission prepared the proposed directive on prospectuses, the Group made a further contribution in this field and in May 2001 published a document presenting a building block approach intended to obtain an equivalent degree of transparency at European level for cross-border offerings of innovative financial products (covered warrants, warrants, structured bonds and reverse convertible notes).

After publishing proposals for the regulation of alternative trading systems (ATSs), CESR set up an Experts Group charged with developing proposals for the harmonization of the rules governing trading systems that, operated by Community investment firms, benefit from the European passport under Directive 93/22/EEC.

The creation of a harmonized framework of standards for ATSs is in response to recent innovations in the financial sector, where it has been increasingly common to find investment firms performing activities that cannot be classified either within the sphere of investment services or within that of organizing and

operating regulated markets. This development has caused major difficulties for traditional regulation based on a clear distinction between markets and investment services and revealed the existence of a broader category, that of "trading systems". These should include, in addition to regulated markets, multilateral ATSs and broker/dealers using systems that organize orders involving financial instruments on a bilateral basis.

After a first round of public consultation, CESR, in line with the preliminary proposals of the EU Commission regarding the revision of Directive 93/22/EEC, decided to exclude bilateral systems from the application of the standards.

At the same time CESR is assessing the desirability of entrusting a separate Experts Group with the task of analyzing the problems associated with the transparency of markets and organized trading systems, including those of a bilateral nature.

In 2001 a working group was set up, composed of representatives of CESR, the European Central Bank and the national central banks of the European Union, to propose standards and/or make recommendations for entities that act as central counterparties and/or operate securities settlement systems. The cooperation between CESR and the European System of Central Banks represents an application at European level of that between IOSCO and the Committee on Payment and Settlement Systems of the G-10 central banks.

In view of the steps taken by the EU Commission to harmonize accounting standards and foster the creation of a single European market, CESR set up a permanent Group on financial reporting known as CESR-Fin. The Group is charged with the task of contributing to the harmonization of the rules and activities of European regulators in evaluating International Accounting Standards and the enforcement of the disclosure of financial information by companies with listed securities both in prospectuses and in periodic reports. In both these fields the role of CESR-Fin is limited to general coordination, while the operational activity is performed by two subgroups. The first is the Subcommittee on International Standard Endorsement (SISE), which is chaired by a representative of Consob and charged with evaluating international accounting rules and interacting with the public and private bodies responsible for issuing and assessing the IAS. The second is the Subcommittee on Enforcement, in which regulators will coordinate their positions with regard to the monitoring/sanctioning of violations of the rules on financial reporting.

Another of CESR's experts groups addressed the issues involved in the harmonization of the conduct of business rules applicable to investment services offered to clients. The group's work led to two rounds of public consultation.

The group's proposals concern the rules applicable to the various phases of the relationship between intermediaries and their clients and implement the principles laid down in Article 11 of the Investment Services Directive. In particular, the document establishes rules on conflicts of interest, the obligations with regard to providing information to clients, the terms and conditions of contracts for investment services, and trading. Specific rules apply to transactions involving derivatives and individual portfolio management services.

During 2001 CESR-Pol (formerly FESCOPOL) continued its activity aimed at standardizing the procedures for cooperation among supervisory authorities as part of a two-year program. To this end the group analyzed a series of investigations carried out by the competent authorities into violations of rules that involved the jurisdictions of several countries belonging to the European Economic Area.

This activity is set within the framework provided by the Memorandum of Understanding signed in January 1991, in which the members of CESR undertook to provide the broadest possible cooperation, both in matters already harmonized by Community law and in others where Community provisions had still to be adopted. One critical aspect that emerged from the analyses conducted concerned the supervision of remote members of regulated markets and, in particular, the possibility for the supervisory authorities of the country in which the market was located to obtain information in real time on the trading activity of such members.

The activity of the International Organization of Securities Commissions

In 2001 IOSCO adopted a report on Transparency and Market Fragmentation, drawn up by the Working Group on the regulation of secondary markets, which is chaired by a representative of Consob. The document analyses some aspects of the transparency of information on trading.

In this field regulatory authorities are required to assess the adequacy of the information available on market conditions in order to ensure proper price formation in individual trading systems and to facilitate the conclusion of contracts at the best conditions. The principles identified by IOSCO are intended to foster uniform conditions of transparency on markets that use similar trading methods and to call on regulatory authorities to intervene where significant differences in transparency are found across markets on which the same financial instruments are traded. IOSCO nonetheless recognizes that on its own transparency may not be sufficient to ensure that competition between suppliers of trading services leads to the best price conditions for investors. In order to pursue this objective, IOSCO believes that regulatory authorities should consider factors such as: the conditions of access to the market; the time priorities for the execution of orders; the handling of orders; and trading systems in which transactions are concluded at prices recorded on other markets.

IOSCO's Standing Committee on collective investment undertakings examined a series of important regulatory problems.

One issue concerned the optimization of the use of supervisory resources through the development of a new model for evaluating the behavioral risk of managers. As regards information disclosure, instead, the Committee is examining the possibility of harmonizing the contents of a simplified offer document to be given obligatorily to investors at the same time as the full prospectus. Another aspect of transparency worthy of note is the attention paid to the rules governing advertisements and especially the use of historical return data.

Together with the Committee on Payment and Settlement Systems (CPSS) of the G-10 central banks, in November 2001 IOSCO issued 19 recommendations on the development,

functioning and surveillance of securities settlement systems. These recommendations, which were drawn up on the basis of a public consultation begun in 2000, are intended to reduce the risk inherent in securities settlement systems and increase efficiency, international financial stability and the protection of investors by strengthening the infrastructure of financial markets.

In 2001 the Task Force that formulated the recommendations was given another mandate to develop methods for evaluating the conformity of regulatory systems with the conditions they envisaged and to analyze the ways to implement each recommendation.

In the wake of the tragic events of 11 September, IOSCO's Executive Committee, acting on a proposal from the Technical Committee, set up a Special Project Team led by the President of the French Commission des Opérations de Bourse to verify the existence of an international contingency plan to cope with disorderly market conditions caused by exceptional events, to expand the scope of cooperation and, where possible, to involve law enforcement authorities on the basis of high quality standards and to specify the information and instruments needed to identify the clients of intermediaries.

One of the Team's objectives is to draw up a multilateral Memorandum of Understanding, whose observance will be closely monitored in relation to the ability of the signatories to fulfil the cooperation commitments entered into. The team will also examine the measures to be adopted with respect to members that are not in a position to participate in the cooperation agreement.

IX. CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

The organizational structure

Operational guidelines

During 2001 Consob undertake its first strategic planning exercise. This led to the Commission approving guidelines for the orientation of activities in the medium term. From the standpoint of Consob's internal management, the guidelines are all designed to achieve more efficient use of resources and have already led to some specific measures: 1) serving to strengthen the interaction between the various operational units through the appointment of two new central managers to collaborate with the General Manager on the coordination of institutional, support and ancillary activities; and 2) introducing methods for the planning and control of activities that, by better exploiting the scope for synergy among the various functional areas, ensure consistent behavior, maximum results and the control of expenditure. The planning and control procedures will produce their effects and be further improved in 2002.

Another step towards achieving the above-mentioned objective of increasing the efficiency with which resources are used was taken at the beginning of 2001, when the Commission approved proposals for the revision of the methods used for assessing staff and deciding promotions. The new system makes merit the key factor in the advancement of employees and attributes particular importance to the tasks they have actually performed. It also makes a clear distinction between economic benefits, which serve to reward diligent and effective work, and the ability to undertake tasks involving greater responsibility, as well as linking promotions to Consob's organizational needs. The proposals are being discussed with the trade unions.

Logistical aspects

Important progress was made during the year towards overcoming Consob's logistical problems in Rome and Milan.

In May 2001 the new Head Office in Rome became operational, at Via Giovan Battista Martini 3. The premises had been acquired in February by exchanging the building owned by Consob in Via Isonzo and paying the difference in cash. The new building is well suited to the Institute's needs. The previous division of its offices - between two different and rather distant buildings (one owned by Consob and the other leased) that were no longer sufficiently large in view of the planned increase in staff - was a major source of operational inefficiency.

As regards the situation in Milan, in the second half of the year a contract was awarded, following an international tender, for the restoration of Palazzo Carmagnola in Via Broletto, which

the Milan City Council has made available for Consob to use for sixty years. The works are expected to last for 22 months, so that the new Milan offices should be operational early in 2004.

The building is of considerable historical and architectural value and, in addition to resolving the logistical problems of Consob's offices, will enable the Institute to strengthen its role in Italy's leading financial center.

The development of the information system

In 2001 work on the development and upgrading of Consob's information system continued, with regard to applications, telecommunications networks and user support activities.

One of the most important applications brought into operation last year was the new document management system (DMS) and the related application (Reply Time) for carrying out and monitoring procedures falling within the scope of Law 241/1990. The DMS stores the documents produced by Consob on a centralized basis and permits the efficient management of the functions of archiving, consultation and security. The Reply Time application provides the necessary computerized support for the tasks involved in carrying out and monitoring procedures covered by Law 241/1990 in accordance with the implementing regulations approved in 2000.

In addition to the constant upgrading of the computerized procedures for the supervision of markets and intermediaries, last year also saw the introduction of the procedures for handling the supervisory reports of asset management companies and the conversion to the euro of the accounting and personnel management systems.

As regards telecommunications networks, in parallel with the reorganization of Consob's premises, the internal systems of the Rome and Milan offices were completely renewed and the connections with the Internet were upgraded.

The LAN speed in Consob's offices was raised from 10 to 100 Megabits/second and all the network management equipment was replaced. The connection of the Institute's website to the Internet was upgraded from 512 Kbits/second to 2 Megabits/second (4 Megabit/second during peaks).

Support for users of computerized systems was further increased in 2001. In order to cope with the significant impact of the introduction of the document management system, a special help desk was set up to provide both initial training and follow-up assistance.

Financial management

The accounts

Consob's total income in 2001 amounted to €146.6 million (Table IX.1), of which €32.5 million (22.1 per cent) derived from fees. As in 2000, the largest component of such income was generated by financial salesmen (Table aIX.1).

TABLE IX.1

SUMMARY TABLE OF INCOME AND EXPENDITURE
(MILLIONS OF EUROS)

	1997	1998	1999	2000	2001[1]
INCOME					
PRIOR-YEAR SURPLUS[2]	4.4	16.7	18.9	50.7	74.0
STATE FUNDING	30.2	25.8	28.4	31.0	31.0
OWN REVENUES:					
- APPLICATION FEES	1.3	2.5	3.7	3.0	1.2
- EXAM FEES	0.6	1.4	2.1	3.0	1.5
- SUPERVISION FEES	21.7	20.3	39.8	31.8	25.9
- TRADING FEES	—	—	3.9	5.2	3.9
- SUNDRY REVENUES	2.4	2.0	2.6	4.2	9.1
TOTAL INCOME	*60.5*	*68.7*	*99.4*	*128.9*	*146.6*
EXPENDITURE					
CURRENT EXPENDITURE:					
- MEMBERS OF THE COMMISSION	1.2	1.2	1.2	1.2	1.6
- STAFF	33.4	32.6	31.1	33.7	46.8
- GOODS AND SERVICES	10.9	12.5	12.1	14.2	18.5
- RENOVATION AND EXPANSION OF FIXED ASSETS	1.0	1.2	1.8	2.4	3.9
- UNCLASSIFIED	1.5	0.2	0.8	0.1	5.1
TOTAL CURRENT EXPENDITURE	*48.0*	*47.7*	*47.0*	*51.6*	*75.9*
CAPITAL EXPENDITURE	0.5	2.4	2.4	3.6	70.7
TOTAL EXPENDITURE	*48.5*	*50.1*	*49.4*	*55.2*	*146.6*

[1] Budget data. [2] The 2000 surplus is the difference between total income and total expenditure plus the difference in respect of expenditure carryovers; the latter is not shown in the table and amounted to 0.3 million euros. The 2000 surplus is included in 2001 income.

Turning to expenditure, there was an increase in that on capital account, mainly as a consequence of the real estate projects involving the purchase of the new premises for Consob's Head Office in Rome and the restructuring of the building made available by the City Council for Consob's offices in Milan (€66.8 million). The increase in current expenditure was basically due to the larger allocation to provisions for building renovation works and a one-off allocation to the supplementary pension fund for permanent employees following amendments both to the law on public-sector social security that led to a reduction in the share of pension costs borne by INPS and to the rules on supplementary pension provision in the collective wage agreement applying to Consob.

The budget for 2002 was approved in December 2001. Total income is expected to amount to €65.4 million, of which €24.7 million will consist of state funding, €38.5 of fees and €2.3 million of other own revenues. In addition, the budget includes a "prior-year surplus" of €11.2 million, divided into €10.3 million available to finance expenses planned in 2002 and €0.9 million in respect of commitments for 2001 to be fulfilled in 2002 pursuant to Article 19 of Consob's accounting rules. Almost all the latter amount refers to the postponement of the planned purchase of a server. The total expenditure budgeted for 2002 (excluding the 2001 commitments brought forward) amounts to €75.7 million, divided into €72.7 million of current expenditure and €3 million of capital expenditure.

Total expenditure in 2002 is expected to be less than that now estimated for 2001, primarily owing to the above-mentioned one-off allocation that had to be made to the supplementary pension fund for permanent employees in 2001. Nonetheless the budgeted amounts for numerous current expenditure items show an increase compared with the final estimates for 2001, especially the allocation to provisions for renovation works at the new Head Office in Rome.

The capital expenditure budgeted for 2002 consists primarily of further spending on the modernization of IT systems and the planned creation of a new library at the Head Office.

The innovations in the fee system

The Finance Law for 2001 (Law 388/2000) amended Article 40.3 of Law 724/1994. The new version is as follows:

«3. Up to the limit of the funding requirement referred to in paragraph 1, Consob shall establish each year the fees due by the entities subject to its supervision. In determining such fees, Consob shall use criteria that take account of the costs arising in connection with the whole set of activities performed for each category of entities».

The earlier version of paragraph 3 had provided for Consob to establish each year the amount of fees due for each type of service provided under the law and had given examples of the services provided, including the keeping of registers, the holding of qualifying exams, the checking of compliance with disclosure obligations, the checking of audits, and the supervision of financial salesmen, trading and public offerings, etc. The same paragraph had also required Consob, in determining the amounts of fees, to use criteria that took account of the costs involved in the performance of its various tasks.

Under the earlier version of the law fees were seen as the "price" the various market players had to pay for the services they received and the structure of the system was based on the link between each type of service provided and the corresponding fee (price).

This approach involved a series of major problems: a) the entities subject to supervision had to pay a separate fee for each service they received, with an obvious aggravation of the related administrative costs; b) the large number of services for which fees were charged and the high frequency with which some were provided meant that Consob had to carry out a large volume of checks, accounting registrations and collection procedures, so that it in turn also incurred high

administrative costs; and c) it was not possible to standardize the annual measure updating the fee system because this had to be reformulated each year to take account not only of the size of fees in relation to the planned level of fee income but also of the elimination/addition of services in accordance with changes in the legal framework.

These problems could only be overcome by amending Article 40.3 of Law 724/1994 so as to replace the link between the individual fees and the individual services provided with a link between the fees paid and the total amount of supervisory activity performed for each category of player. This has been achieved with the new version of Article 40.3, which no longer refers to the various forms of supervisory activity (holding exams, keeping registers, granting authorizations, checking returns, etc.) but considers supervision as a whole. Moreover, in calculating fees reference is no longer made to the costs of the services provided to each player but to the total cost of supervision for each category (intermediaries, issuers, auditing firms, financial salesmen, etc.).

The new text of the law, which was applied for the first time in determining the fee schedule for 2002, has the following advantages: a) it requires a single annual payment by each member of a given category; b) it simplifies the annual revision of the fee schedule (since this no longer involves individual services but the overall supervisory activity performed for each category) and the operation of the system (in view of the greatly reduced number of payments); and c) it allows the structure of the annual measure updating the fee system to be standardized.

The most immediate effect is that the fee schedule for 2002, approved in December 2001, replaces the previous four types of fees (application fees, exam fees, supervision fees and trading fees) with just one type, called supervision fees.

The fee schedule for 2002 reflects the absence of change in the legal framework regarding the categories subject to supervision or in the criteria adopted to calculate fees, except for "offerors".

As regards the calculation criteria for the 2002 fee schedule, it is worth noting that its adoption followed a consultation with market participant associations. This saw broad agreement on the principles underlying the proposed criteria and appreciation of the simplification and rationalization of the fee system that the new version of the law had brought.

In the case of offerors, the earlier criterion had provided for the payment of fees (calculated on the basis of a fixed amount per transaction and/or as a percentage of the value of the offering) for the transactions notified to Consob pursuant to the law during the year to which the fees referred. It also provided for a minimum and a maximum fee for each transaction. By contrast, the new criterion, while retaining an upper and a lower limit, provides for the payment of a fee calculated on the basis of the transactions carried out in the previous year.

This new criterion, with which the trade associations directly involved were in agreement, considers, in contrast with the old criterion, events that have mostly occurred when the revised fee schedule is approved (normally in November of the year preceding that to which the fees refer). This has the advantage of allowing the fees to be calculated with reference to a base that is almost entirely definitive and thus of permitting Consob to receive fees from offerors that correspond to their share of the total planned fee income

determined with reference to the costs it incurs for the supervision of that category. Furthermore, the change has brought the criterion for the category of offerors into line with the criteria adopted for the other categories subject to Consob supervision and completes the application of the fee system provided for in the new version of Article 40.3 of Law 724/1994.

Personnel management

During 2001 10 permanent employees and 6 fixed-term employees were recruited, while 20 employees resigned (14 voluntary departures and 6 retirements). Accordingly, at the end of 2001 Consob had 4 employees less than at the end of 2000 (Table IX.2 and Table aIX.2).

TABLE IX.2

THE STAFF[1]

	PERMANENT EMPLOYEES				FIXED-TERM EMPLOYEES	*TOTAL*
	MANAGERIAL	OFFICERS	OTHER	*TOTAL*		
1990	91	63	16	170	67	*237*
1993	134	72	16	222	96	*318*
1996	128	152	16	296	108	*404*
1997	125	161	21	307	96	*403*
1998	122	156	17	295	88	*383*
1999	116	205	19	340	24	*364*
2000	110	246	20	376	13	*389*
2001	110	241	19	370	15	*385*

See the Methodological Notes. [1] End-of-year data.

In 2002 the selection procedures initiated and those planned are expected to lead to the recruitment of 53 employees. Taking into account the foreseeable terminations during the year, this will bring the number of staff close to that provided for by law (450).

Turning to training, the total number of hours devoted to this activity in 2001 amounted to 11,400 (36,000 in 2000), corresponding to a per capita average of about 30 hours (92 in 2000).

The reduction was partly due to the suspension of the language courses held at Consob for one year in view of the logistic upheavals scheduled in 2001 and partly to the reduction in IT training in consideration of the numerous courses devoted to this field in previous years.

The program for 2002 has been designed in conformity with the guideline calling for interdisciplinary training that will permit resources to be used more flexibly and knowledge to be transmitted within Consob more effectively. Among other things, the program provides for a closer link to be established between training activities and desired results, as well as a significant increase in courses run by members of the staff.

External relations and investor education

The initiatives designed to inform the public about the role Consob plays and to increase investors' knowledge of the characteristics of financial instruments and the rules governing the operation of securities markets (investor education) continued over 2001.

The development of a financial culture has improved investors' ability to protect themselves by enabling them to play a more active role in the selection of financial instruments and the assessment of risks. Better informed investors can also make an important contribution to Consob's supervision of the industry by reporting abuses, fraudulent practices and improper behavior. Investor education is receiving considerable attention from regulatory authorities in other countries and is encouraged by the International Organization of Securities Commissions (IOSCO).

Consob's website (which was launched in 1998) has been identified as the main channel for the dissemination of information on the Institute's activity in view of its effectiveness and extensive reach and in consideration of the growing number of visitors (Table IX.3).

In particular, a new area called "Investor education" has been added with sections providing information on two types of financial instruments that have become widely distributed among the public: covered warrants and reverse convertible bonds. The sections contain detailed descriptions in user-friendly language of the characteristics of these products and explanatory animations that can be consulted online or downloaded.

In addition, easy-to-use calculators are available that, in just a few steps, allow potential buyers of these instruments to obtain helpful indications on the investment to make. For covered warrants it is possible to compare similar products present on the market, while for reverse convertibles it is possible to verify the congruousness of the price of the put option they incorporate.

The new area also contains material that had already been posted for investors to consult: reports of fraudulent activities, dos and don'ts for making financial investments, a document describing the related risks, and a cost calculator program with which to calculate the impact of commissions charged for individual and collective asset management services.

The "Regulation" section was enriched by the addition of an alphabetic index with 32 main headings; the first part contains the primary and secondary legislation concerning Consob's activity and the second

has measures adopted by Consob (resolutions, communications, recommendations and responses to queries of general interest), divided into more specific subheadings. The subsection also contains a search engine that enables measures of interest covered by the index to be found rapidly by means of key words.

In the "Companies" section additional information has been made available on the ownership structures of listed companies, including extracts from the latest versions of shareholders' agreements. The site also contains the historical reconstructions of such agreements.

TABLE IX.3

VISITORS TO CONSOB'S WEBSITE
(2001)

SECTIONS	TOTAL
HOME PAGE (WHAT'S NEW)	738,201
INVESTORS' CORNER	97,314
ABOUT CONSOB	117,589
COMPANIES	522,010
INTERMEDIARIES AND MARKETS	165,640
CONSOB DECISIONS	225,082
LEGAL FRAMEWORK	235,339
PUBLICATIONS AND PRESS RELEASES	401,933
LINKS	36,376
SEARCH ENGINE	218,628
HELP AND SITE MAP	68,409
ENGLISH VERSION	143,375

In the "Consob" section a virtual "press conference room" has been created, in view of the fundamental role of the media in disseminating financial information, to simplify access to the data of greatest interest to journalists and to make news and operational messages immediately available.

In May 2001 Consob participated in the Public Administration Forum in order to make direct contact with investors and provide detailed information on the functions it performs. A number of computers were installed on the stand linked to the various regulated markets so as to allow visitors to the Forum to see how they were performing in real time.

As part of the expansion of Internet communication, towards the end of the year Consob adhered to the "The law on the web" project of the Authority for IT in the Public Administration

in the context of the single governmental network. The aim of the project is to create a portal giving free access to the legal documentation published on the Internet by public institutions.

During 2001 was published the first "Registers and Lists" CD-ROM. It contains the registers of investment firms and financial salesmen provided for in Legislative Decree 58/1998, updated to 31 December 2000.

The requests for documentation and information on Consob's activity (Table aIX.3) testify the Institute's ongoing commitment to contact and communicate with the public.

APPENDIX

INDEX OF STATISTICAL TABLES

V. INSIDER TRADING AND MARKET MANIPULATION

VI. INVESTMENT SERVICES AND ASSET MANAGEMENT

VII. JUDICIAL CONTROL

VIII. INTERNATIONAL AFFAIRS

IX. CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

TABLE aI.1

OWNERSHIP STRUCTURE OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE
(YEAR-END DATA)

	1996	1997	1998	1999	2000	2001
TYPE OF CONTROL[1]						
MAJORITY CONTROL	66.8	48.1	32.3	55.0	51.4	49.7
WORKING CONTROL	12.2	12.4	21.7	16.7	18.5	22.5
SHAREHOLDERS' AGREEMENTS	4.8	6.3	7.4	10.8	9.6	11.4
NO CONTROLLING SHAREHOLDER(S)	16.2	33.2	38.6	17.5	20.5	16.4
TOTAL	*100*	*100*	*100*	*100*	*100*	*100*
CONCENTRATION[2]						
LARGEST SHAREHOLDER	50.4	38.7	33.8	44.2	44.0	42.2
OTHER MAJOR SHAREHOLDERS	10.7	8.4	9.7	8.2	9.4	9.2
MARKET	38.9	52.9	56.5	47.6	46.6	48.6
TOTAL	*100*	*100*	*100*	*100*	*100*	*100*

Source: Consob ownership transparency database. See the methodological notes. [1] Percentage ratio of the market value of the ordinary share capital of the companies subject to each type of control to the market value of the ordinary share capital of all the companies listed on the official market. [2] As a percentage of the market value of the ordinary share capital of all the companies listed on the Stock Exchange at the end of December.

TABLE aI.2

TYPES OF CONTROL OF COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE [1]
(YEAR-END DATA)

TYPE OF CONTROL	1996	1997	1998	1999	2000	2001
MAJORITY CONTROL	130	122	128	148	141	135
WORKING CONTROL	26	28	31	31	34	37
UNDER SHAREHOLDERS' AGREEMENTS	26	27	24	29	24	21
NO CONTROLLING SHAREHOLDER(S)	26	28	35	32	38	39
TOTAL	*208*	*205*	*218*	*240*	*237*	*232*

Source: Consob ownership transparency database. See the methodological notes. [1] Number of companies listed on the Stock Exchange.

TABLE aI.3

MAJOR HOLDINGS IN COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE [1]

TYPE OF HOLDER	PROPORTION[2]					
	1996	1997	1998	1999	2000	2001
FOREIGN RESIDENT	4.5	5.0	5.9	6.2	6.5	5.6
INSURANCE COMPANY	1.9	2.2	2.5	1.5	3.2	1.8
BANK	4.3	5.1	4.8	5.3	5.9	4.4
FOUNDATION	3.8	3.1	5.1	4.5	5.0	4.9
INSTITUTIONAL INVESTOR	0.8	0.1	0.1	0.2	0.3	0.1
OTHER COMPANY	8.2	14.4	12.6	19.4	17.2	18.2
STATE OR LOCAL AUTHORITY	32.5	12.1	8.8	10.6	10.2	11.1
INDIVIDUAL	5.5	4.8	3.8	4.5	4.9	5.0
TOTAL	*61.5*	*46.8*	*43.6*	*52.2*	*53.1*	*51.1*

Source: Consob ownership transparency database. See the methodological notes. [1] Holdings of more than 2 per cent of the voting capital at the end of December. [2] Percentage ratio of the market value of the major holdings calculated with reference to ordinary share capital to the market value of the ordinary share capital of all the companies listed on the Stock Exchange.

TABLE aI.4

COMPANIES LISTED ON THE ITALIAN STOCK EXCHANGE BY TYPE OF CONTROLLING SHAREHOLDER
(SITUATION AT 31 DECEMBER)

TYPE OF CONTROLLING SHAREHOLDER	NUMBER						PROPORTION[1]					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
INDIVIDUAL	45	42	51	53	53	54	6.4	5.4	4.6	6.0	5.3	5.4
BANK	12	9	12	15	12	11	2.7	4.2	4.1	5.5	6.1	3.8
FOUNDATION	5	5	5	6	6	6	3.6	2.4	2.4	2.8	2.2	2.9
INSURANCE COMPANY	2	3	3	2	4	2	2.2	2.3	2.6	1.4	3.7	1.8
OTHER COMPANY	54	55	52	60	53	49	15.1	25.2	21.5	32.8	29.7	32.1
FOREIGN RESIDENT	17	18	21	26	31	33	4.0	3.0	3.1	4.4	4.4	3.8
STATE	21	17	15	17	16	17	45.0	18.0	15.6	18.7	18.5	22.4
TOTAL	*156*	*149*	*159*	*179*	*175*	*172*	*79.0*	*60.5*	*53.9*	*71.6*	*69.9*	*72.2*

Source: Consob ownership transparency database. See the methodological notes. [1] As a percentage ratio of the market value of the ordinary share capital of all the companies listed on the Stock Exchange.

TABLE aI.5

LISTED COMPANIES WITH SHAREHOLDERS' AGREEMENTS
(DATA AT 31 DECEMBER 2001)

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS[1]	NUMBER OF PARTICIPANTS
ACOTEL GROUP	VOTING BLOCKING	09.08.2003	64.6	3
ACOTEL GROUP	PRE-EMPTIVE	30.08.2004	3.2	2
ACOTEL GROUP	PRE-EMPTIVE	07.09.2004	9.6	2
ACQUEDOTTO DE FERRARI GALLIERA[2]	VOTING BLOCKING	15.01.2002	66.6	3
ACQUEDOTTO NICOLAY[2]	VOTING BLOCKING	15.12.2002	27.4	3
AIR DOLOMITI	BLOCKING VOTING CONSULTATION	31.12.2003	50.03	2
ALITALIA	VOTING	05.05.2003	0.09	34
ALITALIA	VOTING	28.02.2004	0.05	17
AMPLIFON	BLOCKING	02.07.2003	2.7	15
AUTOSTRADE	BLOCKING	26.10.2002	30.0	7
AUTOSTRADE[3]	BLOCKING VOTING	26.10.2002	30.0	6
BANCA POPOLARE DI LODI	BLOCKING	30.10.2004	4.0	3
BANCA POPOLARE DI SPOLETO	BLOCKING VOTING	09.07.2004	78.1	2
BANCA CARIGE	VOTING BLOCKING	30.06.2003	6.0	2
BANCA CARIGE	BLOCKING VOTING	18.02.2002	10.0	3
BANCA CARIGE	BLOCKING VOTING	18.02.2002	10.0	3
BANCA CARIGE	BLOCKING	06.08.2002	5.0	2
BANCA MONTE DEI PASCHI	VOTING	31.12.2003	6.0	70
BANCA DI ROMA	VOTING BLOCKING	06.12.2002	34.4	3
BANCA LOMBARDA	VOTING BLOCKING	31.12.2004	44.0	301
BANCA AGRICOLA MANTOVANA	VOTING	15.03.2002	55.1	2
BANCA TOSCANA	PRE-EMPTIVE	20.05.2002	9.3	2
BANCA NAZIONALE DEL LAVORO	BLOCKING VOTING CONSULTATION	30.11.2002	8.2	2
BANCA MONTE DEI PASCHI	VOTING BLOCKING CONSULTATION	14.01.2004	2.9	54

[1] As a percentage of the ordinary share capital. [2] Indirect through Acqua Italia. [3] Indirect through Schemaventotto.

- *CONT.* -

- *TABLE aI.5 CONT.* -

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS	NUMBER OF PARTICIPANTS
BANCO DI SARDEGNA	VOTING CONSULTATION BLOCKING	30.03.2004	100.0	2
BASICNET[4]	VOTING	22.06.2002	43.0	4
BIESSE[5]	VOTING BLOCKING	31.12.2003	34.7	2
BIOSERCH ITALIA	VOTING BLOCKING	31.01.2004	33.0	12
BIPOP-CARIRE	BLOCKING	30.01.2003	4.4	19
BULGARI	VOTING BLOCKING CONSULTATION	17.07.2002	54.9	3
CASSA DI RISPARMIO DI FIRENZE	VOTING JOINT SALE BLOCKING	17.07.2003	48.9	2
CASSA DI RISPARMIO DI FIRENZE	VOTING BLOCKING	17.07.2003	43.9	3
CHL	VOTING	02.06.2003	15.85	4
CLASS EDITORI[6]	BLOCKING	28.10.2004	0.1	18
CMI	BLOCKING VOTING	INDEFINITE	81.9	2
CMI	BLOCKING VOTING	20.12.2003	51.2	2
CREDITO BERGAMASCO	BLOCKING	13.02.2002	11.4	2
CREDITO EMILIANO SPA[7]	BLOCKING	20.07.2004	73.13	6
CSP	VOTING CONSULTATION BLOCKING	15.06.2004	50.2	3
CTO	BLOCKING	21.06.2003	54.3	7
DADA	BLOCKING	04.02.2003	1.19	2
DADA	BLOCKING	15.11.2004	0.53	7
DADA	BLOCKING	15.11.2002	0.14	5
DADA	BLOCKING	10.11.2004	0.38	5
DADA	BLOCKING	10.11.2004	0.44	2
DATA SERVICE	VOTING BLOCKING	18.10.2003	58.8	17
DATA SERVICE	BLOCKING	28.03.2003	9.8	4
DATALOGIC[8]	VOTING BLOCKING	14.02.2004	74.1	4

[4] Indirect through Basic World. [5] Indirect through Biesse Finance bv. [6] 100 per cent of the class B shares, which represent about 0.1 per cent of the share capital. [7] Indirect through Credem Holding. [8] Indirect through Tpg Advisor Inc.

- *CONT.* -

- TABLE aI.5 CONT. -

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS	NUMBER OF PARTICIPANTS
DATAMAT	VOTING BLOCKING	26.06.2003	40.5	17
DATAMAT	BLOCKING JOINT SALE	12.10.2003	24.5	5
DIGITAL BROS	VOTING BLOCKING	20.10.2003	77.0	3
DUCATI[9]	VOTING BLOCKING	01.03.2002	33.5	4
E -BISCOM[10]	VOTING BLOCKING	24.01.2003	50.1	17
E- BISCOM [11]	VOTING BLOCKING	18.02.2003	50.1	15
EL.EN	BLOCKING	10.12.2002	52.0	8
EL.EN	VOTING	10.12.2003	59.2	8
ENGINEERING	VOTING	07.06.2003	73.1	11
EPLANET	VOTING BLOCKING	29.06.2004	52.4	21
EPLANET	BLOCKING	03.08.2002	0.1	8
ESAOTE	VOTING	20.12.2003	60.5	6
ESPRINET	BLOCKING	10.05.2004	72.3	6
EUPHON	BLOCKING	07.06.2003	40.9	3
FIAT	CONSULTATION	23.06.2002	36.8	5
FILATURA DI POLLONE	VOTING BLOCKING	AGM 31.12.2001	50.2	16
FINCASA 44	BLOCKING	15.05.2002	3.3	2
FINCASA 44	BLOCKING	15.05.2002	5.1	2
FINCASA 44	BLOCKING	15.05.2002	15.8	2
GEMINA	BLOCKING VOTING CONSULTATION	AGM 2003	43.4	13
GIM	BLOCKING CONSULTATION	31.12.2003	48.1	11
HOLDING DI PARTECIPAZIONI	BLOCKING CONSULTATION	01.07.2004	46.1	13
I.M.A.	BLOCKING VOTING	10.10.2003	64.8	4
IDRA PRESSE	JOINT SALE VOTING	11.06.2004	59.4	2
IDRA PRESSE[12]	BLOCKING VOTING	31.10.2004	91.4	11
IFI	PRE-EMPTIVE	INDEFINITE	3.49[13]	10

[9] Indirect through Anphora srl. [10] Through E-Biscom and indirect through Anphona. [11] Through E-Biscom and indirect through Anphona. [12] Indirect through Idra Partecipazioni. [13] Through preference shares.

- CONT. -

- TABLE aI.5 CONT. -

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS	NUMBER OF PARTICIPANTS
IFIL	BLOCKING	INDEFINITE	5.3	2
IFIL	BLOCKING	6.10.2004	3.9	2
IFIL	BLOCKING	INDEFINITE	0.9	2
IMPREGILO	BLOCKING	30.05.2001	2.4	5
INFERENTIA[14]	BLOCKING	INDEFINITE	74.3	7
INTEK[15]	VOTING	30.06.2004	61.4	4
INTESABCI	BLOCKING VOTING CONSULTATION	15.04.2005	38.4	13
INVESTIMENTI IMM. LOMBARDI	BLOCKING	01.05.2004	20.0	2
IT HOLDING	BLOCKING	30.06.2004	0.5	2
IT WAY	BLOCKING	03.07.2002	0.1	5
IT WAY	BLOCKING	28.02.2003	1.1	7
LA RINASCENTE	BLOCKING VOTING	INDEFINITE	54.2	2
LA DORIA	BLOCKING VOTING CONSULTATION	30.06.2002	70.0	8
LA GAIANA	BLOCKING CONSULTATION	AGM 31.12.2002	75.6	4
LOCAT	BLOCKING VOTING	01.07.2004	78.7	2
LOTTOMATICA	BLOCKING VOTING	17.05.2004	66.2	7
LOTTOMATICA	BLOCKING	INDEFINITE	18.3	2
LOTTOMATICA	BLOCKING	INDEFINITE	15.6	2
MANULI RUBBER	BLOCKING VOTING CONSULTATION	AGM 31.12.2003	44.1	6
MARANGONI	BLOCKING CONSULTATION VOTING	14.06.2004	59.0	4
MARCOLIN	BLOCKING	23.02.2004	1.5	3
MARCOLIN	BLOCKING	06.04.2002	69.4	4
MEDIASET	BLOCKING VOTING	INDEFINITE	49.7	2
MEDIOBANCA	BLOCKING VOTING CONSULTATION	10.07.2004	46.0	33
MEDIOLANUM	BLOCKING VOTING CONSULTATION	14.09.2004	51.2	7

[14] Effectiveness suspended. [15] Indirect through Quattroduedue Holding.

- CONT. -

- TABLE aI.5 CONT. -

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS	NUMBER OF PARTICIPANTS
NEGRI BOSSI	BLOCKING	06.11.2003	9.5	7
NEGRI BOSSI[16]	BLOCKING	31.07.2004	39.5	7
NOVUSPHARMA	VOTING BLOCKING	09.11.2002	1.4	40
NOVUSPHARMA	BLOCKING	09.11.2002	1.4	40
NOVUSPHARMA	BLOCKING	14.04.2003	10.9	6
OLCESE	BLOCKING	27.02.2004	51.8	5
OLIVETTI[17]	VOTING BLOCKING CONSULTATION	07.08.2004	27.0	2
OLIVETTI[18]	BLOCKING VOTING CONSULTATION	05.10.2004	27.0	3
ON BANCA	BLOCKING VOTING	13.07.2003	68.1	3
ON BANCA	BLOCKING VOTING	13.07.2003	55.7	3
ON BANCA	BLOCKING VOTING	13.07.2003	55.0	3
PIRELLI SPA	BLOCKING	13.03.2003	2.5	2
PIRELLI SPA	BLOCKING	01.08.2003	2.4	2
PIRELLI & C.	BLOCKING CONSULTATION	15.04.2004	56.2	10
PIRELLI SPA	BLOCKING	31.07.2003	2.4	2
PREMUDA	BLOCKING VOTING	31.12.2004	45.0	3
RENO DE MEDICI[19]	VOTING JOINT SALE	04.06.2002	33.0	4
RENO DE MEDICI	VOTING BLOCKING	01.07.2004	33.0	2
REPLY	BLOCKING	INDEFINITE	3.9	2
REPLY	BLOCKING	06.12.2003	11.0	8
REPLY	BLOCKING	06.12.2003	1.0	6
ROLO BANCA 1473	BLOCKING VOTING	06.07.2003	70.6	5
ROLO BANCA 1473	VOTING	INDEFINITE	64.7	2
SABAF[20]	VOTING BLOCKING	20.10.2003	56.4	3
SAES GETTERS	VOTING BLOCKING	15.12.2002	57.8	34
SANPAOLO IMI	VOTING	INDEFINITE	16.2	3

[16] Indirect through Ridgeway Investments sa. [17] Indirect through Olimpia. Voting agreement through Olivetti and its listed subsidiaries. [18] Indirect through Olimpia. Voting agreement through Olivetti and its listed subsidiaries. [19] Indirect through San Nicola. [20] Indirect through Giuseppe Saleri srl.

- CONT. -

- TABLE aI.5 CONT. -

COMPANY	TYPE OF AGREEMENT	EXPIRY	SHARE OF VOTING RIGHTS	NUMBER OF PARTICIPANTS
SANPAOLO IMI	VOTING BLOCKING CONSULTATION	AGM 2003	23.15	
SAVINO DEL BENE	VOTING BLOCKING	30.03.2004	47.4	8
SEAT	BLOCKING	31.12.2003	0.39	2
SIRTI[21]	VOTING BLOCKING	03.08.2003	50.1	6
SMI	BLOCKING	31.12.2004	50.2	2
SNAI[22]	VOTING BLOCKING	30.06.2004	52.2	68
SNIA[23]	VOTING BLOCKING	27.07.2002	28.8	14
TARGETTI SANKEY	BLOCKING	27.09.2004	15.3	2
TAS	VOTING BLOCKING	31.12.2002	59.9	5
TREVI FINANZIARIA E INDUSTRIALE[24]	VOTING	31.12.2004	8.0	2
TXT E-SOLUTIONS	BLOCKING	22.06.2003	30.9	7
TXT E-SOLUTION	VOTING BLOCKING	22.06.2003	37.8	41
VITAMINIC	BLOCKING	03.08.2004	63.5	14

[21] Indirect through Hilux. [22] Indirect through Snai servizi. [23] Indirect through Bios. [24] Indirect shareholders' agreement among the minority shareholders of Trevi Holding APS with a total coverage of 8 per cent.

TABLE aI.6

LOCK-UP AGREEMENTS INVOLVING COMPANIES LISTED ON THE NUOVO MERCATO
(DATA AT 31 DECEMBER 2001)

COMPANY	START OF TRADING	COMPULSORY LOCK-UPS[1]		VOLUNTARY LOCK-UPS[2]		
		EXPIRY	SHARES LOCKED UP[3]	EXPIRY	SHARES LOCKED UP[3]	SHARES LOCKED UP[4]
ALGOL	15/06/2001	15/06/2002	80	15/06/2002	100	34.84
CTO	04/08/2000			21/06/2004	100	4.29
DADA	29/06/2000			June 2002	80	22.36
DADA	29/06/2000			June 2003	80	17.89
DATALOGIC	28/03/2001	28/03/2002	80	28/03/2003	100	74.41
DIGITAL BROS	20/10/2000			20/04/2002	80	63.92
DMAIL.IT	22/12/2000	22/10/2002	80	22/12/2002	80	50.61
E.BISCOM	30/03/2000	30/03/2002	80			
E.PLANET	03/08/2000	03/08/2002	80			
ESPRINET	25/07/2001	25/07/2002	80	25/07/2002	100	75.47
ESPRINET	25/07/2001			25/07/2003	90	67.92
ESPRINET	25/07/2001			25/07/2004	72	54.34
FREEDOMLAND	14/04/2000	14/04/2002	80	14/04/2002	80	52.54
IT WAY	04/07/2001	04/07/2002	80	04/07/2002	100	60.53
IT WAY	04/07/2001			04/07/2003	70	42.37
PCU ITALIA	02/03/2001	31/12/2002	80	26/02/2002	100	57.2
VITAMINIC	12/10/2000	12/10/2002	80			

[1] Article 2.2.3 of the Nuovo Mercato Rules requires shareholders who became such in the twelve months preceding the date of submittal of the application for admission to listing, the founder members of the company and its directors and managers to enter into a lock-up agreement for one year from the start of trading covering 80 per cent of the ordinary shares of the issuer they held at the date of submittal of the application. The undertaking is not required for shareholders other than directors and managers who hold an equity interest of less than 2% of the ordinary share capital. For start-ups the undertaking refers to 100 per cent of the shares held for the first year and to 80 per cent for the second year. Consequently, in such cases the quantity "blocked" is not shown because the size of the holdings of less than 2 per cent held at the date of the submittal of the application for listing is not known. [2] Voluntary lock-ups are undertakings entered into with the global coordinator by shareholders selling shares as part of the placement contract. Such undertakings do not fall within the scope of Article 122 of Legislative Decree 58/1998 (see Consob Communication DIS/29486 of 18 May 2000). [3] As a percentage of the capital held by the shareholders who have entered into the lock-up undertaking. [4] As a percentage of the company's share capital.

TABLE aI.7

TAKEOVERS AND TENDER OFFERS ON SHARES OF LISTED COMPANIES

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
					NUMBER OF OPERATIONS					
VOLUNTARY OFFERS	5	2	2	4	6	5	2	4	7	4
TAKEOVER BIDS[2]	—	2	1	—	2	2	2	8	8	2
INCREMENTAL BIDS[3]	—	—	—	—	1	1	1	—	—	—
MANDATORY BIDS	2	3	11	8	9	7	6	8	6	7
RESIDUAL BIDS	—	5	6	9	10	8	3	2	7	11
TOTAL	*7*	*12*	*20*	*21*	*28*	*23*	*14*	*22*	*28*	*24*
					MILLIONS OF EUROS[1]					
VOLUNTARY	611	850	72	75	264	378	96	631	4,299	171
TAKEOVER BIDS[2]	—	543	1,947	—	213	234	1,658	53,292	4,878	726
INCREMENTAL BIDS[3]	—	—	—	—	53	4	126	—	—	—
MANDATORY BIDS	11	12	832	975	161	376	102	640	2,734	5,573
RESIDUAL BIDS	—	7	23	24	14	27	23	5	218	196
TOTAL	*622*	*1,412*	*2,874*	*1,074*	*705*	*1,019*	*2,005*	*54,568*	*12,129*	*6,666*

Sources: Consob database of offer documents and Borsa Italiana S.p.A. notices. [1] Securities in exchange offers are valued at the market prices of the day preceding the announcement of the operation. [2] The number of operations includes competing bids. [3] Type of bid provided for in Law 149/1992 but not envisaged by the Consolidated Law on Financial Intermediation.

TABLE aI.8

BIDDERS AND TARGETS OF TAKEOVERS AND TENDER OFFERS IN 2001

BIDDER	TARGET COMPANY'S SHARES	TYPE OF OFFER	OFFER PRICE[1]	OFFER QUANTITY[2]	DURATION OF OFFER
ERGO	BAYERISCHE VITA ORD	MANDATORY	9.67	30.0	09.01-29.01
MS FONSPA HOLDING BV	CRED. FONDIARIO E INDUSTRIALE ORD	RESIDUAL	1.45	6.8	19.02-09.03
NUOVA IMMOBILIARE	RISANAMENTO NAPOLI ORD	MANDATORY	1.68	23.3	21.02-13.03
	RISANAMENTO NAPOLI RNC		1.68	97.5	
LEONARDO	AEROPORTI DI ROMA ORD	RESIDUAL	9.30	6.3	05.03-23.03
RAS	ALLIANZ SUBALPINA ORD	RESIDUAL	13.16	3.4	10.04-04-05
SEAT PAGINE GIALLE	GRUPO BUFFETTI ORD	RESIDUAL	13.65	3.7	19.04-11.05
IEFFE ACQUISITION	ITALFONDIARIO ORD	RESIDUAL	6.31	4.1	24.04-24.05
SAN PAOLO IMI	BANCO DI NAPOLI ORD	RESIDUAL	1.55	2.3	08.05-28.05
GIORGIO ARMANI	SIMINT ORD	VOLUNTARY	6.20	46.8	11.06-02.07
MONTEDISON	SONDEL ORD	RESIDUAL	4.43	1.9	13.06-04.07
MONTEDISON	FALK ORD	RESIDUAL	10.44	0.4	13.06-04.07
	FALK RCV		10.44	18.3	
REALE MUTUA	ITALIANA ASSICURAZIONI ORD	VOLUNTARY	13.75	12.0	25.06-20.07
PROGRAMMA 2002	SAFILO ORD	MANDATORY	12.50	19.8	02.07-20.07
BANCA POP.DI MILANO	BANCA DI LEGNANO ORD	MANDATORY	15.80	45.0	16.07-20.08
ITALENERGIA	MONTEDISON ORD	MANDATORY	3.16	47.9	26.07-21.08
ITALENERGIA	EDISON ORD	MANDATORY/ CASCADE	11.60	38.7	26.07-21.08
ASIO	IMMOBILIARE METANAPOLI ORD	MANDATORY	2	9.8	09.10-29.10
GIORGIO ARMANI	SIMINT ORD	RESIDUAL	6.19	7.3	26.10-23.11
BCA POPOLARE DI LODI	BCA POPOLARE DI CREMA ORD	RESIDUAL	101.50	2.6	19.11-10.12
PROGRAMMA 2002	SAFILO ORD	RESIDUAL	14.48	0.8	20.11-11.12
IDRA PARTECIPAZIONI	IDRA PRESSE ORD	VOLUNTARY	2.30	48.4	10.12-18.01
FINOS	ROTONDI EVOLUTION ORD	VOLUNTARY	2.40	21.0	10.12-18.01
TYCHE	LOTTOMATICA ORD	TAKEOVER	6.55	100	17.12-25.01
SACMI IMOLA	NEGRI BOSSI ORD	TAKEOVER/ PARTIAL	3.10	60.0	21.12-01.02

Source: Consob database of offer documents. [1] Offer price per share in euros. For exchange offers, unless indicated otherwise in the offer document, the consideration in securities is valued at the market price of the day preceding the announcement of the offer. [2] As a percentage of the securities of the same class in issue.

TABLE aI.9

OUTCOMES OF TAKEOVERS AND TENDER OFFERS INVOLVING LISTED COMPANIES IN 2001

BIDDER	TARGET COMPANY'S SHARES	SHARES ACQUIRED[1]	PERCENTAGE HELD BY BIDDER[2]	VALUE OF THE OFFER[3]
ERGO	BAYERISCHE VITA ORD	0.0	70.0	0.01
MS FONDSPA HOLDING B.V.	CRED. FONDIARIO E INDUSTRIALE ORD	91.4	99.4	22.4
NUOVA IMMOBILIARE	RISANAMENTO NAPOLI ORD	0.1	76.7	0.04
	RISANAMENTO NAPOLI RNC	0.2	2.7	0.01
LEONARDO	AEROPORTI DI ROMA ORD	30.6	95.7	42.9
RAS	ALLIANZ SUBALPINA	14.7	97.1	2.7
SEAT PAGINE GIALLE	GRUPPO BUFFETTI ORD	83.8	99.4	19.3
IEFFE ACQUISITION	ITALFONDIARIO ORD	81.2	99.2	2.9
SAN PAOLO IMI	BANCO DI NAPOLI ORD	84.9	99.7	55.4
GIORGIO ARMANI	SIMINT ORD	84.4	92.7	114.3
MONTEDISON	SONDEL ORD	50.9	99.1	11.5
MONTEDISON	FALK ORD	51.4	79.8	2.6
	FALK RCV	52.8	91.4	0.1
REALE MUTUA	ITALIANA ASSICURAZIONI ORD	89.3	98.7	38.3
PROGRAMMA 2002	SAFILO ORD	63.5	93.9	161.3
BANCA POP. DI MILANO	BANCA DI LEGNANO ORD	98.4	99.3	350.0
ITALENERGIA	MONTEDISON ORD	93.5	97.4	2,482.0
ITALENERGIA	EDISON ORD	87.9	95.7	2,499.2
ASIO	IMMOBILIARE METANOPOLI ORD	97.4	99.7	80.5
GIORGIO ARMANI	SIMINT ORD	87.6	99.1	18.4
BACA POPOLARE DI LODI	BCA POPOLARE DI CREMA ORD	87.6	74.7	8.6
PROGRAMMA 2002	SAFILO ORD	77.6	99.8	9.4
IDRA PARTECIPAZIONI	IDRA PRESSE ORD	82.2	91.4	13.8
FINOS	ROTONDI EVOLUTION ORD	46.8	89.6	4.7
TYCHE	LOTTOMATICA ORD	58.5	58.5	684.8
SACMI IMOLA	NEGRI BOSSI ORD	60.0	60.0	40.9

Source: Notices issued by Borsa Italiana S.p.A. [1] As a percentage of the offer quantity. [2] After the offer, as a percentage of the company's share capital. [3] In millions of euros, calculated on the basis of the quantity actually acquired. For exchange offers, unless indicated otherwise in the offer document, the consideration in securities is valued at the market price of the day preceding the announcement of the offer.

TABLE aII.1

OWNERSHIP STRUCTURE OF COMPANIES ADMITTED TO THE ITALIAN STOCK EXCHANGE
(PERCENTAGES OF VOTING CAPITAL)

	BEFORE IPO		AFTER IPO	
	CONTROLLING SHAREHOLDERS	SHAREHOLDERS WITH MORE THAN 2% OF VOTING RIGHTS	CONTROLLING SHAREHOLDERS	SHAREHOLDERS WITH MORE THAN 2% OF VOTING RIGHTS
AVERAGE 1995	*79.4*	*96.0*	*56.1*	*62.6*
AVERAGE 1996	*78.3*	*94.7*	*52.8*	*61.2*
AVERAGE 1997	*81.2*	*90.8*	*55.6*	*61.3*
AVERAGE 1998	*89.0*	*98.5*	*57.1*	*59.5*
AVERAGE 1999	*91.9*	*98.5*	*57.8*	*59.9*
AVERAGE 2000	*80.3*	*94.9*	*56.7*	*66.0*
2001				
AC.E.GA.S.	96.8	96.8	52.5	52.5
AIR DOLOMITI L.A.R.E.	91.5	100.0	72.8	72.8
AMPLIFON	96.5	96.5	69.7	69.7
BIESSE	92.7	100.0	60.2	65.0
DAVIDE CAMPARI MILANO	65.0	100.0	51.0	51.0
DE' LONGHI	100.0	100.0	74.9	74.9
GIACOMELLI SPORT GROUP	70.0	98.4	53.2	68.6
GRANITIFIANDRE	100.0	100.0	61.5	61.5
I VIAGGI DEL VENTAGLIO	72.7	92.0	52.2	64.1
JUVENTUS F.C.	98.1	98.1	66.8	66.8
LOTTOMATICA	70.5	93.6	51.1	66.1
NEGRI BOSSI	86.4	96.1	38.9	45.7
SNAM RETE GAS	100.0	100.0	59.8	59.8
AVERAGE 2001	*87.7*	*97.8*	*58.8*	*63.0*

See the methodological notes.

TABLE aII.2

OWNERSHIP STRUCTURE OF COMPANIES ADMITTED TO THE NUOVO MERCATO
(PERCENTAGES OF VOTING CAPITAL)

	BEFORE IPO		AFTER IPO	
	CONTROLLING SHAREHOLDERS	SHAREHOLDERS WITH MORE THAN 2% OF VOTING RIGHTS	CONTROLLING SHAREHOLDERS	SHAREHOLDERS WITH MORE THAN 2% OF VOTING RIGHTS
AVERAGE 1999	*78.4*	*93.6*	*47.9*	*50.7*
AVERAGE 2000	*71.1*	*93.5*	*53.5*	*68.9*
2001				
ALGOL	33.2	51.3	25.2	35.3
DATALOGIC	99.6	99.6	74.1	74.1
ESPRINET	25.0	94.6	20.0	69.9
IT WAY	21.9	91.3	16.5	65.5
PCU ITALIA	89.5	97.3	60.8	66.4
AVERAGE 2001	*53.9*	*86.8*	*39.3*	*62.3*

See the methodological notes.

TABLE aII.3

COMPANIES ADMITTED TO LISTING: RESULTS OF IPOS

	PROPORTION OF SHARES ALLOTTED[1]				RATIO OF DEMAND TO SUPPLY[2]	
	INDIVIDUALS	ITALIAN INSTITUTIONAL INVESTORS	FOREIGN INSTITUTIONAL INVESTORS	OTHER INVESTORS[3]	PUBLIC OFFERINGS	INSTITUTIONAL OFFERINGS
ITALIAN STOCK EXCHANGE(MTA)						
1995	42.3	15.6	42.1	—	3.3	6.8
1996	40.5	24.3	35.2	—	4.0	5.9
1997	31.4	24.5	44.1	—	9.2	9.4
1998	44.4	27.2	28.4	—	4.5	18.0
1999	44.6	23.6	31.8	--	13.4	6.7
2000	48.7	26.4	24.8	0.1	2.9	4.5
2001	29.0	36.1	34.5	0.4	1.2	2.5
NUOVO MERCATO						
1999	27.3	32.5	40.2	..	28.0	9.5
2000	27.2	25.8	45.0	2.0	16.6	7.5
2001	25.0	58.5	14.4	2.1	1.0	1.3

See the methodological notes. [1]Averages weighted according to the values of the offerings; percentages. The figures for the Italian Stock Exchange do not include ENI in 1995, Enel in 1999 or Snam Rete Gas in 2001. [2] Arithmetic means. [3]Persons indicated by name to whom a certain quantity of shares is reserved.

TABLE aII.4

ROLE OF INVESTMENT BANKS IN IPOS[1]
(MARKET CONCENTRATION)

	GLOBAL COORDINATOR[2]					LEAD MANAGER[3]				
	1997	1998	1999	2000[4]	2001	1997	1998	1999	2000	2001
TOP RANKING[5]	36.8	20.7	25.9	18.1	16.3	57.0	58.5	45.9	33.7	23.6
FIRST THREE[5]	71.0	59.8	71.7	45.0	42.9	79.0	87.6	74.2	65.0	59.9
FIRST FIVE[5]	89.0	74.6	81.2	59.7	62.5	91.4	93.0	84.5	79.7	83.5
NUMBER OF TRANSACTIONS	10	15	26	43	17	10	15	26	44	17
VALUE OF TRANSACTIONS[6]	833	1,839	5,032	6,728	1,732	261	816	2,196	2,418	497

Source: Prospectuses and offer documents. See the methodological notes. [1] The indicators of concentration refer to the value of the offerings on the Italian Stock Exchange and the Nuovo Mercato. The figures for the Italian Stock Exchange do not include the Enel offering in 1999 or the Snam Rete Gas offering in 2001. [2] The figures refer to global offerings. [3] The figures refer only to public offerings in Italy. [4] One transaction has been excluded because it consisted only of a public offering in Italy. [5] Percentages. [6] Millions of euros.

TABLE aII.5

OFFERINGS OF SHARES AND CONVERTIBLE BONDS BY LISTED COMPANIES
(MILLIONS OF EUROS)

		1997	1998	1999	2000	2001
INITIAL OFFERINGS						
PUBLIC		1,122	390	413	1,827	798
INSTITUTIONAL INVESTORS		226	1,087	802	4,846	2,080
EMPLOYEES		104	319	221	40	10
SHAREHOLDERS		3,948	7,084	21,736	2,587	7,608
OTHER		—	—	—	78	9
	TOTAL	*5,400*	*8,879*	*23,171*	*9,379*	*10,505*
SECONDARY OFFERINGS						
PUBLIC		11,616	7,054	14,433	4,995	692
INSTITUTIONAL INVESTORS		5,422	3,773	10,478	2,492	3,750
EMPLOYEES		1,389	446	884	118	15
SHAREHOLDERS		--	--	--	--	--
OTHER		—	—	—	10	..
	TOTAL	*18,427*	*11,273*	*25,795*	*7,614*	*4,457*
TOTAL						
PUBLIC		12,738	7,444	14,846	6,822	1,490
INSTITUTIONAL INVESTORS		5,648	4,860	11,280	7,338	5,830
EMPLOYEES		1,493	765	1,105	158	25
SHAREHOLDERS		3,948	7,084	21,736	2,587	7,608
OTHER		—	—	—	88	9
	TOTAL	*23,827*	*20,152*	*48,966*	*16,993*	*14,962*

Sources: Consob database of prospectuses and notices issued by Borsa Italiana S.p.A. See the methodological notes. [1]The figures refer to companies listed on the Italian Stock Exchange. As of 1999 they include companies listed on the Nuovo Mercato.

TABLE aII.6

SALES OF SHARES OF LISTED COMPANIES SUBJECT TO PUBLIC-SECTOR CONTROL BY MEANS OF PUBLIC OFFERINGS AND INSTITUTIONAL PLACEMENTS

COMPANY	DATE	VALUE[1]	SELLER	HOLDING SOLD[2]	OFFERING AIMED AT[3]			
					THE PUBLIC[4]	EMPLOY-EES	FOREIGN BUYERS	INST. IN-VESTORS
CREDIT ORD	4.12.93	886	IRI	63.1	36.3	—	—	26.8
CREDIT RISP	4.12.93	44	IRI	17.4	—	17.4	—	—
IMI	31.01.94	1,231	TREASURY ET AL.	36.5	14.8	0.8	—	20.9
COMIT	26.02.94	1,493	IRI S.P.A.	51.9	26.9	3.5	—	21.5
INA	27.06.94	2,340	TREASURY	47.2	31.6	0.6	—	15.0
ENI	21.11.95	3,254	TREASURY	15.0	4.3	0.7	3.3	6.7
IMI	7.07.96	259	TREASURY	6.9	—	—	—	6.9
AMGA	7.10.96	107	GENOA CITY COUNCIL	49.0	17.6	0.8	—	30.6
ENI	21.10.96	4,582	TREASURY	15.8	8.0	0.8	2.0	5.0
MONTEFIBRE	08.07.96	94	ENICHEM	66.4	8.2	—	—	58.2
ISTITUTO BANC. SAN PAOLO	19.05.97	1,374	SAN PAOLO BANKING GROUP. TREASURY ET AL.	31.0	12.3	2.4	—	16.3
ENI	23.06.97	6,805	TREASURY	17.6	9.9	0.8	2.3	4.6
AEROPORTI DI ROMA	15.07.97	307	IRI	45.0	15.5	0.9	—	28.6
TELECOM	20.10.97	9,778	TREASURY	32.9	24.3	3.3	1.1	4.2
BANCA DI ROMA	24.11.97	1,379	IRI	36.6[5]	26.7	2.4	—	7.5
SAIPEM	17.03.98	383	ENI	17.1	—	—	—	17.1
ALITALIA	22.05.98	406	IRI	18.4	—	—	—	18.4
ENI	22.06.98	6,594	TREASURY	14.0	10.5	0.6	—	2.8
AEM	14.07.98	761	MILAN CITY COUNCIL	49.0	28.9	0.5	—	19.6
BNL	16.11.98	2,620	TREASURY	64.7	34.8	3.6	—	26.3
BANCA MONTE PASCHI	18.06.99	2,217	MONTE PASCHI FOUNDATION	21.2	7.6	2.0	—	11.6
ACEA	09.07.99	934	ROME CITY COUNCIL	49.0	15.7	10.5	—	22.9
ACSM	20.10.99	18	COMO CITY COUNCIL	25.0	13.5	1.4	—	10.1
ENEL	29.10.99	16,550	TREASURY	31.7	18.5	1.5	....	14.5[6]
AUTOSTRADE	03.12.99	3,805	IRI	48.0	41.0	0.7	—	6.2
FINMECCANICA	29.05.00	6,570[7]	IRI	44.0	33.7	0.7	—	10.7
AEROPORTO DI FIRENZE	03.07.00	18	SUNDRY ENTITIES	29.0	10.5	—	—	18.5
CASSA RISP. DI FIRENZE	10.07.00	320	ENTE CASSA RISP. DI FIRENZE	25.0	15.0	1.7	—	9.8
AEM TORINO	22.11.00	112	TURIN CITY COUNCIL	14.6	6.3	—	—	8.3
ACSM	29.11.00	42	COMO CITY COUNCIL	24.0	18.3	0.4	—	5.4
ENI	15.02.01	2,721	TREASURY	5.0	—	—	—	5.0
AC.E.GA.S.	19.02.01	174	TRIESTE CITY COUNCIL	46.8	16.0	0.8	—	30.0
SNAM RETE GAS	26.11.01	942	SNAM (ENI)	22.4	11.1	0.3	—	11.0

Source: Consob and the Ministry for the Economy, "Report to Parliament on the sale of holdings in companies controlled directly or indirectly by the State under Article 13.6 of Law 474/1994", various years. [1]Total value of the offering. Millions of euros. [2] Percentages of the pre-offering share capital. The figures do not include any bonus shares but do include the shares corresponding to the greenshoe option actually exercised. [3] Percentages of the pre-offering share capital. The figures include the entire over-allotment or greenshoe option actually exercised. [4] Includes the shares reserved to other persons (apart from employees) in the public offering tranche. [5] Figure calculated with reference to the post-offering share capital. [6] Includes the public offering abroad. [7] Includes the issue of 0.9 billion euros of convertible bonds.

TABLE aII.7

SALES OF SHARES OF LISTED COMPANIES SUBJECT TO PUBLIC-SECTOR CONTROL BY MEANS OF PRIVATE NEGOTIATIONS
(1996 - 2001)

COMPANY	BUYER	DATE SALE COMPLETED	HOLDING SOLD[1]	TOTAL VAUE[2]	DATE OF MANDATORY TENDER OFFER[3]
DALMINE	TECHINT SIDERCA	27.02.1996	84.1	156	09.04.1996
SEAT	ABN-AMRO BAIN CAPITAL COMIT BC PARTNERS CVC CAPITAL PARTNER INVESTITORI ASS. DE AGOSTINI SOFIPA	25.11.1997	61.3[4]	849	—
BANCO DI NAPOLI[5]	INA-BNL	11.06.1997	60.0	32	—
SAN PAOLO[6]	IFI/IFIL IMI BANCO SANTANDER REALE MUTUA ASSIC. MONTE PASCHI KREDIETBANK	23.04.1997	19.0	594	—
	OTHERS[7] (INA. HDI. CREDIT LOC. FRANCE. CREDIT COMMISSION. BELGIQUE)	24.04.1997	3.0	134	
TELECOM[6]	AT&T UNISOURCE IMI CREDIT CREDIT SUISSE ASS. GENERALI COMPAGNIA S.PAOLO IFIL COMIT MONTE PASCHI FONDAZ. CARIPLO INA ALLEANZA ASS. ROLO BANCA	29-30.09.1997	9.0	2,040[8]	—
BANCA DI ROMA[6]	TORO[9] OTHERS[7]	09.12.1997 09.12.1997	4.1 15.1	155 639	—
BNL[6]	BANCO BILBAO VIZCAYA INA BCA POP VICENTINA	29.09.1998	25.0	1,335	—
AUTOSTRADE	EDIZIONE HOLDING S.P.A. FONDAZIONE CASSA RISP. TORINO AUTOPISTAS CONC. ESPANOLA SA INA UNICREDIT BRISA AUTOSTRADE DE PORTUGAL SA	09.03.2000	30.0	2,516	—
AEROPORTI DI ROMA	CONSORZIO LEONARDO (GEMINA. FALCK. ITALPETROLI. IMPREGILO)	31.07.2000	51.2	1,327	25.09.2000
BENI STABILI[10]	BANCA IMI	06.2001	0.3	2	—
S. PAOLO IMI[10]	BANCA IMI	06.2001	0.3	80	—
BNL[10]	BANCA IMI	27.12.2001	1.3	77	—

Source: Consob and the Ministry for the Economy "Report to Parliament". See the methodological notes. [1] As a percentage of the ordinary share capital. [2] Millions of euros. [3] Date tender offer started. [4] The sale included 0.8 per cent of the capital in the form of savings shares. [5] Transaction effected by means of a competitive auction. [6] The date refers to the signing of the agreement. The figures refer to the *noyeau dur*. [7] Shareholders not part of the *noyeau dur*. [8] The figure does not include the sale of 1.2 per cent of the ordinary shares to AT&T and Unisource, subject to the conclusion of strategic alliances with Telecom. [9] The figure does not include the sale of 172 millions of euros of convertible bonds. [10] Transactions carried out by means of the sale of the holding to an intermediary, which then gradually placed the shares with institutional investors.

TABLE aIII.1

RESULTS OF THE EXTERNAL AUDITS ON THE UNCONSOLIDATED AND CONSOLIDATED ACCOUNTS OF COMPANIES LISTED ON ITALIAN REGULATED MARKETS

TYPE OF OPINION	1996	1997	1998	1999	2000
OPINIONS WITH CALLS FOR MORE INFORMATION	328	197	197	217	207
OPINIONS QUALIFIED FOR:					
- DISAGREEMENT WITH ACCOUNTING TREATMENTS	8	6	1	--	2
- LIMITATIONS ON THE AUDIT	4	3	2	2[1]	2
- UNCERTAINTY	--	3	--	--	--
ADVERSE OPINIONS AND DISCLAIMERS					
- ADVERSE OPINIONS	1	--	1	--	--
- DISCLAIMERS FOR SERIOUS LIMITATIONS ON THE AUDIT	1	--	1	1	--
- DISCLAIMERS OWING TO UNCERTAINTY	2	1	--	1	--

See the methodological notes. [1] In one case the opinion was qualified for limitations on the audit and for disagreement with accounting treatments.

TABLE aIII.2

CONTROLS ON AUDITING FIRMS

	1997	1998	1999	2000	2001
CHECK FOR INITIAL REGISTRATION	--	--	2	--	1
INSPECTIONS AND ON-SITE CONTROLS	7	5	2	2	1
WRITTEN REPRIMANDS	4	--	--	--	--
SUSPENSIONS OF PARTNERS	5	1	--	1	--
BAN ON NEW ENGAGEMENTS	--	1	--	--	--
ADMINISTRATIVE SANCTIONS	2	2	--	--	--
DELETIONS FROM THE SPECIAL REGISTER	--	--	2	--	--
REPORTS TO THE JUDICIAL AUTHORITIES	6	--	--	--	--

TABLE aIII.3

CONCENTRATION OF THE AUDIT MARKET [1]

	TURNOVER					NUMBER OF STATUTORY AUDIT ENGAGEMENTS				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
FIRST FIRM	22.2	23.6	24.4	21.9	22.5	24.4	20.6	19.9	22.3	19.9
FIRST 3 FIRMS	55.3	59.4	56.0	55.5	60.4	52.6	49.9	50.6	47.8	60.8
FIRST 6 FIRMS	92.2	90.4	90.7	90.4	91.8	84.1	83.6	83.6	88.3	90.1

[1] The figures refer to the auditing firms entered in the special register kept by Consob. Market shares in percentages.

TABLE aIV.1

INDICATORS OF THE EQUITY MARKETS OPERATED BY BORSA ITALIANA S.P.A.

	1995	1996	1997	1998	1999	2000	2001
ITALIAN STOCK EXCHANGE (MTA)							
CAPITALIZATION[1,2]	168.1	199.4	309.9	484.1	714.1	790.3	575.0
TURNOVER VALUE[1]	72.5	80.8	174.3	423.0	503.0	838.5	637.1
NUMBER OF LISTED ITALIAN COMPANIES	217	213	209	219	241	237	232
NUMBER OF NEWLY-LISTED ITALIAN COMPANIES	14	14	14	25	28	16	13
NUMBER OF ITALIAN COMPANIES DELISTED	16	18	18	15	6	20	18
INITIAL OFFERINGS (INCLUDING IPOS)[1]	4.4	2.3	5.4	8.9	23.4	5.2	9.9
SECONDARY OFFERINGS[1]	3.4	5.6	18.4	11.4	24.3	7.1	4.4
TAKEOVERS AND TENDER OFFERS[1]	1.1	0.7	1.0	2.0	54.6	12.1	6.7
CHANGE IN THE HISTORICAL MIB INDEX[3]	- 6.9	13.1	58.2	41.0	22.3	5.4	- 25.1
DIVIDEND/PRICE RATIO[3]	1.8	2.1	1.7	1.6	1.5	2.1	2.8
PRICE RATIO[3]	7.0	6.9	4.6	3.9	3.4	4.5	6.0
MERCATO RISTRETTO							
CAPITALIZATION[1,2]	3.6	3.3	4.8	4.1	5.4	5.9	4.9
TURNOVER VALUE[1]	0.4	0.4	0.7	2.2	0.9	1.2	0.4
NUMBER OF LISTED COMPANIES	33	31	26	20	17	15	12
NUOVO MERCATO							
CAPITALIZATION[1,2]	—	—	—	—	7.0	22.2	12.5
TURNOVER VALUE[1]	—	—	—	—	3.5	29.5	20.6
NUMBER OF LISTED ITALIAN COMPANIES	—	—	—	—	6	39	44
INITIAL OFFERINGS (INCLUDING IPOS)[1]	—	—	—	—	0.2	4.2	0.2
SECONDARY OFFERINGS[1]	—	—	—	—	0.04	0.6	. .
CHANGE IN THE NM INDEX[3]	—	—	—	—	536[4]	- 25.5	- 45.6

Sources: Borsa Italiana S.p.A., Consob and Primark. [1] Billions of euros. [2] The figure for capitalization refers to Italian companies. [3] Percentages. [4] From 17 June 1999 to 30 December 1999.

TABLE aIV.2

TURNOVER VALUE OF TRADING IN FIXED-INCOME SECURITIES ON ITALIAN REGULATED MARKETS

	2000	2001
MTS	2,018	2,343
BONDIVISION	—	23
WHOLESALE MARKET FOR BONDS OTHER THAN GOVERNMENT SECURITIES	—	6
MOT	154	136
EURO MOT	. .	1
TOTAL	*2,172*	*2,509*

Sources: Based on data published by MTS S.p.A. and Borsa Italiana S.p.A. Billions of euros.

TABLE aV.1

REQUESTS FOR INFORMATION IN CONNECTION WITH INSIDER TRADING AND MARKET MANIPULATION INVESTIGATIONS

REQUESTS ADDRESSED TO	1997	1998	1999	2000	2001
AUTHORIZED INTERMEDIARIES[1]	220	324	416	492	247
LISTED COMPANIES AND THEIR CONTROLLERS	37	14	22	33	30
INDIVIDUALS	49	50	48[2]	11	93[2]
GOVERNMENT DEPARTMENTS	22	10	--	4	10
FOREIGN AUTHORITIES[3]	11	17	21	30	33
TOTAL	*339*	*415*	*507*	*570*	*413*[4]

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Including 7 hearings. [3] Requests are transmitted to foreign authorities by the International Relations Office. [4] Of which 156 on behalf of foreign authorities.

TABLE aV.2

MARKET PARTICIPANTS REPORTED TO THE JUDICIAL AUTHORITIES ON SUSPICION OF INSIDER TRADING OR MARKET MANIPULATION

	INSIDER TRADING					MARKET MANIPULATION				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
AUTHORIZED INTERMEDIARIES[1]	11	17	21	24	20	3	7	10	1	4
INSTITUTIONAL INSIDERS[2]	12	31	26	11	6	21	2	5	2	1
OTHERS[3]	41	34	56	149	53	--	--	34	1	1
FOREIGN RESIDENTS	17	32	48	34	30	--	2	2	1	2
TOTAL	*81*	*114*	*151*	*218*	*109*	*24*	*11*	*51*	*5*	*8*

[1] Banks, investment firms, asset management companies and stockbrokers. [2] Shareholders, directors and managers of listed companies. [3] So-called secondary insiders and tippees (under Article 180.2 of Legislative Decree 58/1998).

TABLE aVI.1

STRUCTURE OF THE MUTUAL FUND INDUSTRY IN ITALY: ITALIAN OPERATORS[1]
(YEAR-END DATA; AMOUNTS IN BILLIONS OF EUROS)

		1996	1997	1998	1999	2000	2001
MANAGEMENT COMPANIES IN OPERATION		53	53	59	54	55	61
NUMBER OF MUTUAL FUNDS							
- EQUITY		235	277	321	356	435	492
- BALANCED		57	53	57	61	82	85
- BOND		239	296	325	337	382	396
- LIQUIDITY		—	—	—	33	35	37
- FLEXIBLE		—	—	—	29	33	49
	TOTAL	*531*	*626*	*703*	*816*	*967*	*1,059*
NET INFLOWS							
- EQUITY		- 0.5	15.5	24.0	32.1	39.4	- 18.9
- BALANCED		- 1.4	3.2	12.1	15.7	17.1	- 16.3
- BOND		33.4	55.1	125.4	3.6	- 68.7	- 6.6
- LIQUIDITY		—	—	—	6.9	- 0.6	21.8
- FLEXIBLE		—	—	—	2.7	4.7	- 0.9
	TOTAL	*31.5*	*73.8*	*161.5*	*61.0*	*- 8.1*	*- 20.8*
ASSETS UNDER MANAGEMENT							
- EQUITY		17.9	40.2	74.0	140.3	155.7	110.6
- BALANCED		6.7	11.4	28.9	51.1	72.7	51.9
- BOND		77.1	137.9	269.4	257.2	191.4	188.6
- LIQUIDITY		—	—	—	21.1	22.5	46.7
- FLEXIBLE		—	—	—	5.5	7.6	5.9
	TOTAL	*101.7*	*189.5*	*372.3*	*475.2*	*449.9*	*403.7*

Sources: Assogestioni and Consob. See the methodological notes. [1] Including Sicavs.

TABLE aVI.2

COLLECTIVE INVESTMENT UNDERTAKINGS DISTRIBUTED IN ITALY BY FOREIGN OPERATORS
(YEAR-END DATA)

	1996	1997	1998	1999	2000	2001
FOREIGN COMPANIES[1]	*64*	*78*	*102*	*123*	*124*	*149*
WITH REGISTERED OFFICE IN:						
- LUXEMBOURG	53	65	86	104	105	127
- IRELAND	1	1	4	5	7	12
- FRANCE	9	9	9	10	8	7
- GERMANY	1	1	1	1	1	1
- AUSTRIA	–	–	--	1	1	1
- UNITED KINGDOM	--	--	--	--	--	1
- BELGIUM	–	2	2	2	2	--
NUMBER OF FUNDS/SUBFUNDS DISTRIBUTED IN ITALY	*446*	*603*	*833*	*1,134*	*1,534*	*2,132*

Sources: Consob database of prospectuses and Luxor - FI.DATA database. [1] Companies that offer units/shares of collective investment undertakings subject to the Community directives to the public in Italy.

TABLE aVI.3

INDIVIDUAL ASSET MANAGEMENT SERVICES:
DISTRIBUTION OF ASSETS UNDER MANAGEMENT BY TYPE OF OPERATOR
(YEAR-END DATA - PERCENTAGES)

	1998	1999	2000	2001[1]
BANKS	68.3	60.1	54.4	49.5
INVESTMENT FIRMS	31.7	13.2	10.0	10.3
ASSET MANAGEMENT COMPANIES	....	26.8	35.6	40.1
TOTAL	100.0	100.0	100.0	100.0
TOTAL ASSETS UNDER MANAGEMENT[2]	280.5	370.3	392.1	401.1

Source: Calculation on Bank of Italy data. [1] Data at the end of first semester. [2] Billions of euros.

TABLE aVI.4

ASSET ALLOCATION IN INDIVIDUAL PORTFOLIO MANAGEMENT SERVICES
(YEAR-END DATA - PERCENTAGES)

	1997	1998	1999	2000	2001[1]
INVESTMENT FIRMS[2]					
GOVERNMENT SECURITIES	47.0	39.7	22.6	20.9	18.1
ITALIAN BONDS	6.9	5.0	3.3	2.5	2.2
FOREIGN BONDS	10.4	8.6	6.0	6.6	5.5
ITALIAN SHARES	8.4	5.8	6.6	5.6	3.9
FOREIGN SHARES	4.6	4.1	5.2	3.1	2.4
UNITS/SHARES OF COLLECTIVE INVESTMENT UNDERTAKINGS	17.0	33.4	52.1	57.5	63.4
LIQUIDITY AND OTHER SECURITIES	5.6	3.4	4.1	3.8	4.6
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
BANKS					
GOVERNMENT SECURITIES	58.7	43.7	30.0	20.0	20.8
ITALIAN BONDS	5.4	3.0	2.2	2.2	2.0
FOREIGN BONDS	5.7	5.9	5.9	5.7	7.2
ITALIAN SHARES	4.3	4.4	4.7	4.1	3.9
FOREIGN SHARES	0.2	0.5	2.1	2.1	2.3
UNITS/SHARES OF COLLECTIVE INVESTMENT UNDERTAKINGS	18.4	36.2	50.0	61.4	60.6
LIQUIDITY AND OTHER SECURITIES	7.2	6.3	5.1	4.4	3.2
TOTAL	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
ASSET MANAGEMENT COMPANIES					
GOVERNMENT SECURITIES	—	....	34.5	33.6	37.5
ITALIAN BONDS	—	....	8.5	11.0	13.6
FOREIGN BONDS	—	....	5.8	3.0	2.1
ITALIAN SHARES	—	....	7.7	7.9	8.1
FOREIGN SHARES	—	....	3.1	2.9	2.7
UNITS/SHARES OF COLLECTIVE INVESTMENT UNDERTAKINGS	—	....	36.0	37.4	33.4
LIQUIDITY AND OTHER SECURITIES	—	....	4.5	4.1	2.7
TOTAL	—	....	*100.0*	*100.0*	*100.0*

Source: Calculations on Bank of Italy data. [1] Data at the end of first semester. [2] Including trust companies.

TABLE aVI.5

INVESTMENT FIRMS: ENTRIES IN AND DELETIONS FROM CONSOB REGISTER[1]
(1991-2000)

	REGISTERED FIRMS	ENTRIES	EXITS
1991	255	255	—
1992	356	110	9
1993	326	19	49
1994	289	12	49
1995	284	20	25
1996	236	4	52
1997	212	3	27
1998	191	9	30
1999	183	12	20
2000	171	15	27
2001	162	15	24
TOTAL		*474*	*312*

[1] Including trust companies.

TABLE aVI.6

INTERMEDIARIES CLASSIFIED BY AUTHORIZED INVESTMENT SERVICES

	INVESTMENT FIRMS					BANKS				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
NUMBER OF AUTHORIZED INTERMEDIARIES	212	191	183	171	162	829	806	813	781	753
DEALING FOR OWN ACCOUNT	*81*	*69*	*60*	*55*	*51*	*560*	*569*	*607*	*587*	*576*
DEALING FOR CLIENT ACCOUNT	*83*	*72*	*65*	*60*	*62*	*543*	*547*	*544*	*532*	*519*
PLACEMENT WITH FIRM COMMITMENT UNDERWRITING[1]	*44*	*38*	*37*	*36*	*34*	*224*	*240*	*276*	*276*	*276*
PLACEMENT WITHOUT FIRM COMMITMENT UNDERWRITING[1]	*117*	*106*	*111*	*109*	*109*	*545*	*585*	*737*	*726*	*712*
INDIVIDUAL PORTFOLIO MANAGEMENT	*113*	*102*	*99*	*91*	*85*	*192*	*220*	*256*	*253*	*250*
RECEPTION AND TRANSMISSION OF ORDERS AND MEDIATION	*90*	*80*	*75*	*79*	*93*	*824*	*805*	*798*	*766*	*738*
AVERAGE NUMBER OF SERVICES PER INTERMEDIARY	2.5	2.4	2.3	2.5	2.7	3.5	3.7	4.0	4.0	4.1

Sources: Consob and Bank of Italy. [1] Includes placement with outright purchase or underwriting.

TABLE aVI.7

NATIONAL INVESTOR COMPENSATION FUND: SPECIAL INTERVENTIONS
(SITUATION AT 31 DECEMBER 2001)

		INVESTMENT FIRMS	STOCK-BROKERS	TRUST COMPANIES	*TOTAL*
BANKRUPTCIES[1]	1992	1	--	--	*1*
	1993	5	1	3	*9*
	1994	4	--	--	*4*
	1995	3	1	--	*4*
	1996	4	2	--	*6*
	1997	1	--	--	*1*
	TOTAL BANKRUPTCIES	*18*	*4*	*3*	*25*
TOTAL NUMBER OF CREDITORS ADMITTED		7,088	2,235	304	9,627
TOTAL VALUE OF CLAIMS ADMITTED[2]		186.4	174.1	12.2	372.7
NUMBER OF APPLICATIONS TO THE FUND		4,393	1,223	206	5,822
VALUE OF CLAIMS IN APPLICATIONS[2]		168.0	123.9	11.8	303.7
INDEMNITIES IN RESPECT OF APPLICATIONS[2]		*41.7*	*30.5*	*3.0*	*75.1*
- INDEMNITIES COMMITTED DRAWING ON AVAILABLE ASSETS		41.7	30.5	3.0	75.1
- REMAINING INDEMNITIES TO BE COMMITTED		--	--	--	--

Source: Based on National Investor Compensation Fund data. Amounts in millions of lire. [1] For which the statement of liabilities was filed before 1 February 1998. [2] Net of partial allotments made by the bodies responsible for the bankruptcy proceedings.

TABLE aVI.8

ON SITE INSPECTIONS

	1997	1998	1999	2000	2001
INSPECTIONS					
APPROVED	16	24	21	18	8
STARTED	25	18	22	19	9
CONCLUDED	31	22	23	18	13[2]
INSPECTIONS STARTED AT:					
INVESTMENT FIRMS[1]	12[3]	6	8	5	2
BANKS	5	9[4]	--	1	2
ASSET MANAGEMENT COMPANIES/SICAVS	1	--	--	6	2
INDIVIDUAL STOCKBROKERS	6	3	3	6	3
FINANCIAL SALESMEN	1	--	11	1	--
LISTED COMPANIES	--	2[5]	1	--	--
TOTAL	*25*	*20*	*23*	*19*	*9*
INSPECTIONS CONCLUDED AT:					
INVESTMENT FIRMS[1]	17	9[3]	8	5	4[6]
BANKS	9	8[4]	2	2	1[7]
ASSET MANAGEMENT COMPANIES/SICAVS	--	--	--	1	5
INDIVIDUAL STOCKBROKERS	4	3	2	9	3
FINANCIAL SALESMEN	1	--	11	1	--
LISTED COMPANIES	--	2[5]	1	--	--
TOTAL	*31*	*22*	*24*	*18*	*13*

[1] Including trust companies. [2] Of which two suspended. [3] Of which one at an EU investment firm. [4] Of which six under Article 8 of Law 157/1991. [5] Of which one under Article 8 of Law 157/1991 and one under Article 185 of Legislative Decree 58/1998. [6] Of which one suspended. [7] Suspended.

TABLE aVI.9

FINANCIAL SALESMEN: ENTRIES IN AND DELETIONS FROM CONSOB REGISTER

	NUMBER OF REGISTERED FINANCIAL SALESMEN[1]	ENTRIES[2]	EXITS[2]	*TURNOVER*[3]
1995	25,902	4,512	1,344	14.8
1996	27,105	3,236	1,443	6.9
1997	27,994	2,922	1,961	3.5
1998	33,063	6,358	1,402	17.7
1999	42,810	10,383[4]	1,278	27.5
2000	49,856	8,774	1,085	18.0
2001	59,610	11,001[5]	1,182	19.7

[1] Year-end data. [2] The figures do not include revocations of earlier registration and deletion decisions. [3] Ratio of registrations net of deletions to the total number of registered financial salesmen at the end of the previous year; percentages. [4] Of which 1,800 added by right pursuant to Article 3 of Ministerial Decree 322/1997. [5] Of which 2,100 added by right pursuant to Article 3 of Ministerial Decree 472/1998.

TABLE aVI.10

SANCTIONS AND PRECAUTIONARY MEASURES ADOPTED OR PROPOSED BY CONSOB

	INVESTMENT FIRMS				BANKS				INDIVIDUAL STOCKBROKERS			
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001
REPRIMAND	—	—	—	—	—	—	—	—	1	1	--	--
FINE	20	25	21	10	10	23	13	5	5	3	14	1
SUSPENSION (+ SPECIAL ADMINISTRATOR)	—	—	—	—	—	—	—	—	3[1]	1	2	3
PENALTY DELETION	—	—	—	—	—	—	—	—	1[2]	--	--	1
INJUNCTIVE REMEDIES	--	1	--	--	--	--	--	--	--	--	--	--
SUSPENSION OF GOVERNING BODIES	1	1	1	1	—	—	—	—	—	—	—	—
SPECIAL ADMINISTRATION	3	1	1	1	—	—	—	—	—	—	—	—
COMPULSORY ADMINISTRATIVE LIQUIDATION	1	--	--	--	—	—	—	—	—	—	—	—

See the methodological notes. [1] In two cases only suspension. [2] Deletion from the single national roll.

TABLE aVII.1

APPEALS TO ADMINISTRATIVE COURTS AGAINST MEASURES ADOPTED BY CONSOB AND THE MINISTRY FOR THE ECONOMY ACTING ON A PROPOSAL FROM CONSOB, 1999-2001

TYPE OF PLAINTIFF	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2001[1]	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
			1999	
FINANCIAL SALESMEN	14[2]	DEBARMENT	SUSPENSION GRANTED (4) SUSPENSION REJECTED (8) REJECTED (2)	CONSOB'S APPEAL ACCEPTED (2)
FINANCIAL SALESMEN	11[3]	PENALTY SUSPENSION	SUSPENSION GRANTED (4) SUSPENSION REJECTED (1) ACCEPTED (1) PENDING (5)	CONSOB'S APPEAL ACCEPTED (1)
FINANCIAL SALESMEN	5	PRECAUTIONARY SUSPENSION	SUSPENSION GRANTED (1) SUSPENSION REJECTED (2) PENDING (2)	
FINANCIAL SALESMEN	2	DENIAL OF ACCESS TO DOCUMENTS	REJECTED (1) PENDING (1)	
FINANCIAL SALESMEN	4[4]	DENIAL OF ENTRY IN THE REGISTER	ACCEPTED (1) REJECTED (2) PENDING (1)	CONSOB'S APPEAL PENDING (1)
INVESTMENT FIRM	1[5]	FINE	PENDING (1)	
INVESTMENT FIRM	2[6]	SPECIAL ADMINISTRATION	SUSPENSION REJECTED (2)	PLAINTIFF'S APPEAL REJECTED (2)
INVESTMENT FIRM	1	DENIAL OF ACCESS TO DOCUMENTS	REJECTED (1)	
STOCKBROKER	1	PRECAUTIONARY SUSPENSION	SUSPENSION REJECTED (1)	PLAINTIFF'S APPEAL REJECTED (1)
STOCKBROKER	2	LAPSE OF REGISTRATION	SUSPENSION GRANTED (2)	CONSOB'S APPEAL REJECTED (2)
AUDITING FIRM	1	SELF-FINANCING RESOLUTION	PENDING (1)	
AUDITING FIRM	1	DENIAL OF ACCESS TO DOCUMENTS	ACCEPTED (1)[7]	PENDING (1)
LISTED CO.	1	REGULATORY PROVISIONS[8] AND CONSOB NOTE	SUSPENSION GRANTED (1)	CONSOB'S APPEAL REJECTED (1)[9]
OTHER	3[10]	REGULATORY PROVISIONS	PENDING (3)	
OTHER	2	APPEAL AGAINST ANTITRUST AUTHORITY RULING ON MISLEADING ADVERTISEMENTS (2)	SUSPENSION REJECTED (2)	PLAINTIFF'S APPEAL REJECTED (1)
TOTAL	*51*			

[1] In brackets the number of cases. [2] In 3 cases an appeal was also made to the Pretore. [3] One appeal was made jointly by 2 financial salesmen and another by 7. In 2 cases an appeal was also made to the Pretore. In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. In one case the appeal was made by an intermediary against penalties imposed on 8 of its financial salesmen. [4] In 2 cases Consob - to which the appeals had been notified - did not appear in court because the subject of the appeal was a denial by the Lazio Regional Commission for the register of financial salesmen. [5] The investment firm also appealed against the penalty to the Court of Appeal. [6] Two appeals against the same special administration order, one made by the investment firm and the other by its corporate officers. [7] Partially. [8] Articles 35c) and 37 of Consob Regulation 11971/1999 on issuers. [9] Partially. [10] In one further case Consob - to which the appeal had been notified - did not appear in court because the subject of the appeal was the annulment of Treasury Ministry Decree 468/1998.

- *CONT.* -

- TABLE aVII.1 CONT. -

TYPE OF PLAINTIFF	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2001	
			REGIONAL TRIBUNAL	COUNCIL OF STATE
			2000	
FINANCIAL SALESMEN	6[11]	DEBARMENT	SUSPENSION GRANTED (2)	
			SUSPENSION REJECTED (2)	
			ACCEPTED (1)	
			PENDING (1)	
FINANCIAL SALESMEN	19	PENALTY SUSPENSION	SUSPENSION GRANTED (2)	
			SUSPENSION REJECTED (9)	PLAINTIFF'S APPEAL REJECTED (1)
			PENDING (8)	
FINANCIAL SALESMEN	5[12]	PRECAUTIONARY SUSPENSION	SUSPENSION REJECTED (1)	
			REJECTED (3)	
			PENDING (1)	
FINANCIAL SALESMEN	2	DELETION	SUSPENSION REJECTED (1)	
			PENDING (1)	
FINANCIAL SALESMEN	3[13]	DENIAL OF ENTRY IN THE REGISTER	SUSPENSION REJECTED (2)	
			PENDING (1)	
FINANCIAL SALESMEN	3[14]	ANNULMENT OF RESOLUTION APPROVING REGISTRATION	SUSPENSION GRANTED (1)	CONSOB'S APPEAL REJECTED (1)
			REJECTED (1)	
			ACCEPTED (1)	PENDING (1)
STOCKBROKER	1	LAPSE OF REGISTRATION	SUSPENSION GRANTED (1)	
LISTED COOPERATIVE BANK	1	CONSOB NOTE	REJECTED (1)	PENDING (1)
COMPANY	1	BAN ON OFFERING UNITS OF A FUND	PENDING (1)	
AUDITING FIRM	1	DENIAL OF ACCESS TO DOCUMENTS	ACCEPTED (1)	
AUDITING FIRM	1	ORDER NOT TO USE A PARTNER	REJECTED (1)	
TOTAL	*43*			

[11] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. In another case the plaintiff, upon acceptance of his appeal, made a further appeal for the execution of the sentence. [12] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [13] In 2 cases Consob - to which the appeals had been notified - did not appear in court because the subject of the appeal was a denial by the Lazio Regional Commission for the register of financial salesmen. In the last case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending. [14] In one case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending.

- CONT. -

- *TABLE aVII.1 CONT.* -

TYPE OF PLAINTIFF	NUMBER	SUBJECT OF APPEAL	OUTCOME AT 31 DECEMBER 2001	
			REGIONAL TRIBUNALS	COUNCIL OF STATE
			2001	
FINANCIAL SALESMEN	1[15]	DEBARMENT	PENDING (1)	
FINANCIAL SALESMEN	6	PENALTY SUSPENSION	SUSPENSION REJECTED (3)	
			PENDING (3)	
FINANCIAL SALESMEN	5	PRECAUTIONARY SUSPENSION	SUSPENSION GRANTED (1)	
			SUSPENSION REJECTED (2)	
			ACCEPTED (2)	CONSOB'S APPEAL REJECTED (2)
FINANCIAL SALESMEN	3	DELETION FROM THE REGISTER	SUSPENSION GRANTED (1)	
			SUSPENSION REJECTED (2)	PLAINTIFF'S APPEAL REJECTED (2)
FINANCIAL SALESMEN	2[16]	DENIAL OF ENTRY IN THE REGISTER	SUSPENSION REJECTED (1)	
			PENDING (1)	
FINANCIAL SALESMAN	1	FINE	PENDING (1)	
INVESTMENT FIRM	1	DENIAL OF ENTRY IN THE REGISTER	PENDING (1)	
CORPORATE OFFICERS OF A BANK	1	FINE	PENDING (1)	
CORPORATE OFFICERS OF AN INVESTMENT FIRM	2	FINE	PENDING (1)	
			SUSPENSION REJECTED (1)	
STOCKBROKER	1	DELETION FROM THE REGISTER	SUSPENSION REJECTED (1)	
STOCKBROKER	2	LAPSE OF REGISTRATION	SUSPENSION GRANTED (2)	CONSOB'S APPEAL REJECTED (2)
AUDITING FIRM	2	DENIAL OF ACCESS TO DOCUMENTS	REJECTED (2)	
LISTED COMPANIES	2	CHALLENGE UNDER ARTICLE 195 OF THE CONSOLIDATED LAW	PENDING (2)	
LISTED CO.	2	CLEARANCE OF PROSPECTUS	PENDING (2)	
UNLISTED CO.	1	CLEARANCE OF PROSPECTUS	PENDING (1)	
UNLISTED CO.	1	BAN ON PUBLIC OFFERING	SUSPENSION REJECTED (1)	
OTHER	3	FAILURE TO INITIATE PENALTY PROCEDURE	PENDING (1)	
		DENIAL OF ACCESS TO DOCUMENTS	PENDING (1)	
		SUSPENSION OF ORGANIZED TRADING	PENDING (1)	
TOTAL	*36*			

[15] In 3 cases an appeal was also made to the Pretore. [16] In one case Consob - to which the appeal had been notified - did not appear in court because the subject of the appeal was a denial by the Lazio Regional Commission for the register of financial salesmen. In the other case the appeal was presented before a Tribunal declared not to be jurisdictionally competent; the case was reassigned to the Lazio Administrative Tribunal and judgement on its merits is pending.

TABLE aVII.2

APPEALS TO ORDINARY COURTS AGAINST ADMINISTRATIVE SANCTIONS, 1999-2001

TYPE OF PLAINTIFF	NUMBER	COURT	TYPE OF PENALTY[1]	OUTCOME AT 31 DECEMBER 2001[1]	
				FIRST LEVEL	COURT OF CASSATION
			1999		
FINANCIAL SALESMEN	2[2]	PRETORE	PENALTY SUSPENSION (2)	ACCEPTED (2)	CONSOB'S APPEAL REJECTED (1)
					PENDING (1)
FINANCIAL SALESMEN	1	COURT OF APPEAL	FINE (1)	PENDING (1)	
INVESTMENT FIRMS	7[3]	COURT OF APPEAL	FINE (7)	ACCEPTED (3)	CONSOB'S APPEAL ACCEPTED(1)
				REJECTED (3)	PENDING (1)
				SUBJECT OF APPEAL CEASED TO EXIST (1)	
BANKS	4	COURT OF APPEAL	FINE (4)	REJECTED (2)	
				ACCEPTED (2)	PENDING (1)
CORPORATE OFFICERS OF INVESTMENT FIRMS	19	COURT OF APPEAL	FINE (15)	REJECTED (1)	CONSOB'S APPEAL ACCEPTED (5)
				ACCEPTED (18)	PENDING (1)
CORPORATE OFFICERS OF BANKS	4[4]	COURT OF APPEAL	FINE (4)	ACCEPTED (4)	PENDING (1)
STOCKBROKERS	2	COURT OF APPEAL	FINE (2)	ACCEPTED (1)	
				REJECTED (1)	
CONTROLLERS OF A LISTED COMPANY	1[5]	COURT OF APPEAL	FINE (1)	REJECTED (1)	PENDING (1)
CONTROLLERS OF A LISTED COMPANY	1	COURT OF APPEAL	FINE (1)	REJECTED (1)	
CONTROLLERS OF A LISTED COMPANY	1[6]	COURT OF APPEAL	FINE (1)	REJECTED (1)	PENDING (1)
LISTED COMPANIES AND THEIR CORPORATE OFFICERS	2	COURT OF APPEAL	FINE (2)	RENOUNCED (1)	
				REJECTED (1)	
OTHER	1[7]	COURT OF APPEAL	FINE (1)	REJECTED (1)	
TOTAL	*45*				

[1] In brackets the number of cases. [2] In one case the plaintiff also appealed against the penalty decision to a Regional Administrative Tribunal. In another case the appeal was made jointly by the intermediary and 11 of its corporate officers. [4] With a total of 54 plaintiffs. [5] With a total of 12 plaintiffs. [6] With a total of 12 plaintiffs. [7] The appeal, made by a company and two of its corporate officers, is against a fine imposed for the violation of Article 188 of Legislative Decree 58/1998.

- *CONT.* -

- *TABLE aVII.2 CONT.* -

TYPE OF PLAINTIFF	NUMBER	COURT	TYPE OF PENALTY	OUTCOME AT 31 DECEMBER 2001	
				FIRST LEVEL	COURT OF CASSATION
			2000		
FINANCIAL SALESMEN	5	TRIBUNAL	FINE (5)	SUSPENSION GRANTED (1)	
				PENDING (1)	
				ACCEPTED (2)[8]	
				SUBJECT OF APPEAL CEASED TO EXIST (1)	
FINANCIAL SALESMEN	2	TRIBUNAL	DEBARMENT (2)	SUSPENSION GRANTED (1)	
				REJECTED (1)	
LISTED COMPANY'S BOARD OF AUDITORS ATA[9]	2	TRIBUNAL	REPORT UNDER ARTICLE 152.2 OF THE CONSOLIDATED LAW	SETTLED(2)	
INVESTMENT FIRM	3[10]	COURT OF APPEAL	FINE (3)	ACCEPTED (3)	PENDING (2)
BANKS	7	COURT OF APPEAL	FINE (7)	REJECTED (5)	PENDING (1)
				ACCEPTED (2)	
CORPORATE OFFICERS OF INVESTMENT FIRMS	2[11]	COURT OF APPEAL	FINE (2)	ACCEPTED (2)	PENDING (1)
					CONSOB'S APPEAL ACCEPTED(1)
CORPORATE OFFICERS OF BANKS	5[12]	COURT OF APPEAL	FINE (5)	REJECTED (5)	PENDING (1)
STOCKBROKER	1	COURT OF APPEAL	FINE (1)	REJECTED (1)	
TOTAL	*27*				

[8] In one case the appeal was accepted partially. [9] An action brought independently by Consob not deriving from an appeal against administrative sanctions. Following the resignation of the members of the board of auditors, the court rules there were no grounds for further proceedings. [10] In one case the appeal was made jointly by the intermediary and 20 of its corporate officers. [11] With a total of 13 plaintiffs. [12] With a total of 111 plaintiffs.

- *CONT.* -

- TABLE aVII.2 CONT. -

TYPE OF PLAINTIFF	NUMBER	COURT	TYPE OF PENALTY	OUTCOME AT 31 DECEMBER 2001	
				FIRST LEVEL	COURT OF CASSATION
			2001		
FINANCIAL SALESMEN	5	TRIBUNAL	FINE (2)	SUSPENSION GRANTED (1)	
				PENDING (1)	
			PENALTY SUSPENSION (1)	PENDING (1)	
			DENIAL OF ENTRY IN THE REGISTER (1)	PENDING (1)	
			VERIFICATION PROFESSIONAL REQUIREMENTS (1)	PENDING (1)	
BANKS	6	COURT OF APPEAL	FINE (6)	ACCEPTED (1)	
				PENDING (5)	
RESPONSIBLE FOR PLACEMENT	4	COURT OF APPEAL	FINE (4)	PENDING (4)	
INVESTMENT FIRM	5	COURT OF APPEAL	FINE (5)	PENDING (1)	
				ACCEPTED (2)	
				REJECTED (2)	
INVESTMENT FIRM	1	COURT OF APPEAL	FINE (1)	PENDING (1)	
CORPORATE OFFICERS OF BANKS	5[13]	COURT OF APPEAL	FINE (5)	REJECTED (5)	PENDING (1)
CORPORATE OFFICERS OF INVESTMENT FIRMS	11[14]	COURT OF APPEAL	FINE (11)	PENDING (6)	
				REJECTED (5)	PENDING (1)
SHAREHOLDERS OF LISTED COMPANIES	2	COURT OF APPEAL	FINE (2)	PENDING (2)	
OTHER	1[15]	COURT OF APPEAL	FINE (1)	REJECTED (1)	
TOTAL	*40*				

[13] With a total of 54 plaintiffs. In once case a plaintiff also appealed to a Regional Administrative Tribunal. [14] With a total of 18 plaintiffs. In 2 cases the plaintiffs also appealed to a Regional Administrative Tribunal. [15] The appeal, made by a company and 7 of its corporate officers, concerned fines imposed for violation of Article 188 of the Consolidated Law. The appeal was rejected for the fines imposed on the directors of the company but not for those applied to the members of the board of auditors.

TABLE aVII.3

CASES HANDLED BY CONSOB LAWYERS

	1999[1]	2000[1]	2001[1]
PENAL CASES	1	2	6 (1)
CIVIL CASES	4 (4)	6 (1)	11 (2)
OF WHICH:			
- ACTIONS FOR DAMAGES	3 (3)	1 (1)	3 (2)
- URGENT MEASURES UNDER ARTICLE 700 OF THE CODE OF CIVIL PROCEDURE	1 (1)	--	--
- CASES BROUGHT UNDER ART. 22 OF LAW 689/1981	--	3	2
- CASES BROUGHT UNDER ART. 195 OF L.D. 58/1998	--	--	3
- REPORTS TO COURTS UNDER ART. 152.2 OF L.D. 58/1998	--	2	--
- APPEALS AGAINST TAX COLLECTION ORDERS[2]	--	--	3
ADMINISTRATIVE CASES	3 (1)	1	1 (1)
TOTAL	*8 (5)*	*9 (1)*	*18 (4)*

[1] The numbers in brackets refer to the cases handled jointly by Consob lawyers and lawyers from the Avvocatura dello Stato or legal firms. [2] One case was brought before a tax commission, another before a judge of the peace and the third before the ordinary court competent for the matter (under Article 9 of the Code of Civil Procedure).

TABLE aVII.4

ACTIONS FOR DAMAGES BROUGHT AGAINST CONSOB[1]

TYPE OF PLAINTIFF	1996	1997	1998	1999	2000[2]	2001	GROUNDS	OUTCOME AT 31 DECEMBER 2001
CLIENTS OF AN INVESTMENT FIRM	1	1	4	9	1	--	OMISSION OF SUPERVISION	PENDING
	--	1	--	--	--	2	OMISSION OF SUPERVISION - CITATION UNDER ARTICLE 185.2 OF THE PENAL PROCEDURE	PENDING[3]
	--	--	--	1	--	--	OMISSION OF SUPERVISION - CITATION UNDER ARTICLE 185.2 OF THE PENAL PROCEDURE	EXCLUSION OF CONSOB FROM THE PENAL PROCEEDINGS
	--	2	--	--	--	--	LIBEL	PENDING
LIQUIDATOR OF AN INVESTMENT FIRM	--	1	--	--	--	--	OMISSION OF SUPERVISION	SUSPENDED
INVESTMENT FIRMS	--	1	--	--	--	--	OMISSION OF SUPERVISION - CITATION UNDER ARTICLE 106 OF THE CODE OF CIVIL PROCEDURE.	PENDING
	--	1	--	--	--	--	REFUSAL TO EXTEND AN AUTHORIZATION	PENDING
	--	--	--	--	1	1	ILLEGITIMATE CONDUCT IN THE PERFORMANCE OF SUPERVISION	PENDING
SHAREHOLDER OF A LISTED COMPANY	1	--	--	--	--	--	CONSOB'S ILLEGITIMATE WAIVER OF TENDER OFFER OBLIGATION	PENDING
	1	--	--	--	--	2	OMISSION OF SUPERVISION	PENDING
CLIENT OF A STOCKBROKER	1	--	--	--	--	--	EMPLOYEE OFFENCE - CITATION UNDER ART. 185.2 OF THE PENAL CODE	REJECTED BY THE COURT OF APPEAL. PROPOSED APPEAL TO THE COURT OF CASSATION
	--	--	--	3	1	--	OMISSION OF SUPERVISION	PENDING
CLIENT OF A STOCKBROKER AND AN INVESTMENT FIRM	1	--	--	--	--	--	OMISSION OF SUPERVISION	PENDING
COMMITTEE OF SHAREHOLDERS	--	--	1	--	--	--	INTERDICTION OF UNAUTHORIZED SOLICITATION ACTIVITY	PENDING
CLIENTS OF A TRUST COMPANY	--	--	--	2	--	1	OMISSION OF SUPERVISION	PENDING
FINANCIAL SALESMAN	--	--	--	--	--	*1*	ILLEGITIMATE DELETION FROM THE REGISTER	PENDING
TOTAL	*5*	*7*	*5*	*15*	*3*	*7*		

[1] In addition to the actions shown, there is an appeal under Article 700 of the Code of Civil Procedure by an intermediary to block a penalty procedure initiated by Consob, Appeals were also initiated in 1999 against 3 dismissals of actions for damages brought against Consob in 1994 and 1995 by clients of intermediaries. [2] In 2000 an additional appeal to the Corte di Cassazione (Supreme Court) was initiated against a Court of Appeal decision in Consob's favour in a dispute initiated in 1994. [3] In one case Consob also applied to recover damages as an injured party.

TABLE aVIII.1

INTERNATIONAL COOPERATION
(REQUESTS FOR COOPERATION BY GEOGRAPHICAL AREA - 2001)

SUBJECT	COUNTRY/ AREA	FROM CONSOB TO FOREIGN AUTHORITIES	FROM FOREIGN AUTHORITIES TO CONSOB
INSIDER TRADING	EU	8	17
	USA	1	3
	OTHER	15	--
MARKET MANIPULATION	EU	4	--
	USA	--	--
	OTHER	--	1
UNAUTHORIZED SOLICITATION AND INVESTMENT SERVICES ACTIVITY	EU	2	--
	USA	2	1
	OTHER	6	1
TRANSPARENCY AND DISCLOSURE	EU	--	--
	USA	--	--
	OTHER	--	--
MAJOR HOLDINGS IN LISTED COMPANIES AND AUTHORIZED INTERMEDIARIES	EU	1	--
	USA	--	--
	OTHER	--	--
INTEGRITY AND EXPERIENCE REQUIREMENTS	EU	14	32
	USA	--	3
	OTHER	--	14
VIOLATION OF CONDUCT OF BUSINESS RULES	EU	--	--
	USA	--	--
	OTHER	--	--
TOTAL		*53*	*72*

TABLE aIX.1

CONTRIBUTIONS TO CONSOB'S FINANCING BY PERSONS SUBJECT TO SUPERVISION
(MILLIONS OF EUROS)

	1997[1]	1998[1]	1999[1]	2000[1]	2001[2]
INTERMEDIARIES					
- INVESTMENT COMPANIES AND INDIVIDUAL STOCKBROKERS	0.7	0.6	0.6	0.5	0.5
- BANKS	2.8	2.8	2.8	2.9	2.8
AUDITING FIRMS	2.3	2.3	2.1	2.3	1.8
FINANCIAL SALESMEN [3]	5.3	7.6	8.9	10.3	8.3
REGULATED MARKETS[4]	1.2	1.2	1.3	1.2	1.4
LISTED COMPANIES	6.1	5.5	6.5	8.4	7.9
COLLECTIVE INVESTMENT UNDERTAKINGS	1.3	1.7	2.4	3.0	2.9
SOLICITORS OF INVESTORS	3.6	2.4	21.1	9.2	2.6
TRADERS IN SECURITIES LISTED ON MTA/MERCATO RISTRETTO	—	—	3.9	5.2	3.9
OTHER	0.2	0.2	0.0	0.0	0.4
TOTAL FEE REVENUES	*23.5*	*24.3*	*49.6*	*43.0*	*32.5*

[1] Final data. [2] Provisional data. [3] Including trainees. [4] Borsa Italiana S.p.A., Mts S.p.A., Cassa di compensazione e garanzia S.p.A. and Monte Titoli S.p.A.

TABLE aIX.2

DISTRIBUTION OF STAFF BY QUALIFICATION AND ORGANIZATIONAL UNIT[1]

	MANAGERS		PROFESSIONALS AND CLERKS	OTHER	TOTAL
	SENIOR	JUNIOR			
DIVISIONS					
CORPORATE ISSUERS	7	29	34	-	70
INTERMEDIARIES	4	11	55	-	70
MARKETS AND ECONOMICS	4	16	31	-	51
ADMINISTRATION AND FINANCE	6	4	38	19	67
LEGAL SERVICES	2	3	12	-	17
EXTERNAL RELATIONS	4	6	6	-	16
RESOURCES	3	4	21	-	28
OTHER OFFICES[2]	9	11	46	-	66
TOTAL	*39*	*84*	*243*	*19*	*385*

See the methodological notes. [1] At 31 December 2001. Fixed-term employees are classified according to the equivalent grades of permanent employees. [2] The offices outside the division structure.

TABLE aIX.3

REQUESTS FOR INFORMATION AND DOCUMENTATION CONCERNING CONSOB'S ACTIVITIES

	1997	1998	1999	2000	2001
APPLICANTS					
INSTITUTIONAL INVESTORS AND MARKET PARTICIPANTS	673	597	540	1,460	782
INDIVIDUAL INVESTORS, STUDENTS, ET AL,	441	448	475	1,158	1,407
TOTAL	*1,114*	*1,045*	*1,015*	*2,618*	*2,189*
SUBJECT OF APPLICATIONS					
RESOLUTIONS, COMMUNICATIONS AND PROSPECTUSES	451	427	310	588	365
TEXTS OF LAWS AND REGULATIONS	367	300	290	379	112
DATA AND INFORMATION	286	300	300	1,261	1,259
OTHER	10	18	115	390	453
TOTAL	*1,114*	*1,045*	*1,015*	*2,618*	*2,189*

METHODOLOGICAL NOTES

N.B.

The symbols used in the tables in the Report and the Appendix have the following meanings:

-- the observed value is nil;

— the phenomenon does not exist;

.... the phenomenon exists but the data are not known;

.. the data are below the significance threshold.

Rounding may cause the sum of the individual items to differ from the total shown.

Sources: unless stated otherwise, Consob's database.

OWNERSHIP OF LISTED COMPANIES

Tables I.1, I.2, I.3, I.4, I.5, I.6, I.7 and Tables aI.1, aI.2, aI.3, aI.4, aI.5, aI.6, aI.7, aI.8, aI.9

Listed companies means companies whose securities are admitted to trading on any Italian regulated market.

Companies listed on the Italian Stock Exchange means companies with securities admitted to trading on the MTA electronic share market operated by Borsa Italiana S.p.A.

Tables I.1, I.2, I.3 and Tables aI.1, aI.2, aI.3, aI.4

Consob's ownership disclosure database is based on the disclosures referred to in Article 120 of the Consolidated Law on Financial Intermediation, whereby persons who own more than 2 per cent of the voting capital of an Italian listed company are required to notify the fact in writing to the company and to Consob, which disseminates the information to the market.

Major holdings are defined as holdings of more than 2 per cent of the capital represented by voting shares (Article 120 of the Consolidated Law).

The figures shown in the tables are calculated with reference to holdings of companies' ordinary share capital.

Table I.2, aI.1, aI.2

The types of control are defined as follows:

- *majority control*: when a single shareholders holds more than 50% of the shares with voting rights exercisable in the ordinary shareholders' meeting;
- *working control*: effective control of a company by a shareholder (or shareholders acting in concert) with a voting interest of less than 51%;
- *under shareholders' agreements*: when the sum of the voting rights attaching to the shares covered by the agreement is equal to more than 50% of the shares with voting rights exercisable in the ordinary shareholders' meeting or permits working control to be exercised.

Tables I.4, aI.5

The information on shareholders' agreements is obtained from the disclosures required by Article 122 of the Consolidated Law on Financial Intermediation, whereby any agreement that limits or regulates participants' voting rights, creates obligations or gives rights with regard to consultation prior to the exercise of voting rights, imposes conditions on the transfer of shares, or provides for the concerted acquisition of shares must be notified to Consob within five days of its being concluded on pain of nullity.

PUBLIC OFFERINGS, MERGERS AND SPIN-OFFS

Tables II.2, II.4, II.5, II.6, II.7, II.8, II.9 and Tables aII.1, aII.2, aII.3, aII.4, aII.5

The following criteria are adopted in dealing with initial public offerings:

- offerings made by foreign companies are excluded;
- the data on the amounts of offerings refer to the results of placements and include any shares allotted to institutional investors at the close of the offering under greenshoe options. Accordingly, the data are independent of whether, in connection with stabilization activity undertaken by the placers, the greenshoe option is or exercised, in whole or in part, in the 30 days following the offering;
- the data on the development of the ownership structure are taken from prospectuses and take account of the results of offerings, including the exercise of greenshoe options; if the number of shares offered for sale is smaller than envisaged in the prospectus, and in the absence of accurate information in this respect, the calculation of each selling shareholder's post-offering quota is based on a pro rata division of the shares sold based on the division specified in the prospectus.
- the determination of the percentage held by the controlling shareholder is based on a substantial criterion which takes into account all the shares held by the members of the same family, of those held by companies owned by the same person and of those not committed to a shareholder agreement; in the absence of a controlling shareholder, the leading shareholder is shown under that heading;
- own shares are deducted from the share capital of the issuer for the purpose of calculating the percentages held by major shareholders and market value;

Tables II.4 e II.5

In determining the top-ranking investor and the related amounts applied for and allotted, other persons belonging to the same group are considered.

Table II.7

Includes the credit and equity relationships in place at the offering date between the companies admitted to listing and the persons controlling or controlled by the sponsors or placers that handled the operation.

The credit relationships do not include transactions with commercial banks or those for which it was not possible to determine the portion of credit actually disbursed; only in some particularly important cases was account taken of the figures for credit facilities granted.

The equity relationships do not include options held by the above-mentioned persons for the purchase or subscription of shares.

Table II.8

The averages of the percentages for the total number of institutional investors and their holdings before and after offerings refer only to companies in which such investors had shareholdings.

Tables II.9 e aII.5

The data refer exclusively to offerings of listed securities and securities issued by listed companies and initial public offerings. The time classification of offerings is based on their starting dates.

The sample does not include offerings made for the purpose of restructuring the listed company's debt and reserved to creditor banks, nor to increases in capital with contributions in kind. By contrast, it includes increases in capital to service employee stock option plans. The data on public offerings include amounts reserved to issuers' clients; by contrast, amounts reserved to individually named persons are included under "Other". In some public offerings for the sale and subscription of securities for which the distribution of the sale of existing securities and the subscription of new securities by type of acquirer was not known, the breakdown was made on the basis of the total number of securities allotted to each category.

Table aII.4

The data refer to financial intermediaries that act as global coordinators and lead managers in initial public offerings.

Where an intermediary took part in more than one IPO, the figure shown in the table is the sum of the offerings in question in relation to the market total (consisting, according to the case, of the total of the global and public offerings made during the year). Moreover, where an offering had more than one global coordinator and/or lead manager, its value was divided by the number of intermediaries, and the market share of each intermediary calculated on the basis of the amounts obtained in this way.

Table aII.7

The data refer to listed companies at the time of the sale of the holding. The total value includes only the proceeds of the sale, without taking account of the related costs; it does not include the amount of any financial debts transferred.

CORPORATE DISCLOSURE

Table aIII.1

The types of opinion auditing firms may render are described below.

- Qualified opinion

Auditors are required to express a qualified opinion where they find: significant failures to comply with the rules governing annual accounts; significant disagreements with the directors about accounting policies; errors in the latter's application or inadequate information; significant limitations in performing the audit owing to technical obstacles or restrictions imposed by the directors; a situation of significant uncertainty not adequately described in the report or action taken by the directors which does not appear to be acceptable.

- Adverse opinion

Auditors are required to express an adverse opinion where the effects of the matters they criticize concerning significant failures to comply with the rules governing annual accounts, significant disagreements with the directors about accounting policies, errors in the latter's application or inadequate information are such as to cast doubt on the reliability and informational content of the annual accounts taken as a whole.

- Disclaimer owing to serious limitations

Auditors must issue a disclaimer where the possible effects of the limitations encountered in performing the audit are such as to prevent them from having the elements needed to express an opinion.

- Disclaimer owing to serious uncertainties

Auditors must also issue a disclaimer where they are faced with one or more situations of uncertainty such as to cast doubt on the reliability of the annual accounts taken as a whole or the continued existence of the company and they deem that the action taken or planned by the directors is based on highly questionable assumptions.

INVESTMENT SERVICES AND ASSET MANAGEMENT

Tables VI.1, VI.3, aVI.3, aVI.4

Individual asset management services are those defined in Article 1.5d) of the Consolidated Law. The figures for funds include Sicavs.

Table VI.2

The analysis of management companies' ownership structures not only considered their direct shareholders but also determined the beneficiary owners of significant holdings. In classifying controlling companies, reference was made to their "prevalent activity".

In the case of management companies for which there was neither a legal controller nor a shareholder agreement, an attempt was made to establish whether there existed a "coalition" relationship that, without amounting to a shareholder agreement, nonetheless allowed control to be attributed to a particular group of investors marked by a high degree of homogeneity as regards their legal nature or form and their activity.

"Joint ventures" are companies whose shares are divided into two parts on a 50-50 basis and held by non-homogeneous investors.

"Non-bank financial intermediaries" is a residual category where control is exercised by an unlisted financial company that does not engage in either banking or insurance and for which it is not possible to identify a natural person as the controller.

Table aVI.1

The categories of funds are based on the Assogestioni classifications in force at the time.

Table aVI.10

The figures may include more than one measure for the same intermediary.

Reprimands refer to the penalty provided for in Article 22 of Law 402/1967 for stockbrokers.

For investment firms and banks the figures refer to the proposals submitted to the Ministry of the Treasury for the application of administrative penalties and fines. The figures for 1999 consider the proposals submitted in accordance with the procedure referred to in Article 195 of the Consolidated Law on Financial Intermediation, with regard both to corporate officers for violations committed after 1 September 1996 and to intermediaries for violations committed while Law 1/1991 was in force.

The suspension measures are those referred to in Article 22 of Law 402/1967 and Article 201.4 of the Consolidated Law on Financial Intermediation.

CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

Tables IX.2 e aIX.2

Senior managers comprise the following grades: Direttore generale, Funzionario generale, Condirettore centrale, Direttore principale, Direttore and Condirettore. Junior managers comprise the following grades: Primo funzionario, Funzionario di 1ª and Funzionario di 2ª. Professionals and clerks comprise: Coadiutore principale, Coadiutore, Assistente superiore, Assistente and vice Assistente.

LIST OF BOXES

CONTENTS

DATA AND ANALYSES CONCERNING CONSOB'S ACTIVITY AND CHANGES IN THE REFERENCE FRAMEWORK