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PER LE SOCIETÀ E LA BORSA

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Speech by the Chairman to the Financial Market **1**

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A

FINANCIAL MARKET DEVELOPMENTS

I – LISTED COMPANIES

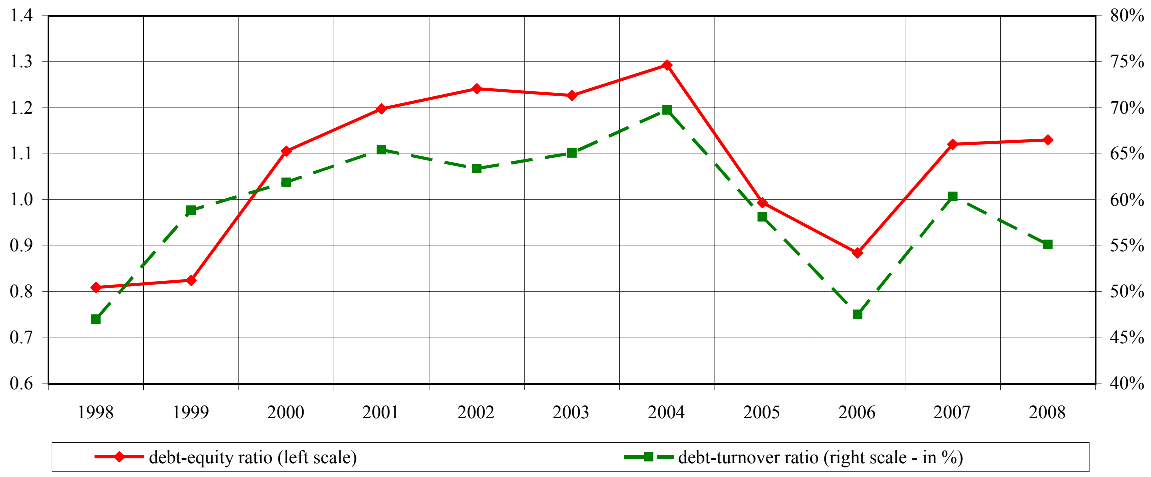
1. Financial structure and profitability

The 2008 financial statements of the major Italian listed non-financial groups appear to have only marginally felt the impact of the financial crisis and the sudden deterioration of the economic scenario - the effects of which only became evident in the accounting results of listed issuers from the first quarter of 2009. At aggregate level, in fact, borrowing and operating profit recorded values similar to those of 2007.

Specifically, the overall debt-equity ratio remained stable, whilst the debt-turnover ratio reduced slightly (Figure 1).

Figure 1

Borrowing indicators for the major Italian listed non-financial groups



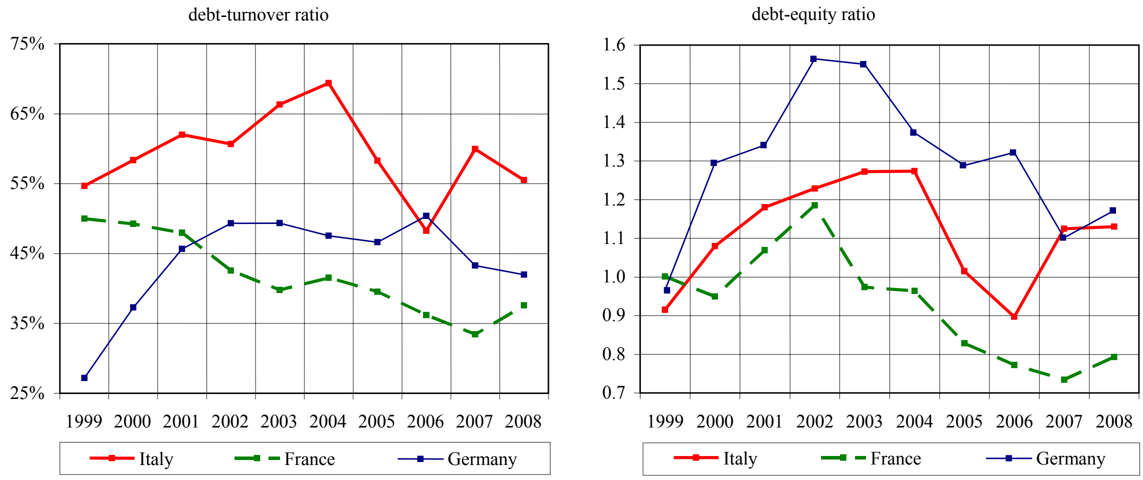
Source: calculations based on reclassified R&S financial statements. The source for 2008 figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS. See Methodological Notes.

Financial statements data reclassified to allow a comparison between several countries show that as at December 2008 the debt-equity ratio (financial leverage) of the major Italian listed non-financial groups was higher than that recorded by the major French non-financial companies, but in line with values recorded by the leading German companies (Figure 2). The debt-turnover ratio of Italian companies (approximately 55%) was instead higher than that of both French companies (38%) and German companies (42%).

Compared to 2007, the weight of medium/long-term debt on total financial debt for the major Italian listed groups has reduced slightly from 78% to approximately 77%, but the impact of bonds (with a maturity of more than 12 months) on financial debt has increased by almost 2 percentage points (from 40% to around 42%) (Figure 3).

Figure 2

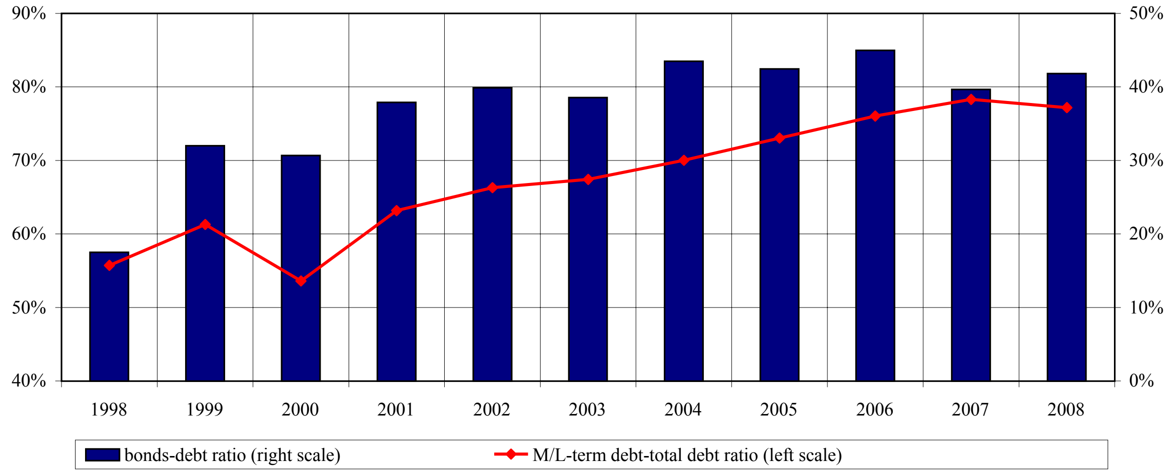
Borrowing indicators for the major listed non-financial groups of certain EU countries



Source: calculations on Worldscope data. For France and Germany the figures relate to the top 30 non-financial companies by level of capitalisation as at March 2009, whereas for Italy the figures refer to the sample of major listed groups indicated in Figure 1. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS.

Figure 3

Weight of bonds and medium-long term debt on the total financial debt of major Italian listed non-financial groups

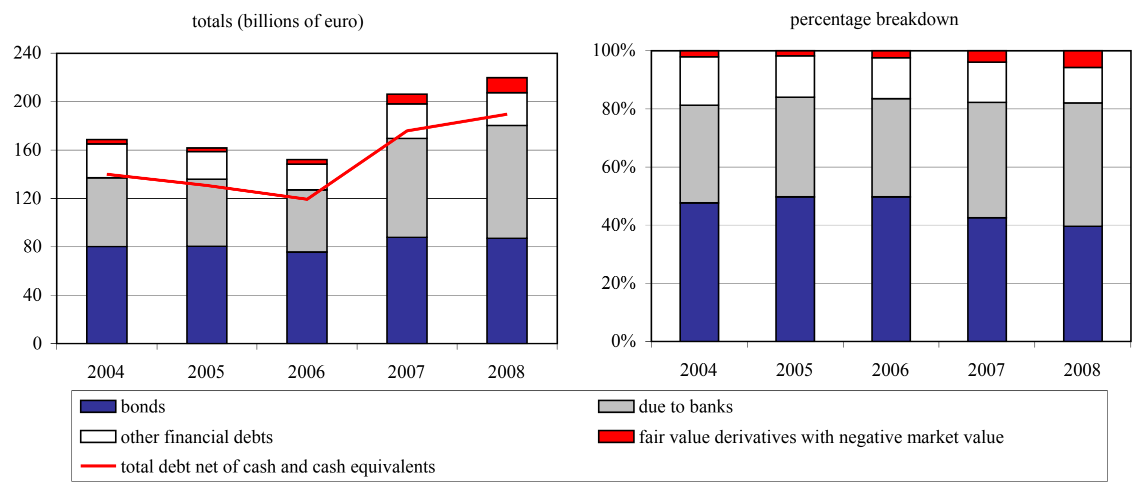


Source: calculations based on reclassified R&S financial statements. The source for 2008 figures was Worldscope. The figures for bonds refer to bonds with maturity beyond 12 months. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS. See Methodological Notes.

Financial debt net of cash and cash equivalents increased by approximately 8% from 176 billion to 190 billion euro (Figure 4). Total financial debt, however, increased from 206 billion to 220 billion euro (+7%). Increases were recorded for both total amounts due to banks, from 82 billion to around 93 billion euro (+14%), and the fair value of derivatives with a negative market value (from 8 billion to approximately 13 billion euro; +54%). The total bonds (both short-term and medium/long-term), on the other hand, remained practically unchanged (approximately 87 billion euro).

Figure 4

Breakdown of financial debt for the major Italian listed non-financial groups

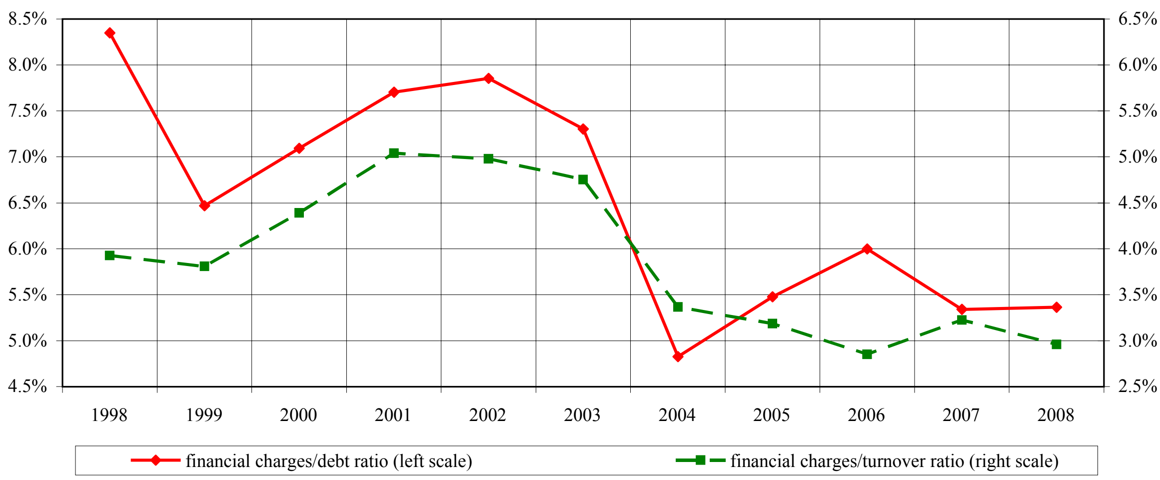


Source: calculated on consolidated financial statements prepared in accordance with IAS/IFRS. See Methodological Notes.

In 2008 there was a slight drop in the weight of financial charges on turnover (from 3.2% to 3.0%), and the impact of financial charges on financial debt remained more or less the same (5.3% to 5.4%) (Figure 5).

Figure 5

Incidence of financial charges for major Italian listed non-financial groups

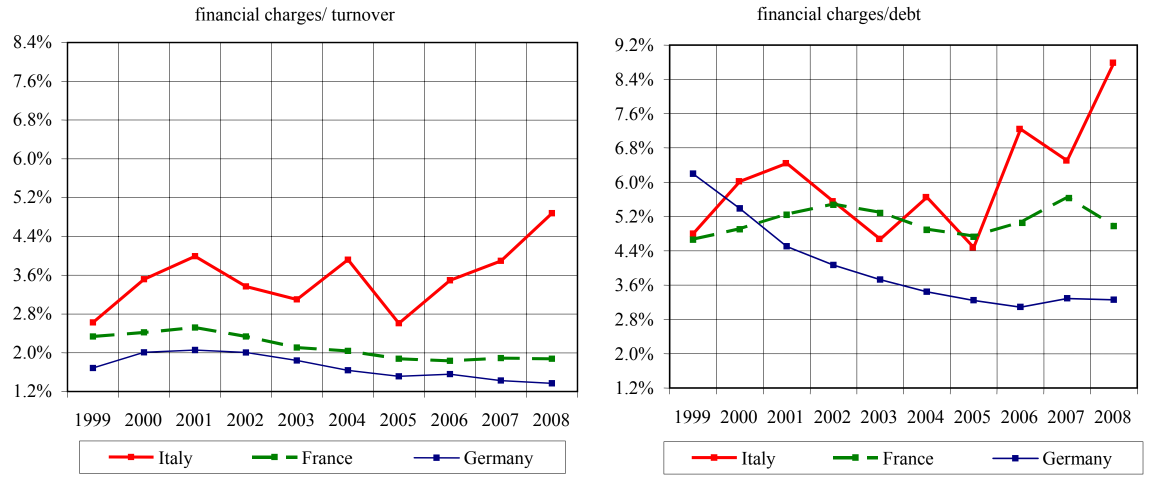


Source: calculations based on reclassified R&S financial statements. The source for 2008 figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS. See Methodological Notes.

Financial statements data reclassified to allow international comparison show that the incidence of financial charges on the turnover of large Italian listed non-financial groups are still considerably higher than those of the major French and German listed non-financial groups (Figure 6). The financial charges-debt ratio is also much higher, especially compared to German groups.

Figure 6

Incidence of financial charges for major listed non-financial groups in certain EU countries

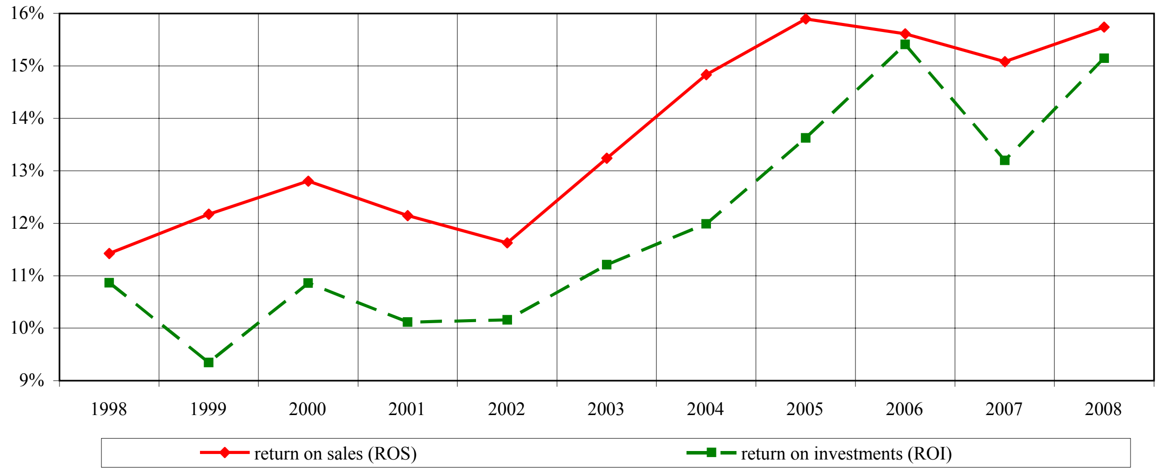


Source: calculations on Worldscope data. For France and Germany the figures relate to the top 30 non-financial companies by level of capitalisation as at March 2009, whereas for Italy the figures refer to the sample of major listed groups indicated in Figure 1. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS.

As already mentioned, the financial crisis and expansion of the effects of the recession have made no negative impression on the operating profit of major listed non-financial groups in Italy. On the contrary, the return on investments (the net operating profit-invested capital ratio) recorded an increase in 2008, from 13% to approximately 15%, as did the return on sales (net operating profit-turnover ratio), from 15% to around 16% (Figure 7).

Figure 7

Profitability of the major Italian listed non-financial groups



Source: calculations based on reclassified R&S financial statements. The source for 2008 figures was Worldscope. From 2004 the figures refer to financial statements prepared in accordance with IAS/IFRS. See Methodological Notes.

2. Cash flows

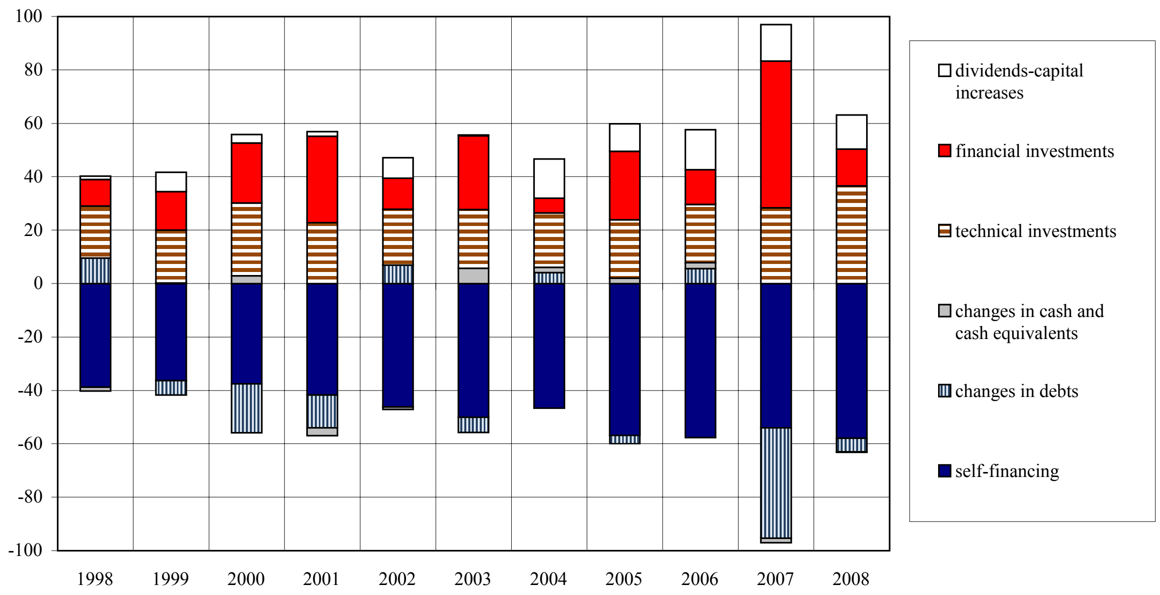
In the 10-year period 1998-2007 self-financing was the primary source of funding for large Italian listed non-financial companies. It was only in 2007 (and to some extent in 2000 and 2001) that borrowing reached a total similar to that of self-financing (Figure 8).

This overall trend continued in 2008. Self-financing totalled approximately 58 billion euro (up approximately 7% on 2007), and financial debt increased by around 5 billion euro.

Financial resources were mainly used for technical investments (approximately 36 billion euro compared to 28 billion euro in 2007), whereas the dividends volume (net of capital increases) remained very high (around 13 billion euro against the 14 billion euro of 2007). Total financial investments, however, recorded a much lower figure (approximately 14 billion euro compared to the 2007 figure of 55 billion euro).

Figure 8

Uses (+) and sources (-) of financial resources of major Italian listed non-financial groups
(in billions of euro)

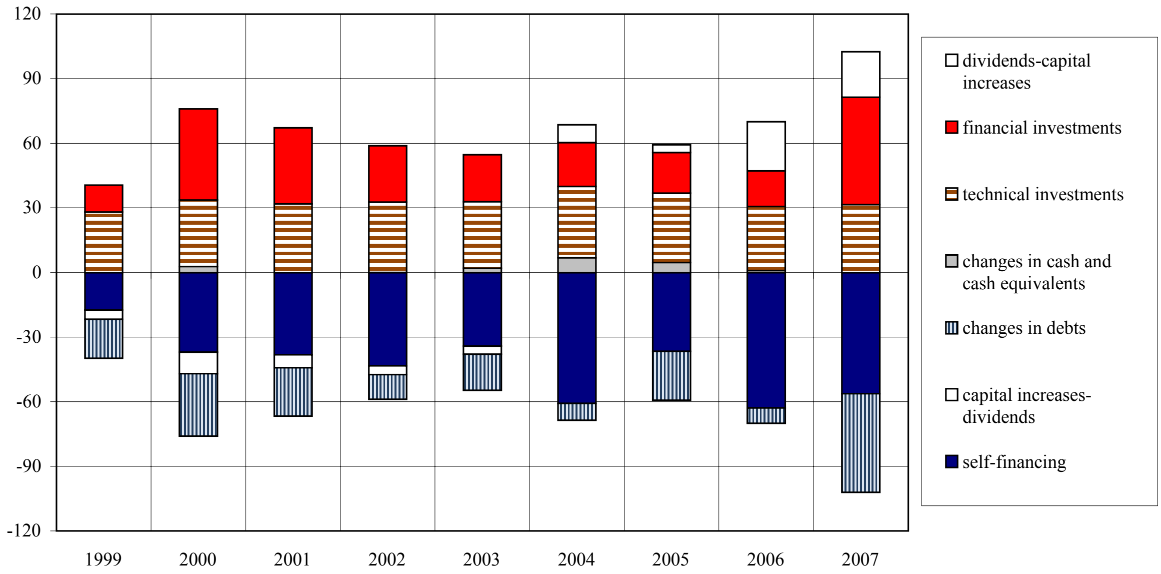


Source: based on cash flow statements and R&S figures. Self-financing is net of investments in net working capital. The source for 2008 figures was Worldscope. See Methodological Notes.

Self-financing (totalling 56 billion euro) was also the main source of financing for a sample of approximately 2,000 Italian companies, surveyed by Mediobanca and in part coinciding with the major listed groups (Figure 9). The latest figures available for 2007 show that, in terms of resource usage, technical investments remain particularly strong (31 billion euro, +6.5% on 2007). Financial investments increased considerably from 17 billion to around 50 billion euro. Lastly, financial resources returned to shareholders (dividends net of capital increases) dropped slightly from 23 billion to 21 billion euro (-7.1%).

Figure 9

Uses (+) and sources (-) of financial resources for large Italian non-financial companies
(in billions of euro)



Source: Mediobanca, "Cumulative data of 2,020 Italian companies", 2008 edition. Self-financing is net of the investments in net working capital.

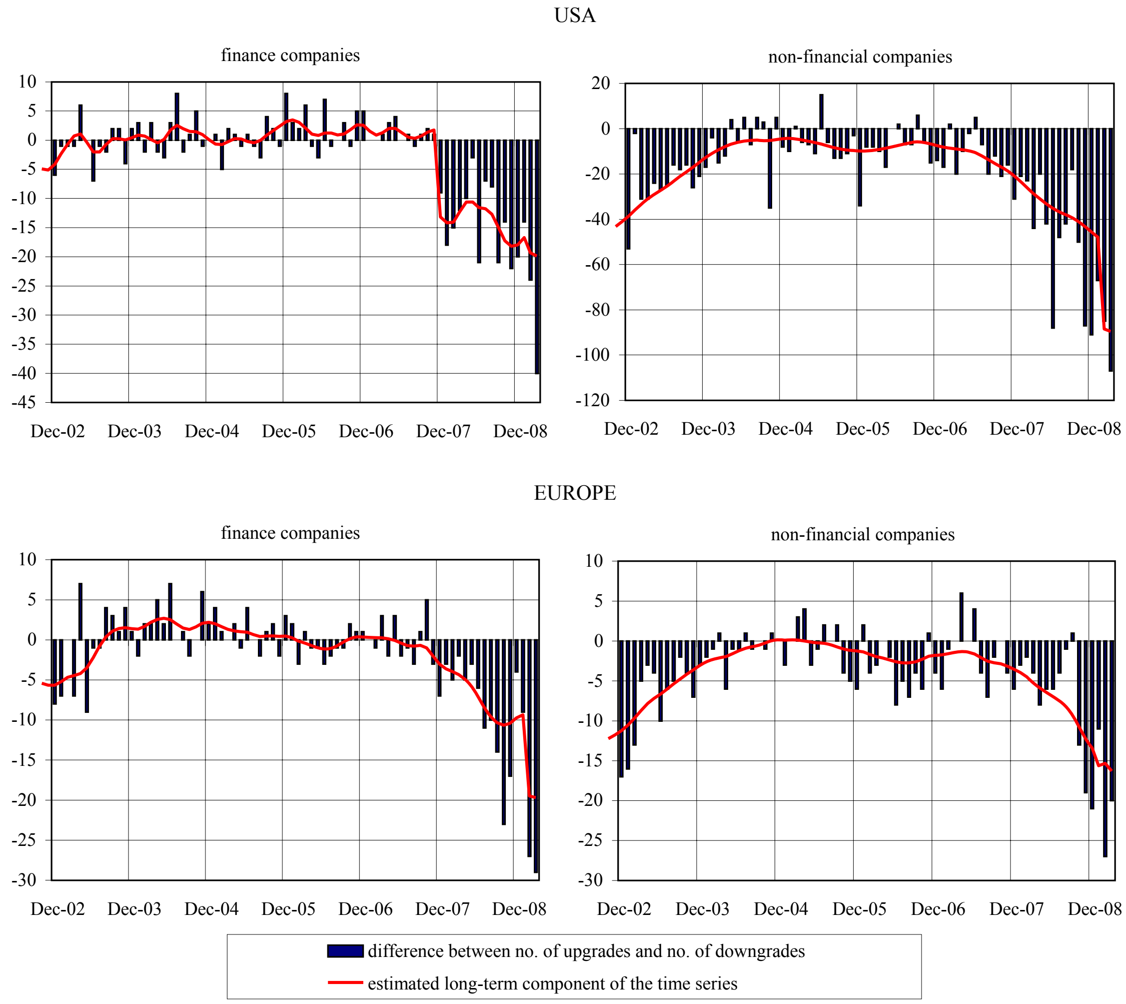
3. Credit quality

Data on the development of ratings issued by rating agencies on private finance and non-financial companies show a marked deterioration of credit quality in the major advanced countries from the start of 2008 onwards (Figure 10).

The deterioration in credit quality is also reflected in the higher number of bond issuers in default, increasing from 18 in 2007 (15 in the USA and 3 in Europe) to 101 in 2008 (84 in the USA, 12 in Europe, 5 in the rest of the world; Figure 11). The value of bonds in default also increased considerably from 6 billion to 281 billion USD.

Figure 10

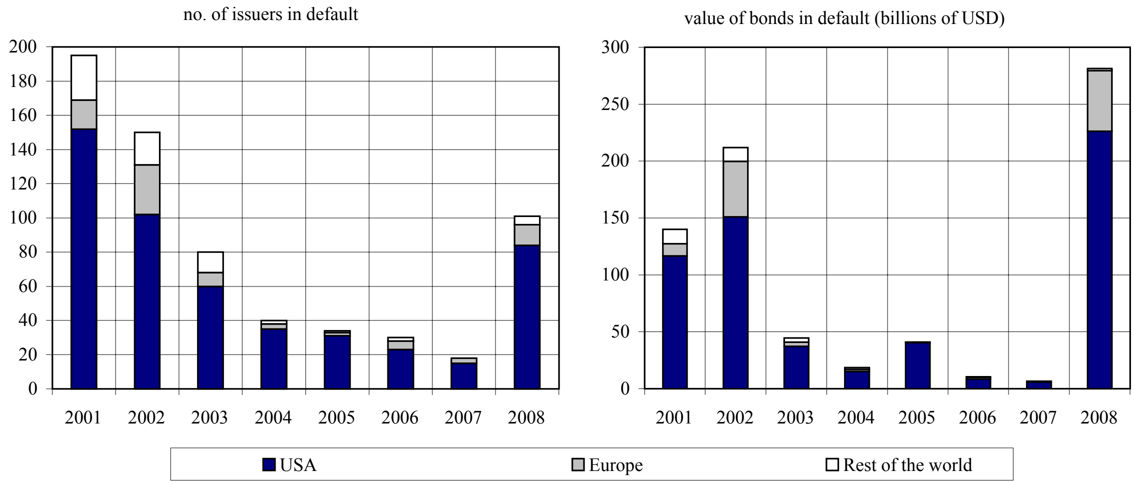
Difference between upgrades and downgrades
(monthly figures; September 2002-March 2009)



Source: Moody's. The long-term component is estimated by non-parametric time series analysis methods.

Figure 11

Corporate bonds in default by geographic area

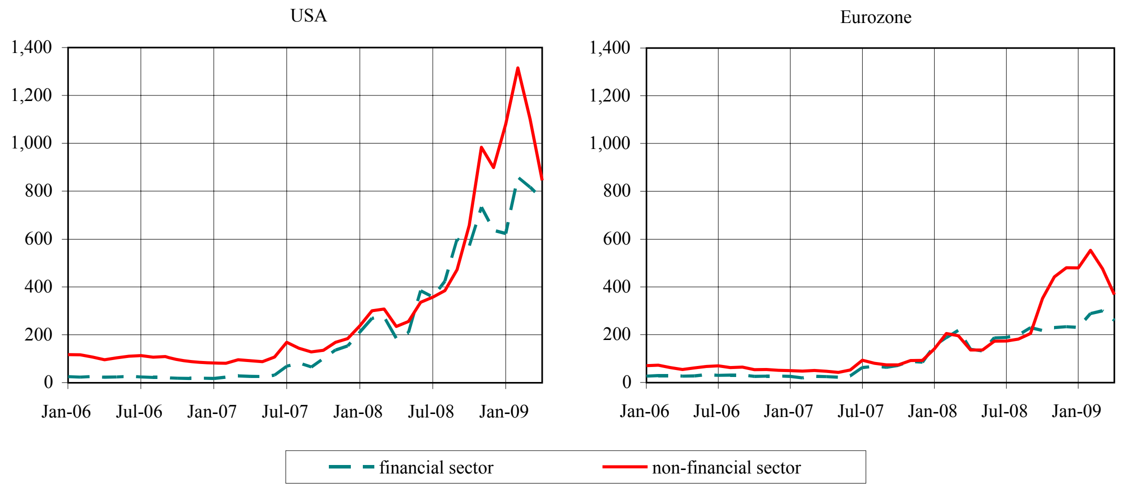


Source: Moody's.

Listed companies' falling credit ratings are also reflected in an increase in the cost of protection against insolvency risk, seen in the price performance for credit default swaps (CDS) (Figure 12).

Figure 12

Credit default swap prices for 5-year contracts on listed issuers
(basis points; monthly figures January 2006-April 2009)



Source: Thomson Reuters-Datastream. Data are calculated on the average Datastream sector benchmarks for 5-year credit default swaps. For example, a price listed at 100 basis points indicates that the contract buyer (i.e. the purchaser of credit risk protection) pays an annual protection fee to the seller of 1.1% of the nominal value of the underlying bond or credit.

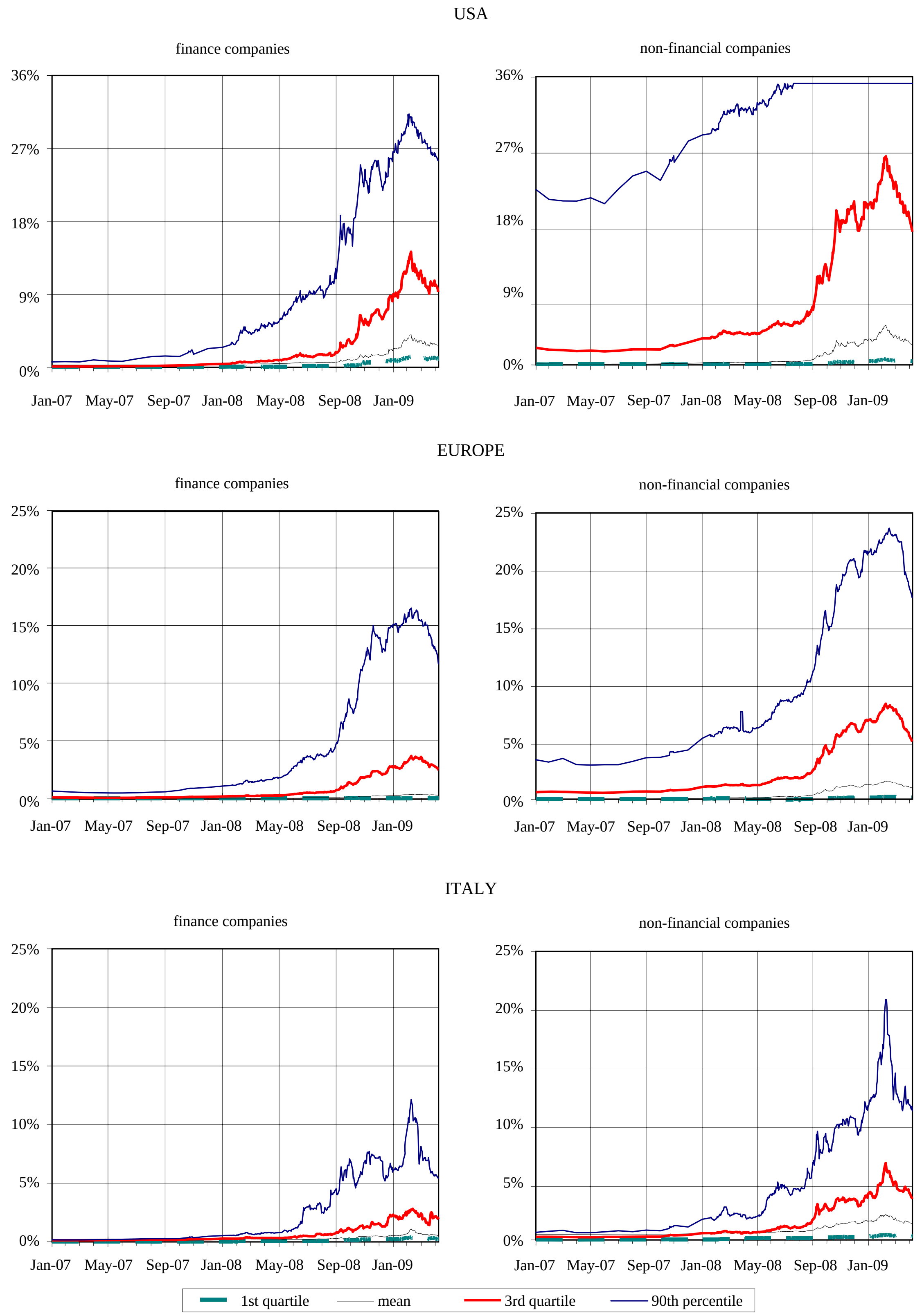
The steep downward trend in credit quality in 2008 and the slight improvement from the third quarter of 2009, as indicated by CDS prices, are also found in statistics from insolvency risk assessment models.

In Italy the default probability for higher-risk finance groups (90th percentile in the breakdown of default probability) increased from 0.4% in January 2008 to 12% at the beginning of March 2009, though settling at values lower than those for the USA (approximately 30%) and Europe (16%; Figure 13). In the same period, the default probability of higher-risk non-financial companies recorded an even stronger increase, reaching approximately 21% (compared to 35% in the USA and 23% in Europe). In March and April 2009, however, there was a significant decrease in the default probability estimates: the 90th percentile dropped to 5.4% for finance companies and to 11.1% for companies in the corporate sector.

Up to February 2009, CDS prices increased in Italy, too, but later recorded a considerable drop, especially in the financial sector (Figure 14).

Figure 13

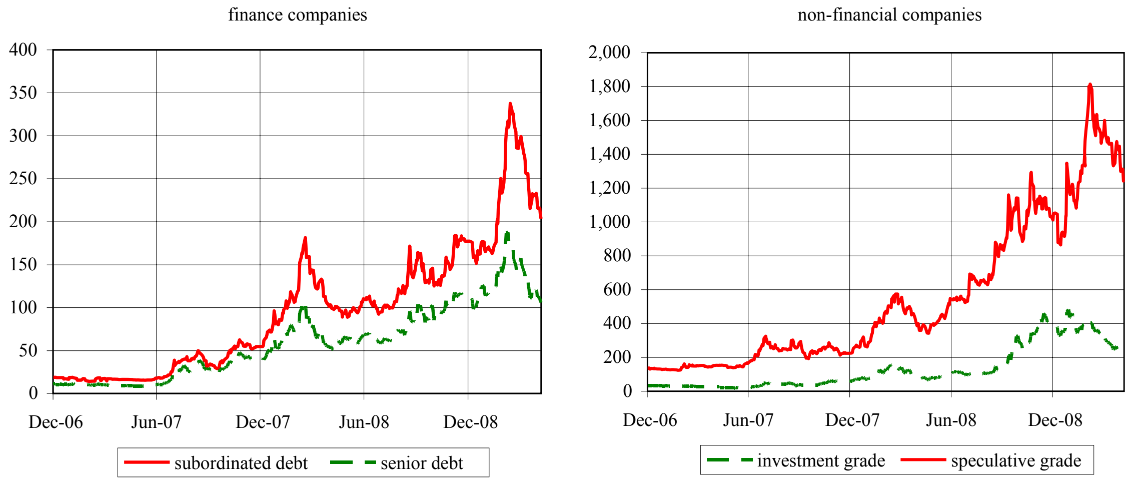
Default probability spread in listed companies
(daily figures 31 January 2007-6 May 2009)



Source: Moody's KMV - Credit Edge.

Figure 14

Credit default swap prices for 5-year contracts on listed Italian issuers
(basis points; daily figures 31 December 2006-6 May 2009)

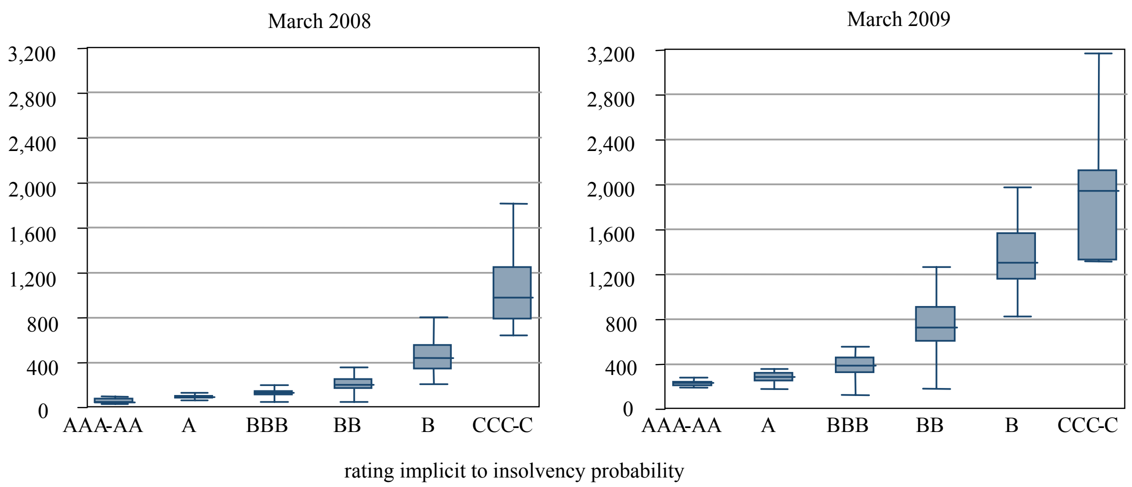


Source: calculations based on Thomson Reuters-Datastream data. For non-financial companies data are calculated as the average of daily credit default swap prices for companies with the same rating, whilst for banks data are the average of daily prices for the major banking groups. For example, a price listed at 100 basis points indicates that the contract buyer (i.e. the purchaser of credit risk protection) pays an annual protection fee to the seller of 1% of the nominal value of the underlying bond or credit.

Even the theoretical CDS prices for Italian listed non-financial companies increased significantly between March 2008 and March 2009, estimated by Moody’s based on insolvency risk assessment models. Specifically, the mean price for companies in the higher-risk category (with C-CCC ratings) leapt from 976 to 1,940 basis points, an increase of 964 b.p. (Figure 15).

Figure 15

Theoretical prices of 5-year credit default swap contracts for Italian listed non-financial companies
(basis points)



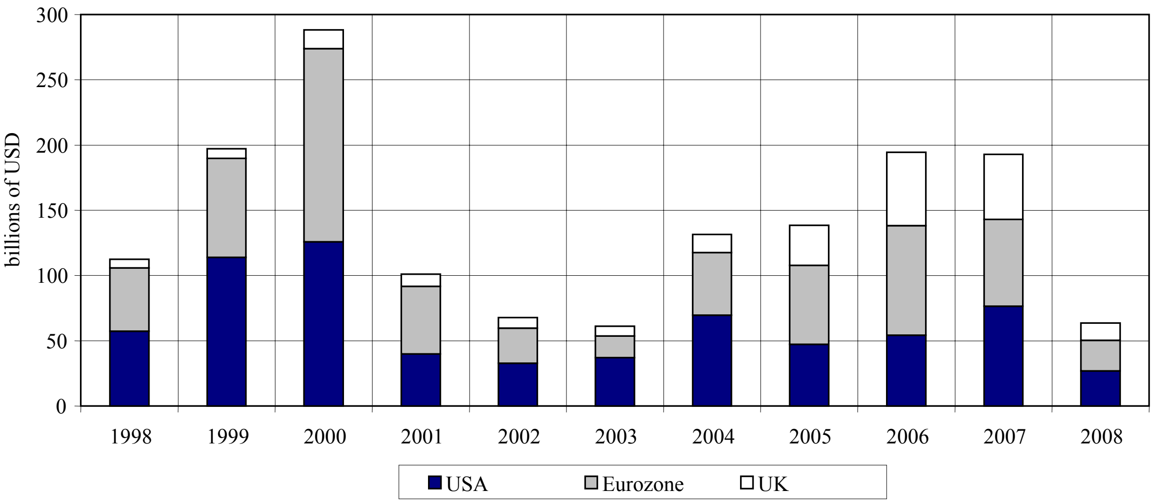
Source: based on Moody’s KMV-Credit Edge data. Insolvency probability is estimated using the credit risk assessment model developed by Moody’s KMV and the rating allocation implicit to companies is calculated on the basis of the default probability estimated by the model. The chart shows the price spread by credit class group. Specifically, the horizontal line in the box corresponds to the mean, the lower half shows the 1st quartile and the upper half the 3rd quartile. The two horizontal lines above and below the box indicate the range of values for each spread.

4. Equity funding and admissions to listing

In 2008 the financial crisis had a particularly heavy impact on the equity funding of listed companies. Total funding obtained by newly-listed companies showed a marked decrease in all the major advanced countries (Figure 16): in the USA it dropped from 76 billion euro in 2007 to 27 billion euro (-64%), in the Eurozone from 83 billion to 63 billion euro and in the UK from 50 billion to 13 billion euro.

Figure 16

Funding of companies newly listed on the stock exchanges of major industrialised countries
(in billions of USD)

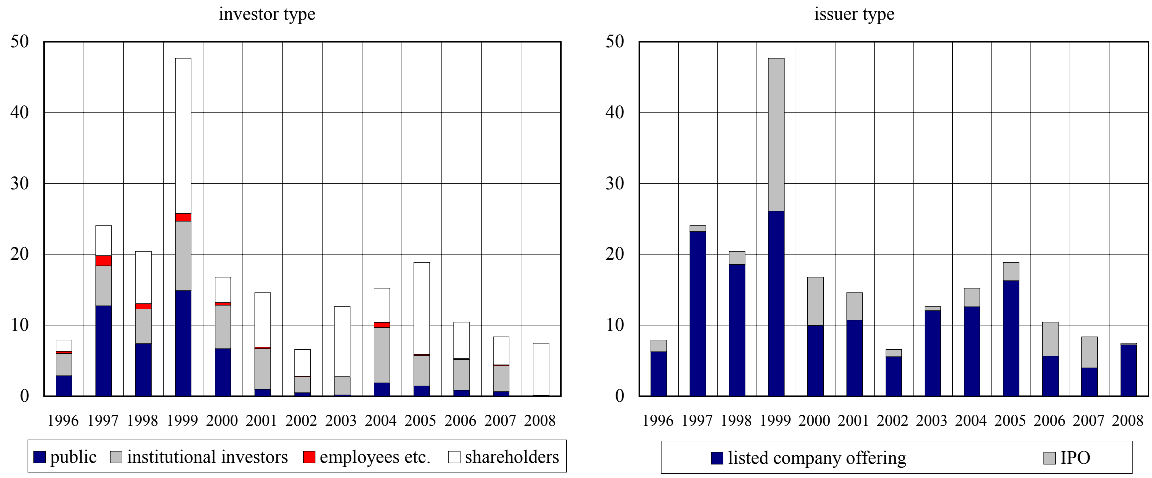


Source: based on World Federation of Stock Exchanges data. The US figures refer to NYSE and NASDAQ listed companies.

In Italy, total share placements (new equity funding and public offerings of existing securities) dropped from 8.3 billion to 7.5 billion euro (-11%; Figure 17), mainly due to lower IPO values (from 4.4 billion to 143 million euro). There was an increase, on the other hand, in the issues of new securities offered by companies already listed (from approximately 4 billion euro to 7.3 billion euro; Figure 18). Offerings of existing securities, however, were close to nil (3 million euro only and solely via IPO).

Figure 17

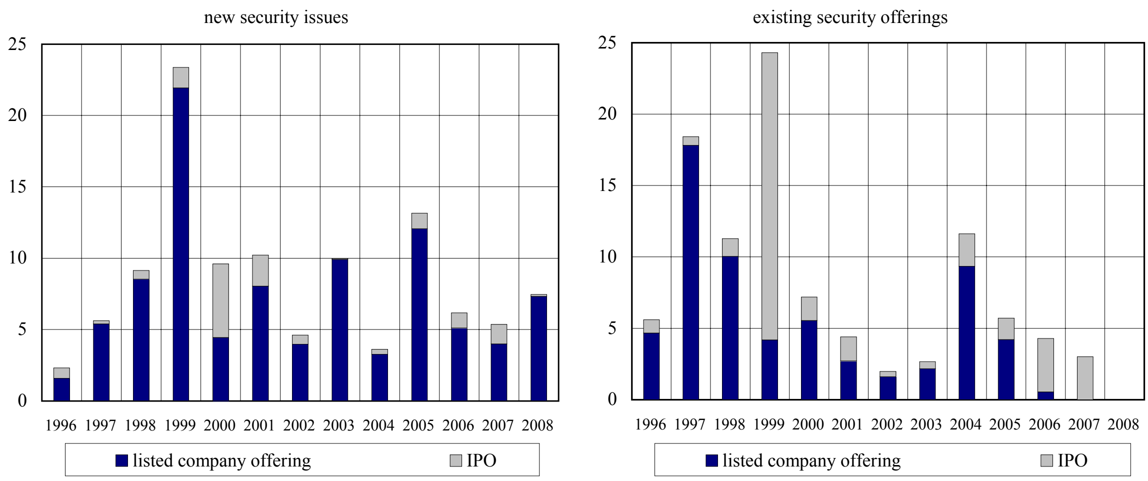
Overall placements of shares and convertible bonds of Italian listed companies
(issues of new securities and existing security offerings; in billions of euro)



Source: Consob and Borsa Italiana.

Figure 18

Offering types of shares and convertible bonds of Italian listed companies
(in billions of euro)



Source: Consob and Borsa Italiana.

In 2008, 6 new companies were listed on the stock exchange - 2 on the MTA and 4 on the Expandi market - compared to 29 in 2007, characterised by a much lower pre-offering capitalisation (268 million euro compared to 9,770 million in 2007; Table 1).

Institutional investors were present among shareholders in 3 of the newly listed companies. Their pre-offering holdings accounted for approximately 60% of the share capital, falling to around 33% after placement (Table 2).

Table 1

Initial public offerings by Italian companies
(amounts in millions of euro)

	No. of companies	Pre-offering capitalisation[1]	IPO value			Incidence on post-offering capitalisation[2]
			subscription	sale	*total*	
1995	11	22,675	274	3,396	*3,670*	33.1
1996	12	5,550	721	945	*1,666*	26.6
1997	10	2,126	227	606	*833*	35.4
1998	16	3,844	614	1,231	*1,845*	41.7
1999	27	65,788	1,414	21,606	*23,020*	33.2
2000	44	28,308	4,970	1,933	*6,903*	20.7
2001	18	8,193	2,199	1,736	*3,935*	35.2
2002	6	2,504	638	424	*1,062*	33.8
2003	4	1,340	67	483	*550*	39.1
2004	8	5,406	351	2,300	*2,651*	39.7
2005	15	5,874	1,088	1,608	*2,696*	34.5
2006	21	11,736	1,053	3,977	*5,030*	39.3
2007	29	9,770	1,415	3,080	*4,495*	40.2
2008	6	268	128	6	*134*	33.9

Source: Consob. See Methodological Notes. [1] Capitalisation of companies admitted to listing, calculated on the basis of the public offering price and the pre-offering number of shares. [2] Post-listing capitalisation-offering price ratio. Percentage values, weighted for the sum total of public offerings. Figures do not include ENI in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004.

Table 2

Institutional investors' shareholdings in newly listed Italian companies[1]

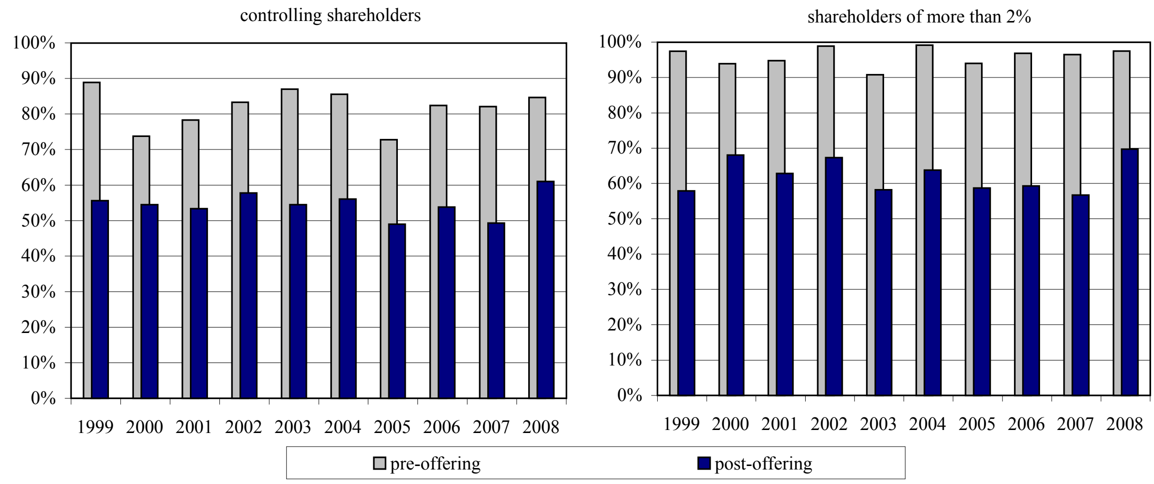
	Company		Average number of institutional investors[4]	Average pre-offering holding[5]	Average post-offering holding[6]
	number[2]	percentage of total[3]			
1995	6	54.5	2.3	27.7	8.5
1996	6	50.0	3.7	47.3	23.2
1997	2	20.0	1.5	40.9	7.1
1998	4	25.0	4.3	48.3	18.9
1999	9	33.3	2.0	27.5	10.2
2000	18	40.9	2.7	25.9	16.2
2001	6	33.3	1.5	28.0	13.1
2002	2	33.3	2.5	27.1	15.2
2003	3	75.0	2.0	22.0	10.1
2004	4	50.0	2.3	28.5	9.5
2005	6	40.0	3.2	20.6	4.1
2006	11	52.4	1.8	23.7	11.8
2007	12	41.4	1.7	39.6	21.2
2008	3	50.0	2.7	58.6	32.9

Source: Consob. See Methodological Notes. [1] Institutional investors refer to closed-end investment funds, venture capital companies, commercial and investment banks. Foundations and savings banks are excluded. The data refer only to companies with this investor category among its shareholders, taking into account both direct investments and those in issuer controlling companies. [2] Number of companies, listed during the year, in which institutional investors held an interest at the public offering date. [3] Percentage of all companies first listed during the year. [4] Average number of institutional investors holding an equity interest at the public offering date. [5] Average share capital percentage held by institutional investors at the public offering date. [6] Average share capital percentage held by institutional investors immediately after the public offering.

The ownership arrangements of newly listed companies are somewhat similar to those of companies admitted to listing in previous years. The average share of voting rights held by the majority shareholder prior to the offering was 85% (82% in 2007), reducing to a post-offering share of approximately 61% (50% in 2007; Figure 19).

Figure 19

Ownership arrangements of newly listed Italian companies
(percentages of share capital with voting rights; average values)



Source: Consob. See Methodological Notes.

Securities in newly-listed companies were mainly allocated to Italian institutional investors (38.5%) and foreign investors (32%). However the percentage placed with named parties or groups of less than 100 investors (which could in some cases also include institutional investors) increased considerably (from 1.5% to 17.8%). The supply-demand ratio reduced further in both public placements (1.0 compared to 2.8 at the end of 2007) and institutional placements (1.1 against 4.0 in 2007; Table 3).

No newly-listed company had equity relations with the placing agents or sponsors, and only one company had credit relations with the placing agents or sponsors (Table 4).

In 2008, 2 companies with a pre-offering capitalisation of around 73 million euro (against the 82.2 million euro of 3 companies admitted in 2007) were admitted to listing on the MAC market (Mercato alternativo dei capitali) (Table 5).

Table 3

Italian companies admitted to listing: offering results[1]

	Allocated share[2]				Supply-demand ratio[3]	
	public	Italian institutional investors	foreign institutional investors	other investors[4]	public offering	institutional offering
1995	42.3	16.3	41.4	—	3.2	6.8
1996	40.5	24.3	35.2	—	6.3	9.4
1997	31.4	24.5	44.1	—	10.8	12.2
1998	44.4	27.3	28.3	—	7.7	13.9
1999	43.7	24.1	32.3	..	12.6	10.2
2000[5]	35.0	26.0	37.6	1.3	18.5	10.2
2001	28.7	37.8	33.0	0.5	1.2	2.2
2002	27.7	50.4	20.3	1.6	1.1	1.1
2003[6]	39.8	45.0	14.5	0.6	1.8	1.6
2004	20.9	26.2	52.9	..	2.0	3.1
2005	24.7	26.7	47.0	1.6	3.8	3.9
2006	19.3	18.7	61.9	0.1	5.3	5.4
2007	16.4	24.1	58.0	1.5	2.8	4.0
2008	11.8	38.5	31.9	17.8	1.0	1.1

Source: Consob. See Methodological Notes. [1] Percentage averages weighted according to the public offering values. Rounding may cause discrepancies in the final figure. Figures do not include ENI in 1995, Enel in 1999, Snam Rete Gas in 2001 or Terna in 2004. [2] With regard to allocation to institutional investors, where the breakdown between Italian and foreign investors is not known the figures are estimated. [3] The supply-demand ratio averages are based only on offerings for which both the public and institutional figures are known. [4] These are named parties to which a certain amount of shares is reserved, also as a result of pre-listing agreements. [5] The remainder (0.1%) was taken up by the underwriting syndicate for the placement of Cairo Communication shares. [6] The remainder (0.1%) was taken up by the underwriting syndicate for the placement of Trevisan shares.

Table 4

Credit and equity relations between newly listed-Italian companies and their placing agents[1]

	Companies with credit relations with sponsors or placing agents			Companies with equity relations with sponsors or placing agents		
	Number of companies	Percentage of total admitted to listing[2]	Average share of lending by sponsors or placing agents[3]	Number of companies	Percentage of total admitted to listing[2]	Average share of equity held by sponsors or placing agents[4]
2000	23	52.3	27.2	11	25.0	18.1
2001	10	55.6	27.8	2	11.1	19.8
2002	3	50.0	46.1	1	16.7	28.3
2003	4	100.0	13.9	1	25.0	..
2004	4	50.0	47.2	2	25.0	10.8
2005	7	46.7	24.0	2	13.3	7.3
2006	11	52.4	36.1	5	23.8	25.9
2007	13	44.8	26.2	4	13.8	27.9
2008	1	16.7	49.4	--	--	--

Source: based on data in the sponsor statements and prospectuses. See Methodological Notes. [1] Credit and equity relationships as at the public offering date between companies admitted to listing (on the MTA, Mtax and Expandi markets) and the sponsor, specialist, global coordinator or lead manager of the public offering and other intermediaries belonging to the same groups. [2] Percentages. [3] As a percentage of total financial debt. [4] As a percentage of the pre-offering share capital.

Table 5

IPOs for admission to listing on the MAC market
(amounts in millions of euro)

	Number of companies	Pre-offering capitalisation[1]	IPO value			Incidence on post-offering capitalisation[2]	Majority shareholder's post-offering holding[3]
			subscription	sale	*total*		
2007	3	82.2	12.9	7.4	*20.3*	21.3	59.5
2008	2	72.6	18.7	--	*18.7*	20.5	77.3

Source: Borsa Italiana Spa. [1] Capitalisation of companies admitted to trading, calculated on the basis of the public offering price and the pre-offering number of shares. [2] Post-offering capitalisation-offering price ratio. Percentage values, weighted for the sum total of public offerings. [3] Simple average percentage.

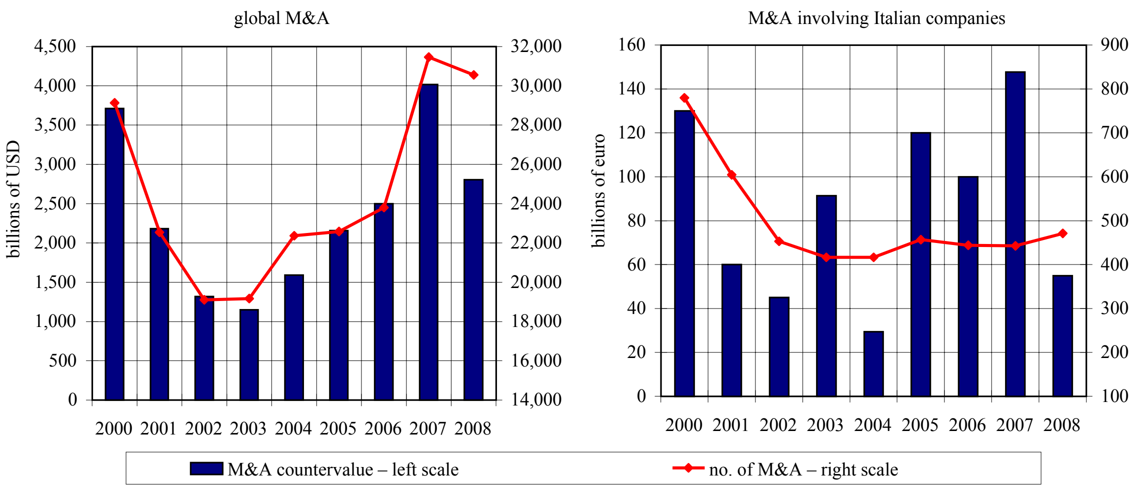
5. Mergers and acquisitions

2008 saw a strong decrease worldwide in the value of mergers and acquisitions (from 4,018 billion USD in 2007 to 2,804 billion USD in 2008; -30%) (Figure 20). The decrease in the number of completed M&As, however, was more limited (from 31,500 in 2007 to 30,500 in 2008; -3.2%).

Based on data emerging from the KPMG study, the countervalue of mergers and acquisitions in Italy has reduced drastically (from 148 billion to 55 billion euro; Figure 20), though the number of transactions has increased slightly from 443 to 471.

Figure 20

Mergers and acquisitions

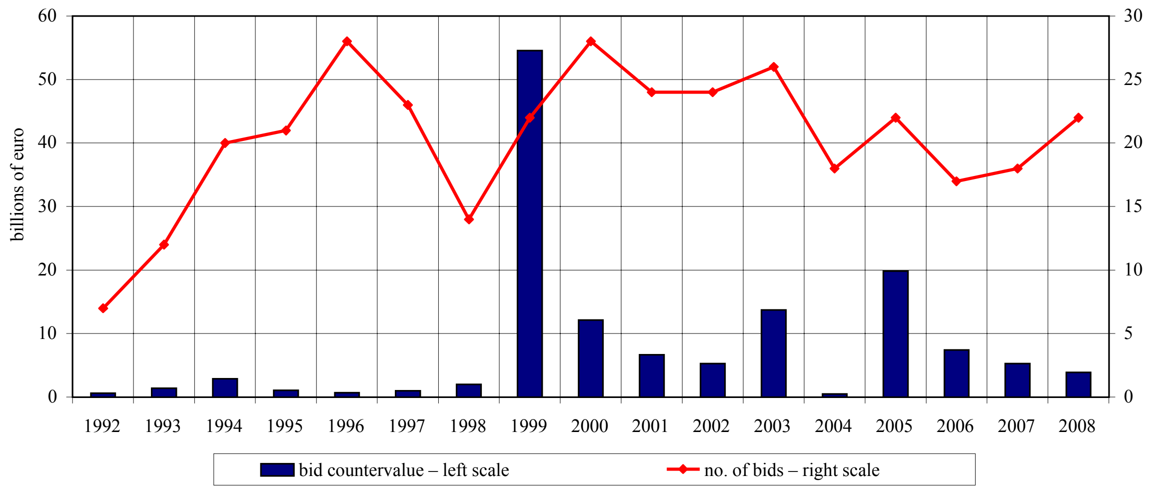


Source: KPMG and Thomson Reuters.

In 2008 the countervalue of takeover bids and/or equity swaps on listed companies decreased once again from 5.3 billion to 3.9 billion euro, whereas their number increased slightly (from 18 to 22; Figure 21). Many of the takeover bids implemented during the year were launched by the controlling shareholders of the target company and aimed to withdraw the float and arrange for delisting of the companies.

Figure 21

Takeover bids and/or equity swaps on Italian listed companies
(in billions of euro)



Source: calculations based on Borsa Italiana and bid document data. Equity swap prices are valued at the market prices for the day preceding announcement of the bid.

II – SECONDARY MARKETS

1. The current economic trend and equity markets

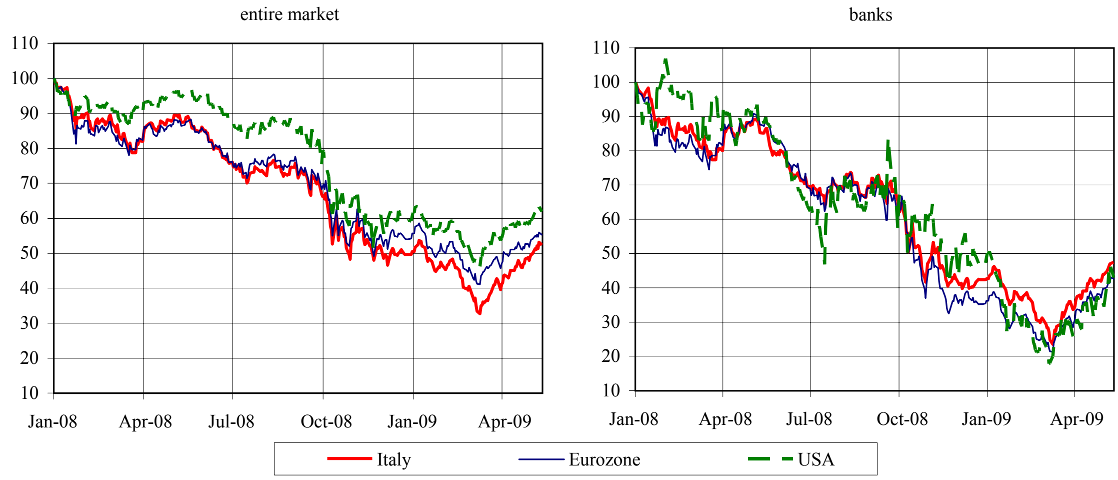
The financial crisis triggered by the Lehman Brothers default has had a heavy negative impact on market performances and the real economy, though in the first few months of 2009 there were some signs of improvement in the economic scenario which went some way to helping share prices recover.

The financial crisis and widespread deterioration in the economic situation have badly affected share prices (Figure 22). In the period January 2008-March 2009, the S&P500 index (covering the major companies on the US market) recorded an approximate 54% drop, the Dow Jones Euro Stoxx (for major companies in the Eurozone) and the S&P/MIB index (for the more important companies on the Italian market) fell by around 59% and 67%. The fall in bank equity prices was even more drastic (around 80% down on the US, Eurozone and Italian markets). From the second half of 2008 disruption in the equity markets also began to affect the major emerging countries. From January 2008 to the beginning of March 2009, in fact, there was a near 60% drop on the Chinese, Indian and Russian equity markets, and banking index drops were also significant (-43% China, -65% India and -85% Russia; Figure 23).

A considerable recovery in share prices was recorded from the beginning of March 2009, and in the next two months increased by approximately 34% in the USA and the Eurozone and by around 60% in Italy, whereas the bank index values almost doubled. The upturn in share prices also affected emerging markets and, though not across the board, the related banking sector securities.

Figure 22

Share price performance in the major advanced markets
(daily figures 01/01/2008-11/5/2009; 01/01/2008=100)



Source: Thomson Reuters-Datastream.

Figure 23

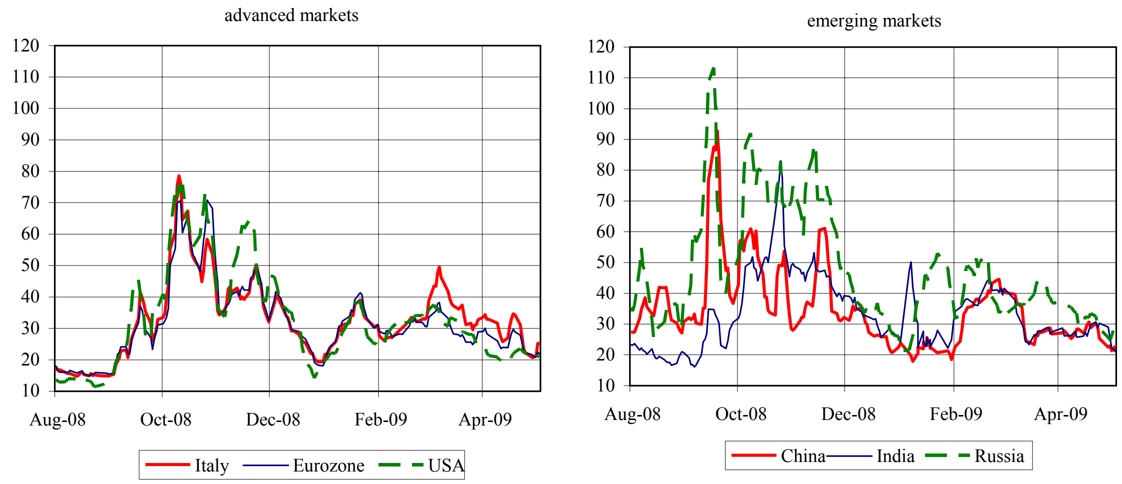
Share price performance in emerging markets
(daily figures 01/01/2008-11/5/2009; 01/01/2008=100)

Source: Thomson Reuters-Datastream. Datastream share indices are used to represent the banking sector.

The fall in share prices intensified after default of the Lehman Brothers US merchant bank was announced to the market on 15 September 2008. After that date extreme volatility in share prices was recorded on all major markets (Figure 24). Considerably lower volatility was seen from the start of 2009, showing a tendency to return to pre-Lehman levels. Despite the overall reduction in volatility, the likelihood of extremely negative returns in certain trading days remained high during the first quarter of 2009 (Figure 25).

Figure 24

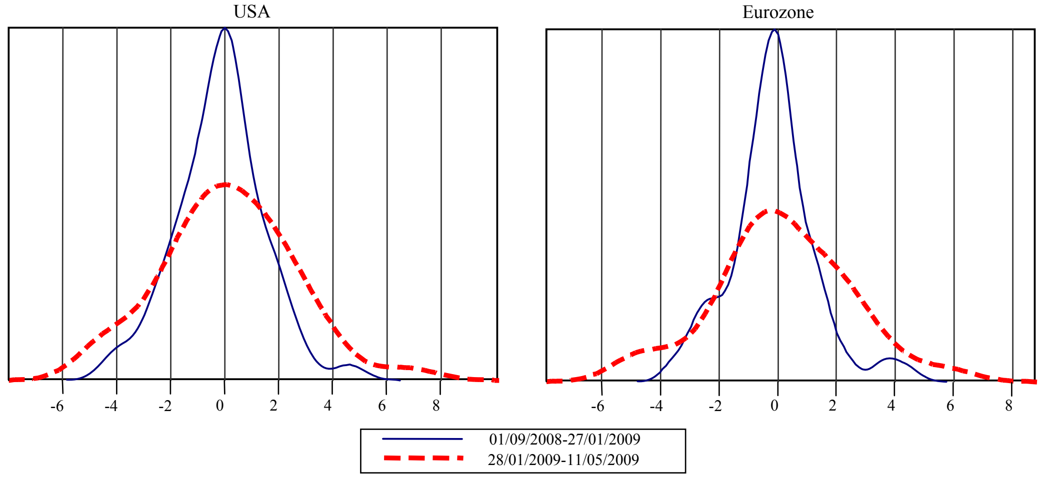
Actual share index volatility
(percentages expressed on an annual basis - 5-day floating averages on daily figures 06/08/2008-08/05/2009)



Source: calculations on Bloomberg data. Actual volatility is estimated on the basis of intraday share index returns.

Figure 25

Estimated probable returns spread based on daily share index figures

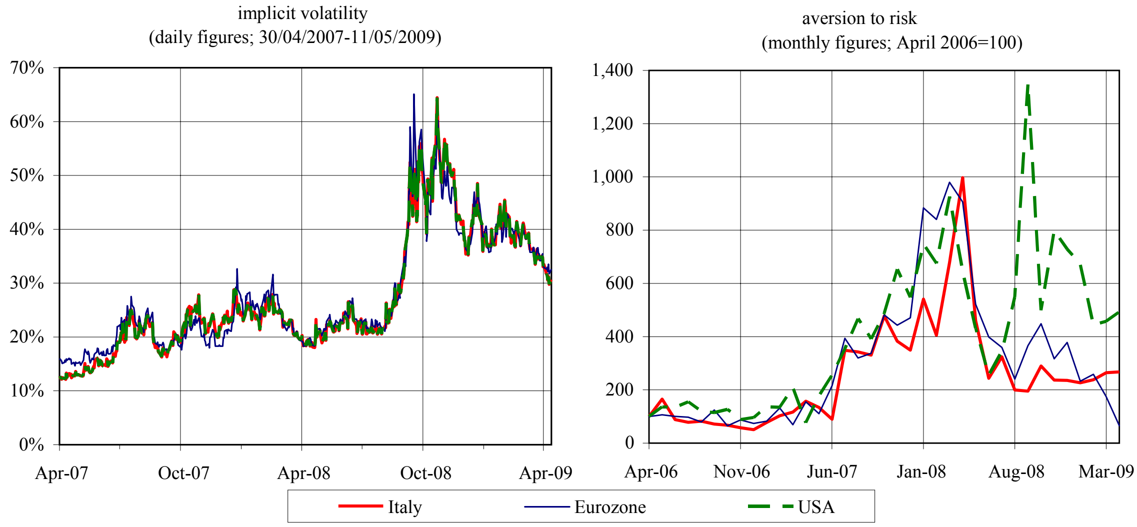


Source: calculations based on Thomson Reuters-Datastream data. Density functions are estimated via non-parametric methods.

After the sharp increase following the Lehman default, the performance of implicit volatility in share index option prices was marked by a significant downward trend. In the United States, after increasing considerably in September 2008 investors' aversion to risk reduced consistently over the following months, whilst in the Eurozone it returned to pre-crisis levels (Figure 26). According to estimates of the probable return spread on shares over a 1-month period (implicit in option prices), at the end of April 2009 the extreme negative returns forecast (and therefore further downturns in share prices) were narrower than those for February 2009 in the USA and the Eurozone (Figure 27).

Figure 26

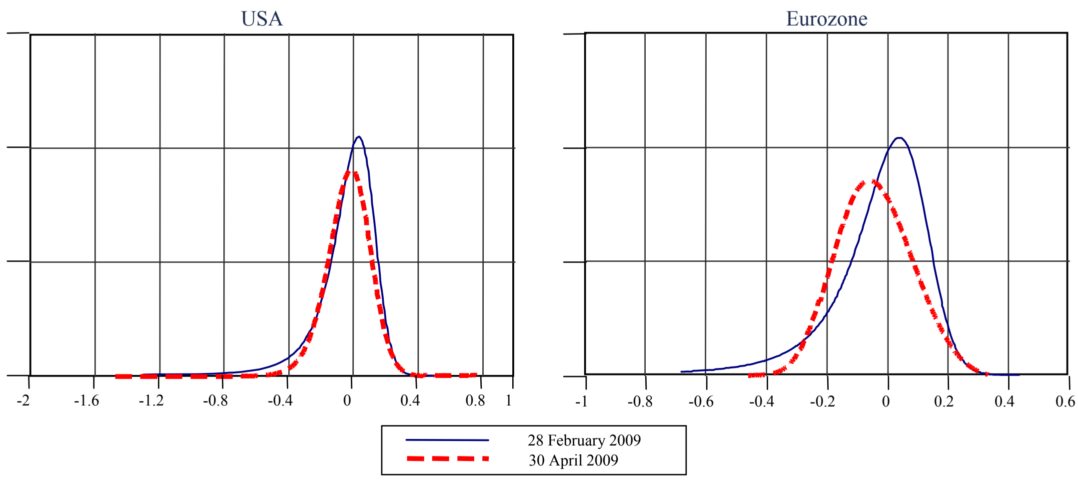
Equity market implicit volatility and aversion to risk



Source: calculations based on Thomson Reuters-Datastream and Borsa Italiana data. Implicit volatility is deduced from share index prices for 3-month options. The level indicator for aversion to risk is estimated by comparing the historic allocation of returns on shares with that implicit in the index option prices.

Figure 27

Probable return spread on shares forecast over a 1-month period

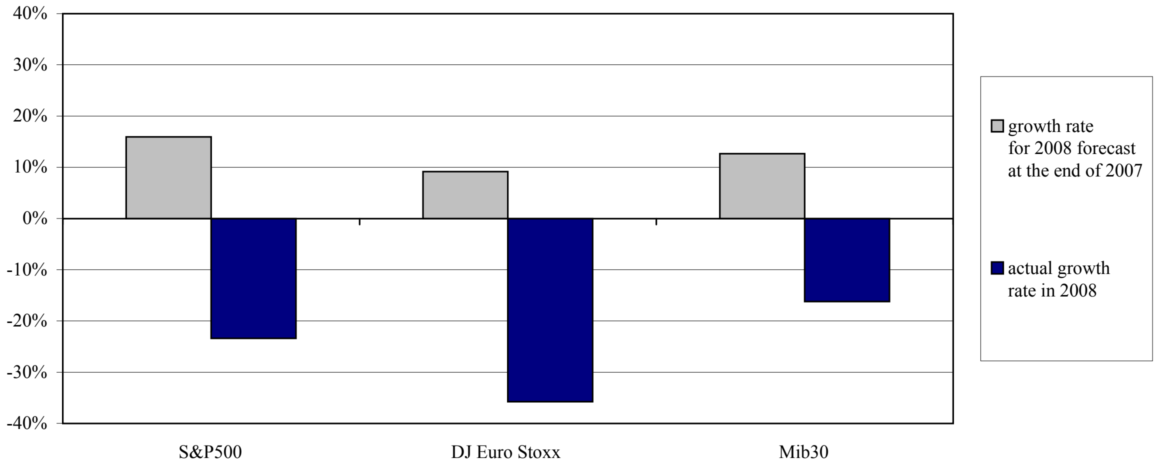


Source: calculations based on Thomson Reuters-Datastream data. Density functions are estimated on index option prices.

The drop in share prices was reflected in forecasts of falling business earnings. In fact, the actual 2008 earnings of the major listed companies were much lower than those forecast at the end of 2007. US companies on the S&P500 index saw profits decrease by 23%, European companies on the Dow Jones Euro Stoxx index by 36% and those of Italian companies on the S&P/MIB index by 16% (Figure 28).

Figure 28

Forecast and actual increases in 2008 earnings of companies listed on the main share indices

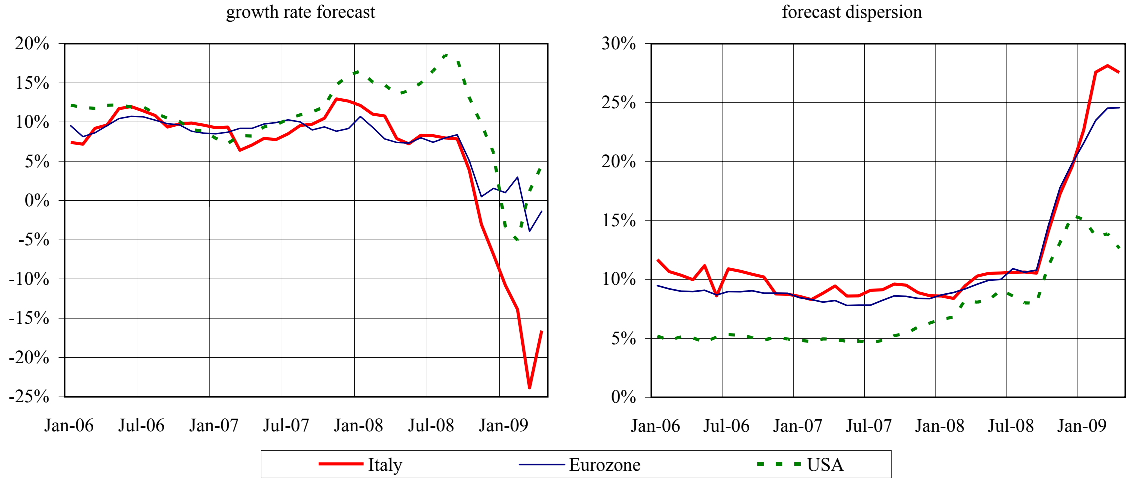


Source: Thomson Reuters-Datastream; IBES data on 12-month earnings forecasts (before the amortisation of goodwill and other atypical income components) at the end of December 2007 and on actual earnings for 2008 (March 2009 estimate).

Analyst forecasts on future business earnings trends began to deteriorate in the fourth quarter of 2008, especially for Italian companies on the S&P/MIB index, and the level of dispersion between forecasts increased. However, from March 2009 analyst forecasts improved slightly regarding earnings growth rates and the level of forecast dispersion reduced (Figure 29).

Figure 29

Analyst forecasts on business earnings
(monthly figures)

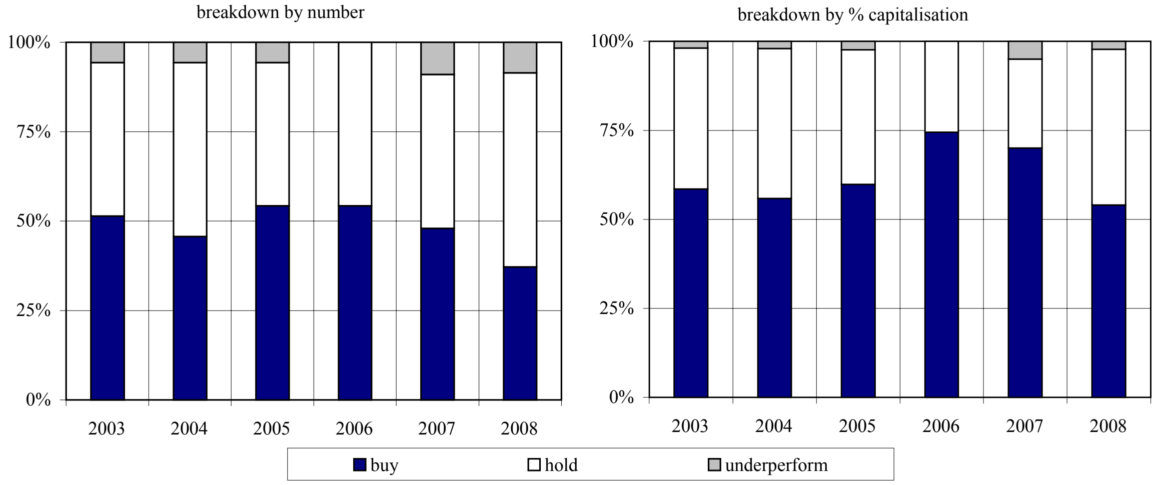


Source: Thomson Reuters-Datastream; IBES data on 12-month earnings forecasts before the amortisation of goodwill and other atypical income components. The dispersion is based on the ratio between the standard deviation of forecasts by individual financial analysts and the average forecast is estimated on quarterly data. For each quarter the average growth rate forecast per month is indicated. Figures for the USA refer to companies on the S&P 500 index, for the Eurozone those on the Dow Jones Euro Stoxx index and for Italy those on the S&P/MIB index.

The ratings allocated by financial analysts to Italian companies on the S&P/MIB index deteriorated considerably compared to those of 2008. Specifically, the percentage of companies with a "buy" rating fell from 48% to approximately 37%, whilst those with a "hold" rating increased from 43% to around 54%. Similarly, the incidence in capitalisation terms of "buy" rated companies dropped from 70% to 54%, whereas the incidence of "hold" rated companies increased from 25% to approximately 44% (Figure 30).

Figure 30

Breakdown of S&P/MIB companies by analyst rating type
(year-end figures)



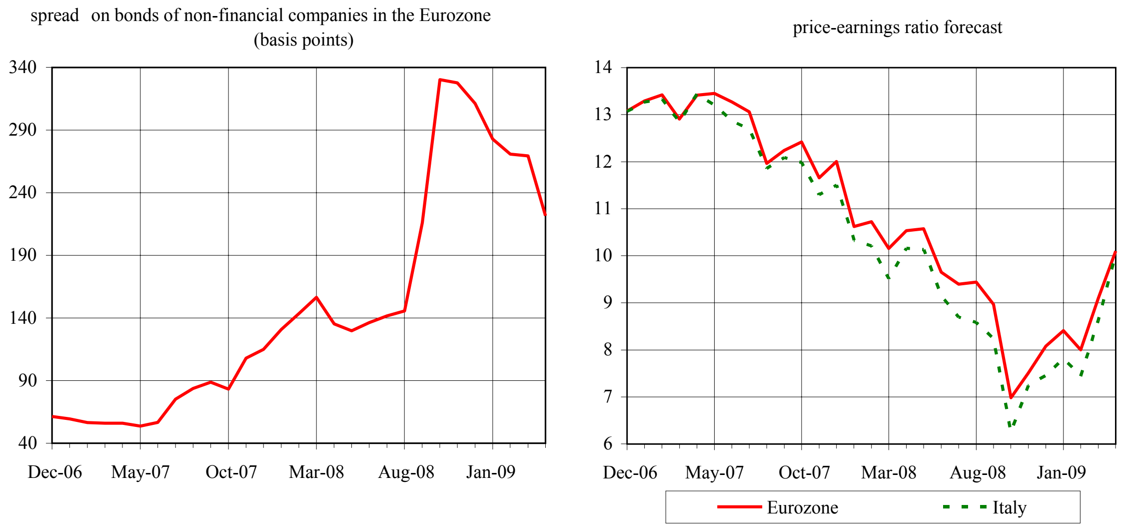
Source: calculated on Thomson Reuters-IBES data on the financial analysts' Consensus. Data refer to companies on the S&P/MIB index as at 31.12.2008. The companies Lottomatica, Parmalat, STMicroelectronic, Terna and Unipol, for which complete series of Consensus data for all five years considered are unavailable, have been excluded.

Despite the decrease in business earnings, the strong drop in share prices led to a significant reduction in the price-earnings ratio for both Italian and EU listed companies

(Figure 31). Then in the first quarter of 2009, with the upturn in share prices and persisting negative earnings level forecasts, the price-earnings ratio returned to the 2008 opening values. However, the credit squeeze on bank loans and the high cost of gross issues of bonds (indicated by the increase in corporate bond spreads) has put a brake on M&A and private equity transactions. The fall in share prices and low level of price-earnings and capitalisation-equity multipliers have discouraged capital increases and risk capital funding. In Italy in particular, the difference between funding resources from capital increases and resources returned to shareholders through takeover bids, dividends and buy-back of treasury shares is on the whole negative, though this trend has been typical of our market over the last decade (Figure 32).

Figure 31

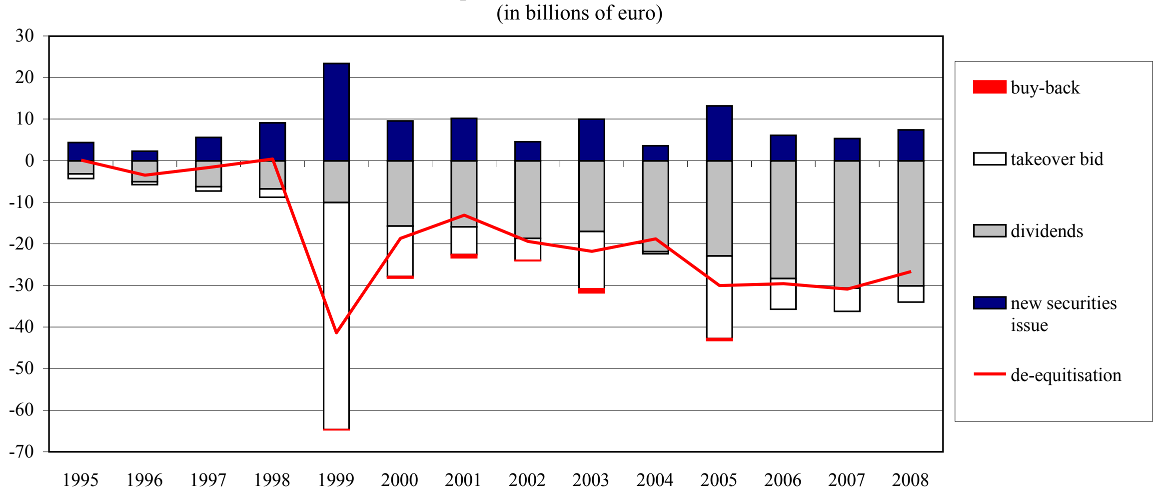
Prices-earnings per share ratio and spreads on bonds issued by non-financial companies with investment grade ratings
(daily figures 31 December 2006-30 April 2009)



Source: calculated on Thomson Reuters-IBES and JP Morgan data. Weighted average (for capitalisation) of the Dow Jones Euro Stoxx and MIB 30 share price ratios and the 12-month earnings per share forecast. Spread (in basis points) between the yield on bonds issued by non-financial companies with ratings in the AAA-BBB range and that of Government securities in the Eurozone.

Figure 32

De-equitisation of the Italian market
(in billions of euro)



Source: calculated on Bank of Italy, Borsa Italiana, Consob and Thomson Reuters-Datastream data. The de-equitisation indicator is obtained from the difference between new issues of securities and dividends, takeover bids and buy-backs. The 2008 dividends are used as estimates. The buy-back figures for 2008 are not available.

In 2008, the capitalisation of Italian companies listed on the MTA/Mtax markets managed by Borsa Italiana decreased considerably compared to 2007, in both absolute terms (from 723 to 368 billion euro; -49%) and in relation to GDP (from 49% to 23%). The historical MIB index fell by 49% (-8% in 2007) and trading volumes decreased (from 1.5 billion to 1.2 billion euro; -20%). The number of Italian listed companies reduced from 263 to 251, with 4 new listings and 16 delistings (Table 6).

Table 6

Indicators of equity markets operated by Borsa Italiana Spa
(amounts in billions of euro)

	Stock exchange[1]									Expandi market[2]			Nuovo Mercato			
	Capitalisation[3]	Capitalisation[3] (as a % of GDP)	Share trading volumes[3]	Number of Italian listed companies	Number of Italian newly listed companies	Number of Italian companies delisted	Change in historic MIB[4]	Dividend-price ratio[4]	Earnings-price ratio[4]	Capitalisation[3]	Share trading volumes[3]	Number of Italian listed companies	Capitalisation[3]	Volume of trading in shares	Number of Italian listed companies	Change in MIB index[4]
1996	199	20.3	81	213	14	18	13.1	2.1	6.9	3	..	31	—	—	—	—
1997	310	30.2	174	209	14	18	58.2	1.7	4.6	5	1	26	—	—	—	—
1998	484	44.8	423	219	25	15	41.0	1.6	3.9	4	2	20	—	—	—	—
1999	714	64.4	503	241	28	6	22.3	1.5	3.4	5	1	17	7	4	6	536[5]
2000	790	67.8	839	237	16	20	5.4	2.1	4.5	6	1	15	22	30	39	-25.5
2001	575	47.3	637	232	13	18	-25.1	2.8	6.0	5	..	12	13	21	44	-45.6
2002	447	35.7	562	231	11	12	-23.7	3.8	5.9	5	..	13	6	10	44	-50.1
2003	475	36.6	567	219	9	21	14.9	3.4	6.4	5	..	11	8	14	41	27.3
2004	569	42.2	641	219	7	7	17.5	3.4	6.0	5	..	13	7	19	37	-17.5
2005	669	47.2	893	257	13	12	13.9	3.0	5.2	7	1	18	—	—	—	—
2006	768	52.1	1076	258	17	16	19.0	3.4	6.0	10	2	26	—	—	—	—
2007	723	49.0	1,510	263	19	14	-8.0	4.1	8.4	11	4	38	—	—	—	—
2008	368	23.2	1,156	251	4	16	-49	8.4	13.7	7	1	43	—	—	—	—

Source: Borsa Italiana Spa, Thomson Reuters. [1] Since 2005 MTA/Mtax. [2] MAC data are included from 2007. [3] Data refer to Italian companies only. [4] Year-end percentages. [5] From 17 June 1999 to 30 December 1999.

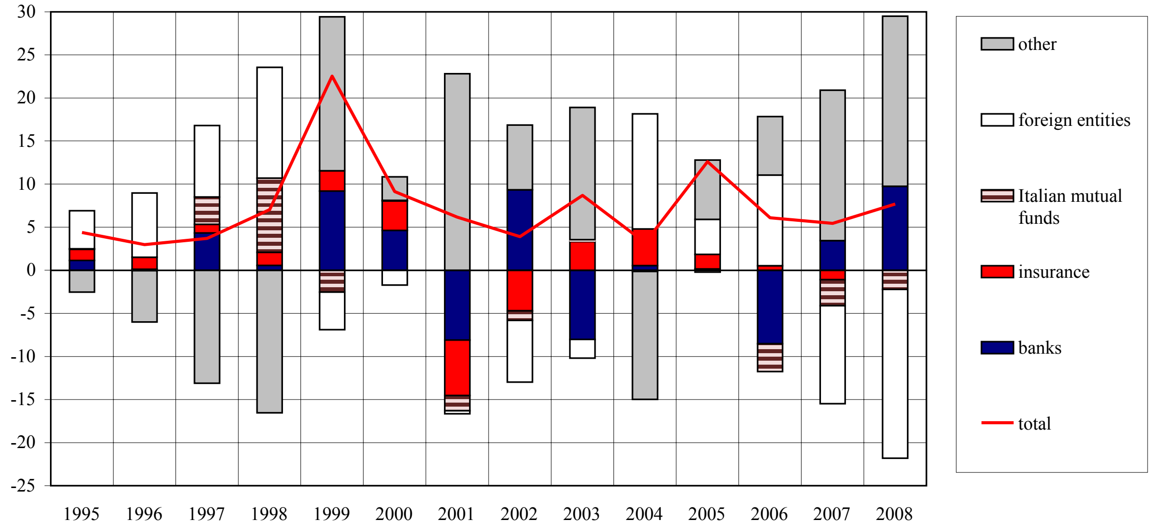
Capitalisation of the markets reserved for SMEs - the Expandi and MAC markets - dropped from 11 billion to 7 billion euro despite the increase in the number of listed companies (from 38 to 43).

During 2008, new issues of shares on markets managed by Borsa Italiana increased by 39%, from 5.4 billion to 7.5 billion euro. This increase is entirely due to share capital increases against payment (7.3 billion euro, compared to approximately 4 billion euro in 2007). The total funding raised via IPO was instead a mere 143 million euro (see also paragraph 4, Chapter I, "Listed Companies").

Based on Bank of Italy estimated figures, in 2008 purchases of Italian listed shares exceeded sales by 7.7 billion euro (more or less coinciding with the share capital increases), mainly due to banking activities which made net share purchases of around 10 billion euro (Figure 33). The main net sellers, however, were foreign entities (19.6 billion euro) and Italian mutual funds (2.2 billion euro).

Figure 33

Net purchases of Italian listed shares by institutional sector
(in billions of euro)



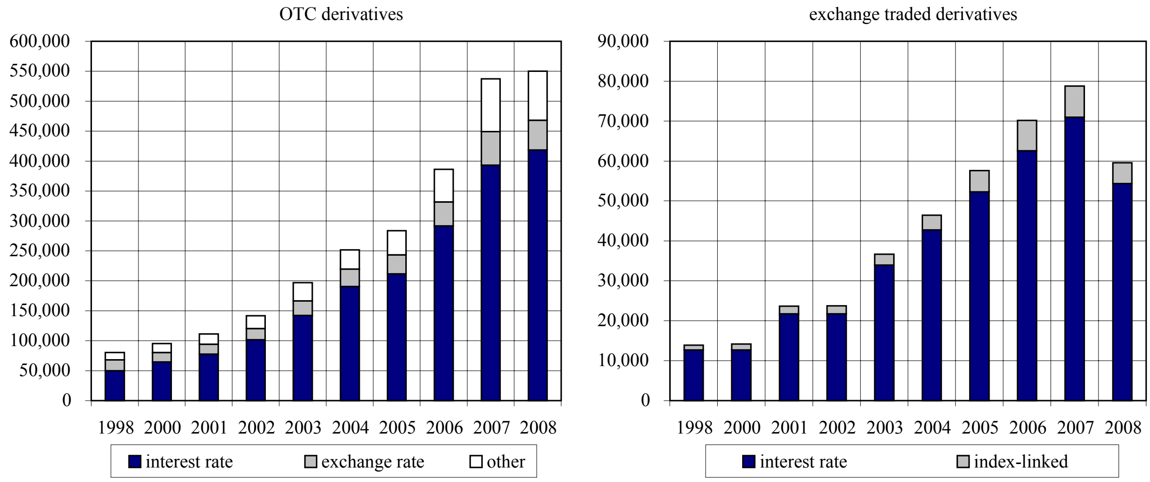
Source: Bank of Italy. The "Other" institutional sector includes households, companies, centrally and locally administered organisations, Cassa Depositi e Prestiti and investment companies. For 2008 the "Other" category also includes insurance companies.

2. The derivatives market

2008 saw a strong slowing down in the growth rate of notional turnover for OTC derivatives, whilst the notional turnover for listed derivatives decreased, reversing the growth trend recorded for several years (Figure 34).

Figure 34

Notional turnover for derivatives in G-10 countries
(period end balances; in billions of USD)



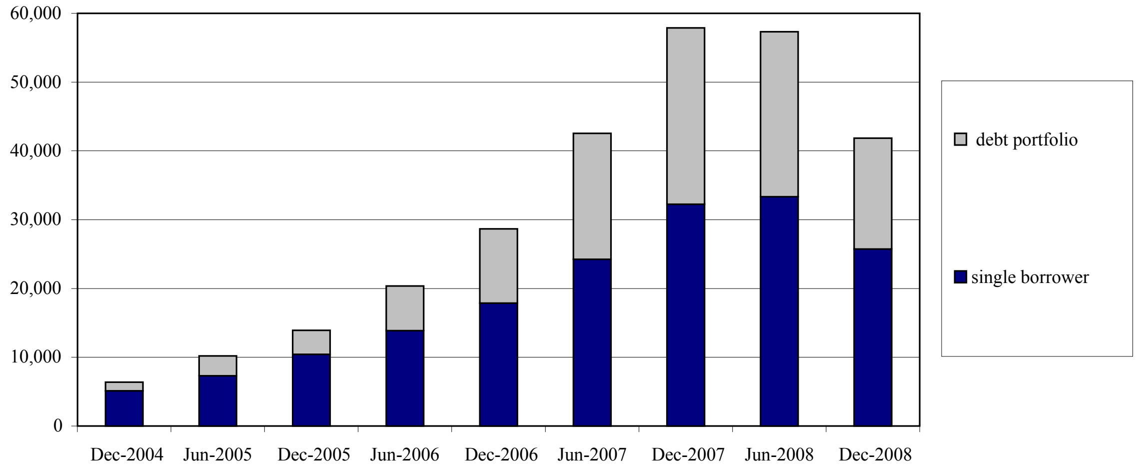
Source: Bank for International Settlements.

A marked decrease in the notional turnover for credit derivatives was recorded in 2008, due mainly to changes affecting the market in the second half of the year.

Again based on BIS data, in 2008 the notional turnover for credit derivatives represented by credit default swaps (CDS) reduced considerably (-28%), reversing the growth trend seen in the last few years (Figure 35).

Figure 35

Notional turnover for credit default swaps in G-10 countries
(period end balances; in billions of USD)

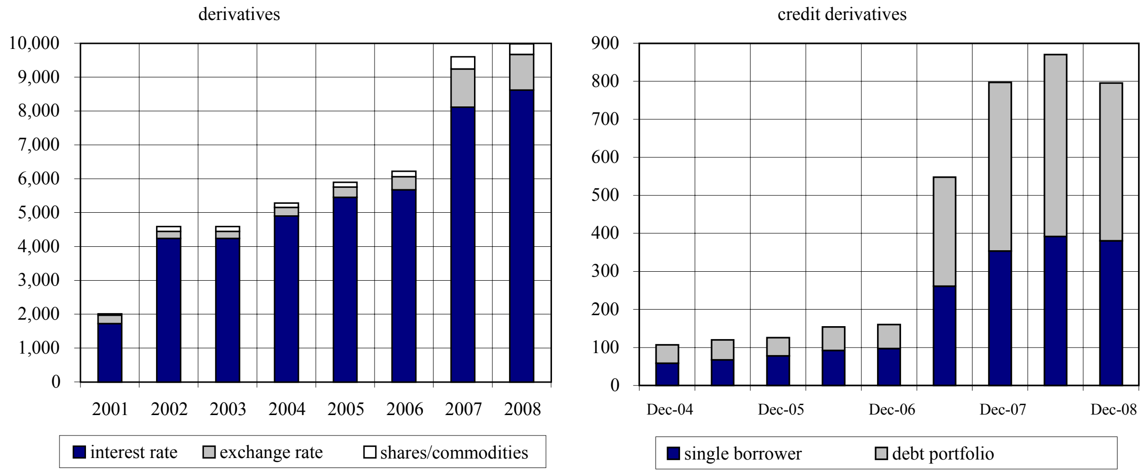


Source: Bank for International Settlements.

Based on the Bank of Italy's half-yearly survey on derivative transactions by the major Italian banking groups, in 2008 the notional turnover for OTC derivatives held by Italian intermediaries increased from 9,600 billion to around 10,000 billion dollars (+4%; Figure 36).

Figure 36

Notional turnover for OTC derivatives in Italy
(period end balances; in billions of USD)



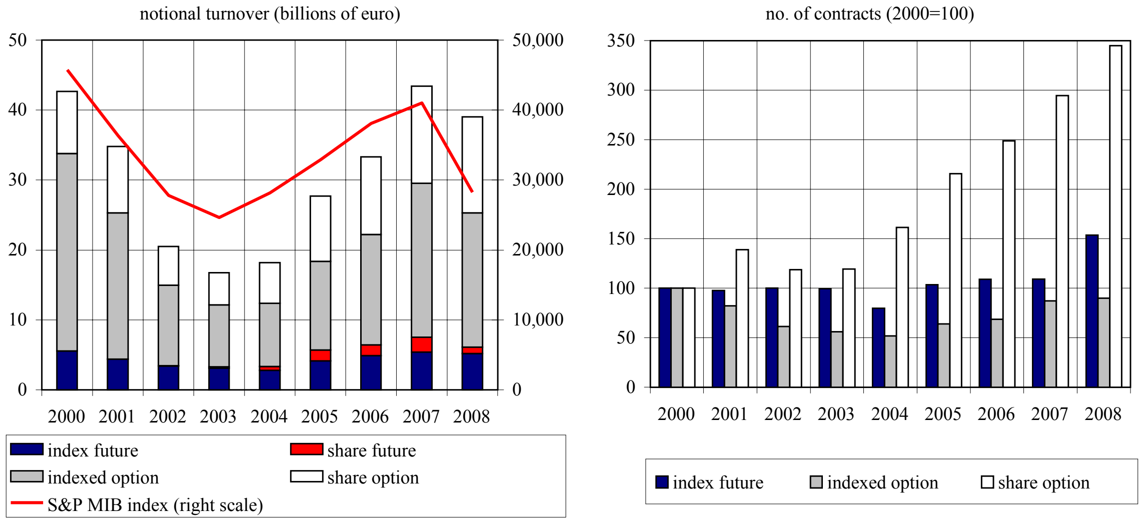
Source: Bank of Italy.

The only exchange traded derivatives for the Italian market were those quoted on the Italian Derivatives Market (IDEM) operated by Borsa Italiana Spa, and only with underlying share indices or shares.

In 2008 the notional turnover for open interest contracts on the IDEM market (calculated as a daily average) fell by 10%, from 43 billion to just under 40 billion euro (Figure 37).

Figure 37

Notional turnover and number of positions opened in derivatives traded on the IDEM market
(average daily percentages)

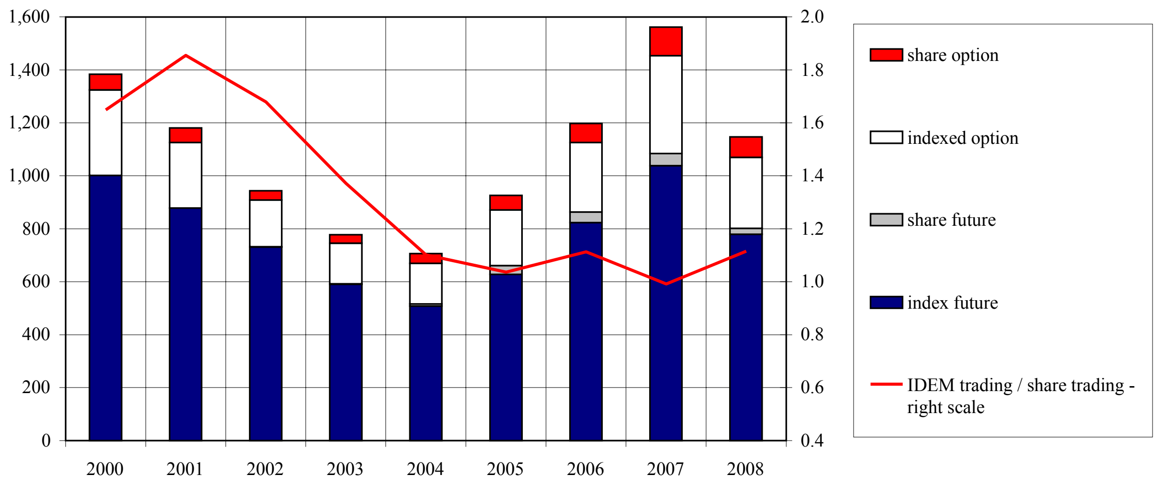


Source: calculations based on Borsa Italiana data. The graph on the notional turnover for positions opened in the "index futures" category includes index minifutures. The annual values for the S&P/MIB index are the average end of month figures.

Compared to 2007, in 2008 the notional value of trading on the IDEM market fell from 1,600 billion to around 1,100 billion euro (-31%; Figure 38). However, the derivative-share trading ratio increased slightly (from 1.0 to 1.1).

Figure 38

Notional turnover for derivatives traded on the IDEM
(in billions of euro)



Source: calculations based on Borsa Italiana data. The "index futures" category includes index minifutures.

3. The covered warrants and certificates market

During 2008, total trading on the SeDeX market saw a massive decrease, dropping from 88 billion to 22 billion euro (-75%; Table 7) and the overall number of instruments outstanding reduced from 4,408 to 3,192 (-27%).

45% of trading was by specialists, appointed to ensure market liquidity injection, 40% by online traders and the remaining 15% by intermediaries involved in own-account arbitrage.

Table 7

Covered warrants and certificates listed on the SeDeX market
(amounts in billions of euro)

	Number of issues			Turnover
	existing[1]	new[2]	matured[3]	
1998	122	122	--	3
1999	1,565	1,660	217	14
2000	3,107	3,343	1,801	31
2001	5,866	8,194	5,435	21
2002	3,571	6,668	8,963	18
2003	2,594	4,749	5,726	11
2004	3,021	4,478	4,051	16
2005	4,076	7,253	6,198	49
2006	4,647	7,572	7,001	70
2007	4,408	7,609	7,848	88
2008	3,192	6,148	7,364	22

Source: calculations based on Borsa Italiana Spa data. [1] Year-end data. [2] Admitted to listing during the year. [3] Issues matured during the year. Includes securities cancelled at the request of the issuer before their original maturity.

2008 saw a continued drop in the weight of plain vanilla covered warrants on the total instruments outstanding (from 64% to around 54%; Table 8), despite remaining the most widely distributed instruments. The number of investment certificate issues, on the other hand, increased from 1,016 to 1,149, with a 36% weighting on the total instruments outstanding. Leverage certificates and exotic/structured covered warrants, whose number decreased compared to 2007, have an increasingly marginal impact on the total financial instruments traded on the SeDeX.

Table 8

Types of covered warrant and certificate listed on the SeDeX market
(as at 31 December)

Segment and category	2006		2007		2008	
	Number of issues	Incidence on total[1]	Number of issues	Incidence on total[1]	Number of issues	Incidence on total[1]
Covered warrant						
Plain vanilla	3,548	76.3	2,839	64.4	1,728	53.8
Exotic	142	3.1	154	3.5	108	3.4
Certificates						
Leverage	276	5.9	399	9.0	215	6.7
Investment	681	14.7	1,016	23.0	1,149	36.0
Total	*4,647*	*100*	*4,408*	*100*	*3,192*	*100.0*

Source: calculations based on Borsa Italiana Spa data. [1] Percentages. Rounding may cause discrepancies in the final figure.

With regard to the distribution of covered warrants based on profit deriving from immediate exercise of the option (“moneyness”), around 67% of the plain vanilla call covered warrants issued in 2008 on the S&P/MIB index and on Italian shares was deep out of the money (i.e. issued with a strike price 8% higher than the market price of the underlying instrument). For put instruments issued in 2008, 34% percent were deep out of the money at the time of issue (or with a strike price 8% lower than the market price of the underlying instrument, Table 9). As a result of the negative performance of the financial markets, deep in the money put covered warrants represented an issue quota 22% higher than that of deep in the money call covered warrants (8%).

Table 9

Distribution of covered warrants listed on the SeDeX market, according to their "moneyness" at issue and on maturity
(percentages)

	Moneyness[1]	
	on issue[2]	on maturity[3]
Call		
> 8% (deep out of the money)	67.06	90.46
from 8% to 4% (out of the money)	10.32	2.63
from 4% to 0 (at the money)	8.06	1.86
from 0 to -4% (in the money)	6.34	2.01
< -4% (deep in the money)	8.21	3.04
Total	*100.0*	*100.0*
Put		
< -8% (deep out of the money)	33.79	6.54
from -8% to -4% (out of the money)	10.60	2.98
from -4% to 0 (at the money)	19.10	3.64
from 0 to 4% (in the money)	14.27	3.89
> 4% (deep in the money)	22.25	82.9
Total	*100.0*	*100.0*

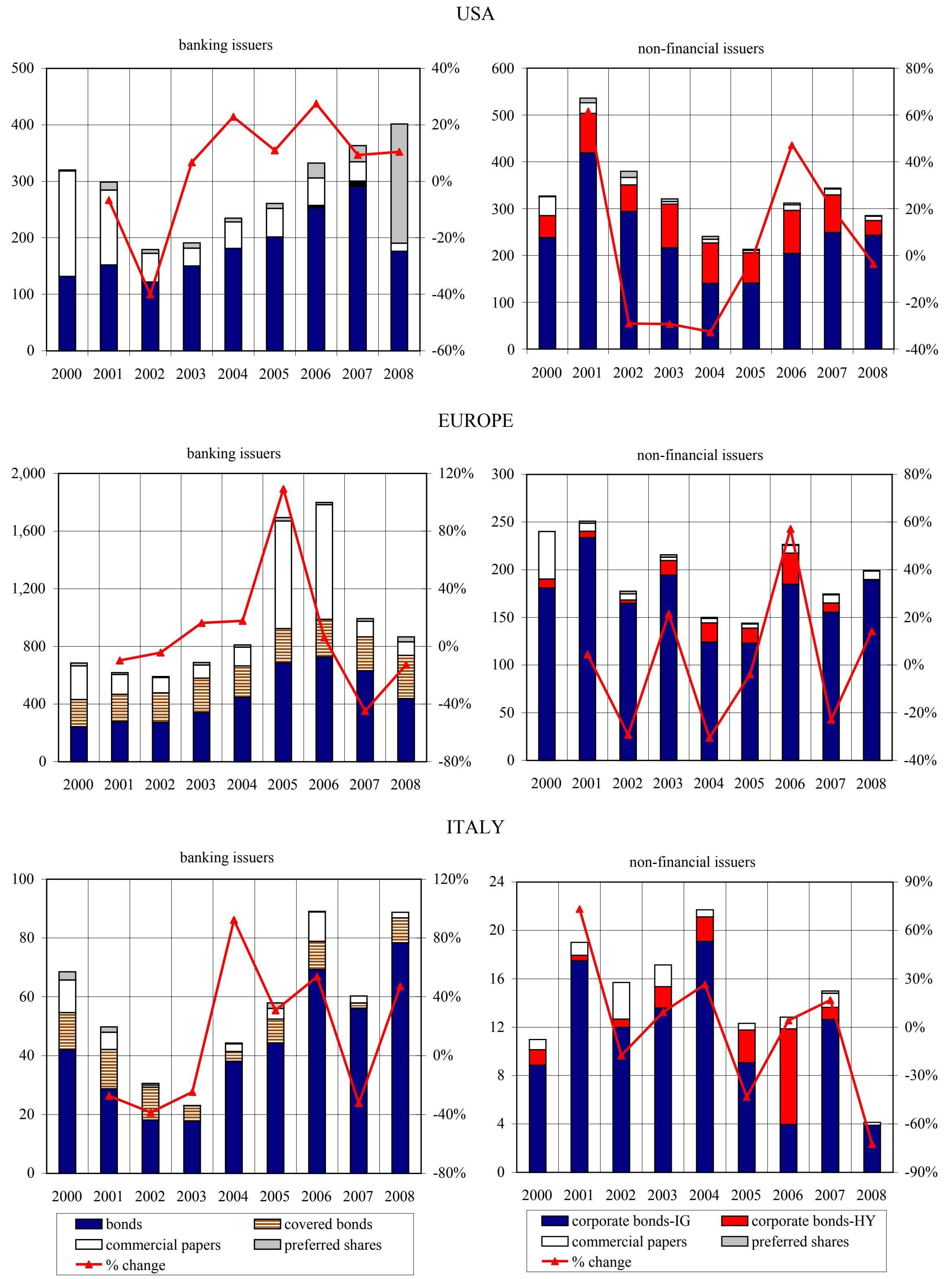
Source: calculations based on Borsa Italiana data. [1] Percentage difference between the strike price and the market price of the underlying instrument at the time of issue or maturity of the covered warrants. [2] Data on plain vanilla covered warrants issued in 2008 on Italian shares and the S&P/MIB index. [3] Data on plain vanilla covered warrants matured in 2008 on Italian shares and the S&P/MIB index.

4. The bond market

In 2008 private issues of bonds (finance and non-financial companies) in both the US and Europe recorded different trends. In the United States the total bank bond issues increased from 363 billion euro in 2007 to 401 billion euro in 2008 (+10%) due to the strong increase in preferred shares (from 29 billion to approximately 211 billion euro; Figure 39). In Europe, however, the issue of bank bonds fell by around 13%.

Figure 39

Private bond issues
(billions of euro and year-on-year percentage changes)



Source: calculations on Dealogic data. For Italy, the covered bond figures include issues by foreign entities controlled by Italian banks.

In the USA security issues by non-financial issuers reduced by around 17% due largely to a decrease in the placement of high yield bonds (from 80 billion to 31 billion euro; -61%) and commercial papers (from 12 billion to 9 billion euro; -26%). But in Europe, security issues by non-financial issuers increased from 174 billion to 199 billion euro (+14%), mainly as a result of the stronger placement of investment grade bonds (rising from 155 billion to 189 billion euro; +22%).

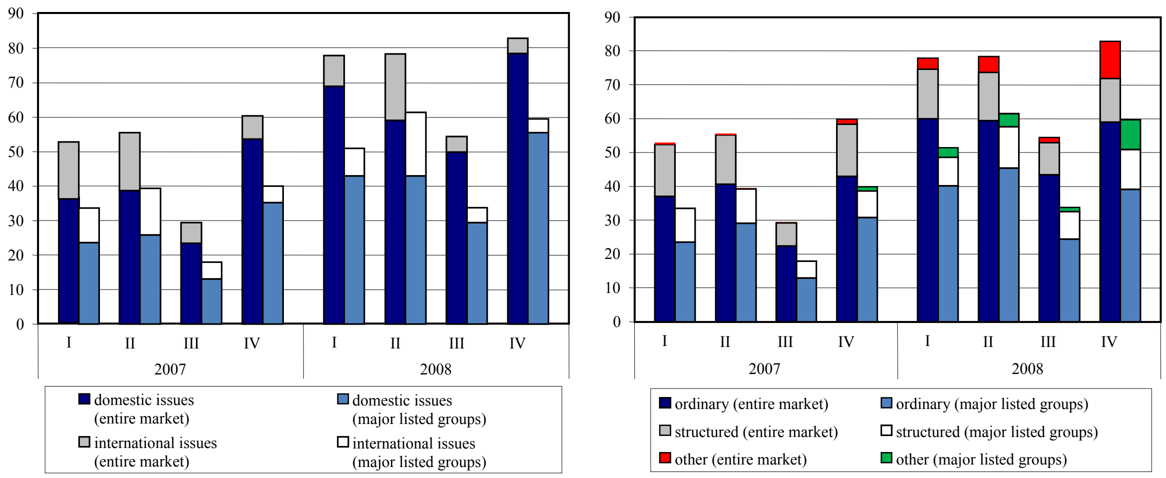
In Italy, bank bond issues placed with institutional investors rose from 60 billion to 89 billion euro (+47%), recording an increase higher than that of the USA. Issues by non-financial companies, however, fell drastically (-72%) as a result of a drop in the issue of investment grade securities (from 12 billion to 3.9 billion euro; -69%) and commercial papers (from 1.1 billion to around 240 million euro; -79%), whilst no high yield bond issues were recorded.

Given the total bank bonds placed with institutional and retail investors, the gross issues of Italian bank bonds increased from 152 billion to 256 billion euro (+72%). In particular, the volumes of ordinary bank bonds increased (from 143 billion to 222 billion euro; +55%), whereas there was a slight drop in the issue of structured securities (from 52 billion to 51 billion euro; Figure 40).

Figure 40

Italian bank bond issues

(in billions of euro)

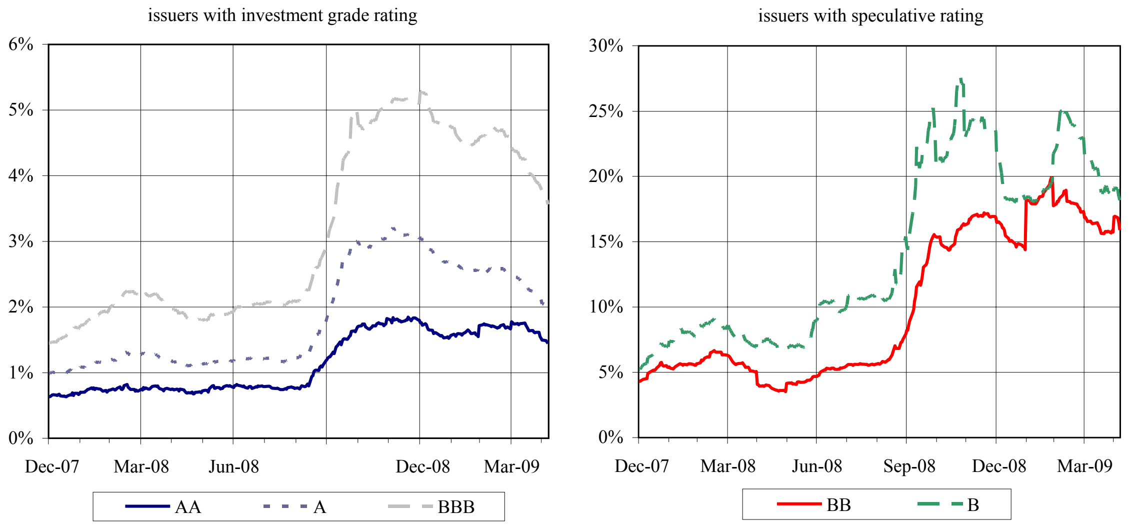


Source: calculations based on Dealogic data and prospectuses.

Financial market disturbance has led to a strong increase in the spreads between corporate bond and Government securities returns, especially for speculative-rated companies. At the beginning of May 2009 these spreads were around 16% for BB-rated issuers (compared to 4.3% at the end of 2007) and 18% for B-rated issuers (around 5% at the end of 2007; Figure 41).

Figure 41

Differentials between the returns on Euro bonds of non-financial companies and the returns on Euro Government securities
(daily figures 31 December 2007-6 May 2009)



Source: calculations on Merrill Lynch and Thomson Reuters-Datastream data. The returns on Government securities refer to German securities.

With regard to secondary markets, bonds traded on Italian regulated markets have increased from 2,512 billion to 1,636 billion euro (approximately -35%). The trading volume on the MTS market has dropped from 1,665 billion to 873 billion euro (-48%), whilst Bondvision trading volumes have returned to 2005 levels. However, trading has gone up on the TLX market (from 25 billion to 63 billion euro) and MOT market (from 149 billion to 177 billion euro; +19%, Table 10).

Table 10

Bond trading volumes on regulated Italian markets[1]
(in billions of euro)

	MTS	Bondvision	Wholesale market for bonds other than government securities	MOT[2]	EuroMOT	TLX[3]	*Total*
2000	2,020	—	..	154	..	—	*2,174*
2001	2,324	18	12	136	1	—	*2,491*
2002	2,205	100	24	159	2	—	*2,490*
2003	2,160	176	23	142	4	2	*2,507*
2004	1,949	339	31	147	4	8	*2,478*
2005	1,596	448	19	123	—	7	*2,193*
2006	1,634	555	17	122	—	13	*2,341*
2007	1,665	664	9	149	—	25	*2,512*
2008	874	522	1	177	—	63	*1,636*

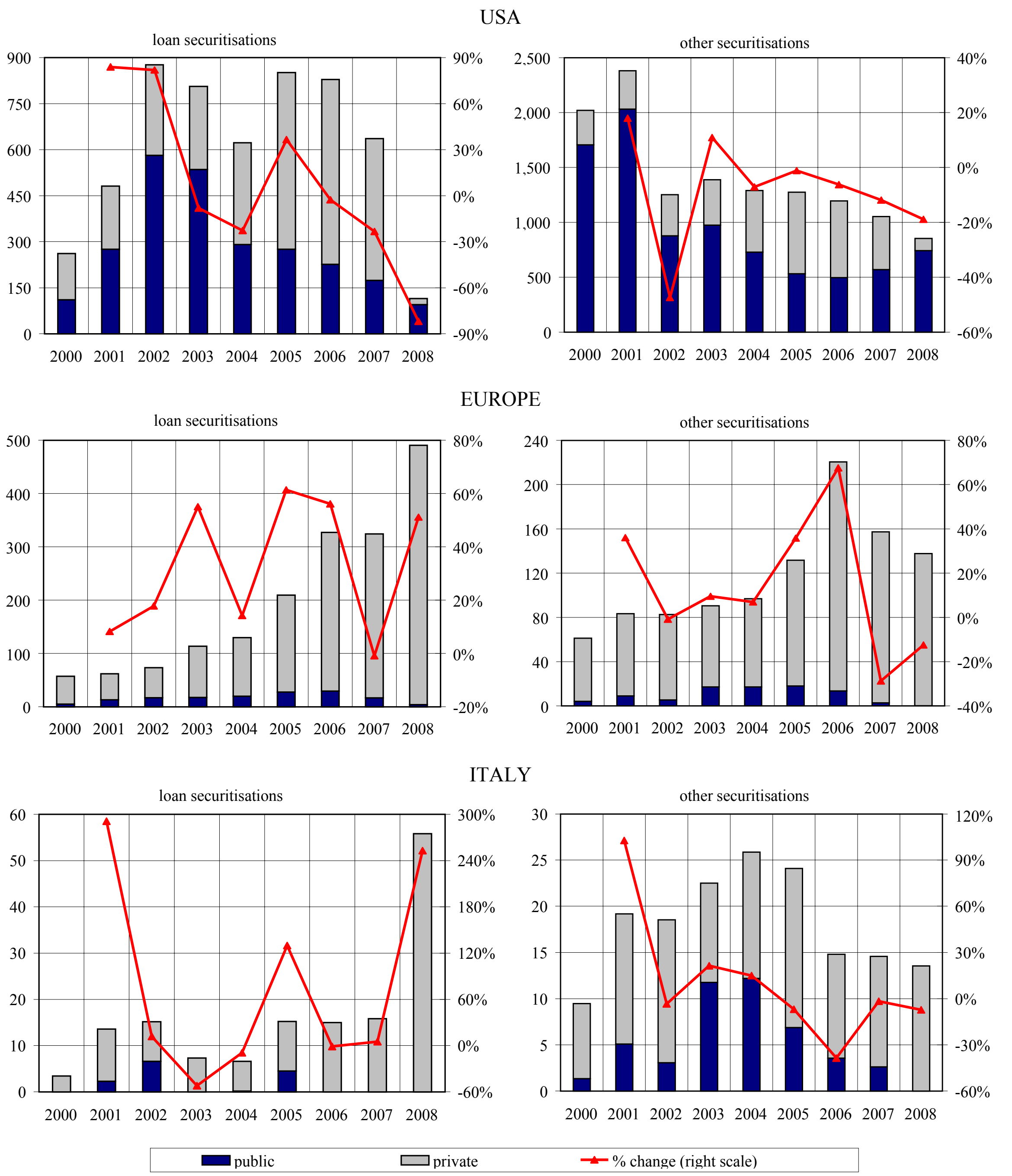
Source: Based on MTS S.p.A., Borsa Italiana S.p.A. and TLX S.p.A. data. [1] Rounding may cause discrepancies in the last figure. [2] From 2005 includes bonds previously traded on the EuroMOT market. [3] Market operative since 20 October 2003.

5. *The securitisations market*

The financial crisis and tension on the subprime mortgage market led to a drastic reduction in the issue of securitisations linked to loans in the USA (from 636 billion to 115 billion euro; -82%). Other securitisations reduced too, but by a much lower extent (from 1,053 billion to 854 billion euro; -19% Figure 42).

Figure 42

Securitisation issues
(billions of euro and year-on-year percentage changes)



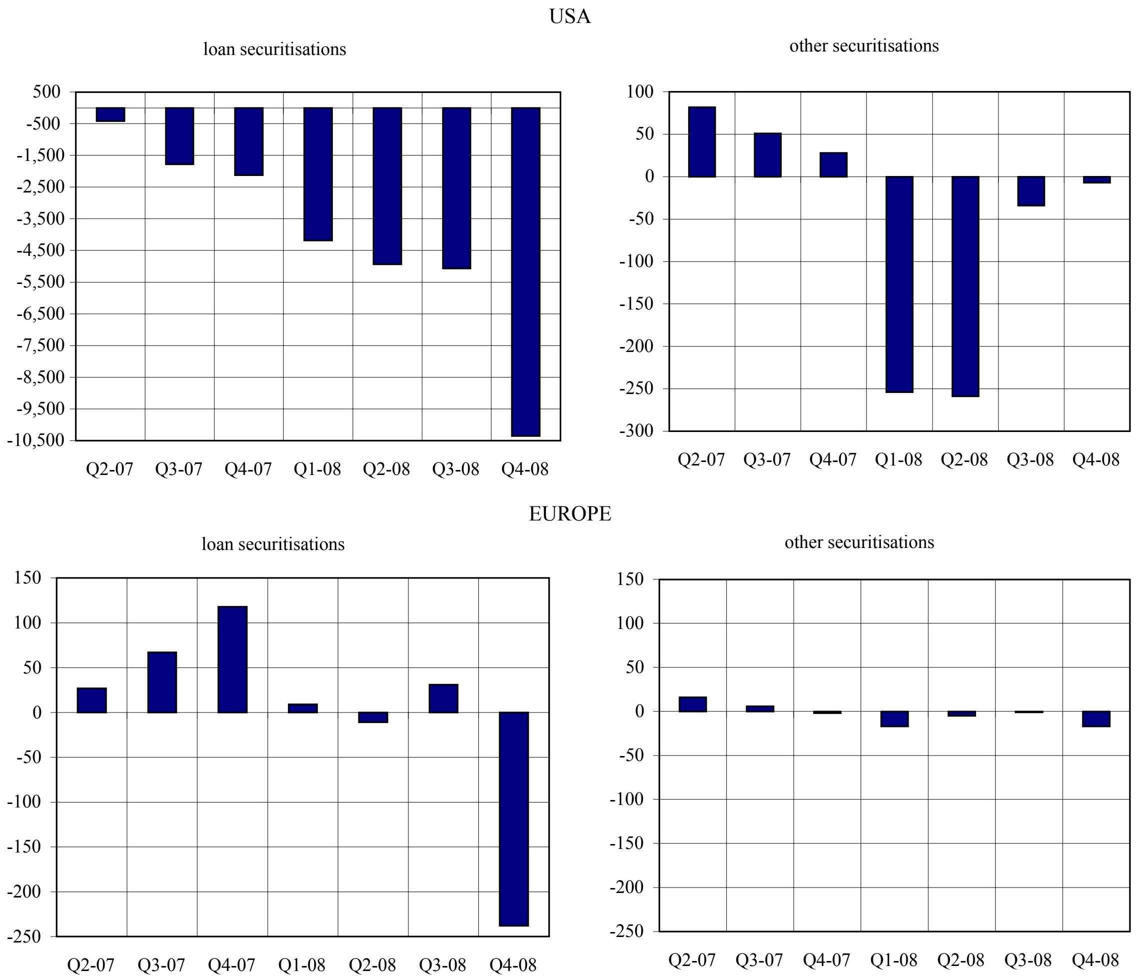
Source: Dealogic.

The massive drop in loan securitisation issues in the US is associated with a high number of rating downgrades on these products. Based on Fitch data, the difference between upgrades and downgrades peaked at 10,355 in the last quarter of 2008 (Figure 43). The rating downgrades were accompanied by a drastic decrease in the market value of securitisations, an increase in losses on loans (as a proportion of total outstanding loans) and an increase in the incidence of insolvent borrower foreclosures (Figure 44).

In Europe, on the other hand, loan securitisation issues increased from 324 billion euro in 2007 to 490 billion in 2008, despite rating downgrades (especially in the last quarter of 2008; Figure 43). In most cases the securities were bought back by the banks so as to hold instruments for use as guarantees for refinancing transactions with the European Central Bank. Loan securitisation issues in Italy almost quadrupled, rising from 16 billion to 56 billion euro. Other securitisation issues decreased, however, from 14.6 billion to 13.5 billion dollars (-7.2%).

Figure 43

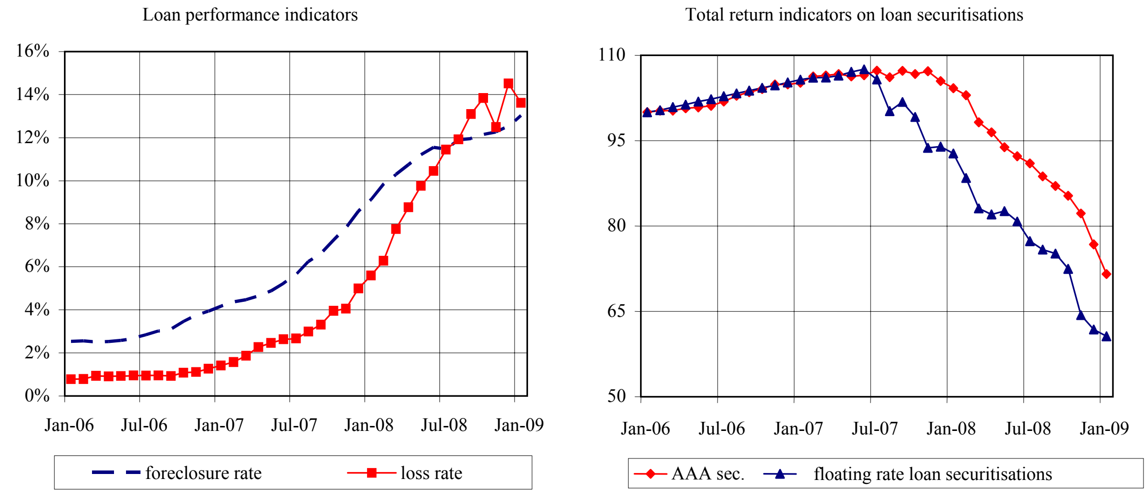
Changes in structured product ratings
(difference between the number of upgrades and downgrades)



Source: Fitch.

Figure 44

Performance of loans and loan securitisations in the USA
(monthly figures)



Source: Thomson Reuters Datastream, Moody's and Merrill Lynch. The foreclosure rate indicates the incidence of foreclosures on outstanding loans. The chart on the left also illustrates the percentage of total losses on outstanding loans. The total return indicator, with initial capital equal to 100, is the sum of capital revaluation and coupon collections.

III − INTERMEDIARIES AND HOUSEHOLDS

1. The major banking groups

The 2008 financial statements of the major Italian banking groups reflect the negative effects of the financial crisis. Despite an increase in net interest income (+17.5%), gross income reduced by 1.4% due to a drop in net commissions (-7.3%) and losses on financial transactions of around 2.2 billion euro. Operating results fell by 13.4% as a result of an 8.5% increase in operating costs. Net profit, however, was halved due to a strong increase in adjustments on loans and other financial items (Table 11).

Table 11

Aggregate income statement for the major Italian banking groups
(amounts in millions of euro)

	2004	2005	2006	2007	2008	% change 2008/2007
Net interest income (a)[1]	28,504	30,045	39,016	38,444	45,169	+17.5
Net commissions (b = b.1 + b.2 + b.3)	17,257	19,860	23,414	21,955	20,352	-7.3
of which:						
investment and collective management services (b.1)	*8,862*	*10,066*	*12,088*	*11,596*	*9,731*	*-16.1*
security and currency trading and order receipt	1,055	1,131	1,711	1,745	1,639	-6.1
individual portfolio management	788	1,035	1,237	1,062	956	-10.0
collective portfolio management	4,828	5,022	4,993	4,444	3,346	-24.7
depositary bank	390	388	409	347	255	-26.6
securities safekeeping	213	188	220	234	125	-46.6
placement and distribution of financial and insurance products	1,512	2,217	3,364	3,442	3,085	-10.4
consulting	77	85	154	321	326	+1.4
from banking services (b.2)[2]	*7,308*	*8,417*	*10,658*	*9,669*	*10,193*	*+5.4*
other net commissions (b.3)[3]	*1,086*	*1,377*	*667*	*688*	*428*	*-37.8*
Profit/loss on financial transactions (c)[4]	3,156	3,126	6,291	3,450	-2,184	-163.3
Other net operating income (d)	3,977	1,988	1,978	1,628	1,333	-18.1
Insurance management result (e)	…,	626	537	526	410	-22.1
Gross income (f = a+b+c+d+e)	52,894	55,645	71,235	66,003	65,080	-1.4
Operating costs (g)[5]	32,994	32,148	39,744	36,085	39,158	+8.5
Operating result (f-g)	19,900	23,497	31,491	29,918	25,922	-13.4
Net adjustments on loans	-5,596	-4,602	-6,194	-5,789	-9,660	+66.9
Net adjustments on other financial transactions	-917	-541	-454	-479	-2,800	+484.6
Net profit[6]	8,747	12,114	16,928	18,473	9,229	-50.0

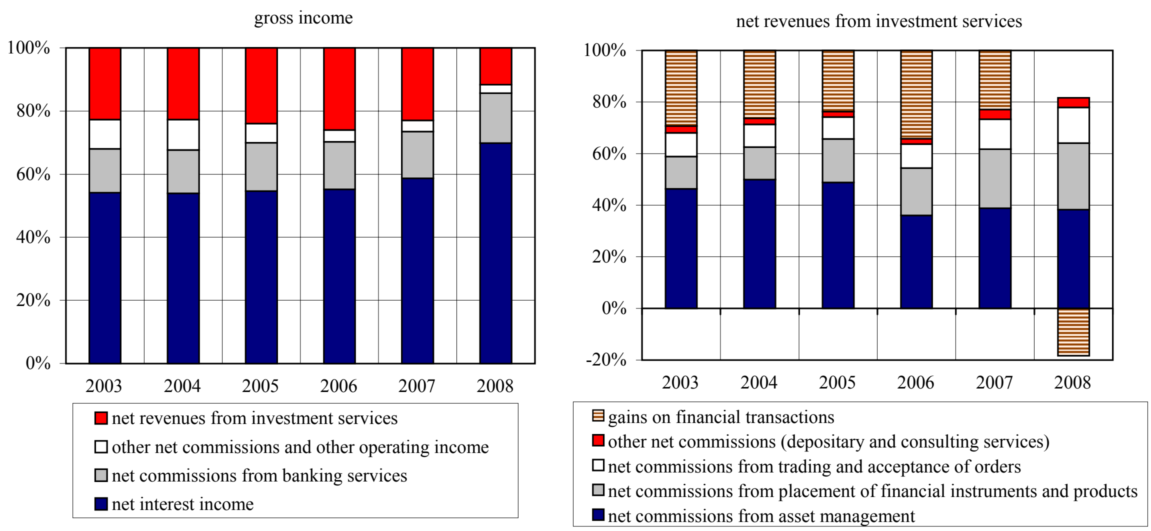
Source: calculations based on consolidated financial statements. Rounding may cause discrepancies in the last figure. See Methodological Notes. Data for years prior to 2008 take into account major banking groups later merged via M&A into groups existing as at the end of 2008, except for HVB (consolidated into UniCredit as from 1 November 2005). [1] Includes dividends on equity investments, gains and losses on equity investments carried at equity and the balance of interest rate hedge transactions. [2] Net commissions for guarantees issued and credit derivatives, collection and payment services, net commissions on current accounts, credit cards and ATM services. [3] Net commissions for servicing on securitisation transactions, factoring and tax collection services. [4] For annual statements from 2005 onwards, prepared in accordance with IAS/IFRS, the item includes the net result of trading, hedges and assets and liabilities carried at fair value, plus gains/losses from the disposal or buyback of financial assets and liabilities. [5] Administrative expenses plus value adjustments on tangible and intangible fixed assets. [6] Including profit pertaining to minority shareholders.

In 2007, the weight of revenues from investment services (intended as the sum of net commissions from investment services and collective management plus profit from financial transactions) on gross income dropped to 11.7% (compared to approximately 23% in 2007), whilst the weight of gross income increased to account for almost 70% of total revenues (Figure 45).

The decrease in the incidence of revenues from investment services on gross income depends not only on the steep losses on financial transactions but also on the significant drop in net commissions from investment and asset management services (-16.1%).

Figure 45

Breakdown of revenues of the major Italian banking groups

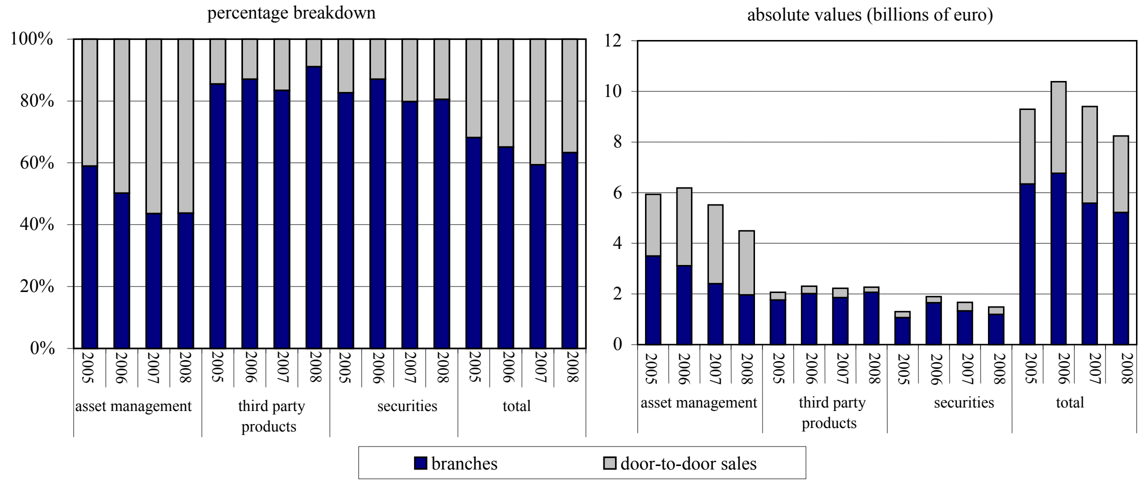


Source: calculations based on consolidated financial statements. See Methodological Notes.

With regard to commission income from investment services and from the placement of financial products and instruments, the weight of commissions generated by door-to-door selling has fallen slightly from 40% to approximately 37%, against an increase in the weight of commissions generated by bank branches. The weight of sales networks is particularly significant in the placement of asset management products (generating almost 60% of commission income), whereas in relation to revenues from the placement of third party securities and financial products the greater weight is still generated from branch activities (Figure 46). In aggregate terms, as confirmed by income statement figures, the decrease in total commission income from 9.4 billion to 8.2 billion euro (-12.7%) is mainly attributable to lower asset management revenues, whilst revenues from the placement of third party securities and products have remained stable.

Figure 46

Commission income from investment services and placement of products and financial instruments for the major Italian banking groups by distribution channel

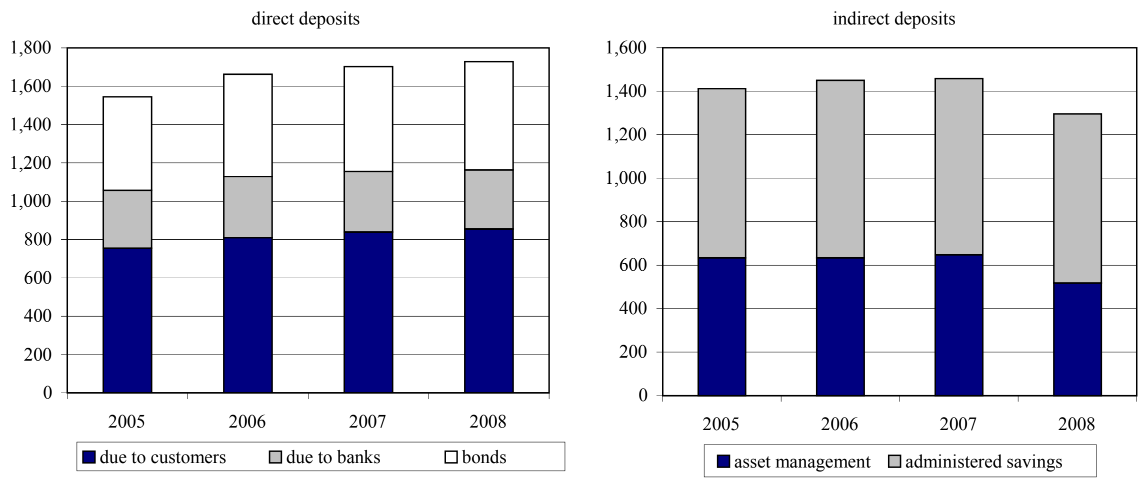


Source: calculations based on consolidated financial statements. See Methodological Notes.

In 2008 the total direct and indirect deposits of the major Italian banking groups reduced overall by around 137 billion euro (-1.5%), returning to levels similar to those of 2005. Direct deposits increased by approximately 26 billion euro (+1.5%) due to higher gross issues of bonds (around +3.0%) and deposits (around +1.9%), whereas bank deposits fell by 2.2%. Indirect deposits (asset management and administered savings), on the other hand, fell steeply by approximately 164 billion euro (-11.2%), largely due to reduced asset management (-130 billion euro; -20.1%) compared to a much more limited drop in administered savings (-34 billion euro; -4.2%) (Figure 47).

Figure 47

Deposits for the major Italian banking groups
(period end balances; in billions of euro)

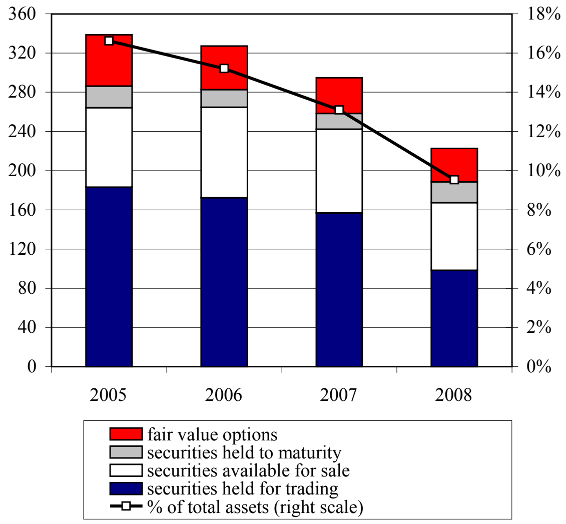


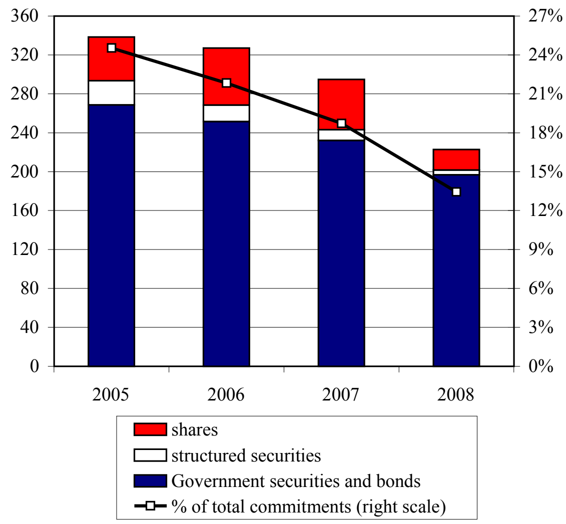
Source: calculations based on consolidated financial statements. See Methodological Notes. Asset management includes technical reserves for insurance and welfare products for group companies. Subordinated and trading liabilities are excluded from direct deposits.

In 2008 the total value of major Italian banking groups' own securities recorded a strong decrease compared to the end of 2007, from 297 billion to around 225 billion (-24.4%) (Figure 48). Specifically, there was a decrease in the countervalue of securities held for trading (-37.4%), available-for-sale securities (-19.1%) and securities carried at fair value (based on the fair value option) (-5.8%). Government securities and bonds as at the end of 2008 represented around 88% of total securities portfolios, whilst the incidence of structured securities saw a further decrease (from 5.0% to 2.3%). The weight of the securities portfolio on the financial statements of major Italian banking groups continued to diminish. As a percentage of total assets the figure decreased from 13.1% to 9.5%, whereas the impact on total resource usage dropped from 18.7% to 13.4%.

Figure 48

Breakdown of the securities portfolio of the major Italian banking groups
(period end balances; in billions of euro)



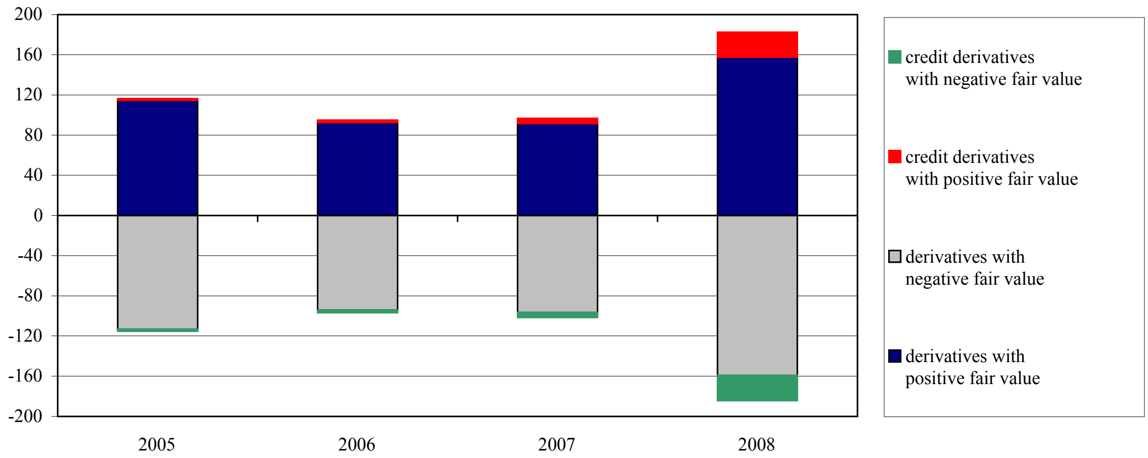


Source: calculations based on consolidated financial statements. See Methodological Notes. Financial assets other than securities (i.e. credit facilities or loans) and assets sold and not cancelled or impaired are excluded. Undertakings for collective investment are included among Government securities and bonds.

The gross market value of trading derivatives for the major Italian banking groups (i.e. sum of the absolute fair value of positive market value positions and the fair value of those with a negative market value) in 2008 increased from 198 billion to around 367 billion euro (+85.3%) (Figure 49). As at the end of 2008 the net market value (the difference between the fair value of positive market value positions and the fair value of those with a negative market value) was around -1.5 billion euro (-4.8 billion in 2007). Though the net fair value of trading derivatives indicates that, overall, market risk was lower than that of 2007, both the total of positive fair value derivatives (increasing from 97 billion to approximately 183 billion euro) and total gross fair value suggest an increase in counterparty risk.

Figure 49

Fair value of trading derivatives of the major Italian banking groups
(period end figures; in billions of euro)

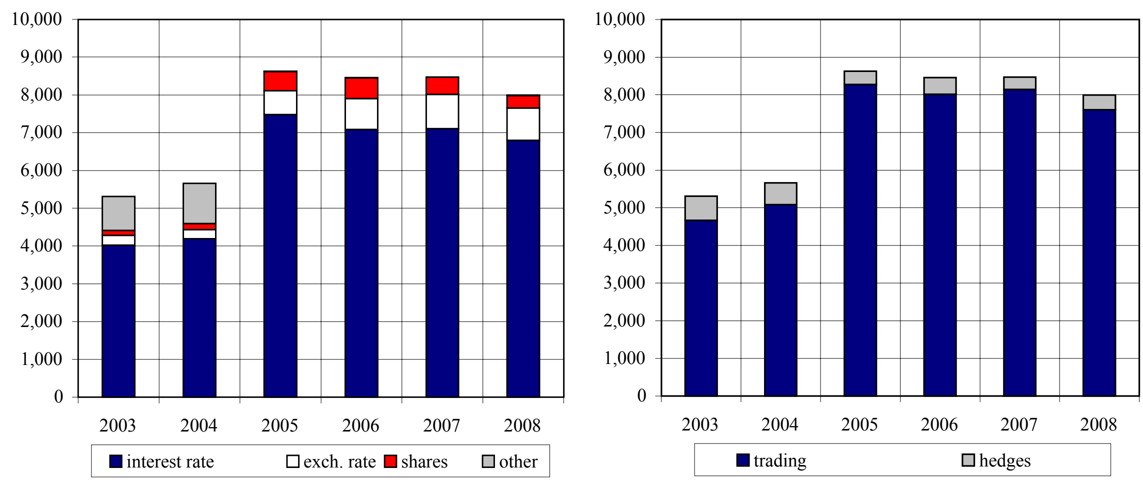


Source: calculations based on consolidated financial statements. See Methodological Notes.

The strong increase in market value of derivative positions of the major banking groups was entirely attributable to changes in the underlying totals (mostly linked to interest rates), whilst the notional turnover for derivatives held in portfolio (around 98% for trading) fell from 8,476 billion to 7,998 billion euro (-5.6%) (Figure 50).

Figure 50

Notional turnover for derivatives of the major Italian banking groups
(period end balances; in billions of euro)

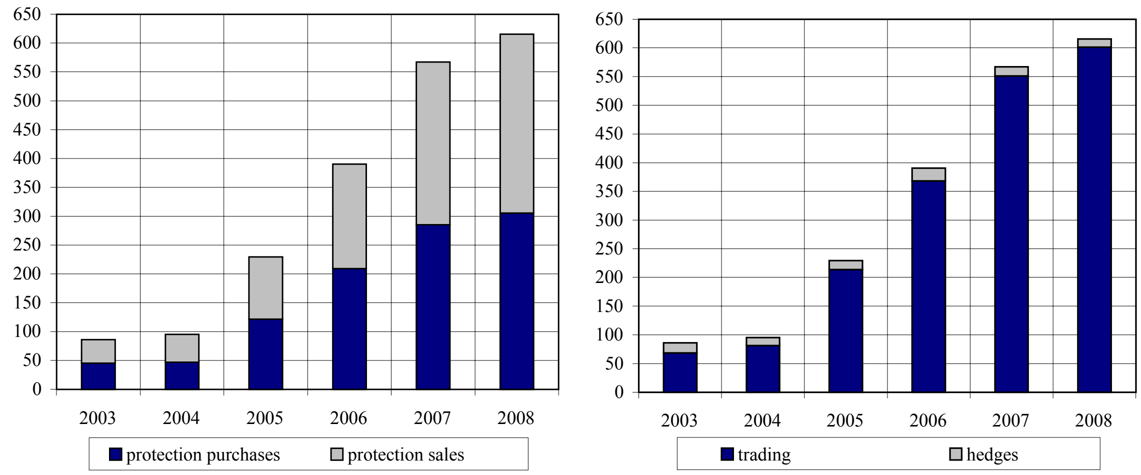


Source: calculations based on consolidated financial statements. See Methodological Notes.

The notional turnover for credit derivatives increased significantly during 2008, however, from 567 billion to approximately 616 billion euro (+8.6%) (Figure 51). Protection purchases and sales, on the other hand, were more or less evenly balanced, positions held for trading (albeit a large portion attributable to a single banking group) predominating over hedges.

Figure 51

Notional turnover for credit derivatives of the major Italian banking groups
(period end balances; in billions of euro)

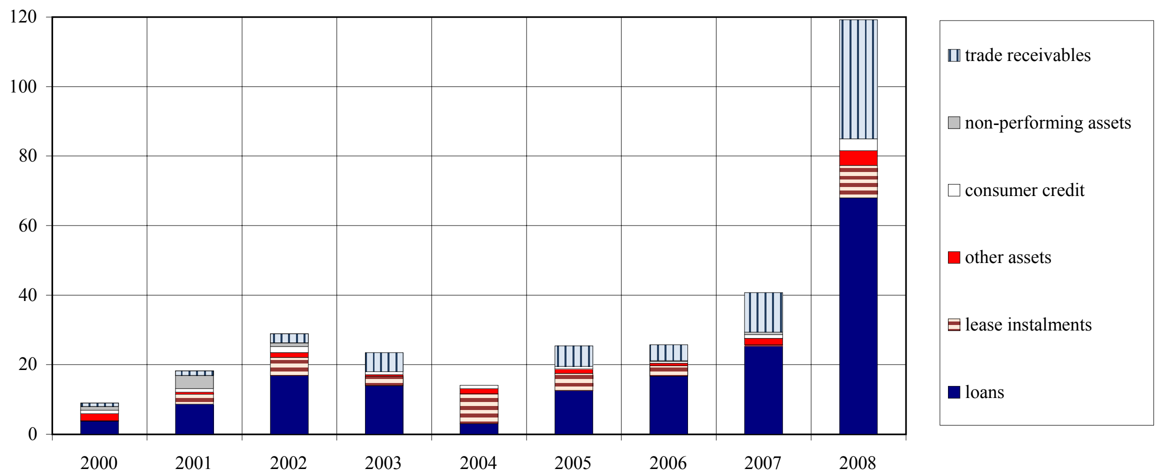


Source: calculations based on consolidated financial statements. See Methodological Notes.

2008 saw intense growth in asset disposals by the major Italian banking groups as part of securitisations (from 40 billion euro in 2007 to 120 billion euro), largely relating to loans and trade receivables (Figure 52). Adding the total for this activity to that for initial transactions by Italian banks on covered bond issues brings the sum total to around 6 billion euro.

Figure 52

Assets disposed of for securitisation purposes by the major Italian banking groups
(in billions of euro)



Source: calculations based on consolidated financial statements. See Methodological Notes.

The steep rise in securitisations resulted in a parallel increase in overall exposure of the major Italian banking groups from this type of transaction. Specifically, exposure from securitisations in 2008 increased by around 60 billion euro, from 70 billion to approximately 130 billion (75% of which attributable to a single banking group). In effect, while off-balance sheet exposure reduced from 13.1 billion to 4.4 billion euro, cash exposure leapt from 56.1 billion to 124.7 billion euro. The increased exposure mainly involved securitisations of own assets referring to both loans and other assets (Table 12).

Table 12

Exposure from securitisations of the major Italian banking groups
(in millions of euro; period end data)

		Own				Third party				*Total*
		Loans		Other assets		Loans		Other assets		
		impaired	performing	impaired	performing	impaired	performing	impaired	performing	
2005	Cash	2,574	3,757	864	2,928	--	450	1,126	12,725	*24,424*
	Off-balance sheet	964	202	4	125	--	--	--	--	*1,295*
	Total	*3,537*	*3,959*	*868*	*3,054*	--	*450*	*1,126*	*12,725*	*25,719*
2006	Cash	2,272	3,293	412	4,409	78	9,073	579	20,657	*40,772*
	Off-balance sheet	1,043	202	50	66	--	--	--	16,438	*17,799*
	Total	*3,315*	*3,495*	*462*	*4,475*	*78*	*9,073*	*579*	*37,095*	*58,571*
2007	Cash	1,175	14,865	168	8,844	2	8,783	270	21,972	*56,079*
	Off-balance sheet	1,114	248	50	33	--	459	--	11,290	*13,193*
	Total	*2,289*	*15,113*	*218*	*8,877*	*2*	*9,242*	*270*	*33,262*	*69,272*
2008	Cash	209	56,563	1,392	41,074	160	8,115	68	17,189	*124,772*
	Off-balance sheet	--	188	785	34	--	42	--	3,349	*4,397*
	Total	*209*	*56,751*	*2,177*	*41,108*	*160*	*8,157*	*68*	*20,538*	*129,168*

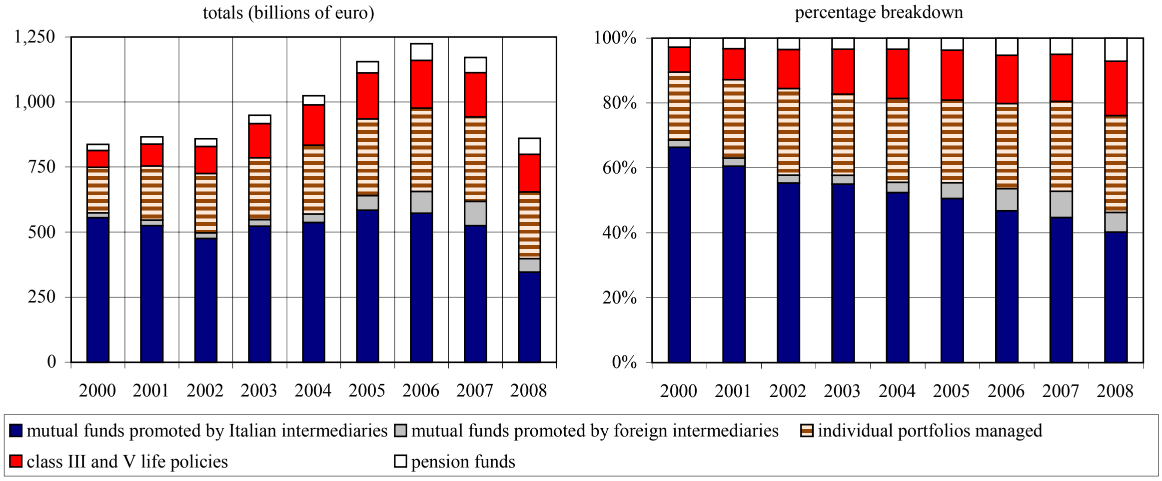
Source: calculations based on consolidated financial statements. See Methodological Notes.

2. Institutional investors

As at the end of 2008, portfolios referring to asset management products placed in Italy were approximately 27% lower than the December 2007 figure (decreasing from 1,171 billion to around 861 billion euro). This decrease is largely due to the performance of mutual funds promoted by Italian intermediaries, for which assets fell from 524 billion to approximately 353 billion euro (around -33%), and managed assets, which reduced from 325 billion to 257 billion euro (approximately -21%). The reduction in total technical reserves on class III (policy-linked) and class V (capitalisation products) insurance policies was more limited (from 170 billion to 144 billion; around -15%). For the first time since 2000, mutual funds promoted by foreign intermediaries recorded a decrease (from 94 billion to 52 billion euro; approximately -45%). The asset portfolios managed by pension funds, on the other hand, increased slightly from 58 billion to around 61 billion euro (approximately +5%) (Figure 53).

Figure 53

Portfolio of asset management products placed in Italy

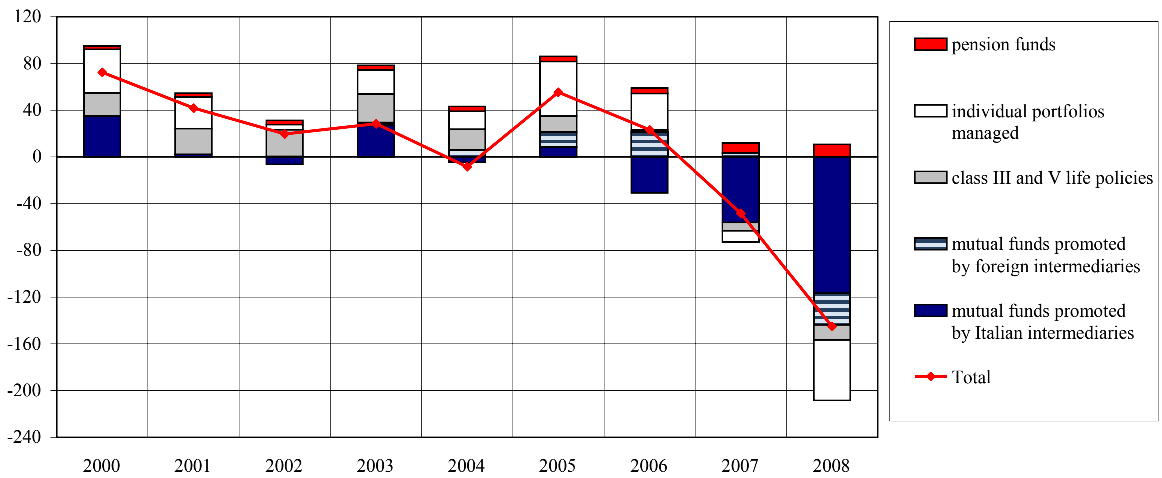


Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. Period end data. Data on mutual funds promoted by Italian intermediaries (including Italian companies controlled by foreign intermediaries) comprise Italian open-end funds (harmonised and otherwise) and foreign funds ("roundtrip" funds). Data also include funds of funds. The figures relating to individual portfolios are stated net of investments in units of mutual funds. The data relating to life policies refer to "direct Italian business" (i.e. excluding reinsurance business and that performed by foreign companies operating in Italy).

In 2008, the overall net inflows from asset management products placed in Italy were negative at approximately 206 billion euro (around 153 billion, excluding net subscriptions to mutual funds from individual portfolio management) (Figure 54), essentially due to the outflow of resources from mutual funds promoted by Italian intermediaries (approximately -117 billion euro; -56 billion euro in 2007) and from Italian portfolios (around -52 billion euro in 2008 compared to -9.5 billion euro in 2007). Inflows from class III and V life insurance policies were also negative. In fact, these products recorded a resource outflow of around 13 billion euro (approximately -7 billion euro in 2007).

Figure 54

Net inflows of asset management products placed in Italy
(in billions of euro)

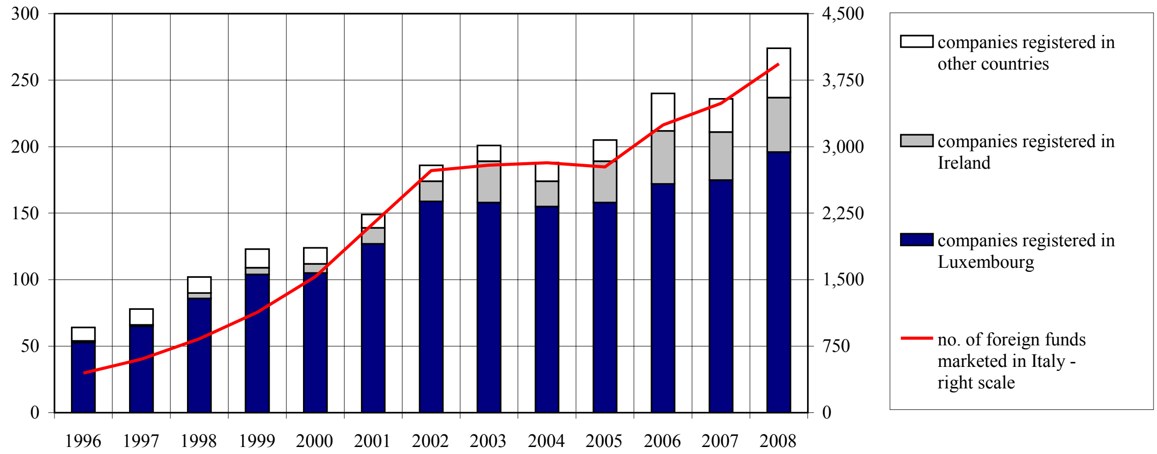


Source: calculations based on Ania, Assogestioni, Bank of Italy and Covip data. The data on mutual funds promoted by Italian intermediaries include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). The data relating to life policies refer to "direct Italian business" (i.e. excluding reinsurance business and that performed by foreign companies operating in Italy). The total does not take into account net subscriptions to mutual funds from individual portfolio management.

In 2008, net inflows from mutual funds promoted by foreign intermediaries were negative by around 27 billion euro (approximately +4 billion euro in 2007). However, the number of foreign operators authorised to market funds and SICAV segments (almost all registered in Luxembourg and Ireland) recorded an increase (from 236 to 274; Figure 55) and the number of foreign funds marketed in Italy continues to grow (from 3,488 to 3,935; +12.8%).

Figure 55

Number of foreign funds marketed in Italy and the number of foreign firms authorised to market funds, by registered office

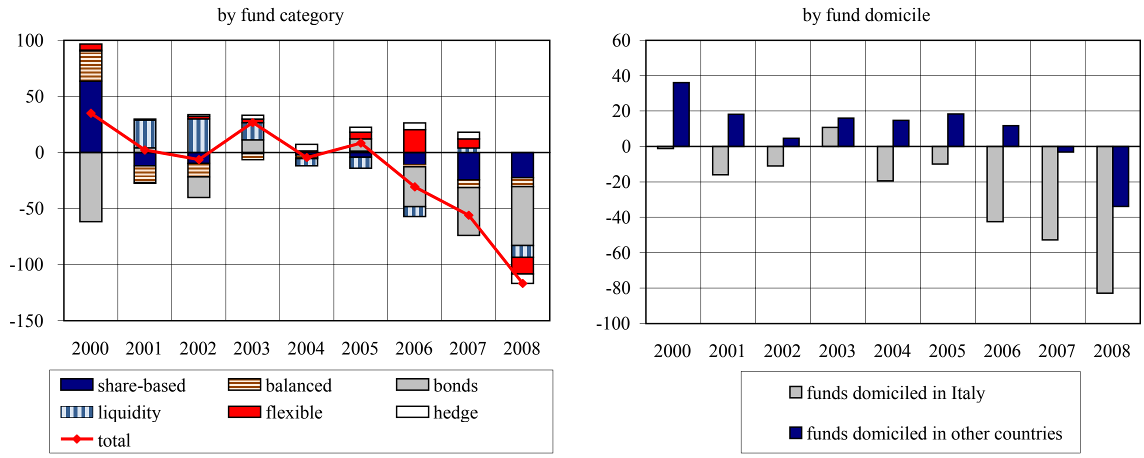


Source: prospectuses.

During 2008 the mutual funds promoted by Italian intermediaries recorded a strong outflow of resources (-116.8 billion euro), affecting both Italian funds (-82.9 billion euro) and foreign roundtrip funds (-33.9 billion euro) (Figure 56).

Figure 56

Net inflows from mutual funds promoted by Italian intermediaries
(in billions of euro)



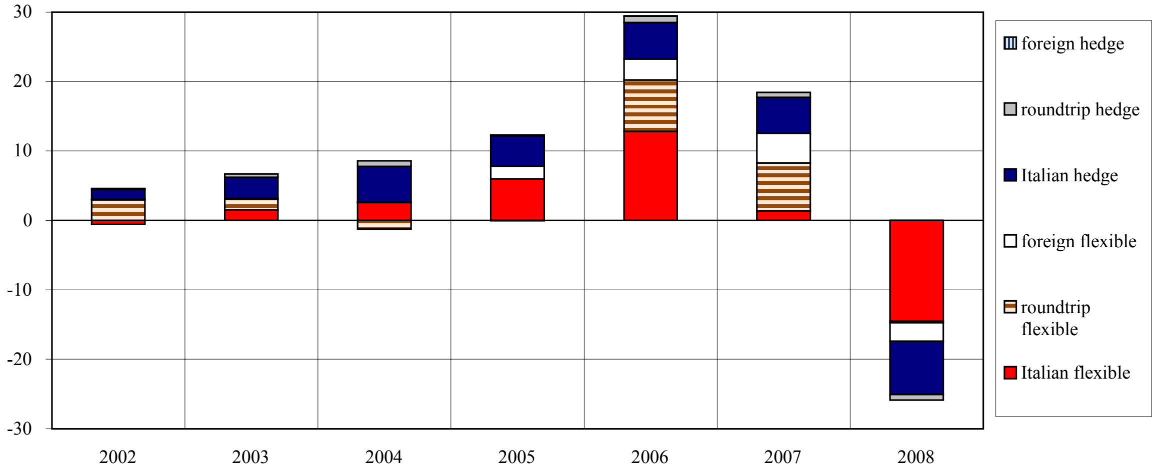
Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. Data include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Funds of funds are also included. For foreign domicile funds, data refer only to inflows from Italian subscribers until 2004, and thereafter also include inflows from foreign investors.

Net inflows were negative for all fund types, particularly bond-linked (-52.6 billion euro) and share-linked (-22.4 billion euro).

Even funds that in the past had always achieved positive net inflows, such as flexible and hedge funds, recorded strong outflows of resources in 2008 (Figure 57).

Figure 57

Net inflows of hedge funds and flexible funds, by fund domicile
(in billions of euro)



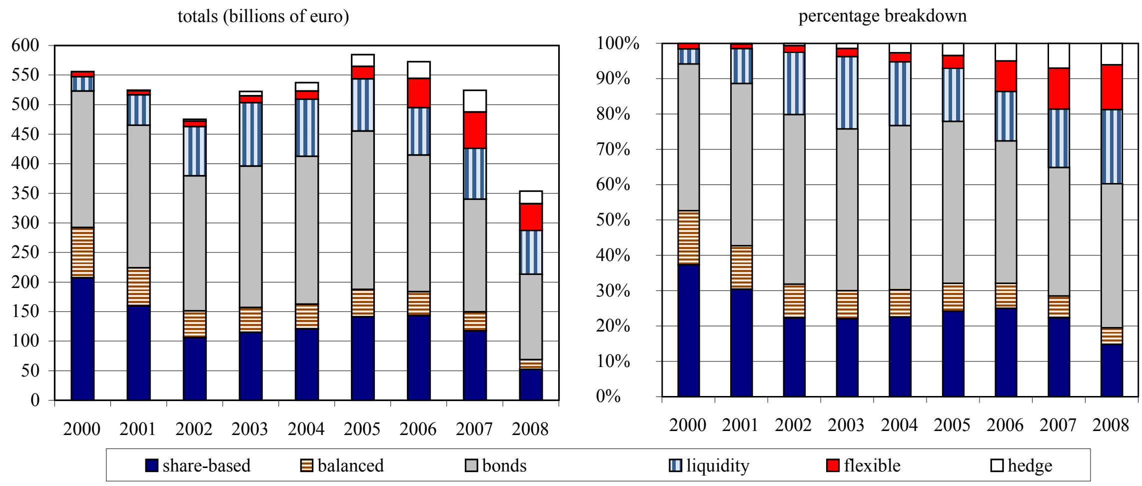
Source: calculations on Assogestioni data.

Assets for mutual funds promoted by Italian intermediaries fell by 32.5% (Figure 58), this reduction having an equal impact on both resources managed through Italian mutual funds and through roundtrip funds.

The weight of equity funds on the total assets managed by funds promoted by Italian intermediaries fell from 22% to around 15% (Figure 58), that of balanced funds from 6% to 5%, and that of bond funds from 7% to approximately 6%. On the other hand, the weight of resources managed by bond-linked funds increased (from 36.4% to 40.8%), as did that of liquidity funds (from 16.5% to 21%) and flexible funds (from 11.7% to 12.7%).

Figure 58

Shareholders' equity in mutual funds promoted by Italian intermediaries

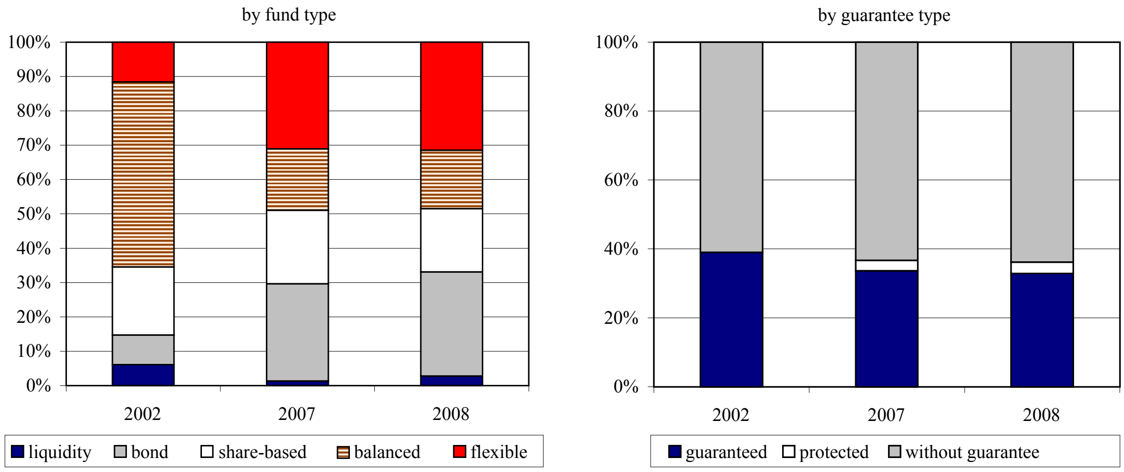


Source: Assogestioni. The Italian intermediaries include Italian asset management companies controlled by foreign entities. Data include Italian open-end funds (harmonised and otherwise) and foreign funds promoted by Italian intermediaries ("roundtrip" funds). Funds of funds are also included. For funds placed abroad data refer to total assets.

Developments in the breakdown of the Italian fund portfolios associated with unit-linked policies were somewhat different to those recorded for Italian mutual investment funds. Compared to 2007, unlike the figures recorded for Italian mutual funds, the percentage of domestic flexible funds remained stable and the weight of share-linked funds reduced only marginally (Figure 59).

Figure 59

Breakdown of managed portfolios of funds associated with unit-linked policies



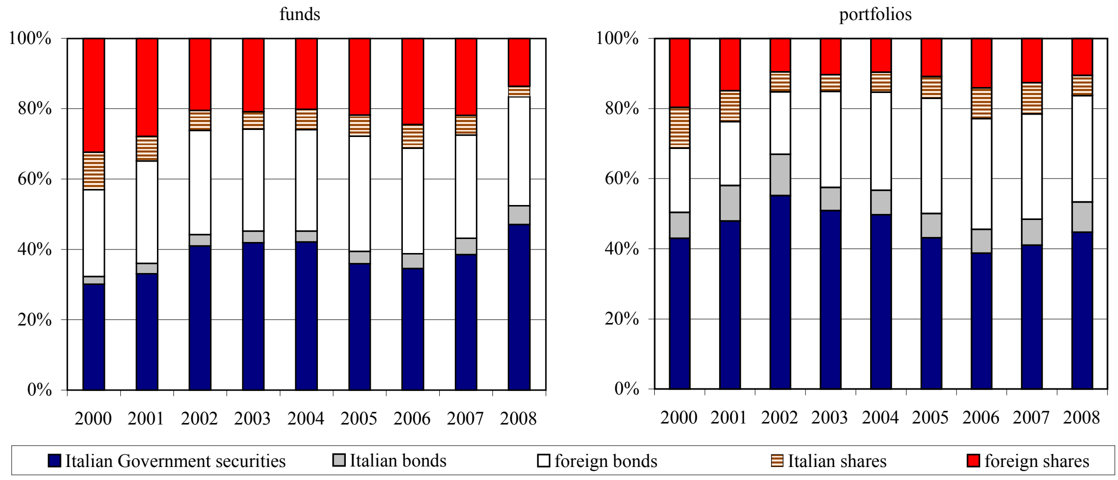
Source: calculations on Ania data.

In 2008 the change in the choice of asset allocation of Italian funds, affected by the negative share market performance, led to a decrease in the weight on the total portfolio of Italian equity (from 5.6% to 3.0%) and foreign equity (from 21.7% to 13.6%). However, the weight of Italian Government securities and bonds increased (from 43.4% to 52.4%), as did that of foreign bonds (from 29.3% to 31.1%) (Figure 60). Investment decisions relating to individual portfolios are not easily comparable with those of mutual funds, as around 25% of their portfolio is in turn invested in mutual funds. Nevertheless, a breakdown of the percentage invested in funds according to the average portfolio composition would show that individual portfolios are slightly less exposed to the share market than mutual investment funds (15.7% against the 16.6% for funds). The percentage of resources invested in Italian Government securities and bonds (51.3%), rather, is similar to that recorded for mutual funds. Almost three quarters of asset portfolios are managed by asset management companies, whilst the remainder are managed by banks and investment companies (21.8% banks, 2.1% investment companies).

In the European scenario, Italy is not the only country characterised by a strong outflow of resources from Italian mutual investment funds. In 2008 net inflows were also highly negative in France (-26 billion euro) and Spain (-46.9 billion euro). Furthermore, net inflows of funds domiciled in Luxemburg and Ireland and sold on a cross-border basis in several European countries fell by around 46 billion euro (Figure 61). Excluding international funds, the Italian market nevertheless retains fourth place in Europe for assets managed (after France, Germany and the UK).

Figure 60

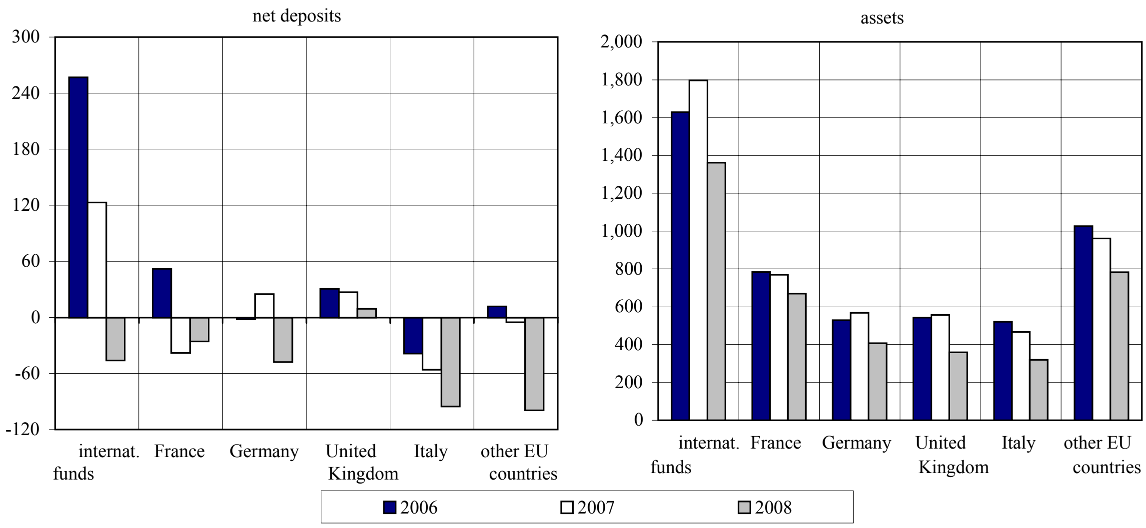
Breakdown of Italian open-end mutual fund portfolio and individual portfolios managed



Source: calculations based on Bank of Italy data. The portion of individual portfolios invested in undertakings for collective investment was allocated to other financial assets according to the composition of the Italian mutual fund portfolio for the reference year. The figure for foreign bonds includes foreign public securities and the figures for shares include undertakings for collective investment.

Figure 61

Portfolio and net inflows of mutual funds in Europe
(in billions of euro)



Source: Lipper FMI. The funds are classified on the basis of the country in which the major share of the portfolio is held. This classification criteria may differ from that of the country in which the fund is established, as occurs with "roundtrip" funds, or from that of the country of residence of the intermediary. "International funds" are those established in Ireland and Luxembourg, for which an individual country with at least 80% of the total portfolio ("pure cross-border") cannot be identified. The "other European countries" are Switzerland, Spain, Belgium, Sweden, Austria, The Netherlands, Denmark, Finland, Norway, Portugal, Greece, Romania, Slovenia, the Ukraine, Latvia, Lithuania, Bulgaria, Liechtenstein, Estonia, Russia, Slovakia, the Czech Republic, Croatia, Hungary, Turkey and Poland. Funds of funds are excluded.

In terms of costs, the figures reported for Italian open-end mutual funds indicate that average commissions compared to the total managed, after decreasing from 1.54% to 1.22% between 2006 and 2007, increased slightly in 2008 to reach 1.30% (Table 13), due to an increase in management commissions affecting all fund categories.

Table 13

Costs of Italian open-end funds
(percentages)

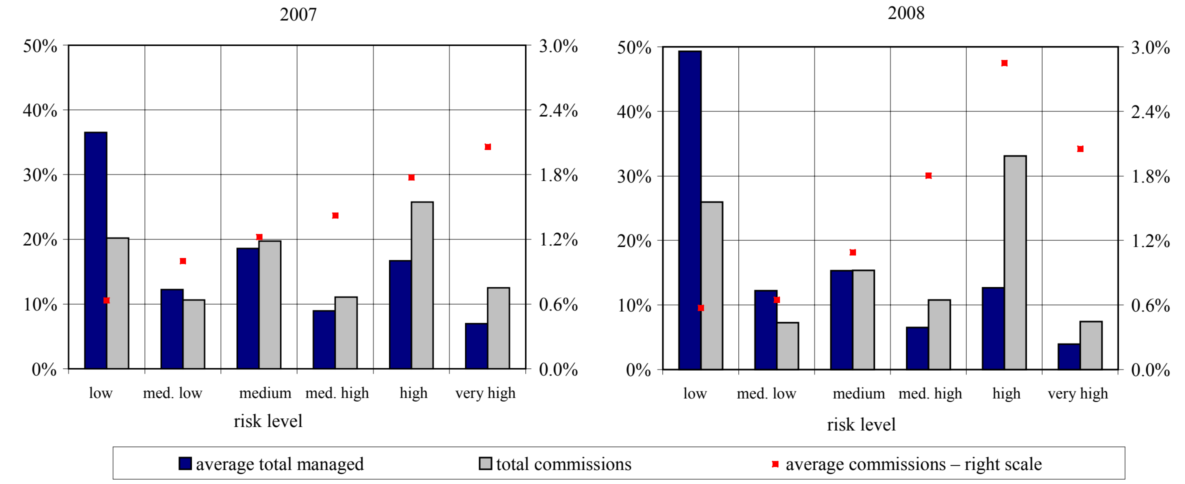
	Average weight of total managed assets[1]					Percentage breakdown				
	Total depositary bank fees	Management commissions	Inducements	Commission paid to other intermediaries	*Total*	Total depositary bank fees	Management commissions	Inducements	Commission paid to other intermediaries	*Total*
					2006					
Liquidity	0.10	0.67	..	..	*0.77*	12.5	87.3	..	0.2	*100.0*
Equity	0.13	1.98	0.28	0.24	*2.63*	5.1	75.3	10.5	9.1	*100.0*
Bond	0.10	1.01	0.02	0.01	*1.14*	8.5	88.5	1.8	1.2	*100.0*
Balanced	0.10	1.51	0.05	0.05	*1.71*	6.1	88.3	2.8	2.8	*100.0*
Flexible	0.09	1.32	0.26	0.08	*1.74*	4.9	76.0	14.7	4.3	*100.0*
Total	*0.10*	*1.26*	*0.10*	*0.07*	*1.54*	*6.9*	*82.1*	*6.4*	*4.6*	*100.0*
					2007					
Liquidity	0.06	0.43	..	..	*0.48*	11.76	88.08	..	0.16	*100.0*
Equity	0.11	1.94	0.07	0.21	*2.33*	4.61	83.22	3.07	9.09	*100.0*
Bond	0.07	0.83	0.00	0.01	*0.92*	7.88	90.55	0.35	1.22	*100.0*
Balanced	0.07	1.07	0.01	0.06	*1.21*	5.95	88.43	0.76	4.86	*100.0*
Flexible	0.09	1.28	0.06	0.05	*1.47*	5.79	87.04	3.86	3.31	*100.0*
Total	*0.1*	*1.06*	*0.02*	*0.06*	*1.22*	*6.40*	*86.72*	*1.99*	*4.89*	*100.0*
					2008					
Liquidity	0.09	0.73	..	..	*0.83*	11.03	88.80	..	0.16	*100.0*
Equity	0.11	2.12	0.03	0.30	*2.55*	4.12	83.12	1.09	11.67	*100.0*
Bond	0.08	0.98	0.00	0.01	*1.08*	7.79	90.82	0.43	0.96	*100.0*
Balanced	0.10	1.65	0.03	0.10	*1.88*	5.38	87.79	1.64	5.19	*100.0*
Flexible	0.07	1.33	0.03	0.06	*1.50*	4.80	88.68	2.31	4.21	*100.0*
Total	*0.09*	*1.14*	*0.01*	*0.06*	*1.30*	*6.83*	*87.67*	*0.90*	*4.60*	*100.0*

Source: Calculations on financial statements. Rounding may cause discrepancies in the last figure. [1] The total managed is calculated on the average end of month data.

The higher-risk funds (i.e. those showing a "high" or "very high" risk level in the prospectus) account for approximately 17% of total assets managed in 2008 and for around 41% of commission income (Figure 62). The average commissions on "high" risk funds have increased by almost one percentage point. The lower-risk funds (i.e. those showing a "low" or "very low" risk level in the prospectus) instead account for approximately 62% of total assets managed in 2008 and for around a third of total commission income. The average commissions on these funds recorded a slight decrease.

Figure 62

Breakdown of total Italian open-end mutual funds managed and related commissions by level of risk



Source: calculations on statistical supervisory indications and prospectuses.

In the first half of 2008 the trend for Italian real estate funds sector was the opposite of that of the open-end investment funds sector, though it was affected by a slowdown in the assets and total assets growth rates (Table 14).

Table 14

Structure of the Italian closed-end real estate fund market
(amounts in millions of euro)

	Number of management companies	Number of funds in operation	Shareholders' equity (A)	Total assets (B)	Borrowing ((B-A)/B)%	Asset percentage breakdown			
						properties and property rights	financial instruments	securities and liquidity	other assets
2003	11	19	4,434	5,160	14.1	74.7	8.7	10.2	6.4
2004	16	32	8,101	12,326	34.3	86.1	6.1	3.6	4.2
2005	27	64	12,026	18,576	35.3	83.7	8.5	4.8	3.1
2006	34	118	16,291	26,924	39.5	82.0	6.8	6.1	5.1
2007	47	171	21,563	35,866	39.9	85.3	4.7	4.4	5.6
June 2008	46	192	22,247	38,509	42.2	85.4	5.7	4.6	4.3

Source: Calculations on financial statements. Rounding may cause discrepancies in the last figure.

Between the end of 2007 and June 2008, real estate fund borrowing (shareholders' equity/total assets) increased slightly (from 40% to around 42%), whilst the breakdown of assets remained more or less unchanged compared to those recorded at the end of 2007.

Between 2003 and 2007 the Italian speculative funds market grew at a constant rate in terms of both the number of products (from 80 to 241) and total assets (from 6.4 billion to 32.6 billion euro; Table 15), whereas in the first nine months of 2008 the market recorded a decrease (total assets fell by around 18% and shareholders' equity by 17%).

Table 15

Summary data on the Italian speculative funds market

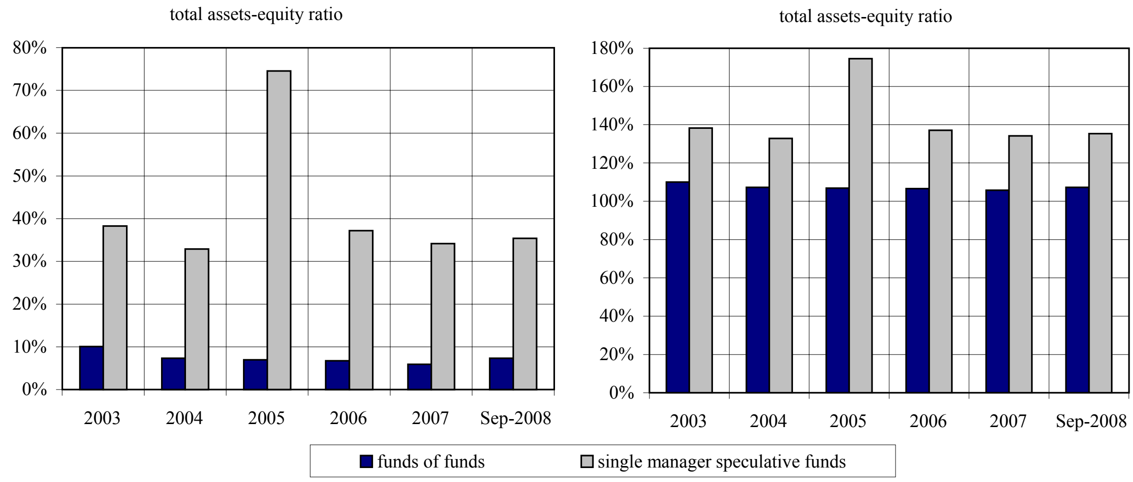
	Number of funds	Total assets (millions of euro)	*of which funds of funds (percentage weight on total assets)*	Shareholders' equity (millions of euro)	No. of asset mgt companies
2003	80	6,417	*95*	5,768	25
2004	135	12,682	*96*	11,728	27
2005	160	18,465	*95*	16,957	30
2006	200	25,529	*94*	23,588	35
2007	241	32,630	*94*	30,385	37
September 2008	260	27,168	*92*	24,918	39

Source: calculations on statistical supervisory indications.

The Italian speculative funds sector is characterised by little use of financial leverage, the weight of funds of funds being predominant, for which recourse to borrowing is normally rare. For "pure" (or "single manager") speculative funds, however, financial leverage is stronger but on the whole limited (liabilities total a little over 30% of the shareholders' equity and total assets are approximately 1.4 times higher than shareholders' equity; Figure 63).

Figure 63

Financial leverage indicators for Italian speculative funds

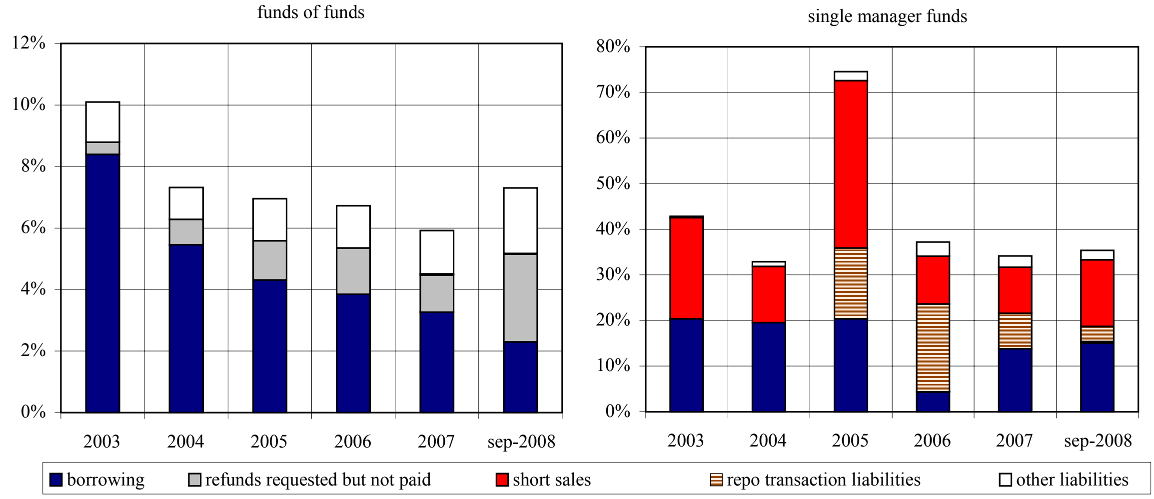


Source: calculations on statistical supervisory indications.

From 2006 to 2008 the total reimbursements requested but not paid on funds of funds has almost doubled, increasing from 336 million to 667 million euro (the shareholders' equity quota increasing in the same period from 1.5% to 2.8%). For single manager speculative funds the percentage of liabilities represented by short-selling commitments is significant (14.6% of shareholders' equity as at September 2008) (Figure 64).

Figure 64

Breakdown of liabilities for Italian speculative funds
(as percentages of shareholders' equity)

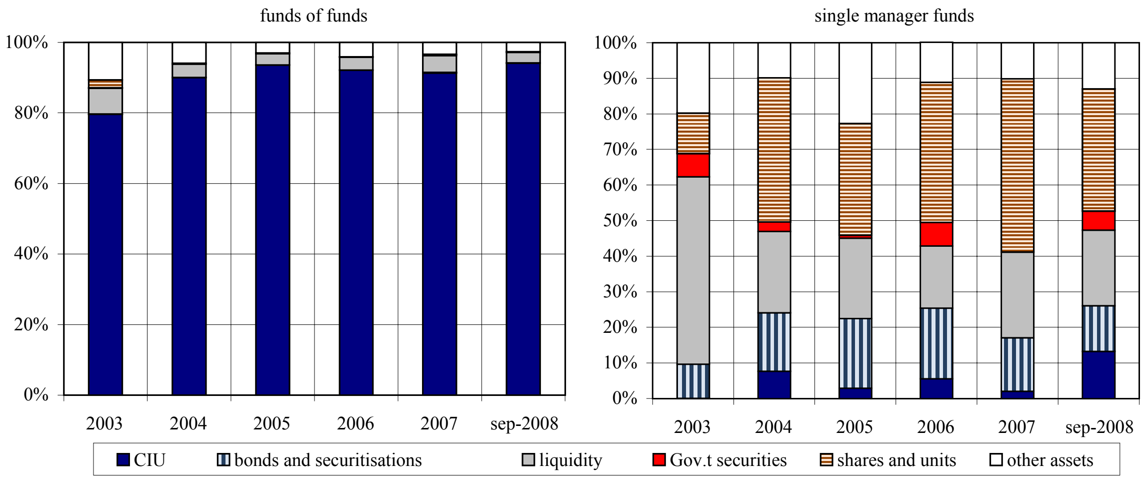


Source: calculations on statistical supervisory indications. "Other liabilities" includes commissions and charges matured but not settled, distributable income, options and similar issues, and tax liabilities.

In September 2008, funds of funds mainly recorded undertakings for collective investment as their assets (94%), whereas single manager funds largely held shares and corporate investments (CIU, around 50%), bonds (approximately 9%) and liquidity (approximately 21%; Figure 65).

Figure 65

Breakdown of assets for Italian speculative funds

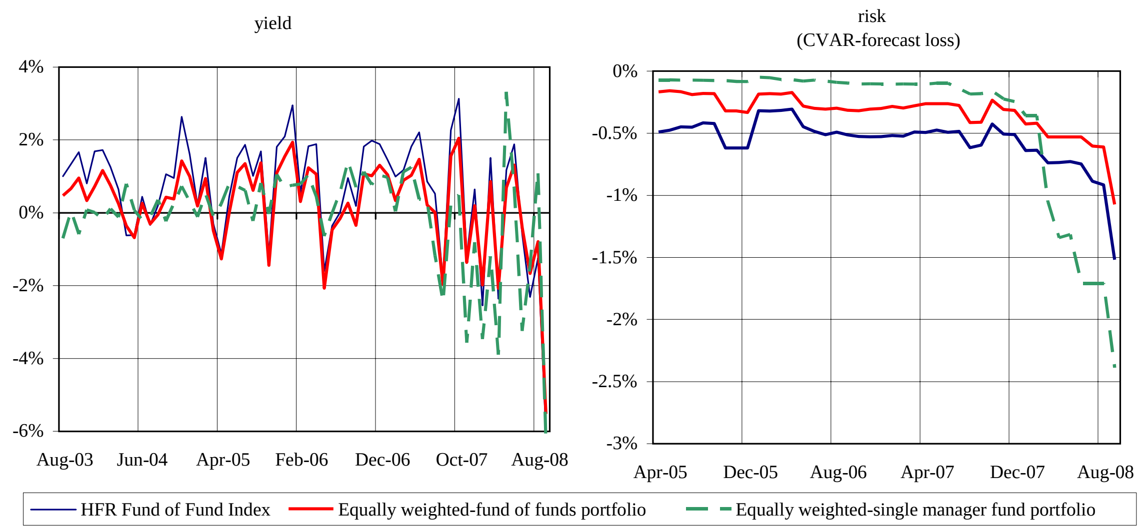


Source: calculations on statistical supervisory indications. "Other assets" include warrants, certificates, options and similar, tax credits and unclassified portfolio securities.

The outflow of resources from the Italian speculative funds sector (around 8 billion euro in 2008; see also Figure 57 above) reflects the general negative performance recorded for the funds from mid-2007 onwards (Figure 66).

Figure 66

Yield and risk of Italian speculative funds
(monthly figures)



The "HFR fund of funds index" is the Hedge Fund Research index (HFR) for speculative funds. The conditional value at risk (CVAR) is the expected loss on investment in a speculative fund if the yield proves lower than the 5th percentile for yield distribution probability. An equally weighted portfolio is one in which each fund carries the same weight, and therefore the portfolio yield is the arithmetic mean of the yields on each individual fund it contains.

In terms of performance and risk-yield profile, Italian speculative funds are similar to each other, and there is not always a clear match between the investment strategy declared in the fund regulations and the *ex post* performance assessed on the basis of actual yields.

The speculative funds and private equity funds sectors make up the "alternative" asset management segment, which has not truly taken off in Italy as yet. Specifically, the private equity sector is still at embryo stage. In fact, with respect to the GDP, private equity investments in Italian companies (by Italian and foreign funds) and the assets of Italian private equity managers is particularly modest (0.2% and 0.1%, respectively).

Between 2003 and mid-2008, the total assets of Italian private equity funds increased from 1.5 billion to 4.6 billion euro (Table 16).

Table 16

Development of the Italian private equity funds sector

	Number of funds	Total assets (millions of euro)	Equity subscribed (millions of euro)	Shareholders' equity (millions of euro)	No. of asset mgt companies
2003	35	1,470	3,036	1,443	26
2004	47	1,745	4,458	1,697	34
2005	61	2,420	6,422	2,363	43
2006	74	3,450	7,663	3,157	49
2007	95	4,097	12,329	3,910	58
June 2008	102	4,577	13,443	4,296	61

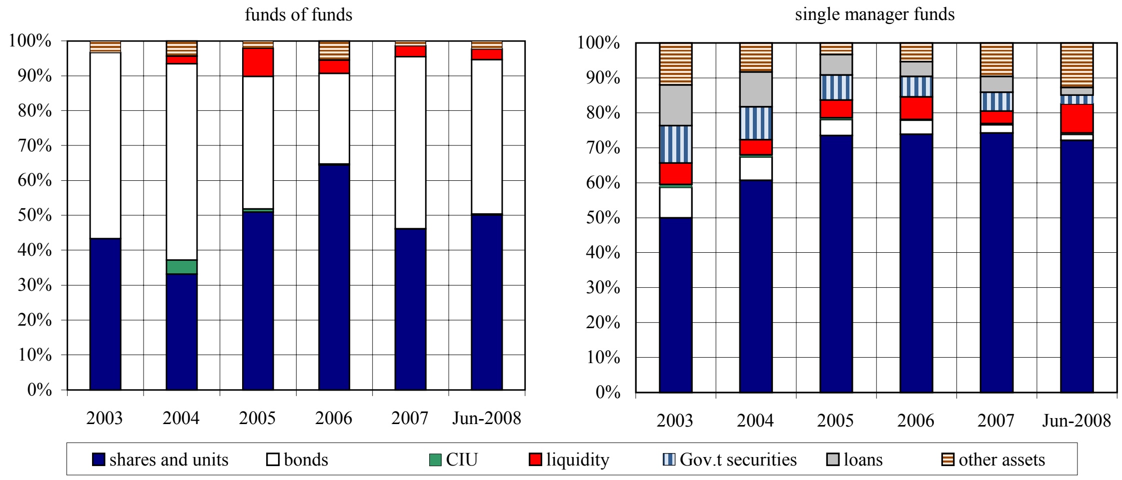
Source: calculations on statistical supervisory indications.

This sector is highly concentrated: as at the end of June 2008, 56.9% of Italian private equity fund assets were attributable to the top 10 managers. Banking and insurance groups hold investments in less than 50% of Italian private equity fund managers, which accounts for 38% of the total assets managed.

"Pure" fund assets are mainly invested in shares and corporate investments (around 70%), whereas fund of fund assets are largely invested in undertakings for collective investment and shares. The percentage of tax credits (classified as "other assets") on general and capital losses has gradually had a growing impact on "pure" funds (Figure 67).

Figure 67

Assets breakdown of Italian private equity funds

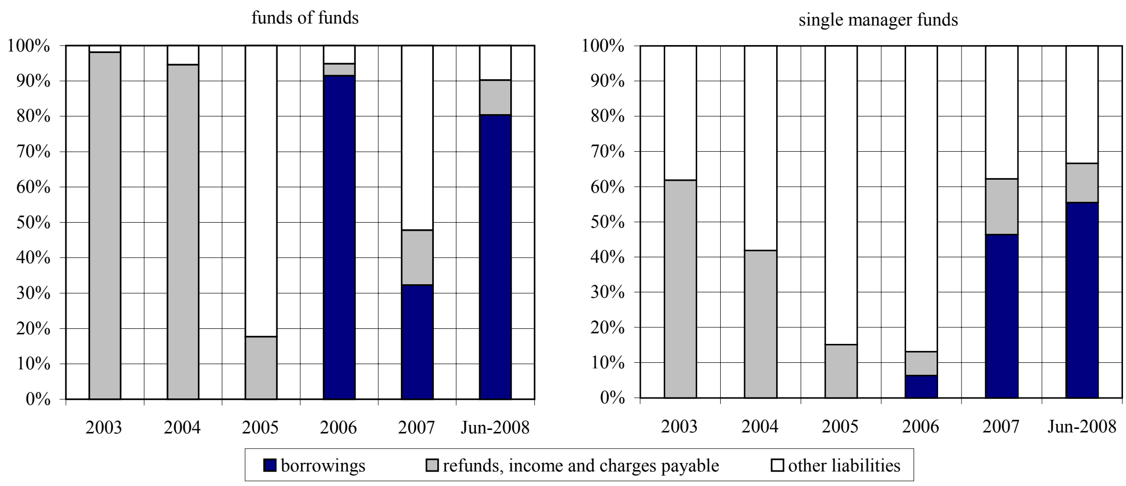


Source: calculations on statistical supervisory indications.

The financial statements figures show that borrowing has a limited impact and therefore little recourse to financial leverage by Italian private equity funds, even though pure funds have considerably increased recourse to borrowing from 2007 onwards (Figure 68).

Figure 68

Liabilities breakdown of Italian private equity funds

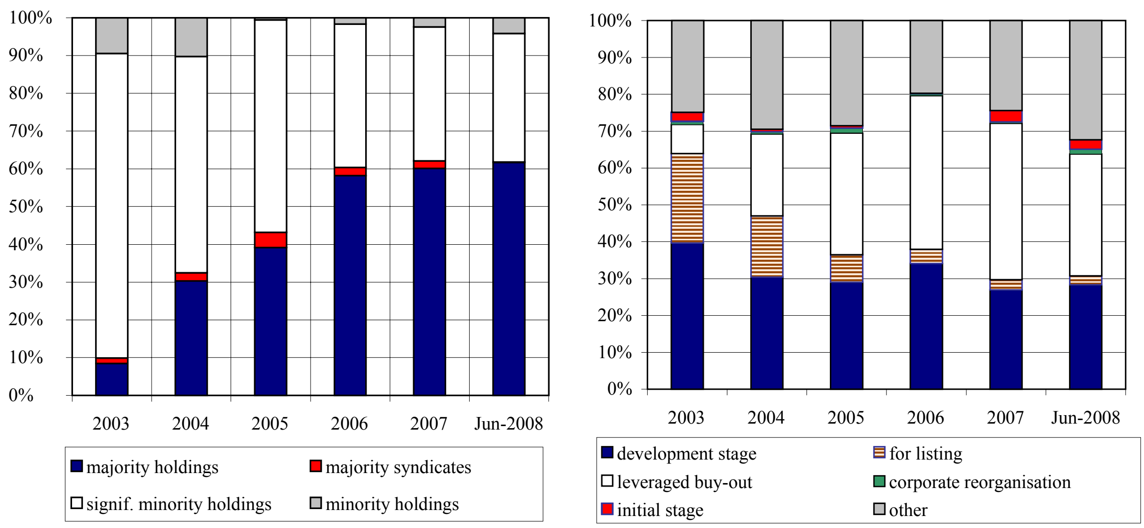


Source: calculations on statistical supervisory indications.

Equity interests of Italian private equity funds have always aimed to exercise control over the companies concerned. The weight of investments as leveraged buy out decreased, however, compared to 2007, as did the weight of investments for listing purposes (Figure 69).

Figure 69

Equity investments of Italian private equity funds

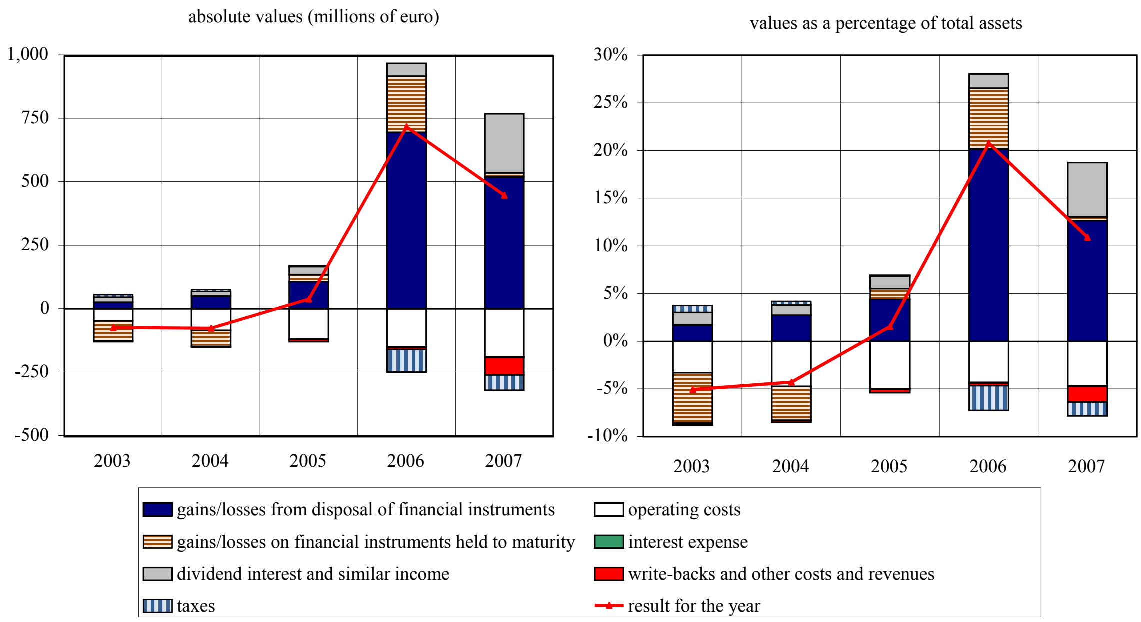


Source: calculations on statistical supervisory indications.

In 2006 and 2007, a number of major funds being close to maturity led to an acceleration in the disposal of investments, producing positive operating results (Figure 70).

Figure 70

Income statements of Italian private equity funds



Source: calculations on statistical supervisory indications.

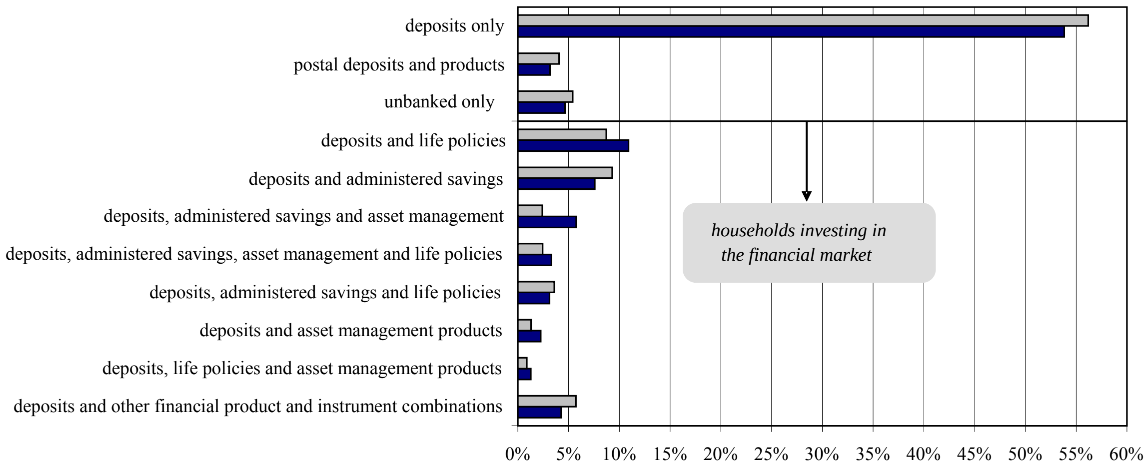
3. Households

Financial market disturbance has led to an increase in retail investors' aversion to risk and therefore a higher percentage of households with no financial market exposure, i.e. holding only unbanked sums, deposits or post office products (66% as at December 2008 compared to 62% for December 2007) (Figure 71).

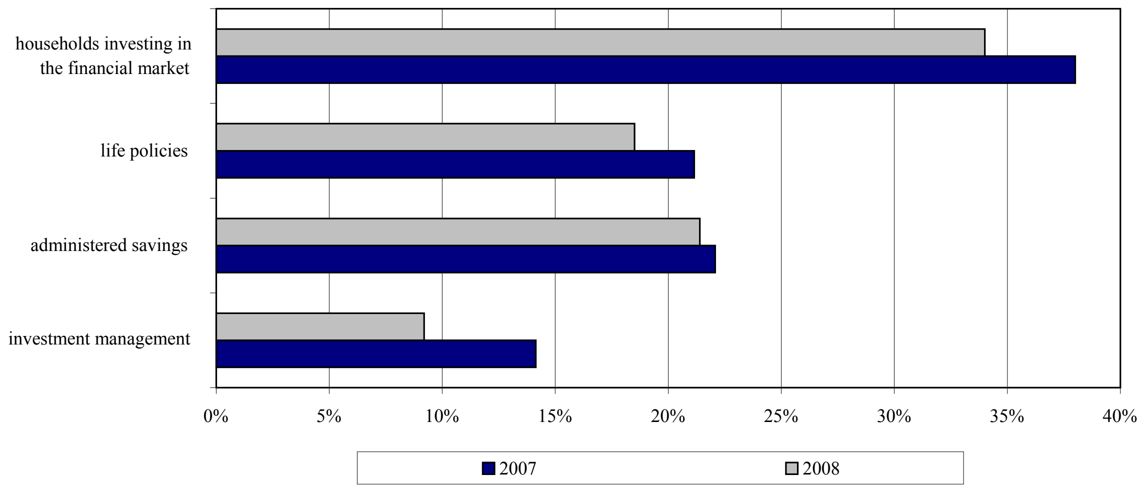
Figure 71

Financial asset types held by Italian households
(percentage of households with financial assets or asset combinations declared as at year-end)

ANALYTICAL DATA



SUMMARY DATA



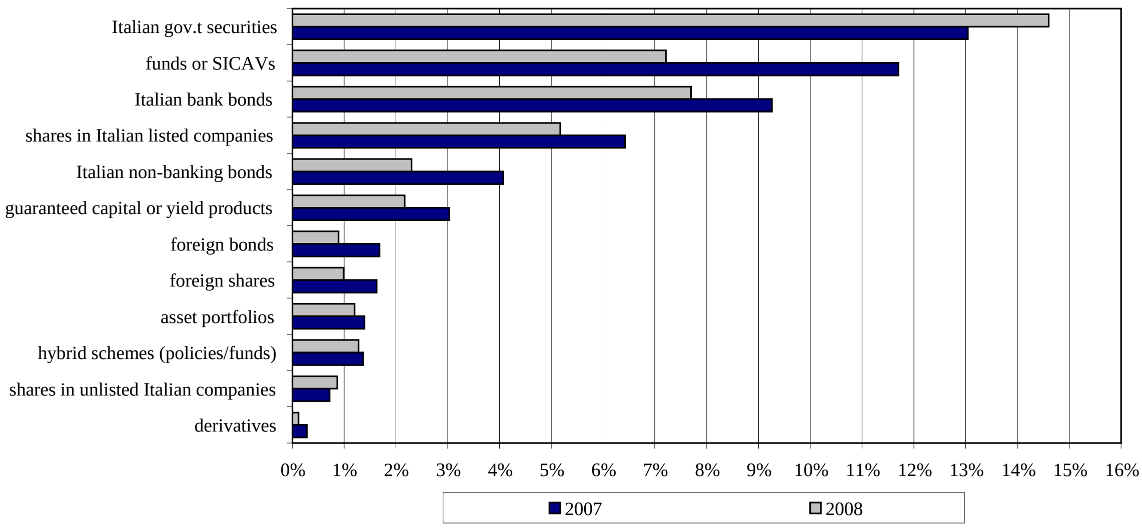
Source: calculations on GfK Eurisko - Multifinanziaria Retail market data (on a sample of around 2,500 Italian households). See Methodological Notes. "Deposits" include bank and post office current account deposits, bank and post office savings accounts, foreign currency and repo deposits. "Life policies" relates to index- and unit-linked policies, capitalisation policies, multi-branch policies, integrated pension schemes and pension funds. "Administered savings" refers to the direct possession of shares, covered warrants, futures, options, bonds and Government securities. "Investment management" refers to Italian and foreign mutual funds and SICAVs, accumulation plans, managed real estate assets, hybrid policy-fund plans, liquidity management services. "Post office products" are interest-bearing post office bills and products other than post office current or savings accounts.

The percentage of households with investment management products has decreased significantly (from 14% to 9%), in line with net inflow trends as indicated in the previous paragraph. Only a slight decrease was recorded, however, in the percentage of families holding financial instruments (shares, bonds or government securities) as administered savings (from 22% to approximately 21%), whereas the drop in the percentage of families with insurance and welfare investment management products (from 21% to 18%) was higher.

With regard to the dissemination of different financial instrument and product categories, 2008 saw a considerable reduction in the percentage of households in possession of mutual funds (from 12% to around 7%; Figure 72). A reduction was also recorded in the percentage of households with shares in Italian listed companies (from 6.4% to 5.2%) and Italian bank bonds (from 9.3% to 7.7%), whilst Italian government securities were more widely distributed. Bank bonds have in any event become the second most widespread among households after Italian government securities.

Figure 72

Dissemination of financial instruments and products among Italian households
(percentage of households possessing financial instruments or products)



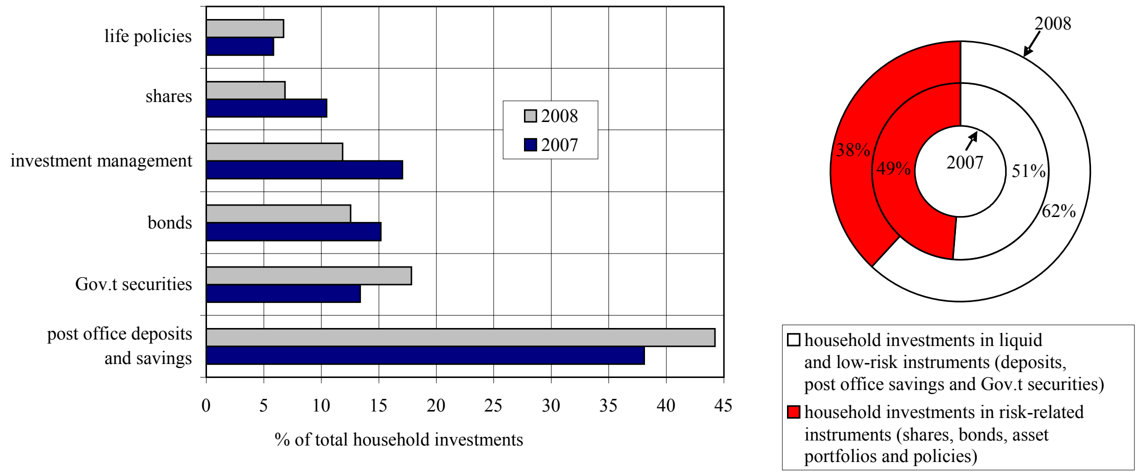
Source: calculations on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological Notes.

It can be estimated that the incidence of deposits (bank and post office, including certificates of deposit) on total Italian household savings has increased by around 6 percentage points, from approximately 38% at the end of 2007 to around 44% at the end of 2008, whilst government securities have increased from 13% to around 18% (Figure 73). The percentage of bonds (bank and corporate) has fallen, however, from 15.2% to 12.5%, shares from 10.5% to 6.8% and investment management products (funds and asset portfolios) from 17.1% to 11.8%.

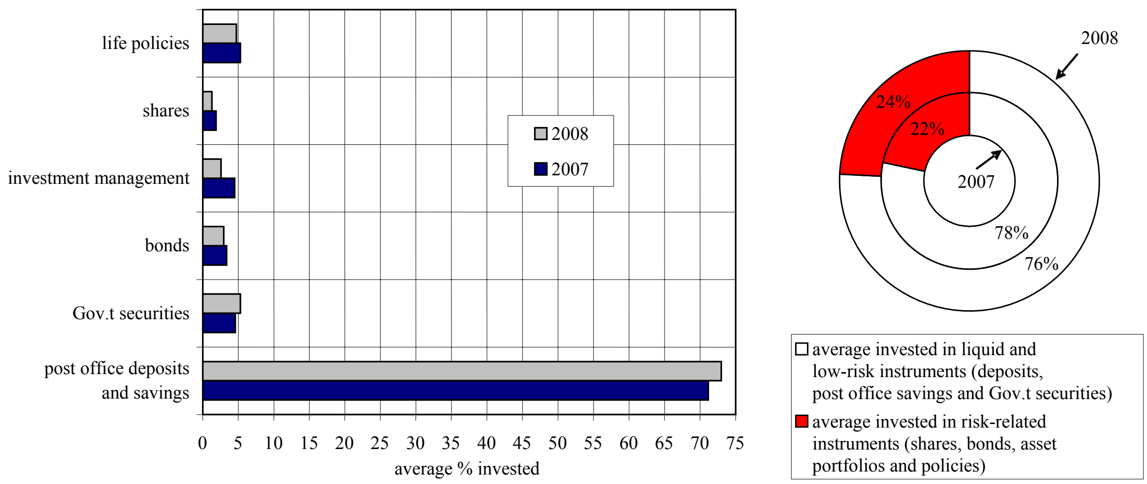
Figure 73

Breakdown of the Italian household portfolio

HOUSEHOLD SAVINGS BY FINANCIAL ASSET TYPE



SIMPLE AVERAGE PERCENTAGE OF HOUSEHOLD SAVINGS INVESTED IN INDIVIDUAL FINANCIAL ASSET TYPES



Source: estimated on GfK Eurisko - Multifinanziaria Retail Market data (on a sample of around 2,500 Italian households). See Methodological Notes. "Post office deposits and savings" include bank and post office current account deposits, bank and post office savings accounts, foreign currency and repo deposits, certificates of deposit, interest-bearing post office bills and other post office products other than current or savings accounts. "Life policies" relate to index- and unit-linked policies, capitalisation policies, multi-branch policies and integrated pension schemes. "Investment management" refers to Italian and foreign mutual funds and SICAVs, accumulation plans, managed real estate assets and managed funds, hybrid policy-fund plans and liquidity management services. Household savings do not include unbanked sums.

As at the end of 2008 it can be estimated overall that around 62% of Italian household savings were invested in deposits and government securities, compared to 51% at the end of 2007. Approximately 11% of total household savings has therefore shifted from higher-risk products and instruments (shares, bonds, investment management and financial policies) to deposits and government securities.

B

CONSOB ACTIVITY

I – SUPERVISION OF LISTED COMPANIES

1. Corporate disclosure

In 2008 the supervision of compliance with corporate disclosure obligations was particularly intense. In total, 656 requests for submission of data and information to the Commission were formulated pursuant to art. 115 of the Consolidated Law on Finance, 132 of which calling meetings with company legal representatives, and 168 requests were made for publication of information pursuant to art. 114 of the Consolidated Law on Finance (Table 17).

Table 17

Supervision of corporate disclosures and ownership arrangements

Type of action	2003	2004	2005	2006	2007	2008
Requests for information pursuant to Article 115, subsections 1 and 2 of the Consolidated Law on Finance						
Information acquired from directors, statutory auditors, independent auditors, general managers, parent and subsidiary companies	*82*	*51*	*90*	*36*	*59*	*132*
Requests for data and information	*317*	*43*	*213*	*201*	*151*	*392*
Requests for confirmation of major holdings	*49*	*21*	*77*	*30*	*44*	*30*
Requests for information to identify the persons responsible for issue of disclosures in the event of charges of infringement	*31*	*12*	*47*	*28*	*48*	*102*
Total	479	127	427	295	302	*656*
Requests to companies for information on their shareholding structure pursuant to art. 115 of the Consolidated Law on Finance	33	39	13	12	14	*12*
Requests to publish data and information pursuant to Article 114 of the Consolidated Law on Finance						
Supplements to information for disclosure at shareholders' meetings	*18*	*15*	*6*	*11*	*5*	*11*
Supplements to periodic financial reports	--	*14*	--	*6*	*1*	*21*
Information for disclosure to the market (press releases)	*46*	*82*	*69*	*129*	*100*	*90*
Monthly disclosures	*6*	*8*	*2*	*2*	*1*	*8*
Supplements to documentation on mergers and other extraordinary transactions	*1*	*1*	--	*4*	*3*	*8*
Supplements to takeover bid documents	*4*	*4*	*17*	*6*	*49*	*30*
Total	75	124	94	158	159	*168*
Waiver of disclosure requirements pursuant to Art. 114, sub. 6 of the Consolidated Law on Finance	10	11	2	25	3	*5*
Delayed disclosures pursuant to Art. 114, sub. 3 of the Consolidated Law on Finance	—	—	—	12	20	*4*
Requests for immediate publication of research reports in the event of rumours	10	3	8	18	14	*5*
Reports to legal authorities	--	--	--	4	--	*5*
Investigations involving listed companies						
commenced	4	2	2	2	4	*5*
completed	4	2	2	2	1	*5*
Investigations involving independent auditors						
commenced	7	5	4	3	5	*5*
completed	4	8	3	4	2	*5*
Written reprimands	3	--	--	1	1	--
Annual financial statements challenged	4	4	4	4	3	*2*

With regard to reports of delayed disclosures, 4 in all, in one case the Commission requested disclosure of the information and in the other 3 situations considered delay to be appropriate so as to ensure issuer confidentiality.

With regard to report and investment recommendation publications, Consob supervision focused as normal on verifying compliance with regulatory provisions on the accuracy of information contained in reports, disclosure of conflict of interest and dissemination methods.

In 2008 supervision commenced on a sample basis which, consistent with CESR principles, involves the annual selection of a sample of companies for more in-depth profile analysis with regard to financial reports made public.

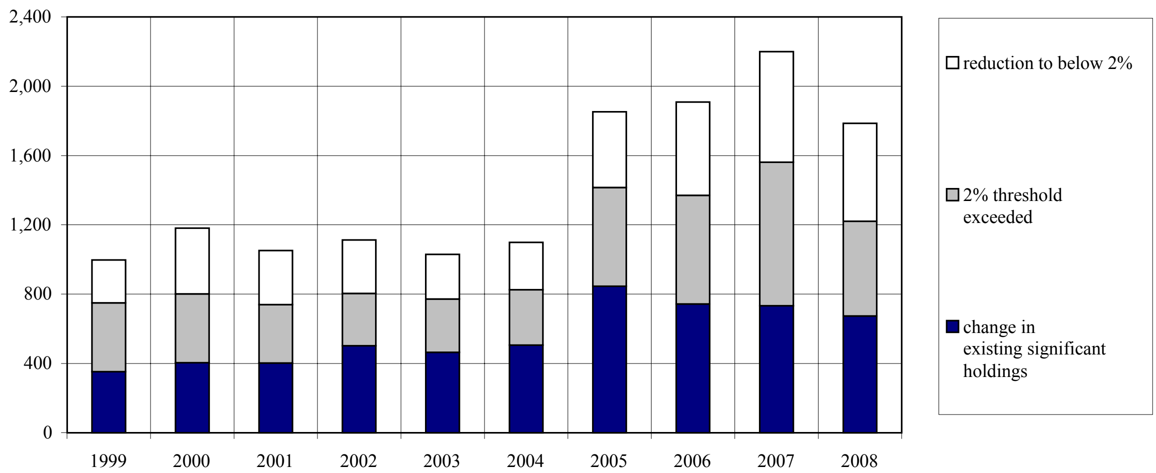
Sample-based supervision does not exclude Consob's option to take action where necessary on companies not included in the sample. From September, in fact, the Commission launched an examination of all listed companies in the real estate sector with regard to the rationing of funds available for contracts in progress and falling demand, at least in certain geographic areas, due to price reductions.

Following the strong financial market disturbance and fears that negative performance of the major securities would result in significant disinvestments, in October 2008 Consob exercised its powers pursuant to art. 115 of the Consolidated Law on Finance, asking all shareholders of investments exceeding 2% of share capital in S&P/MIB listed companies to provide information.

The total number of notified changes in significant shareholdings fell by around 19%, from 2,200 in 2007 to 1,787 in 2008 (Figure 74).

Figure 74

Notices of major shareholdings in Italian listed companies



2008 saw a focus of attention on the examination of information documents (17) and press releases (13) disseminated on completion of related party transactions (Table 18 and Table 19).

Table 18

Related party transactions disclosed to the market by listed companies in 2008 – information documents

Company	Transaction	Counterparties
Maffei	Business segment transfer	A subsidiary of a listed company and the parent of the listed company
Uniland	Reserved share capital increase without rights	A listed company and its parent
Mediolanum	Investment disposal	A listed company and a subsidiary
IWBank	Subsidiary share capital increase	A listed company and a subsidiary
Pramac	Business segment transfer	A listed company and a subsidiary
Poligrafici Editoriale	Property disposal	A listed company and a subsidiary
Mariella Burani-Antichi Pellettieri	Financing agreement	A listed company and a listed subsidiary
Enia	Global takeover	A listed company and a major shareholder
Gemina	Cash injection agreement	A listed company and major shareholders
IWBank	Business segment transfer	Two companies under the joint control of a listed company
Carraro	Business segment transfer	A listed company and a subsidiary
Exprivia	Global takeover	A listed company and a company under joint control
Yorkville	Signing of agreements	A listed company, a company under joint control and a major shareholder
Ratti	Property disposal	A listed company and a company under joint control
Marcolin	Licensing agreements	A listed company and a company whose directors and major shareholders are directors of the listed company
Omnia Network	Subsidiary share capital increase	A listed company and a subsidiary
Enia	Investment disposal	A listed company and a major shareholder

Table 19

Related party transactions disclosed to the market by listed companies in 2008 – press releases

Company	Transaction	Counterparties
De Longhi	Investment disposals	A listed company and a subsidiary of a major shareholder of the listed company
Exprivia	Disposal of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Damiani	Disposal of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Ducati	Merger following a takeover bid by the major shareholder	A listed company and a subsidiary of a major shareholder of the listed company
Milano Assicurazioni	Disposal of the entire investment in a company	A listed company and a subsidiary controlled by entities attributable to the major shareholder of the listed company
Milano Assicurazioni Fondiaria Sai	Disposal of the entire investment in a company	Listed companies and a subsidiary controlled by entities attributable to the major shareholder of the listed company
Banca Generali	Investment disposal	Listed companies and a subsidiary controlled by entities attributable to the major shareholder of the listed company
Datalogic	Disposal of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Ifi Ifil	Merger of a subsidiary into the parent	Two listed companies controlled by the same shareholder
Alerion	Investment disposals	A listed company and an affiliate whose investors are party to a shareholders' agreement in the listed company
GreenergyCapital	Disposal of the entire investment in a company	A listed company and a subsidiary of a major shareholder of the listed company
Immobiliare Lombarda Fondiaria Sai Milano Assicurazioni	Merger following a takeover bid by the major shareholder	Listed companies both under the control of the same shareholder
Guala Closures	Merger following a takeover bid by the major shareholder	A listed company and a subsidiary of a major shareholder of the listed company

During the year the Commission twice updated the list of issuers of financial instruments widely distributed among the public (on 1 January and 1 July). At the beginning of July the list contained 92 issuers of widely-distributed financial instruments, mainly cooperative and savings banks (Table 20).

Table 20

Issuers of widely distributed financial instruments
(as at 01.07.2008)

Financial instruments	Number of issuers
Ordinary shares	74
Ordinary shares and convertible bonds	9
Cooperative shares	1
Ordinary and preference shares	2
Ordinary and savings shares	1
Preference shares	1
Convertible bonds	2
Non-convertible bonds	2
Total	*92*

2. Disclosure in public offerings and extraordinary finance transactions

During 2008 the Commission released authorisations for the publication of 1,571 prospectuses, more than 400 of which concerning undertakings for collective investment, and examined almost 200 reports on amendments to articles of association, purchase or disposal of treasury shares and share capital increases of listed issuers (Table 21).

Over the year, 17 prospectuses for the admission to listing of shares were approved. Compared to 2007 the number of offerings aimed at the listing of shares in new companies dropped significantly (from 34 to 12), and in 5 cases the offering was either not implemented or failed to achieve a positive result.

Consob also approved 23 prospectuses concerning the offering of securities in unlisted Italian issuers, 13 of which regarding issuers of widely-distributed securities, 2 regarding shares companies neither listed nor wide distributors and 8 regarding future banks.

In 2008 the Commission authorised 1,085 prospectuses concerning public offerings and/or admission to listing of financial products, other than shares, issued by banks. These comprised 986 documents (standard and base prospectuses, registration documents and supplements) regarding bond loans and 99 prospectuses for covered warrants and certificates.

Table 21

Supervision of public offerings, admissions to listing and extraordinary finance transactions

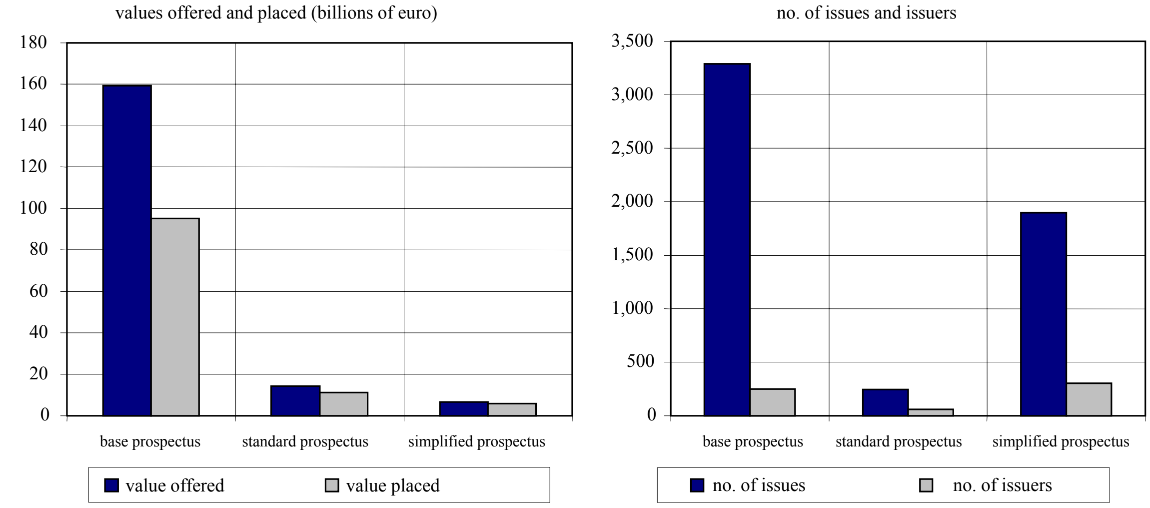
Type	2003	2004	2005	2006	2007	2008
Number of prospectuses concerning:						
Admission to listing of shares[1]	14	8	19	36	38	17
of which: by public offering	*4*	*8*	*15*	*26*	*27*	*9*
Bond loans	28	4	18	711	1,163	986
of which: base prospectuses	—	—	—	*535*	*870*	*639*
standard prospectuses	—	—	—	*143*	*115*	*45*
registration documents and supplements	—	—	—	*33*	*178*	*302*
Issue of covered warrants[3] and certificates	26	17	37	32	109	99
Admission to listing of warrants	8	--	10	1	3	2
Other offerings of listed securities[4]	1	1	2	--	--	--
Offerings of unlisted securities by Italian issuers[5]	2	5	7	6	18	23
Offerings to employees[6]	35	28	26	--	--	--
Rights issues[7]	10	2	5	23	14	16
CIU[8]	268	374	374	397	422	428
Total	*392*	*439*	*498*	*1,205*	*1,767*	*1,571*
Number of reports on extraordinary finance transactions:						
Mergers	44	34	30	31	15	10
Spin-offs	10	5	3	--	1	2
Share capital increases[9]	66	68	47	49	33	29
Purchase/disposal of treasury shares	93	90	91	44	41	79
Amendments to articles of association	85	302	79	63	101	69
Share conversions	3	4	4	1	2	--
Bond issues	9	7	6	2	2	3
Share capital decreases	13	14	8	4	3	5
Total[10]	*323*	*524*	*268*	*194*	*198*	*197*

[1] Figures refer to transactions for which authorisation was granted during the year for filing of the listing prospectus. [2] In one case the public offering and admission to listing were simultaneous. [3] The number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants. [4] Public or private offerings other than for admission to listing. [5] Excludes offerings reserved for employees. [6] Includes stock option plans reserved for employees but excludes offerings involving the recognition of foreign prospectuses. [7] Share capital increases in listed companies (including increases with associated warrants and convertible bonds). [8] Includes public offerings of Sicav units of mutual funds and shares, admissions to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies. Up to and including 2006 figures also include pension fund offerings which from 2007 no longer fall under Consob supervision. [9] Includes increases in capital approved but not implemented (or implemented at a later stage). [10] The total number of reports does not coincide with the sum of individual transactions as certain reports related to multiple transactions.

With regard to bank bonds, in 2008 the total number of issues reached around 5,400 for a countervalue of approximately 112 billion euro. Specifically, over a third of the issues were placed via simplified prospectuses (Figure 75). In countervalue terms, however, most of the issues were placed via base prospectuses (around 95 billion euro).

Figure 75

Bond issues by Italian banks subject to public offering regulations
(2008 figures)

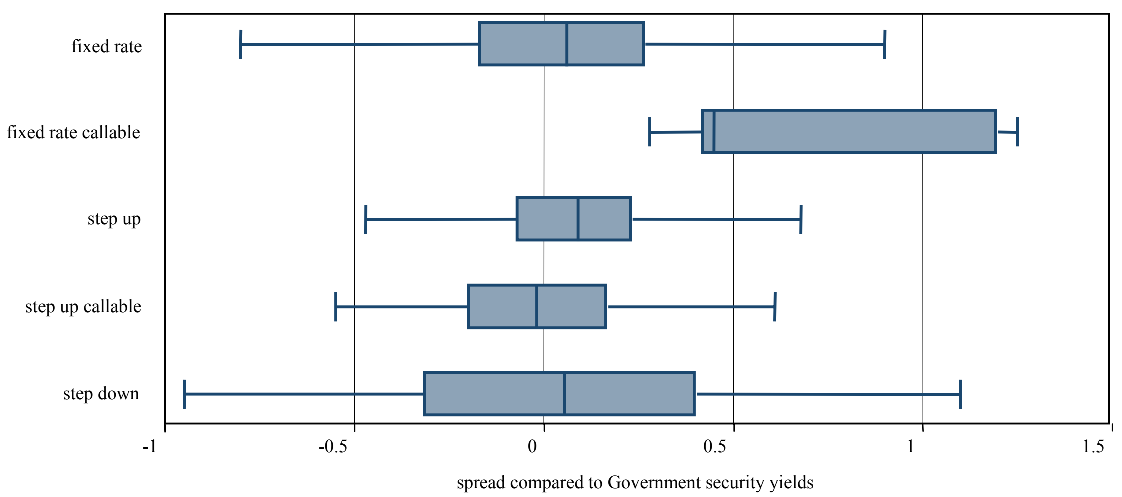


Source: supervisory report statistics.

Based on information contained in the prospectuses and final terms, in 2008 the average yield on bank bonds was in line with that of government securities with a similar residual life (Figure 76). Only issuer callable bonds proved to have a higher yield than government securities (provided the bank does not exercise its call option during the life of the bond loan).

Figure 76

Spread distribution frequency between yield to maturity on fixed coupon bank bonds and the yield to maturity on BTP with a similar residual life
(annual percentages)



Source: figures from data included in the final terms. The segment in each box identifies the mean spread, whereas the outer markers of each box indicate quartiles I and III of the spread distribution; the absolute extremes indicate the minimum and maximum spread values. Data relate to a sample of bank bonds issued in 2008 for non-professional investors, comprising 1,061 ordinary fixed rate bonds, 5 fixed rate callable bonds, 148 step up bonds, 51 step up callable bonds and 52 step down bonds. For callable bonds the yield to maturity calculation is based on the assumption that the option is not exercised by the issuing bank.

As normal, the extraordinary transactions of listed companies were also supervised during the year. The more significant transactions in the banking sector were those completed by Banca Monte dei Paschi di Siena and UniCredit (with respective countervalues of 9 billion and 7 billion euro).

In 2008, Consob confirmed equivalence in 6 cases pursuant to art. 57 of the Issuers' Regulation. In these cases the documents published under the terms of the above-mentioned provisions offered exemption from publication of the listing prospectus.

During the year the Commission approved 21 bid documents (compared to 29 published in 2007) involving 19 takeover bids and 2 equity swaps (Table 22).

Table 22

Financial instruments subject to takeover bids and/or equity swaps on which documentation was authorised for publication in 2008

	Listed shares			Bonds and warrants	Unlisted shares	*Total*
	Ordinary	Savings	Preference			
Voluntary	14			1		*15*
Unsolicited						
Mandatory	4					*4*
Residual	2					*2*
On treasury shares						
Total	*20*			*1*		*21*
Mandatory buy-out/Right of squeeze-out[1]	5					*26*

[1] Additional documents to comply with disclosure obligations regarding mandatory buy-out/right of squeeze out pursuant to art. 108 and art. 111 of the Consolidated Law on Finance.

The publication of a further 5 additional documents was authorised, by means of which the bidders complied with mandatory buy-out or right of squeeze-out disclosure obligations.

Worthy of note among the new elements introduced on implementation of Directive 2004/25/EC is the new wording of art. 102 of the Consolidated Law on Finance, which in subsection 4 grants Consob the power to suspend preliminary investigation of takeover bid documents for publication if there is a need for additional information to assess the completeness of information provided in the bid document, or other information on certain aspects of the transaction.

3. Disclosure to shareholders' meetings

In several cases in 2008 Consob issued requests for the disclosure of information to shareholders' meetings.

The supervision of disclosures to shareholders' meetings also took into account the tension created by financial market performance in 2008. Specifically, the Commission asked the major Italian banks most exposed to crisis-related factors (UniCredit, Intesa Sanpaolo and Monte dei Paschi di Siena) to include additional information in their 2007 financial statements regarding operations performed through special purpose entities (e.g. CDOs - Collateralized Debt Obligations, SIVs - Structured Investment Vehicles and Conduits) and on derivative trading to customers.

4. Financial reporting

In terms of financial reporting supervision performed in 2008, the Commission intervened on a number of occasions with requests to directors, statutory auditors and independent auditors for clarification of financial statement items and requests for market disclosure.

As part of its periodic audit of the accuracy of listed companies' financial statements, the Commission exercised its powers of challenge under art. 157, subsection 2 of the Consolidated Law on Finance against 2 issuers.

Supervision of companies in crisis situations, where the application of monthly reporting obligations was considered appropriate, continued in 2008.

During the year the Commission rejected applications for cancellation of monthly reporting obligations submitted by a number of companies as their recovery from crisis still seemed unstable. The Commission also imposed these obligations on 2 issuers, bringing the total number of companies required to submit monthly reports to 17.

5. Supervision of the independent auditors and internal control bodies of issuers

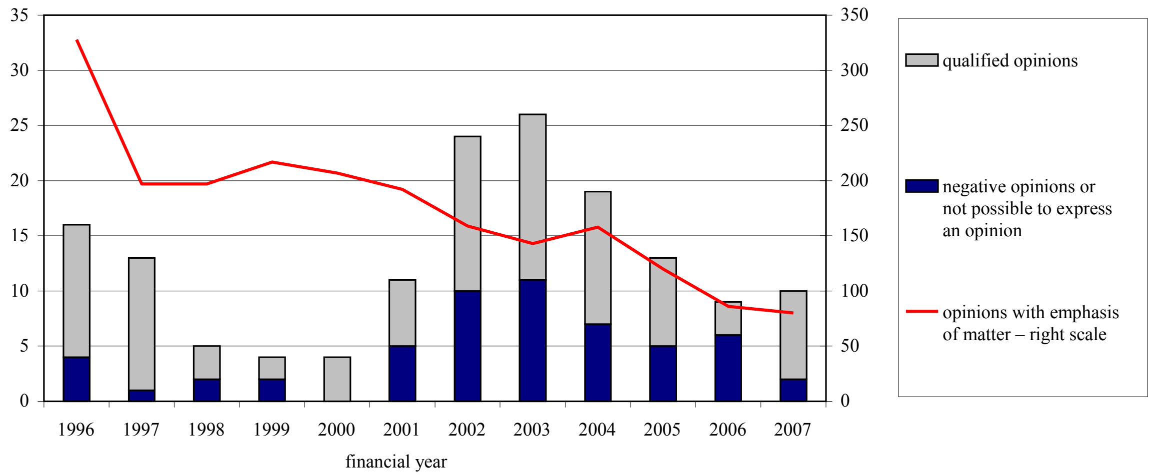
In 2008, independent auditors entered on the special list held by Consob examined 294 company financial statements and 273 consolidated financial statements for FY 2007 of issuers with shares listed on Italian regulated markets.

No negative opinions were issued by the auditor, whereas in 2 cases a disclaimer was necessary and in 8 cases a qualified opinion was expressed (Figure 77). The number of opinions with emphasis of matter remained more or less stable. In 5 of these cases, albeit going concern assumptions were satisfactory, the auditor highlighted significant uncertainties that could give rise to doubts about going concern.

In other cases, the independent auditors qualified opinion only, due to disagreement on the assessment of specific accounting items or due to audit procedure limitations.

Figure 77

Independent auditor opinions on financial statements of companies listed on Italian regulated markets



Source: independent auditor reports. Data refer to different types of opinion or query that can also relate to the same issuer. See Methodological Notes.

In 2008, independent auditor supervision was implemented through the issue of auditing principles, agreed with the professional associations, and via two types of action: preventive-systematic (quality control) and enforcement.

Quality controls were performed during the year on 3 independent auditors included on the Consob list, selected as representing three different-sized companies (large, medium and small) registered on the list. The aim of the supervision concentrated on assessing the adequacy and correct application of quality control procedures by the companies in question pursuant to Document no. 220, recommended by Consob, on "*Quality control of independent auditing*". These reference regulations, in fact, dictated by the profession at domestic and international level, envisage the setup of a procedures system covering all the areas of major importance for audit quality purposes.

As a result of this activity, specific recommendations were issued to the 3 companies on action to be taken to remedy the shortcomings discovered with related implementation deadlines.

Enforcement activity continued in 2008 on the methods for performing certain auditing assignments conferred pursuant to provisions of the Consolidated Law on Finance. In the light of initial experience gained from the quality controls, in the second half of the year supervisory action was launched to develop synergies between quality controls performed by an independent auditor and enforcement by the independent auditor under specific assignment. This was performed by verifying the application methods for internal control procedures during the specific assignment and led to the recommendation of remedial action with regard, amongst other things, to the qualitative-quantitative composition of the team and internal controls on the assignment.

As at 31 December 2008, 22 independent auditors were included on the Special List. In January 2008 a new application for entry was received, though preliminary investigations resulted in the applicant's withdrawal.

With regard to the supervision of internal control bodies of companies, the Savings Law granted Consob the power/duty to supervise the conduct of issuer control bodies for which, unlike independent auditor supervision, there is no set model for preventive supervision through compulsory periodic controls.

According to the provisions of art. 148-*bis* of the Consolidated Law on Finance, in 2008 the regulation on plurality of offices in listed companies and issuers of widely-distributed instruments came into force; the purpose of this regulation is to guarantee control body members' availability for a sufficient time to perform their duties in the issuer companies in order to contribute to the overall increase in quality of the tasks performed by the relevant corporate bodies.

II – MARKETS SUPERVISION

1. Market abuse

In 2008 the Commission completed 10 investigations into anomalies detected during its market supervision duties (Table 23). Offences were found to exist in 6 cases, all of which were reported to the legal authorities. These cases respectively concerned 2 alleged cases of insider trading, 3 of action-based manipulation and 1 information-based manipulation.

In the other 4 investigations completed by Consob in 2008 (2 relating to abuse of inside information, 1 market manipulation and one involving both offences) no offence allegations were formulated.

Table 23

Results of investigations into market abuse

	Reports of alleged offences[1]		Investigations without reports of alleged offences[2]	*Total*
		of which alleged insider trading		
1997	19	16	33	*52*
1998	21	17	15[3]	*36*
1999	30	22	8	*38*
2000	21	17	5	*26*
2001	18	14	10	*28*
2002	16	7	9	*25*
2003	16	13	10	*26*
2004	11	4	8	*19*
2005	4	2	4	*8*
2006	7	2	6	*13*
2007	10	3	3	*13*
2008	6	2	4	*10*

[1] In 1997 and in 10 cases in 1998 the reports were submitted under Article 8.3 of Italian Law 157/1991, later repealed by the Consolidated Law on Finance. [2] Figures for 1997, 1998 and 1999 include the respective outcomes of 18 investigations, 3 investigations and 1 investigation concluded without submission of a report to the public prosecutor. Following the entry into force of the Consolidated Law on Finance and until May 2005, Consob was in any event required to submit reports to the public prosecutor on every investigation and evaluation performed. As of May 2005, Consob is no longer obliged to submit reports for cases in which no alleged offence is formulated. [3] Of which 9 cases where investigations were closed before the entry into force of the Consolidated Law on Finance.

The cases of alleged insider trading involved, respectively, the transfer of control of a listed company and the front running of a study report by a financial analyst (Table 24).

Table 24

Type of inside information involved in reports of alleged insider trading submitted to the Legal Authorities

	Change of control - Takeover bid	Financial performance. Financial position	Share capital transactions. Mergers – Spin-offs	Other		*Total*
					of which alleged front running	
1997	7	4	2	3	--	*16*
1998	13	1	3	--	--	*17*
1999	13	4	3	2	--	*22*
2000	6	1	3	7	1	*17*
2001	9	--	2	3	2	*14*
2002	1	1	2	3	1	*7*
2003	5	2	1	5	2	*13*
2004	2	1	--	1	--	*4*
2005	--	1	--	1	1	*2*
2006	--	--	--	2	--	*2*
2007	1	1	1	--	--	*3*
2008	1	--	--	1	1	*2*

The alleged action-based manipulation concerned the operations of certain day traders that accessed the market via a trading room and a professional on site trading platform.

8 individuals were reported to the legal authorities, 3 for alleged insider trading and 5 for alleged market manipulation (Table 25).

As the offences were committed after the entry into force of the new regulations on market abuse, Consob began disciplinary proceedings against 6 of the 8 parties reported. These proceedings are still pending.

Table 25

Alleged market abuse offenders reported to the Legal Authorities

	Authorised intermediaries[1]	Institutional insiders[2]	Others[3]	Foreign operators	*Total*
			Insider trading		
1997	11	12	41	17	*81*
1998	17	31	34	32	*114*
1999	21	26	56	48	*151*
2000	24	11	149	34	*218*
2001	20	6	53	30	*109*
2002	14	1	69	21	*105*
2003	2	12	35	20	*69*
2004	--	8	7	4	*19*
2005	--	1	2	--	*3*
2006	--	7	--	--	*7*
2007	--	11	1	--	*12*
2008	--	2	1	--	*3*
			Market manipulation		
1997	3	21	--	--	*24*
1998	7	2	--	2	*11*
1999	10	5	34	2	*51*
2000	1	2	1	1	*5*
2001	4	1	1	2	*8*
2002	18	2	--	4	*24*
2003	6	--	1	--	*7*
2004	4	2	6	1	*13*
2005	--	1	7	--	*8*
2006	--	6	2	--	*8*
2007	1	4	2	--	*7*
2008	--	--	5	--	*5*

[1] Banks, investment companies, asset management companies and stockbrokers. [2] Shareholders, directors and executives of listed companies. [3] Secondary insiders and “tippees” (pursuant to Article 180, subsection 2 of the Consolidated Law on Finance).

The number of requests for data and information issued to intermediaries, listed companies, government departments and foreign supervisory authorities in 2008 totalled 288 (Table 26). 43 requests were issued in support of foreign supervisory authority investigations into cases of alleged market abuse, a lower number than that recorded for the previous year.

Table 26

Requests for data and information on market abuse

	Requests addressed to:							
	Authorised intermediaries[1]	Listed companies and their parent companies or subsidiaries	Private individuals		Government departments	Foreign authorities	*Total*	
				of which hearings				*of which on behalf of foreign authorities*
1997	220	37	49	--	22	11	*339*	—
1998	324	14	50	--	10	17	*415*	—
1999	416	22	48	10	--	21	*507*	—
2000	492	33	11	--	4	30	*570*	—
2001	247	30	93	7	10	33	*413*	*156*
2002	154	28	52	19	1	24	*259*	*36*
2003	185	15	55	29	3	27	*285*	*38*
2004	146	13	23	7	2	11	*195*	*101*
2005	140	9	47	42	--	23	*219*	*63*
2006	161	11	44	31	4	7	*227*	*38*
2007	176	12	93	51	5	16	*302*	*70*
2008	115	57	66	38	15	35	*288*	*43*

[1] Banks, investment companies, asset management companies and stockbrokers.

During 2008, Consob brought civil action in 7 new criminal proceedings, 2 of which for insider trading, 3 for market manipulation and 2 for the obstruction of supervisory duties. In most of these cases Consob had arranged the submission of special reports to the relevant Legal Authorities on the results of investigations conducted. The charges formulated by the Public Prosecutor in the indictments describe events ascribed to the alleged offenders in terms that are generally in line with the results of Consob investigations (Table 27).

In 2008, 8 first instance proceedings were concluded on market abuse offences, in which Consob had brought parallel civil proceedings, and in which liability of the offenders was confirmed, also ordering compensation for damages in favour of Consob.

Still on the topic of market abuse, in 2008 the Supreme Court rejected two appeals against sentences pronounced by the Milan Court of Appeal in 2007, which had confirmed the first instance sentences of criminal liability of the offenders, ordering that compensation for damages be paid in favour of Consob.

Table 27

Civil proceedings brought by Consob in criminal cases regarding insider trading and market manipulation

Year	Proceedings	Offence[1]	Outcome as at 31 December 2008
2004	2	Market manipulation	2 plea bargains 1 conviction
2005	7	Insider trading and market manipulation	5 convictions[2] 2 plea bargains 3 non-suits
2006	10	Insider trading, market manipulation	5 convictions[3] 6 plea bargains 2 acquittals[4] 1 dismissal as time-barred
2007	12[5]	Insider trading, market manipulation	2 convictions 5 plea bargains 2 dismissals as time-barred 1 non-suit[6] 1 acquittal
2008	5	Insider trading, market manipulation	1 conviction 1 plea bargaining 1 dismissal as time-barred

[1] Insider trading: Article 2 of Italian Law 157/1991, then Article 180 of the Consolidated Law on Finance, now Article 184 of the Consolidated Law on Finance; market manipulation: Article 5, Italian Law No. 157/1991, then Article 2637 of the Italian Civil Code, now under Article 185 of the Consolidated Law on Finance. [2] Two convictions were upheld at appeal. The Supreme Court cancelled one sentence of the Court of Appeal as time-barred, whilst with regard to the civil effect the offender's appeal was rejected. [3] One conviction was upheld at appeal. The Supreme Court rejected the offender's appeal against the Court of Appeal sentence. One conviction was pronounced as a result of fast-track proceedings. [4] In one case, the judge also ordered forwarding of papers for the application of financial penalties under the terms of Art. 187-*bis* of the Consolidated Law on Finance. In another case, acquittal due to lack of evidence was pronounced pursuant to Art. 530, subsection 2 of the Italian Code of Criminal Procedure. [5] In one case, following the re-opening of preliminary investigations, proceedings were closed in 2008. [6] As part of the sentence in question, the Judge ordered that proceedings papers be forwarded to Consob for possible arraignment of administrative offences pursuant to Art. 187-*bis* of the Consolidated Law on Finance. Proceedings are still pending against other offenders.

2. Consob measures on short sales

As the financial crisis heightened, between September and October 2008 the Commission adopted a series of measures on short sales.

Specifically, on 19 September 2008 Consob issued a Communication calling upon all operators to fully comply with the rules on delivery of the securities by the deadlines established in current laws and regulations given the potential impact of short sales on regular trading and market integrity. The Commission intervened on a number of later occasions to introduce various restrictions on short sales.

3. Management of regulated markets and alternative trading systems

On several occasions during the year, pursuant to Article 63, subsection 2 of the Consolidated Law on Finance, the Commission approved amendments to the Regulation on markets organized and operated by Borsa Italiana and related Instructions.

In May the Commission approved amendments to the articles of association of Tlx Spa following disbanding of the Committee of Wise Men, and subsequent amendments to the Tlx market regulations to release the market from restrictions and compulsory measures referring to the former role of that Committee.

Of note among the new aspects concerning regulated derivative markets is the launch on 3 November 2008 of the electricity futures market.

The IDEX (Italian Derivatives Energy Exchange) is technically a regulated derivatives market segment managed by Borsa Italiana (IDEM) that makes use of existing infrastructures. From a structural point of view, however, the IDEX has significant characteristics represented by non-financial underlying assets, i.e. electricity futures, and the participation of non-financial market operators (electricity producers and wholesalers with own account trading authorisation) acting alongside financial intermediaries specialised in commodity derivative trading.

The new trading venues envisaged by the MiFID became operative in 2008, i.e. multilateral trading facilities and systematic internalisers. At the same time, the alternative trading systems run by around 360 entities included on the Consob list ceased to operate.

4. Clearing, settlement and central depositary services

Work continued in 2008 to implement the single settlement platform, Target 2 Securities, backed by the European Central Bank.

A number of initiatives have also been launched by market operators for the standardisation of post-trading services and interaction between the central counterparties, in implementation of provisions of the Code of Conduct for Clearing and Settlement signed by the EU trading and post-trading systems on 7 November 2006.

It should also be remembered that on 19 May 2008 the Italian element of the Target 2 payment system for the Eurozone went into production.

On 22 February 2008, the joint Bank of Italy-Consob measure “Rules for central depositary, settlement and clearing house services and related management companies” was issued. This measure consolidating secondary regulations on post-trading contains certain partial amendments to the previous regulations.

Following issue of the 22.02.2008 measure and after the migration to Target 2, in September the Commission and the Bank of Italy agreed on amendments to the Operating Rules for Cassa di Compensazione e Garanzia Spa and Monte Titoli Spa.

The operations launch on 13 October 2008 of the Turquoise and Chi-X multilateral trading facilities for Italian financial instruments led to the applications for membership of the Italian settlement system Express II, managed by Monte Titoli Spa, by the central counterparties - EuroCCP (British) for the Turquoise market and EMCF (Dutch) for the Chi-X market - appointed as clearing houses for transactions concluded on their respective markets. Monte Titoli Spa conducted the preliminary investigations, reporting to the Bank of Italy and Consob, until the applications from the two foreign central counterparties were accepted.

III – SUPERVISION OF INTERMEDIARIES

1. Banks, investment companies, stockbrokers and insurance companies

In 2008, as normal, the supervision of intermediaries also involved a series of formal and informal meetings (62 with banks, 48 with investment companies and 23 with insurance companies) and formal requests for data and information (80 to banks, 55 to investment companies and 5 to insurance companies).

During the year liaison with industry also continued, launched by the Commission in 2007 to implement strategic and procedural adaptation to MiFID regulations.

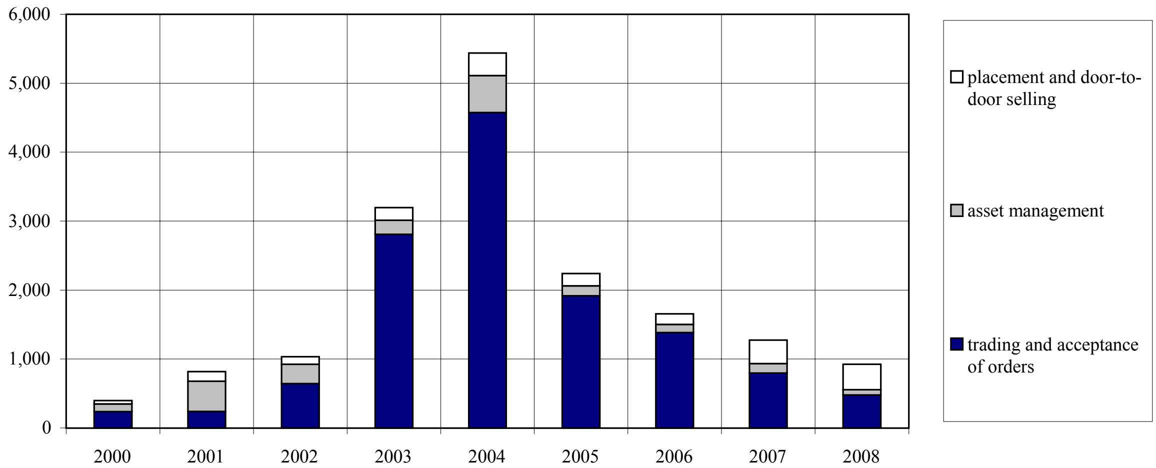
Consistent with a risk-based supervisory approach, policy focused on the major banking and insurance groups operating in Italy that account for over 80% of revenues in the investment services sector.

Intense cooperation led to information being gathered on business areas that intermediaries intend to develop, the investment services business plan and resources allocated to the review of corporate processes and procedures in line with the new regulatory framework. Interaction with supervised entities also offered the chance to pinpoint profiles calling for specific attention given their exposure to significant compliance risk.

A reduction was again seen in 2008 of the number of complaints received regarding investment and asset management services compared to previous years. Specifically, complaints regarding trading, order acceptance and management services decrease, whereas there was a slight increase in the number of complaints about placement services and door-to-door selling (Figure 78).

Figure 78

Number of investment service complaints received by Consob



The Commission completed 18 investigations in 2008, against 3 banks, 7 investment companies, 1 Italian branch of an EU investment company, 1 stockbroker and 6 asset management companies (Table 28).

Table 28

Investigation of intermediaries

	Investigations		Investigations launched					Investigations concluded				
	Launched	Concluded	Investment companies[1]	Banks	Asset Management co.s \SICAVs	Stockbrokers	Financial salesmen	Investment companies[1]	Banks	Asset Management co.s \SICAVs	Stockbrokers	Financial salesmen
2003	10	14	1	9	--	--	--	5	8	1	--	--
2004	3	6	--	2	1	--	--	--	5	1	--	--
2005	12	9	4	2	6	--	--	1	4	4	--	--
2006	5	9	3	2	--	--	--	5	2	2	--	--
2007	9	9	4	2	3	--	--	2	4	3	--	--
2008	18	14	8	3	6	1	--	8	2	3	1	--

[1] Includes trust companies and Italian branches of EU investment companies.

In view of developments in the subprime crisis, supervision activities also included a survey on Italian investors' exposure from financial instruments issued by entities in default, where necessary issuing specific requests to intermediaries for data and information. It emerged that the investment securities regarded foreign banks often supported by investment grade ratings. Based on supervision results, recommendations were issued to intermediaries through the financial intermediaries' associations to provide full information and support to their customers.

Supervision of the sale of OTC derivatives to companies and local authorities also continued in 2008. In this respect, requests for information were issued to 7 Italian intermediaries and 7 to the Italian branches of European intermediaries.

Recognition and policy initiatives were also launched in the cooperative banks segment.

During the year a survey was conducted on the distribution of financial insurance products in Italy and, in particular, on relations with the subscribing customer. Analysis showed that the distribution of financial insurance products, especially unit-linked and index-linked policies, was mostly attributable to banks and investment companies, and to a lesser extent to insurance agents and brokers. Direct distribution of products by insurance company issuers proved marginal, however, and web-based activation of products was negligible.

In 2008, the Commission submitted its proposals to the Ministry of the Economy and Finance on amendments to the operating regulations of the National Investor Compensation Fund resolved by the Fund's management committee. The amendments approved during the year complete action already taken by the Fund regarding articles of association amendment following alignment of its internal regulations to the MiFID regulatory framework.

The Fund continued its new management of bankruptcy proceedings in relation to liabilities statements filed from 1 February 1998 onwards (Table 29). Specifically, since it was set up the Compensation Fund has intervened in 25 cases of insolvency (16 investment companies and 9 stockbrokers). This management format is applied alongside the special management, which also involves the Italian Ministry of Economy and Finance, of prior insolvency cases.

The number of investment companies entered on the Consob List increased from 108 at the end of 2007 to 113 (Figure 79). This increase is linked to the new MiFID provisions on investment services. In effect, 11 investment companies were authorised to provide consulting services and 2 to manage multilateral trading facilities.

Table 29

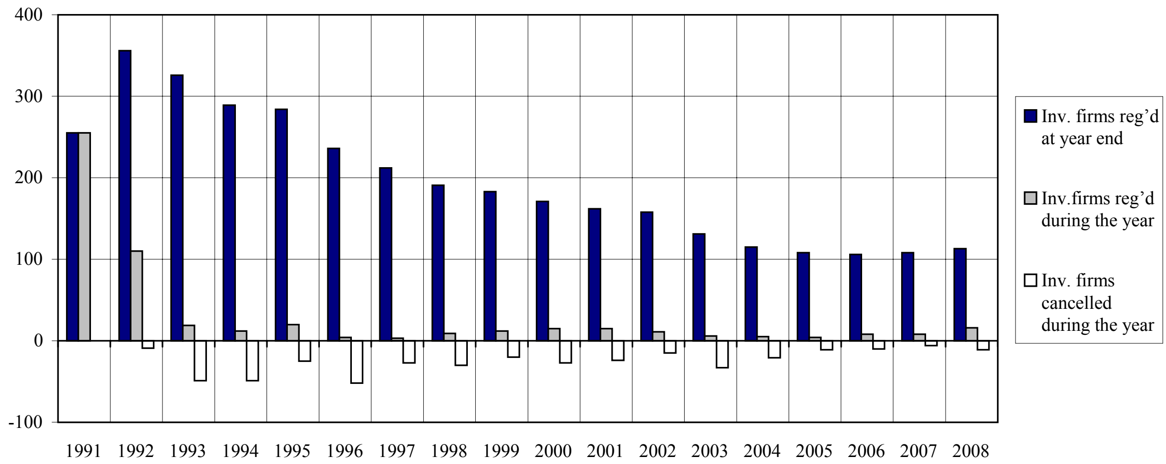
National Investor Compensation Fund intervention
(as at 31 December 2008; amounts in thousands of euro)

	Insolvencies[1]		
	Investment companies	Stockbrokers	*Total*
1997	4	1	*5*
1998	2	3	*5*
1999	1	1	*2*
2000	1	--	*1*
2001	1	--	*1*
2002	--	2	*2*
2003	2	1	*3*
2004	--	--	--
2005	--	--	--
2006	4	--	4
2007	1	--	1
2008	--	1	1
Total insolvencies	*16*	*9*	*25*
of which: with statement of liabilities filed	*16*	*8*	*24*
Number of creditors admitted	2,190	888	*3,078*
Amount of claims admitted[2]	27,419	35,224	*62,643*
Fund intervention	7,094	9,962	*17,056*

Source: Consob calculations based on National Investor Compensation Fund data. [1] For which the statement of liabilities was filed after 1 February 1998. [2] Net of partial allotments made by the bodies responsible for the bankruptcy proceedings.

Figure 79

List of investment companies



The 11 cancellations from the List of investment companies (6 in the previous year) were mainly due to mergers or transformation into banks (Table 30). In most cases the cancellations referred to multi-functional investment companies, i.e. with portfolio management as their main service.

Table 30

Investment companies: cancellations from the List[1]

	Reasons								
	Intermediary crisis[2]	Mergers and spin-offs	Voluntary liquidation - Change in activities	Transformation into a bank	Transformation into an asset mgt. co.	Transformation from a trust company into an investment company	Non-operational[6]	Failure to provide authorised services	*Total*
1992-1997	37	29	100	5	—	2	38	--	*211*
1998	2	7	16	4	--	--	—	1	*30*
1999	1	9[3]	4	--	4	2	—	--	*20*
2000	1	3	11	3	7	1	—	1	*27*
2001	1	3	6	10[4]	3[5]	--	—	--	*23*
2002	--	3	5	4	--	1	—	2	*15*
2003	2	21	8	1	1	--	—	--	*33*
2004	--	10	8	2	--	1	—	--	*21*
2005	--	3	6	1	--	--	1	--	*11*
2006	4	3	2	--	--	--	--	1	*10*
2007	1	2	1	1	1	--	--	--	*6*
2008	--	2	1	6	2	--	--	--	*11*

Source: Consob. [1] The figure refers to the total number of delisting resolutions, and also includes measures relating to the special trust companies section of the List. [2] Includes Ministry of the Economy and Finance decrees, Consob measures, bankruptcies and companies placed in compulsory administrative liquidation. [3] Includes one investment company that transferred business to another company in the same group. [4] In 3 cases the investment company was merged into a bank. [5] In all 3 cases the investment company was merged into an Asset management company. [6] As at the time of enforcement of Italian Legislative Decree No. 415/1996 (Article 60).

Ex post supervision continued in 2008 on the transparency of financial products issued by insurance companies.

The prospectuses verified were selected by applying a model adopted as of 2007 for the supervision of mutual fund prospectuses. Specifically, 549 prospectuses were examined, i.e. around 50% of the number filed (1,136) (Table 31). The prospectuses subjected to enforcement numbered 215. In 211 cases the original document filed was amended, and in 4 cases the insurance company decided to withdraw the prospectus and instead terminate existing contracts.

Table 31

Enforcement on insurance products in 2008

Type of contract	Prospectuses filed	Prospectuses subject to enforcement	Geographic breakdown of enforcement					
			Investment unbundling	Financial structure and risk	Revaluation mechanisms	Yield scenarios	Other	*Total*
unit linked	537	127	98	50	--	43	50	*241*
index linked	428	62	26	1	--	39	10	*76*
capitalisation	171	26	11	--	14	--	5	*30*
Total	*1,136*	*215*	*135*	*51*	*14*	*82*	*65*	*347*

Supervision focused on monitoring the credit risk of index-linked financial insurance products.

Amongst other things, as these products combine a life insurance policy with a bond component, index linking guarantees reimbursement of the invested capital on maturity. The subscription of index-linked policies therefore involves the assumption of issuer counterparty risk on the bond component. The weaker credit rating of certain issuers, as a result of developments in the subprime crisis, affected the value of the underlying bonds and therefore the policies themselves.

The supervision of financial products issued by insurance companies also kept a close watch on events linked to the Lehman Brothers Group, the Icelandic banks and the Bernard L. Madoff Investment Securities LLC scam.

With regard to Consob-Bank of Italy coordination activities, liaison committees between the two institutes were launched in 2008 as envisaged in the memorandum of understanding signed on 31 October 2007, pursuant to art. 5, subsection 5-*bis* of the Consolidated Law on Finance, to coordinate supervisory functions and reduce the burden on supervised entities to a minimum.

2. Asset management companies

As at the end of 2008, 215 asset management companies were entered on the register held by the Bank of Italy (211 at the end of 2007). The new asset management companies manage closed-end funds.

In 2008 the Commission issued 167 requests for data and information to Italian asset management companies and held 52 meetings, 5 of which formal with company members. Furthermore, 52 opinions were submitted to the Bank of Italy regarding operation expansions, winding-up of companies, extraordinary capital transactions and the outsourcing of certain Asset management company business activities (82 in 2007).

The supervision of open-end fund management companies involved organisational and procedural aspects important to application of the MiFID.

Supervision continued in 2008 of Italian open-end collective investment managers through summary performance, risk and cost indicators.

Developments in the financial crisis triggered specific supervisory initiatives to ascertain the effects of the bankruptcy of certain foreign intermediaries on asset management products offered to retail customers.

Given the deterioration of the financial crisis, Consob and the Bank of Italy launched a joint initiative to constantly monitor the cash flow position of open-end funds.

In December 2008, the Commission and the Bank of Italy verified the exposure of open-end funds and individual portfolio management to Madoff fund-related activities.

The Commission also continued to monitor the closed-end real estate fund segment.

Supervision of the correct conduct of asset management companies in 2008 also involved the management of closed-end investment funds, specialised in shares of unlisted SMEs (private equity funds) for which access to the risk capital market is difficult.

The monitoring of asset management companies that manage speculative funds, a segment which has seen a strong development in recent years, was particularly intense.

With regard to the information profile for subscribers, ex-ante supervision continued in 2008 on open-end and closed-end mutual investment fund prospectuses (see Chapter I, "Supervision of Listed Companies").

Examination of the composition of Asset management company boards of directors and compliance with director independence requirements also continued in 2008. Specifically, the board of directors composition of the top 17 banking and insurance asset management companies in terms of AUM as at 31 December 2008 (which with total assets of 154 billion euro account for 89% of the total assets managed of Italian harmonised funds; Table 32) was analysed.

Table 32

Office held by directors of asset management companies in other companies of the same group
(number of directors)

		Office held in the Asset management company							
		Managing director	Director	Executive director	Independent director	Chairman	Chairman, executive director	Chairman, independent director	*Total*
2007									
Office held in the parent company	Chairman		2						*2*
	Deputy Chairman		1					1	*2*
	Managing director		2						*2*
	Director		7	1	2	2			*12*
	Executive director		3			1			*4*
	Independent director								*--*
	Director General		4				1		*5*
	Deputy Director General	1	2	1					*4*
	Manager	1	12			2			*15*
Office held in other group companies		10	44	9	14	6	3		*86*
No office held in other group companies		1	25	3	14	1		3	*47*
Total		*13*	*102*	*14*	*30*	*12*	*4*	*4*	*179*
2008									
Office held in the parent company	Chairman		1						*1*
	Deputy Chairman								*--*
	Managing director								*--*
	Director		3	3	1	3			*10*
	Executive director		1						*1*
	Independent director								*--*
	Director General		3			1			*4*
	Deputy Director General	1	2						*3*
	Manager		7	1		1			*9*
Office held in other group companies		7	42	5	12	6			*72*
No office held in other group companies		3	30	6	11			4	*54*
Total		*11*	*89*	*15*	*24*	*11*	*--*	*4*	*154*

Source: prospectuses. Figures refer to the top 20 banks and insurance company-owned asset management companies by portfolios managed. Period end data.

3. Financial salesmen

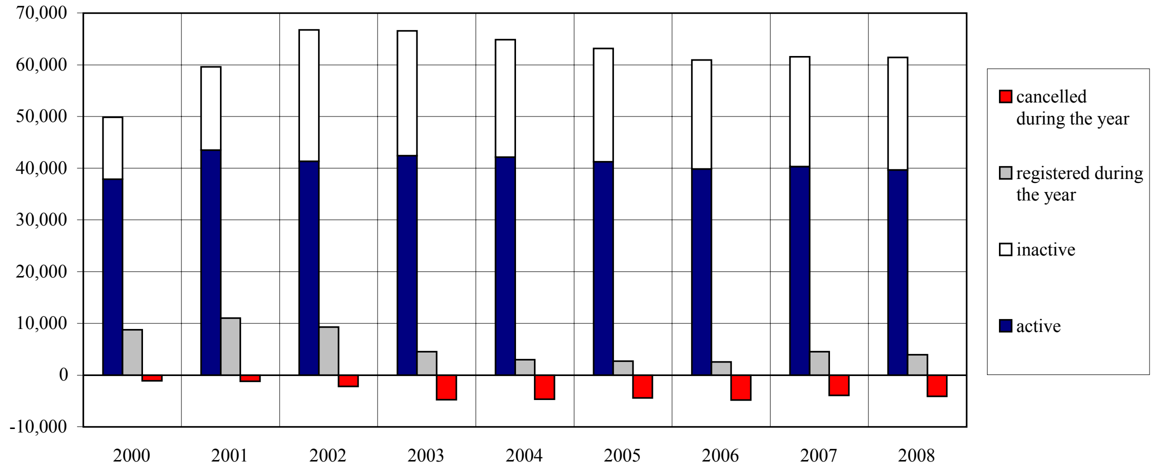
The supervision of financial salesmen was driven by complaints from investors (approximately 102 in 2008), investigations conducted on intermediaries, communications received from legal authorities, reports from the intermediaries themselves and from Regional Commissions.

In 2008, Consob imposed numerous precautionary suspensions from business activities and issued 42 reports to the Legal Authorities with regard to alleged offences related to the business activities of financial salesmen (see Chapter IV "Sanctions and precautionary measures"). In addition, for financial salesmen supervisory purposes, 546 requests for data and information were issued in 2008.

With regard to changes in the register of financial salesmen, held by the Authority for the Single Register of Financial Salesmen as from 1 January 2009, 2008 saw a drop in the number of persons registered (-0.2%) and active (-1.6%) (Figure 80).

Figure 80

Register of Financial Salesmen



IV – SANCTIONS AND PRECAUTIONARY MEASURES

1. Disciplinary measures

In 2008 the Commission adopted 136 disciplinary measures (200 in 2007) in 156 proceedings (227 in 2007) for proven infringement of provisions of the Consolidated Law on Finance and related enactment regulations.

2. Disciplinary measures on market abuse

In 2008 the Commission inflicted sanctions for market abuse offences in a total of 5 cases (11 in 2007), all of which involved insider trading (Table 33).

Table 33

Disciplinary measures for market abuse offences
(amounts in thousands of euro)

	number of cases		number of persons involved		amount of fines		amount of confiscated assets		number of persons subject to additional penalties		additional penalties (months)	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Insider trading[1]	8	5	8	6	5,358	2,052	39,893	5,478	8	6	63	18
Manipulation[2]	3	--	9	--	30,207	--	--	--	5	--	54	--
Total	*11*	*5*	17	6	*35,565*	*2,052*	*39,893*	*5,478*	13	6	117	18

[1] Offence sanctioned under art. 187-*bis*, Consolidated Law on Finance. [2] Offence sanctioned under art. 187-*ter*, Consolidated Law on Finance.

The financial penalties concerned - totalling just over 2 million euro - were inflicted upon 6 persons in total, including 5 natural persons and 1 legal entity, the latter sanctioned under art. 187-*quinquies* of the Consolidated Law on Finance (entity liability).

The natural persons sanctioned were also subject to compulsory additional prohibition orders under art. 187-*quater* of the Consolidated Law on Finance (temporary loss of integrity requirements and temporary ban on holding the position of director, manager or controller of a listed company) for a total of 18 months. In addition, these same offenders were subject to confiscation of personal assets, also compulsory, totalling approximately 5.5 million euro under the terms of art. 187-*sexies* of the Consolidated Law on Finance.

Insider trading offences were confirmed by the Commission were all secondary insider cases, i.e. persons gaining insider information from a primary insider who then acted unlawfully pursuant to art. 187-*bis* of the Consolidated Law on Finance.

In 2008, the first 9 proceedings regarding internal dealing offences were concluded (art. 114, subsection 7 of the Consolidated Law on Finance and art. 152-*sexies* et seq. of Consob Regulation 11971/1999).

For these offences, financial penalties were inflicted for a total of 400,000 euro against 7 natural persons and 2 legal entities.

3. Measures regarding intermediaries and financial salesmen

7 investigations concerning the investment service-related infringements were completed in 2008 (16 in 2007) with the infliction of sanctions: 5 referred to banks, 1 to an investment company and 1 to an Asset management company (Table 34, Figure 81).

Table 34

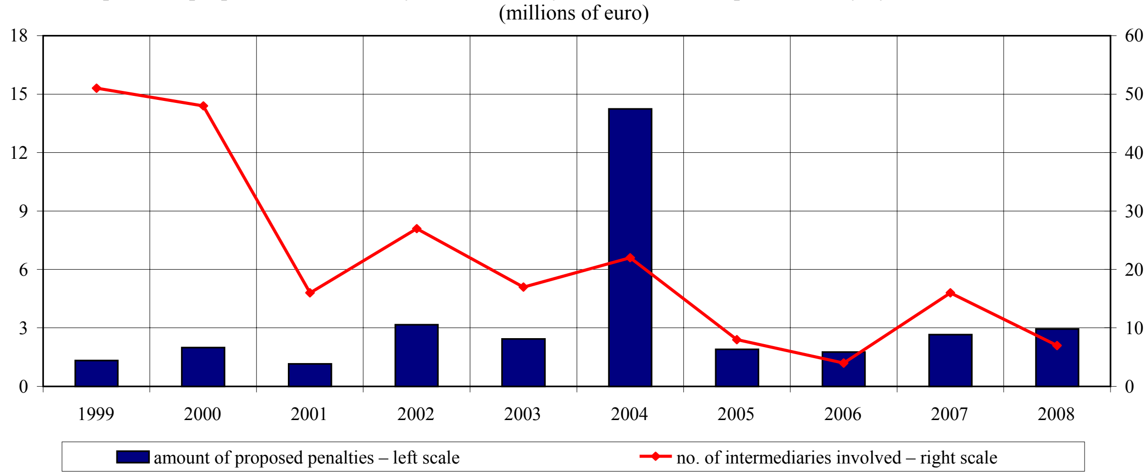
Financial penalties proposed to the Ministry of the Economy and Finance or imposed directly by Consob on intermediaries[1]
(amounts in thousands of euro)

	Number of intermediaries involved					Number of persons fined					Amount of the penalties[2]				
	Banks	Investment companies	Stockbrokers	Asset management companies	*Total*	Banks	Investment companies	Stockbrokers	Asset management companies	*Total*	Banks	Investment companies	Stockbrokers	Asset management companies	*Total*
1999	23	25	3	--	*51*	71	71	3	--	*145*	647	566	120	--	*1,333*
2000	13	21	14	--	*48*	71	88	14	--	*48*	986	901	100	--	*1,987*
2001	5	10	1	--	*16*	31	52	1	--	*84*	252	860	39	--	*1,151*
2002	5	12	5	5	*27*	90	161	6	61	*318*	557	1,319	136	1,147	*3,159*
2003	7	3	1	6	*17*	114	25	3	73	*215*	1,847	172	54	369	*2,441*
2004	18	3	1	--	*22*	504	11	1	--	*516*	14,087	108	55	--	*14,250*
2005	7	1	--	--	*8*	126	11	--	--	*137*	1,849	61	--	--	*1,910*
2006	1	1	--	2	*4*	32	16	--	48	*96*	680	296	--	787	*1,763*
2007	6	7	--	3	*16*	79	62	--	55	*196*	1,035	814	--	809	*2,659*
2008	5	1	--	1	*7*	85	13	--	5	*103*	*2,807*	29	--	109	*2,945*

[1] From 2006 figures refer to sanctions inflicted directly by Consob. For previous years figures refer to sanctions proposed to the Ministry of the Economy and Finance. [2] Rounding may cause discrepancies in the last figure.

Figure 81

Financial penalties proposed to the Ministry of the Economy and Finance or imposed directly by Consob on intermediaries[1]
(millions of euro)



[1] From 2006 figures refer to sanctions inflicted directly by Consob. For previous years figures refer to sanctions proposed to the Ministry of the Economy and Finance.

The related financial penalties, totalling around 2.9 million euro (2.7 million in 2007), were inflicted upon 103 company members (196 in 2007). Infringements discovered through supervisory activities, including investigations, regarded both procedural and conduct-related non-compliance.

With regard to financial salesmen, 93 disciplinary measures were imposed in 2008 (116 in 2007), including 44 disqualifications from the register, 43 fixed-term suspensions (from a minimum one month to a maximum four months), 2 financial penalties (for a total of 1,516 euro) and 4 written reprimands. The Commission also issued 42 reports to the Legal Authorities for criminal offences emerging during the course of investigations (Table 35).

Table 35

Disciplinary sanctions and precautionary measures regarding financial salesmen

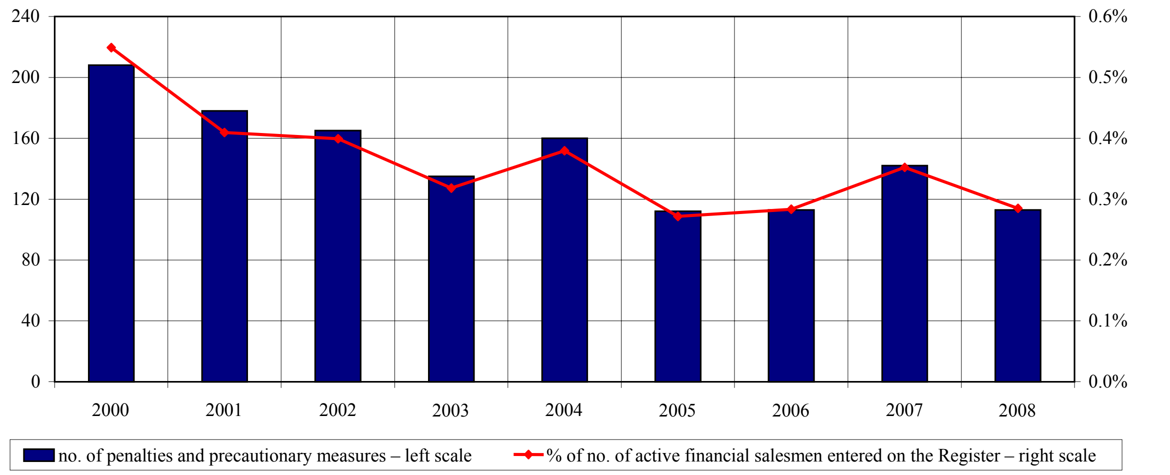
	Type of measure						
	Disciplinary sanctions					Precautionary measures	Reports to legal authorities
	Reprimand	Disqualification from the register	Fixed-term suspension from the register	Financial penalty	*Total*	Fixed-term suspension[1]	
1997	8	39	5	--	*52*	64	58
1998	11	86	73	--	*170*	76	137
1999	2	70	51	4	*127*	74	106
2000	21	49	73	26	*169*	39	134
2001	29	36	48	15	*128*	50	72
2002	33	58	37	6	*134*	31	72
2003	1	56	47	5	*109*	26	77
2004	3	68	46	7	*125*	35	78
2005	1	42	41	4	*88*	24	59
2006	6	49	22	5	*82*	31	60
2007	5	64	44	3	*116*	26	51
2008	4	44	43	2	*93*	20	42

[1] The figures for 1997 and 1998 include measures adopted under Article 45, subsection 4 of Italian Legislative Decree 415/1996 and, from 1 July 1998 onwards, under Article 55 of the Consolidated Law on Finance.

The total number of disciplinary measures decreased compared to the previous year, proportionate to the number of disqualifications from the Register. The number of precautionary measures also reduced (from 26 in 2007 to 20). The disciplinary and precautionary measures involved a lower percentage of active financial salesmen (Figure 82).

Figure 82

Disciplinary sanctions and precautionary measures regarding financial salesmen



4. Issuer-related measures

A total of 30 disciplinary measures were adopted by the Commission in 2008 (54 in 2007) for the infringement of issuer regulations, regarding violation of takeover bid regulations (2), corporate disclosure (18), major shareholdings (9) and shareholder agreements (1) (Table 36).

Table 36

Administrative sanctions proposed by Consob to the Ministry of the Economy and Finance or imposed directly by Consob on public offerings, corporate disclosure and voting proxy[1]

(amounts in thousands of euro)

	Number of cases						Number of persons fined					Amount of the penalties					
	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*
2001	27	--	6	3	--	*36*	35	--	5	4	--	545	--	160	238	--	*943*
2002	14	--	12	11	--	*37*	24	--	18	43	--	1,404	--	400	300	--	*2,104*
2003	3	1	5	22	--	*31*	7	5	7	13	--	702	464	216	359	--	*1,741*
2004	4	--	2	1	--	*7*	7	--	2	1	--	1,023	--	57	10	--	*1,090*
2005	5	--	3	2	--	*10*	13	--	9	1	--	1,120	--	52	20	--	*1,192*
2006	2	3	4	4	--	*13*	20	22	14	5	--	2,071	2,995	817	445	--	*6,328*
2007	3	1	11	39	--	*54*	20	2	18	43	--	2,417	40	976	1,641	--	*5,074*
2008	--	2	18	10	--	*30*	--	3	18	10	--	--	179	923	408	--	*1,510*

[1] From 2006 figures refer to sanctions inflicted directly by Consob. For previous years figures refer to sanctions proposed to the Ministry of the Economy and Finance.

The Commission inflicted financial penalties in relation to the above disciplinary measures for a total of 1.5 million euro, much lower than the totals inflicted in 2006 and 2007, i.e. 5.1 million and 6.3 million respectively. The reason for this decrease is that in the two previous years a number of proceedings, significant in terms of the serious nature of the proven offences, were concluded (Table 37, Figure 83).

Table 37

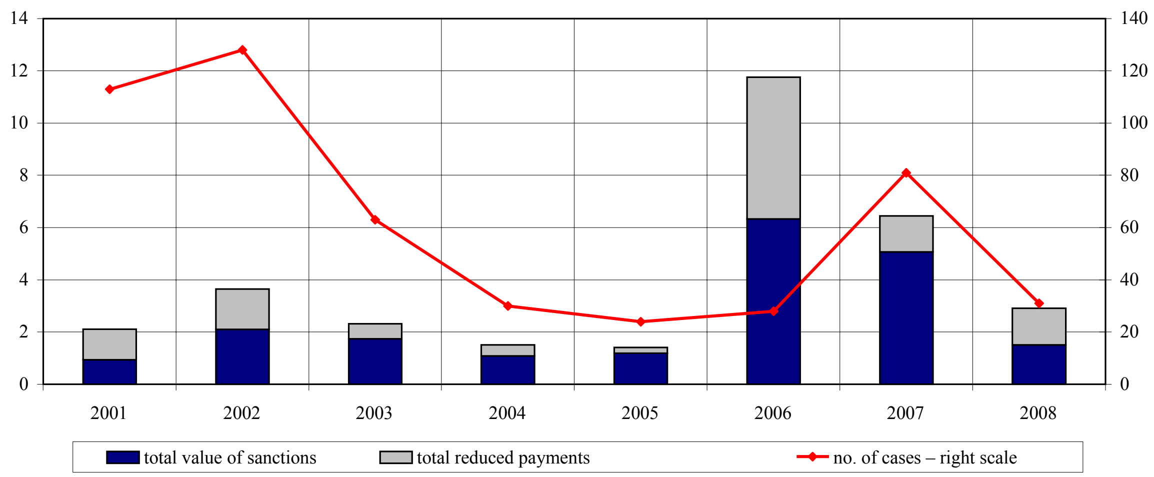
Reduced payments on infringement of regulations on public offerings, corporate disclosure and voting proxy
(amounts in thousands of euro)

	Number of cases						Number of persons						Amount of reduced payments					
	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*	Public offerings	Takeover bids	Corporate disclosure	Major holdings and shareholders' agreements	Voting proxy	*Total*
2001	13	2	11	51	--	*77*	19	3	20	53	--	*95*	344	31	258	537	--	*1,170*
2002	6	1	6	78	--	*91*	6	1	6	77	--	*90*	207	103	392	845	--	*1,547*
2003	1	3	6	22	--	*32*	8	4	6	29	--	*47*	83	41	155	300	--	*579*
2004	4	6	7	6	--	*23*	31	6	7	6	--	*50*	203	62	72	83	--	*420*
2005	5	1	1	7	--	*14*	9	2	5	7	--	*23*	80	20	52	70	--	*222*
2006	4	4	2	5	--	*15*	6	72	2	16	--	*96*	124	4,714	144	449	--	*5,431*
2007	4	1	1[1]	21	--	*27*	21	4	1	23	--	*49*	217	42	10	1,105	--	*1,374*
2008	3	--	--	14	--	*17*	27	--	--	18	--	*45*	327	--	--	1,081	--	*1,408*

[1] This figure refers to one payment made in 2007 but regarding an infringement confirmed in 2006. For sanction proceedings begun in 2007 the reduced payment formula is no longer envisaged.

Figure 83

Administrative sanctions regarding public offerings and corporate disclosure[1]
(millions of euro)



[1] From 2006 figures refer to sanctions inflicted directly by Consob. For previous years figures refer to sanctions proposed to the Ministry of the Economy and Finance.

Again with regard to Consob investigations into alleged violation of regulations on the public offering of financial products, in two cases it was necessary to apply prohibition orders (Table 38).

Table 38

Precautionary measures and prohibition orders in relation to public offerings

	Precautionary suspension	Prohibition order	Annulment	*Total*
2001	3	3	--	*6*
2002	2	6	--	*8*
2003	9	2	2	*13*
2004	9	7	3	*19*
2005	5	6	--	*11*
2006[1]	2	3	1	*6*
2007	--	1	--	*1*
2008	2	1	--	*3*

[1] In 2006 one precautionary suspension was adopted that was later withdrawn. In 2008, one case of suspension later in the year generated a prohibition order, also recorded in the table.

V – REGULATORY AND INTERPRETATIVE ACTIVITY AND INTERNATIONAL DEVELOPMENTS

1. Regulation of issuers

During 2008 the Commission continued its intense regulatory activity based on powers granted under the Italian Law on Savings (Law no. 262, 28 December 2005) and the implementation of a number of EU directives. These activities, which led to numerous market consultations, concerned regulatory amendments, i.e. the issue of communications, recommendations and interpretation policy.

In April Consob launched a public consultation on a regulatory proposal in enactment of the legislative decree referring to art. 2391-*bis* of the Italian Civil Code on related party transactions.

After extensive and complex public consultation, the Commission issued Resolution no. 16840 of 24 March 2009 adopting amendments to the Issuers' Regulation with regard to provisions on the public offering or admission to listing on a regulated market of financial instruments, completing the regulatory framework at national level in implementation of the Prospectuses Directive (2003/71/EC).

At the time of implementation of the EU directive, the idea was also to clarify the content of Consob investigation activities and to simplify the prospectus approval process.

Amendments to primary legislation also offered the chance to review regulatory provisions so as to separate regulations on undertakings for collective investment and financial products issued by insurance companies. The need also emerged to upgrade the format of open-end collective investment scheme prospectuses (both Italian and non-harmonised foreign undertakings) and financial insurance product prospectuses to facilitate investors' understanding of the product characteristics and to encourage intermediaries' compliance with transparency obligations in their relations with customers (see paragraph 5 below).

As part of action taken to implement the Prospectuses Directive, the regulatory provisions concerning the enactment of art. 205 of the Consolidated Law on Finance were also subjected to public consultation. These provisions identify the conditions under which offerings for the purchase and sale of financial instruments on the MTF market or systematic internalisers are not classed as either public offerings of financial products or as equity swaps.

The rules adopted in November 2008 aimed to align the operational needs of the new trading venues without removing the need, where necessary, for compliance with disclosure obligations crucial to effective investor protection.

On the question of ownership arrangements, implementation of the Transparency Directive (2004/109/EC) offered a chance to review the overall Italian regulations in force on ownership transparency, in order to not only adapt to the minimum provisions of the directive, but also to streamline the regulations, though without reducing the level of market transparency guaranteed thus far under national provisions.

With regard to obligations envisaged in art. 148-*bis* of the Consolidated Law on Finance (plurality of offices), Consob Resolution no. 16515 of 18 June 2008 made a number of amendments to art. 144-*duodecies* et seq. and to Annex 5-*bis* of the Issuers' Regulation, which by setting limits govern the plurality of administrative and control body offices in listed companies and in issuers of financial instruments widely-distributed among the public. Specifically, the weight of directorship in a subsidiary where the director holds similar office in the parent company was reduced.

By Communication no. 8067632 issued in July, the Commission provided an interpretation of art. 148, subsection 3, paragraph c) of the Consolidated Law on Finance on the cause of incompatibility for the office of member of a control body of a listed issuer. This measure refers to the existence for various person of independent or subordinate employment relationships, or "*other relations of a financial or professional nature that compromise independence*". The same incompatibility applies to members of the supervisory council and management control committee under the terms of art. 148, subsection 3 of the Consolidated Law on Finance, referred to in subsections 4-*bis* and 4-*ter*.

During 2008 Consob also published a recommendation on information to be included in prospectuses on the public offering price of shares and/or bonds convertible to shares of unlisted issuers, where such financial instruments are neither traded on a regulated market nor subject to admission to listing on that market (Recommendation no. 8058754 of 19 June).

2. Regulation of ongoing corporate disclosure

During 2008 Consob was an active member of the CESR task force on the issue of Level 3 Implementation of the Transparency Directive.

With regard to public access to regulated disclosures at European level, in July 2008 the Commission published a consultation paper on regulations for the dissemination, storage and filing stages of such disclosures, exercising the powers granted under the new art. 113-*ter* of the Consolidated Law on Finance (introduced by Legislative Decree no. 195 of 6 November 2007 in implementation of the Transparency Directive). As a result of the consultation, during which the comments received essentially agreed with the regulations and provided useful contributions to improvement of the proposed text, the Issuers' Regulation was amended accordingly. New measures enter into force after a transitional period, given the time necessary to adapt to standards envisaged under the new regulations and for the start-up of new dissemination and storage systems for regulated disclosures.

During 2008 the Commission issued a Communication on disclosures to be made public regarding share capital increases reserved for a single investor, therefore without rights, and implemented on the basis of complex agreements normally known as "Stand-by equity distribution agreements" (SEDA) and "Step-up equity financing" (SEF).

3. Regulation of independent auditors and financial reporting

Given the economic situation and its extreme effect on financial statement audits and problems linked to the assessment of going concern assumptions, in February 2009 the Commission issued a Communication drawing certain aspects to the attention of independent auditors included on the Special Register. Though no additional auditing obligations were introduced with respect to those already contained in Document no. 570 on "Going concern assumptions", the Communication provides useful points for the correct application of those rules.

Again in February 2009, following amendments introduced to the Italian Civil Code and to the Consolidated Law on Finance (art. 156, subsection 4-*bis*) by Legislative Decree 32/2007 (art. 2409-*ter*), the Commission adopted the new auditing principle of the Italian accounting profession on "*The opinion on consistency between the report on operations and the financial statements*" to be implemented by independent auditors in their audit of financial statements as at 31 December 2008.

4. Market regulation

The Commission made several amendments in 2008 to the Regulation on Markets, providing clarification for implementation of European Directive 2004/39/EC (MiFID).

After extensive consultation launched in May, the Commission approved certain changes to articles 36, 38 and 39 of the Regulation on Markets which govern the conditions for listing of specific companies, in implementation of art. 62, subsection 3-*bis* of the Consolidated Law on Finance.

The Commission's Communication of 21 January 2008 also issued policy of a technical and operational nature on the application of certain provisions of the Regulation on Markets adopted on implementation of the MiFID. With regard to intermediary reporting to Consob of transactions performed on financial instruments admitted to listing on a regulated market (the transaction reporting system), amongst other things Consob provided clarification on the entities required to submit disclosures to Consob on such transactions and exemption from this obligation for transactions completed on Italian regulated markets.

The Communication of 21 January 2008 also gives indications regarding the setup and winding-up of systematic internaliser activities (and the related transitional regime for alternative trading systems), the publication and consolidation of pre- and post-trading disclosures and business continuity measures to be adopted for essential operations.

On the topic of market abuse regulations, 2008 saw the launch of the recognition procedure for two market practices for acceptance pursuant to art. 180, subsection 1, paragraph c) of the Consolidated Law on Finance, respectively concerning market liquidity support and the purchase of treasury shares for stockpiling purposes. The two practices were subjected to public consultation in the second half of 2008.

5. Regulation of intermediaries

In 2008 the Commission was involved in intense activity to clarify the application methods for the secondary regulation of intermediaries issued at the end of the previous year in implementation of the MiFID. This activity was performed through both the preparation of Level 3 guidance, in line with similar initiatives at European level, and response to queries.

Certain interpretations, specified at the time of issue of the new Intermediaries' Regulation, no. 16190/2007, were subject to further verification during the many meetings held with operators and the industrial associations. Particular emphasis is given to the extensive concept of "investment consulting" outlined in EU regulations, with subsequent operational add-ins in terms of "executive" services (placement, order acceptance and transmission).

A highly important topic, subject of a Communication adopted as part of the Level 3 guidance, concerns the distribution of illiquid financial products to retail customers.

The application of Level 3 measures calls for suitable upgrading and updating of organisational structures and corporate procedures among the intermediaries. The reference to policy on best practices, prepared by the industrial associations and approved by the supervisory authorities, can help to satisfy the operator certainty needs in the approach to fair competition, operational and organisational specifications of individual companies and the margins for application flexibility guaranteed by the new regulatory system.

In this respect, alongside preparation of the policy, during 2008 the Commission worked on defining a Policy, published in May, for the assessment and eventual approval of policy prepared by the Italian financial intermediaries' associations.

Over the course of the year, the main financial intermediary associations reviewed the first drafts of the policy on consulting and customer relations, contracts, suitability/appropriateness, best execution and customer classification. The positive results of the review will render the application policy a safe harbour: operating conduct compliant with approved solutions will in fact be considered as in line with the current regulatory framework.

With regard to asset management companies, as part of the Level 3 guidance, a consultation paper was published in August 2008 on the topic of investment research in relations between trader and manager. The final measures adopted in this respect were published on 14 January 2009. The paper clarifies Consob's rules on inducements, the conditions for the manager's acceptance of research reports, where subject to soft commission agreements with traders to which orders relating to the portfolios managed are addressed. At the same time, it is specified that this topic is also relevant in terms of best execution obligations.

With reference to financial salesmen, during 2008 the Commission implemented the provisions of art. 31, subsection 4 of the Consolidated Law on Finance, as amended by the Savings Law. The Commission's Resolution no. 16737 of 18 December 2008, in fact, confirms the start-up on 1 January 2009 of the Authority for the Single Register of Financial Salesmen and establishes the date for the entry into force of the provisions of Book VIII, parts II and III of the Intermediaries' Regulation, with subsequent disbanding of the regional and provincial commissions responsible for the register of financial salesmen.

During 2008 the Commission was also involved in the implementation of measures on individuals acting as financial advisors pursuant to art. 18-*bis* of the Consolidated Law on Finance, as introduced by Legislative Decree no. 164 of 17 September 2007.

At the time of Transparency Directive-related amendments to the Issuers' Regulation, the formats for open-end collective investment scheme prospectuses (Italian and non-harmonised foreign) and financial insurance product prospectuses were simplified, abandoning the requirements for approval in advance of prospectuses for open-end funds (in line with the procedures for financial products issued by insurance companies), and sections of the prospectus subject to compulsory consignment were reviewed so as to highlight as much as possible the key information on risks and costs for each individual product. These amendments followed extensive public consultation and an open hearing held on 3 November.

These new aspects also level the field in terms of promoting competition between alternative products, i.e. open-end undertakings for collective investment and class III and V financial insurance products (index-linked or unit-linked and capitalisation). Fragmentation of the transparency rules for public offerings of such investment products, in fact, does not encourage full comparability with regard to description of the related risk and cost profiles.

VI – INTERNATIONAL AFFAIRS

1. International cooperation

Consob continued its international cooperation activity in 2008 with the supervisory authorities of EU member countries and of other countries.

The number of requests for information issued to other foreign authorities has increased considerably. Consob issued 113 requests for cooperation, 42 of which to verify compliance with the ban on short sales (introduced as of 30 September 2008) and 52 in suspected insider trading and market manipulation cases (Table 39).

Table 39

Exchange of information between Consob and foreign Supervisory Authorities

Subject	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Information requests issued to foreign authorities										
Insider trading	43	32	24	24	11	8	12	16	18	25
Market manipulation	--	1	4	--	4	8	6	12	9	27
Unauthorised public offerings and investment services	4	3	10	9	5	2	4	5	1	2
Transparency and corporate disclosure	--	1	--	--	6	9	10	5	1	2
Major holdings in listed companies and authorised intermediaries	--	--	1	1	3	1	2	4	3	2
Integrity and professionality requirements	10	19	14	34	21	7	4	--	9	--
Infringement of rules of conduct	--	2	--	--	1	2	--	1	--	--
Transaction reporting (art. 25, MiFID)	—	—	—	—	—	—	—	—	—	1
Short sales	—	—	—	—	—	—	—	—	—	42
Direct requests to a remote member (art. 57, MiFID)	—	—	—	—	—	—	—	—	—	11
Suspect transaction reports	—	—	—	—	—	—	—	—	—	1
Total	*57*	*58*	*53*	*68*	*51*	*37*	*38*	*43*	*41*	*113*
Information requests from foreign Authorities										
Insider trading	3	5	20	13	17	18	18	17	18	18
Market manipulation	3	--	1	1	2	3	4	14	2	3
Unauthorised public offerings and investment services	3	1	2	7	4	3	9	9	3	2
Transparency and corporate disclosure	--	2	--	--	--	--	4	3	--	1
Major holdings in listed companies and authorised intermediaries	--	--	--	2	1	--	4	--	1	1
Integrity and professionality requirements	44	53	49	80	70	44	31	46	37	18
Infringement of rules of conduct	--	--	--	--	--	--	--	--	3	2
Transaction reporting (art. 25, MiFID)	—	—	—	—	—	—	—	—	—	1
Short sales	—	—	—	—	—	—	—	—	—	--
Direct requests to a remote member (art. 57, MiFID)	—	—	—	—	—	—	—	—	—	--
Suspect transaction reports	—	—	—	—	—	—	—	—	—	2
Total	*53*	*61*	*72*	*103*	*94*	*68*	*70*	*89*	*64*	*48*

Consob received 48 requests for cooperation from foreign supervisory authorities, linked mainly to the verification of integrity and professionality requirements and suspected cases of insider trading.

2. Activities within the European Union

In 2008 Consob's participation continued in meetings of the European Commission for the preparation and approval of directive proposals.

Consob participated in negotiations on the proposal to amend the Settlement Finality and Financial Collateral directives and those relating to the proposal to regulate rating agencies.

The proposal on rating agency regulation, presented by the European Commission in November 2008, is included among the measures to restore faith in the markets and to increase investor protection. It defines a supervisory framework for agencies whose ratings are used by banks and by financial and insurance intermediaries in the European Community.

During the year, Consob provided technical support to the Ministry of the Economy for AURC meetings (Audit Regulatory Committee) and attended meetings of the EGAOB (European Group of Auditors' Oversight Bodies), the Group of Experts set up by the European Commission to coordinate the public bodies responsible for controlling statutory and independent auditors at European level.

2008 saw the approval of proposed amendments to a number of directives issued as part of the Lamfalussy process to adapt directives to the new committee procedures introduced by European Council decision 2006/512/EC.

Other initiatives launched by the Commission in 2008 include: i) the regulatory proposal on European private company articles of association; ii) a number of directive proposals to simplify reporting and documentary obligations in relation to mergers and spin-offs; iii) compulsory translation and publication of certain company types.

3. Activities within the Committee of European Securities Regulators (CESR)

During 2008, on recommendations from the Ecofin Council, the European Council invited the European Commission to review institutional decisions by Level 3 Committees (CESR, CEBS - Committee of European Banking Supervisors and CEIOPS - Committee of European Insurance and Occupational Pensions Supervisors) to guarantee mandate consistency and strengthen their role in the process of converging supervisory practices in EU member countries and in protecting financial stability. In January 2009 the Commission therefore amended the institutional decision of the CESR, expressly envisaging that Committee tasks include that of promoting coordination between supervisory authorities (Decision 2009/77/EC of 23 January 2009, repealing the previous Decision 2001/527/EC).

Intense CESR activities also continued in 2008 with regard to the creation of new task forces to coordinate supervisory authority activities in relation to the financial markets crisis.

The work of CESRFIN, the standing committee on financial reporting, and the enforcement sub-committee EECS (European Enforcers Coordination Session) also continued in 2008 to establish instruments to guarantee effective coordination of financial reporting enforcement activities at European level.

Activities of the Asset Management Group of Experts, chaired by Consob, were particularly significant in 2008.

In addition, Consob actively participated in the CESR task forces on the MiFID, Prospectuses, Transparency and Market Abuse directives.

The Institute took part in the work of the Review Panel (the standing committee on CESR standards implementation by EU member countries) to review supervisory and enforcement powers attributed to EU member country supervisory authorities, in implementation of the MiFID (Directive 2004/39/EC). During the year the Review Panel also launched a survey on the powers attributed under the Transparency Directive and a number of peer reviews to verify the implementation status of guidance on simplifying the reporting procedure for collective investment scheme funds and Standards 1 and 2, and on financial reporting enforcement activities.

With regard to rating agencies, in May the corresponding CESR task force submitted its second report to the European Commission on implementation of the IOSCO (International Organization of Securities Commissions) code of conduct for rating agencies and on the agencies' role in structured finance. Then in September the CESR responded to the European Commission consultation on the draft proposal for a directive/regulations on rating agencies.

The Institute participated in the work of CESR-Tech and joint CESR-European Central Bank activities on clearing and settlement.

Consob chairs the new task force on mutual recognition set up by the CESR.

A further task force was set up among the Level 3 committees (CESR, CEBS, CEIOPS) on the delegation of duties among European supervisory authorities.

4. Activities within the International Organization of Securities Commissions (IOSCO) and other international bodies

In 2008 Consob was a member of the IOSCO Technical Committee and again took part in the Organisation Executive Committee for the Annual Conference held in May 2008.

At the extraordinary meeting of the IOSCO Technical Committee in November, urgent measures were adopted to face the financial markets crisis and to coordinate general regulatory measures in support of G-20 goals. New task forces were set up on entities, markets, unregulated financial products and short sales. Consob is a member of the new task forces and with the UK's FSA jointly chairs the Task Force on Unregulated Entities.

IOSCO initiatives, in which Consob participates, launched to rebuild investors' faith in the integrity of the financial markets, include: i) setup of the task force on commodities markets to analyse operator conduct and potential speculation on these markets; ii) the task force on sovereign funds, particularly supervisory authority liaison for enforcement purposes; iii) the task force on the subprime crisis.

Consob has also contributed to the work of the Task Force on Credit Rating Agencies which aim to improve and coordinate rating agency supervision at international level with regard to compliance with the new IOSCO Code of Conduct.

During the year the Commission's involvement continued in IOSCO standing committees on accounting transparency and profiles (Standing Committee 1), secondary markets (Standing Committee 2), intermediaries (Standing Committee 3), cooperation difficulties (Standing Committee 4) and undertakings for collective investment (Standing Committee 5).

Consob also attended meetings of the Screening Group, set up to evaluate applications submitted by financial market supervisory authorities who are members of IOSCO to become signatories to the MMOU (the IOSCO Multilateral Memorandum of Understanding).

The Institute was also involved in the Implementation Task Force to assess the implementation status of the IOSCO Objectives and Principles on Securities Regulation.

Consob became a member of the cooperation project between financial supervisory authorities on both sides of the Mediterranean (the Mediterranean Partnership), launched in 2008.

The Institute also took part in activities of the IFIAR, the International Forum of Independent Audit Regulators set up to facilitate cooperation between authorities responsible for audit supervision.

Also of note was Consob's participation in negotiations on the proposed Unidroit convention on substantial legal rulings on securities deposited with intermediaries, meetings of the Joint Forum comprising representatives of the banking, financial and insurance sector supervisory authorities to further study topics of mutual interest.

VII – CONSOB'S INTERNAL MANAGEMENT AND EXTERNAL RELATIONS

1. Financial planning and management

In 2008 the Commission launched a planning and control process to identify, amongst other things, strategic objectives and related operations, taking into consideration the developments in the reference economic and financial context and the regulatory framework.

With regard to the Institute's financial management, net of surplus from the previous year, total revenues in 2008 amounted to 98.9 million euro (Table 40), including 74.6 million euro (73.7%) from fees (mainly in reference to the public offering, financial salesmen, issuer and financial intermediary categories; Table 41).

With regard to expenditure, current expenditure increased compared to the previous year, primarily linked to staff costs, costs for the purchase of goods and services and allocation to the Provision for risk to cover potential compensation for damages (art. 2043, Italian Civil Code). Capital expenditure (3.7 million euro) also increased, fully attributable to IT equipment purchases.

Table 40

Summary table of revenues and expenditure
(millions of euro)

Items	2002[1]	2003[1]	2004[1]	2005[1]	2006[1]	2007[1]	2008[2]
Revenues							
Surplus[3]	12.3	11.6	11.7	15.3	12.8	24.0	31.3
State funding	23.7	23.3	26.7	24.4	13.1	10.7	9.8
Supervisory fees	39.9	41.6	49.2	46.9	75.2	75.1	74.6
Sundry revenues	3.8	4.9	3.5	3.7	7.5	9.9	14.5
Total revenues	*79.7*	*81.4*	*91.1*	*91.3*	*108.6*	*119.7*	*130.2*
Expenditure							
Current expenditure							
Members of the Commission	1.4	1.3	2.2	2.0	2.2	2.6	2.9
Staff	42.2	43.2	44.6	48.0	55.1	60.2	71.9
Goods and services	18.7	18.9	19.4	19.4	20.8	23.0	26.7
Renovation and expansion of fixed assets	4.7	4.6	4.3	4.3	4.1	4.1	4.2
Unclassified expenditure	1.1	0.4	5.2	4.6	0.1	0.1	19.3
Total current expenditure	*68.1*	*68.4*	*75.7*	*78.3*	*82.3*	*90.0*	*125.0*
Capital expenditure	2.8	1.7	2.6	1.5	1.9	1.7	3.7
Total expenditure	*70.9*	*70.1*	*78.3*	*79.8*	*84.2*	*91.7*	*128.7*

[1] Annual accounts. [2] Final budget. [3] The surplus is the difference between total revenues and total expenditure plus differences deriving from management of residual amounts and value adjustments to investments (not shown in the table). The 2007 surplus is recorded among 2008 revenues.

Table 41

Fees by category of supervised person
(millions of euro)

	Investment companies and stockbrokers	Banks	Independent auditors	Financial salesmen	Market entities[3]	Issuers	CIU[4]	Supervision of public offerings	Trading on the MTA and Expandi markets	Other	*Total fees*
2002[1]	1.2	7.5	2.0	6.4	2.8	8.9	5.3	4.9	–	0.9	*39.9*
2003[1]	1.0	7.4	2.5	8.0	3.1	9.0	6.1	3.4	–	1.1	*41.6*
2004[1]	0.9	7.7	3.7	9.5	3.9	8.8	6.2	7.1	–	1.4	*49.2*
2005[1]	0.8	8.1	3.7	9.3	4.0	10.8	5.8	2.7	–	1.7	*46.9*
2006[1]	1.2	12.5	6.0	13.6	5.2	14.7	9.2	10.0	–	2.8	*75.2*
2007[1]	1.0	10.4	5.5	12.9	4.8	13.1	8.3	16.3	–	2.8	*75.1*
2008[2]	1.1	11.3	6.1	11.2	4.7	12.7	7.1	16.2	–	1.6	*72.00*

[1] Annual accounts. [2] Final budget. [3] Includes Borsa Italiana SpA, Tlx SpA, MTS SpA, Cassa di Compensazione e Garanzia SpA and Monte Titoli SpA. [4] Includes the supervisory fees paid by asset management companies for individual portfolio management services.

2. Human resource management

A total of 30 staff were recruited in 2008. In the same year, staff leaving comprised 8 permanent staff and one employee on a fixed-term contract. Compared to 2007, the Commission's actual staff numbers therefore increased by 21 (Table 42 and Table 43).

Table 42

Staff[1]

	Permanent employees				Employees on fixed-term contracts	*Total*
	Management career	Operational staff	General services staff	*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*
2002	126	250	15	*391*	17	*408*
2003	129	245	15	*389*	19	*408*
2004	131	236	15	*382*	20	*402*
2005	182	218	15	*415*	25	*440*
2006	195	214	14	*423*	36	*459*
2007	200	266	13	*479*	56	*535*
2008	198	295	13	*506*	50	*556*

See Methodological Notes. [1] As at 31 December.

Table 43

Breakdown of staff by grade and organisational unit[1]

	Executive	Manager	Office staff	Other	*Total*
Divisions					
Issuers	14	56	41	–	*111*
Intermediaries	2	19	44	–	*65*
Inspectorate	2	12	24	–	*38*
Markets	5	20	35	–	*60*
Legal Studies	3	4	3	–	*10*
Economic Studies	2	13	14	–	*29*
External Relations	3	3	9	–	*15*
Legal Services	4	18	16	–	*38*
Administration and Finance	3	8	36	13	*60*
Resources	6	10	20	–	*36*
Computer Systems	4	7	13	–	*24*
Other offices[2]	11	17	42	–	*70*
Total	*59*	*187*	*297*	*13*	*556*

[1] As at 31 December 2008. Fixed-term employees are classified according to the equivalent permanent grades. [2] Includes offices not coordinated by the Divisions. "Other" includes general services staff.

In accordance with the "Recruitment Plan" approved by the Commission, 10 competitive selection procedures were published during the year to recruit a total of 31 human resources as officers, assistants and operators for the Rome and Milan offices.

By decree issued on 30 April 2008, the Ministry of the Economy and Finance also increased the Institute's staff by 100 from 615 to 715.

Pay agreements were signed in 2008 regarding the implementation of agreements signed with the Bank of Italy on "Staff pay".

Further to new laws introduced at national level, Consob staff training increased considerably compared to 2007, as confirmed by the higher cost commitments and the number of training hours.

With regard to management training, a course was organised on the planning and control process. This course is useful to the increase and dissemination of Consob's managerial approach and indispensable support in the launch of the planning and control process within the Institute. The training plan aimed to improve synergic working skills and to provide methodological feedback on the dissemination of standard, shared working methods, organisational and across-the-board implementation of planning and the activation of result analysis procedures based on standardised, objective criteria.

In 2008, 4 applications were submitted for paid release to attend masters degree courses (under the terms of art. 2, Italian Law no. 476 of 13 August 1984).

3. External relations and investor education

During 2008 Consob focused particularly on financial education and on relations with investors and consumers' associations, enhancing its public communication tools.

New legislative and regulatory measures have offered the chance to meet with members of the supervised entities so as to offer support to the industry on the topics of strongest interest.

The Commission's web site was confirmed as the central communications tool for Consob activities. The high number of visitors to the web site confirms how important this tool has become for market operators, who consult the site frequently for information on regulations, Consob rulings and on authorised intermediaries (Table 44).

Table 44

Visitors to Consob's website

Sections	2002	2003	2004	2005	2006	2007	2008
Home page (What's new)	829,385	953,900	1,563,957	2,040,414	2,674,672	2,130,146	1,802,657
Investors	102,159	144,333	156,023	158,124	303,315	343,988	188,489
Operators	–	70,573	69,071	101,098	358,795	367,472	509,550
Press[1]	–	–	–	–	–	–	12,021
Consob	121,688	118,407	157,075	229,123	–	846,986	1,126,879
Issuers	1,014,943	2,214,855	2,567,876	2,811,214	3,936,630	2,791,044	2,878,956
Intermediaries and markets	262,218	189,417	234,561	289,627	889,495	1,690,854	1,435,906
Consob Decisions/Bulletin	416,423	387,879	421,345	519,469	596,785	695,790	734,231
Legal framework	555,583	430,937	501,071	727,141	955,965	2,116,752	2,394,500
Publications and press releases[2]	438,993	451,318	495,005	521,198	634,400	750,300	–
Links	30,148	27,122	29,087	14,098	17,980	9,716	8,925
Site search engine	242,315	223,459	245,013	275,192	276,195	313,236	255,997
Integrated automatic supervision systems (SAIVAP - SAIVIC)[3]	–	–	–	–	–	–	946,569
Help and site map	63,927	64,543	72,354	89,210	25,125	26,300	58,050
English version	200,237	132,605	136,357	141,498	428,925	296,892	273,761

[1] Until 2007, figures for the press were included under "Home Page". [2] In 2008 figures were included under "Consob". [3] Figures are available from October 2008 only and refer to access to SAIVAP (integrated system for supervision of the register of financial salesmen) and SAIVIC (integrated system for the supervision of corporate control body and director positions).

During the year, Consob participated as always in the Public Administration Forum and COM-PA (the European expo on communication with the public on services to citizens and businesses) to familiarise visitors on the role of the Institute and the tools used, and to capture indications regarding the expectations and information needs of investors.

The open hearings were a further opportunity to meet with members of intermediaries and other supervised entities. The first public hearing, held in November, discussed amendments to the prospectus formats for open-end undertakings for collective investment and financial insurance products, and the second hearing in November was on the topic of the distribution of illiquid financial products.

A number of meetings were held in 2008 between Consob and the consumers' associations during consultations on regulatory provisions regarding topics of interest to retail investors.

Action taken in response to requests for documentation and information on the Commission's activities was particularly intense (Table 45).

Table 45

Applications for documentation and information on Consob activities

	Applicants			Subject of applications				
	Institutional investors and market operators	Investors, students, etc.	*Total*	Resolutions, communications, prospectuses	Integrated texts of laws and regulations	Data and information	Other	*Total*
1997	673	441	*1,114*	451	367	286	10	*1,114*
1998	597	448	*1,045*	427	300	300	18	*1,045*
1999	540	475	*1,015*	310	290	300	115	*1,015*
2000	1,460	1,158	*2,618*	588	379	1,261	390	*2,618*
2001	782	1,407	*2,189*	365	112	1,259	453	*2,189*
2002	655	922	*1,577*	182	79	1,092	224	*1,577*
2003	365	1,114	*1,479*	149	6	1,007	317	*1,479*
2004	247	1,277	*1,524*	182	48	1,024	270	*1,524*
2005	298	1,542	*1,840*	192	53	1,397	198	*1,840*
2006	153	1,306	*1,459*	145	20	1,216	78	*1,459*
2007	185	1,463	*1,648*	50	470	995	133	*1,648*
2008	193	2,545	*2,738*	60	900	1,675	103	*2,738*

4. Computer systems

In 2008 the Commission's IT systems underwent numerous upgrades in line with the new organisation of the Computer Systems Division.

The Computer Systems Division's contribution to Consob inspectional activity, in terms of both quantity and quality, has increased considerably.

During the year, much work went into the application systems and their related services. These works improved screen-based communications, mainly via the Internet, with supervised entities and authorities. This allowed us to develop new systems, using sophisticated technology, for the inflow and exchange of data and its subsequent automatic treatment.

New application systems were also installed, whilst those already in operation were enhanced and upgraded in line with strong developments in the reference contexts.

In 2008, Consob's Computer Systems Division completed a number of important works preliminary to the radical upgrading of the IT architectures and infrastructures.

Many activities were implemented during the year with regard to technological, organisational and environmental aspects of data security and personal data protection. These activities allowed the regulatory output to be developed and specific tasks to be performed on the IT systems.

Development of the main IT infrastructures in support of Consob duties involved the creation of Integrated Systems.

The launch of the Integrated Systems in 2008 extended the sphere of interactive services and functions offered for Consob's interface with external bodies and supervised entities. This helped to centralise the shared data and to optimise and standardise data exchange processes between Consob and the other parties involved.

Specifically, SAIVAP (the integrated system for supervision of the register of financial salesmen) and SAIVIC (the integrated system for the supervision of corporate control body and director positions) formed the basis for the innovative direction taken in Commission activities.

C

METHODOLOGICAL NOTES

METHODOLOGICAL NOTES

Instructions

Symbols used in tables in the Report and the Appendix have the following meanings:

-- quantity identified as nil;

— the phenomenon does not exist;

.... the phenomenon exists but the figures are unknown;

.. the figures are below the significance threshold.

Sources: unless otherwise stated, data included in the tables were obtained by Consob as part of its institutional supervisory activities.

Figures 1, 3, 4, 5, 7 and 8

Major listed groups are represented by a "closed" sample of groups for which a complete series of financial statements from 1998 is available and assessed in Mediobanca's R&S yearbook. This analysis therefore covers almost the entire share list panorama of the Stock Exchange with regard to the services and industry sectors. The groups considered are as follows (with the main listed companies consolidated as of the 2008 financial statements indicated in brackets): Enel (from 2005 Terna is considered separately as it is no longer consolidated with Enel), Eni (Snam Rete Gas, Saipem), Telecom, IFI (Ifil, Juventus; from 2004 Fiat is considered separately as it is no longer consolidated with IFI), Ragione di G. Benetton e C. (formerly Edizione Holding; it consolidates Autogrill, Benetton, and from 2007 Atlantia, formerly Autostrade, which is considered separately until 2006), Aurelia (Autostrada TO-MI, Sias), Italmobiliare (Italcementi), Luxottica, A2A (formerly AEM), Fininvest (Mondadori, Mediaset), Edison, Erg (Enertad), Acea, Pirelli & C. (Pirelli RE), Cofide (Cir, L'Espresso, Sogefi), Buzzi Unicem, Tenaris (until 2000 data referred to Dalmine, delisted in 2003), Impregilo, Intek (until 2006 data referred to Gim, in 2007 merged into Intek, which consolidates KME Group, formerly SMI), RCS MediaGroup (Dada), Finmeccanica (Ansaldo STS), Caltagirone (Cementir, Vianini Industrie, Vianini Lavori, and from 2004 Caltagirone Editore), Indesit Company (formerly Merloni), Bulgari, Davide Campari, SNIA (from 2004 Sorin is considered separately as the result of a spin-off from SNIA). In order to maintain consistency in the time series of the Telecom Group financial statements, the Seat Pagine Gialle group was also considered (the first consolidated into Telecom). In some cases, Mediobanca takes into consideration the consolidated financial statements of the holding parent company even if not listed (particularly Fininvest, Ragione and Aurelia).

Tables 1, 2, 3, 4 and Figure 19

The following criteria are adopted in dealing with public offerings for admission to listing:

- offerings made by foreign companies are excluded;
- data regarding the amounts of offerings refer to the results of placements, including any shares allotted to institutional investors as part of an overallotment at the close of the public

offering. Note, therefore, that data are independent of the fact that, after stabilisation by the placement agents, the greenshoe option may not be exercised, either wholly or in part, in the 30 days following the public offering;

- the overall total of the offering also takes into account shares sold under agreements in force prior to the listing;
- data on ownership structure development are taken from the prospectuses and takes account of the results of offerings, including the exercise of greenshoe options. If the number of shares offered for sale is lower than that 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 proportional distribution of the shares sold in accordance with that specified in the prospectus;
- determination of the percentage held by the controlling shareholder is based on a substantial approach which takes into account all shares held by members of the same family, those held by companies owned by the same person and those not conferred to any shareholders' agreements by parties to such agreements. In the absence of a controlling shareholder, the largest shareholder is indicated;
- own shares are deducted from the share capital of the issuer for the purpose of calculating percentages held by major shareholders and for capitalisation.

Table 4

Data include the holdings of sponsors and placement agents handling the operation, or persons controlling or controlled by them, in listed companies and/or their controlling companies.

Also included are credit relations existing as at the public offering date between the sponsors or placement agents handling the operation, or persons controlling or controlled by them, in listed companies or their subsidiaries.

Credit relations do not include transactions relating to trade receivables, or any for which determination of the credit actually allocated is not possible. Only in certain particularly important cases was account taken of the figures for credit facilities granted but not used.

Equity relations do not include options held by the above-mentioned persons for the purchase or subscription of shares.

Figures 45,46, 47, 48, 49, 50, 51, 52, Tables 11 and 12

Data refer to the following Italian banking groups: Intesa SanPaolo, UniCredit, MPS, BNL, Mediobanca, UBI, Banco Popolare and Banca Popolare di Milano. This sample approximately represents 2/3 of the entire Italian banking system in total assets terms. For years prior to 2008 figures include the leading banks later becoming part of the banking groups considered further to mergers and acquisitions, with the exception of HVB, which is included only since its consolidation with UniCredit (1 November 2005).

Figure 45

Net interest income includes the balance of interest rate hedge transactions, dividends on holdings and profits and losses of holdings carried as equity. Revenues from investment services include profit on financial transactions (i.e. from the 2005 financial statements, prepared according to IAS/IFRS standards, the net result from trading, hedging, assets and liabilities carried at fair value and profit/loss from the disposal or buyback of loans and financial assets and liabilities) and net commissions from investment services and collective management (including foreign currency trading, consulting, security depository and management services, bank depository services and the placement of insurance products and services). Net commissions from banking services include net commissions on guarantees issued and credit derivatives, collection and payment services, and net commissions on current accounts, credit cards and ATM cards. "Other net commissions" include net commissions for securitisation transaction servicing, factoring and tax collection services.

Revenues from asset management comprise net commissions from individual and collective asset management and depository bank commissions. Revenues from placement services comprise net commissions from the placement of securities and other financial and insurance products (including door-to-door sales). Revenues from trading for customers comprise net commissions from securities and foreign exchange trading and from the acceptance of orders. Other revenues essentially comprise net commissions from advisory services and from the safekeeping and administration of securities.

Figures 71, 72 and 73

Multifinanziaria Retail Market 2007 is a sample survey conducted by GFK Eurisko Srl, which at the end of 2007 gathered questionnaires from a sample of 2,525 households in which the financial head of the household was aged between 18 and 74 (bank employees, insurance company employees and financial advisors were excluded from the survey). The financial head of the household was the person with the highest earnings (if no earners the most senior male, and if no males the most senior female). Statistics indicated in the figures are estimates relating to the entire sample population as inferred by the sample data after the application of weights established by GFK Eurisko Srl.

Figure 73

GfK Eurisko survey provides data concerning household savings (the total value of investments in deposits, Gov.t securities, shares, corporate bonds, life policies, pension funds, investment management and post office products) and investments in different financial assets. Since data on savings and investments are provided at regular intervals, the average of the furthest points of the interval has been considered (for the last open interval of the data on savings, the lower point value has been considered).

Two different approaches are used in gauging investments in different financial assets.

According to the first method, punctual value of each investment is multiplied by the punctual value of each family savings, in order to estimate the monetary value of the investment in each financial asset. The average of the monetary value of the investment in different financial assets for the whole sample is equal to the weighted average of the monetary amount invested by each family (weights are provided by GfK Eurisko). The average portfolio is estimated for the whole sample summing up the average of the monetary values of the investments in different products; percentage quotes of each financial asset derive from such figure.

According to the second method, GfK Eurisko weights are multiplied by the punctual value of each family investment in order to estimate the simple average of investments in each financial asset type.

Figure 77

The types of opinion issued by independent auditors are described below.

1) *Qualified opinion*. Auditors are required to express a qualified opinion where they find: significant failures to comply with rules governing financial statements; significant disagreement with directors regarding accounting standards; errors in their application or inadequate information; significant limitations in performing the audit due to technical obstacles or restrictions imposed by the directors; a situation of significant uncertainty not adequately described in the financial statements or of seemingly unacceptable action taken by the directors.

2) *Adverse opinion.* Auditors are required to express an adverse opinion where the effects of their findings concerning significant failures to comply with the rules governing financial statements, significant disagreement with the directors regarding accounting standards, errors in their application or inadequate information, are such as to cast doubt on the reliability and information content of the financial statements as a whole.

3) *Disclaimers due to serious limitations to the audit* Auditors must issue a disclaimer where the possible effects of limitations encountered in performing the audit are sufficient to deprive them of elements needed to express an opinion.

4) *Disclaimers due to uncertainty* When faced with one or more situations of uncertainty such as to cast doubt on the reliability of the financial statements as a whole or on business continuity, auditors must issue a disclaimer when they consider that the action taken by the directors is based on highly questionable assumptions.

Table 42

Senior management comprises the following grades: Director-General, Chief Executive Officer, Central co-manager, General Manager, Manager and Co-manager. Junior management comprises the following grades: First officer, Grade 1 officer and Grade 2 officer. The operational staff comprises the following grades: Chief deputy, Deputy, Senior assistant, Assistant and Deputy assistant.

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