

Annual Report 2016

Rome, 31 March 2017



CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETÀ E LA BORSA

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Speech by the Chairman to the financial market

Milan, 8 May 2017

ἄελπτον οὐδέν, πάντα δ'ἐλπίζειν χρεῶν

*«nothing is hopeless;
we must hope for everything»*

(Euripides, *Hypsipyle*, fragmentary)

1 The general trend in the Eurozone

Today's meeting is an occasion for a brief survey of recent years, that have been intense and troublesome for the financial market and for our country.

Among the events that characterized the Italian macroeconomic scene, two in particular, left more of a mark than others.

First of all, the Eurozone multifaceted crisis: loss of competitiveness of the production system; low economic growth; budgetary imbalances; transfer of the risks of public finances to the banking system; increase in non-performing loans in banks' balance sheets.

Secondly, the launch of the European banking supervision system and the introduction of sectoral legislation, starting with the bail-in, the internal rescue regulation.

The combined effect of these events and of the immediately preceding crisis, that of subprime mortgages, has deeply marked the country's economic and financial outlook. The production base has lost ground by about 20 percent since 2008. The banking sector has undergone unprecedented stress, resulting in a restructuring process that is still under way. Given the high weight of banks on the Italian stock market, the decline of banks equity prices resulted in a drop of the whole market. The recovery that has benefited other European markets, with even two-digit increases, did not involve the Italian stock exchange. Between January 2011 and April this year, the FtseMib index remained virtually unchanged (+2.16 percent).

While Italy withdrew into a serious domestic crisis, some Eurozone countries experienced robust growth; others have been able to initiate internal restructuring processes that begin to bear fruit. Outside Europe, the world economy is healthy on the whole, even though large areas of underdevelopment remain.

Only the interventions of an extraordinarily expansive monetary policy on Europe, which were carried out in recent years by the European

Central Bank, allowed to counterbalance the structural imbalances in the Eurozone. With its choices, the ECB has contributed decisively in averting the risk of the area's disintegration. This has given time for the reforms needed to adapt to the single currency, to be implemented. Resulting in reduced pressure on those countries, such as ours, which more than others needed to recover ground regarding competitiveness, stability and convergence. This opportunity was not fully seized.

Inflation is progressively nearing the 2% target, while in the US, monetary policy tightening is already under way. Not being able to rely on the external support of monetary leverage, Italy will have to prepare to face the new situation that is unfolding. In a medium-term perspective, Eurozone cohesion can only come from the intrinsic macroeconomic convergence of the member states, a complex goal that can only be attained using a wide range of instruments in addition to monetary policy. Mario Draghi, Chairman of the ECB, reminds us continually.

It will be a time of crucial choices for the country. Italy has reaffirmed in all European institutional assembly that making convergence and stability is the compass for its economic and fiscal policies. Our country has adopted significant new legislation, introducing into the Italian Constitution the budget equilibrium goal, but was not able to; remove the deep causes of economic and social divergence with the rest of Europe. In fact, the gap of the early 1990s between the now Eurozone countries persists; in part it has even widened.

The Euro could also have favoured the adoption of a virtuous development model for the Italian production system, thanks to the beneficial effect of pressure from external constraints, helping to create the conditions for a general modernization of the country. In reality, over the last twenty years our production system has suffered a 30 percent decrease in competitiveness compared to Germany.

It is in this gap that the yield spread between Eurozone government bonds, the indicator that summarizes the divergence between systems and country, is created and grows.

The single currency has created an ecosystem where competitiveness can only be defended and increased through the leverage of education, innovation and macroeconomic reform.

There are no easy short cuts. Some people are convinced that leaving the Euro could be an easy solution to the evils affecting the national economy. The Italexit scenario would jeopardize the stability, the sound operation of the financial system and the protection of the market, objectives that fall within the institutional mission of Consob. Just the announcement of a return to a national currency would cause an immediate capital outflow by international investors, which would seriously jeopardize Italy's ability to

refinance the world's third public debt. Italexit would also shake up the whole Eurozone. It would put its survival at risk.

Today, more than ever, convergence, stability and competitiveness remain the keywords in looking to the future. The need to complete the announced reforms and those already undertaken to create a favourable investment and business environment (even medium to small) and to initiate the necessary infrastructure upgrade in line with European plans, is a priority. Neither can a process of liberalization, that reassesses the scope of public intervention in the economy, be neglected. Nationwide state control is also indispensable: it is the precondition for investment security and free enterprise.

Sixty years after the signing of the Treaties of Rome, Europe has almost unanimously reaffirmed the common will not to deflect from the path of integration, both institutional and political.

Brexit's centrifugal thrust makes this choice for cohesion more convincing, even if only in twenty-seven.

Europe's regulatory tightening on banks

The Eurozone crisis coincided with a new banking sector regulatory season that, starting with Basel 3, placed the capital adequacy of banks as a priority. The aim was to counteract and prevent the destabilizing effects of the subprime mortgage crisis, which was created in the United States in 2007 - 2008 and spread immediately throughout Europe and the rest of the world.

From 2014, it was also interwoven with the adoption of a single banking supervision system. Born out of the need to standardize supervision, the European Single Supervisory Mechanism has partially contributed to causing new sources of tension.

The post subprime emergency has been addressed with different solutions from country to country. Most governments in Europe have chosen to resort to massive amounts of public money to shore up the banks' stability and avoid the risk of bankruptcy. The same route was taken in the United States. We have seen nationalization and injections of new financial resources from taxpayers for sums that amounted to 465 billion Euros in the European Union alone. Also, because of public finance constraints, Italy has preferred to rely on the system's ability to find the resources needed to minimize public intervention.

The joint effect of the new regulatory framework and the stability requirements imposed by European supervision has subsequently led Italian banks to put into effect, in an adverse macroeconomic climate, demanding plans for capital increase. From 2014 to date, major banks have realized capital increases for nearly 31 billion Euros. By the end of this year, other

interventions are scheduled for at least another 16 billion. It was an extraordinary effort, with pro-cyclical and unwanted side effects. From a medium and long-term perspective, these measures can be decisive, but in the short term they have exacerbated the framework of uncertainty and instability.

The restructuring of the banking system is made more difficult by the burden of non-performing loans. The European authorities are pushing for a quick solution. But haste makes waste.

The impact of non-performing loans (Npl) on bank budgets is reduced the more the time horizon for their management is lengthened. The transaction has margins of profitability for specialized investors, which rise if the pressure to sell increases. A prudent approach should prevent the risk of these assets being sold off.

The more the value of Npl's is impaired, the higher the profit opportunities for the Npl buyers. Italian banks have the capacity and human resources to handle this process internally, without resorting to solutions that would externalize profit to others. Aid may also come from innovative tools, such as the creation of a regulated market for non-profit loans, which favours a transparent meeting between supply and demand.

Among the regulatory factors that have most shaken the confidence of investors on the domestic market is the European Directive on bank crisis, the *Bank Recovery and Resolution Directive* (Brrd), known for the introduction of the bail-in. The new regulation has been drawn up with the aim of avoiding contagion between sovereign banks and sovereign debt, limiting public support and ensuring greater competition in the sector. However, at the European regulator's table, to which Consob was not called, the impact on retail investors was not properly taken into account.

The bail-in directive wanted to overturn the previously pursued approach, the bail-out, which unloaded the costs of stabilizing the banking system on general taxation, and therefore the entire taxpaying public. In fact, the bail-in charges the burden of bailout to investors, shareholders and bondholders, and also involves deposits exceeding 100,000 Euros. However, the route reversal has its logic in terms of the method used. But the practical ways of implementing the bail-in have introduced highly distorting elements. It was particularly unfortunate and unwise to decide to adopt the new regulation retroactively. It is a choice that conflicts with the fundamental principles of law. And must be corrected as soon as possible. In this context, the involvement of bondholders should also be reconsidered, for example by introducing a safeguard threshold of 100,000 Euros, similar to that expected for current account holders.

As anticipated by the EU Commission's burden sharing report (July 2013) and then endorsed at European level in June 2014, the bail-in was finally transposed into Italian law in mid-November 2015, a few weeks before

its entry into force (January 2016). In the absence of a suitable transition phase, it became a regulatory shock, which has contributed to undermining confidence in the banking system. The bail-in has also almost reduced to zero, the room for a early regulatory intervention.

The nature of financial instruments, such as subordinated bonds, issued and placed years ago, has been altered with the stroke of a pen in a very different rule and market context, sometimes even before the bankruptcy of the American investment bank Lehman Brothers in September 2008. Low-risk products, present in the portfolio of many retail investors, suddenly turned into risky and unsuitable products.

The first and provisional budget after applying the bail-in cannot be said to be positive. The same rules Europe made to ensure stability has turned out to be a factor of instability in this case. In practice, the idea of limiting the cost of rescue just to bank investors is proving deceptive. Banking crisis management may require timely, sometimes lightning interventions, incompatible with decision-making mechanisms on the Frankfurt-Brussels axis.

In these years Consob has found itself operating in a radically changed scenario. Initially, supervision focused on stock market durability. Today, the stock exchange has lost its centrality. Italians increasingly tend to allot their savings to bank accounts or postal accounts, as well as funds, turning their backs on the Italian Stock Exchange. It is a sign of anxiety for the future. Between 2007 and 2016, the incidence of bank and postal deposits on total financial assets went from 38.1 percent to 46.8 percent, while the investment in equities and debt securities on total wealth went, respectively, from 10.5 percent to 5.3 percent and from 13.4 percent to 10.8 percent. At the same time there has been a gradual extension in the risk areas, ranging from government bonds and bank bonds to deposits, which today, in the light of the bail-in, have to be considered just like any form of investment.

2 The regulatory evolution

European financial market regulation is permanently in the works, constantly changing as a result of legislative production of proportions never reached in the past.

In less than twenty years since the European Commission launched the Financial Services Action Plan in 1999, the scenario has almost been completely rewritten more than once. We are now reviewing directives and regulations introduced only a few years ago. The interventions concerned almost all sectors, from market abuse to the provision of investment services; from the prospectus to the shareholders' rights.

On the other hand, the take-over bid (Opa) regulation, still anchored in a 2004 directive, holds up, which, by allowing wide discretion to the Member States, has in fact brought about some sort of «do-it-yourself» regulation. During application, the regulation has highlighted problems of asymmetry and lack of reciprocity. In this case, it is necessary to harmonize the national rules by removing the divergences that penalize those jurisdictions most open to the movement of capital. The question of the protection of companies considered to be of national strategic interest is still to be defined, possibly on common ground.

The number of new rules issued in recent years is impressive. To aid operators in understanding an increasingly complex regulatory framework, Consob is relying on Handbooks. These are operational guides, which make it easier to understand and apply rules. The first handbooks, ready for consultation, concern the management of inside information and investment recommendations.

The latest European legislation concerned the fostering of the capital markets. The Capital Markets Union project aims to strengthen the alternative financing channels, to the banking channel, particularly for small and medium-sized companies, which cannot support growth and underpin the real economy alone. The plan seeks to enhance the role of institutional investors, venture capital funds, insurance companies and pension funds, in providing capital to SMEs.

Consob's interventions

Consob took the lead in Europe, by first going down routes that were then shared and followed by the European regulator. The EU regulations adopted in recent years with regard to rating agencies, high-frequency trading and short sales, also come from Consob initiatives, and then brought to Europe. It was therefore intended to dam the excessive power of large trading operators, better equipped and able to influence the trend of transactions.

Since 2011, the first year the Consob regulation for related party transactions was applied, the complex network, which until then was typical of Italian capitalism, has been reduced. Supervision focused on managing and preventing conflicts of interest, in order to counteract the phenomenon of value expropriation to the detriment of small shareholders. It is a model that is largely well-received even at European level in the new Shareholders' Rights Directive.

Consob's priority over these years is to supervise the placement of financial products to retail investors. On this front, Consob being attributed with the power of product intervention, that is, the power to prohibit the sale of unclear and complex financial products to retail investors, could have been

a leap in quality. It is a power, envisaged by Mifid 2, in force from next year, which Italy could have anticipated on a national level. A request to this effect, proposed to the government by Consob in early 2013, was rejected.

We were therefore only able to intervene in accordance with current legislation. Immediately after the entry into force of the burden sharing regulation in July 2013, we called for this new risk factor to appear on the front pages of the prospectuses. In December 2014, we adopted a Communication aimed at preventing intermediaries from selling complex financial products, including subordinated bonds, to retail investors.

As a result of this, between 2015 and 2016 the savings invested in bank bonds have shifted to other instruments, such as mutual funds and bank deposits, accelerating to an existing trend. The weight of bank bonds in customer portfolios fell in the two-year period by about 28 percent.

In line with this intervention, Consob has taken further initiatives to safeguard savings.

During transposition of the Bail-in Directive, in October 2015, we highlighted to Parliament and the government that the choice between stability and transparency is a very critical one. In fact, it is preferable to know the identity of the parties at risk, in order not to feed generalized fears, which can spread to the whole financial system. There was no room for this opinion, made by Parliament, in the measure's final version. However, it was shared by ESMA.

Within a few days of the transposition of the Brrd Directive (November 2015), Consob issued a Communication to allow intermediaries to warn customers of the risks of total loss of investment, even in the case of subscribing to bank bonds, and reconsider, during the placement, the increased risk for retail investors of the products that can be subject to bail-in regulation.

Two other interventions, on prospectuses and ways of distributing financial instruments, were adopted in 2016. With the first one, guidelines on «Investor Warnings» contained in the prospectuses have been issued. The aim is to provide a concise and effective explanation of the most relevant risk profiles and raise the degree of investor awareness, on the first pages and with full graphic evidence.

With the second, Consob intervened in the sale of financial instruments. With a two-fold objective: to bring demand and supply closer in a market that has minimum liquidity requirements and to favour a transparent pricing mechanism. The Communication asks intermediaries to distribute their financial instruments through a multilateral trading facility, i.e. a regulated market or an MTF, instead of the traditional placement over the counter.

On the occasion of recent capital increases by banks most involved in the crisis, thanks to Consob's moral suasion, intermediaries have reinforced the protection of investors in addition to the behavioural standards required by Mifid. Instead of signing the usual pre-printed form, investors who wanted to participate in the capital increase had to draft by hand a holographic statement in order to fully acknowledge the risks associated with the investment.

On a constraint level, bank and intermediary violations were found when selling financial products to customers. These violations concern the provision of investment services, prospectus and market abuse regulations. The sanctions imposed on banks from 2011 to date amount to over 22 million Euro, of which more than 9 in the first four months of 2017. Other proceedings are still ongoing and may lead to new sanctions.

But repression is not enough. It is also necessary to give relief to the retail investors. That is why Consob has obtained from the law the possibility of establishing an effective tool to compensate them. This is how the Arbitrator for Financial Disputes (AFD), an entity for out-of-court settlement of litigation between intermediaries and investors, came into being. The Arbitrator is operational since last January. It is free for investors and is mandatory for intermediaries. Verdict times are quick, maximum six months. The first decisions are scheduled for this month. There are preconditions for the Arbitrator to establish itself as a bridge between saving and financial industry, helping to rebuild mutual trust.

The protection of savings cannot, however, be independent of financial education, the first line in self-protection. In recent months, the government and Parliament, have launched an ambitious national financial education plan with the «bank bailout» decree. The initiative is one of the cornerstones of the «Investor's Charter», a project initiated by Consob in 2013, in collaboration with consumer associations. Consob, together with the other supervisory authorities involved, will give its firm support.

The development of markets

An efficient market, where everyone can operate on equal terms, is a key prerequisite to protecting savings. It is no coincidence that the Consolidated Law on Finance includes the supervisory authorities' «competitiveness of the financial system» and «facilitating innovation and competition»: both objectives which are reflected in Consob's Strategic Plan 2016-2018. Dynamic, fluid and diversified markets are a guarantee for the investor, create a virtuous circle for the real economy, and contribute to the country's development.

In a globalized world where jurisdictions are in competition with each other, the additional burdens imposed on national companies in relation to European legislation must be minimized, if not completely eliminated.

Already in 2011, Consob had passed through all of its regulations with the goal of removing domestic provisions and requirements that did not pass the cost-benefit analysis. A few months later, the 2012 Stability Law sanctioned the gold plating ban.

Consob also promoted the initiative of a Memorandum of Understanding (*PiùBorsa*) with market operators to encourage the entry of SMEs into the Italian Stock Exchange. Since 2014, the European Commission has also moved in this direction, with the Capital Markets Union project.

Many of the ideas developed within *PiùBorsa* were made by the Government and then translated into law. Among them, the possibility of issuing loyalty shares and multiple voting shares, the variable thresholds for the compulsory takeover bid and the tax incentives of the so-called super-ACE.

On the start-up front, Consob was the first in Europe in regulating risk capital collection through online portals, the so-called crowdfunding, recently extended to all SMEs. It is a promising and growing instrument, but not without risk. Regulation and control must take this into account.

Positive effects will come from Individual Savings Plans (PIR), envisaged by the 2017 Budget Law. Even with the leverage of tax incentives, the PIR may be a useful driving force to channel savings to the SMEs and the real economy. The data available at the moment prove that the market has welcomed the PIRs. It is necessary to make sure that retail investors can access these new instruments not only investing in PIR-compliant funds but also in individual management plans.

The inflow of financial resources to SMEs presumes that the market is able to know and assess their investment capabilities, capital strength and solvency. This is not the case today, often for cost reasons. It would be very useful to have a European hub for the collection of financial data on SMEs, which contains standardized and comparable information in a publicly accessible database. This would facilitate the meeting between demand and supply of capital.

3 The new rules

Next year's agenda is full and partly already written. Market rules will change once again from 2018. Five new European regulations will become effective, which will regulate or re-regulate the provision of investment services (Mifid 2), the offer of packaged financial products issued

by banks and insurance companies (PRIIPS), prospectuses, non-financial information and shareholder rights.

Among the main innovations of Mifid 2 there are two new regulatory instruments for investor protection : product governance and product intervention. The first involves the obligation to take into account the needs of retail investors from the initial stage of planning and engineering products offered to the public. Consequently, the protection of retail investors is extended «upstream» of the placement and sale phases and not just «downstream». Product intervention, on the other hand, gives the supervisory authorities, as I said before, the power to prohibit the distribution of unclear and complex products. This way the toolbox is strengthened.

Mifid 2 also regulates independent advice providing market extension and greater autonomy for those who want to offer this type of service. It will also lead to an increase in the product range for which advice is needed, thereby reducing the risk of conflict of interest.

Still concerning financial advisors, the law has provided that their supervision should pass from Consob to the Authority for the Single Register of Financial Advisors (OCF). In any case, to ensure public control, the OCF will remain under the supervision of Consob.

From January 2018, the European Regulation on «packaged» financial products (PRIIPS) will enter into force. The traditional informative prospectus will be complemented by the KID (Key Information Document), aligning the regulation of such products to mutual investment funds regulation.

The KID is a simple document that contains key information about the features, risks, costs, and returns of the products offered. The document will be crucial to ensure that investors, in particular the less experienced ones, have a synthetic and easy-to-understand information about the degree of risk and the product's performance prospects, that is thorough and shared on a European level. The new instrument, which is mandatory, envisages risk grading from one to seven on an increasing scale. The criterion was processed in detail by the European Authorities and approved by the European Parliament following a long negotiating process. As for the calculation of the yield scenarios, it uses a probabilistic methodology, defined directly at European level . From next year, therefore, all EU countries will be bound to adopt the same risk and yield indicators. Finally resolving an instrumental controversy, prolonged for years in our public debate.

The new regulation on the prospectus, on the other hand, acts on the European sectoral legislation in force since 2004. It is a directive that took the merit for harmonizing the content of the offer documents, but that left room for information redundancy resulting in costly and prospectuses of no use to investors. To overcome this disadvantage, the European Legislator has established that the prospectus be preceded by a summary of no more

than seven pages with key information about the issuing company and the instruments offered. Investors will thus have a means to easily understand the investment's main risks and opportunities.

From 2018, for the first time Consob will be called on to supervise non-financial statements, which will supplement the balance sheets of larger banks, insurance companies and listed companies. This is additional information on important issues such as environmental sustainability, social impact, staff management, human rights protection and the fight against corruption.

Consob will be operating in areas outside financial markets' regulation in the strict sense. It is a challenge that places the Authority on new ground of data and behaviour assessment that has never yet been taken into account and that, nevertheless, may affect company development and investor satisfaction. Consultation with the market will start shortly on the regulatory changes that Consob will have to adopt in this area.

It will then be necessary to transpose the new Shareholder Rights Directive. The issue of corporate governance systems prevails. The crucial issue remains the conflict between majority and minority shareholders.

The European Legislator, in reviewing legislation, had as a guiding principle the protection of long-term investment, considered a factor capable of creating value for the company, and aimed at stimulating shareholder participation in governance, to limit the risk of speculative and opportunistic short-term behaviour.

This is fundamentally an approach that can be supported. However, there is a need for reflection on some issues. I quote two: the list voting mechanism and proxy voting.

The list vote has proved effective in companies controlled by a major shareholder. On the contrary, in the case of main listed or widely held companies, the introduction of the slate voting - an Italian *unicum* - has led to some unintended consequences. In some cases, the majority of the directors did not come from the majority slate. It is a potentially growing phenomenon and relevant for the characteristics of the companies involved. It is therefore likely that the time has come to evaluate the possibility of leaving the choice of whether or not to adopt this mechanism.

As regards the collection of proxy votes, the transposition of the new Shareholder Rights Directive could be the occasion to strengthen the conditions for transparency and fairness, which could be challenged by the excessive concentration of those proxies.

The issue of the relationship between administrative sanctions and judicial sanctions is still crucial. Following the ruling by the European Court of Human Rights (ECHR) in March 2014, also backed up by criminal justice, the legality of Consob's sanctions on a subject such as that of market abuse

has been questioned. The judicial sanction is a necessary punitive response and Consob is actively working with the judiciary. However, the objectives are different to the administrative sanction, that is aimed at removing conduct that alter the conditions of equal information and ensure market integrity. This situation has been recognized on the highest judicial levels, where they have set forth that the «double binary» does not necessarily violate the principle of *ne bis in idem* if administrative and judicial sanctions are two integrated aspects of the same punitive response.

It is worth remembering that, since the transposition of the First Directive on Market Abuse, in April 2005, Consob imposed sanctions in this matter for an amount of about 100 million and confiscated assets for over 85 million Euro.

4 Looking forward

FinTech, the disintermediation of finance

The challenge faced by financial market regulators in the world today is FinTech, that is, digitization and disintermediation of the financial industry.

The ever-pervasive presence of computer technology and artificial intelligence in finance has triggered deep transformation processes, which within a few years could radically change the physiognomy and geography of markets as we have known them so far. The boundaries between intermediaries, issuers and markets, already blurred by Mifid legislation, tend to disappear definitively. The same conceptual and legal apparatus used today for financial regulation will soon be obsolete.

As always, innovation presents opportunities, but also risks. Firstly, for those who benefit from financial services: individuals and businesses. Secondly, for market operators, who will have to adapt to the new ecosystem, developing operational models that ensure profitability even in changing environmental conditions. Thirdly, for regulators, whether national or international, of primary or secondary rank.

For the financial services industry, the future has in fact already begun. Algorithms are the main driving force of this process. New operators are getting ready to enter the field of finance. Some (few) move from dominant positions built in other areas, such as e-commerce, automated data search, social media; others, on the other hand, (many) move from the bottom, starting from the development of innovative niche technological solutions that intercept demand for financial services. This is precisely the main driving force of innovation, which often arises from the intelligence of small teams.

Regulators on all levels will have to deal with these realities, looking for a balance between risks and benefits, with the aim of providing investors and the market with an appropriate level of protection and, without opposition to innovation and competitiveness, to reduce the cost for investors.

Having Big Data - the immense databases that track people's tastes, needs and lifestyles with increasing accuracy - gives an extraordinary competitive edge in customer profiling and anticipating their needs. However, it represents also a barrier to access for potential competitors.

In a globalized world, technology applied to finance will increasingly take on strategic importance not just for carrying out financial transactions in a fast and efficient way, but also, and above all, for the management of the necessary information through artificial intelligence, for the best configuration of the services offered on the market. The way financial services are provided has already changed, given the non-mediated and multilateral nature of distance communication through the use of digital instruments (smartphones, tablets, PCs). For example, just think about the robo advice phenomenon, financial advice provided through digital platforms and based on algorithms, which makes it possible, at a reduced cost for the investor, to continue providing financial advice to a potentially huge audience.

A system of disintermediated relations between who requires money and who is willing to lend it is emerging. It is now possible to match supply and demand online with no transaction costs (peer-to-peer lending). New ways of access to credit and risk capital are opening for individuals and businesses. This is an unmissable opportunity for a system, such as the Italian one, based on small and medium-sized firms.

The phenomenon, which is currently unperceived, is bound to explode in just a few years. It could challenge resilience of banks if they fail to adapt quickly. FinTech network moves within a sort of regulatory limbo, which allows a great deal of freedom. Exactly the opposite of what is happening in the traditional credit sector, burdened by massive regulation, stratified over time.

If we do not want the Far West, the new phenomena will need regulation. However, this will have to happen gradually and proportionately to accompany the emerging companies in their development through specific rules, more stringent in terms of size growth and jobs (the so-called sandbox). Otherwise, adopting the same regulation in the financial sector today would condemn the new FinTech companies to certain death, giving way to those that are growing in other regulatory realities.

Lastly, it will be necessary to assess possible applications in the field of post-trading and possibly of trading, of new technologies such as Blockchain/Dlt (Distributed ledger technology), which are developing in the

wake of new payment systems based on virtual currencies, such as Bitcoins. Such applications are based on information sharing among all participants and, in some versions, on the lack of a central infrastructure.

Adapting to the contemporary world is vital for the country and the industry: delay leads to a loss of competitiveness. The supervisory authorities will have to adapt to the new context of operational structures and working methods. Tomorrow's Consob will need more engineers and a lower number of lawyers.

Markets integration

The development of the Capital Markets Union in Europe, together with the Banking Union already in place, is the basis for making a real financial union possible, as highlighted in the European Union's Five Presidents' Report in June 2015.

Common rules and supervisory procedures are, however, a prerequisite for achieving this goal. Although the adoption of a common regulatory framework is now a milestone, much remains to be done to align those rules during their implementation. Areas of disagreement remain in the conduct of national supervisory authorities. This encourages migration to jurisdictions that are apparently more permissive. On the other hand, the more severe countries, including ours, are penalized. A good deal of companies based abroad, in more permissive jurisdictions, consider Italy as a very attractive country because of the great amount of private saving.

The prospect of the UK leaving the European Union makes this issue even more timely. Indeed, negotiations with London on the Brexit conditions can hardly offer companies across the Channel all the benefits of the current European passport - the fundamental principle for free movement of capital - that allows businesses authorized in one of the EU countries to offer and place their financial products throughout the Union. The day that London loses its status as a member of the EU, it will have to operate under the so-called third country regime. In order to benefit from the European system, British companies will have to establish their headquarters in one of the twenty-seven Member States. The most accommodating jurisdictions may be a preferred choice, from which, once again benefiting from the common passport, it is possible to operate throughout the area.

Solving this problem by relying on shell structures, which are just mailboxes, should reasonably encounter obstacles at European level. The possible opening of UK businesses in EU countries could therefore be an opportunity to review the whole regulation. For example, one could foresee that a significant percentage of the products offered, or customers served should be located within the country where the headquarters are established.

Financial union also means a Financial Market Authority that mirrors the role of the ECB in the banking sector.

The current architecture of the financial supervision system, in force since 2011, deserves to be reconsidered. This takes into account that the credit sector has the ECB, within which there is the Single Supervisory Mechanism, and EBA as reference points, while other financial market segments report to ESMA and EIOPA. After six years of testing, a consultation with the market launched by Brussels is under way, in view of possible corrections to the system by the European Supervisory Authorities (ESAs).

Simplification is desirable. Accomplishment by just two parties would be a significant step forward. On the one hand, an Authority dedicated to micro-prudential supervision; on the other hand, an Authority that deals with the correctness of behaviours, pursuing the goal of protecting savers and investors with particular attention.

Brexit, which apart from rethinking EBA's relocation from its current London location, is the best opportunity to promote the creation of this twin-peaks model. And Milan would be the ideal venue for a beneficial new European Authority in the interests of transparency and fairness.

The adoption of a two-pillar system in Europe would reopen the question of the framework of surveillance in Italy. The current fragmentation of roles between five different Authorities should be revised and adapted to the European model by completing the supervisory system for the purposes of: stability on the one hand, transparency and fairness on the other.

Brexit, an opportunity for Milan

We are gathered here in Milan, at the Stock Exchange headquarters. Palazzo Mezzanotte can be considered a symbol of financial innovation. Up until a little more than twenty years ago this was the heart of the market and bargaining. Here, in the *sala delle grida* (crying out room), stockbrokers frantically bought and sold shares and securities, using a sign language that few people today would know. In the 1990s, the introduction of the telematics market dematerialized the exchanges and stopped the shouting.

If we want Milan to keep its role as a nationally and internationally important financial hub, we must first and foremost create the conditions for domestic companies to have an interest in maintaining their operating bases here in order to tackle global markets. There must not be any convenience in the temptation to migrate to competing financial centres. But it's not enough. We must also create an environment for financial sector businesses that is attractive to foreign operators. Beginning with Consob, we are all called upon for this commitment.

In this context, the prospect of Brexit is a further, extraordinary opportunity for Milan. The city - spearhead of the country's will to innovate and reinvent itself - must be determined in attracting and welcoming British companies - but not just these - who are considering leaving London to transfer their headquarters or major branches to countries in the EU, where it is possible to take full advantage of the benefits of the single financial market. In particular, Milan can aspire to become one of the main reference points in Europe for asset management.

The competition is tough. The competitors are combative. The uniqueness of our country, climate, quality of life, food, fashion, art - factors that have made the "made in Italy" brand stand out in the world and of which Milan is a symbol - are not enough for a choice to be made in our favour. The game is not played on the outline requirements, but on the basic assumptions that determine the efficiency and competitiveness of an international operator: infrastructure, services, rules.

The campaign for Milan is already underway on the initiative of the Government, the Lombardy Region and the Municipality, with the support of a number of parties. Some tangible steps have already been taken. Among them, the adoption of the so-called flat tax, the fixed tax on high-income foreigners who choose to settle in Italy. But much is still to be done. There is room for further interventions on the tax relief arsenal. Suffice to think that we will have to compete with the tax measures recently announced by the US President. In any case, those obstacles that appear to be a deterrent are to be removed immediately. For example, the so-called Tobin Tax (Ftt), which brings little revenue and penalizes the Italian market, could be suspended until a taxation of harmonized financial transactions on a European level is reached. Lastly, consideration should be given to the effects on the costs and competitiveness of listed companies deriving from some of the measures contained in the recent corrective action, such as the extension of the split payment mechanism.

To find a home here, the foreign investor asks for a fast-track administrative procedure, enabling it to find, through an easily accessible portal, all the necessary information and to handle with a single representative, preferably by e-mail, the many bureaucratic related tasks connected with settling in the city. It is a goal within reach.

Another deterring factor is the threat of the Italian justice machine, one of the slowest in Europe. In Milan's case, this bad national reputation does not conform to the reality of the facts. The companies Court and the Court of Appeal have work rhythms, productivity and timing of sentences in line with the standards of the main European countries. It's a little-known reality. A Court could define, within its organizational autonomy, certain times setting itself pre-established and knowable deadlines beforehand.

Finally, the bond between the Milan Stock Exchange and the London Stock Exchange, due to the strong mutual consistency between the activities of the two companies, can further foster the attractiveness of the Milanese centre, especially after London and Frankfurt's wedding failure.

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Authorities, Ladies and Gentlemen,

We have come through long and difficult years. This time, however, does not concern just a particularly negative economic cycle: we are faced with a new world for which we have not yet drawn up adequate interpretative regulations. We know that the path to a simple return to the past is unattainable and that the well-being that seemed to be an intangible achievement can no longer be guaranteed for everyone. We live in a period of uncertainty and uncertainty creates fear.

But, as Euripides reminds us, «nothing is hopeless; we must hope for everything». It's time to build the future. New technologies and our young talents can put everyone back in the same conditions and reopen the games. It's an opportunity that cannot be missed.

We will have to face this challenge in the same way that we have experienced the difficult years: without certainty, but without hesitation, just relying on our conscious will and, faced with the unknown, applying the principle of the philosopher of Königsberg: «*Der bestirnte Himmel über mir und das moralische Gesetz in mir*» («The starry sky above me and the moral law within me»).

Annual Report 2016

Rome, 31 March 2017

Current issues and plans A

1 Financial market trends

Over 2016 the Italian shares market showed a downward trend overall, with the FtseMib down by more than 10 per cent on the previous year. It was the worst performance among the main European stock markets that saw growth in Germany, France and the United Kingdom (7, 5 and 14 per cent respectively) and a moderate fall in Spain (around -2 per cent).

In the first quarter of 2017 the FtseMib showed growth of around five per cent compared with the beginning of the year, due to favourable movements in March that more than compensated for the fall seen in the first two months. The trend of the Italian market was in line with that of the stock exchanges in Germany, France and the United Kingdom but lower than the performance of the Spanish Market (up around 10 per cent).

Movements on the Italian stock market, the capitalisation of which fell to approximately 32 per cent of GDP at the end of 2016 from the 35 per cent of the year before, reflects an economic scenario that is uncertain domestically and in a European context even though the signals of a return to growth are getting stronger and stronger.

With reference to activities on the primary markets, in 2016 the number of companies that chose to be listed on the Italian market shrank, settling at 14 (three on the MTA run by the Borsa and 11 on AIM Italia) compared with 27 issuers in the previous year (8 on MTA, 18 on AIM Italia and one on the investment vehicles market). The relative value fell from 5.5 to 1.4 billions of euro.

In the secondary bond market, the returns on non-governmental bonds recorded a slight rise starting from the last few months of 2016, after touching the minimum of the past five year period at the end of September. Thanks to the extension of non-conventional monetary policy measures, the return on government securities continued to shrink, buffering the short-term turbulences triggered by the United Kingdom's decision to leave the European Union. Starting from the final few months of last year, however, the differential in the returns of Italian State bonds compared to those of Germany showed a reversed tendency settling at around 180 base points towards the end of March (almost double the level at the beginning of 2016).

With regard to the activity of the primary market in 2016, the issue of debt instruments by non-financial companies and Italian banks showed significant contraction compared with a slight recovery in the asset backed securities sector.

The prospects of the financial markets for the year underway are marked by numerous sources of uncertainty, some of a geopolitical nature.

The decision of the United Kingdom to leave the European Union is one of the events whose reach it will only be possible to appreciate in the medium to long term. Up to today, the impact on the financial markets seem only to be temporary because, after a sudden deterioration of share prices in the Eurozone, the main indicators (volatility, volume of trade and liquidity levels) gradually returned to the values they were at the beginning of the year. The United Kingdom leaving the European Union however deserves special attention. The process the times and methods of which are still indefinite, may present risks but also opportunities for the Italian market. Any reduction in trade with the United Kingdom could negatively impact the growth of Italian production based to a large extent on exports. The domestic financial market could however draw benefit from the decision of the largest financial operators to transfer their headquarters to one of the European member states so as to keep access to the European market.

The effects of the economic policy announced by the new US administration represents a further source of uncertainty capable of influencing the trend of the financial markets.

In conclusion, over 2017 the financial markets could begin to account for future European Central Bank (ECB) monetary policy decisions. As already recalled, the structure of the monetary policy in the euro area in great expansion has had enormous effects on the secondary markets of debt instruments and particularly on that of public bonds. The prevailing negative rates even on medium to long term maturities have allowed the countries in the Eurozone to refinance the debt at significantly lower costs than in the past. The non-conventional monetary policy measures are nonetheless destined to steadily reduce starting from next year due to the recent positive price dynamic that is taking the rate of inflation back towards the ECB's objective level. This circumstance could create tensions for the countries in the euro area with greater imbalances in the public accounts with banking systems that are still vulnerable.

2 Technological innovation and financial markets

Technological innovation and the so-called digitalisation of the markets and financial services are steadily modifying the structure of financial intermediation and the relationship between the intermediary and client in terms of performance, distribution and use of the service.

Financial digitalisation is leading to the entry of new unregulated and unsupervised operators (e.g. already consolidated or start up technological companies and e-commerce operators) and to the development of new activities (e.g. digital marketplace management). The phenomenon must be analysed and understood to make sure of both an appropriate level of consumer/investor protection and the possibility of entry and equal treatment to new parties in the market.

Regulators are therefore analysing the changes underway for the purpose of verifying whether and to what extent they might be harbingers of risks and critical points involved in the protection of investors and the integrity of the markets.

IOSCO was one of the first international organisations to devote significant effort to analysing the FinTech phenomenon.

The Committee on Emerging Risk has set up a work team within it regarding technological innovation to monitor all the technological changes underway and estimate their possible impact on the industrial structure on the financial service market and/or on the production function of the intermediaries.

In November 2016, the European Commission set up a special work team (Financial Technology Task Force – FTF), coordinated jointly by DG FISMA and DG CONNECT, to look more thoroughly at FinTech from different angles and formulate, if considered necessary, policy recommendations and proposals for measures to be taken in 2017.

Among the themes to be observed, the automation of financial consultancy (so-called robo-advice) has already stimulated the debate of several supranational institutions and seen several jurisdictions being activated to direct the development of investor interests.

On the one hand the spread of robo-advice could increase the use of the consultancy services by an increasingly wide range of investors because of lower costs. On the other hand however the performance of automated consultancy could be inadequate for some classes of investor, not guarantee full awareness of the type of service offered or present critical points in terms of protecting the clients' privacy.

At European level, the Joint Committee of European Supervisory Authorities (so-called ESAs, in other words the European Banking Authority EBA, the European Securities and Markets Authority ESMA and the European Insurance and Occupational Pensions Authority EIOPA) first of all published a Discussion Paper and, then, a Report describing the main characteristics of the automatic consultancy service and an initial assessment of the benefits and risks for the purpose of establishing any need for intervention at a regulatory or supervisory level by the competent authorities.

The Committee on the Regulation of Market Intermediaries of the International Organization of Securities Commissions (IOSCO) also published two reports (one in 2014 and one in 2016) on the use of *social media* by financial intermediaries and on the dissemination of instruments for automatic consultancy as well as associated policy profiles.

To today, no supervisory authority participating in the IOSCO survey has prohibited the use of automatic instruments nor has it established regulations or amendments to regulations specifically referring to these services. Some authorities have however published guidelines for the correct implementation of the general regulations by robo-advisors. Numerous authorities have in conclusion instituted in-house organisational units expressly devoted to monitoring and promoting FinTech activities operating in the provision of investment services.

IOSCO also specifies three areas where intervention may be required. In the first place, it suggests the definition of best practices for intermediaries offering consultancy through automatic instruments (e.g. regarding adequacy). In the second place, it highlights the possibility of developing guiding principles for the design of automatic instruments. It does not, in conclusion exclude the specification of best practices for the regulatory authorities even in the context of sharing experiences of regulation, supervision and mapping of potential risks deriving from the dissemination of automatic instruments.

A further area of interest is represented by the application of Distributed Ledger Technology (DLT that uses the blockchain structure) in financial markets in particular in the context of post trading. The theme caught the attention of various international institutions because of the evident implications on the activities of supervision over the market infrastructures and relative risks.

ESMA, among other things, published a Final Report concerning DLT in February 2017, following a public consultation that aimed to understand the possible benefits and risks deriving from the use of this technology in the securities market in the context of the current European Union regulatory framework. In the awareness of the potential advantages of using DLT in the post trading area in terms of bringing down costs and improving organisational and managerial efficiency for the operators, ESMA however considers it important to closely monitor the evolution of the phenomenon in the context of its own supervisory competence for the purpose of guaranteeing investors and markets an adequate level of protection.

1 The European regulation

Over 2016 the processes of reviewing the reference regulatory framework initiated in response to the financial crisis continued. The principal new developments at legislative level concern the integrity of the secondary markets, the protection of shareholders and the reinforcement of transparency guarantees.

The European institutions have also made progress in the activation of the plan of action for the creation of a single capital market (Capital Markets Union - CMU) announced in 2015 and the improvement of supervision over the shadow banking system in line with the commitments made by the Member States during the G-20.

1.1 Markets and infrastructures

Regulations for protecting the integrity of the secondary markets were significantly reinforced with EU Regulation 2016/1011 that introduces a harmonised discipline for the production and use of the reference financial indices (benchmarks). The objective of the legislative initiative is to tackle the vulnerabilities that emerged on the occasion of serious cases of manipulation of the reference indices for the setting of interest rates such as Libor, Euribor and the reference indices for currencies. The instructions will be applied from January 1 2018 with the exception of the regime concerning the so-called critical benchmarks in force since June 30 2016.

A further significant new development is the application, from July 3 2016 onwards of the new market abuse regulations (EU Regulations 596/2014 MAR Regulations) that replace the previous MAD I Directive with provisions that can be directly applied in all the Member States.

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European regulations on the subject of markets and market infrastructures contain a very complex discipline that needs a great many very detailed provisions in order to be applied in concrete terms.

During 2016 in particular, various implementing regulations for EMIR regulations were issued regarding OTC derivatives, centralised counterparties and data repositories and (in the implementation of EMIR) the clearing obligation introduced by delegated regulation of the Commission 2015/2205 became applicable for some classes of interest rate derivatives particularly significant in terms of volumes traded at global level (*basis swap, fixed-to-float interest rate swap, forward rate agreement, overnight index swap* in the four main world currencies).

Similarly to EMIR EU Regulation 909/2014 (CSDR - Central Securities Depository Regulation) needs a specific detailed set of regulations. The Regulation that came into force on September 17 2014 provides for the adoption on the part of the European Commission of delegated deeds pursuant to art. 290 of the Treaty on the Functioning of the European Union (TFEU).

On November 28 2016 the European Commission published a legislative proposal on the subject of recovery and resolution of the centralised counterparties in consideration of the growing importance of said parties in the system. The proposal based on the international standards on the subject provides, among other things, for the introduction of measures the purpose of which is to prevent default (in particular with the preparation of suitable recovery plans by the centralised counterparties) as well as measures for early intervention by the authorities. The proposal also introduces specific powers and instruments for resolution to be put into action by the authorities where the crisis of a centralised counterparty could threaten overall financial stability.

1.2 Shareholders' rights

In 2016 negotiations regarding the review of Directive 2013/34/EU and 2007/36/EU on the rights of shareholders with the aim of reinforcing long term investments in EU listed companies also concluded. The policy agreement provides for new rules regarding the remuneration policies for the directors (which must be more closely aligned with the company's performance over time and subject to the shareholders' vote), transparency and approval of the operations among correlated parties, identification of the shareholders and the exercise of voting rights. Transparency safeguards for institutional investors, managers and proxy advisers are furthermore strengthened. The new discipline will be applied to companies incorporated in a member state with shares listed on regulated EU markets.

1.3 Investor protection

In 2016 the extension to the term for the application of fundamental legislative initiatives adopted after the financial crises for the strengthening of investor protection was agreed.

In particular, the application of the package consisting of the MiFID II directive and MiFIR Regulation was extended by one year because of the difficulty of reaching a policy agreement among the various European institutions involved in the issuing of secondary measures. With this deferral, the saver protection safeguards provided for under the new regulations such as the introduction of more stringent controls in the investment product design phase (product governance) and intervention powers (product intervention) for the supervisory authorities will only be applied from January 3 2018.

A similar extension to 2018 concerned the European Regulations concerning pre-assembled financial products (PRIIPs) offered by banks and insurance companies to retail savers which impose the obligation of the so-called Key Information Document (KID) with the aim of creating the conditions for greater transparency and comparability of retail investment products.

In 2016 the European Commission anyway adopted many provisions for implementing MiFID II - MiFIR following the proposals and advice formulated by ESMA to start from 2013.

1.4 Supervision of the shadow banking

The financial crisis of 2007-2008 brought out the need to strengthen transparency and the proper risk diversification and management (especially concerning liquidity) of mutual investment funds of the money market, the object in some member countries of a race to reimbursements that accentuated turbulences and triggered problems of stability in the system. Regulation on monetary funds that saw the conclusion of the institutional trilogue in 2016 will reinforce transparency in the sector and will introduce a more stringent prudential discipline over the composition and enhancement of the portfolio in particular in cases where said funds offer a constant net asset value (so-called CNAV) and are therefore more exposed to liquidity risk as they are structurally less stable. A new monetary fund category has also been introduced, the so-called low volatility net asset value (LVNAV) that should provide an alternative to CNAV.

Again on the subject of shadow banking, secondary measures provided for under EU Regulation 2015/2365 are currently being defined with regard to the transparency of financing operations through securities concerning the reuse of financial instruments (see Chapter VIII 'Support activities and international cooperation', Part B) The Regulations respond to

the need to increase the transparency of the finance markets through securities, the opacity of which obstructed, before the financial crisis and since, the possibility of correctly evaluating risks, substantially similar to bank risks and the level of interconnection in the financial system.

1.5 The Capital Markets Union

Progress of various types was made in 2016 in the implementation of the action plan of the European CMU project. The project, as is well known, tends to favour a wider role for financial markets to allow better organization of the sources of financing for companies (traditionally dependent on the banking system) to support the economic growth and stability of the financial system as a whole.

From this point of view, simplification of the regulations and removal of legal and economic barriers should also stimulate greater financial integration at European level, inverting the fragmentation process triggered by the 2007 crisis.

Reaching a policy agreement on the Prospectus Regulation represented the main goal of the action plan. The Regulations will replace Directive 2003/71/EC and the relative activation measures introducing provisions that are directly applied in the Member States. The agreement, as well as rationalising the rules provided for the listed issuers, defines a special discipline to support the raising of capital by SMEs that will be legitimated to publish prospectuses with leaner content in accordance with a simpler procedure (the so-called EU Growth Prospectus).

Furthermore negotiations continued over the review of EU Rules 345 and 346 dated April 17 2013 concerning the discipline of investment funds for venture capital (EuVECA regulation) and for social entrepreneurship (EuSEF Regulation) for the purpose of favouring the channelling of economic resources into the promotion of innovative SMEs or those with social characteristics.

The regulation proposal regarding simple, transparent and standardised securitisations published together with a Plan of Action on the CMU is characterised by a particularly slow and complex negotiation given the scepticism expressed by the European Parliament regarding the objective of relaunching a sector considered the main cause of the 2007-2008 crisis. In December the competent committee of the Parliament voted for a series of amendments to the proposal of the European Commission on the basis of which the institutional trilogue will begin.

Furthermore, as pre announced in the Plan of Action, on July 27 2016, the European Commission published a consultation document regarding the wisdom of presenting a legislative proposal regarding private pension-related products, in other words subscribed to on a voluntary basis

and therefore different from public or obligatory pensions. The proposal could be presented during 2017.

The consultation regarding the possible measures to be taken in order to favour the cross-border investments in mutual investment funds was also included and any further action on the part of the European Commission is awaited.

The project for the institution of a single capital market will be subject to revision in 2017 for the purpose of evaluating the wisdom of reconsidering or supplementing the initiatives planned up to now in the light of market developments. In the communication of November 23 2016 following the conclusion of the call for evidence on the cumulative impact of the provisions on the financial services carried out at the end of 2015, the European Commission also expressed the need to improve the quality of the regulation, given the stratification and multiplying of the legislative initiatives following the crisis that have made the regulatory framework extremely complex and unwieldy. In the transferable securities sector the Commission proposes making greater use of the proportionality principle for the purpose of calibrating the regulations in force regarding the type, sizes and operating impact of the participants in the market.

Greater harmonisation will also be pursued with regard to insolvency and company restructuring procedures since the current national divergence in question are harbingers of legal risks and fragmentation of the single market.

In conclusion, in 2017, the Commission intends to publish a Plan of Action on the provision of financial services with regard to retail investors for the purpose of programming direct initiatives to favour cross-border investment while guaranteeing adequate investor protection.

Furthermore, initiatives aiming at the strengthening of the institutional European picture are currently being assessed in as far as macro-prudential supervision is concerned not least because of the creation of the banking Union.

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In 2016, Consob continued to produce initiatives aimed at reinforcing the domestic capital market in such a way as to favour access by businesses, in particular SMEs, to sources of finance other than bank debt and amplify the possibilities of portfolio diversification for investors.

In line with this objective the sector for the raising of risk capital through online portals (equity crowdfunding) regulated and supervised by Consob and also extended to innovative SMEs has been established.

As far as the new developments introduced by law 232/2016 (2017 budget) are concerned, the fiscal incentives the aim of which is the direction of savings towards productive investments, are going in the direction already hoped for by Consob. In particular soft tax conditions provided for by the mentioned law concerns individual long term savings plans (PIR) and consists of the exemption from taxation of income that can be qualified as capital income or as income other than financial in nature deriving from investments in PIR outside the conduct of a business by natural persons. To benefit from the soft terms specific restrictions regarding the composition of the PIR's assets and the period for holding financial instruments held in the plan itself are contemplated. These restrictions are intended to encourage long term investment financial instruments issued by companies resident or with permanent organisations in Italy, especially those of a small or medium size.

2 The transposition of European regulation and Consob regulatory activity

In 2016 Consob took part as usual in the intense process of bringing national law into line with European law. As already recalled, the existing directives have undergone significant revisions and updates (for greater details see Chapter VI 'Regulatory activity', Part B) and the regulatory perimeter has also been widened significantly through the adoption of a new structure of the European system of prudential type controls (CRD IV) and the issuing of provisions aimed at governing further critical areas in the financial market (CSDR, PRIIPs, IDD).

In this context, Consob has constantly provided the Ministry of the Economy and Finances (MEF) with its technical support for the drafting of legislative decrees for implementing the legislative delegations contained in law 114/2015 (European Delegation Law 2014 or LDE 2014).

In particular, works continued for the transposition of MiFID II. In addition the process of first level transposition of UCITS V Directive (2014/91/UE) that modified some provisions of UCITS IV Directive regarding the functions of the depository, the policies for the remuneration of the managers of UCITS funds and the sanctioning system was concluded. 2016 saw Consob also engaged in the conclusion of the transposition works concerning Directive 2014/56/EU regarding the legal auditing of the accounts and consolidated accounts following the amendments to the national reference law made by legislative decree 135/2016.

The process of bringing national legislation into line with the rules deriving from the revision of the Transparency Directive (2013/50/EU) was completed. In particular, among other things, Legislative Decree 25/2016 raised the minimum threshold required pursuant to art. 120 of the

Consolidated Law on Finance to 3 per cent for the application of the obligations to report large investments.

With reference to market abuses, the national regulatory provisions were adapted to provisions of the MAR regulation (596/2014) directly applicable from July 3 2016. In the first few months of 2017, communications were issued intended for investors. They contained operational guides with the aim respectively of managing insider information and investment recommendations with the aim of offering operators a number of useful indications for the implementation of the MAR regulation in a national context.

Consob was also engaged in the bringing of national legislation into line with the provisions of EU regulation 909/2014 (CSDR) and, again on the subject of post trading, the process of harmonisation of domestic legislation with the EMIR regulation in fulfilment of what is provided for in art. 12 of the European Delegation Law 2014.

Work on the harmonisation of the primary regulation with the PRIIPs Legislation that regulates the format and content of the document containing key information (KID) regarding investment and pre-assembled insurance products, as well as the relative method of transmission to retail investors was also concluded.

The transposition of the modifications to the European regulations on the subject of harmonisation of the transparency requirements concerning issuer information (Directive 2004/109/EC) introduced by (Directive 2013/50/EU) into the Consolidated Law on Finance also deserves particular attention. In particular, paragraphs 5 and 5-bis of art. 154-ter of the Consolidated Law on Finance introduced by Legislative Decree 25/2016 enable Consob to order issuers with Italy as the Member State of origin, including financial organisations, to publish periodic additional financial information more frequently than the annual and half yearly financial reports when certain conditions occur. In this regard, Consob has not exercised the power to impose the publication of the quarterly financial report on listed issuers but has dictated general criteria to follow in cases where they chose to publish it autonomously.

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In consideration of the high degree of complexity and the cross sectoral nature of European directives and regulations regarding powers and sanctions, the Commission carried out an overall survey of such sources for the purpose of ensuring consistency and the organic structure of national transposition regulations. In this context, a comparative examination for the same purposes was also conducted with relation to the institution of whistleblowing for its characteristics of novelty, cross sectoral application

and steady expansion in the legislation. Whistleblowing introduced into the financial sector by Directive CRD IV was in fact later provided for in many of the European legal instruments mentioned above so as to notably expand and apply to different sectors the reach of the institution in financial legislation. The institution of whistleblowing is particularly important for the purposes of supervisory activities because it increases the list of the information the authorities may draw on to perform their functions.

In 2016 there was an important intervention in the plan of the quality of the regulation represented through resolution 19654 of July 6 2016 by the approval of the new Regulations concerning the procedures for the adoption of general regulation acts, in implementation of art. 23 of law 262/2005 for which Consob had already started public consultations in 2007 and in 2010. The approved regulatory provisions, in addition to providing a concrete implementation of the principles ratified by the law 262/2005, mean to transpose the best practices for producing regulations that have been established internationally and at European level. Furthermore, the new regulations take into account the fact that regulatory supervision is increasingly part of a multilevel system in which the national authorities have been given a large role in support to institutional delegations that participate in the preparatory stage of the legislation as well as the European Union's decision making processes. From this point of view, the capacity of maintaining one's positions on the basis of empirical evidence relative to the market context, the actual conformation of the problems to be resolved, the costs and the benefits connected with regulation in force and in the process of being defined is taking on increasing importance.

In conclusion, in 2016 a recommendation was published regarding the representation, in the context of the prospectus, of specific warnings for the investor with the primary aim of highlighting the most significant and important critical aspects of the issuer and the proposed investment in an immediate, clear, concise and understandable way (see Chapter VI 'Regulatory activity', Part B).

Activities in 2016 and plans for 2017 III

In 2016, following the reinstatement of the Panel with the appointment of two new members, Consob's activity has benefited from the addition of the diversified professional skills and competences in the context of a profitable and constructive dialectic dialogue. The Commission has therefore tackled the difficult economic situation and, in particular, the delicate events that have involved leading bank issuers, illustrated at length in the chapters that follow, with renewed intensity.

The activity carried out reflects as usual the objectives defined during the strategic and operational planning stage with regard to the supervisory areas, the financial education initiatives as well the profiles belonging to the IT organisation and infrastructures.

The main activities begun in 2016, the sanctioning provisions adopted and the financial management of Consob as well as the operating goals for 2017 defined in line with the strategic plan approved by the Commission for the 2016-2018 three year period will be explored below.

1 The markets

During 2016 the usual verifications were carried out regarding the correctness of the information transmitted in compliance with transaction reporting obligations with particular reference to the monitoring of the promptness and accuracy of the reports received by Consob as well as the compliance with the pre and post trading transparency obligations. These verifications brought to light a number of irregularities for which the appropriate supervisory measures were brought into play.

One new element regarding the systems of disseminating and storing the regulated information is to be found in the EU Delegated Regulation 2016/1437. The Regulation dictates the technical norms for regulation concerning the access and classification of the different types of information, finding the European electronic access point in a portal accessible from the ESMA website. This new departure will make the search for regulated information spread throughout all the member countries easier. The storage mechanisms authorised by Consob will therefore have to come into line with the new provisions, by recording all the regulated information

received according to the classes and subclasses provided by the Delegated Regulation instead of the codes currently dictated by the Consob regulation concerning markets.

With reference to the market infrastructures, the main new development in a domestic context is the start up by Monte Titoli Spa of the path necessary to strengthen the tax assistance services offered to its foreign investors. Consob together with the Bank of Italy has analysed the new services, risks that they may involve for Monte Titoli and the measures for mitigation in the cases indicated by the Italian central depository. The path for approval should conclude in the first half of 2017.

Furthermore, during the year in progress, Consob will initiate a new Monte Titoli Spa authorisation procedure pursuant to EU Regulation 909/2014 of the European Parliament and Council regarding the improvement of securities regulatory activities in the European Union and the activities of the central depositories (CSDR Regulation).

Consob in fact has been designated as the authority competent to issue the aforementioned authorisation, in agreement with the Bank of Italy pursuant to article 79-undicies of the Consolidated Law on Finance introduced by legislative decree 176/2016. The CSDR Regulation states that parties carrying out the activities of the central depository shall apply for authorisation pursuant to the said Regulation within six months of a set of technical norms, the publication of which in the Official Journal is now imminent, coming into force.

In an international context, during 2016 migration of the central depositories of the European countries to the pan European Target 2 Securities (TS2) platform, managed by the European Central Bank, continued. The migration of Monte Titoli had already occurred in August 2015.

In 2016 the activities of supervision over the counterparts of derivative contracts intensified still further. Consob's access to the trade repositories registered at ESMA have made it possible to monitor the degree of precision and completeness of the reports made.

In the last year Consob as usual carried out a constant monitoring of proper market trading checking the proper nature of the transactions concluded on Italian trading sites in part by making use of their systems of identifying anomalies in market situations (alerts) and those created on Italian financial instruments traded on foreign markets on the basis of flows of supervision-related data received from the competent foreign authorities. Trading created on the occasion of events of particular significance for the issuing companies (including extraordinary transactions, industrial agreements, capital increases and buybacks) has also been subject to monitoring.

New regulations relating to market abuse (MAR Regulation) applicable from July 3 20 16 extended the categories of subject required to report suspect operations to Consob; it also increased the range of significant conduct and extended the obligation to report abnormal operations created in the commodity markets(either spot or forward). In consideration of these extensions of application particular attention has been devoted to creating awareness concerning reporting suspect transactions whether supervised small scale parties that are typically less active on financial markets or parties outside the scope of supervision by Consob but professionally active in financial markets (insurance companies, buy side firms, proprietary traders, large-scale commercial companies with extensive treasury/investment needs of liquidity, issuers operating in the energy sector).

For the purpose of restoring conditions of parity and precision of information and safeguarding the integrity of the market as well as preventing or suppressing cases of market abuse, over 2016, Consob continued monitoring economic and financial information relative to listed Italian issuers including the so-called derivative type information (i.e. research produced by analysts and rating assessments).

The monitoring activities will be intensified over 2017 also taking into account, with special regard to investment recommendations, the new developments introduced by the MAR Regulation. Particular attention will be paid to either the production and dissemination of research by so-called "experts" (new type of party introduced by the MAR implementing regulations) or with respect to further regulations that are also partly innovative regarding fair presentation and indication of conflicts of interest.

2 The issuers

2.1 Financial information

Over 2016 the supervision of the financial information report made use, as usual, of the sampling supervision mechanism pursuant to art. 89- quater of the Issuer Regulation. The sample was defined by taking account of both the dynamics of the economic situation and the initiatives initiated by ESMA regarding enforcement, for the purpose of providing a uniform approach to the supervisory activity by the national authorities.

In the light of the continuing economic crisis, again in 2016 the Commission considered it appropriate to reserve a margin of flexibility in the selection of the supervision sample, defining it in two successive parts while respecting the constraint of the annual determination of the set of listed issuers to subject to the check.

With particular reference to the indications of ESMA's indications, on July 10 2014 the European Authority approved the Guidelines on Enforcement of Financial Information document that establishes among other things common principles for the selection of the companies to include in the supervision sample and provides for the identification, on an annual basis, of thematic areas (European Common Enforcement Priorities ECEP) that represent the priority aspects to be considered when drawing up the financial statements of the quoted companies. The supervision priorities identified by ESMA for 2015 have been taken up again in Consob communication 7780 of January 28 2016. In detail the communication refers to the following themes: i) the impact of market conditions on the information report provided in the financial statements also with regard to what concerns any effects deriving from the volatility and the persistent contraction of the price level of commodities; ii) application of the accounting principles relative to the preparation of the financial statements; iii) determination and disclosure of the fair value of non-financial assets and liabilities entered in the financial statements; iv) any impacts resulting from the application of new accounting principles which are expected to come into force shortly, in particular as far as IFRS 9 regarding financial instruments and IFRS 15 regarding the measurement of income applicable from January 1 2018 are concerned.

On October 28 2016, ESMA published the supervision priorities for 2016 that were repeated in the Consob communication 0031948 of March 10 2017. In particular, the aspects that, in the current context, will have to form the subject of specific attention by listed companies and supervisory authorities regard: the presentation of the economic result, the distinction among financial instruments representing capital and liabilities and the disclosure of the impacts deriving from the application of new accounting standards with particular reference to IFRS 9 and 15 ('Financial Instruments' and 'Revenue from Contracts with Customers' respectively that, as said, will be applied from January 1 2018) and to IFRS 16 ('Leases' principle not yet approved that could become effective from January 1 2019). The issuers that are potentially involved in the United Kingdom's exit from the European Union (Brexit) have been encouraged to determine and provide disclosures of the risks and the foreseeable impacts that this process could have on their businesses.

In line with the objectives specified in the strategic plan 2016-2018, monitoring companies included in the supervision sample is focused on the main financial issuers subjected to prudential vigilance as well as on media and infrastructures for telecommunications characterised by needs for consolidation with the aim of creating cost synergies and strengthening its competitive position in the European context. The supervision is also concentrated on a number of areas of the financial statements marked by critical issues taking into account the peculiarities of the sectors analysed.

With specific reference to the banking sector, supervision has also been particularly intense because of the considerable transactions to reinforce assets carried out by a number of banking issuers in the context of European supervision and the result of stress tests conducted as usual by the EBA (for greater details see Chapter III 'Supervision of public offering and corporate disclosure', Part B). The supervision carried out can be attributed to multiple profiles including the continuation of standardisation initiatives for the information to be published on the occasion of the offer transactions already implemented in 2015.

2.2 Corporate governance and corporate control

As part of the supervision aimed at mitigating the risks of conflicts of interest, Consob has carried out the usual tests regarding the application of the regulations on the transactions with related parties.

For prevention purposes, the Commission carried out an examination in 2016 of the assessments made by the issuers on the mapping of parties/entities as related parties in companies involved in incorporation, amendment or dissolution of shareholders' agreements that could impact governance set ups. In this context, attention has been drawn to an assessment of the real relations between the shareholders and the company having taken into account interpretive instruments provided by Consob either in the communications of a general nature or in the dialogue with the companies for the treatment of concrete cases.

Furthermore with reference to a sample of companies selected for their dimension and/or for having been involved in the recent past in listing or capital increase operations, the information document regarding the internal audit system and the composition of the board given in the reports on corporate governance and the proprietary set ups was analysed. Also as a part of the last activity, the assessments carried out by the company regarding the existence of the independence of directors requisite, in particular when there are reports the significance or otherwise of which had to be verified were examined. The check made brought to light a number of areas where there was room for improvement.

Supervision of the application of the regulations regarding transactions with related parties was carried out through the acquisition of information by the companies and their control bodies for the purpose of examining and verifying the actual performance of tasks that the regulations requires of said parties. In some cases, Consob formulated specific requests for information for the purpose of supplementing the pre-meeting documentation or informative documents for transactions of greater significance with related parties with the intention of guaranteeing complete information about the shareholders on substantial and procedural aspects

connected with the remuneration of the executive administrators and the transactions with the controlling shareholders.

In general, on all areas of supervision of the corporate governance, Consob was engaged in a constant dialogue with the control bodies for the purpose of verifying the supervisory duties had been carried out regularly. Recent experience demonstrates an increase in the reports of irregularities encountered by the statutory auditors. A more frequent sending of updates of initiatives and verifications undertaken by the company or the said control body on the more significant profiles for the proper functioning of the corporate governance system was also seen. The cases in which the control body has requested additional supplements by the administrative body with respect to transactions or situations considered to have not been treated adequately also increased. More in general, greater activism on the part of the statutory auditors also spurred by the reporting of blameworthy events presented by the shareholders pursuant to art. 2408 of the civil code.

The enforcement carried out by Consob determined the initiation of sanctioning proceedings against issuers for the failure to complete the obligations to provide information about transactions with related parties. In addition, cases of non-compliance with the supervisory duties by the control bodies have been identified, mainly due to violations committed by the directors in approving transactions with related parties or in which they have vested interests or interests on behalf of third parties (for more details, see the paragraph 6).

In line with the activities carried out in the year just ended, in 2017, preventative surveillance will focus on monitoring the structure and functioning of the corporate governance system of issuers and possible conflicts of interest, in order to reduce the risk of phenomena of expropriation. In these areas, it is the intention of the Commission to continue to deepen the information report on corporate governance and remuneration, as well as the monitoring of the procedures adopted for the completion of transactions with related parties pursuant to the Consob Regulation, verifying the update and the effectiveness in the event of changes in the ownership structure and control of the issuer.

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The application of the system for appointing corporate bodies through the slate vote showed in 2016 two cases in which the slate presented by institutional investors, containing a number of candidates equal to the seats reserved by the by-laws to the minority, was first in number votes while that presented by the relative majority shareholder with an industrial (or non-institutional) area of operations, which traditionally expresses the majority of directors, was ranked second. In these cases, the completion of the administrative body was achieved by means of the

Shareholders' Meeting vote, taken with the majorities required by the Civil Code, of the proposals of the relative majority shareholder to appoint the unelected candidates on the list presented by the same. In the case of the appointment of the control body, the circumstance described above determined that the chair of the control body was assigned to a candidate taken from the slate of the relative majority shareholder, second in terms of number of votes, pursuant to provision of the consolidated law on finance aimed at attributing this special power of identification (148, paragraph 1-bis) to the minorities.

The experience of the last few years shows signs, less isolated than in the past, of greater dynamism in the market of corporate control, also witnessed by proxy fights, that is to say, requests for voting proxies for the revocation and / or appointment of the board of directors. The last case at the beginning of 2017 regarded the contest for the revocation then appointment of the administrative body of Alerion Spa. The voting proxies gathered through the solicitation were decisive in allowing the industrial shareholder who held a relatively lower shareholding (Fri-EI) to revoke the board and appoint the majority of the directors.

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2016 was characterized by an increased number of competing offers, i.e. offers promoted simultaneously by different parties on the same financial instrument.

The recent application of the regulation on competing offers, also in relation to types of offers of a different nature (partial, exchange offers, on shares of funds), was an opportunity to actually test the current legislation in force and highlight a number of applicative and interpretative critical issues. In this regard, the applicability of the discipline in question was particularly interesting in relation to offers which, although promoted on the same financial instrument and having substantially similar objectives, presented differences from the point of view of how to pursue the same (in particular, in relation to the number of financial instruments involved in the offer); this question is related to the relevance of the two different plans of the effectiveness of offers and the result of competition between offers. In light of the above, we are proceeding with an overall assessment of the current regulatory provisions, also with a view to their possible revision.

2.3 The auditing firms

During 2016 the regulations covering legal auditing were the object of significant changes following the publication of legislative decree 135/2016, that modified legislative decree 39/2010, and the application of

EU Regulation 537/2014. These changes concerned many aspects of legal auditing.

Among the most significant changes are those concerning the regulations covering the independence of auditors (for auditors of 'public interest entities' and 'entities subject to intermediate regimes' as well as for other auditors), the strengthening of the role of the Committee for internal auditing and auditing of public interest entities in control over the auditing activity and auditor independence, the auditor's increased information obligations to the public (with the extension of audit information report and in the transparency report), the internal control Committee and the audit of public interest entities (with the extension of the information contained in the additional report to this body) and the supervisory authorities.

The new provisions have also expanded the number of parties subject to supervision by Consob through the introduction of the new category of entities subject to intermediate regime (ERI), which contains some of the previous public interest entities (EIP). For the auditors of the new ERI category, a softer regime than the EIPs is envisaged, even though certain rules are applied.

In implementation of the recently introduced legislation, Consob is called upon to issue specific implementing regulations as well as to contribute to the drafting of rules pertaining to the MEF. These activities are one of the operating objectives for the year underway.

The application of the newly introduced regulations requires, in many cases, interpretative clarifications, necessary to guarantee a homogeneous approach both at national and European level; to this end, in 2017 comparisons among operators, the European Commission and the corresponding national competent authorities will continue.

Under this last profile the institution of CEAOB (Committee of European Audit Oversight Board) is mentioned, with the aim, among other things, to facilitate the exchange of information and cooperation between European supervisory authorities and to provide the Commission and competent authorities with expert advice on issues related to the implementation of recent European legislation.

The supervision system over EIP and ERI auditors was also significantly strengthened through the introduction of a more effective sanctions regime and a better definition of the preventive surveillance system (so-called quality controls), with a clearer specification of the activities which must be carried out by the competent authorities, by the aforementioned EU Regulation.

The increased European harmonization of supervision over EIP auditors, together with the growing weight of international networks in the choices of national audit firms, calls for ever stronger coordination between

the competent national authorities. This context inevitably leads to an increasing complexity of supervisory activities, due, on the one hand, to the need to interact not only with the supervised parties in the national sphere but also, and increasingly, with the related international networks and, on the other, to the growing requirements for coordination with the other European supervisory authorities in an operational context not yet fully defined and homogeneous.

Finally, with the recent signing of a Memorandum of Understanding, Consob launched a collaboration activity with the PCAOB (US Audit Supervision Authority), which also provides for the performance of quality audits of audit firms jointly between the two authorities (*joint inspection*).

3 The intermediaries

3.1 Banks

In 2016, the risk-based supervisory action continued on the distribution of financial instruments by banks to retail customers, with the objective of monitoring the operational processes and the main management levers and identifying potential risks of non-compliant behaviour.

The checks carried out also include checks on the management of the risk of concentration of own securities in customer portfolios as part of the adequacy assessment. Further interventions focused on the financial instruments production phase, having had regard to the governance adopted by banking intermediaries with respect to the definition of target markets, needs served, pricing, commercial policies and incentive schemes. The specific initiatives launched by the Commission in 2015 on the distribution of complex products to retail customers also continued, not least in light of the interpretative clarifications provided in communication 0097996 of 22 December 2014.

With communication 0092492 of 18 October 2016, intermediaries were also advised to use multilateral trading systems, such as regulated markets or MTFs, for the purpose of distributing financial instruments. The recommendation also said that any component required for the remuneration of the distributors' activity is to be separated, at the time of issue, from the price of the financial instruments.

The Commission has also made as a matter of consultation, a recommendation regarding Guidelines on key information to be provided to retail customers in the distribution of financial products', which sets out certain principles and key information that are thought to contribute to the most clear and effective representation to customers of the main features of a financial product. The public consultation initiated on May 9 2016 ended the following month. At present, any decision on the follow-up to the

Recommendation is suspended pending final approval by the European Parliament of the regulatory technical standards proposed by the European Commission with regard to PRIIPs Regulation.

In 2017, in view of the continuing tensions affecting the banking system, also due to changes in the reference regulatory framework and prudential supervisory frameworks, the Commission will continue to focus on the capitalization transactions of intermediaries.

The assessments will focus on the corporate processes of self-placement, and in particular on the measures to manage conflicts of interest deriving from the coexistence of the dual role of issuer and distributor for banking parties. In this context, the procedures adopted by the operators for the provision of the advisory service, the performance of the adequacy assessment in relation to profiling customers and the mapping of the products will be examined.

Furthermore, the measures adopted by banks to safeguard against the risk of concentration of own securities in customer portfolios will continue to be subject to particular attention, also in light of the current bail-in discipline which, as is known, involves a direct involvement of the private sector in the process of resolution in the crisis of credit institutions.

Finally, as the application of the MiFID II nears (starting from 3 January 2018), specific monitoring of the process of transition processes to the new regulatory framework adopted by the banking system will be launched.

The new product intervention measures, as per EU Regulation 600/2014 (so-called MiFIR), will also have a significant impact on the supervisory activities. In this particular perspective, they will take over the changes and updates to the information bases available to Consob and to the related reporting obligations on the part of the qualified entities.

3.2 Investment companies and equity crowdfunding portals

In 2016, risk-based verification and monitoring activities continued on transactions for customers by Italian investment companies and EU investment firms with branches in Italy, also with reference to the methods for the distribution of complex products to retail customers.

In particular, targeted supervision and the provision of information were carried out on investment companies operating with Italian investors in particularly risky and complex financial instruments, such as contracts for difference (CFD), forex rolling spot and binary options. In 2017, partly in light of the work carried out in the ESMA area, monitoring will continue of European intermediaries operating in CFD and similar products in Italy.

In terms of equity crowdfunding, in the light of the important amendments made to the related Regulation 18592 of 26 June 2013, supervision and control activities focused on verifying the organizational and procedural solutions adopted by the operators registered in the ordinary section of the Consob register that chose to carry out the assessment themselves of the appropriateness of the investments carried out through the respective portals (so-called opt-in). In 2017, supervision will continue taking into account the recent change in the primary sector legislation, which has extended the scope of application to all small and medium-sized enterprises.

3.3 Asset management companies

Supervision of the managers of collective investment bodies (UCITS) focused, according to a risk-based approach, on the correctness of behaviour related to investment choices, also in terms of adherence of these choices to the investment policy described in the offer documentation.

With reference to the provision of the portfolio management service, the reasons underlying the investment in financial instruments involving conflict of interest (for example, UCITS of the group to which the manager belongs) and the ways of managing the conflict have been examined more closely. In this context, it was sometimes required to strengthen the procedures for selecting the UCITS to be included in the managed portfolios.

In 2017, supervision of the managers of UCITS and of alternative investment funds (AIFS) will continue to be concerned with the correctness of the process underlying the investment choices of the managed assets and the transparency of information in the public offer, with reference to the offer documentation and to advertising activity.

Finally analyses will continue concerning the UCITS commission profile. In particular, following the publication of the ESMA Statement relating to the Supervisory work on potential closet index tracking, the analyses will be completed on the degree of 'activism' in management with respect to the management style declared in the offer documentation and to the commission profile of the product.

With reference to the supervision of asset management funds concerns, in 2017 the activity will be carried out in line with the controls of the previous year, when particular attention was paid to the managers of funds intended for the retail public, in relation both to approaching the maturity of the funds themselves and the launch of takeover bids on the shares of some funds traded on the secondary market. In this context, supervision was carried out with reference to the consistency between the divestment of the real estate assets and the business plan of each fund as well as the correct application of the rules on conflict of interest.

3.4 Financial advisors

In line with communication 0012130 11 February 2016 concerning 'checks of financial advisor networks', in the past year the supervision of the network intermediaries was informative and concerned the suitability of the internal control procedures for checking financial advisor networks, in order to proactively direct the operators to solutions able to contain the risk of incorrect behaviour.

The results deriving from the specific informative feedback received from the intermediaries were integrated with the examination of the documentation periodically sent by the same supervised parties as well as with the results of the quantitative systematic analyses carried out by Consob.

With reference to financial advisors, in 2016 the Consob notified the MEF of the need to make some changes to the TUF in order to allow the completion of the reform outlined in article 9, paragraph 1, letter o), of the 2014 European Delegation Law and Article 1, paragraphs 36-43, of Law 208/2015 (the so-called Stability Law for 2016). The reform established that the supervisory powers of micro-prudential supervision of financial advisers authorized to carry out door to door selling (former financial advisers), now the responsibility of Consob, are transferred to the Supervisory Board and held by the single Register of Financial Advisers referred to in Article 31 of the TUF, together with the supervision of independent financial advisers and financial advisory firms (see Chapter VI 'Regulatory activity', Part B).

The Supervisory Board will operate in compliance with the principles and criteria established by Consob with its own regulation, which will be adopted in 2017, and under its supervision. In the six months following the adoption of the regulation, the Commission will sign a memorandum of understanding with the Supervisory Board.

4 Non-equity products

In 2016, checks continued on the structural characteristics of financial products issued on the basis of prospectuses, also in order to activate (in accordance with a risk-based approach) supervisory actions in terms of information transparency and correctness in the conduct of intermediaries.

With specific reference to non-equity European financial instruments issued by banks, during the year the main findings of the Supervisory Review and Evaluation Process (SREP) and of the stress exercises conducted by the competent prudential supervisory authorities were included in the prospectus, where available. The activities related to the representation in the prospectus of specific indicators (such as the so-called credit spread)

that are potentially reporting a credit risk reflected in market valuations also continued.

Feedback on the information to be included in the prospectuses of non-equity products of bank issuers will take into account, during 2017, the transition process connected with the significant changes in the regulatory and institutional framework and the persistent critical issues of the banking system, in terms of profitability and capitalization, which in a context of low interest rates could favour the offer to the public of more complex and risky own-issue financial instruments.

5 Measures against unauthorised activities

In 2016 the activity to combat illegal phenomena also intensified due to the increase in the number of reports sent by savers.

The Internet channel continues to represent the most frequently used way of implementing illicit conduct by parties conducting illegal activities. The latter, especially those foreign nationals, increasingly use Italian citizens, also operating via the web, in order to spread the initiative to the public residing in Italy. This modus operandi, particularly insidious for the market, probably requires a reflection on forms of intervention other than those that can be activated to date on the basis of the instruments available to the Commission, which range from the powers attributed by the Consolidated Law on Finance in case of infringement of the appeal regulations to savings to communications to protect savers (so-called warning).

The warnings, introduced as a matter of course by Consob, are aimed at alerting the public to the actions of persons who behave in such a way as supplement the criminally significant cases referred to in art. 166 of the Consolidated Law on Finance, i.e. provision of investment services and activities and door to door selling without authorization.

At the MEF consultation of a document containing the changes to be made to the Consolidated Law on Finance is currently underway as well as on the possibility of attributing powers to Consob to tell the illegal lender to cease trading.

6 Sanctions

In 2016 152 sanction proceedings were completed of which 136 concluded with the application of sanctions (respectively, 268 and 236 in the previous year). The total amount of fines applied was approximately 7.8 millions of euro, compared with 12.1 million in 2015. In addition, during the year, interdictive accessory sanctions were imposed for a total of 144 months

(138 months in 2015) and, as a result of proceedings for infringements of market abuse regulations, assets were confiscated for a value corresponding to approximately one million of euro (594 thousands of euro in the previous period).

The sanctions applied to financial intermediaries for the infringement of the general rules of diligence, correctness and transparency in the provision of investment services and activities and in the management of conflicts of interest were ten in total, while 10 sanctions were applied to financial advisers. On the other hand, 14 measures were taken in relation to the unauthorised provision of investment services and activities, as well as to the unauthorised door to door selling.

Furthermore, at the end of proceedings instituted for violations of the regulations of the issuers, 24 sanctions were applied. These include four (referring to twelve parties) concerning infringements of duties for which the control bodies of issuers were responsible (Article 149, paragraph 1 and paragraph 3 of the Consolidated Law of Finance).

With reference to ascertained infringements of the regulations concerning the abuse of insider information (Article 187-bis of the Consolidated Law on Finance) and market manipulation (Article 187-ter of the Consolidated Law on Finance), in conclusion there were seven sanctions in total.

7 Financial education

The need to structure and deliver financial education continues to be an urgent issue for Italy, as can also be seen from the 2016 Consob report on the investment decisions of Italian households. The readings available in fact confirm the low level of financial awareness among the Italians.

In detail, only slightly more than 40 per cent of respondents are able to correctly define some basic notions, such as inflation and the relationship between risk and return; more sophisticated concepts regarding the characteristics of the most widespread products also show lower percentages. Added to the low level of financial knowledge is a distorted perception of one's own skills (excess of trust) and other classic behavioural errors are added.

The need for financial education assumes an even greater importance in the face of the digitization processes underway, which will feed new forms of complexity and new models of intermediation (such as the aforementioned robo-advice).

In order to fill the training needs and encourage the development of virtuous financial skills and behaviour, an organic and structural response is required, which only a national strategy of financial education can provide.

As a first step towards the definition of a national strategy, Consob together with other supervisory authorities and private parties has promoted a survey of existing financial education schemes. The research, presented in January 2017, gave documentary evidence that the programs launched so far, although in some cases well structured, are inevitably heterogeneous and fragmented, reaching a limited number of parties and are overall not very effective.

At the policy level, it has been repeatedly stressed that financial education is a fundamental step in the process of harmonious growth of the role of the saver, both as an active participant in the financial market and as a passive beneficiary of regulation. Legislative Decree 237/2016, converted with amendments by law 15/2017, containing urgent provisions for the protection of savings in the credit sector, accepts these requests through art. 24-bis, containing general provisions concerning financial, insurance and social security education.

Article 24-bis summarizes and puts the content of the pre-existing parliamentary initiative bills aimed at regulating the subject of financial education, which is being discussed in both houses of the Parliament into an organic framework. It endorses the need to provide Italy with a national strategy, as proposed jointly by Consob, the Bank of Italy, IVASS and COVIP, for the financial literacy of both the school-aged and adult population, with particular reference to the social groups deserving of greater protection.

For the implementation of the Strategy, a National Committee has been set up at the MEF, consisting of eleven members, one of whom represents Consob.

The MEF, in agreement with the Ministry of Education, has been called upon to draw up guidelines for the National Strategy is required, in order to systematically give direction to the coordination of the activities of public and private entities wishing to undertake initiatives in this regard, creating synergies between them and with the national education system.

In this context, the principles defined by the OECD are a fundamental reference, as they systematise all the foundational steps for the development of effective action plans, starting from the definition of the objectives moving on to the segmentation of the population, the identification of the instruments and of the channels and, finally, verifying the results achieved.

Pending the operational start-up of the Committee and the related Strategy, Consob will continue its investor education activities.

In January 2017, with the initiation of the Arbitro per le controversie finanziarie (ACF) - Alternative Financial Dispute Resolution Mechanism, the implementation of the operational tools for investors envisaged in the 'Investors Charter' table project was completed (in

collaboration with the Consumer associations and dating to 2014), together with the launch of the investor education portal (May 2015) and the platform for the online transmission of the exhibits (July 2015).

As a continuation of the aforementioned results and in anticipation of the National Financial Education Strategy, Consob together with the Consumers' Associations participating at the Table, has promoted the start of a new planning phase that is characterized by the implementation of specific schemes at national level. The lines along which these schemes will be organised, in line with international best practices, include the development of an information/training campaign for the adult population in terms of financial education and measurement of related effects, with the aim of raising the basic knowledge and increasing the knowledge/recognisability of training and protection tools available to savers, such as the ADF, the investor education portal and the application for the transmission of exhibits.

The implementation of financial education programs for adults faces important obstacles because of: i) the still insufficient familiarity with the technology and, in particular, with the Internet; ii) the difficulty of involving them through classroom lessons at a defined place, as they have completed their scholastic/university careers; iii) the widespread reluctance to grasp new stimuli, sometimes induced by excessive confidence in one's own abilities and/or by a limited availability of time to devote to one's financial literacy.

As part of the aforementioned initiatives and in anticipation of the National Strategy, Consob will be able to continue to call on the support of the academic world. In fact, Consob has initiated some special projects with partner universities, in order to deepen the issues of financial digitization and to create a handbook on the relevant regulatory matters. Among the objectives of the projects is also that of making the new processes of financial intermediation introduced by technological innovations and the complexity of the regulatory framework in the financial field more comprehensible to the public and retail investors.

As for the institutional investor education website, further updates are planned, with reference to the launch of new operational tools to increase awareness of planning and savings choices and investment decisions (such as, greater articulation of the budget planner and the introduction of a role-playing game for a better understanding of behavioural errors).

Finally, further initiatives were promoted in 2016 to strengthen the protection of the investor. At the beginning of 2017, the Commission drew the attention of the public and intermediaries to the purchase and sale of diamonds, following the reports received from consumer associations regarding commercial proposals made by specialized companies through their websites or through bank branches. On this subject, in-depth analyses are still underway (see Chapter VII 'Investor protection', Part B).

A further communication of February 2017 concerned particularly risky and complex financial instruments, such as contract for difference, forex rolling spot and binary options with underlying currencies, financial ratios, single shares and commodities (see Chapter VII 'Investor protection', Part B).

8 Organisation and resources

2016 was marked by many initiatives regarding the management and internal organization of Consob.

First of all, a reflection on the organizational and operational structures was initiated, supported by a recognition of the processes and related phases. The results of the survey have made it possible to carry out a detailed assessment of the risks to which Consob is potentially exposed with regard to corruption and maladministration and to identify the appropriate measures to eliminate these risks. The existence of a precise and detailed regulatory apparatus and a solid body of internal regulations (consisting of internal regulations, policies, procedures and practices) make it possible to believe, in fact, to believe that to date most of the processes are equipped with prevention and control safeguards.

Secondly, the start of operations of the new non-judicial resolution body for disputes between savers and intermediaries, the Italian Alternative Financial Dispute Resolution mechanism (ACF), involved the establishment of an organizational unit to assist the ACF (see paragraph 9).

Furthermore, in 2016, the foundations were laid for a solid evolution of the human capital of Consob. In line with the objective identified in the 2016-2018 Strategic Plan, the implementation of an organizational structure consistent with the changing reference context makes it necessary to invest in the recruitment of resources and their training, as well as to adequately encourage the achievement of clear and measurable objectives, promote a heightened responsibility among the staff and promote the appropriate synergies between distinct organizational units.

In line with these objectives, the activities necessary for restarting staff recruitment have been scheduled for 2017, in order to strengthen the supervisory action with the finding of professional skills in line with market developments. In this way, the trend to reduce the active units that has characterized the last few years will be reversed.

At the same time, an auditors' discussion was launched aimed at a thorough revision of the personnel regulations. The career reform that it is expected to achieve will substantially increase the dynamics of personnel management both from the point of view of the organization of work, with a strong focus on the orientation to the result, and from the point of view of the development of human resources, with a leaner hierarchical structure, a

performance-based assessment system, the temporariness of managerial positions and greater attention to professional and managerial skills.

The IT infrastructure

Consob's IT sector was affected at the end of 2016 by a reorganization aimed at centralizing skills and resources, with the aim of better supervising technological developments and costs related to the activities performed by the IT outsourcer.

In particular, the Commission established the Information Infrastructure Division, thus making the IT sector independent from the Administration Division, in which it had been coordinated since October 2011.

The IT development plan for 2017 was drawn up on the basis of the application development needs formalized by Consob's organizational units as part of the Operational Plans and strategic planning of the IT sector respectively formalized in the Multi-year Management Plan, in line with the contents of the 2016-2018 Consob's Strategic Plan.

With reference to the IT staff, an upgrade plan is underway which envisages, on the one hand, a series of training interventions of the 'training on the job' type, also with the involvement of leading universities, in order to refresh internal expertise and, on the other hand, the inclusion of personnel to be selected from qualified resources with specific expertise in the field of IT design and development.

The projects included in Consob's IT development plan 2017 were merged into macro areas of aggregation called supervisory infrastructures, administrative infrastructures and general infrastructures.

Within the framework of the supervisory infrastructures, the main development measures envisaged for 2017 will concern the areas related to transaction reporting, market abuse detection, position limits and position reporting, PRIIPs and insurance financial products.

As part of the administrative infrastructures, provision is made for adaptation and improvement of the IT system implemented in 2016 in order to allow the start up of ACF operations.

In 2017 the development of the corporate website will continue, on the basis of which the current search engines will be upgraded. The publication activities relative to the 'Transparent Authority' section, as well as those aimed at improving the site area dedicated to investor education, will also be more automated. Lastly, the activities supporting the evolution of the Consob accounting system will continue.

With regard to general infrastructures, particular attention will be paid to cross sectoral projects aimed at introducing elements of technological innovation for improving the performance of Consob's IT systems.

These include the continuation of the multi-year project aimed at providing Consob with a disaster recovery system (pursuant to Article 50-bis of the Digital Administration Code) and the updating of IT security infrastructures, in order to increase Consob's ability to prevent, detect and combat data-related abuses, while at the same time raising the level of protection of personal data being processed.

The initiatives described above fall, in continuation with 2016, in the broader objective of creating a digital administration that allows the best interaction with stakeholders, in order to offer efficient, easily accessible services of high quality. A further objective is to ensure access to these services through a unique digital identity, giving priority to the reuse of programs developed by other administrations or to the acquisition of open source programs, in consideration of the general objective of cost containment.

9 The Italian Alternative Dispute Resolution scheme

The Italian Alternative Dispute Resolution scheme (Arbitro per le controversie finanziarie - ACF) provided for by Legislative Decree 130/2015 implementing the EU Directive 2013/11 / EU, has been operational since January 9th 2017. The ACF is an out-of-court dispute resolution system active under the auspices of Consob, which has defined its regulations and supports its operations through its own technical secretariat.

The ACF is a board, in which the various components of the financial market are represented: the Chairman and two members are specified by Consob, while the remaining two members are the expression, respectively, of the associations of consumers and the financial industry.

The ACF intends to provide investors who have submitted complaints unsuccessfully to financial intermediaries of which they are customers with an alternative, easy to use and efficient tool to resolve disputes, without having to go to court.

In particular, the ACF is available to small investors who find themselves having a dispute with their intermediary (bank, investment firm, asset management company) for complaints concerning the alleged infringements of rules on fairness of conduct and transparency of information. Savers who have already filed a complaint with the intermediary can not appeal to the ACF without having received a reply in the following two months or if the answer has been unsatisfactory.

The activity of the ACF is characterized by the fact the appeals are totally free-of-charge for savers as well as decisions being very quick, within six months and which, when the ACF recognizes the saver's motivations will set the measures the intermediaries are required to take.

10 Financial accounts

Total expenses for 2016 amounted to 124 millions of euro, recording an increase of 8.1 million compared to the final figure for the previous year.

The total expenditure for 2016 takes into account the effects deriving from the resumption of the planned completion of the law staff and the provision to the costs fund for contract renewals arising from the expected transposition of the reform of staff careers. As already highlighted, it also includes the allocation to the Fund for the non-judicial protection of savers and investors set up pursuant to art. 1, paragraph 44, of the 'Stability Law for 2016' in order to provide free access for these parties to the resolution procedures for financial disputes before the ACF. The figure also takes into account the actions of containment carried out over the last few years on Consob's current expenditure (concerning, amongst other things management and maintenance of buildings, rental and maintenance of company cars, office expenses, databases, and Consob's publications).

Total revenues for 2016 (net of the administrative surplus) amounted to 119.6 millions of euro, approximately 90.6 per cent attributable to supervisory contributions and for the remaining 9.4 per cent to different income (essentially interest income, use of funds to restore fixed assets, administrative pecuniary sanctions applied for infringements of the rules governing the activities of intermediaries and sums paid to Consob resulting from court orders). The various receipts include the transfer by the State, equal to 0.3 millions of euro, destined together with the administrative sanctions to the Fund for non judicial protection of savers and investors.

The planned expenditure for 2017, calculated in compliance with the provisions of the law regarding the spending review, amounts to 135.2 millions of euro and shows an increase of 6.1 million compared with the same expenditure planned for the previous year (129.1 millions of euro). This increase is essentially attributable to: the expected recruitment of new staff resources, that cannot be put off due to the growing supervisory activities to protect the financial markets, as well as the need to initiate a progressive generational turnover; the transposition of the negotiation agreements concerning the reform of staff careers; the modernization plan for information systems and the development of new IT applications to support supervisory action, in line with the changed reference framework; financial education activities and the management fees of the ACF.

In determining the planned expenditure for 2017, the effects of rationalization measures of the management costs adopted in the last few years have been taken into account, as well as compliance with legal provisions regarding the spending review of public administrations.

With regard to the sources of finance, financial coverage of 2017 expenditure falls entirely on the market and on other income Consob has. The expected income from dues for 2017, from supervised entities, totals 115.1 million and is higher than budgeted for in 2016. The presumed administrative surplus for 2016, estimated at 8.9 millions of euro, was fully used to limit the increase in the pressure on contributions.

* * * * *

In 2016 the auditing the proper accounting of Consob by the Board of Statutory Auditors, which took office in early 2012 continued. During the year, activities continued to implement the new integrated system for the management of financial and economic-asset accounting in compliance with the rules introduced by the Consob Administration and Accounting Regulation, approved by resolution 18540 of the 24 April 2013, and made executive by the President of the Council of Ministers on 23 May 2013.

Consob activity B

1 Trading platforms

In 2016 volumes traded on the electronic market Mercato Telematico Azionario (MTA), amounted to around 623 billions of euro, down more than 22 per cent from the previous year (Tab. 1).

Tab. 1 Italian regulated market in 2016

| market | market segment | trading volumes | | no. of transactions | | average value of transactions |
|-----------------------|------------------------|------------------|--------------------------------|---------------------|--------------------------------|-------------------------------|
| | | billions of euro | percentage change ¹ | thousands | percentage change ¹ | thousands of euro |
| Borsa Italiana | | | | | | |
| | MTA ² | 623 | . | 75,111 | 6.4 | 8 |
| | of which: MTA domestic | 615 | -22.3 | 73,949 | 6.9 | 8 |
| | MTA foreign | 8 | -27.3 | 1,162 | -19.7 | 7 |
| | MIV | .. | -68.1 | 13 | -63.9 | 2 |
| | MOT | 215 | -22.3 | 3,668 | -20.6 | 59 |
| | EtfPlus | 108 | 3.8 | 5,099 | 3.6 | 21 |
| | Idem ³ | 1,318 | -12.3 | 49,020 | 10.5 | 27 |
| | SeDeX | 23 | -32.4 | 2,808 | 11.3 | 8 |
| MTS | | | | | | |
| | MTS | 1,385 | 13.0 | 216 | 2.1 | 6,413 |
| | BondVision | 924 | -14.7 | 145 | -1.6 | 6,365 |

Source: Consob calculations on market data. ¹ Percentage change on previous year. ² Since 11 July 2016 MTA does not include the Mta International segment anymore, now merged with the new daily trading Global Equity Market, operated by the Borsa Italiana Equity MTF (formerly TAH); after hour trading, previously hosted by TAH, now takes place in another segment with similar characteristics. ³ Idem market includes the following segments: Equity, Idex (derivatives on commodities), and Agrex (agriculture derivatives); notional values.

In order of traded amounts on the spot markets managed by the Italian Stock Exchange, the MTA is followed by the MOT bond market (with trading volumes of 215 billions of euro) and the EtfPlus market (108 billions of euro). Apart from EtfPlus, trade recorded a decrease compared to the end of 2015, swaying between 68 per cent (MIV) and around 12 per cent (Idem).

In the context of multilateral trading facilities (MTF), in 2016 the most important trading venue in terms of volumes is MTF operated by EuroTLX, with around 63 billions of euro traded, followed by Hi-MTF with approximately 15 billions of euro (Tab. 2).

Tab. 2 Italian multilateral trading facilities in 2016

| market | market segment | financial instrument | trading volumes | | no. of transactions | | average value of transactions |
|-----------------------|----------------------|----------------------|------------------|--------------------------------|---------------------|--------------------------------|-------------------------------|
| | | | billions of euro | percentage change ¹ | thousands | percentage change ¹ | thousands of euro |
| Borsa Italiana | | | | | | | |
| | Global Equity Market | equities | . | -25 | 235 | 5 | 5 |
| | AIM Italia - MAC | equities | 0.3 | -58 | 138 | -47 | 2 |
| | ExtraMot | bonds | 3.3 | -15 | 53 | -5 | 63 |
| EuroTLX Sim | | | | | | | |
| | EuroTLX | equities | 0.2 | -33 | 25 | -40 | 7 |
| | | bonds, certificates | 63 | -20 | 2,103 | -23 | 30 |
| Hi-MTF Sim | | | | | | | |
| | order driven | equities | .. | 360 | 2.5 | 438 | 3 |
| | | bonds | 1.6 | -22 | 73.6 | -16 | 21 |
| | quote driven | bonds | 11.6 | -31 | 173 | -24 | 67 |
| | request for quote | bonds | 1.8 | .. | 0.3 | .. | 7,193 |
| MTS | | | | | | | |
| | Bond Vision MTF | bonds | 24.9 | -31 | 4.9 | -11 | 4,981 |
| EMid Sim | | | | | | | |
| | e-Mid Repo | Repo transactions | 20 | 379 | 0.3 | 176 | 60,989 |

Source: Consob calculations on market data. ¹ Percentage change to previous year.

Trading arising from systematic internalisers (SI) involved a total of more than 2,700 financial instruments (compared to 2,672 in 2015), reaching a level of approximately 153 billions of euro (down by 6 billions compared to the previous year). Almost all the platforms allow trading of bonds issued by the group to which they belong (amounting to 456 securities), while the trading of shares (83 securities) is concentrated in two systematic internalisers (Tab. 3).

During the year, Consob received notification from a systematic internaliser regarding the launch of an internalisation system for financial share instruments that are not allowed to trade on regulated European markets, a system that is added to the one already active for financial bond instruments. Communications concerning the termination of the systematic internalisation activity by two banks belonging to the same group were also received following their merger by incorporation into the parent company.

1.1 The MTA market

At the end of 2016, the domestic companies listed on the MTA market of the Italian Stock Exchange were 240, for a total market value of approximately 522 billions of euro. Both the number of companies and their capitalisation decreased compared to the previous period, similarly to the ratio between market capitalisation and gross domestic product equal to 31.6 per cent at the end of the year (Tab. 4).

Tab. 3 Systematic internalisers in Italy in 2016

| financial instruments | no. of operators | no. of financial instruments | trading volumes | | no. of transactions | | average value of transactions |
|------------------------------|------------------|------------------------------|------------------|--------------------------------|---------------------|--------------------------------|-------------------------------|
| | | | billions of euro | percentage change ¹ | thousands | percentage change ¹ | thousands of euro |
| equities | 2 | 83 | 42 | -35 | 2,880 | 1 | 15 |
| other financial instruments | 16 | 2,656 | 111 | 18 | 5,569 | 82 | 20 |
| <i>of which:</i> | | | | | | | |
| government bonds | 3 | 547 | 4 | 25 | 83 | 9 | 42 |
| bonds issued by parent group | 7 | 456 | 2 | 6 | 92 | 18 | 21 |
| bank bonds | 5 | 400 | 1 | -13 | 59 | -31 | 24 |
| corporate bonds | 2 | 140 | 1 | 517 | 2 | -50 | 370 |
| supranational bonds | 2 | 91 | .. | .. | .. | -89 | 3,000 |
| derivatives ² | 3 | 28 | .. | 233 | 296 | 5,820 | 1 |
| OTC derivatives ³ | 1 | 994 | 102 | 16 | 5,037 | 80 | 20 |

Source: Consob calculations on market data. ¹ Percentage change to previous year. ² Certificates. ³ Contracts for difference (CFD).

Tab. 4 Indicators of equity markets operated by Borsa Italiana

(amounts in billions of euro)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 ⁵ | 2016 |
|--|------|------|------|------|------------------|-------------------|------|
| MTA¹ | | | | | | | |
| capitalisation | 425 | 332 | 365 | 445 | 480 ⁴ | 571 | 522 |
| <i>as % of GDP</i> | 27.4 | 21.1 | 23.3 | 28.6 | 29.5 | 35.1 | 31.6 |
| trading volumes | 715 | 684 | 487 | 526 | 702 | 792 | 615 |
| no. of domestic listed companies | 272 | 263 | 255 | 249 | 245 ⁴ | 242 | 240 |
| no. of listed companies | 2 | 3 | 2 | 7 | 6 | 10 | 6 |
| no. of revoked companies | 10 | 12 | 10 | 13 | 11 | 13 | 8 |
| dividend / price ratio ² | 3.9 | 5.0 | 4.2 | 3.1 | 3.0 | 2.7 | 3.4 |
| earning / price ratio ² | 7.7 | 8.8 | 7.2 | 5.0 | 5.2 | 4.2 | 5.2 |
| price / profit ratio | 13.2 | 11.1 | 13.9 | 20 | 18.9 | 23.7 | 19.1 |
| AIM Italia | | | | | | | |
| capitalisation | 0.6 | 0.6 | 0.6 | 1.2 | 2.0 | 2.9 | 2.9 |
| trading volumes | .. | .. | .. | 0.1 | 0.3 | 0.8 | 0.3 |
| listed companies | 19 | 24 | 27 | 36 | 57 | 74 | 77 |
| <i>total no. of listed companies³</i> | 332 | 328 | 323 | 326 | 342 | 356 | 387 |

Source: Borsa Italiana, Bloomberg, Thompson Reuters, and Datastream. ¹ Data refer to companies first listed on MTA. Data include MIV segment (Investment Vehicles Market). ² Year-end Datastream index (percentage values). ³ Including foreign companies. ⁴ Figure adjusted by Borsa Italiana following domestic listed company reclassification from January 2015 onwards. ⁵ These figures are not comparable with previous years data, following Borsa Italiana reclassification (see note 4).

During the year, the ratio between dividends and prices rose to 3.4 per cent (from 2.7 at the end of 2015), bringing the relative average value from the beginning of the decade to 3.6 per cent, a much more attractive level than average returns offered by 10-year government bonds over the last three years (around 2 per cent). On the other hand, the price/profits ratio decreased (from 23.7 to 19.1), moving closer to the levels at the end of 2014.

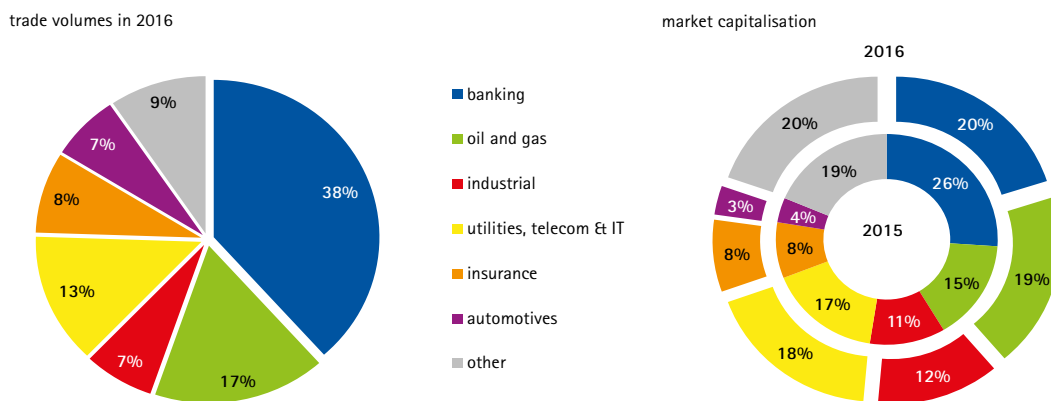
The market capitalisation of AIM Italia (the multilateral share trading system managed by the Italian Stock Exchange) remained broadly stable at around 2.9 billions of euro, while the number of listed companies increased slightly (from 74 to 77).

Also, due to the events that affected the Italian banking sector in the last part of the year, in 2016 the trading volume of shares of domestic companies on the MTA market decreased significantly, going from 792 to 615 billions of euro (around -22 per cent). The same phenomenon was also observed on AIM Italia, where the amounts traded more than halved (from 0.8 to 0.3 billions of euro approximately).

With regard to the distribution of trade between operators, approximately 29 per cent of the amounts traded on the MTA is attributable to foreign operators active in high frequency trading (HFT).

Also during 2016, the distribution of trade and capitalisation by sector of listed companies underwent significant changes, reflecting the different reactions of the various sectors to market volatility (Fig. 1).

Fig. 1 Sector breakdown of trade volumes and market capitalisation of Italian listed equities



Source: calculations based on Borsa Italiana and Thompson Reuters data. The chart on the left shows the sector breakdown of trade volumes of Italian shares in 2016. The chart on the right shows the market capitalization at the end of 2015 in the inner ring, market capitalization at the end of 2016 in the outer ring. 'Other' includes consumer goods, health expenditure, real estate, commodities and media.

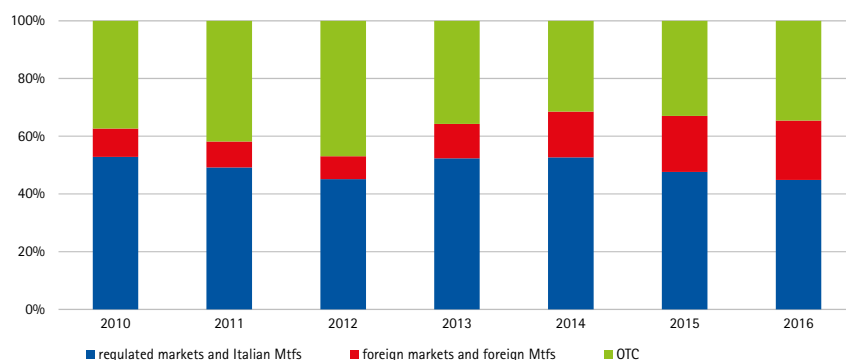
With reference to the distribution of trade by sector, the banking sector in particular (including financial services) as usual generated the largest number of trades (around 38 per cent of the total, which rose to around 47 per cent considering the insurance sector). Trade in securities in the energy sector (oil and gas, about 17 per cent), telecom and utilities (just over 13 per cent) was also particularly significant.

In terms of capitalisation, at the end of 2016 the share of the banking sector recorded a further contraction compared to the previous year (from about 26 to 20 per cent), while that attributable to the insurance segment fell by just under a percentage point (to 7.7 per cent).

With reference to the fragmentation in share trading, the ratio of domestic companies traded on regulated Italian markets was around 45 per cent, down for the second year in a row (it was 48 in 2015 and 52.6 per cent in 2014; Fig. 2).

On the other hand, trading on regulated foreign platforms increased by slightly more than one percentage point (up to 20.5 per cent) and over the counter trading rose from 33 per cent to around 35 per cent.

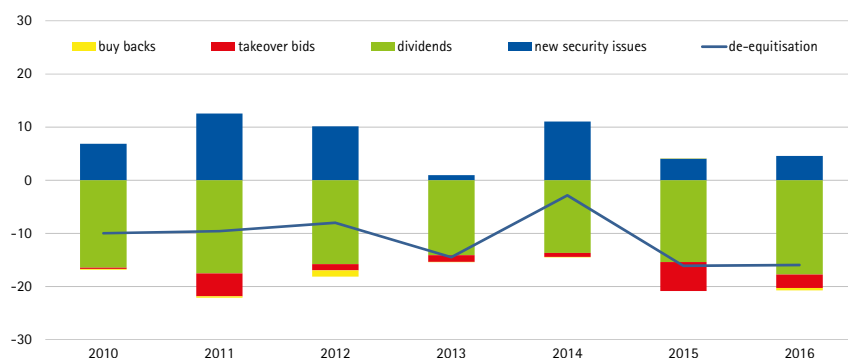
Fig. 2 Trading volume breakdown by trading platform



Source: calculations based on Consob and Borsa Italiana data.

The balance between funds collected and distributed by the companies listed on the MTA continued to be negative, as shown by the de-equitisation indicator, which reached its minimum value since the beginning of the decade (around 16 billion euro; Fig. 3).

Fig. 3 Balance of funds collected from (+) and returned to (-) shareholders of Italian listed companies
(billions of euro)



Source: calculations based on Consob, Borsa Italiana, and Datastream data on shares and convertible bonds listed on MTA. De-equitisation indicator is the difference between new issues on the one hand, and the sum of dividends, takeover bids and buy backs on the other. Buy back volumes refer to net acquisitions made by the issuer on its company shares for transactions exceeding 100.000 euros and disclosed to Consob according to current regulation. Total dividends of domestic listed companies are calculated on the basis of market dividend yield (Datastream estimation) and on the market value of those companies as of year-end.

During the year, companies listed on the MTA market collected resources of around 4.8 billion euro, of which about 4.6 billion through paid capital increases (compared to just under 4.1 in 2015) and around 0.2 billion through subscription offers (0.6 in the previous year; see also the following Chapter III 'Supervision of public offering and corporate disclosure').

The flow of resources returned to shareholders through distribution of dividends, buybacks and public purchase offerings remained essentially stable compared to 2015, totalling around 20.8 billion euro.

1.2 The EtfPlus market

In 2016, the wealth under management invested in exchange traded products (ETP) traded on the Borsa Italiana EtfPlus market grew by nearly 11per cent, reaching around 53 billions of euro at the end of the year compared to around 48 billions of euro in the previous year (Tab. 5).

Tab. 5 Wealth under management invested in ETPs traded on ETFplus market
(volumes in billions of euro)

| | equity Etf advanced countries | equity Etf emerging countries | Etf on bond indexes | Etf other | Etc/Etn | total | % change ¹ |
|------|-------------------------------------|-------------------------------------|------------------------|--------------|---------|-------|-----------------------|
| 2010 | 6.5 | 4.4 | 4.9 | 1.9 | 2.1 | 19.8 | 36.6 |
| 2011 | 6.7 | 3.5 | 4.8 | 1.7 | 1.9 | 18.6 | -6.1 |
| 2012 | 7.3 | 3.3 | 5.7 | 1.8 | 2.6 | 20.7 | 11.3 |
| 2013 | 11.7 | 2.8 | 8.0 | 2.3 | 1.9 | 26.7 | 29.0 |
| 2014 | 15.2 | 2.9 | 13.2 | 3.0 | 2.7 | 37.0 | 38.7 |
| 2015 | 21.1 | 2.5 | 15.8 | 3.9 | 4.3 | 47.6 | 28.6 |
| 2016 | 20.7 | 3.2 | 19.3 | 4.6 | 5.1 | 52.9 | 11.1 |

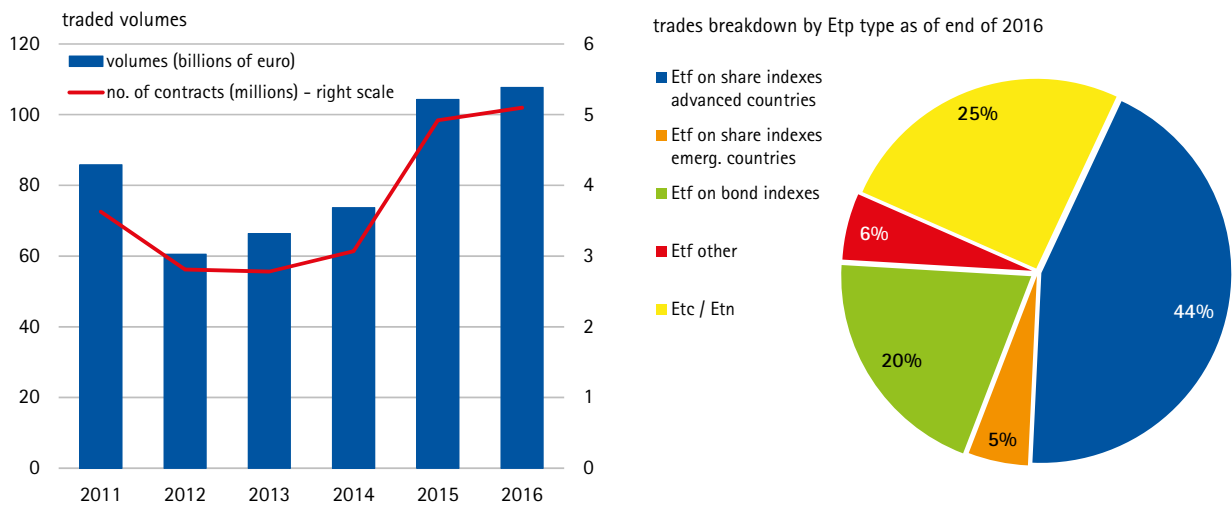
Source: calculations based on Borsa Italiana data. ¹ Percentage change on previous year.

The largest share of managed assets, equal to 43.2 billion euro, was made up of both equity and bond (of which 20.7 invested in advanced equity markets, slightly lower than in 2015) exchange traded funds (ETF), while assets managed by exchange traded commodities (Etc) were much smaller and amounts to 5.1 billion.

With regard to trading on the EtfPlus market, after the sharp acceleration in 2015, the total trading value only increased moderately, reaching 107.7 billions of euro from 104.3 billions of euro of the previous year (+3.3 per cent). In the same period, the number of contracts exceeded the 5 million threshold for the first time (Fig. 4).

In connection with the platform's technical features, since December 2016, the request for quote was introduced on the EtfPlus market, which allows trading requirements for large orders to be satisfied. The market also registered the entry of a new issuer with the listing of an ETF on a Chinese equity index.

Fig. 4 Exchange traded products listed on EtfPlus

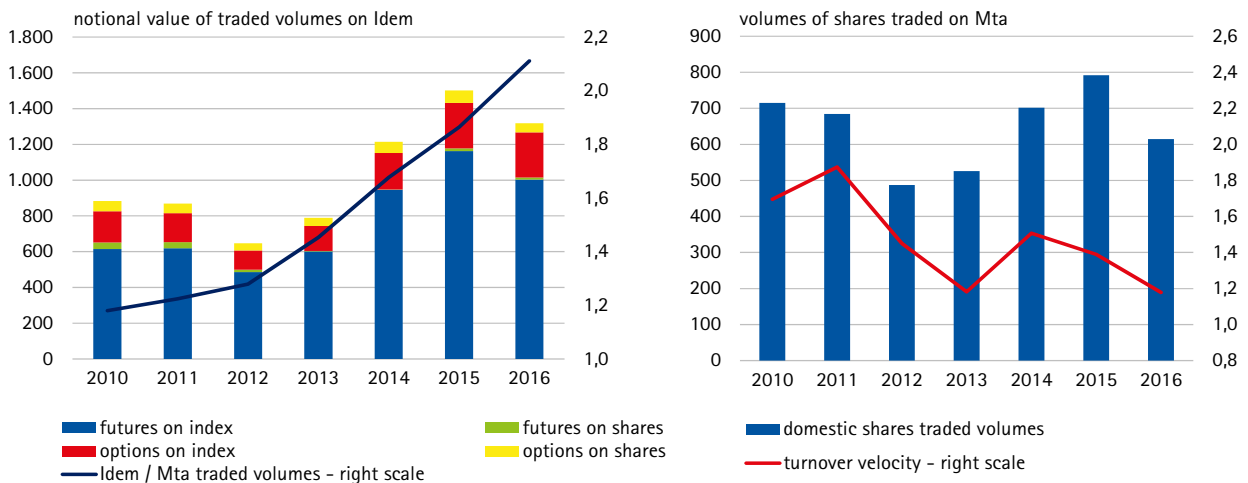


Source: Borsa Italiana.

1.3 The Idem market

In 2016, the notional value of derivative traded on the Italian Stock Exchange Idem market decreased by around 12.3 per cent, from 1,502 to 1,317 billions of euro, which mirrors the decline of the values traded on the underlying stock market (Fig. 5).

Fig. 5 Financial instruments transactions on Idem and share transactions on MTA
(billions of euro)

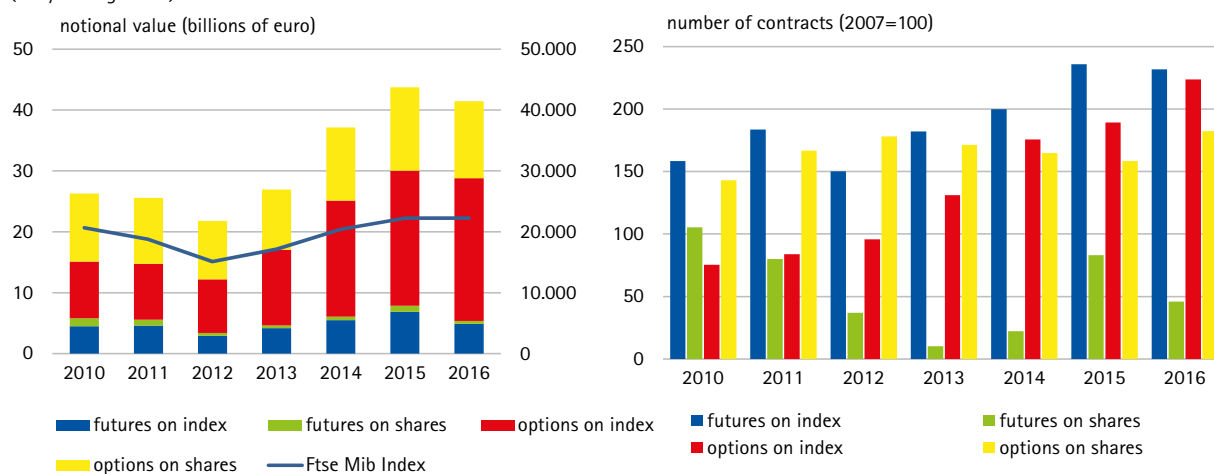


Source: calculations based on Borsa Italiana. 'Index futures' include index mini futures.

As usual, the most significant trading concerned futures and option contracts on the Ftse Mib index.

With regard to open positions of derivatives, during the year the average daily notional value of the total open interest decreased by 5.2 per cent compared to 2015, down to 41.4 from 43.7 billions of euro (Fig. 6).

Fig. 6 Notional value and number of open positions of derivatives traded on Idem market
(daily average data)



Source: calculations on Borsa Italiana and Thomson Reuters data. 'Futures on index' include mini futures on Ftse Mib index; futures on shares include only contracts on domestic shares. Figures on options include weekly contracts (weekly options). Annual figures for FTSE MIB index are average end-of-month figures.

1.4 The SeDeX market

Business on the SeDeX market was particularly dynamic, with a number of issues of covered warrants and certificates traded at the end of 2016 amounting to 6,696, a maximum value in recent years. The traded value, however, decreased significantly compared to the previous period (-31 per cent), substantially returning in line with 2014 levels (Tab. 6).

Tab. 6 Covered warrants and certificates listed on SeDex market
(amounts in billions of euro)

| | number of issues | | | trading volumes |
|------|--------------------------|-------------------------|----------------------|-----------------|
| | outstanding ¹ | new issues ² | matured ³ | |
| 2010 | 3,343 | 3,508 | 3,454 | 12.7 |
| 2011 | 3,880 | 4,769 | 4,232 | 11.3 |
| 2012 | 4,759 | 4,917 | 4,038 | 9.6 |
| 2013 | 5,140 | 5,425 | 5,044 | 16.3 |
| 2014 | 4,173 | 4,606 | 5,494 | 24.7 |
| 2015 | 5,609 | 7,006 | 5,524 | 33.6 |
| 2016 | 6,696 | 8,549 | 7,461 | 23.2 |

Source: calculations on Borsa Italiana data. ¹ Year-end data. ² Admitted to listing in 2016. ³ Issues matured during the year; figures include securities revoked before maturity at the issuer request.

Excluding the most complex (so-called 'exotic') certificates, all the other types of instruments recorded a significant increase in issues at the end of 2016. At the same time, the traded amounts fell sharply, roughly to the same extent, for all categories of traded instruments. Leverage certificates

were by far the most traded certificates, followed by plain vanilla issues, which remained the most numerous (Tab. 7).

Tab. 7 Covered warrants and certificates listed on SeDeX market
(volumes as of 31 December; amounts in billions of euro)

| segment and category | plain vanilla | | investment | | leverage | | exotics | | total | |
|----------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|
| | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes |
| 2010 | 1,846 | 9.7 | 959 | 2.4 | 438 | 0.6 | 100 | .. | 3,343 | 12.7 |
| 2011 | 2,176 | 8.2 | 1,101 | 2.2 | 511 | 0.9 | 92 | .. | 3,880 | 11.3 |
| 2012 | 2,935 | 6.3 | 1,070 | 2.3 | 667 | 0.9 | 87 | .. | 4,759 | 9.6 |
| 2013 | 3,575 | 6.3 | 941 | 4.0 | 546 | 5.9 | 78 | .. | 5,140 | 16.3 |
| 2014 | 3,105 | 6.2 | 827 | 4.1 | 172 | 14.1 | 69 | .. | 4,173 | 24.4 |
| 2015 | 4,128 | 10.4 | 1,143 | 4.9 | 275 | 18.3 | 63 | .. | 5,609 | 33.6 |
| 2016 | 4,559 | 7.4 | 1,191 | 3.2 | 891 | 12.5 | 55 | .. | 6,696 | 23.2 |

Source: calculations on Borsa Italiana data. Rounding may cause deviation from total figure.

During 2016, the market featured a marked concentration: the traded amounts of the first five covered warrants and certificates for each category represented more than half (approximately 56 per cent) of the total traded volume, confirming the trend of recent years. In particular, leveraged certificates had the highest concentration rate (41 per cent; Tab. 8).

Tab. 8 Trade concentration on SeDeX market
(percentage value of 5 most traded securities per category on total trades)

| category | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| leverage | 5.5 | 31.6 | 43.6 | 46.0 | 41.0 |
| plain vanilla | 29.3 | 19.8 | 14.3 | 13.5 | 14.1 |
| investment certificates | 1.9 | 2.3 | 1.7 | 1.9 | 1.4 |
| <i>total</i> | <i>36.7</i> | <i>53.8</i> | <i>59.6</i> | <i>61.5</i> | <i>56.5</i> |

Source: calculations on Borsa Italiana data

1.5 The bond markets

During 2016, trading on the MTS increased by 13 per cent (after the decline in 2015), while that on BondVision fell by 15 per cent (after the slight increase of the previous year; Tab. 9).

The traded volumes also fell on the main retail bond market, the MOT (-22.4 per cent compared to the previous year), probably due to the lack of attractiveness of yields, stable at historic lows.

Tab. 9 Bond trading volumes on Italian markets
(billions of euro)

| | regulated markets and wholesale MTS | | | | regulated markets and retail MTF | | | | <i>total</i> |
|------|-------------------------------------|----------------------------|----------------------------|---------------------------------------|----------------------------------|----------------|---------------|-----------------|--------------|
| | MTS (gov. bonds) | BondVision (gov. bonds) | MTS (non-gov. bonds) | BondVision MTF (non-gov. bonds) | MOT ¹ | EuroTLX MTF | Hi-MTF MTF | ExtraMOT MTF | |
| 2010 | 880 | 560 | .. | .. | 228 | 94 | .. | .. | <i>1,762</i> |
| 2011 | 868 | 562 | .. | 6 | 204 | 84 | 16 | 3 | <i>1,743</i> |
| 2012 | 567 | 645 | 1 | 8 | 321 | 104 | 20 | 5 | <i>1,671</i> |
| 2013 | 904 | 804 | .. | 7 | 330 | 90 | 24 | 5 | <i>2,164</i> |
| 2014 | 1,487 | 1,041 | .. | 9 | 323 | 91 | 23 | 6 | <i>2,980</i> |
| 2015 | 1,225 | 1,082 | .. | 36 | 277 | 79 | 19 | 4 | <i>2,722</i> |
| 2016 | 1,385 | 924 | .. | 25 | 215 | .. | 15 | .. | <i>2,788</i> |

Source: calculations on MTS, Borsa Italiana, and EuroTLX. Rounding may cause deviation from total figure. ¹ Including bonds traded on EuroMOT

2 Supervision of trading platforms

2.1 Regulatory supervision

During 2016, the Commission carried out the usual supervisory activity on the changes made to the regulations of the respective markets and the related implementing provisions by the operators of the trading infrastructures.

With reference to the regulated wholesale markets for government bonds, MTS Italia and BondVision Italia, Consob has issued opinions to the MEF for the purposes of the related approval provisions (pursuant to the provisions of art. 66 of the TUF - TUF on Finance).

At the beginning of the year, almost all the markets managed by MTS Spa were renamed.

Furthermore, the rules for the admission to trading financial instruments and operators were partially reviewed, as well as the methods for using the central counterparty service for contracts concluded on these markets were redefined.

With reference to the MTF and SI operating rules, the Commission carried out the usual checks on the changes made by the operators of the trading platforms to their operating rules in order to verify their compliance with EU guidelines.

2.2 Admission, suspension, exclusion and withdrawal of financial instruments

With reference to the decisions by the Italian Stock Exchange for admission to trading on its regulated MTA market, in 2016, Consob exercised its supervisory activities in relation to six companies, as required by the TUF (art. 64, sec. 1-a).

In every such case, Consob concluded it did not have the power to prohibit the Italian Stock Exchange's decision from being carried out.

As regards the suspension and delisting provisions, in 2016, the Commission received an indefinite suspension notice from the Italian Stock Exchange (Olidata, suspended from 29 March following the establishment by the company's board of directors of a cause for dissolution of the company and of the consequent liquidation) and ten notices of delisting of shares listed on the MTA (Tab. 10).

Tab. 10 Shares delisted from MTA in 2016

| date of delisting | financial instrument | cause |
|-------------------|--------------------------------|--|
| 24 February | DelClima | takeover bid |
| 26 February | Pirelli & C risp. | mandatory conversion of listed savings shares to non-listed special shares |
| 1 April | Enel Green Power | merger by incorporation in Enel |
| 14 April | Arena Agroindustrie Alimentari | delisting following trading halt for more than 18 months |
| 6 July | Bolzoni | takeover bid |
| 8 July | Engineering | takeover bid |
| 1 September | Italmobiliare risp. | conversion to ordinary shares |
| 23 September | Noemalife | takeover bid |
| 12 October | Italcementi | takeover bid |
| 12 December | Exor | merger by incorporation in Exor NV |

Source: Consob.

With resolution 19840 of 23 December 2016, Consob also ordered the indefinite suspension from trading in the ordinary shares of Banca Monte dei Paschi di Siena (MPS) and related derivative instruments and bonds as well as the suspension of the option to exercise options on MPS shares. The revocation of the provision is subject to the restoration of a correct information framework, pending the programme of capital strengthening initiated by the issuer.

Lastly, during 2016, the Italian Stock Exchange adopted 11 fixed-term suspension measures for financial instruments traded on the Italian Stock Exchange's regulated markets (MTA, MOT, EtfPlus, Idem), for one or more sessions, motivated by the failed or awaited disclosure of price-sensitive communications by the issuer (Tab. 11).

Finally, as at 31 December 2016, the financial instruments issued by Banca Popolare dell'Etruria e del Lazio (a company in compulsory administrative liquidation), Ciccolella (a company in bankruptcy), Banca Popolare di Spoleto, Olidata and Banca Monte dei Paschi di Siena were suspended indefinitely.

Consob notified ESMA and the other competent authorities of the EU Member States, through the SARIS system, the measures for the

temporary and indefinite suspension and withdrawal from trading, which since 2015 are also available to the public on the ESMA website in the Suspensions and Removals of instruments from trading register, to allow a wider publicity of the measures, as required by art. 41, sec. 1, second sentence, of the MiFID.

Tab. 11 Temporary suspensions of trading on regulated markets before price-sensitive communications released by the issuer in 2016

| date | financial instrument | regulated market |
|--------------|--|------------------|
| 23 March | BPM, BP | MTA |
| 16 May | RCS | MTA |
| 27 June | Eiger Class B | EtfPlus |
| 1 July | Italmobiliare, Italmobiliare risp. | MTA |
| 29 July | Futures 1ABI7L, 1ABI8I, 1ABI9L, 1ABI0L, 1ABI6L | Idem |
| 29 August | CTI Biopharma | MTA |
| 28 September | Sintesi | MTA |
| 2 November | Stefanel ord. e risp. | MTA |
| 10 November | Piquadro | MTA |
| 18 November | Mediobanca Nv20 Secondo Atto 5% Sublowt2, Quarto Atto Sublowt2 | MOT |
| 1° December | Pharus Best Global Managers Class Q | EtfPlus |

Source: Consob.

3 Supervision over trading and the markets' information integrity

3.1 Transparency and orderly conduct in trading

As usual, in 2016 Consob supervised the correctness of the information transmitted in compliance with transaction reporting obligations, with particular reference to monitoring the timeliness and correctness of the reports received by Consob and the fulfilment of pre-trading and post-trading transparency obligations.

The checks carried out in 2016 on the transaction reporting regime as well as on the transparency regime revealed some cases of irregularity in the reports, against which the appropriate supervisory measures were started.

In particular, following requests for information sent to 13 intermediaries during 2015, pursuant to art. 8, sec. 1, of the TUFTUF on the fulfilment of the obligations of transaction reporting and the obligations of publishing and disseminating post-trading information, discrepancies were found between what was stated by some intermediaries and what they communicated in the transaction reporting flows.

Therefore, in 2016 Consob sent these parties a further six requests for information, pursuant to art. 8, sec. 1, of the TUF, aimed mainly at requesting the appropriate corrections. In four cases, intermediaries were also

convened. In just one case were penalty proceedings initiated, pursuant to arts. 190 and 195 of the TUF, for violating the obligations regarding transaction reporting pursuant to art. 65 of the TUF and related implementing legislation (art. 23 of the Markets Regulation).

3.2 Market information integrity, buybacks and internal dealing

On 14 March 2016, the European Commission adopted the EU Delegated Regulation 1437/2016 which, in order to facilitate the search for regulated information on a EU level and ensure the correct connection between official storage mechanisms and the European electronic access point, established the regulatory technical standards for access to such information and defined a common classification criterion for the different types of information.

As part of the ordinary supervision on the adequacy of the systems' requirements for the dissemination of regulated information and its storage, an in-depth analysis was started on an administrator registered in the list published by Consob, also according to their apparent non-operation, in order to assess the continuity of the requirements.

In 2016, Consob received 407 notices of transactions by listed issuers on their own securities (compared to 361 notices in 2015) exceeding the threshold of 100 thousand euro.

4 Supervision of post-trading and OTC derivatives

During 2016, the migration continued of the European central depositories to the Target 2 Securities (T2S) pan-European settlement platform managed by the ECB. The Italian central depository, Monte Titoli Spa, migrated in August 2015 together with the central depositories of Greece, Switzerland, Malta and Romania.

On the home front, the main development was in some changes to the services offered by the Italian central depository. Monte Titoli in fact started the process necessary to strengthen tax services on all Italian securities (including government bonds) offered to its foreign participants.

Consob, together with Banca d'Italia, analysed the new tax assistance services from their definition phase, through meetings with Monte Titoli and specific requests for information. Particular attention was paid to the risks that Monte Titoli may face arising from the new services and to the mitigation measures provided for this purpose by the Italian central depository. The approval process should end in the first half of the current year.

In 2016, Consob and Banca d'Italia, as Italian authorities responsible for the supervision of central counterparties, carried out an annual review of the provisions, strategies, procedures and mechanisms implemented by the Italian central counterparty, CC&G, authorised in May 2014 to provide clearing services pursuant to EU Regulation 648/2012 (EMIR). The assessments were shared with the EMIR Board. Consob also provided its contribution to the other four European central counterparty boards in which it is called to participate.

During the past year, the supervisory activity on the counterparties of derivative contracts was further intensified. The access by Consob to the trade repositories registered with ESMA allowed the degree of correctness and completeness of the reports made to be monitored.

In 2016, an initiative to identify the policies adopted by the operators (non-financial counterparties, in accordance with EMIR) was also carried out to monitor the compensation threshold. In particular, the analysis involved the most active counterparties in the derivatives market and the methodology with which they classify derivatives concluded as hedging derivatives rather than trading derivatives.

In order to facilitate operators in checking compliance with EMIR regulations, the Commission issued some operational guidelines aimed at specifying the obligations for the counterparties of derivative contracts.

Concerning the identification codes used in reporting to trade repositories, Consob continues to contribute, as a member of the Regulatory Oversight Committee (ROC, i.e. the Supervisory Body of the LEI System - Legal Entity Identifier), to the work for the expansion of the LEI System and promote the use of the LEI code as the identification code of the parties operating on the financial markets.

At the end of 2016, over 35 thousand Italian parties had acquired a LEI code valid for fulfilling the obligation to report contracts under EMIR.

At the end of the year, the Commission had regulated capital increase transactions with particularly dilutive features, subject to the risk of generating significant price anomalies (see below Chapter III 'Supervision of public offering and corporate disclosure').

5 Supervision of short selling

On seven occasions in 2016, the Commission banned short selling of individual Italian equity shares, pursuant to art. 23 of EU Regulation 236/2012 concerning short selling and certain aspects of credit default swaps (so-called Short Selling Regulation) compared with two bans in 2015. The bans became necessary due to the significant price decreases that occurred on the market, equal to or higher than the 10 per cent threshold provided for

in the aforementioned Regulation, and they had a limited duration of a few days, in line with the Regulation's provisions.

On July 4, 2016, following the ECB's request to Banca MPS to significantly reduce the amount of non-performing loans (NPLs), the MPS share price fell by 14 per cent, followed by a further reduction of 19 per cent the next day.

Taking into account the systemic importance of MPS, Consob banned short selling, pursuant to art. 23 of the Short Selling Regulation, for the sole session of 6 July 2016 (resolution 19653 of 5 July 2016). Furthermore, after having received a positive opinion from ESMA, it adopted a temporary ban on underwriting or increasing net short positions (ban on NSP) on MPS shares, pursuant to art. 20 of the Short Selling Regulation, from 7 July to 5 October 2016 (resolution 19655 of 6 July 2016). This ban was extended to January 5, 2017 with Resolution 19748 of 4 October 2016, subject to the second positive opinion of ESMA.

Resolution 19748 extended the ban to short positions for bonds convertible into MPS shares, in view of the voluntary exchange offer provided for in the context of the 5 billion euro capital increase launched by MPS in December 2016.

Taking into account the suspension in trading of MPS securities adopted by Consob in December 2016, there were no prevailing conditions for a further extension of the restrictive measures, which therefore ended on 5 January 2017.

With regard to the exemption regime, as of 31 December 2016, 19 domestic intermediaries were authorised to benefit from the exemptions for market making activities, compared to 20 in the previous year. As of December 31, 2016, a total of 2,126 financial instruments were exempted, of which 2,047 Italian and foreign shares, and related instruments (for example, derivative instruments), 70 government bonds and nine financial indices.

During the year, Consob received 21 requests for exemption from market makers concerning new financial instruments; of these, 20 were fully accepted and one was partially accepted. At the end of 2016, 18 intermediaries, mostly foreign, were exempted as primary dealers of Italian government bonds, a figure unchanged compared to the end of 2015.

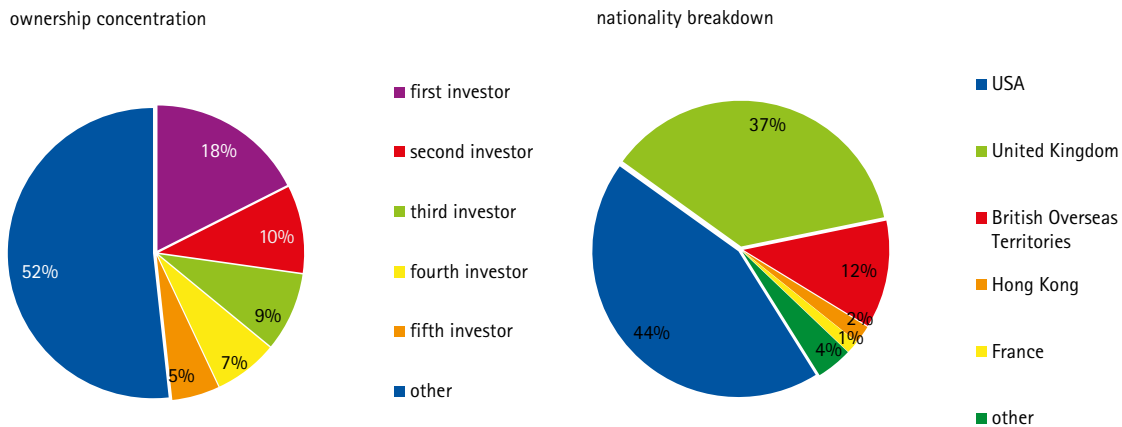
With regard to the net short positions (NSP) of Italian securities, in 2016, approximately 8,500 domestic share notifications were received.

On 14 December 2016, Consob launched a new system for the remote collection of data on NSPs and their publication on its website.

At the end of 2016, the amount of NSPs notified to Consob represented around 2.7 per cent of the capitalisation of the Ftse Mib index (compared to 2.2 per cent in the previous year). With regard to concentration

profiles, the first party with NSPs on Italian shares held positions equal to about 18 per cent of the total value of positions, while the top five investors held NSPs equal to about 48 per cent of the total (respectively, 11 and 40 per cent in 2015; Fig. 7).

Fig. 7 Short net positions on shares of Italian companies: ownership concentration and nationality breakdown of investors



Source: calculations on Consob data. British Overseas Territories include Cayman Islands.

In order to have an information framework as complete as possible, and taking into account the evolution of the NSPs on some Italian bank issuers, in August 2016, the Commission carried out a survey on the main NSP holders asking the reasons for underwriting Italian bank securities' short positions.

6 Supervision over the dissemination of corporate studies and ratings

6.1 Researches and investment recommendations

Supervision of the dissemination of investment recommendations concerning Italian listed issuers was aimed, as usual, at checking the correctness and transparency of the information framework and the effects on the negotiation of related securities.

During the year, Consob requested the licensed parties, pursuant to art. 69-*h*, sec. 2, of the Issuers' Regulation, the publication of 11 investment recommendations (compared to 14 in 2015), of which two produced by Italian intermediaries and nine by foreign intermediaries, in conjunction with the dissemination to the market of news and inside information on their content and in the presence of a significant change in the price and/or trading of the financial instruments covered by these recommendations (see below Chapter III 'Supervision of public offering and corporate disclosure').

During the year, the round table with trade associations and authorized intermediaries came to an end, it was aimed at identifying new ways of transmitting the investment recommendations to Consob and better defining the conditions and circumstances where the Commission could exercise the power to request their publication.

The researches sent to Consob pursuant to art. 69-*h*, sec. 1, of the Issuers' Regulations during 2016, amounted to 18,931, of which 2,861 monographic (15 per cent of the total) and 16,070 non monographic (approximately 85 per cent). The overall number of investment recommendations for 2016 was slightly higher than that of the previous year, even if the number of monographic studies transmitted decreased (Tab. 12).

Tab. 12 Analyst researches on Italian listed companies

| | 2015 | | 2016 | | % change ¹ |
|------------------------------|---------------|--------------|---------------|--------------|-----------------------|
| | number | weight | number | weight | |
| type of research | | | | | |
| monographic | 2,978 | 16.3 | 2,861 | 15.1 | -4.0 |
| non monographic | 15,292 | 83.7 | 16,070 | 84.9 | 5.1 |
| <i>total</i> | <i>18,270</i> | <i>100.0</i> | <i>18,931</i> | <i>100.0</i> | <i>3.6</i> |
| analyst's nationality | | | | | |
| Italians | 1,839 | 61.7 | 1,506 | 52.6 | -18.1 |
| foreigners | 1,139 | 38.3 | 1,355 | 47.4 | 19.0 |
| <i>total</i> | <i>2,978</i> | <i>100.0</i> | <i>2,861</i> | <i>100.0</i> | <i>-4.0</i> |

Source: calculations on Consob data. ¹ Percentage change on previous year.

The distribution of monographic studies on listed companies by type of recommendation confirms the clear prevalence of positive evaluations, already observed in previous years (Tab. 13).

Tab. 13 Monographic researches on listed companies by type of recommendation
(percentages)

| | recommendation | | | | number of studies ² |
|------|----------------|------|------|--------------------|--------------------------------|
| | buy | hold | sell | altro ¹ | |
| 2010 | 53.2 | 29.4 | 11.1 | 6.3 | 5,358 |
| 2011 | 55.3 | 28.5 | 11.5 | 4.7 | 5,750 |
| 2012 | 48.2 | 34.1 | 14.8 | 2.9 | 6,190 |
| 2013 | 43.7 | 38.2 | 16.8 | 1.2 | 6,497 |
| 2014 | 53.0 | 36.8 | 8.1 | 2.0 | 2,529 |
| 2015 | 57.7 | 34.9 | 6.7 | 0.7 | 2,978 |
| 2016 | 61.0 | 32.3 | 6.3 | 0.4 | 2,861 |

Source: Consob. ¹ Includes judgements such as 'under-review', 'not rated' and the similar. ² Following the adoption of a new methodological approach in study classification, from 2014 onwards the number of studies is not any more comparable with previous year numbers.

With reference to the degree of coverage of listed companies by authorised intermediaries, it should be noted that the number of companies subject of research and monographic recommendations decreased from 210 in 2015 to 196 in 2016, also as a result of some extraordinary transactions that led to delisting. In line with the previous year's figure, about 30 per cent of listed companies were the subject of at least 100 studies in 2016, while companies covered by less than four studies represented just 14 per cent of the total (Tab. 14).

Tab. 14 Listed companies which were the subject of monographic studies by level of coverage

| | no. of companies ¹ | ≥ 100 | ≥ 51 | 25 - 50 | 13 - 24 | 5 - 12 | ≤ 4 |
|-------------------|-------------------------------|-------|------|---------|---------|--------|------|
| 2010 | 215 | -- | 23,9 | 9,8 | 17,7 | 20,7 | 27,9 |
| 2011 | 208 | -- | 25,9 | 11,6 | 14,5 | 20,7 | 27,3 |
| 2012 | 227 | -- | 23,3 | 12,3 | 19,1 | 18,9 | 26,4 |
| 2013 | 239 | -- | 24,6 | 10,8 | 16,9 | 22,1 | 25,6 |
| 2014 | 224 | -- | 41,3 | 10,9 | 15,2 | 16,5 | 16,1 |
| 2015 ² | 210 | 30,7 | 11,0 | 11,5 | 12,9 | 17,9 | 16,0 |
| 2016 ³ | 196 | 30,1 | 15,3 | 14,3 | 13,8 | 12,2 | 14,3 |

Source: Consob. ¹ Companies listed on regulated markets managed by Borsa Italiana. ² The total number of covered securities, including saving shares ad preference (priority) shares, is 218. The number of companies listed on AIM Italia market subject of studies is 23. ³ The total number of covered securities, including saving shares ad preference (priority) shares, is 201. The number of companies listed on AIM Italia market subject of studies is 11.

6.2 Ratings

During 2016, the controls on the dissemination of ratings on listed issuers and the Italian State resulted, inter alia, in the forwarding of two reports to ESMA, the competent authority on the matter, in order to bring to its attention the conduct of two primary rating agencies that could have been in violation of certain provisions of EC Regulation 1060/2009 on the subject of rating agencies, and subsequent amendments (CRAs Regulation).

The first report referred to some critical issues related to the modus operandi of a rating agency with reference to the obligation, provided for by the CRA Regulation, to check its ratings on sovereign states and to review them, together with the methodologies used, on an ongoing basis and at least every six months to ensure that the ratings are up-to-date. In particular, the conduct examined concerned the sovereign ratings of both Italy and other European countries.

The second report referred to some possible problems related to compliance by a rating agency with the rules regarding the obligation to suitably justify a deviation from the annual calendar for sovereign ratings, in the event of publication of a rating action outside the dates specified therein.

The case reported to ESMA referred especially to the fact that the rating agency had given a rating action on Italy outside the dates set by the

annual calendar, due to the need, noticed by the same agency, to promptly assess the impact that some new information available on the market could have had on Italy's rating. However, in Consob's opinion, the elements highlighted by the rating agency as reasons for the deviation had already been present on the market for some time and, therefore, did not appear to meet the requirements of art. 8-*a*, sec. 4 of the CRAs Regulation. Consequently, we considered that the aforementioned conduct could constitute a possible violation of this provision, and transmitted the case to the attention of ESMA.

7 Supervision of market abuse

7.1 Prevention

Monitoring the proper performance of market trading during 2016 made it possible to check, as usual, the uniformity of the transactions concluded in the Italian trading venues, also according to the reporting systems of anomalies in market trends (alerts), as well as the transactions made with Italian financial instruments traded on foreign markets, based on the supervisory data flows received from the competent foreign authorities.

As usual, the detection of conduct potentially attributable to market abuse involved the initiation of preliminary analyses, in order to achieve a more effective and rapid selection of an alleged offence to be further explored in a subsequent preliminary investigation stage.

As part of the usual activity of information exchange with the supervisory authorities of other Member States and non-EU countries, the Commission sent and received numerous reports of suspicious transactions in 2016 (see Chapter VIII 'Support activities and international cooperation').

The financial instruments subject to reporting mainly consisted of shares (80 per cent), followed by bonds (9 per cent), derivatives (6 per cent) and, in the remaining cases, covered warrants and combinations of several instruments (in particular, covered warrants and underlying assets).

In order to make the supervisory action timely and consistent with the actual gravity of the reported suspicious behaviour, Consob implemented a preliminary assessment system for the reports received (triage) to define the timeliness of the start and the degree of in-depth detail and any supervisory interventions that may be necessary.

The new legislation on market abuse (MAR), which has been applied since July 3, 2016, expanded the audience of parties required to communicate suspicious operations to Consob; it also increased the number of relevant behaviours and extended the communication obligations also to anomalous operations in the commodities markets (both spot and forward).

On average the quality of the content of the reports received in relation to suspicious transactions has constantly improved over time, so as to allow the Commission to start timely in-depth study without having to request additional data from the reporting parties.

The daily monitoring activity on the dissemination of inside information and on the reference information framework made it possible to check the confidentiality of information concerning the most important events and to intervene, even in real time, in case of incompleteness or inconsistencies, asking the issuer for additional information or the dissemination of a press release commenting, confirming or denying any news circulated in the press.

Furthermore, as usual, the prevention of market abuse also took advantage of the instruments provided for by the TUF on Finance in arts. 114 and 115 (see the following Chapter III 'Supervision of public offering and corporate disclosure').

In 2016, the analysis continued of internal procedures for the management and dissemination of inside information and the adoption of preventive measures against market abuse, i.e. communications of internal dealing transactions and keeping registers of persons having access to inside information.

In this regard, it should be noted that the new rules contained in the MAR Regulation about inside information and deferral of communication to the public have been applicable since July 2016 (see the following Chapter III 'Supervision of public offering and corporate disclosure').

In light of the changed regulatory framework, various initiatives were also adopted to interact with the supervised parties, with particular attention to the categories not yet covered by provisions on the subject, for example the issuers of minibonds. An opportunity for an institutional debate with the market was also organised after the publication of the consultation document for regulatory changes necessary for the implementation of the new legislation.

Therefore, the supervised parties were given continuous support in the interpretation and application of the new legislation; the constant interaction with the market operators made it possible to identify and discuss the supervised parties' main applicative doubts with the trade associations, as well as to bring them to the attention of the competent institutions on a European level, where appropriate.

7.2 Repression

In 2016, Consob notified administrative offenses following four of the nine investigations concerning market abuse concluded during the year,

two of which refer to cases of abuse of inside information and two to the manipulation of market information (Tab. 15).

As a result of two of the four investigations that led to the notification of administrative offenses (one for abuse of inside information and one for manipulation of market information), the corresponding criminal offenses were also able to be delineated and a report was sent to the Judicial Authority.

Tab. 15 Results of investigations into market abuse

| | cases of administrative and/or criminal offences | | cases in which no offence was found | total |
|------|--|------------------------------|-------------------------------------|-------|
| | | of which for insider trading | | |
| 2010 | 10 | 3 | 19 | 29 |
| 2011 | 15 | 7 | 14 | 29 |
| 2012 | 12 | 4 | 14 | 26 |
| 2013 | 13 | 4 | 9 | 22 |
| 2014 | 13 | 5 | 22 | 35 |
| 2015 | 14 | 10 | 3 | 17 |
| 2016 | 4 | 2 | 5 | 9 |

Source: Consob.

We also proceeded to report the possible crime of abuse of inside information to the Judicial Authority resulting from two investigations that led to the notification of administrative offenses in 2015.

With reference to the type of information to which the notification of abuse of inside information referred, in one case it involved the transformation of the legal form of some listed companies, in the other the transfer of the controlling interest in a listed company and the consequent promotion of a mandatory takeover bid (Tab. 16). The two cases of market information manipulation concerned, respectively, the accounting and representation in the financial statements of certain transactions on financial instruments and the dissemination of false or misleading information on the fact that certain transactions had not been concluded with related parties.

Tab. 16 Type of inside information in cases of insider trading

| | change of control – takeover bids | gains and losses, assets and liabilities, cash flows and variation | equity transactions, mergers, spin-offs | other | of which cases of front running | total |
|------|-----------------------------------|--|---|-------|---------------------------------|-------|
| | | | | | | |
| 2011 | 5 | -- | -- | 2 | -- | 7 |
| 2012 | 4 | -- | -- | -- | -- | 4 |
| 2013 | 1 | 1 | -- | 2 | -- | 4 |
| 2014 | 1 | 1 | 1 | 2 | 1 | 5 |
| 2015 | 1 | 1 | 1 | 7 | 1 | 10 |
| 2016 | 1 | -- | -- | 1 | -- | 2 |

Source: Consob.

In 2016, Consob started a total of 37 administrative penalty proceedings for market abuse. In particular, the proceedings initiated concerned 29 individuals, three entities for joint and several liability pursuant to art. 6, sec. 3, of the Law 689/1981, two entities for their own liability provided for in art. 187-*d* of the TUF and three entities for joint and own liability (Tab. 17; for details of the measures taken during the year see below Chapter V 'Inspection and penalties').

Tab. 17 Operators involved in cases of market abuse

| | authorised intermediaries ¹ | institutional insiders ² | other ³ | foreign operators | total |
|----------------------------|--|-------------------------------------|--------------------|-------------------|-------|
| insider trading | | | | | |
| 2010 | -- | 4 | 1 | 2 | 7 |
| 2011 | 1 ⁴ | 4 | 5 | -- | 10 |
| 2012 | -- | 2 | 4 | -- | 6 |
| 2013 | 3 | 1 | 10 | 3 | 17 |
| 2014 | -- | 5 | 4 | 1 | 10 |
| 2015 | 2 | 9 | 7 | 2 | 20 |
| 2016 | -- | 2 | 12 | -- | 14 |
| market manipulation | | | | | |
| 2010 | 1 | 2 | 8 | -- | 11 |
| 2011 | -- | 7 | 7 | -- | 14 |
| 2012 | 1 | 8 | 6 | -- | 25 |
| 2013 | 2 | 12 | 12 | -- | 26 |
| 2014 | 1 | 18 | 9 | 1 | 29 |
| 2015 | 0 | 7 | 2 | -- | 9 |
| 2016 | -- | 23 ⁵ | -- | -- | 23 |

Source: Consob. ¹ Banks, investment companies (SIM), asset management companies (SGR), and stockbrokers. ² Shareholders, directors, executives of listed companies. ³ Secondary insiders (art. 187-*bis*, sec. 4, Consolidated Law on Finance). ⁴ London branch of an Italian intermediary. ⁵ The figure includes a number of foreign intermediaries and their executives and employees.

During the year, 732 requests were sent out for news, data and documents concerning market abuse (Tab. 18).

Tab. 18 Request for data and information on market abuse
(number of addressee entities)

| | authorised intermediaries ¹ | listed companies and parent companies or subsidiaries | private entities | of which hearings | public sector entities ² | foreign authorities | total | of which on behalf of foreign authorities |
|------|--|---|------------------|-------------------|-------------------------------------|---------------------|-------|---|
| 2010 | 37 | 35 | 48 | 41 | 5 | 17 | 142 | 13 |
| 2011 | 161 | 7 | 109 | 57 | 2 | 61 | 340 | 29 |
| 2012 | 207 | 9 | 71 | 30 | 27 | 50 | 364 | 40 |
| 2013 | 154 | 14 | 78 | 39 | 81 | 22 | 349 | 11 |
| 2014 | 173 | 6 | 37 | 20 | 63 | 24 | 303 | 45 |
| 2015 | 215 | 19 | 100 | 42 | 47 | 21 | 402 | 42 |
| 2016 | 370 | 21 | 145 | 58 | 147 | 49 | 732 | 59 |

Source: Consob. ¹ Banks, investment companies, asset management companies and regulated markets managers. ² Starting from 2012, the figure includes Consob accesses to the website Anagrafe dei rapporti finanziari managed by Agenzia delle Entrate.

7.3 Legal representation

During 2016, Consob brought civil action in six new criminal cases concerning market abuse, two of which for abuse of inside information and four for market manipulation (Tab. 19).

Tab. 19 Civil proceedings brought by Consob in criminal cases regarding insider trading and market manipulation

| year | no. of proceedings | offence ¹ | outcome as of 31 December 2016 |
|------|--------------------|--------------------------------------|--|
| 2010 | 3 | insider trading, market manipulation | 2 convictions ² 1 acquittal |
| 2011 | 6 ³ | market manipulation | 3 convictions ⁴ 1 plea-bargaining judgement 1 acquittal by prescription |
| 2012 | 2 | insider trading, market manipulation | 1 conviction 1 acquittal ⁵ |
| 2013 | 5 | insider trading, market manipulation | 1 conviction ⁶ 3 plea-bargaining judgements 1 acquittal by prescription |
| 2014 | 9 | insider trading, market manipulation | 4 convictions 1 plea-bargaining judgement 2 judgements declaring that the court does not have territorial jurisdiction on the claim ⁷ |
| 2015 | 6 | insider trading, market manipulation | 3 acquittals |
| 2016 | 6 ⁸ | insider trading, market manipulation | |

Source: Consob. ¹ Insider trading pursuant to art. 184 and market manipulation pursuant to art. 185 of Consolidated Law on Finance. ² The competent Court of Appeal confirmed its guilty verdict and agreed not to mention said verdict in the defendant's criminal. The High Court (*Corte di Cassazione*) suspended judgement and issued a referral order to the Constitutional Court. ³ Two of the six proceedings were jointly decided because the Court found connections among the claim and/or the relevant persons. ⁴ One of the first instance judgements was amended by the Court of Appeal of Rome which issued a non-guilty verdict. ⁵ The Court of Appeal of Milan partially amended the first instance judgement declaring that the defendant has civil liability for the crime. ⁶ The Court of Appeal of Milan confirmed all the civil and criminal statements contained in the first instance guilty verdict. ⁷ With regards to two market manipulation cases, after the pre-trial hearing (*udienza preliminare*), the competent judge (respectively within the Tribunals of Siena and Turin) declared that he does not have territorial jurisdiction over the claim and therefore transmitted the relevant documents to the Public Prosecutor's Office within the Tribunal of Milan, considered to have jurisdiction over the claim. ⁸ In addition to the above, a criminal proceeding in which Consob is taking part as *parte civile* as of 2015 will be jointly decided with another proceeding in which Consob is taking part as *parte civile* from 2016 onwards.

In addition to the previous cases, worthy of note is Consob bringing civil action against the defendants of the crimes of market manipulation and obstruction of public supervisory authorities in exercising criminal proceedings concerning the well-known MPS affair. The same proceedings were joined with another in which Consob brought civil action in 2015.

Five proceedings were also resolved at first instance in which Consob had previously brought civil action; in two cases the defendants' responsibility was recognised and they were sentenced to pay damages in favour of Consob, in another case the proceedings were resolved with a plea bargain, and in two others, with an acquittal.

Consob has appealed against the two acquittals, as it does not share the principles expressed in the decisions of first instance.

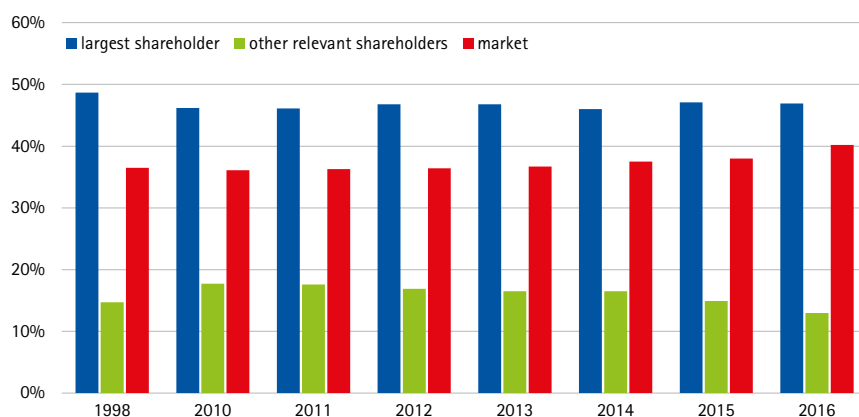
In Consob's favour, it is worth noting sentence 13984 of 23 December 2015 by the Court of Milan, 1st Criminal Section, filed on 22 February 2016, concerning a case of manipulation of the market's operation.

Also worthy of note is the decision by the Court of Milan, 3rd Criminal Section, 12149 of 12 November 2015, filed on February 5, 2016, concerning a case of abuse of inside information; the sentence affirmed that where the prerequisite of inside information exists the so-called insider should be punished, considering that the TUF on Finance regulation - by repealing the previous norm referred to in art. 2, sec. 1 of Law 157/1991, based on obtaining 'confidential' information and, consequently, on the necessary otherness of the information with respect to who has it - «no longer postulates any subjective difference between the creator of the news and its user»; therefore, the Court specified that, «the information, once it has emerged, must be considered as privileged even with respect to its creator». Finally, two verdicts were issued on appeal.

1 The ownership structures of listed companies

At the end of 2016, the average share held by the largest shareholder in Italian listed companies was approximately 47 per cent, in line with the values recorded since 2010. The figure was instead reduced by about four percentage points for the other major shareholders, reaching 13 per cent, while the market share grew to about 40 per cent (Fig. 8).

Fig. 8 Ownership concentration in Italian listed companies
(year-end figures; percentage values)



Source: Consob. Data on Italian companies with ordinary shares listed on Borsa Italiana - MTA Stock Exchange. Cooperative companies are excluded. Mean values of the ordinary voting capital. The item 'market' reports the values of ordinary shares which are not held by major shareholders.

2 Shareholders' meetings and corporate bodies

During the general meetings held in 2016 by the 100 Italian companies with the highest capitalisation, about 71 per cent of the share capital intervened on average. The latter is represented by 19 per cent by institutional investors, whose presence grew by more than 8 percentage points compared to 2012, due to more foreign investors participating in meetings (Tab. 20).

Tab. 20 Attendance at AGMs of the 100 largest Italian listed companies

| | no. of participants | | share of capital at the AGM | | | |
|------|---------------------|--------------------------------|-----------------------------|--------------------------------|--|--|
| | total | <i>institutional investors</i> | total | <i>institutional investors</i> | <i>Italian institutional investors</i> | <i>foreign institutional investors</i> |
| 2012 | 454 | 350 | 70.2 | 11.5 | 1.1 | 10.4 |
| 2013 | 408 | 338 | 70.3 | 13.0 | 0.9 | 12.1 |
| 2014 | 407 | 353 | 70.7 | 17.5 | 0.9 | 16.5 |
| 2015 | 479 | 402 | 71.1 | 18.1 | 0.9 | 17.3 |
| 2016 | 532 | 448 | 70.6 | 19.1 | 1.2 | 17.9 |

Source: data from the minutes of Italian listed companies AGMs. Data on the largest (by capitalisation) 100 Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange; cooperatives are excluded.

The characteristics of the boards of directors of listed companies are stable over time, except for some board diversity changes driven by the application of Law 120/2011 on gender quotas. As for their size, at the end of 2015 the boards of directors of the companies adopting the traditional model consisted of an average of 9.8 members, a slight decrease compared to the values recorded since 2010. 17 members sat on the supervisory board of dualistic companies (12.4 in 2009), while the management board had an average of six directors (7.7 in 2009; Tab. 21).

Tab. 21 Average size of corporate boards in Italian listed companies
(year-end figures)

| | board of directors | management board | supervisory board |
|------|--------------------|------------------|-------------------|
| 2009 | 9.9 | 7.7 | 12.4 |
| 2010 | 10.0 | 7.4 | 13.0 |
| 2011 | 10.2 | 6.5 | 14.3 |
| 2012 | 10.0 | 6.3 | 14.2 |
| 2013 | 9.9 | 6.6 | 17.4 |
| 2014 | 9.8 | 6.5 | 17.3 |
| 2015 | 9.8 | 6.0 | 17.0 |

Source: Corporate governance reports and proprietary shareholdings of Italian listed companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Figures refer to companies whose Corporate governance report and proprietary shareholdings were available.

At the end of 2016, in substantial continuity with the data from previous years, 226 companies out of 231 adopted the traditional model, two the one-tier and the remaining three the dualistic (Tab. 22).

Tab. 22 Italian listed companies by management and control system
(year-end figures)

| | single-tier ² | | two-tier ³ | | traditional | | total | |
|------|--------------------------|---------------------|-----------------------|---------------------|-------------|---------------------|-------|---------------------|
| | no. | weight ¹ | no. | weight ¹ | no. | weight ¹ | no. | weight ¹ |
| 2009 | 4 | 0.1 | 7 | 11.7 | 267 | 88.2 | 278 | 100.0 |
| 2010 | 3 | 0.1 | 7 | 8.3 | 260 | 91.7 | 270 | 100.0 |
| 2011 | 3 | 0.1 | 7 | 8.1 | 250 | 91.8 | 260 | 100.0 |
| 2012 | 2 | 0.1 | 6 | 7.5 | 243 | 92.4 | 251 | 100.0 |
| 2013 | 2 | 0.1 | 5 | 8.6 | 237 | 91.3 | 244 | 100.0 |
| 2014 | 2 | 0.1 | 4 | 10.7 | 232 | 89.2 | 238 | 100.0 |
| 2015 | 2 | 0.1 | 4 | 11.3 | 228 | 88.6 | 234 | 100.0 |
| 2016 | 2 | 8.5 | 3 | 0.9 | 226 | 90.6 | 231 | 100.0 |

Source: Corporate governance reports and proprietary shareholdings of Italian listed companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Figures refer to companies whose Corporate governance report and proprietary shareholdings were available. ¹ Market value of ordinary shares of companies in each group in percentage of the market value of listed shares of all listed companies. ² The single-tier model envisages a board of directors appointed by shareholders' meeting and a management control committee made up of non-executive independent members of the board. ³ The two-tier model envisages a supervisory board appointed by shareholders' meeting and a management board appointed by the supervisory board.

At the end of 2016, women on corporate boards exceeded the threshold of 31 per cent of the total number of director positions, consolidating the effects of Law 120/2011, which, as is known, imposed the criterion of fair distribution between genders in the composition of corporate bodies for three terms (Tab. 23).

Tab. 23 Female representation on corporate boards of Italian listed companies
(year-end data)

| | female directorship | | diverse-board companies | |
|------|---------------------|---------------------|-------------------------|---------------------|
| | no. | weight ¹ | no. | weight ² |
| 2009 | 173 | 6.3 | 129 | 46.4 |
| 2010 | 182 | 6.8 | 133 | 49.6 |
| 2011 | 193 | 7.4 | 135 | 51.7 |
| 2012 | 288 | 11.6 | 169 | 66.8 |
| 2013 | 421 | 17.8 | 202 | 83.5 |
| 2014 | 521 | 22.7 | 217 | 91.9 |
| 2015 | 622 | 27.6 | 230 | 98.3 |
| 2016 | 701 | 31.6 | 226 | 99.1 |

Source: Consob data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Companies in liquidation at the reference date are excluded. ¹ Percentage value on total number of board directors. ² Percentage value on total number of Italian listed companies.

The relevance of women in comparison to the total numbers of the administrative body was close to the one-third threshold in FTSE MIB companies and in smaller companies, while it was marginally lower for Mid Cap Index and Star segment companies (Tab. 24).

Tab. 24 Female representation on corporate boards of Italian listed companies by market index
(year-end data)

| index. | no. of companies ³ | % market cap ¹ | % of companies with at least one woman on board of directors | average weight of women on boards |
|----------------------|-------------------------------|---------------------------|--|-----------------------------------|
| Ftse Mib | 34 | 78.0 | 100.0 | 32.6 |
| Mid Cap ² | 36 | 12.8 | 97.3 | 31.3 |
| Star ² | 69 | 7.1 | 100.0 | 29.7 |
| altro | 87 | 1.8 | 98.9 | 32.8 |
| <i>total</i> | <i>226</i> | <i>99.8</i> | <i>99.1</i> | <i>31.6</i> |

Source: Consob. Data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana - MTA Stock Exchange. Companies under liquidation at the reference date are excluded. ¹ Market value of ordinary shares of companies in each group in percentage of market value of ordinary shares of all companies included in each market index. ² Companies both in the Star and in the Mid Cap indexes are included only in the Star category. ³ Data refer to companies in which at least one female director sits on the board.

Regarding the other characteristics of the members of corporate bodies, at the end of 2015, the average age of directors was about 57 years, foreigners were 7 per cent of the total and family directors (coinciding or having kinship with the controlling shareholder) represented 16 per cent of the board. As for the education level, about 86 per cent of directors were college graduates, 20.5 per cent of whom holding a master's degree and/or doctorate. Approximately seven out of ten directors were classifiable as managers, while the rest were defined as consultants/professionals (21 per cent) or academics (8 per cent; Tab. 25).

Board diversity was also associated with the controlling shareholder's identity. In the boards of companies controlled by a financial institution, different nationalities were more frequently represented, directors were on average younger, with higher qualifications and predominantly managerial profiles. On the contrary, family businesses were characterised by a lower percentage of directors with graduate degrees and a higher presence of advisors/professionals.

The characteristics of directors in terms of age, education level and professional background showed a certain degree of variability depending on gender (Tab. 26).

Tab. 25 Directors' attributes in Italian listed companies
(end of 2015)

| | no. | % women | average age | % foreigners | % family ¹ | education | | professional background | | |
|-----------------------------|--------------|-------------|-------------|--------------|-----------------------|----------------|------------------------------|-------------------------|----------------------------|------------|
| | | | | | | % first degree | % post graduate ² | % manager | % consultant /professional | % academic |
| financial | 573 | 27.4 | 57,6 | 5.6 | 7.5 | 87.1 | 22.4 | 68.1 | 22.0 | 9.6 |
| industrial | 1,150 | 27.4 | 56.6 | 6.9 | 21.2 | 84.6 | 18.0 | 72.3 | 20.2 | 7.0 |
| services | 499 | 29.1 | 55.8 | 9.4 | 13.0 | 86.2 | 23.7 | 68.1 | 22.6 | 8.2 |
| <i>Ftse Mib</i> | 461 | 28.6 | 57.7 | 10.8 | 6.9 | 91.3 | 27.3 | 73.3 | 14.5 | 11.7 |
| <i>Mid Cap</i> ³ | 420 | 26.4 | 57.5 | 7.9 | 12.6 | 90.5 | 20.5 | 68.8 | 20.7 | 9.8 |
| <i>Star</i> ³ | 640 | 26.4 | 56.7 | 5.8 | 22.0 | 80.5 | 17.9 | 71.6 | 20.2 | 8.3 |
| other | 701 | 29.2 | 55.5 | 5.4 | 18.0 | 83.6 | 17.7 | 68.0 | 26.8 | 4.1 |
| family | 1,322 | 27.4 | 56.9 | 7.6 | 26.6 | 84.3 | 18.1 | 70.5 | 21.8 | 7.1 |
| State and local authorities | 173 | 31.2 | 55.5 | 3.5 | — | 87.9 | 23.0 | 68.2 | 19.1 | 11.0 |
| financial institutions | 88 | 25.0 | 55.3 | 14.8 | — | 95.5 | 34.5 | 72.7 | 21.6 | 5.7 |
| mixed ⁴ | 137 | 29.9 | 56.2 | 5.8 | — | 91.2 | 20.0 | 73.0 | 22.6 | 4.4 |
| no UCA ⁵ | 502 | 27.5 | 57.0 | 6.2 | — | 85.1 | 23.0 | 69.3 | 19.9 | 10.6 |
| <i>total</i> | <i>2,222</i> | <i>27.8</i> | <i>56.7</i> | <i>7.1</i> | <i>15.8</i> | <i>85.6</i> | <i>20.5</i> | <i>70.3</i> | <i>21.2</i> | <i>8.0</i> |

Source: corporate governance reports and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange, referred to 2015, published in 2016. Industry classification by Borsa Italiana. Data refer to available reports. ¹ Number of directors linked through a family connection to the controlling shareholder (being the controlling shareholder himself or a close relative) in percentage of the total number of directors included in each category. ² Number of graduated directors who attended a post-graduate course and/or hold a PhD in percentage of the total number of graduated directors in each category. ³ Companies both in the Star and in the MidCap indexes are included only in the Star category. ⁴ Companies not included in any of the previous categories (i.e. companies controlled by both financial institutions and families). ⁵ Companies that do not have the ultimate controlling agent (UCA), i.e. cooperative companies, widely held, non-widely held, and listed companies controlled by a non-controlled company.

Tab. 26 Directors attributes in Italian listed companies by gender
(year-end data)

| | no. | % foreigners | average age | % family ¹ | education | | professional background | | | |
|-----------------------------|-------|--------------|-------------|-----------------------|----------------|------------------------------|-------------------------|----------------------------|------------|---------|
| | | | | | % first degree | % post graduate ² | % manager | % consultant/ professional | % academic | % other |
| 2012 <i>director</i> | 2,401 | 5.0 | 57,6 | 16.2 | 84.4 | 15.3 | 76.4 | 15.4 | 8.0 | 0.2 |
| <i>female</i> | 283 | 5.3 | 50.5 | 25.8 | 82.7 | 20.9 | 68.7 | 17.8 | 13.2 | 0.4 |
| <i>male</i> | 2,118 | 4.9 | 58.5 | 14.9 | 84.6 | 14.5 | 77.4 | 15.1 | 7.4 | 0.2 |
| 2015 <i>director</i> | 2,222 | 7.1 | 56.7 | 15.8 | 85.6 | 20.5 | 70.3 | 21.2 | 8.0 | 0.5 |
| <i>female</i> | 617 | 7.5 | 50.9 | 13.1 | 88.5 | 29.7 | 54.1 | 33.2 | 12.2 | 0.5 |
| <i>male</i> | 1,605 | 7.0 | 58.9 | 16.9 | 84.5 | 16.7 | 76.5 | 16.6 | 6.4 | 0.6 |

Source: Consob and Corporate governance reports and proprietary shareholdings of Italian companies with shares listed on Borsa Italiana – MTA Stock Exchange. Figures refer to those directors for whom information was available. ¹ Number of directors linked through a family connection to the controlling shareholder (being the controlling shareholder himself or a close relative) in percentage of the total number of directors included in each category. ² Number of graduated directors who attended a post-graduate course and/or hold a PhD in percentage of the total number of graduated directors in each category.

The characteristics of directors also differed according to whether they had ties with the controlling shareholder (Tab. 27).

Tab. 27 Directors' attributes in Italian listed companies by gender and relationship with the controlling shareholder
(end of 2015)

| | | no. | average attendance ¹ | education | | professional background | | | |
|-----------|----------------------------|-------|---------------------------------|----------------|------------------------------------|-------------------------|-----------------|-------------|---------|
| | | | | % first degree | % postgraduate degree ² | % managers | % professionals | % academics | % other |
| directors | <i>family</i> ³ | 352 | 91.3 | 70.5 | 14.9 | 93.8 | 6.3 | -- | -- |
| | <i>non-family</i> | 1,870 | 91.5 | 88.4 | 21.3 | 65.9 | 24.0 | 9.5 | 0.6 |
| female | <i>family</i> ³ | 81 | 88.9 | 64.2 | 19.2 | 84.0 | 16.0 | -- | -- |
| | <i>non-family</i> | 536 | 90.7 | 92.2 | 30.8 | 49.6 | 35.8 | 14.0 | 0.6 |
| male | <i>family</i> ³ | 271 | 92.0 | 72.3 | 13.8 | 96.7 | 3.3 | -- | -- |
| | <i>non-family</i> | 1,334 | 91.8 | 87.0 | 17.2 | 72.4 | 19.3 | 7.6 | 0.7 |

Source: Consob and Corporate governance report and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Figures refer to those directors for whom information was available. ¹ Average percentage of board meetings attended by the directors included in each category (directors appointed during the year who have been in charge for less than 200 days are excluded) ² Number of graduated directors who attended a postgraduate and/or a hold a PhD in percentage of the total number of graduated directors in each category ³ The director is either a family member of the controlling shareholder or is himself the controlling shareholder.

Most listed Italian companies had at least one director serving on the boards of other listed companies. In almost all cases, interlocking involved only a minority of board members (in 80 companies less than a quarter and in 67 companies between 25 and 50 per cent); only in 19 small companies the phenomenon concerned more than half of the directors (Tab. 28).

Tab. 28 Interlocking in Italian listed companies by industry
(end of 2016)

| percentage of interlockers on the board of directors ² | financial | | non financial | | total | |
|---|-----------|---------------------|---------------|---------------------|------------|---------------------|
| | no. | weight ¹ | no. | weight ¹ | no. | weight ¹ |
| 0% | 13 | 7.5 | 49 | 4.5 | 62 | 5.4 |
| < 25% | 16 | 26.8 | 64 | 19.3 | 80 | 21.5 |
| 25% to 50% | 20 | 61.4 | 47 | 72.3 | 67 | 69.0 |
| 50% to 75% | 4 | 4.3 | 13 | 3.9 | 17 | 4.0 |
| ≥ 75% | -- | -- | 2 | 0.0 | 2 | 0.0 |
| <i>total</i> | <i>53</i> | <i>100.0</i> | <i>175</i> | <i>100.0</i> | <i>228</i> | <i>100.0</i> |

Source: Consob. Data on corporate boards of Italian listed companies with ordinary shares listed on Borsa Italiana. Data do not include companies in liquidation as of 31 December 2016. ¹ As a percentage of market value of each sector. ² The interval includes the lower threshold.

The relevance of independent directors pursuant to the TUF and/or the Code of Corporate Governance was about 46 per cent (corresponding to less than five members on average), reaching the highest value in the financial sector (just under 51 per cent) and the lowest in industrial companies (about 44 per cent; Tab. 29).

Tab. 29 Independent directors on board of directors of Italian listed companies
(year end data)

| | independent directors (by the Consolidated Law on Finance – Tuf) | | independent directors (by the Corporate Governance Code) | | independent directors (by Corporate Governance Code and/or Tuf) ¹ | |
|--------------|--|---------------------|--|---------------------|--|---------------------|
| | mean | weight ² | mean | weight ² | mean | weight ² |
| financial | 5.8 | 50.6 | 4.7 | 42.6 | 5.8 | 50.7 |
| industrial | 4.0 | 42.9 | 3.7 | 39.6 | 4.1 | 43.9 |
| services | 4.7 | 47.7 | 4.4 | 44.2 | 4.8 | 48.7 |
| <i>total</i> | <i>4.6</i> | <i>45.8</i> | <i>4.1</i> | <i>41.3</i> | <i>4.7</i> | <i>46.6</i> |

Source: corporate governance reports and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Industry classification by Borsa Italiana. Figures refer to companies whose corporate governance reports and proprietary shareholdings were available. ¹ Directors who are independent according to both definitions are counted only once. ² Percentage of independent directors on corporate boards.

Minority directors, present in 98 issuers (93 at the end of 2012), accounted for about 8 per cent of a board and were 1.8 on average (0.8 if considering all listed companies; Tab. 30).

Tab. 30 Minority directors on board of directors of Italian listed companies
(end of 2015)

| | companies with at least one minority director | minority directors | | | minority and/or independent directors ¹ | |
|--------------|---|--------------------|--------------|---------------------|--|---------------------|
| | | mean ² | | weight ³ | mean | weight ⁴ |
| financial | 23 | 1.0 | (2,2) | 8.0 | 6.1 | 52.8 |
| industrial | 47 | 0.6 | (1.7) | 6.7 | 4.2 | 45.6 |
| services | 28 | 1.0 | (1.8) | 9.9 | 5.0 | 50.6 |
| <i>total</i> | <i>98</i> | <i>0.8</i> | <i>(1.8)</i> | <i>7.8</i> | <i>4.8</i> | <i>48.3</i> |

Source: Corporate governance reports and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Industry classification by Borsa Italiana. Figures do not include the companies adopting the two-tier system, whose supervisory boards included members appointed by minorities in 3 financial companies; the average number of minority directors was 4.5. ¹ Directors who are both minority and independent are counted only once. ² Mean number of minority directors. The first number is computed on all listed companies; figures in brackets are referred to the subsample of companies with at least one minority director. ³ Percentage of minority directors on corporate boards. ⁴ Percentage of minority and/or independent directors on corporate boards.

The number of issuers who choose to set up board committees kept growing. At the end of 2015, the remuneration committee was adopted by 204 companies corresponding to a 99 per cent capitalisation. The average number of members was 3.1; women were on average 1.1 and independent directors 2.5. This committee meets on average around four times a year. The control and risk committee was adopted by 212 issuers and consisted on average of about three members, 2.7 independent directors and 1.2 women. The nomination committee was adopted by 123 companies, for a market capitalisation of approximately 82 per cent. In line with the evidence reported for the other two committees, the nomination committee consisted on average of three members, while the average number of independent directors was 2.6 (Tab. 31).

Tab. 31 Board committees in Italian listed companies
(year end data)

| | | adopted | | size and composition | | | average no. of meetings |
|--------------------------------------|------|-------------------------------|---------------------|------------------------|----------------------|---|-------------------------|
| | | no. of companies ¹ | weight ² | average no. of members | average no. of women | average no. of independent directors ³ | |
| remuneration | 2012 | 215 | 98.9 | 3.1 | 0.4 | 2.4 | 3.4 |
| | 2013 | 210 | 98.9 | 3.1 | 0.6 | 2.5 | 3.7 |
| | 2014 | 200 | 99.0 | 3.1 | 0.8 | 2.6 | 3.7 |
| | 2015 | 204 | 99.0 | 3.1 | 1.1 | 2.5 | 4.2 |
| internal control and risk management | 2012 | 220 | 98.9 | 3.2 | 0.5 | 2.7 | 6.7 |
| | 2013 | 216 | 99.1 | 3.2 | 0.7 | 2.6 | 6.9 |
| | 2014 | 206 | 99.4 | 3.2 | 0.9 | 2.7 | 7.1 |
| | 2015 | 212 | 99.6 | 3.2 | 1.2 | 2.7 | 7.4 |
| nomination | 2012 | 95 | 69.9 | 3.3 | 0.4 | 2.5 | 4.1 |
| | 2013 | 112 | 79.9 | 3.3 | 0.6 | 2.6 | 4.1 |
| | 2014 | 114 | 82.1 | 3.3 | 0.7 | 2.7 | 3.9 |
| | 2015 | 123 | 81.8 | 3.2 | 1.0 | 2.6 | 4.3 |

Source: Corporate governance reports and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Industry classification by Borsa Italiana. ¹ Number of companies which have established the committee. In some instances remuneration and nomination committee are combined. ² Market value of ordinary shares of companies with the committee in each group in percentage of market value of ordinary shares of all companies included in each industry. ³ Average number of independent directors meeting the independence criteria set forth by the Corporate Governance Code or, if no director met the criteria of the Code, by the Consolidated Law on Finance.

From 2011 to 2015, the number of companies declaring to have carried out the board evaluation process went from 176 to 184, while in the same period the companies that adopted succession plans for directors and/or managers increased from seven to 30 (Tab. 32).

Tab. 32 Self-evaluation of the boards of directors and succession plans in Italian listed companies
(year end data)

| | | self-evaluation | | succession plan | |
|------|--------------|-------------------------------|---------------------|-------------------------------|---------------------|
| | | no. of companies ¹ | weight ² | no. of companies ³ | weight ² |
| 2011 | | 176 | 68.7 | 7 | 2.7 |
| 2012 | | 177 | 73.1 | 13 | 5.4 |
| 2013 | | 181 | 76.4 | 20 | 8.4 |
| 2014 | | 184 | 81.8 | 23 | 10.2 |
| 2015 | financial | 46 | 20.2 | 11 | 4.8 |
| | industrial | 98 | 43.0 | 14 | 6.1 |
| | services | 40 | 17.5 | 5 | 2.2 |
| | <i>total</i> | <i>184</i> | <i>80.7</i> | <i>30</i> | <i>13.2</i> |

Source: corporate governance reports and proprietary shareholdings of Italian companies with ordinary shares listed on Borsa Italiana – Mta Stock Exchange. Industry classification by Borsa Italiana. ¹ Number of companies declaring that the board performed the self-evaluation process. ² Number of companies in each group in percentage of the total number of listed companies. ³ Number of companies declaring the existence of a succession plan. It includes seven cases in which the plan does not relate to the directors but only to executives, and excludes nine companies that declare a forthcoming introduction of the plan or the existence of alternative mechanisms of succession.

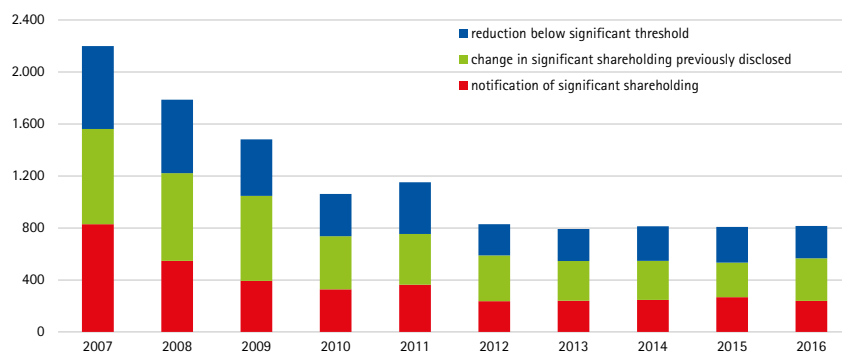
3 Ownership structure disclosure

In March 2016, due to the changes introduced by the Transparency Directive, the first threshold of relevance for communications to Consob increased from 2 to 3 per cent of the capital represented by voting rights, 5 per cent for some types of entities that can benefit from a specific exemption.

Following these innovations, a specific intervention became necessary to align the disclosure on the shareholders of listed companies made known by Consob through its website.

In 2016, Consob received 816 communications concerning investments in listed companies pursuant to art. 120 of the TUF (Fig. 9).

Fig. 9 Disclosure of major shareholdings in Italian listed companies



Source: Consob.

In 2016, there were 23 communications by listed issuers concerning treasury stock transactions, slightly down compared to 28 in 2015. Communications on sales transactions prevailed over those concerning purchase transactions.

With regard to the type of reporting entities, in line with 2015 data, there was a prevalence of foreigners, whose communications concerned 67 per cent of the total, and of legal entities (83 per cent). The communications received from natural persons nevertheless recorded some increase (from 13 to 17 per cent of the total declarations received).

In 2016, approximately 140 communications were made concerning significant shareholders' agreements pursuant to art. 122 of the TUF (170 in 2015), involving 68 listed companies. As for the communications that were received, in line with the previous year, just over half were related to changes in pre-existing shareholders' agreements, while communications regarding the signing of new shareholders' agreements decreased slightly (from 50 to 46), together with communications on the dissolution or cessation of the

purposes set in an agreement (from 35 to 22). Among the companies admitted to trading in 2016, three of them showed relevant shareholders' agreements according to current legislation.

Consob discloses to the market the communications concerning relevant shareholdings and shareholders' agreements through its website. Furthermore, communications on relevant holdings are published by the Commission also via authorised dissemination and storage mechanisms.

4 Purchase and exchange offers to the public

In 2016, 23 purchase and exchange offers were promoted to the public, a significant increase compared to the seven offers promoted the previous year (Tab. 33).

Three offers were promoted in the first two months of 2017, and four were announced.

17 offers proved effective and therefore were completed, for a total amount of € 2,849 million, down by around 48 per cent compared to € 5,457 million in 2015.

With regard to the nature of the offers, 22 transactions were structured as public purchase offers and one as a public purchase and exchange offer involving equities, also as (partial) consideration.

As for financial instrument types, the offers carried out related to shares listed on the MTA in 14 cases (for a total traded volume of 2,765 million, equal to 97 per cent of the total), shares of common, closed-end, real estate investment funds listed on the Investment Vehicles Market in eight cases (for a total traded volume of 83 million, equal to about 3 per cent of the total) and, in one case, bonds mainly listed on the regulated market of the Luxembourg Stock Exchange (which later turned out to be ineffective).

Ten out of the 14 offers concerning equities were compulsory and four were voluntary. The voluntary offers consisted of two pairs of competing offers, one for the acquisition of control over the Rcs MediaGroup companies and the other pertaining to Alerion CleanPower shares, for which one offer was partial (Tab. 34).

Tab. 33 Takeover bids and/or exchange tender offers in 2016

| offering company | company object of takeover/exchange bid | period | kind of offer | | | amounts ¹ | weight ² |
|--|---|-------------------|---------------|-----------|---------|----------------------|---------------------|
| ORDINARY SHARES | | | | | | | |
| Hitachi Rail Italy Invest | Ansaldo STS | 04/01/16-05/02/16 | takeover bid | mandatory | global | 127.0 | 4.5 |
| Mitsubishi Electric Corp | DeLclima | 25/01/16-12/02/16 | takeover bid | mandatory | global | 161.3 | 5.7 |
| Sorgente Sgr | Nova Re | 08/02/16-26/02/16 | takeover bid | mandatory | global | 0.2 | .. |
| Hyster-Yale Capital Hold Italy | Bolzoni | 09/05/16-27/05/16 | takeover bid | mandatory | global | 35.2 | 1.2 |
| MIC Bidco Spa | Engineering | 23/05/16-24/06/16 | takeover bid | mandatory | global | 175.3 | 6.2 |
| Cairo Communication | Rcs MediaGroup | 13/06/16-15/07/16 | takeover bid | mandatory | global | 324.0 | 11.4 |
| International Media Hold | Rcs MediaGroup | 20/06/16-15/07/16 | takeover bid | mandatory | global | ineffective | |
| PF Holdings | Pininfarina | 11/07/16-29/07/16 | takeover bid | mandatory | global | .. | .. |
| HeidelbergCement France | Italcementi | 29/08/16-30/09/16 | takeover bid | mandatory | global | 1,752.9 | 61.5 |
| Dedalus ³ | NoemaLife | 08/08/16-09/09/16 | takeover bid | mandatory | global | 6.6 | 0.2 |
| Fgpa | Alerion CleanPower | 11/10/16-02/12/16 | takeover bid | mandatory | partial | 0.4 | .. |
| Eolo Energia | Alerion CleanPower | 31/10/16-02/12/16 | takeover bid | mandatory | global | 8.1 | 0.3 |
| Dm Invest | Moleskine | 14/11/16-02/12/16 | takeover bid | mandatory | global | 174.5 | 6,1 |
| Eolo Energia | Alerion CleanPower | 23/12/16-17/01/17 | takeover bid | mandatory | global | 0.1 | .. |
| <i>amount of ordinary shares</i> | | | | | | <i>2,765.7</i> | <i>97.1</i> |
| REAL ESTATE INVESTMENT FUNDS | | | | | | | |
| Blado Investments Sca | Fondo Alpha Imm. | 28/06/16-20/07/16 | takeover bid | voluntary | global | 33.5 | 1.2 |
| Blado Investments Sca | Fondo Imm Dinamico | 28/06/16-20/07/16 | takeover bid | voluntary | global | 2.8 | 0.1 |
| Blado Investments Sca | Fondo Mediolanum RE | 28/06/16-20/07/16 | takeover bid | voluntary | global | ineffective | |
| Blado Investments Sca | Fondo Polis | 28/06/16-20/07/16 | takeover bid | voluntary | global | 20.6 | 0.7 |
| Gsf Eagle Opportuniy | Fondo Delta Imm. | 11/07/16-29/07/16 | takeover bid | voluntary | global | ineffective | |
| Duomo Holdings, LLC | Fondo Mediolanum RE | 21/07/16-10/08/16 | takeover bid | voluntary | global | ineffective | |
| Navona Value Opportunity | Fondo Delta Imm. | 25/07/16-12/08/16 | takeover bid | voluntary | global | ineffective | |
| Mars Grafton | Fondo Delta Imm. | 01/08/16-09/09/16 | takeover bid | voluntary | global | 26.3 | 0.9 |
| <i>amount of real estate funds units</i> | | | | | | <i>83.1</i> | <i>2.9</i> |
| ALTRI STRUMENTI | | | | | | | |
| Monte Paschi Siena ⁴ | Monte Paschi Siena | 28/11/16-02/12/16 | Opa | voluntary | global | ineffective | |
| <i>total</i> | | | | | | <i>2,848.8</i> | <i>100.0</i> |

Source: Consob. Takeover and exchange bids launched in 2016. ¹ Amounts in billions of euro. ² Percentage on total amount.³ The offer includes a voluntary part regarding the acquisition of warrants for 0,1 millions of euro. ⁴ Bond takeover bid, which had a re-opening period 16 to 26 December.

Tab. 34 Takeover and/or exchange bids on ordinary shares

| | mandatory bids (global) | | non mandatory bids | | total | of which | | |
|------|-----------------------------------|---------------|--------------------|---------|-------|-----------|--------------------|--------------------------------|
| | acquisition of major shareholding | consolidation | global | partial | | competing | aimed at delisting | takeover/exchange tender offer |
| 2015 | 4 | -- | 2 ¹ | -- | 6 | -- | 4 | -- |
| 2016 | 10 | -- | 3 | 1 | 14 | 4 | 9 | 1 |

Source: Consob. ¹ The mandatory takeover bid on Pirelli&C spa shares went alongside a global voluntary bid on saving shares.

The compulsory offers originated from exceeding the relevant control threshold pursuant to art. 106, sec. 1 and 1-a of the TUF.

As for offers involving just delisting shares (nine of which in 2016) the target was achieved in six cases (Tab. 35).

One of the most significant transactions due to the complexity of the investigations was the mandatory takeover bid over Ansaldo STS aimed at delisting.

Tab. 35 Takeover and/or exchange bids on ordinary shares for delisting purpose

| offer | company object of takeover/exchange bid | period | delisting | amounts ¹ |
|---------------------------------------|---|-----------------------|------------------|----------------------|
| FGC Finanziaria Srl | Vianini Lavori Spa | 08/06/2015-03/07/2015 | yes | 297.8 |
| Marco Polo Industrial Holding Spa | Pirelli & C. Spa | 09/09/2015-13/10/2015 | yes | 7,136.1 |
| Dufry Financial Services Bv | World Duty Free Spa | 14/09/2015-09/10/2015 | yes | 2,608.8 |
| Hitachi Rail Italy Investments Srl | Ansaldo STS Spa | 04/01/2016-05/02/2016 | no | 1,978.0 |
| Mitsubishi Electric Corporation | DelClima Spa | 25/01/2016-12/02/2016 | yes | 677.2 |
| Hyster-Yale Capital Holding Italy Srl | Bolzoni Spa | 09/05/2016-27/05/2016 | yes | 111.8 |
| MIC Bidco Spa | Engineering Spa | 23/05/2016-24/06/2016 | yes | 825.0 |
| HeidelbergCement France Sas | Italcementi Spa | 29/08/2016-30/09/2016 | yes | 3,702.3 |
| Dedalus Spa | NoemaLife Spa | 08/08/2016-09/09/2016 | yes | 61.9 |
| Eolo Energia Srl | Alerion CleanPower Spa | 31/10/2016-02/12/2016 | no | 107.2 |
| Dm Invest Srl | Moleskine Spa | 14/11/2016-02/12/2016 | yes ² | 510.4 |
| Eolo Energia Srl | Alerion CleanPower Spa | 23/12/2016-17/01/2017 | no | 107.2 |
| <i>total</i> | | | | <i>18,123.6</i> |

Another new element of the operations promoted in 2016 is the rediscovered market interest for real estate fund shares, rarely the subject of takeover bids in the last ten years.

2016 was also characterised by an increased number of competing offers, including partial ones, i.e. offers promoted concurrently by different parties and with different prices for the same financial instrument.

Thus, the recent application of the regulation on competing offers, including in relation to different types of offers (exchange, partial, on shares of funds), provided the opportunity to test the current legislation in practice, bringing out some application and interpretation issues. In this regard, the applicability of the regulation in question was particularly interesting in relation to offers that, although promoted on the same financial instrument and having substantially homogeneous targets, showed differences in their procedures to pursue the same objectives (notably, in relation to the number of financial instruments covered by the offer). The question is related to the relevance of the effectiveness of the offers and the outcome of competition between offers. In light of the above, we are proceeding with an overall assessment of the current regulatory provisions, also with a view to their possible revision.

Questions and communications

In 2016, Consob replied to several questions concerning takeover bids. In three cases, confirmation was requested on the existence of the conditions for exemption from the takeover bid requirement, which was followed by specific Commission communications.

Instead, in the case of the Sintesi company, the exemption from the requirement to promote the takeover bid derives from the fact that the capital increase operation which determined the exceeding of the relevant threshold was aimed at saving the company, which languished in a state of crisis, as evidenced by its admission to the procedure for making arrangements with creditors pursuant to art. 163 of Royal Decree 267/1942 (exemption pursuant to art. 49, sec. 1, points *b*), *i*) of the Issuers' Regulation).

During the year, the supervisory activity relating to banking transactions took on an extremely delicate nature, also in light of the changed regulatory and supervisory framework.

Specifically, in the area of supervision regarding takeover and exchange bids and ownership structure, Consob was involved in two events: the strengthening of the assets of Banca Monte dei Paschi di Siena and the investment of the Atlante Fund in Banca Popolare di Vicenza as part of its listing attempt.

5 Supervision of transactions with related parties

As part of the supervisory activities carried out to mitigate risks of conflicts of interest, Consob paid special attention to the execution of transactions with related parties by listed or publicly traded companies.

As a preventive measure, in 2016, the Commission examined the assessment of the mapping of individuals/entities as related parties in companies involved in the constitution, modification or dissolution of shareholders' agreements that can affect governance arrangements. A stimulus was thus provided for assessing relations between shareholders and companies, taking into account the interpretative tools to deal with specific cases made known by the Commission in general communications and the dialogue with companies.

With respect to the application of the regulations on transactions with related parties and directors' remuneration, during the year, Consob acquired information from companies and their supervisory bodies; in some cases, drawing their attention to achieving a more effective application of the regulations. In addition, specific requests were formulated for the publication of information, including through the integration of pre-meeting documentation or information documents for transactions of higher relevance with related parties, in order to provide shareholders with more complete information on substantive and procedural aspects of remuneration systems for executive directors and transactions with related parties of greater importance.

Furthermore, Consob's attention focused also on the correct application of the independent director concept, among the most important defining elements of the Regulation on transactions with related parties. Specifically, during 2016, supervision focused on the quality of the process for assessing the existence of the independent director requirements, especially when relationships exist for which verification of relevance is required.

In 2016, we had the first case of voluntary application of the so-called whitewash procedure by Tod's, which provided that a shareholders' meeting resolution approving a transaction with a related party - specifically, a reserved capital increase to be released through conferment of the company and trademark by the controlling shareholder - would not have been executed if the majority of the shareholders other than the related party voting in the meeting had voted against. The shareholders' meeting resolution was made with the broad participation and consent of the minority shareholders.

In 2016, a total of 51 information documents were published for transactions with related parties of major significance. Most of these were financing or asset transfer transactions, such as company branches, equity investments and real estate, which involved the listed company and its main shareholders (Tab. 36).

In addition, Consob received information regarding 14 transactions of major importance which, because they were ordinary and concluded at conditions equivalent to those of the market or standard, were excluded from the requirement to publish an information document. These transactions were carried out mainly by financial companies belonging to the FTSE MIB Index (11 cases out of 14). The majority of the communications received concerned resolutions with which these companies defined maximum amounts and the conditions within which loans can be granted or other financial services provided to the related parties, represented by parent companies or major shareholders.

During 2016, the supervisory bodies received some reports of irregularities regarding resolutions on remunerations and transactions with related parties attributable to directors or, more generally, situations in which the latter were holders of interests. These reports show increasing attention by the supervisory bodies in the assessment of actual cases, some of them affected by a combination of several regulatory provisions or recommendations to ensure adequate safeguards against potential disputes.

The enforcement activity carried out by the Commission in connection to transactions with related parties led to the launch of 12 penalty proceedings against issuers or supervisory bodies during the year (for completed proceedings and deliberated penalties, see Chapter V 'Inspection and penalties').

Tab. 36 Material related party transactions disclosed by Italian listed companies in 2016

| object | counterparty | | | total |
|--|-----------------------------------|---------------------------------|-----------|-----------|
| | controlling or major shareholders | subsidiary or associate company | directors | |
| supply of goods and services, sponsoring, investment | 1 | 6 | - | 7 |
| financing | - | 14 | 7 | 21 |
| capital transactions | 1 | 5 | - | 6 |
| transfer of assets | 2 | 12 | 3 | 17 |
| <i>total</i> | <i>4</i> | <i>37</i> | <i>10</i> | <i>51</i> |

Source: Consob.

6 Supervision of corporate governance and internal supervisory bodies

The shareholders' season of 2016 was characterised by significant participation from institutional investors, particularly in companies with a higher capitalisation (see section 2 above). Consob's supervision, implemented through the preventive examination of pre-meeting documentation and information requests to the corporate bodies, intensified during transactions or resolutions relevant to company governance, such as the appointment of corporate bodies and amendments to the articles of association affecting shareholders' rights.

In some cases, the examination of the documentation led to taking requests for the integration of pre-meeting information to provide members with ample and more detailed information in preparation for voting. Some of these actions dealt with disclosure on the control system or the composition of the administrative and supervisory bodies provided in the reports on company governance and ownership structures or in the reports of the control body.

2016 was characterised by the transformation of cooperative banking institutions into joint-stock companies, pursuant to Legislative Decree no 3/2015, concerning 'urgent measures for the banking sector and investments' (converted with amendments into Law 33/2015). With this transformation, the peculiar one person-one vote regulation provided by the mutualist purpose ceased to have effect for banks affected by the reform and the one share-one vote principle was adopted. In connection with the transformation, special attention was paid to shareholders' meetings as to the way they were conducted and the interlocution among the members about the phase of transition to the new governance structure. Before the last of the transformations planned for listed companies, the process concerning Banca Popolare di Sondrio was interrupted following some rulings by the State Council concerning the lawfulness of the reform; in relation to these aspects, we are awaiting the decision of the Constitutional Court.

Consob staff sat in on some of the meetings concerning the aforementioned items on the agenda or transactions with related parties pertaining to shareholders' meetings.

As part of the supervision of the application of the law on gender quotas, the Commission warned two companies that they should adjust the composition of their administrative body according to the criterion of fair distribution between genders, as their less represented gender (female) did not reach the quota of one third of the administrative body following the renewal of the members (Rosss and Sintesi).

Consob initiated and maintained a constant dialogue with the supervisory bodies on all areas of corporate governance, with the purpose of auditing the ongoing exercise of supervisory duties required by law. This dialogue was directed at encouraging auditors to promptly identify critical issues or areas of improvement in the issuers' governance. Furthermore, in two cases, the Commission initiated penalty proceedings against boards of statutory auditors for breach of supervisory duties pertaining to compliance with the law and reporting irregularities in the internal control system, where long-term organisational and procedural weaknesses existed concerning various sectors of business operation.

7 Supervision of audit firms

At the end of 2016, there were 33 legal auditors working with public interest entities (PIEs) (26 audit firms, the two Federations of the cooperative banks of Trentino Alto Adige and five individual auditors). EIP related assignments totalled around 1,450.

The audit market continues to show characteristics of high concentration. The distribution of legal auditing on the 2015 annual and consolidated accounts of issuers with listed shares shows, in fact, the usual high concentration of large-scale audit firms (the so-called big four), which made up 88 per cent of the market, slightly down from 91 per cent in the previous year (Tab. 37).

Tab. 37 Distribution of Italian listed companies by independent audit firm

| | independent audit firm | | | | | | <i>total</i> | |
|------|------------------------|---------------------------|-----------------------|---------------------------|----------------------|---------------------------|---------------------|---------------------------|
| | <i>big four</i> | | medium-size companies | | small-size companies | | | |
| | no. of appointments | market share ¹ | no. of appointments | market share ¹ | no. of appointments | market share ¹ | no. of appointments | market share ¹ |
| 2013 | 211 | 87 | 30 | 12 | 3 | 1 | 244 | 100 |
| 2014 | 207 | 86 | 26 | 11 | 8 | 3 | 241 | 100 |
| 2015 | 211 | 91 | 12 | 5 | 8 | 4 | 231 | 100 |
| 2016 | 203 | 88 | 23 | 10 | 4 | 2 | 230 | 100 |

Source: Consob. ¹ Number of appointments by listed companies. ² Percentage values.

In order to facilitate a greater opening of the PIE legal audit market to smaller companies, a specific initiative was recently adopted by the EU legislator with the purpose of providing the latter with maximum publicity and protecting their access to office assignment selection procedures.

Furthermore, in order to monitor the evolution of the characteristics of the European legal audit market over time, art. 27 of EU Regulation 537/2014 provides that, by 17 June 2016 and at least every three years thereafter, every competent authority and the European Competition Network (ECN) are required to prepare a market development report on the provision of legal audit services to PIEs and submit it to ECAOB, ESMA, EBA, EIOPA and the European Commission.

In implementation of art. 27 of EU Regulation 537/2014, Consob prepared a market development report on the provision of legal audit services for the first time in 2016. The analysis of the information received by the European Commission from the Member States is under way; the Commission will later publish the joint report on all the member countries.

If the regulatory requirements are met, Legislative Decree 39/2010 will allow the parties to carry out the early termination of the legal auditing of accounts, using revocation for just cause (at the initiative of the audited entity), resignation from office (at the initiative of the legal auditor) and the consensual termination of the audit contract.

There were 71 cases of early termination of legal auditing positions on EIP accounts In 2016, a sharp decrease compared to the 88 of the previous year. This phenomenon is due to a large decrease in consensual termination cases, which more than offset the increases in revocation and resignation cases (Tab. 38).

Tab. 38 Cases of dismissal of independent auditors

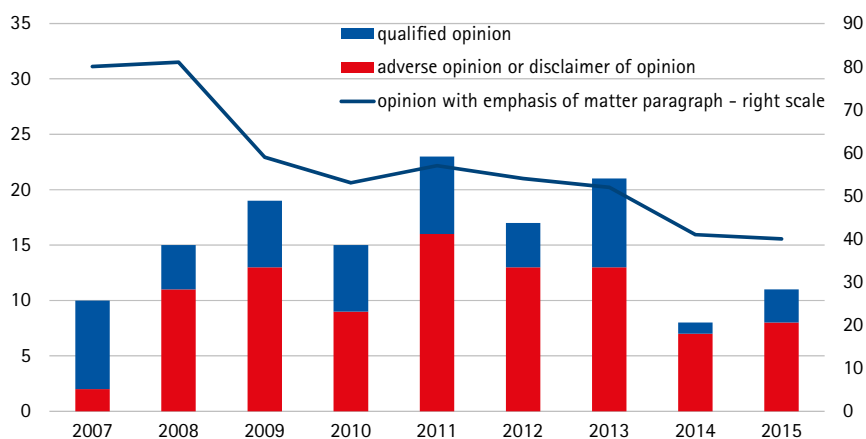
| | dismissal | consensual termination | resignation |
|--|-----------|------------------------|-------------|
| 2013 | 37 | 45 | 3 |
| 2014 | 32 | 16 | 6 |
| 2015 | 24 | 62 | 2 |
| 2016 ¹ | 27 | 37 | 7 |
| <i>of which</i> | | | |
| <i>change of controlling shareholder</i> | 2 | 13 | |
| <i>change of the group independent auditor</i> | 1 | 17 | |
| <i>loss of public interest entity status</i> | 22 | | |
| <i>contingent situation capable of compromising independence (of the audit firm)</i> | | | 1 |
| <i>non payment / adjustment of fees after default</i> | | | 1 |
| <i>transfer of auditing department to another auditing firm with mandate withdrawal of clients entitled to do so</i> | 2 | 3 | |
| <i>other</i> | | 4 | 5 |

Source: Consob. ¹ During the year, there were not cases of dismissal following: changes within the group; contingent non-existence of the obligation of independent auditing after the loss of legal requisites; incompatibility following change in controlling shareholder; inadequacy of appointment following resources shortcoming.

With regard to the opinions of the audit firms on the annual and consolidated financial statements of listed Italian issuers for the year 2015, there was a marginal increase, with respect to the previous financial year, in cases of impossibility to express a opinion or opinions with findings and a slight reduction of opinions with emphasis of matter.

Specifically, the cases of impossibility to express an opinion concerned eight companies, compared to seven the previous year; judgments with findings were made regarding three companies (one in 2014), while emphasis of matter concerned 40 opinions (41 in 2014). In 22 cases (23 in 2014), auditors reported an emphasis of matter section on business continuity and, for eight of these companies (nine in 2014), auditors reported that it was impossible to express an opinion. As of the last two years, auditor firms have not expressed negative opinions (Fig. 10).

Fig. 10 Opinions of independent auditors on Italian listed companies financial statements



Source: independent auditors' reports. Data refer to different types of opinion or remark that can also relate to a single issuer. See Methodological Notes.

During 2016, pursuant to art. 20 of Legislative Decree 39/2010 as well as art. 26 of EU Regulation 537/2014, supervision was carried out through preventive quality control interventions with the purpose of auditing the existence and correct application of internal control procedures.

Quality controls were carried out and concluded on three large audit firms. For two of them, the final reports containing the results of the quality controls were transmitted together with the recommendations to be adopted within established deadlines, the implementation of which was monitored during the year.

In addition, quality controls are under way on nine medium and small audit firms. The checks carried out concerned the examination, including by means of testing, of the conformity of the quality control procedures adopted by audit firms with respect to Auditing Principle 220 and the ISQC International Quality Control Standard 1 for Italy, in force since 1

January 2015. The audit concerned some key procedural and organisational areas for the purpose of improving audit quality.

The analyses described were carried out using the 'Common Audit Inspection Methodology' (CAIM) adopted in the framework of the European Audit Inspection Group (EAIG), the coordinating body of European regulators to which Consob belongs.

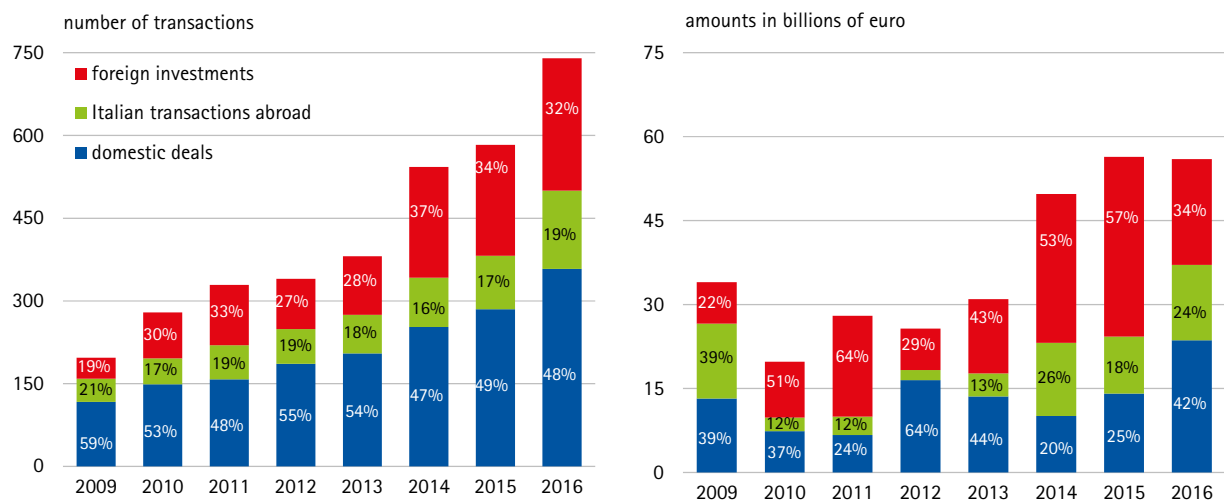
Following the assessments, the organisational and procedural models used by the companies subject to audit were generally adequate, while some shortcomings, mostly of an applicative nature, were observed on aspects related to the operational effectiveness of the internal control departments.

Some applicative shortcomings emerged also from the review of the selected positions, carried out as part of the quality controls, which involved various phases of auditing, particularly planning, the risk assessment process, control procedures and documentation of the checks carried out.

1 Collection of risk capital and extraordinary financial transactions

In 2016, the merger and acquisition transactions involving Italian companies amounted to approximately 740 (583 in 2015), for a total amount of € 56 billion, substantially unchanged compared to the previous period (Fig. 11).

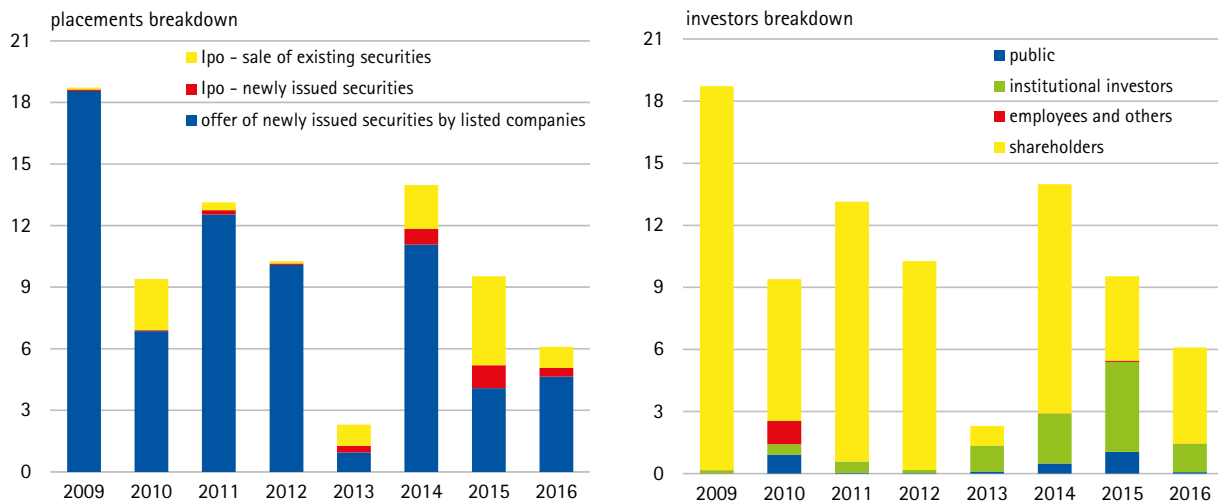
Fig. 11 Mergers and acquisitions of Italian listed companies



Source: KPMG.

The overall collection of resources through the stock markets of the Italian Stock Exchange, in reduction since 2015, recorded a further reduction during the year, to 6 billion euro (around -36 per cent compared to the previous period), due to the lower contribution of IPOs, which went from 5.5 to 1.4 billion (-73,6 per cent; Fig. 12).

Fig. 12 Total placements of listed shares and convertible bonds in domestic market
(new issues and total traded volumes of secondary market securities; billions of euro)



Source: Borsa Italiana.

There were a total of 14 admissions to listing through 2016, three of which on the MTA; this figure decreased compared to the previous year, when there were 27 operations, of which 8 on the MTA (Tab. 39).

In the last two years, the largest contribution in terms of value of the IPOs on the MTA is attributable to the sale of investments held by the Ministry of the Economy and Finance (MEF). Specifically, in 2015 the offer of Poste Italiane shares alone contributed approximately two thirds to the overall traded amounts, while in 2016 Enav transaction made up almost 70 per cent of the total.

In 2016, the role of institutional investors in the success of the IPOs increased further, reaching almost 95 per cent of the total allocated shares, while the contribution of the retail segment was marginal (Tab. 40).

Tab. 39 Initial public offerings by Italian companies aimed at admission to listing
(amounts in billions of euro)

| | no. of companies | pre-offering capitalisation ¹ | IPO value | | | proportion of post-offering capitalisation ² |
|------|------------------|--|--------------|-------|-------|---|
| | | | subscription | sale | total | |
| 2007 | 32 | 9,852 | 1,428 | 3,088 | 4,516 | 40.1 |
| 2008 | 8 | 341 | 147 | 6 | 153 | 31.4 |
| 2009 | 5 | 342 | 52 | 93 | 145 | 36.0 |
| 2010 | 10 | 8,354 | 46 | 2,636 | 2,682 | 31.9 |
| 2011 | 8 | 1,602 | 61 | 379 | 440 | 26.4 |
| 2012 | 6 | 602 | 71 | 113 | 184 | 29.6 |
| 2013 | 16 | 3,389 | 312 | 1,032 | 1,344 | 35.9 |
| 2014 | 26 | 6,865 | 765 | 2,175 | 2,940 | 38.5 |
| 2015 | 27 | 13,144 | 1,056 | 4,688 | 5,744 | 41.7 |
| 2016 | 14 | 2,826 | 417 | 1,026 | 1,443 | 44.5 |

Source: Consob and Borsa Italiana. See Methodological Notes. Figures include initial public offerings aimed at admission to listing on the AIM/Mac since 2012, and on each MTFs in the periods prior to unification. Data include the Spanish tranche of Enel Green Power public offering in 2010 (approximately 71 millions euro) and the Japanese tranche of Moncler public offering in 2013 (approximately 68 millions of euro). ¹ For companies admitted to listing, the capitalization is calculated on the basis of the offering price and of the number of pre-offering shares. ² As a percentage of company's capitalisation after the admission to listing, calculated at offering price. Percentage values weighted by the amounts offered.

Tab. 40 Italian listed companies: results of offerings

| | allocated percentage ¹ | | | supply - demand ratio ² | |
|------|-----------------------------------|-------------------------|----------------------------|------------------------------------|------------------------|
| | public | institutional investors | other parties ³ | public offering | institutional offering |
| 2007 | 16.6 | 82.1 | 1.5 | 2.8 | 4.0 |
| 2008 | 10.4 | 74.0 | 15.6 | 1.0 | 1.1 |
| 2009 | 6.9 | 88.4 | 4.7 | 1.0 | 4.0 |
| 2010 | 75.6 | 24.4 | -- | 1.0 | 1.4 |
| 2011 | 6.8 | 92.9 | 0.3 | 1.0 | 1.9 |
| 2012 | 10.0 | 90.0 | -- | 6.2 | 16.5 |
| 2013 | 7.2 | 92.8 | | 11.0 | 21.3 |
| 2014 | 17.3 | 82.7 | -- | 3.9 | 3.2 |
| 2015 | 19.3 | 80.7 | -- | 1.4 | 5.9 |
| 2016 | 5.4 | 94.6 | -- | 2.4 | 7.8 |

Source: Consob and Borsa Italiana. See Methodological Notes. Figures include initial public offerings aimed at admission to listing on the AIM/Mac since 2012, and on each MTFs in the periods prior to unification. The Spanish tranche of Enel Green Power public offering in 2010 (approximately 71 millions euro) is included in the public category; the Japanese tranche of Moncler public offering in 2013 (approximately 68 millions of euro) are included in the institutional investors category. ¹ Average weighted by the amounts offered; percentage data. ² The average value of supply-demand ratio are calculated only on offerings for which both the public and institutional figures are known. ³ These are named parties for which a certain amount of shares is reserved, also as a result of agreements reached prior to listing.

2 Supervision of public offering and admission to trading of equity instruments

In 2016, the Commission approved 13 trading admission prospectuses, four of them relating to capital under option increases of listed companies and six relating to offers of unlisted securities from Italian issuers; five equivalence judgments were also issued (Tab. 41).

Tab. 41 Supervision of public offerings and admission to trading of equity instruments
(number of prospectuses)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------------|
| admissions to listing of shares ¹ | 6 | 7 | 7 | 2 | 5 | 10 | 16 | 13 |
| <i>of which through public offering</i> | <i>1</i> | <i>2</i> | <i>5</i> | <i>2</i> | <i>3</i> | <i>9</i> | <i>13</i> | <i>6</i> |
| share capital increase as an option to shareholders ² | 23 | 16 | 23 | 7 | 11 | 17 | 9 | 4 |
| other offerings ³ | -- | -- | -- | 1 | 1 | -- | -- | -- |
| unlisted securities offerings of Italian issuers ⁴ | 28 | 29 | 31 | 24 | 10 | 19 | 15 | 6 |
| judgements of equivalence | 2 | 4 | 6 | 7 | 6 | 2 | 4 | 5 |
| <i>total</i> | <i>59</i> | <i>56</i> | <i>67</i> | <i>41</i> | <i>33</i> | <i>48</i> | <i>44</i> | <i>28⁵</i> |

Source: Consob. ¹ Figures refer to transactions which received the authorisation to file the listing prospectus. ² Share capital increases in listed companies (including increases associated with warrants and convertible bonds). ³ The figure relates to public or private offerings for sale or subscription (not for listing purposes), and employee stock option plans; it does not include offerings involving the recognition of foreign prospectuses. ⁴ Including prospectuses relating to public issuers, issuers of non publicly traded shares and newly founded banks; it does not include bonds, covered warrants, certificates, and employee stock option plans. ⁵ Total amount does not include 3 registration programmes pursuant to art. 3, comma 5, Issuers' Regulation, that were completed with the summary note and the information note during the year.

Out of the six offer and listing prospectuses, two preliminary investigations refer to companies that have successfully concluded the admission process to trading on the MTA (Enav and Tecnoinvestimenti, already listed on AIM Italia). In two cases, that is, the capital increase operations of Veneto Banca and Banca Popolare di Vicenza, the offer did not succeed, due to the low number of subscriptions. Both operations were part of the projects to restore the capital requirements to the levels established by the ECB. Following the low number of subscriptions from shareholders/savers received in response to the two offers, both capital increase transactions were concluded only thanks to the intervention (in sub-underwriting) of Fondo Atlante, an investment vehicle under Italian law, of an alternative closed-end type, reserved for professional investors and promoted and run by Quaestio Capital Management Sgr Spa. In consideration of the high concentration of share ownership of the two banks in Fondo Atlante, which came into being after the aforementioned interventions, neither Banca Popolare di Vicenza's nor Veneto Banca's shares were admitted to trading on the MTA. In another case, the offer was scheduled for 2017, as the company received the approval of the registration document at the end of December 2016. The sixth and final offer has to do with the recapitalisation operation of Banca Monte dei Paschi di Siena (MPS). The Bank planned the

recapitalisation operation to take into account the Draft Decision of 23 June 2016 with which, also in light of the negative results of the EBA stress test, the ECB asked MPS to continue its efforts to reduce its exposure to impaired loans, by 2018 and within the indicated limits. Following the failure of the capital increase transaction, MPS filed an application with the Italian State for extraordinary and temporary financial support and access to the measure of "precautionary recapitalisation", provided for by Decree Law no 237 of 23 December 2016, (so-called 'bank-saving decree').

Out of the seven prospectuses for mere admission to listing, two of them refer to sales reserved for institutional investors, four deal with recapitalisation operations of listed issuers in a situation of financial stress as part of previously agreed upon manoeuvres or corporate reorganisation processes (DMathe Group) as well as capital strengthening operations aimed at repaying the debt and/or pursuing projects for industrial investments or growth through external lines (ASTM, Snai, LVenture Group). The last prospectus for admission to listing came out of the recapitalisation operations of listed bank issuers aimed at integrating the parties involved (Banco Popolare and Banca Popolare di Milano), together with the document pertaining to the offer under option and admission to trading of the newly issued equity securities.

As part of the four options for the increase of capital under option, one in particular relates to a listed issuer in a situation of financial stress (Investments and Development) and another a 3.5-billion-euro capital increase resolved by Saipem as part of a large redefinition of the group's capital and financial structure.

Among the six offer prospectuses of unlisted securities of Italian issuers, five derive from operations to increase the share capital of banks (in one case, the offer prospectus also included the issuance of convertible subordinated bonds) and one from a public offering aimed at setting up a bank (Tab. 42).

During the year, five listed companies availed themselves of the possibility of exemption from publishing the offer or listing prospectus provided for in the Issuers' Regulation, making documents available to the public judged by Consob as equivalent to an information prospectus (Cairo Communication, Snam/Italgas, Centrale of Latte di Torino, Exor and Seat Pagine Gialle).

In two cases, issuers who had applied for approval of prospectuses pertaining to listing and offer transactions requested that the proceedings be stopped during the preliminary investigation.

The practice of companies to request clarifications prior to the prospectus approval application through pre-filing continued in 2016.

Lastly, with specific reference to regulatory activity, a recommendation was published during the year on the representation by the prospectus of specific 'Investor Warnings', with the purpose of giving prominence in an immediate, clear, concise and understandable way to the most significant and relevant critical issues of the issuer and the proposed investment (see below Chapter VI 'Regulatory activity').

3 Supervision of public offering and admission to trading of non-equity instruments

During 2016, Consob approved 604 prospectuses for public offering and admission to trading of non-equity instruments, of which 146 referred to bond loans, 412 to UCIs and 46 to covered warrants and certificates (Tab. 42).

Furthermore, monitoring activities continued of the structural macro-characteristics of non-equity financial products issued on prospectuses, as part of a complementarity between information supervision and supervision on the provision of investment services and compliance with the rules of conduct by intermediaries.

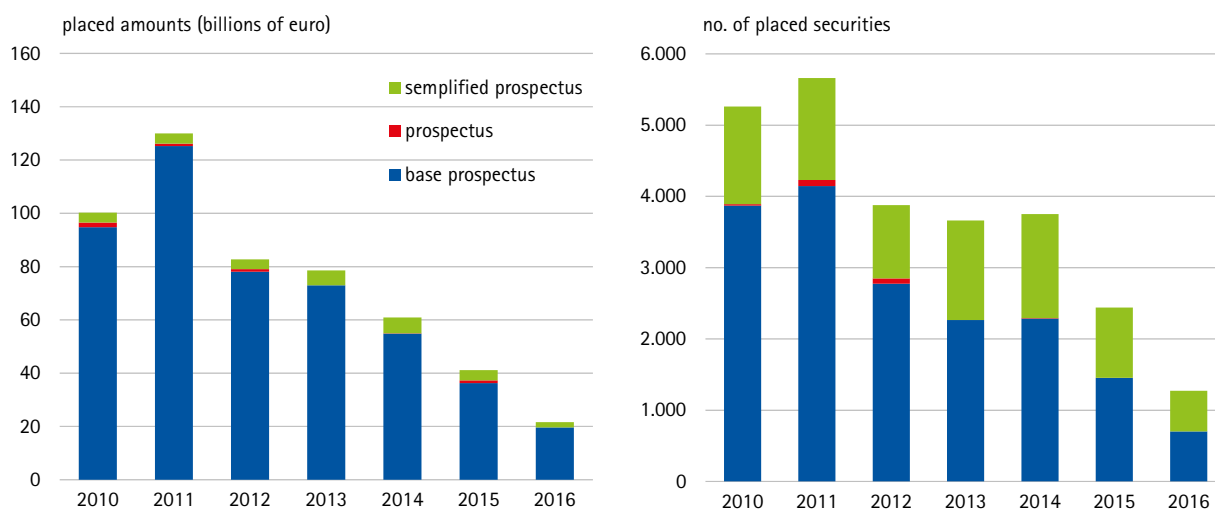
The issuance of non-equity financial products by banks was substantially halved compared to 2015, both in terms of volumes (almost € 22 billion in 2016 compared with around 41 in the previous period) and of the number of securities offered (1,270 compared to 2,440; Fig. 13).

Tab. 42 Supervision of public offerings and admission to trading of non-equity instruments
(number of prospectuses)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|
| bonds | 748 | 655 | 777 | 535 | 517 | 313 | 272 | 146 |
| <i>of which: base prospectuses</i> | 472 | 405 | 416 | 286 | 196 | 148 | 117 | 58 |
| <i>prospectuses</i> | 36 | 24 | 14 | 7 | 3 | 8 | 8 | 3 |
| <i>registration documents and supplements</i> | 240 | 226 | 347 | 242 | 327 | 157 | 147 | 85 |
| covered warrant¹ and certificates | 102 | 27 | 66 | 52 | 104 | 58 | 33 | 46 |
| admission to listing of warrants | 10 | -- | -- | -- | -- | 1 | 1 | -- |
| UCITS² | 337 | 380 | 330 | 415 | 478 | 537 | 424 | 412 |
| <i>total</i> | <i>1,197</i> | <i>1,062</i> | <i>1,173</i> | <i>1,002</i> | <i>1,009</i> | <i>909</i> | <i>730</i> | <i>604</i> |

Source: Consob. ¹ Number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants (in 2016 5.650 covered warrants, for the greater part directly admitted to trading in regulated markets, and 520 certificates). The total includes 29 base prospectuses, five registration documents, and 12 supplements. ² The figure includes public offering of Italian mutual funds and SICAV shares, admission to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies; it also includes trading of new sub-funds of harmonised foreign UCITS. It is noted that: i) from 1 July 2009, no prior authorisation is required for the publication of prospectuses for open-end Italian UCITS; ii) the 1 July 2011 marked the entry into force of a new notification procedure between the authorities of the originator member state and Consob, pursuant to article 93 of Directive 2009/65/EC and Regulation EU 584/2010.

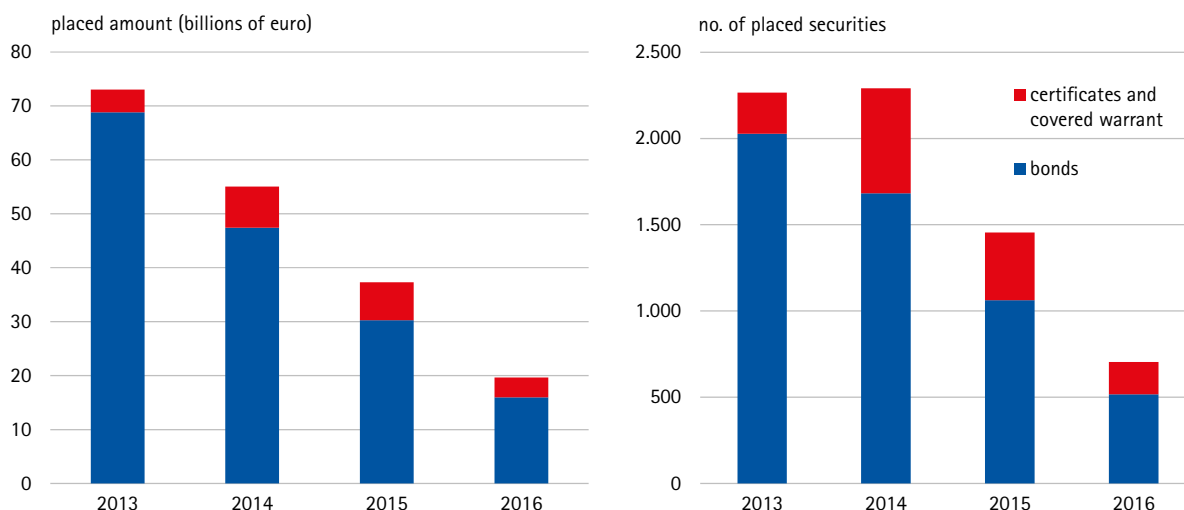
Fig. 13 Bonds, certificates and covered warrants offered by Italian banks by category of prospectus



Source: Consob.

Similar dynamics also characterise the certificates and covered warrants segment, which showed a decrease of around 50 per cent compared to the previous period in terms of both traded values and number of securities (Fig. 14).

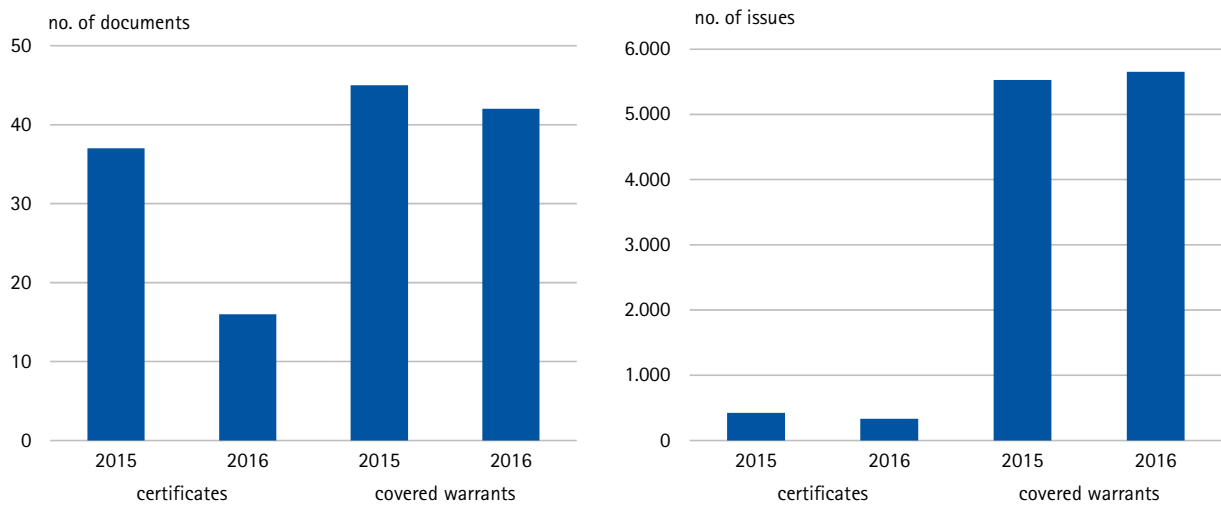
Fig. 14 Italian banks offers of bonds, certificates and covered warrants



Source: Consob.

However, certificates and covered warrants are mainly the subject of mere admission to trading on regulated markets and these admissions did not show any particular decrease for 2016 compared to the previous year (Fig. 15).

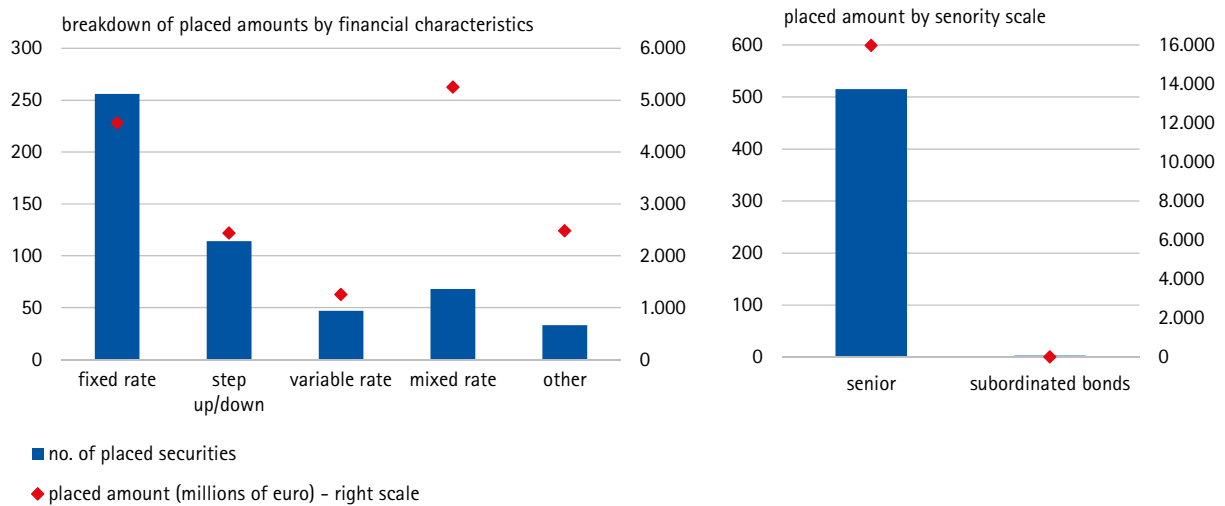
Fig. 15 Certificates and covered warrants directly admitted to trading



Source: Consob.

With regard to the financial structure of bonds issued by banks, the securities offered were characterised mainly by a fixed rate, even if the mixed rate bonds represented the main share of the effectively placed amounts (about a third of the total; Fig. 16).

Fig. 16 Public offering of bank bonds following prospectuses approved by Consob in 2016 by financial characteristics and seniority

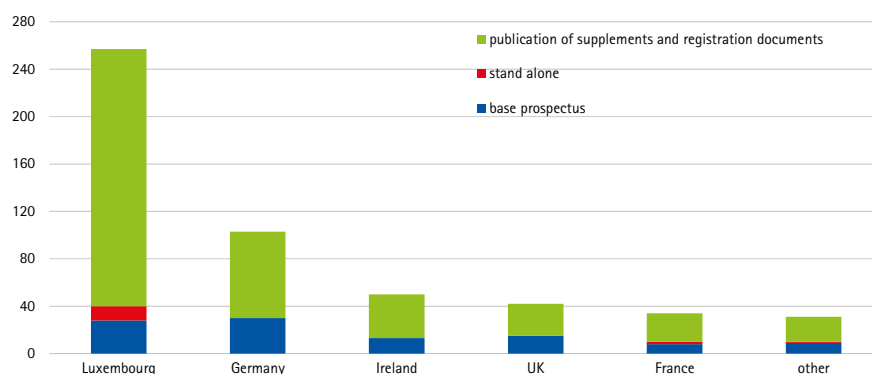


Source: Consob. 'Other' includes cap/floor variable interest rate bonds, mixed interest rate securities, structured bonds and zero-coupon.

With regard to the seniority of the securities, most of the issuances concern senior bonds (over 500 million), while Tier 2 subordinated issuances totalled approximately 7.5 million euro, equivalent to 0.04 per cent of the total placed in the bond segment for prospectuses submitted to Consob approval.

As to the EU non-equity financial instruments of financial issuers, Consob verified in 2016 the completeness and certificate approval validity of 517 documents (463 in 2015) approved by European Union authorities and notified by them to Consob, pursuant to Directive 71/2003/EC. These documents consisted of 399 supplements (77 per cent of the total), 103 base prospectuses (20 per cent) and 15 prospectuses (3 per cent; Fig. 17).

Fig. 17 Offer to the public and admission to trading of non-equity financial instruments – passported instruments



Source: Consob. 'Other' includes The Netherlands, Austria and Liechtenstein.

During the year, as indicated by the Commission, issuers supplemented the offer information provided with regard to certain aspects concerning credit risk.

In 2016, monitoring continued of advertising activities carried out as part of the offer/admission operations for trading on regulated markets of bonds and securitised derivative instruments for prospectuses both domestic and passported in Italy under the cross-border validity regime of the prospectuses.

With regard to the issuing of Savings Certificates for the Southern Economy, Consob as usual verified the existence of the conditions established by the legislation and published on its website the list of the names of the issuers and total value of the securities issued.

4 Supervision of corporate disclosure

In 2016, Consob as usual exercised its powers to ensure that investors would have timely access to clear, complete and useful information for their investment choices.

More specifically, 448 requests for information were made pursuant to art. 115 of the TUF and 65 requests for publication of information and news pursuant to art. 114 of the TUF (Tab. 43).

In 11 cases, the Commission requested the immediate publication of recommendations in the presence of rumours, pursuant to art. 69-h of the Issuers' Regulation. Consob also sent out three letters of warning and initiated a non-compliance proceedings pursuant to art. 154-b, sec. 7 of the TUF. Finally, in 22 circumstances, the Commission reported to the Judicial Authority facts potentially relevant from a criminal point of view established in the performance of its activities.

Tab. 43 Supervision of corporate disclosure and ownership structure

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ⁴ |
|--|------|------|------|------------------|------|------------------|------|-------------------|
| request of information pursuant to art. 115, Consolidated Law on Finance ¹ | 811 | 506 | 611 | 570 | 691 | 633 ² | 502 | 448 |
| request to publish data and information pursuant to art. 114, Consolidated Law on Finance | 267 | 164 | 129 | 128 ³ | 171 | 106 | 89 | 65 |
| waiver of disclosure of data and information pursuant to art. 114, sec. 6, Consolidated Law on Finance | 4 | 2 | 9 | 1 | 17 | 5 | -- | -- |
| delays in disclosure pursuant to art. 114, sec. 3, Consolidated Law on Finance | 1 | 2 | 4 | 6 | 13 | -- | 3 | -- |
| request for immediate publication of researches when there are rumours, pursuant to art 69-novies of Issuers' Regulation | 4 | 4 | 2 | -- | 9 | 29 | 14 | 11 |
| reports to legal authorities | 10 | 6 | 3 | 8 | 13 | 18 | 8 | 22 |
| written reprimand | -- | 2 | -- | -- | 2 | 10 | 6 | 3 |
| challenges of Financial statements | 1 | 1 | -- | 1 | 1 | 1 | -- | -- |
| non-compliance proceedings pursuant to art. 154-ter, sec. 7, Consolidated Law on Finance | 1 | 3 | -- | 10 | 5 | 5 | 2 | 1 |

Source: Consob. ¹ The figure includes requests for information on ownership structure. ² The figure referred to 2014 includes requests for information related to the approval of takeover bids and exchange tender offer documents. ³ The figure for 2012 includes a request for supplementary information concerning related-party transactions. ⁴ During 2016, Consob received 70 communications of waiver of inside information dissemination, according to renovated MAR and a claim pursuant to art 114, sec. 6 of Consolidated Law on Finance.

With Resolution 19702 of 3 August 2016, the list of issuers of financial instruments widely distributed among the public was updated, to which the same articles 114 (except for paragraph 7) and 115 of the TUF apply. On 29 July 2016, based on the communications sent by issuers pursuant to paragraph 2 of art. 108 of Consob Regulation, there were 64 issuers of financial instruments, due to 11 exclusions and nine inclusions, compared to 66 in the previous year.

During the year, pursuant to art. 17, sec. 4 of the new MAR Market Abuse Regulation, in application since July, Consob received from the issuers 70 notices of delay in the dissemination of privileged information.

A single issuer of instruments widespread among the public filed a reasoned complaint pursuant to art. 114, sec. 6 of the TUF, following Consob's request to disseminate information necessary for the public, formulated according to art. 114, sec. 5 of the TUF.

4.1 Accounting information

The supervision of financial and accounting disclosure of listed companies is carried out on a sample basis, as required by articles 118-*a* of the TUF and 89-*c* of the Issuers' Regulation and in line with the principles issued by ESMA on the matter.

The sampling supervision mechanism is in line with the initiatives launched by ESMA in the matter of enforcement to ensure a uniform supervision approach by national authorities (ESMA Guidelines on Enforcement of Financial Information).

As regards the non-compliance proceedings pursuant to art. 154-*c*, sec. 7 of the TUF, on 23 December 2016, Consob notified Gruppo Waste Italia Spa that, following preliminary investigation, possibilities had emerged of non-compliance with the accounting standards applied in preparing the financial and consolidated financial statements for the year as of 31 December 2015 as well as the condensed consolidated half-year financial statements as of 30 June 2016. By Consob resolution 19851 of 25 January 2017, the non-compliance with the rules set for the preparation of the financial and consolidated financial statements as of 31 December 2015 was later confirmed as well as that of the half-year financial report as of 30 June.

Specific analyses were conducted on how the revenues deriving from television rights due to football clubs participating in UEFA competitions were registered.

During the second half of 2016, critical issues emerged regarding information in the financial disclosure by Il Sole 24 Ore Spa in relation to the number of copies distributed by the newspaper of the same name.

The Commission decided to subject certain listed companies to specific additional periodic disclosure requirements in 2016 as well, on the basis of the powers conferred by art. 114 of the TUF. These requirements are reviewed when the issuers' accounting records are published (financial statements and half-year reports), so as to take into account the evolution of the companies' situation.

One of the initiatives activated by Consob in order to strengthen the transparency of the information provided by issuers on certain cases deemed of particular interest was the Recommendation proposal submitted in consultation on 19 April 2016 regarding the representation in financial and separate financial statements of the effects of mergers by incorporation of

operating unlisted companies into non-operating companies listed on regulated markets, with interim accounting effects.

4.2 The banking and insurance sectors

Due to the worsening of the banking sector reference context observed during the year and following the entry into force of the so-called bail-in for the resolution of banking crises, starting on 1 January 2016, Consob intensified its monitoring of financial information disclosed by listed banking issuers. The sector was characterised by various specific weaknesses, such as low profitability, the crisis of traditional banking business models, an excessive level of impaired loans (non-performing loans, NPLs), and uncertainties regarding the impact of the tightening of prudential requirements and the new rules expected in the coming years (accounting standard IFRS 9 and revision of the Basel rules for internal risk assessment models).

In line with a risk-based approach, Consob's supervision focused on the most relevant areas of interest to the sector and to investors, also taking into account the priorities identified by ESMA for 2015 financial statements (EECP). The Commission's activities were carried out consistently with the work undertaken by the other European and international authorities (ESMA, EBA, FSB, ESRB), with the purpose of improving market disclosure and the comparability of financial institutions' financial statements.

The main supervisory measures carried out during the year concerned large-scale bank issuers, which resolved capital strengthening and/or major restructuring operations, often accompanied by plans to divest significant portions of NPLs.

Particularly noteworthy among these are the preliminary investigations carried out on Banca Popolare di Vicenza, Veneto Banca, Banco Popolare – BPM, Banca Monte dei Paschi di Siena and Unicredit.

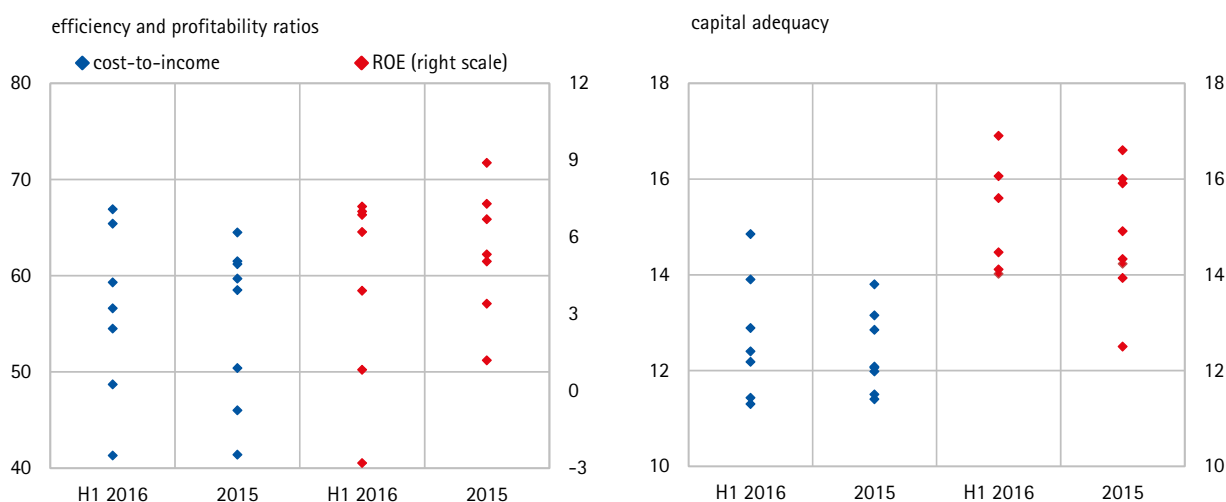
Lastly, in 2016 the Commission paid particular attention to examining issues concerning the foreseeable impact on the financial statements of Italian banks of the new IFRS 9 'Financial Instruments' accounting standard, which will replace the IAS 39 starting from the financial statements of financial years beginning on 1 January 2018, since the new standard will result in a significant change in the classification and measurement methods of financial instruments.

As part of the supervision of listed insurance companies, in 2016 Consob paid particular attention to the changes resulting from the entry into force of Directive 138/2009 (Solvency II) on 1 January 2016, and specifically to the new prudential supervision regime and capital solvency requirements, which will be disclosed in the financial statements published at the end of 2016.

1 Banks

In the first half of 2016, the profitability of the main Italian banking groups decreased slightly compared to the previous year, despite a slight improvement in operating efficiency and the consequent reduction in the cost-to-income ratio. Capital adequacy, on the other hand, remained essentially stable (Fig. 18).

Fig. 18 Income and solvency ratios of major Italian banking group



Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups. See Methodological Notes

As for the trends of revenue items, in the first six months of 2016 there was a reduction in the intermediation margin (-3.4 per cent) due to the contraction of the interest margin (-2.9 per cent), commissions (-4 per cent) and income from financial transactions (-9.8 per cent). This contraction, together with the increase in loan adjustments (+16 per cent), more than offset the slight reduction in operating costs (-1.5 per cent), resulting in a 29.3 per cent net profit decrease (data confirmed as of 30 September 2016; Tab. 44).

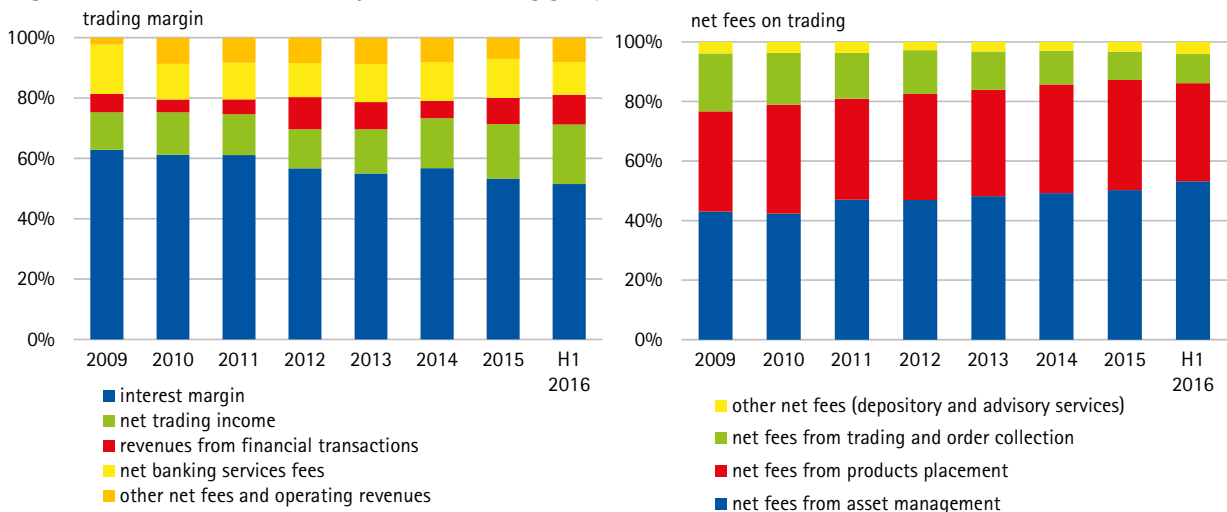
Tab. 44 Aggregate income statement for the major Italian banking groups
(millions of euro and year to year percentage changes)

| | 2012 | 2013 | 2014 | 2015 | 30 Jun 2016 | var. % ¹ | 30 Sep 2016 ² |
|--|---------|---------|---------|---------|----------------|---------------------|-----------------------------|
| interest margin (a) ³ | 34,779 | 30,728 | 31,402 | 30,343 | 13,928 | -2.9 | 19,938 |
| net fees (b = b.1 + b.2 + b.3) | 19,372 | 19,223 | 20,161 | 21,393 | 10,161 | -4.0 | 14,857 |
| <i>of which: investment services and collective asset management (b.1)</i> | 7,940 | 8,165 | 9,181 | 10,293 | 5,353 | -7.1 | |
| trading of securities and currency; order receipt | 1,165 | 1,046 | 1,040 | 976 | 525 | -14.0 | |
| individual portfolio management | 626 | 603 | 626 | 906 | 559 | 23.3 | |
| collective portfolio management | 3,017 | 3,250 | 3,812 | 4,183 | 2,250 | -14.1 | |
| depository bank activity | 83 | 80 | 83 | 80 | 38 | -18.8 | |
| securities custody | 53 | 37 | 18 | 59 | 47 | 67.6 | |
| placement and distribution of financial and insurance products. | 2,825 | 2,921 | 3,347 | 3,810 | 1,764 | -3.9 | |
| advising | 170 | 228 | 254 | 279 | 154 | -3.2 | |
| <i>banking services (b.2)⁴</i> | 6,956 | 7,054 | 7,099 | 7,375 | 2,935 | -2.7 | |
| <i>other net fees (b.3)⁵</i> | 4,304 | 4,003 | 3,881 | 3,726 | 1,874 | 4.1 | |
| profit/loss on financial transactions (c) ⁶ | 6,521 | 5,032 | 3,159 | 4,932 | 2,649 | -9.8 | 3,628 |
| other net operating revenues (d) | 809 | 869 | 593 | 258 | 307 | 243.0 | 279 |
| profit/loss on insurance operations (e) | 828 | 790 | 932 | 997 | 571 | -8.6 | 829 |
| trading margin (f = a+b+c+d+e) | 61,601 | 56,642 | 56,247 | 57,924 | 27,617 | -3.4 | 39,530 |
| operating costs (g) ⁷ | 35,209 | 33,278 | 32,752 | 33,325 | 15,130 | -1.5 | 22,391 |
| operating income (f-g) | 26,393 | 23,363 | 23,495 | 24,599 | 12,486 | -5.6 | 17,139 |
| net credit provisions | -20,004 | -28,069 | -23,225 | -12,627 | -6,704 | 16.1 | -10,692 |
| net provisions on other financial transactions | -1,696 | -999 | -616 | -249 | 15 | -160.0 | -40 |
| net profit ⁸ | 1,053 | -4,217 | -1,607 | 7,004 | 3,245 | -29.3 | 2,879 |

Source: consolidated financial statements and interim reports of the eight largest Italian banking groups in terms of total assets. Rounding may cause discrepancies in the total figure. See Methodological Notes. The data also take into account the major banking groups later merged via M&A into existing groups, except for HVB (consolidated into UniCredit from 1 November 2005). ¹ Percentage change in the first half of 2016 on the first half of 2015. ² Data as of 30 June and 30 September 2016 do not include BNL bank group. ³ Including dividends on equity investment, capital gains and capital losses on equity investment and the balance of interest rate hedging transactions. ⁴ Net fees for guarantees issued and credit derivatives, collection and payment services, net commissions on current accounts, credit cards and ATM services. ⁵ Net fees for servicing on securitisation transactions, factoring and tax collection services. ⁶ The item includes the net result of trading, hedging and assets and liabilities measured at fair value, plus gains or losses from the disposal or buyback of financial assets and liabilities. ⁷ Administrative expenses plus value adjustments on plant, property and equipment and intangible fixed assets. ⁸ Including profit pertaining to non-controlling interests.

In June 2016, interest margin settled at approximately 46 per cent of the total revenues, confirming several years of a downward trend. As to the composition of the intermediation margin, the incidence of net commissions deriving from savings management continued to rise (settling at 53 per cent at the end of the first half of 2016), while the contribution from financial product placement commissions continued to contract (33 per cent; Fig. 19).

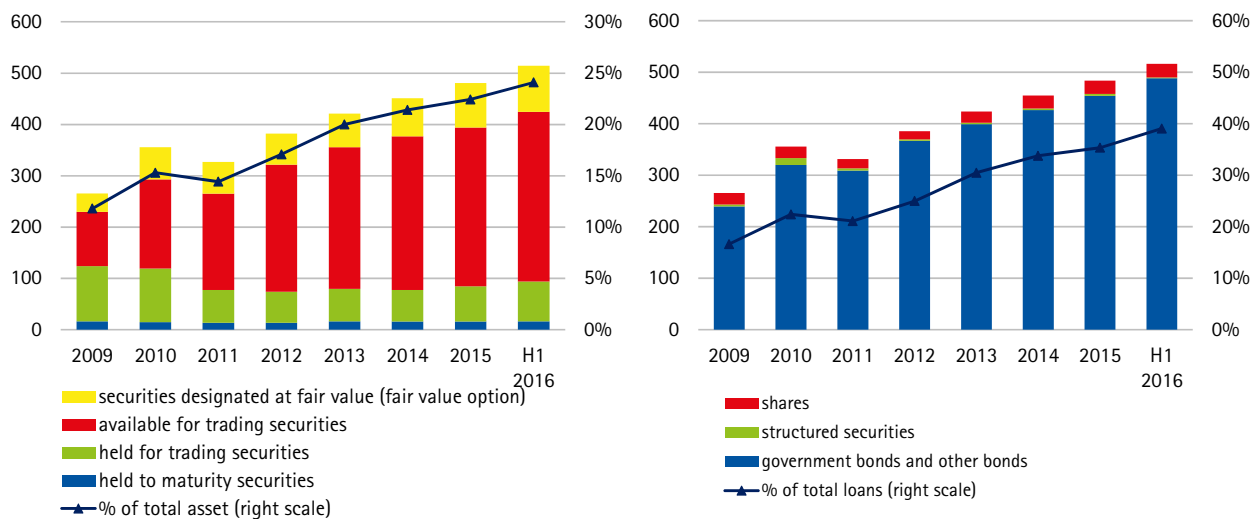
Fig. 19 Revenue breakdown for major Italian banking groups



Source: consolidated financial statements and interim reports of the eight major Italian bank groups in terms of total assets. See Methodological notes- Figures as of 30 June 2016 do not include Bnl Group.

The securities portfolio of the major Italian banks grew compared to the end of 2015, reaching 24 per cent of total assets in the first half of 2016, mainly due to the increase in financial assets available for sale (from EUR 309 to 331 billion). In the same period, the incidence of the securities portfolio on total loans increased from 35 to 39 per cent (Fig. 20).

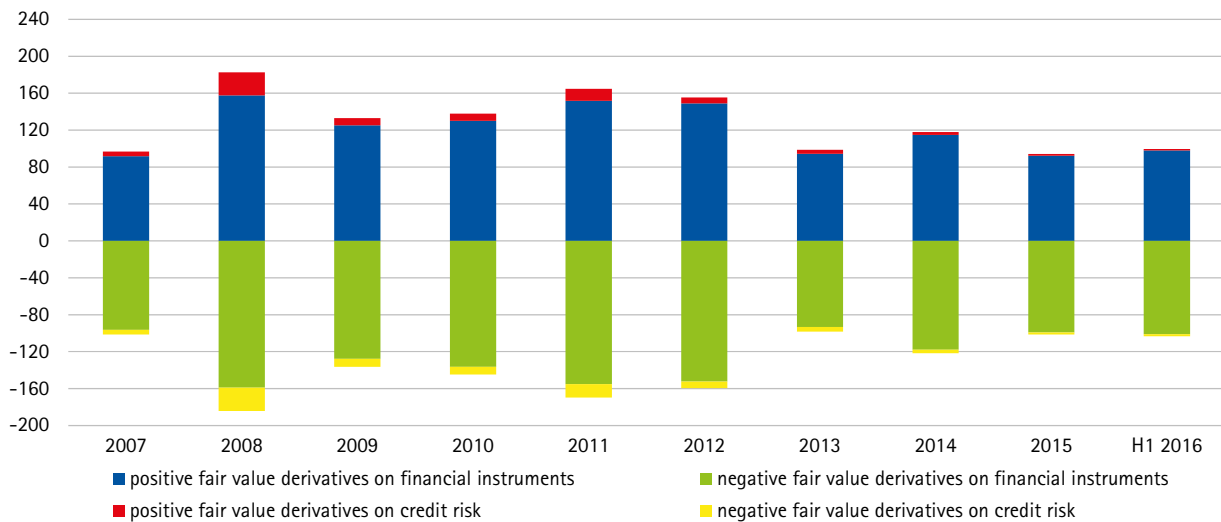
Fig. 20 Security portfolio breakdown for major Italian banking groups
(end of period amounts; billions of euro)



Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups in terms of total assets. See Methodological Notes. Financial assets other than securities (i.e. credit facilities and loans) and already sold assets not yet cancelled, or impaired assets, are excluded. UCITs are included among bonds and Treasury bonds. Figures as of 30 June 2016 do not include Bnl Group.

The gross market value of derivatives (understood as the sum in absolute value of the fair value of active and passive derivatives) grew slightly, going from 196 billion euro at the end of 2015 to around 203 billion in June 2016. Instead, the net market value (given by the difference between the fair value of the derivatives recognised in assets and the derivatives recorded under liabilities) is negative by approximately 4 billion euro (around -7 billion euro in 2015; Fig. 21).

Fig. 21 Fair value of trading derivatives for major Italian banking group
(end of period amounts; billions of euro)



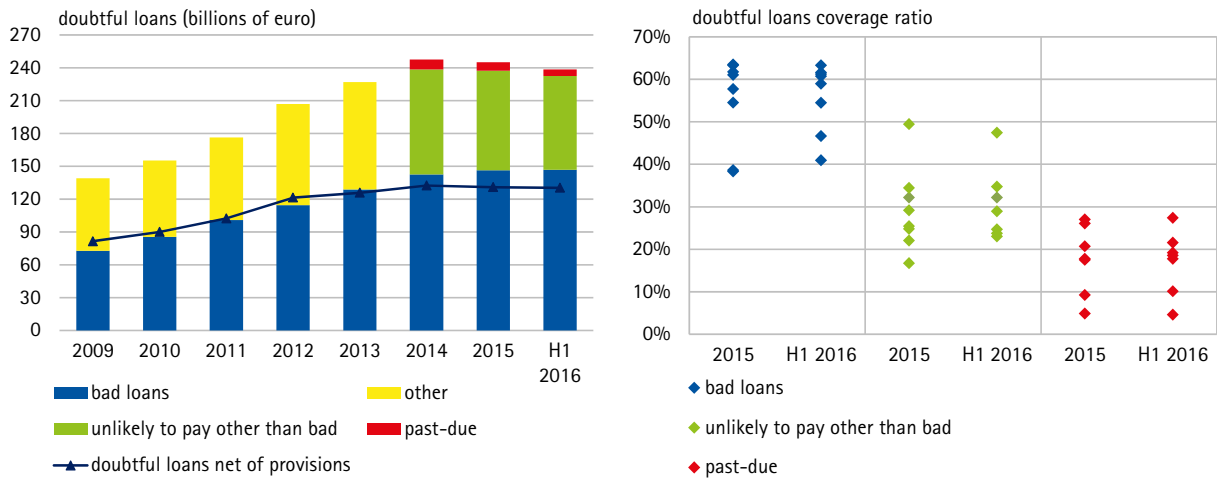
Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups in terms of total assets. See Methodological Notes. Figures as of 30 June 2016 do not include Bnl Group.

In June 2016, credit quality showed a slight improvement for the main banking groups, due to the decrease in the incidence of probable defaults and impaired past due exposures on total gross loans, against the persistent stability of non-performing loans.

62 per cent of gross impaired loans to customers consisted of non-performing loans (around € 147 billion) and 36 per cent of unlikely to pay loans (around € 86 billion), while the gross amount of impaired past due loans was below 3 per cent. In the first half of the year, the coverage rate for non-performing loans remained largely unchanged for all loan categories (Fig. 22).

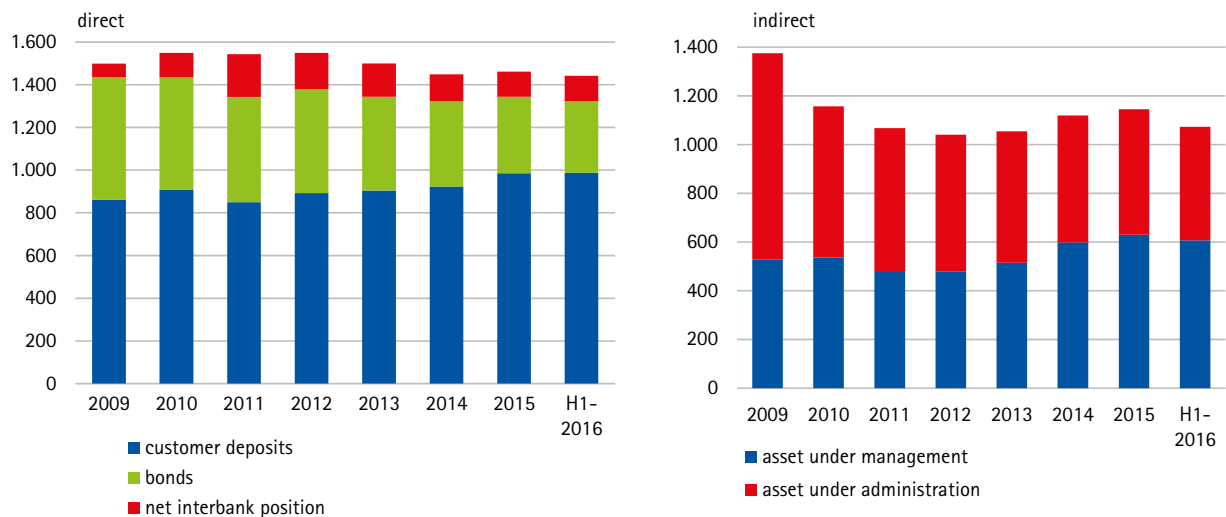
With regard to funding, direct funding remained essentially unchanged, given the stability of deposits and interbank funding and a slight contraction in bond funding (around -7 per cent). Indirect funding, on the other hand, showed a decline mainly due to the trend in administered funds (around 10 per cent; Fig. 23).

Fig. 22 Credit quality of main Italian banking groups



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups in terms of total assets. See Methodological Notes. Starting from the first quarter of 2015 the classification of loans into risk classes was updated in order to reflect the changes provided in Bank of Italy Circular 272 (see also section A.2 Accounting Policies of Explanatory Notes); this update adjusts the previous classification instructions to the definition of 'non-performing exposure' (NPE) introduced by the European banking authority (EBA) through the issue of EBA/ITS /2013/03/rev1 24/7/2014. The total volume of loans classified in the previous categories that made up the perimeter of impaired loans as of December 31, 2014 (Bad Loans, Doubtful, Restructured, Past-due) were reallocated to new risk classes (bad loans, unlikely to pay other than bad, past-due).

Fig. 23 Funding of major Italian banking groups
(year end amounts; billions of euro)

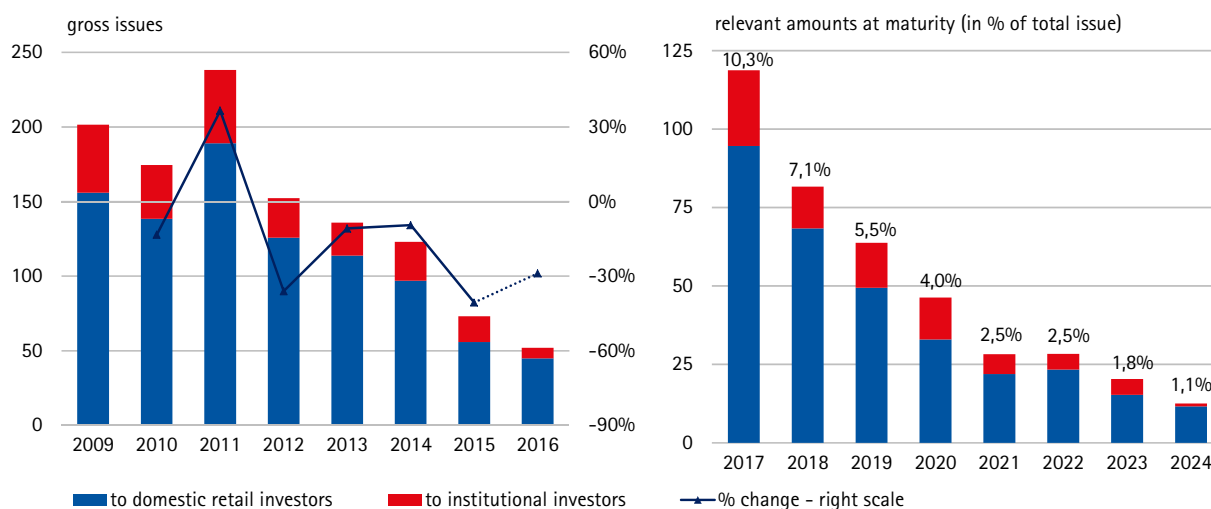


Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups in terms of total assets. See Methodological Notes. Assets under management include technical provisions related to insurance and welfare products issued by companies part of the banking group. Direct funding does not include subordinated and trading liabilities. Figures as of 30 June 2016 do not include Bnl bank group.

In fact, bond issues by Italian banks fell by more than € 21 billion in 2016, to around 52 billion (73 billion in the previous year). The drop was around 20 per cent for issues on the domestic market and almost 60 per cent for placements on the international market.

In terms of refinancing needs, the estimated amount falling due in 2017 is approximately € 120 billion, i.e. over 10 per cent of the amount outstanding from 2009 and 30 per cent of the stock expected to expire by 2024 (approximately € 400 billion; Fig. 24).

Fig. 24 Italian bank bond issues
(amounts in billions of euro)

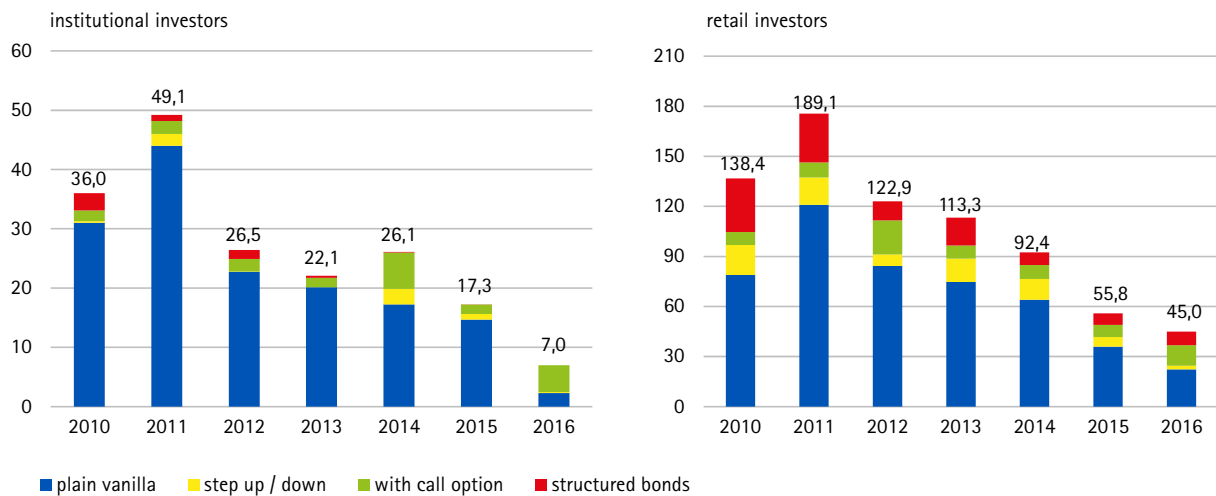


Source: calculations on Dealogic, Consob and Kler's data. Maturities refer to bonds issues from 1 January 2009.

Regarding types of securities, in the first half of the year the share of plain vanilla bonds (i.e. simple fixed-rate or floating rate securities) fell with respect to the total issues on both the domestic and EU market, while the incidence of bonds with an early repayment or call option increased.

Placements destined for professional investors were represented for one third by plain vanilla bonds (85 per cent in 2015), approximately two thirds by bonds with call option and, to a residual extent, by fixed coupon securities with a step-up and step-down threshold. The plain vanilla securities sold to retail customers amounted to half of total issuance, down from 64 per cent in the previous year to the benefit of callable and structured bonds (Fig. 25).

Fig. 25 Bank bond issues breakdown
(placed amount in billions of euro)

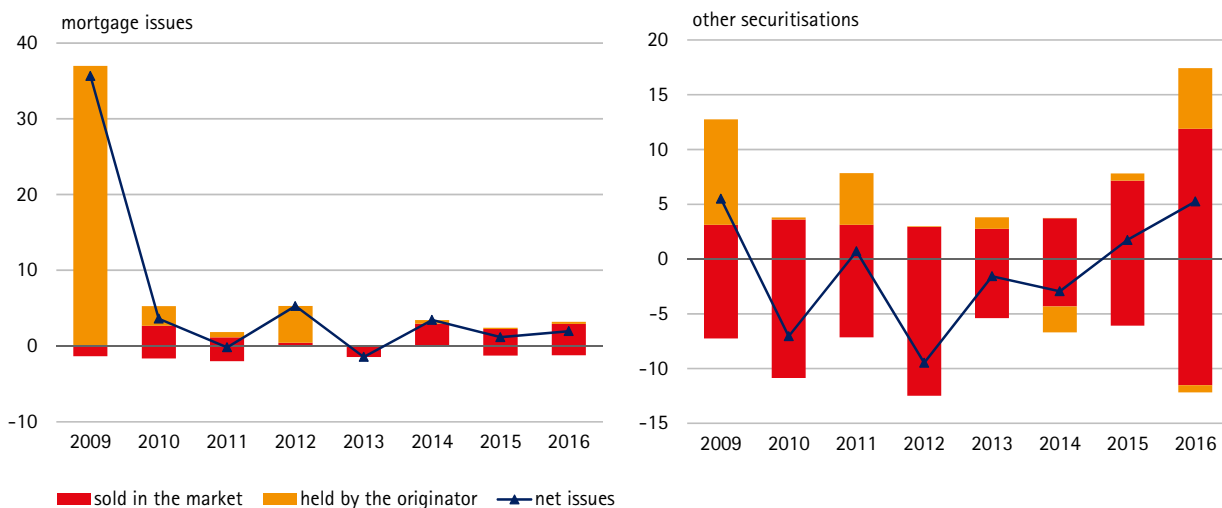


Source: statistical supervisory reports. Provisional and partially estimated data. Bonds guaranteed by Italian Government are excluded.

The securitisation market showed signs of growth, as evidenced by the increase in the total volume of net issues of securities with underlying mortgages and other securitisation types.

In particular, the amount of mortgage-related transactions increased from € 1.2 billion in 2015 to € 2 billion in 2016, while in the same period the volume of other securitisations tripled from 1.7 to 5.2 billion euro (Fig. 26).

Fig. 26 Securitisation issues in Italy
(billions of euro)



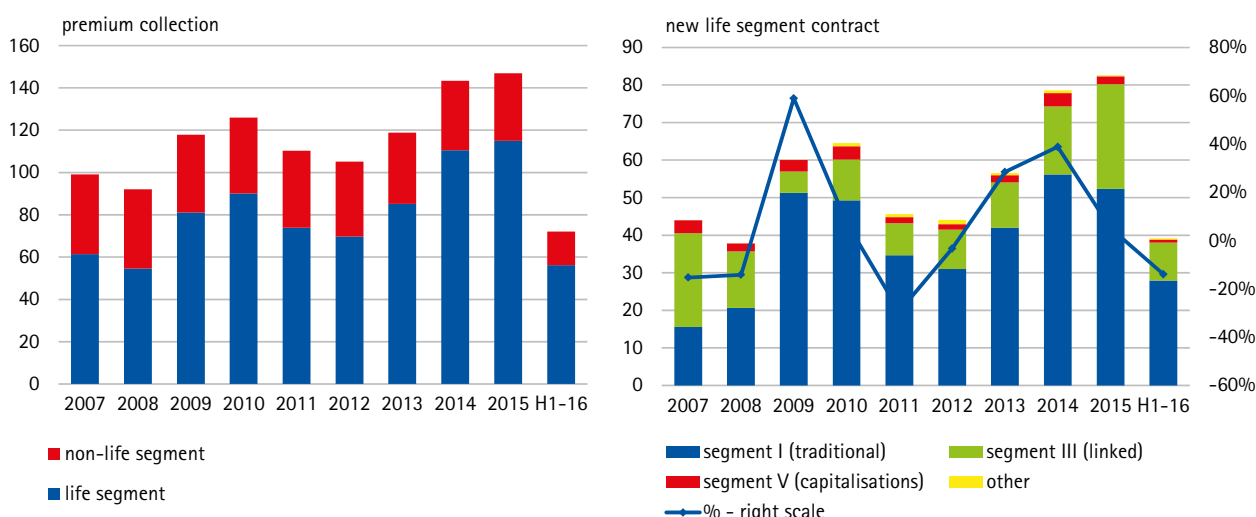
Source: calculations on Dealogic data.

2 Insurances

In the first half of 2016, the collection of insurances decreased in Italy as far as life insurance compared to the same period of the previous year, while it remained essentially stable as far as damage insurance, respectively reaching approximately 56 and 16 billion euro.

The life insurance sector showed a contraction of 5.5 billion euro (-11 per cent). At the same time, the new premiums production decreased by about 36 per cent for both class III (linked to shares of UCIs, internal funds or other indices) and class V insurances (capitalisation operations) to a total of € 11 billion euro in the first half of 2016 compared to € 17 billion in the first half of 2015 (Fig. 27).

Fig. 27 Premiums collected by Italian insurance companies
(end of period amounts; billions of euro)

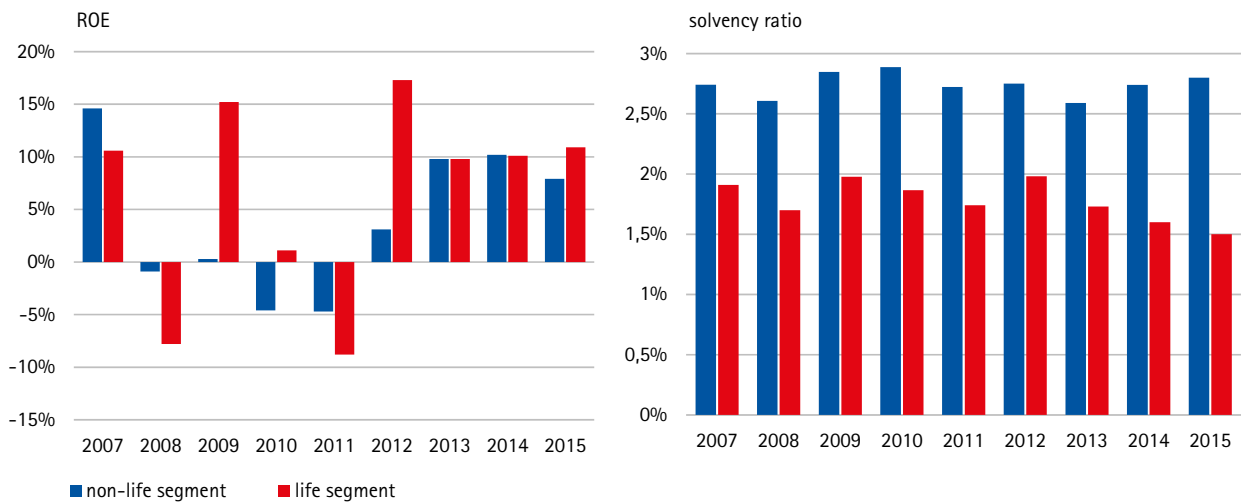


Source: calculations on IVASS data. Figures are net of reinsurance and of amounts placed in Italy by foreign insurance companies. Percentage change as of June 2016 is calculated on June 2015.

The profitability and solvency of insurance companies showed a heterogeneous trend. In 2015, the ROE fell in the damage sector to 8 per cent from 10 per cent in the previous year, while it grew by one percentage point in the life sector, from 10 per cent in the previous period.

The solvency margin declined in the life sector (from 1.6 to 1.5 per cent), while there was an increase in the damage sector (from 2.7 to 2.8 per cent; Fig. 28).

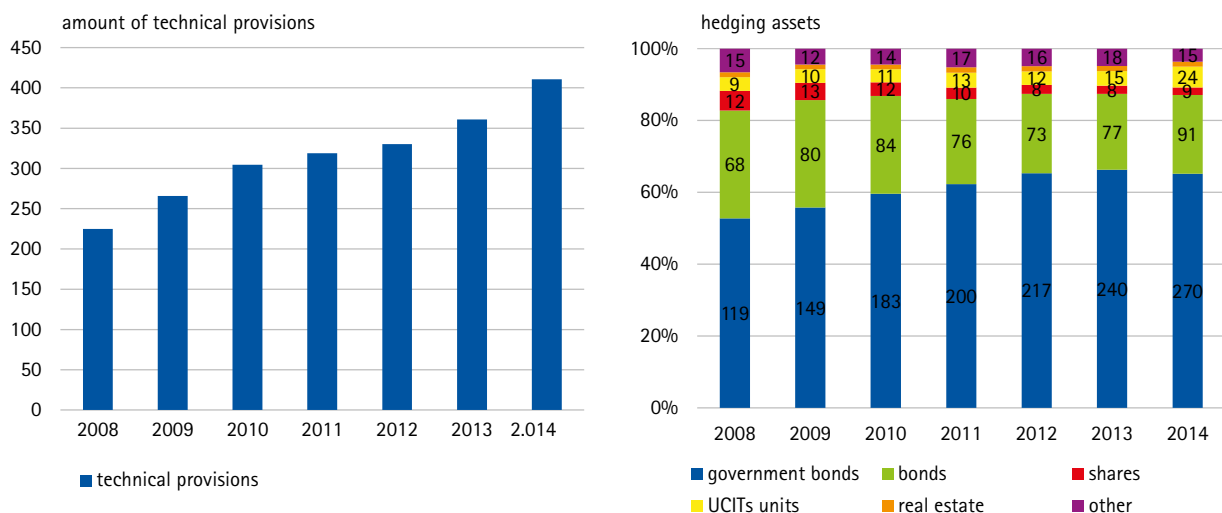
Fig. 28 Profitability and solvency indicators of Italian insurance companies
(end of period amounts; billions of euro)



Source: calculations on IVASS data.

Gross of reinsurers' provisions, technical provisions amounted to €449 billion in the life sector (+9 per cent compared to 2014). Almost 90 per cent of the assets used to cover the technical provisions were government securities and bonds (for an amount of € 281 billion and € 107 billion, respectively). The remaining 10 per cent consisted of shares in UCIs (38 billion), other shares (8 billion) and real estate (6 billion; Fig. 29).

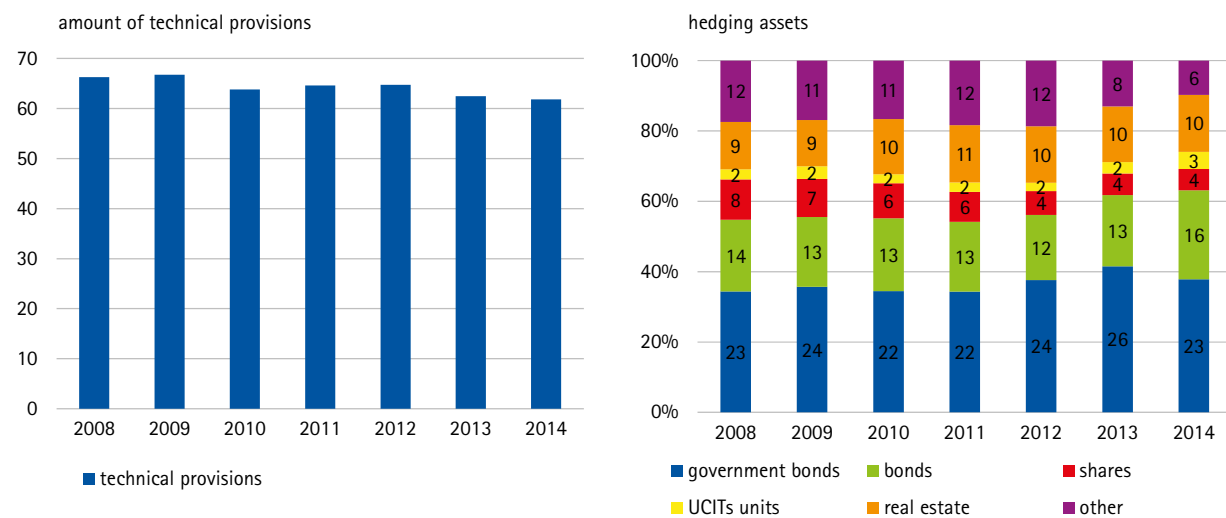
Fig. 29 Technical provisions and investments in life segment
(end of period amounts; billions of euro)



Source: calculations on IVASS data.

As for the damage sector, at the end of 2015, the total amount of technical provisions stood at € 60.3 billion, a slight decrease compared to the previous year. The investments made by companies against technical provisions recorded under liabilities were mainly made up of government securities (22 billion euro), bonds (16 billion) and real estate (10 billion). The remaining assets, amounting to 10 billion euro, pertained to shares in UCIs and other shares and assets (Fig. 30).

Fig. 30 Technical provisions and investments in non-life segment
(end of period amounts; billions of euro)



Source: calculations on IVASS data.

3 Entities authorised to provide investment services

In accordance with current legislation, Consob's supervision of financial intermediaries pursues the objective of operator behaviour transparency and correctness and is conducted in compliance with the general principles of good administration, economic efficiency and effectiveness that govern the conduct of every administrative activity.

In 2016, Consob supervision of banks and other financial intermediaries authorised to provide investment services was conducted according to a risk-based logic, directing its assessments (and inspections) on entities and phenomena considered to be at greater risk of non-compliance with the rules, on the basis of anomaly indicators and their significance with respect to the public interest and business priorities.

The approach followed in the supervision of bank intermediaries is based on standardised procedures of available information analysis to select the relevant intermediaries to be subjected to continuous supervision and to direct the degree of technical discretion in the decision-making phase of

supervisory interventions and types thereof (which entities to involve, which areas to investigate, which instruments to activate).

The supervision mood of financial intermediaries adopted by Consob was examined and given positive evaluations by international bodies such as the International Monetary Fund and ESMA.

In the last year, the number of bank intermediaries authorised to provide investment services continued to decline, reaching 528, thus confirming the dynamics that began in 2009 (when the number of authorised banks was 725; Tab. 45). This phenomenon was particularly significant in 2016 also due to the aggregation and consolidation processes determined by rationalisation operations and crisis situations.

Tab. 45 Authorised investment service intermediaries

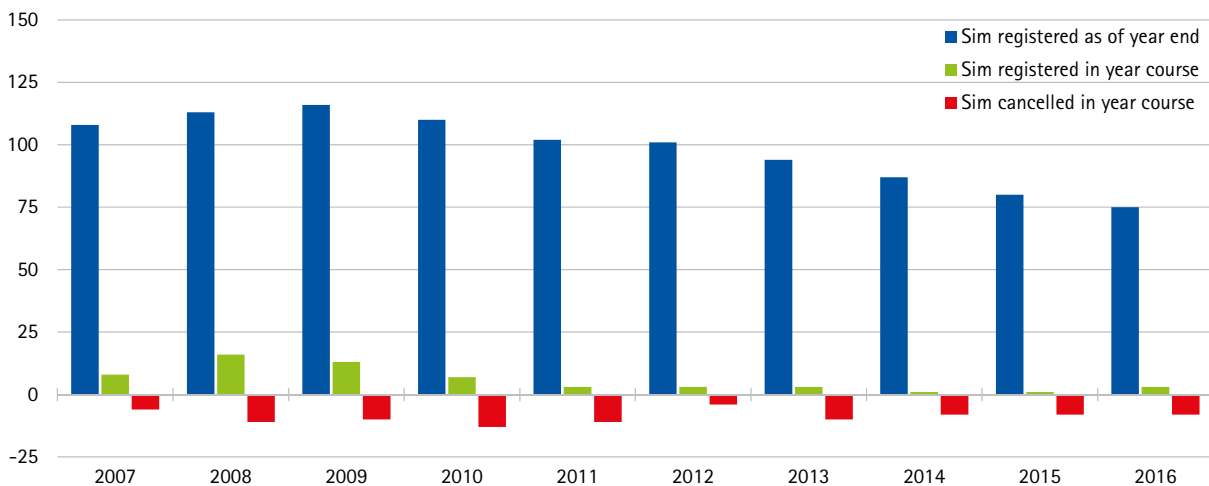
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|------|------|------|------|------|------|------|------|
| <i>total number of authorised providers</i> | 840 | 811 | 778 | 744 | 723 | 692 | 663 | 603 |
| investment firms | | | | | | | | |
| <i>no. of authorized providers</i> | 115 | 110 | 102 | 101 | 94 | 87 | 80 | 75 |
| advising | 110 | 103 | 94 | 92 | 84 | 77 | 70 | 64 |
| trading on one's own account | 17 | 15 | 14 | 14 | 15 | 16 | 15 | 14 |
| trading on behalf of third parties | 25 | 23 | 20 | 20 | 22 | 23 | 22 | 20 |
| placement with prior subscription ¹ | 8 | 6 | 5 | 5 | 5 | 5 | 4 | 5 |
| placement without prior subscription ¹ | 61 | 53 | 47 | 46 | 44 | 45 | 42 | 40 |
| individual management | 49 | 47 | 46 | 44 | 43 | 39 | 38 | 38 |
| receipt and transmission of orders and brokerage | 54 | 52 | 49 | 50 | 48 | 46 | 43 | 39 |
| MTF management | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| <i>average number of services per provider</i> | 2.77 | 2.69 | 2.68 | 2.67 | 2.81 | 2.92 | 2.96 | 2.97 |
| banks | | | | | | | | |
| <i>no. of authorized providers</i> | 725 | 701 | 676 | 643 | 629 | 605 | 583 | 528 |
| advising | 692 | 673 | 651 | 617 | 602 | 583 | 560 | 510 |
| trading on one's own account | 535 | 516 | 500 | 467 | 461 | 445 | 421 | 382 |
| trading on behalf of third parties | 536 | 515 | 499 | 466 | 461 | 447 | 425 | 386 |
| placement with prior subscription ¹ | 261 | 242 | 225 | 208 | 201 | 195 | 184 | 173 |
| placement without prior subscription ¹ | 699 | 674 | 651 | 616 | 603 | 587 | 565 | 511 |
| individual management | 208 | 195 | 181 | 170 | 169 | 166 | 158 | 154 |
| receipt and transmission of orders and brokerage | 705 | 683 | 660 | 624 | 614 | 593 | 572 | 518 |
| MTF management | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 |
| <i>numero medio di servizi per soggetto</i> | 4.66 | 4.65 | 4.65 | 4.60 | 4.63 | 4.99 | 4.64 | 4.66 |

Source: Consob and Bank of Italy. ¹ Includes underwriting and placement based on an irrevocable commitment towards the issuer.

A similar evolution is also seen with reference to Italian investment companies (SIM) and trust companies authorised to provide investment services, which reached 75, a decrease of five units compared to the previous

year (Fig. 31). More specifically, in 2016 three registrations took place and eight cancellations, mainly related to reorganisation of activities within the same group. Furthermore, a SIM was cancelled from the Register following the compulsory administrative liquidation provision adopted by the MEF on a Banca d'Italia proposal.

Fig. 31 Italian investment companies (SIM) and trust companies register



Source: Consob.

The number of trust firms registered in the special section of the Register was equal to four, unchanged compared to 2015.

There were 60 EU investment firms at the end of 2016 authorised to do business in Italy by establishing a registered branch (down by one unit compared to the previous year). During 2016, five registrations were added to the list (four English and one German company) and six cancellations were made (five English and one German company). Most of the EU investment firms authorised to operate in Italy through a branch office come from the United Kingdom (47 financial intermediaries).

In 2016, the National Investor Compensation Fund continued with the new management in reference to bankruptcy proceedings for which a passive status was filed as from 1 February 1998. The indemnity system intervened in 38 cases of insolvency (21 Italian investment companies (SIM), ten stockbrokers, five asset management companies and two banks). This management goes hand in hand with the special management of previous insolvencies, which the MEF contributes to cover (Tab. 46).

Tab. 46 National Investor Compensation Fund interventions
(as of 31 December 2016; monetary amounts in thousands of euros)

| | insolvencies ¹ | | | | <i>total</i> |
|---|---------------------------|---------------|----------|----------|--------------|
| | Sim | stock brokers | AMCs | banks | |
| 1997-2009 | 16 | 9 | 1 | -- | 26 |
| 2010 | 2 | -- | 1 | -- | 3 |
| 2011 | -- | -- | 1 | 1 | 2 |
| 2012 | -- | 1 | -- | 1 | 2 |
| 2013 | 2 | -- | 1 | -- | 3 |
| 2014 | -- | -- | 1 | -- | 1 |
| 2015 | -- | -- | -- | -- | -- |
| 2016 | 1 | -- | -- | -- | 1 |
| <i>no. of insolvencies</i> | 21 | 10 | 5 | 2 | 38 |
| <i>for which liability statements have been filed</i> | 20 | 10 | 5 | 2 | 37 |
| no. of creditors admitted | 2,774 | 1,008 | 1 | -- | 3,783 |
| amount of admitted credits² | 26,452 | 41,396 | 3,751 | -- | 71,599 |
| Fund interventions³ | 9,411 | 11,408 | -- | -- | 20,819 |

Source: National Investor Compensation Fund data. ¹ Insolvencies for which the statement of liabilities was filed with effect from 1 February 1998. ² Values net of partial compensation executed by the bodies responsible for insolvencies procedures. ³ Indemnities authorized, paid or committed resulting from claims received.

4 Supervision of banks and Italian investment companies

During the year, as part of its checks on banks, the Commission sent out 132 requests for information and news concerning attention to the methods of providing investment services (of which 11 refer to the functions of financial advisors).

Two penalty proceedings were issued based on the results of investigations on securities (see below Chapter V 'Inspection and penalties').

As usual, supervisory interventions also made use of meetings with corporate officers. 59 meetings took place, which discussed issues worthy of consideration as far as the individual company situations, provided clarifications and focused the attention of operators on possible critical issues.

As a result of audits, the Commission also ordered the convening of the board of directors of three banking intermediaries, requiring the removal of certain critical aspects. At the same time, penalty proceedings were initiated against the three banking institutions based on proven violations. On the whole, there were nine penalty proceedings that took place against banks in 2016 involving 240 corporate officers.

As for investment firms, as is known, Consob exercises supervisory powers over Italian investment companies as well as EU investment firms that have established a branch office in Italy (for the latter, limited to the verification of compliance with the rules of conduct towards Italian customers). The European investment firms operating in Italy without branch offices, on the other hand, are subject to the exclusive supervision of the pertinent authority of their country of origin.

As for banks, so for investment firms, and especially Italian investment companies (SIM), supervision took the form of convocations of corporate officers, formal requests for information and news, inspections and analyses of the complaints received by Consob.

In detail, one convocation of officers of investment companies was carried out, also one order to convene the board of directors setting the agenda as well as 33 requests for information and news (of which 20 directed at investment companies and 13 at EU investment firms with a branch office in Italy). Two of the 20 requests for information directed at investment companies involved reminders, one of which required corrective action by the financial intermediary (Tab. 47).

Tab. 47 Supervision of banks, SIM and European investment companies
(number of initiatives)

| | | banks | SIM and European investment companies |
|------|---|------------|---------------------------------------|
| 2013 | request of data and information pursuant to art. 8, sec. 1 of Consolidated Law on Finance | 101 | 68 ¹ |
| | convening of directors and management pursuant to art.7, sec.1, lett. a) of Consolidated Law on Finance | 20 | 2 |
| | <i>total</i> | <i>121</i> | <i>70</i> |
| 2014 | request of data and information pursuant to art. 8, sec. 1 of Consolidated Law on Finance | 79 | 25 |
| | convening of directors and management pursuant to art.7, sec.1, lett. a) of Consolidated Law on Finance | 47 | 2 |
| | <i>total</i> | <i>126</i> | <i>27</i> |
| 2015 | request of data and information pursuant to art. 8, sec. 1 of Consolidated Law on Finance | 129 | 46 |
| | convening of directors and management pursuant to art.7, sec.1, lett. a) of Consolidated Law on Finance | 35 | 1 |
| | <i>total</i> | <i>164</i> | <i>47</i> |
| 2016 | request of data and information pursuant to art. 8, sec. 1 of Consolidated Law on Finance | 132 | 33 |
| | convening of directors and management pursuant to art.7, sec.1, lett. a) of Consolidated Law on Finance | 7 | 1 |
| | <i>total</i> | <i>139</i> | <i>34</i> |

Source: Consob. The figures do not include a request to an auditing firm pursuant to art. 8, sec. 2 of Consolidated Law on Finance (following investigation activity in a SIM).

In addition, five collaboration requests were sent to Banca d'Italia, pursuant to art. 10, sec. 2 of the TUF, for the extension on audits in progress on as many investment companies.

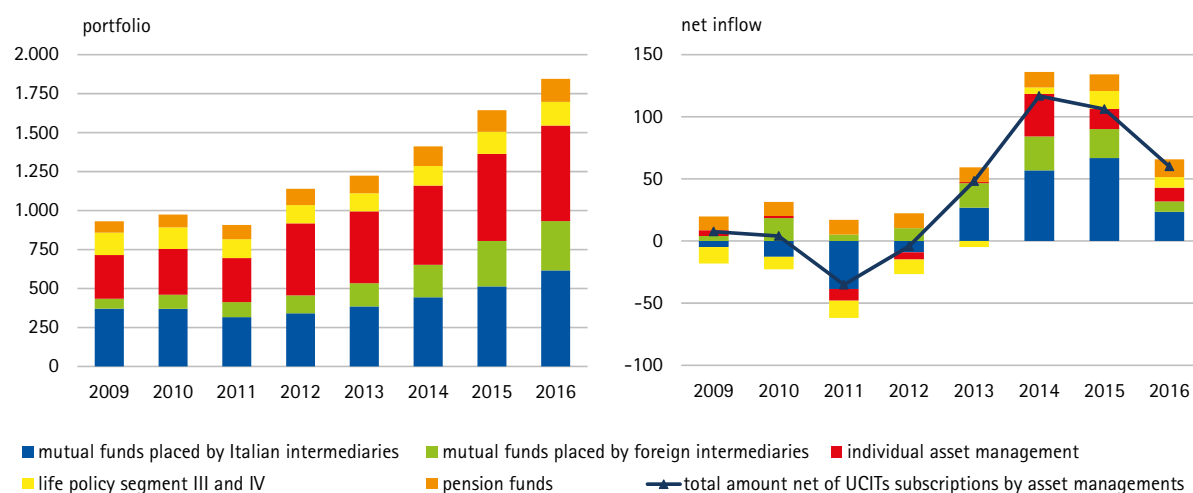
Supervisory activities included also meetings at the request of the supervised, 16 with investment companies, nine with EU investment firms with a branch office in Italy and 12 with stakeholders who asked for clarifications on undertaking initiatives to manage equity-crowdfunding portals.

Based on proven violations of sector regulations, letters of notice were sent to four investment companies and 50 of their officers; a letter of notice was also sent to a EU investment firm with a branch office in Italy and its two officers. Claims were also made against an EU investment firm under English law and its two officers, operating in Italy under the freedom to provide services through off-site financial advisors.

5 Asset management

In 2016, assets related to asset management products continued to rise, standing at over € 1,800 billion from 1,600 in 2015 (around +12 per cent; Fig. 32). Net deposits, on the other hand, declined in all sectors except for pension funds.

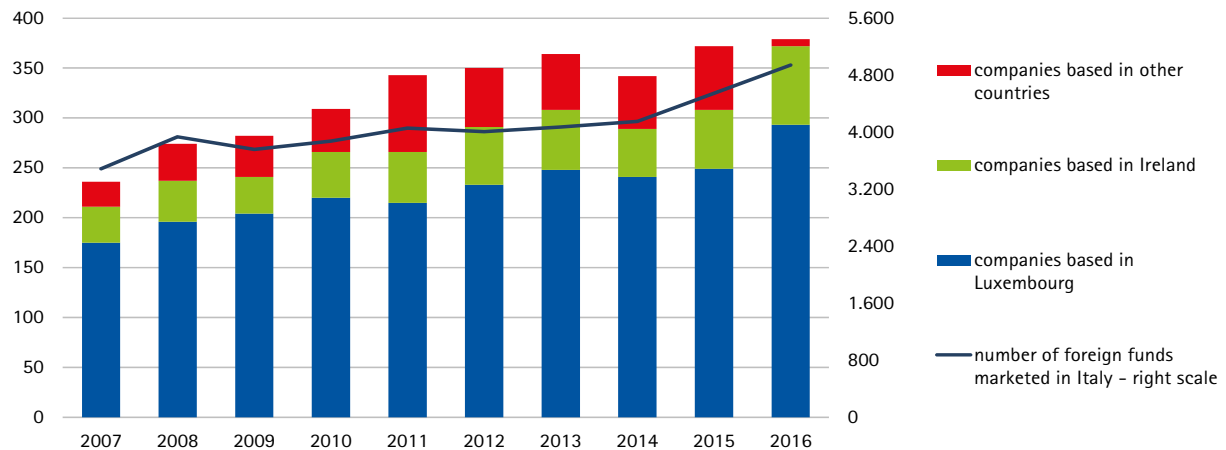
Fig. 32 Portfolio composition and net inflow of asset management products placed in Italy
(billions of euro)



Source: calculations on Ania, Assogestioni, Bank of Italy and Covip data. End of period data. Figures on mutual funds distributed in Italy include Italian companies controlled by foreign intermediaries, Italian open-end funds (harmonised and non harmonised) and foreign funds promoted by Italian intermediaries (roundtrip funds); funds of funds are also included. Figures referred to individual portfolios are net of investments in mutual funds units. The amount of net inflow in 2014 is estimated on data of first semester 2014. Life policy data are net of reinsurance and of amounts placed in Italy by foreign insurance companies. Figures regarding asset managements and pension funds are provisional and partly estimated.

The number of foreign funds marketed in Italy increased during the year, from 4,546 to 4,943 (around +9 per cent). The number of companies based in Luxembourg and Ireland increased significantly (by 44 and 20 units, respectively), while the companies located in other countries that sell funds in Italy decreased by 57 units (Fig. 33).

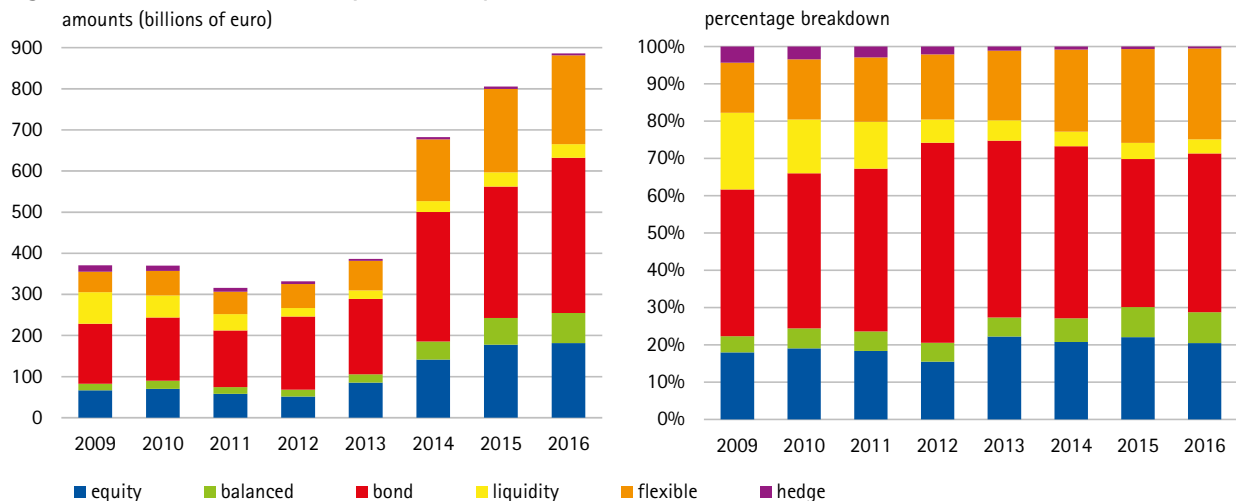
Fig. 33 Number of foreign funds marketed in Italy and number of foreign companies authorised to fund marketing: breakdown by registered office



Source: prospectuses.

Overall, in 2016, managed assets referable to the mutual funds marketed in Italy amounted to almost 900 billion euro, recording a growth of about 100 billion compared to the previous year. The percentage composition of managed assets showed a contraction in equity funds and a slight increase in obligatory funds (Fig. 34).

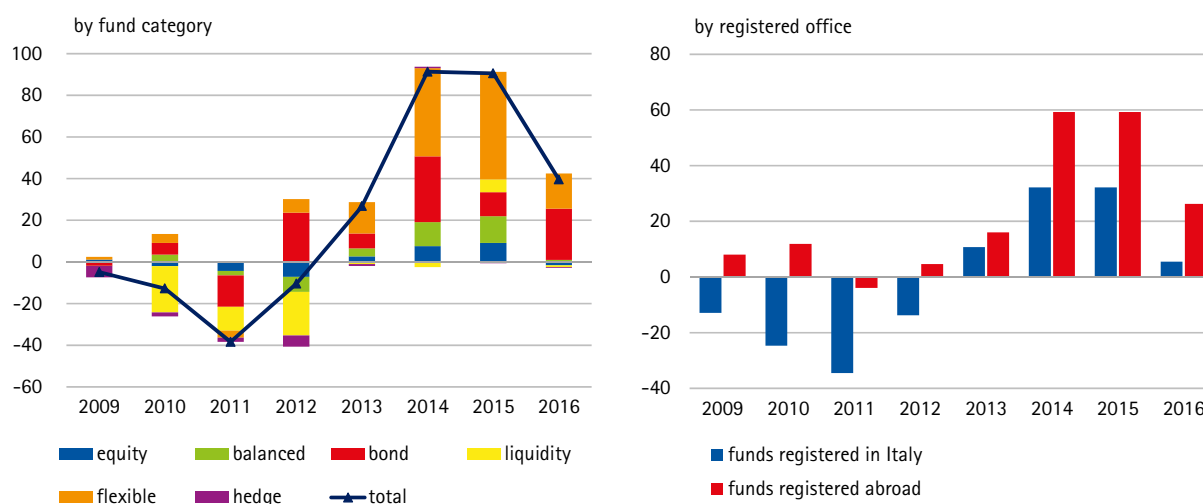
Fig. 34 Net asset of mutual funds placed in Italy



Source: Assogestioni. Data refer to: Italian funds controlled by foreign intermediaries, Italian open-end funds (harmonised and non harmonised) and foreign funds promoted by Italian intermediaries (roundtrip funds); funds of funds are also included. For funds registered abroad, data refer to total assets.

Albeit positive, net deposits experienced a decline reaching around € 40 billion compared to € 90 billion in 2015. This phenomenon affected all the sectors, with the exception of bonds, whose net deposits exceeded € 24 billion during the year, up from 11 billion in the previous year. The negative trend in deposits concerned both the funds domiciled abroad and those in Italy (Fig. 35).

Fig. 35 Net inflows for mutual funds placed in Italy
(billions of euro)

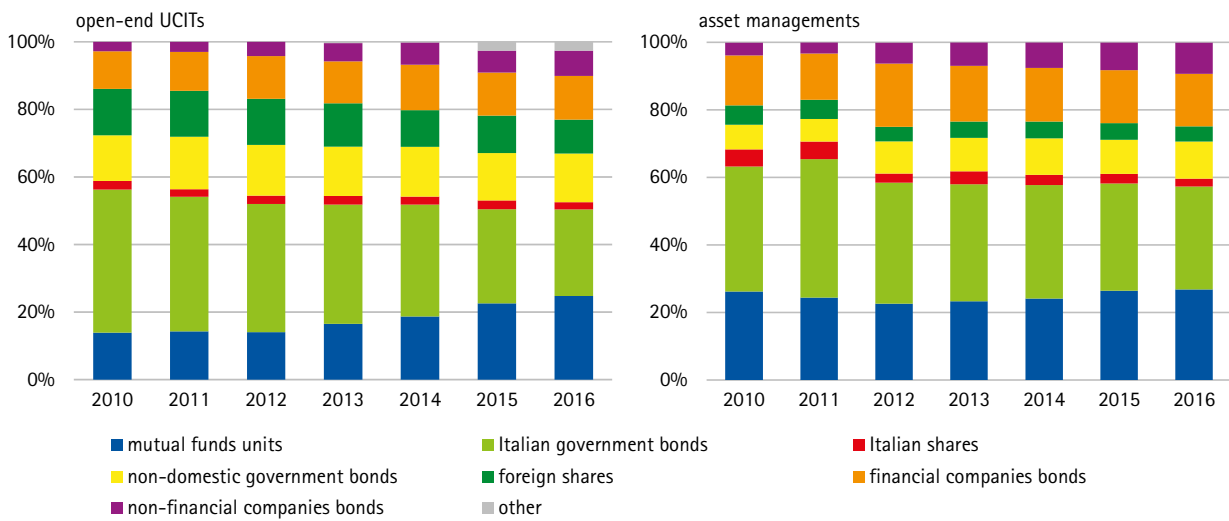


Source: Assogestioni. Data refer to Italian funds controlled by foreign intermediaries, Italian open-end funds (harmonised or non harmonised) and foreign funds promoted by Italian intermediaries (roundtrip funds); funds of funds are also included. For funds registered abroad, data include inflows from foreign investors.

With reference to the composition of the portfolio of open UCIs under Italian law, almost half of the assets were invested in Italian government bonds (25 per cent) and UCI shares (24 per cent). Although it remained the highest, the incidence of public debt securities has been declining for several years now; vice versa, that of UCI shares has shown a constant increase. There was also significant investment in foreign shares and government bonds (equal to 10 and 14 per cent respectively).

For individual asset management companies set up in Italy, there was a prevalence of investment in Italian government bonds as well (around 30 per cent stable) and UCI shares (27 per cent). In addition, in the last period, individual asset management was characterised by a significant share of assets invested in bonds of financial and non-financial companies (equal to 16 and 9 per cent respectively; Fig. 36).

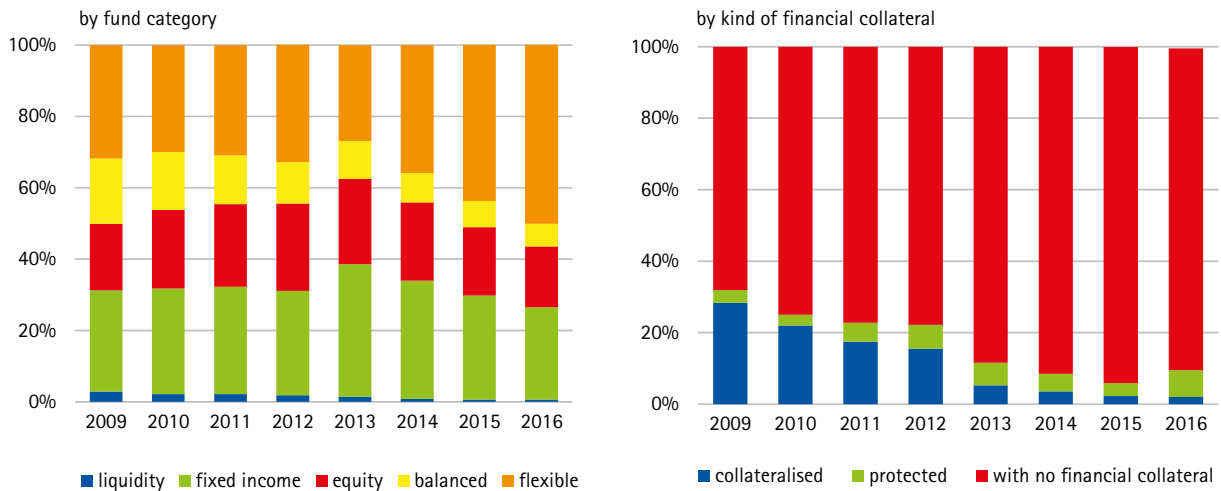
Fig. 36 Asset breakdown of Italian open-end UCITs and investment management schemes of Italian intermediaries



Source: Consob. For 2016, data are updated as of 30 September.

With reference to the funds linked to unit linked insurance plans, during the year the incidence of flexible funds grew to around 50 per cent of the assets managed. Funds not backed by any guarantees remained predominant, whose assets represent approximately 90 per cent of the total funds linked to unit linked insurance plans (Fig. 37).

Fig. 37 Asset breakdown of mutual funds connected to unit linked policies



Source: calculations on Ania data.

6 Supervision of asset management companies

In 2016, consistently with the risk-based supervisory model, the supervision of asset management companies made use of information acquired through inspections, meetings with corporate officers and requests for information and news.

In particular, in addition to the inspections initiated directly (see below Chapter V "Inspection and penalties"), two requests for collaboration were sent to Banca d'Italia, pursuant to art. 10, sec. 2 of the TUF, to extend ongoing audits concerning three asset management companies. Based on proven violations of the rules regarding the correct provision of collective asset management and portfolio management services, 22 letters of notice were sent to the corporate officers of two asset management companies. A formal reminder was issued to one of the firms in addition to the initiation of penalty proceedings.

A meeting was also held with corporate officers (pursuant to art. 7 of the TUF) and, at the request of the management firms, 11 meetings with corporate officers. 11 formal requests for information and news were also sent out (pursuant to art. 8, sec. 1 of the TUF).

With regard to managers of UCITS (organisations falling within application of Directive 2009/65/EC), the analyses concerned correctness of conduct when making investment choices of managed funds, including in terms of adherence of such choices to the investment policy described in the offer documentation.

This segment recorded the increase by one unit in the number of asset management companies dealing in closed-end real estate funds (equal to 54) and an increase in the number of real estate funds, which went from 412 to 418. No funds among those launched in 2016 were destined to the retail public. At the end of the year, net assets under management amounted to approximately € 41 billion, a slight increase compared to the previous period. The data also indicate a gradual improvement in the average debt position of the funds (Tab. 48).

Moreover, in 2016, as part of the collaboration between Consob, MEF and Banca d'Italia, observations were made to the Ministry pertaining to the proposal of compulsory administrative liquidation against an asset management company (pursuant to art. 57 of the TUF) and 28 opinions were provided to Banca d'Italia.

Tab. 48 Closed-end Italian real estate funds¹
(monetary amounts in billions of euro)

| | no. of asset management companies | no. of active funds | net asset value (A) | total assets (B) | total debt (B-A)/B % | percentage breakdown of assets | | | |
|-------------------|-----------------------------------|---------------------|---------------------|------------------|----------------------|--------------------------------|-----------------------|--------------------------|--------------|
| | | | | | | property and property rights | financial instruments | securities and liquidity | other assets |
| 2009 | 54 | 259 | 26.3 | 47.5 | 44.7 | 86.2 | 5.2 | 4.6 | 4.0 |
| 2010 | 56 | 289 | 28.5 | 50.5 | 43.5 | 87.1 | 4.9 | 4.4 | 3.6 |
| 2011 | 57 | 323 | 31.3 | 53.6 | 41.5 | 87.7 | 4.0 | 4.4 | 3.8 |
| 2012 | 58 | 343 | 31.5 | 53.4 | 41.1 | 88.1 | 4.4 | 3.4 | 4.2 |
| 2013 | 55 | 348 | 32.9 | 55.1 | 40.2 | 87.6 | 4.9 | 3.7 | 3.9 |
| 2014 | 55 | 391 | 37.6 | 58.3 | 35.6 | 86.6 | 5.3 | 4.5 | 3.6 |
| 2015 | 53 | 412 | 40.6 | 60.4 | 32.9 | 86.0 | 5.4 | 4.4 | 4.1 |
| 2016 ² | 54 | 418 | 41.2 | 60.8 | 32.3 | 86.8 | 5.2 | 4.7 | 3.3 |

Source: calculations on funds reported data. ¹ Rounding may cause discrepancies in the total figure. ² Figures are updated as of 30 June 2016, as a consequence of the procrastination of the Annual Relation due date for hedge funds management companies (pursuant to art. 3, sec. 1, let.b) d.m. 30/2015.

On the level of transparency supervision, in 2016 the analysis continued of UCITS offer documentation for retail investors, based also on consistency assessments between the information contained in the Key Investor Information Documents (KIID) and the more detailed prospectus information.

Furthermore, supervision focused on the analysis of advertisement carried out by asset management companies, with the main purpose of verifying adherence to the characteristics of the advertised products by the marketing documentation messages addressed to potential investors.

We also proceeded to examine the documentation on applications for the marketing of reserved Italian FIA shares in Italy and/or the other EU member states, pursuant to art. 43 of the TUF (49 investigations overall). An analysis was also carried out of the documentation on applying for the marketing of EU AIF to the retail public in Italy, pursuant to art. 44 of the TUF.

In accordance with the European directives on investment funds, 514 notifications sent by foreign authorities for the marketing of European UCITS shares in Italy were checked for documentation completeness and regularity (pursuant to art. 93 of Directive 2009/65/EC).

In addition, 280 notifications concerning the marketing in Italy of AIF shares by AIFMs under foreign law were verified (pursuant to art. 32 of Directive 2011/61/EU), along with 12 notifications for marketing EuVECA European venture capital funds in Italy (pursuant to EU Regulation 345/2013) and a notification for the marketing in Italy of EuSEF European social entrepreneurship funds (pursuant to EU Regulation).

The examination of the structure of the board of directors of asset management companies and of independent director requirements continued also in 2016. Specifically, an examination and comparison to 2015 data were made of the composition of the boards of directors of the 15 major asset management companies in the banking and insurance sector that managed at least one retail fund under Italian law (representing about 93 per cent of total assets held by open-end funds managed by companies under Italian law) (Tab. 49).

Tab. 49 Infra-group interlocking in asset management companies
(number of directors)

| | | office held in asset management companies | | | | | | | |
|------|---|---|-----------|-----------|-----------------------|----------|-----------------|-----------|------------|
| | | executive directors | | | independent directors | | other directors | | total |
| | | of which: | | | of which: | | of which: | | |
| | | president | Ceo | | president | | president | | |
| 2013 | offices held in parent company | 5 | 4 | -- | 3 | -- | 16 | 4 | 24 |
| | office held in other group companies | 12 | -- | 7 | 6 | 1 | 20 | 2 | 38 |
| | no office held in other group companies | 7 | 1 | 5 | 40 | 2 | 20 | 3 | 67 |
| | total | 24 | 5 | 12 | 49 | 3 | 56 | 9 | 129 |
| 2014 | offices held in parent company | 3 | 2 | -- | 2 | -- | 6 | 1 | 11 |
| | office held in other group companies | 11 | -- | 7 | 4 | 1 | 27 | 5 | 42 |
| | no office held in other group companies | 8 | 2 | 5 | 39 | 2 | 10 | 2 | 57 |
| | total | 22 | 4 | 12 | 45 | 3 | 43 | 8 | 110 |
| 2015 | offices held in parent company | 1 | -- | 1 | 3 | 1 | 6 | 1 | 10 |
| | office held in other group companies | 6 | -- | 6 | 4 | 1 | 27 | 6 | 37 |
| | no office held in other group companies | 7 | -- | 7 | 41 | 3 | 13 | 3 | 61 |
| | total | 14 | -- | 14 | 48 | 5 | 46 | 10 | 108 |
| 2016 | offices held in parent company | 1 | -- | 1 | 2 | 1 | 8 | 1 | 11 |
| | office held in other group companies | 6 | -- | 6 | 4 | 2 | 28 | 7 | 38 |
| | no office held in other group companies | 7 | -- | 7 | 41 | 2 | 7 | 2 | 55 |
| | total | 14 | -- | 14 | 47 | 5 | 43 | 10 | 104 |

Source: information sheets. Figures relate to a sample based on the 15 major asset management companies (SGR) from banking or insurance sector, by volumes of managed assets in 2016; In the case of directors holding office both in the parent group and in other societies belonging to the group, the position in the former is deemed to be prevalent. For the definition of Executive Director reference was made to Article 2381 of the Italian Civil Code, while the definition of Independent Director derives from Assonime conduct code.

7 Supervision of off-site financial advisors

Following Law no 208 of 28 December 2015 (2016 Stability Law), financial promoters as per art. 31 of the TUF took on the appellation "off-site financial advisors", the Register of financial promoters as per art. 31, sec. 4 of the TUF took on the appellation "Single register of financial advisors" and financial advisors as per art. 18-a of the TUF took on the appellation

«independent financial advisors». With Resolution 19548 of 17 March 2016, Consob adopted the new appellations prescribed by the aforementioned 2016 Stability Law in all its regulatory and general acts where the aforementioned stakeholders are mentioned (see below Chapter VI "Regulatory activity").

The off-site financial advisors listed in the Register increased, reaching 55,119 units at the end of 2016 from 54,994 the previous year. The number of active advisors also grew in the same period from 36,313 to 36,819.

No critical situations occurred with regard to keeping the Register by the Body referred to in art. 31, sec. 4 of the TUF (operative since 1 January 2009). Two complaints considered manifestly unfounded regarding measures adopted by said Body were received during the year.

Pending the launch of the new regulatory framework outlined in the 2016 Stability Law, during the year, the supervisory action on off-site financial advisors as usual was mainly driven by reports from financial intermediaries, complaints from investors and communications from the Body, the Judicial Authority and the Judicial Police.

The risk-based approach of the supervision of off-site financial advisors is based on the application of objective criteria for the preventive selection of reports and complaints of violations of sector regulations, resulting in greater focus on more offensive behaviours.

In 2016, 311 reports were received (compared to 377 in 2015), 196 requests for information and news concerning off-site financial advisors were made to financial intermediaries (compared to 190 in 2015) and 85 administrative penalty proceedings were initiated (87 in 2015).

With particular regard to precautionary assessments pursuant to art. 55, sec. 2 of the of the TUF, 25 proceedings were initiated in 2016 compared to 22 in 2015 (for completed proceedings and resolved penalties, see below Chapter V 'Inspection and penalties').

Based on the risk-based supervision model and in light of communication 0012130 of 11 February 2016 regarding the checks made on networks of financial promoters, in 2016, Consob's information type supervision continued to focus on the suitability of the internal procedures monitoring the network of financial advisors for proactively directing operators toward solutions that will limit the risk of incorrect behaviours.

Overall, the proactive nature of the supervisory approach allowed the Commission to continue the process of orienting the financial system towards logics in line with regulations, including those soon to be introduced due to the implementation of Directive 2014/65/EU (MiFID II) and the adaptation of national legislation to Regulation 600/2014/EU (MiFIR).

As a result of the supervisory activities described above, certain best practices were identified in the system of checks on financial advisors and conveyed to the market through the aforementioned communication 0012130 of 11 February 2016, in order to encourage operators that have less advanced control mechanisms to align with them. In addition, certain financial intermediaries have been identified with attention profiles subject to specific and targeted supervisory initiatives.

The initiatives launched by the Commission on distribution methods of complex products to retail customers by the supervised entities continued also in 2016, including in light of the interpretative clarifications provided with communication 0097996 of 22 December 2014.

8 Supervision of equity crowdfunding portals

16 portal operators were listed in the ordinary section of the Register of equity crowdfunding portal operators as of 31 December 2016 (18 at the end of 2015), while only one operator appeared in the special section dedicated to banks and investment firms (unchanged compared to the previous year).

During the year, a registration and three cancellations took place in the ordinary section reserved for entities other than banks and investment firms.

Evidence from 2016 data on portal operations indicate that equity crowdfunding is struggling to take off in Italy. To simplify regulations, Consob's Resolution 19520 of 24 February 2016 amended Regulation 18592 of 26 June 2013, introducing the option for portal operators registered in the ordinary section of choosing to assess directly the appropriateness of the opt-in investments carried out through their respective portals. As of December 2016, five of the 16 portals registered in the ordinary section availed themselves of this option.

To facilitate the development of equity crowdfunding, Law 232/2016 (2017 Stability Law) extended the option of raising capital through online portals not only to start-ups and innovative SMEs but also to all SMEs, adopting for them the same definition introduced by European Commission Recommendation 361/2003.

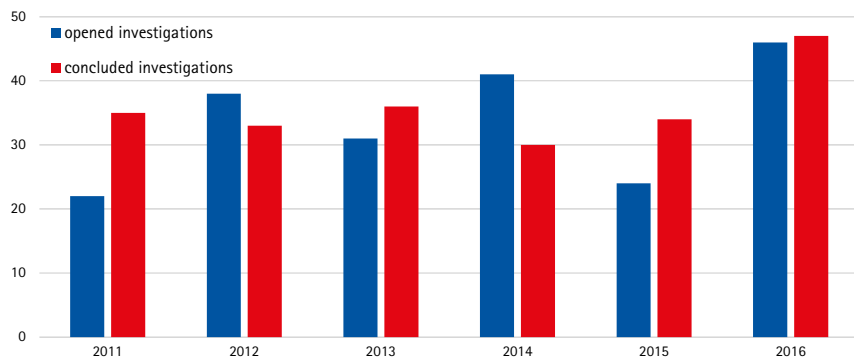
Lastly, during the year, Consob did not receive any complaints regarding portal operators.

V Inspection activity and sanctions

1 Inspections

In 2016, 46 inspections were launched and 47 were completed, of which eight were launched in 2015; at the end of the year, therefore, seven were still ongoing (Fig. 38).

Fig. 38 Inspection activity



Source: Consob.

Half of the inspections carried out in 2016 concerned the rules of conduct and transparency of financial intermediaries; eight concerned ownership structures and public purchase offers; seven involved the application of anti-money laundering safeguards (two of which were carried out on behalf of Banca d'Italia). In the other cases, the inspections were aimed at proving any violations of the regulations regarding corporate disclosure and market abuse, as well as auditing firms in the performance of their duties (Tab. 50).

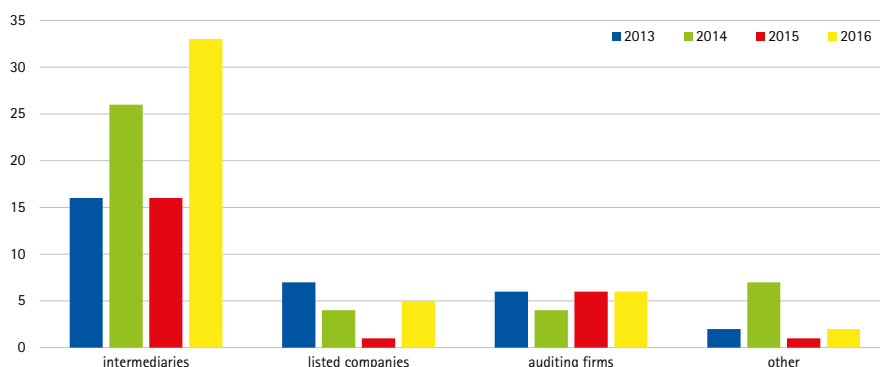
33 of the entities subject to auditing were financial intermediaries, six were auditing firms, five listed companies, one trust company and one company participating indirectly in the capital of a listed issuer (Fig. 39).

Tab. 50 Areas of the inspection activity

| | intermediaries and products | | issuers and audit firms | | | markets | other | |
|------|-----------------------------|--|-------------------------|------------------------------------|------|---------------------------------|---------------------|--|
| | investment services | real estate funds and retail investors | corporate disclosure | ownership structure / takeover bid | | audit appointments ¹ | investment services | real estate funds and retail investors |
| 2013 | 5 | 1 | 2 | 9 | 2013 | 5 | 1 | 2 |
| 2014 | 11 | 3 | 1 | -- | 2014 | 11 | 3 | 1 |
| 2015 | 7 | -- | 3 | -- | 2015 | 7 | -- | 3 |
| 2016 | 23 | -- | 4 | 8 | 2016 | 23 | -- | 4 |

Source: Consob. ¹ Data on 2013 and 2014 include quality controls. ² Figures refer to areas subject to Banca d'Italia supervision other than laundering.

Fig. 39 Investigated entities



Source: Consob.

2 Supervision for the prevention of money laundering and the fight against terrorism

During the year, inspections were launched against five auditing firms and, at the request of Banca d'Italia, against the branch of an investment firm and of an investment company. On the basis of the results of the checks carried out, penalty proceedings were initiated in the same period, pursuant to arts. 56 and 60 of Legislative Decree 231/2007, against three auditing companies.

Furthermore, in 2016, numerous reports were audited regarding possible irregularities by financial advisors concerning anti-money laundering. Following analysis, five penalty proceedings were initiated against as many financial advisors for violations of the provisions on adequate customer due diligence (for completed proceedings and deliberated penalties, see below the paragraph 'Penalties').

In several cases, the evidence obtained on anti-money laundering and countering terrorist financing was transmitted to Banca d'Italia and the Financial Intelligence Unit as part of a collaboration governed by specific memoranda of understanding.

The work carried out on the subject of anti-money laundering and countering terrorist financing was the subject of a positive assessment by the Financial Action Task Force (FATF), whose results were collected in a special Report published in February 2016.

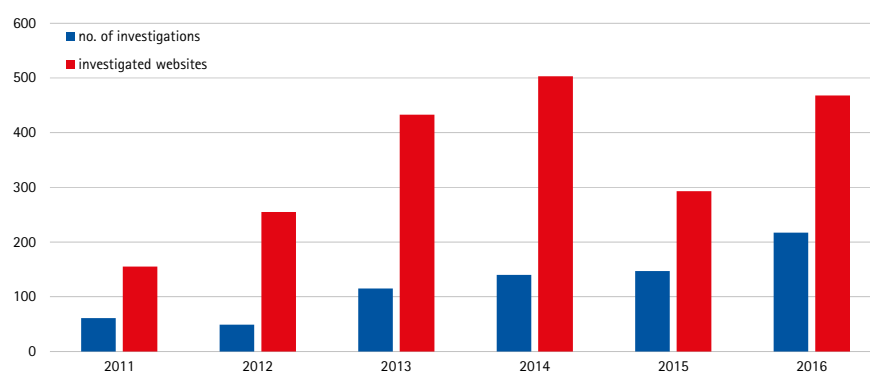
Lastly, Consob actively participated in the work of the Financial Security Committee aimed at coordinating the national apparatus for combating money laundering and terrorist financing and, as part of this collaboration, it contributed to the implementation in Italy of the 4th EU Directive on anti-money laundering and countering the financing of terrorism.

3 Illegal financial activity investigations and measures

3.1 Investigations

In 2016, 217 investigations were carried out involving the analysis of 468 websites for illegal financial activity via the Internet falling within Consob's competence (Fig. 40).

Fig. 40 Investigation of websites



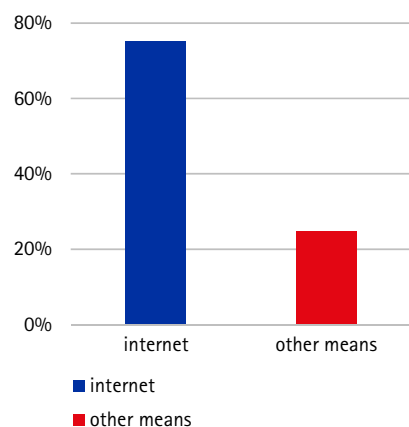
Source: Consob.

During the year, Consob initiated 173 illegal financial activity investigations, an increase of 30 per cent compared to 2015 and 56 per cent compared to the average value of the five-year period 2011-2015, also due to the increase in the number of reports received.

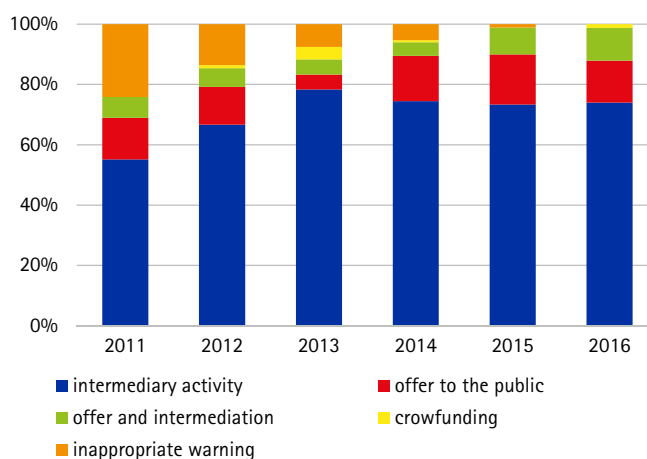
The Internet was used to carry out illegal financial activities for 75 per cent of the cases. Moreover, 74 per cent of the investigations that were initiated involved the possibility of illegal financial activity due to the violation of provisions on financial intermediation (Fig. 41).

Fig. 41 Unauthorised activity

channels through which the unauthorised activity was conducted



unauthorised activity breakdown



Source: Consob.

The investigations carried out in 2016 confirmed known difficulties in identifying perpetrators, as a result of the expedients used to make their identification more complicated.

With reference to the most widespread illegal practices, the web (emails, chats and social networks) and cold calling continued to be the means of contact most frequently used by unauthorised parties to promote their initiatives with the public of savers. Furthermore, unauthorised parties very frequently resorted to a practice similar to the management of portfolios which offers to potential customers the option of opening trading accounts with authorised financial intermediaries for whose 'handling' said unauthorised parties would be issued a special proxy.

Moreover, more frequently than in the past, operational schemes were detected related to the use of software (forex robot, robo advisor, expert advisor and/or trading system) that develop and propose investment options on the basis of market data.

Illegal financial activity investigations for violation of provisions concerning issuers involved mainly initiatives presented to the public of Italian savers as investment opportunities in highly profitable business projects.

In addition, the Commission initiated specific investigations concerning the online offer of 'training packages' to generate and exchange cryptocurrencies within the specific platforms provided by the proposer. In

the cases examined, operations were characterised by lack of transparency, emphasis on the possibility of achieving considerable profits, a pervasive commercial policy and pyramid-like sales schemes developed through a referral network. These cases were reported to the Italian Antitrust Authority for any profiles of interest.

3.2 Measures

In 2016, the Commission adopted 147 initiatives to combat illegal financial activity (118 in 2015) including precautionary and interdictory measures, communications to protect savers and reports to the Judicial Authority (Tab. 51). In relation to the investigated illegal activity cases, Consob initiated 37 penalty proceedings.

Tab. 51 Enforcement measures for unauthorized provision of investment services or activities, unauthorized offer and/or advertisement of financial products

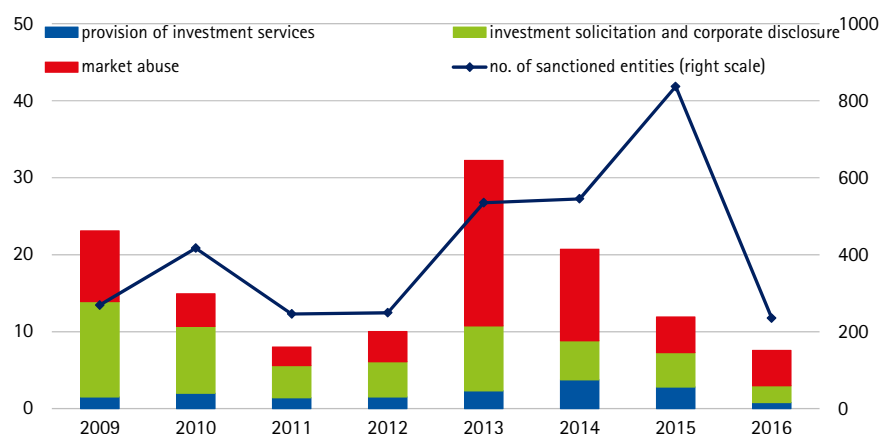
| | infringement of regulations on investment solicitation | | communication to the public (for investor protection) | report to legal authorities | total |
|------|--|--------------------------------------|---|-----------------------------|-------|
| | temporary prohibition to provide inv. services | prohibition to provide inv. services | | | |
| 2009 | 6 | 4 | -- | | 10 |
| 2010 | 5 | 5 | -- | | 10 |
| 2011 | 3 | 6 | 1 | | 10 |
| 2012 | 6 | 6 | 16 | 41 | 69 |
| 2013 | 2 | 2 | 25 | 50 | 79 |
| 2014 | 3 ¹ | 2 | 47 | 66 | 118 |
| 2015 | 6 | 5 | 44 | 63 | 118 |
| 2016 | 14 | 12 | 44 | 77 | 147 |

Source: Consob. ¹ The figure includes an initiative which eventually resulted in the prohibition to provide investment services

4 Penalties

152 penalty proceedings were completed in 2016, 136 of which ended with the application of penalties (268 and 236 in the previous year, respectively). The fines imposed amounted to a total of 7.8 million euro (12.1 million in 2015). During the year, additional interdictory penalties were also imposed for a total of 144 months (142 for market abuses and two for infringement of issuers; 138 months in 2015). Lastly, the value of assets confiscated as a result of proceedings for market abuse violations amounted to 1.1 million euro (594 thousand euro in the previous period; Fig. 42).

Fig. 42 Financial penalties imposed by Consob
(millions of euro)



Source: Consob. Figures include reduced fines and precautionary measures in relation to financial advisors

4.1 Anti-market abuse measures

Seven penalties were applied in total in 2016 for violations of market abuse regulation (20 in 2015), four of which involved abuse of inside information and three proven market manipulation (Tab. 52).

Tab. 52 Disciplinary measures for market abuse offences
(amounts in millions of euro)

| Year | | no. of cases | no. of entities involved | amount of amends | confiscation amounts | no. of entities given additional penalties | additional penalties (months) |
|------|------------------------|--------------|--------------------------|------------------|----------------------|--|-------------------------------|
| 2009 | | 17 | 23 | 9.2 | 20.9 | 20 | 152 |
| 2010 | | 15 | 20 | 4.2 | 2.0 | 19 | 83 |
| 2011 | | 7 | 9 | 2.4 | 1.2 | 8 | 36 |
| 2012 | | 12 | 19 | 3.9 | 6.0 | 16 | 126 |
| 2013 | | 14 | 26 ¹ | 21.6 | 1.8 | 20 | 231 |
| 2014 | | 9 | 21 ² | 11.9 | 0.4 | 13 | 156 |
| 2015 | | 20 | 33 ³ | 4.6 | 0.6 | 31 | 138 |
| 2016 | <i>insider trading</i> | 4 | 5 ⁴ | 1.1 | 1.1 | 5 | 32 |
| | <i>manipulation</i> | 3 | 11 ⁵ | 3.5 | 0 | 8 | 110 |
| | <i>total</i> | <i>7</i> | <i>16</i> | <i>4.6</i> | <i>1.1</i> | <i>13</i> | <i>142</i> |

Source: Consob. Insider trading is punishable under the terms of arts. 187 – *bis*, *quarter*, *quinquies* and *sexies* of the Consolidated Law on Finance (Tuf); market manipulation is punishable under the terms of arts. 187-*ter*, *quarter*, *quinquies* and *sexies* of the Consolidated Law on Finance. ¹ Of which 20 natural person and 6 legal entities; the figure does not include legal entities jointly and severally liable with the authors of the violations. ² The figure includes natural persons and legal entities punished under arts. 187-*bis*, 187-*ter*, 187-*quinquies*; it does not include 3 legal entities jointly and severally liable with the authors of the violation. ³ The figure includes natural persons and legal entities punished under arts. 187-*bis*, 187-*ter*, 187-*quinquies* e 187-*quinquiesdecies*; it does not include 3 legal entities jointly and severally liable with the authors of the violation. ⁴ The figure includes natural persons and legal entities punished under art. 187-*bis*; it does not include a legal entity jointly and severally liable with the authors of the violation. ⁵ The figure includes natural persons and legal entities punished under arts. 187-*ter* (8 natural persons) and 187-*quinquies* (3 legal entities).

The fines imposed as a result of the above were equal to 4.6 million euro (in line with the 2015 figure) and involved 13 natural and 3 legal persons (in addition to a legal entity to which the penalty was applied only as jointly and severally liable with the perpetrators of the violation). Furthermore, in two cases, fines were imposed for the violation of art. 187-d of the TUF (responsibilities of the organisation) for a total of 1.1 million euro.

The mandatory accessory penalty as per art. 187-c of the TUF (temporary loss of the requisites of honourableness and temporary incapacity to assume positions of administration, direction and control within listed companies for a duration of no less than two months and not exceeding three years) was applied to the natural persons responsible for the aforementioned violations for an overall total of 142 months. Where the related regulatory requirements existed, the confiscation of the assets of said natural persons was also ordered pursuant to art. 187-e of the TUF, for a total value of approximately € 1.1 million.

4.2 Measures involving financial intermediaries and advisors

In 2016, ten proceedings concerning securities brokerage were concluded with the application of penalties (18 in the previous year). to two banks, three asset management companies, three securities investment firms and two investment firms with registered offices in the United Kingdom. The pertinent fines, imposed against 80 corporate officers, totalled approximately 800 thousand euro (221 and 2.8 million, respectively, in 2015; Tab. 53).

Tab. 53 Financial penalties inflicted on financial intermediaries
(amounts in millions of euro)

| | no. of involved intermediaries | | | | no. of sanctioned entities | | | | amount of penalties | | | |
|-------------------|--------------------------------|-----|------|-------|----------------------------|-----|------|-------|---------------------|-----|------|-------|
| | banks | Sim | AMCs | total | banks | Sim | AMCs | total | banks | Sim | AMCs | total |
| 2009 ² | 1 | 4 | 2 | 7 | 16 | 6 | 20 | 42 | 0.2 | 0.4 | 0.9 | 1.5 |
| 2010 | 2 | 7 | 2 | 11 | 15 | 50 | 17 | 82 | 0.2 | 1.3 | 0.5 | 2.0 |
| 2011 | 2 | 7 | 2 | 11 | 4 | 37 | 2 | 43 | 0.5 | 0.8 | 0.1 | 1.4 |
| 2012 | 2 | 3 | 2 | 7 | 3 | 5 | 18 | 26 | 0.1 | 1.0 | 0.4 | 1.5 |
| 2013 ³ | 5 | 3 | 6 | 14 | 30 | 17 | 55 | 102 | 0.8 | 0.2 | 1.3 | 2.3 |
| 2014 ⁴ | 4 | 8 | 4 | 16 | 42 | 31 | 28 | 101 | 2.6 | 0.9 | 0.3 | 3.7 |
| 2015 | 8 | 3 | 7 | 18 | 121 | 26 | 74 | 221 | 1.6 | 0.3 | 0.9 | 2.8 |
| 2016 ⁵ | 2 | 5 | 3 | 10 | 38 | 23 | 19 | 80 | 0.2 | 0.4 | 0.2 | 0.8 |

Source: Consob. ¹ Rounding may cause discrepancies in the total figure. ² The figures do not include two amends inflicted on stockbrokers fined for 415 thousand euros. ³ The figure related to SIM includes a European investment companies not having a branch in Italy. ⁴ The figure related to SIM include five European investment companies, three of which not having a branch in Italy. ⁵ The figure related to SIM includes two foreign investment companies.

In 2016, a total of 81 penalties were imposed on off-site financial advisors (122 in 2015), including 38 cancellation from the Register and 39 temporary suspensions (from a minimum of one month to a maximum of four). Furthermore, administrative penalties were applied in two cases, for a total amount of about 5,600 euro, while two other cases involved a written warning. 19 precautionary business suspension measures were also adopted (for a period of 60 days in 15 cases, pursuant to art. 55, sec. 1 of the TUF, and for a period of one year in four cases, pursuant to art. 55, sec. 2 of the TUF). Lastly, 55 reports were sent to the Judicial Authority for criminal matters that emerged during the investigations (Tab. 54).

Tab. 54 Sanctions and precautionary measures to financial advisors

| | sanctions | | | | | total | percentage on the number of advisors in the register | precautionary measures | report to legal authorities |
|------|-----------|----------------------------|-------------------------------------|-------------------|--|-------|--|------------------------|-----------------------------|
| | reprimand | cancellation from register | fixed-term suspension from register | financial penalty | fixed-term suspension from business activity | | | | |
| 2009 | 5 | 43 | 25 | 1 | 74 | 0.26 | 23 | 43 | |
| 2010 | 6 | 78 | 61 | 1 | 146 | 0.51 | 40 | 57 | |
| 2011 | 1 | 92 | 23 | -- | 116 | 0.42 | 28 | 68 | |
| 2012 | -- | 70 | 14 | 1 | 85 | 0.35 | 32 | 38 | |
| 2013 | -- | 44 | 18 | 1 | 63 | 0.27 | 20 | 27 | |
| 2014 | -- | 37 | 22 | 9 | 68 | 0.31 | 39 | 67 | |
| 2015 | -- | 83 | 39 | -- | 122 | 0.42 | 30 | 76 | |
| 2016 | 2 | 38 | 39 | 2 | 81 | 0.27 | 19 | 55 | |

Source: Consob.

4.3 Measures involving issuers

The penalties applied in 2016 for violations of the regulations on issuers amounted to a total of 24 with approximately € 2.1 million in total fines (48 and 4.3 million, respectively, in the previous year; Tab. 55).

One such measure concerned the violation of the requirements to disclose significant shareholdings, and another six proceedings involving similar violations expired early due to appeals for reduced payment (pursuant to art. 16 of Law 689/1981), for a total amount paid of approximately 65 thousand euro.

Ten penalties were applied for violations of corporate disclosure provisions, with fines amounting to 335 thousand euro against nine organisations and a natural person.

As for issuers, six penalties were applied for violations of auditing regulations, with fines amounting to about one million euro.

Tab. 55 Administrative sanctions imposed for breach of Issuers Regulation and breach of regulation on corporate and financial disclosure
(amounts in millions of euro)

| | no. of cases | | | | | | | no. of entities fined | | | | | | amount of sanctions | | | | | | | |
|------|---------------------------------------|-------------------|----------------------|--|----------------------|----------------------------------|--------------|---------------------------------------|-------------------|----------------------|--|----------------------|----------------------------------|---------------------|---------------------------------------|-------------------|----------------------|--|----------------------|----------------------------------|--------------|
| | public offer of sale and subscription | takeover bids Opa | corporate disclosure | significant shareholdings and shareholders' agreements | independent auditing | board of auditors responsibility | <i>total</i> | public offer of sale and subscription | takeover bids Opa | corporate disclosure | significant shareholdings and shareholders' agreements | independent auditing | board of auditors responsibility | <i>total</i> | public offer of sale and subscription | takeover bids Opa | corporate disclosure | significant shareholdings and shareholders' agreements | independent auditing | board of auditors responsibility | <i>total</i> |
| 2009 | 3 | 1 | 17 | 17 | -- | -- | 38 | 11 | 8 | 17 | 18 | -- | -- | 54 | 1.3 | 2.7 | 0.3 | 5.8 | -- | -- | 10.1 |
| 2010 | 4 | 8 | 19 | 35 | -- | -- | 66 | 16 | 16 | 20 | 55 | -- | -- | 107 | 4.4 | 0.9 | 1.2 | 1.3 | -- | -- | 7.8 |
| 2011 | 11 | 3 | 13 | 33 | 3 | -- | 63 | 15 | 1 | 6 | 12 | 3 | -- | 37 | 1.1 | 0.3 | 0.7 | 1.2 | 0.4 | -- | 3.7 |
| 2012 | 5 | 4 | 18 | 17 | 5 | 5 | 54 | 12 | 10 | 18 | 25 | 4 | 14 | 83 | 0.9 | 0.4 | 0.8 | 1.3 | 0.1 | 0.9 | 4.4 |
| 2013 | 10 | 4 | 11 | 8 | 1 | 4 | 38 | 18 | 4 | 11 | 26 | 1 | 18 | 78 | 1.8 | 0.6 | 1.1 | 0.6 | .. | 4.1 | 8.2 |
| 2014 | 6 | -- | 12 | 9 ² | 5 | 8 | 40 | 53 | -- | 13 | 9 ² | 9 | 38 | 122 | 2.1 | -- | 0.3 | 0.5 ² | 1.0 | 1.1 | 4.9 |
| 2015 | 5 | -- | 24 | 4 ³ | 3 | 12 | 48 | 22 | -- | 24 | 4 ³ | 3 | 74 | 127 | 0.6 | -- | 0.3 | 0.1 ³ | 0.5 | 2.8 | 4.3 |
| 2016 | 3 | -- | 10 | 1 | 6 | 4 | 24 | 4 | -- | 10 | 1 | 6 | 12 | 33 | 0.2 | -- | 0.3 | .. ⁴ | 1 | 0.5 | 2.1 |

Source: Consob. ¹ Rounding may cause deviation from total figure. ² The figure does not include three proceedings, which obligation resulting from administrative sanction were early settled by paying a fine (i.e. double the minimum penalty) pursuant to art. 16 of Law no. 689/1981, amounting to 150 thousand euros. ³ It is to be noted that over the year four proceedings for violation of art. 120 of Consolidated Law on Finance expired early following the payment of a reduced penalty, pursuant to art. 16 of Law no. 689/1981, amounting to 200 thousand euros. ⁴ The sanction amount is 5,000 euros. In addition, over the year six proceedings for violation of art. 120 of Consolidated Law on Finance expired early following the payment of a reduced penalty, pursuant to art. 16 of Law no. 689/1981, amounting to 60 thousand euros.

A special mention goes to the first penalty proceedings against an auditing company for violations of provisions adopted by Consob regarding anti-money laundering and the fight against terrorist financing.

With regard to public offerings and related advertising activities, three penalties were applied (two for violations of art.94, sec. 1 and 2 of the TUF and one for violation of art. 103, sec. 4, points *a*) and *b*) of the TUF) with fines amounting to 240 thousand euro. A temporary two-month ban was also applied as an accessory penalty in one case.

In 2016, four measures were adopted for violations of supervisory duties by members of control bodies of listed companies pursuant to art. 149 of the TUF involving 12 individuals, who were fined for a total of 460 thousand euro.

In 2016, Consob's participation in the transposition and implementation of European legislation represented the core of its regulatory activity. Within the framework of the criteria outlined by Law no 114 of 9 July 2015 (European Delegation Law of 2014), Consob offered technical support, together with the other sector authorities involved, for the drafting of the delegated decrees intended to transpose European rules into national law, mainly through amendments to the TUF.

1 Transposition of EU directives

In 2016, Consob participated in the transposition of Directive 2014/65/EU (MiFID II) and the application of EU Regulation 600/2014 (MiFIR), which together define the new legal framework for investment firms, trading venues and data communication service providers.

Transposing the new regulations will entail a significant revision of the TUF and Consob regulations concerning financial intermediaries and markets. During the first semester of the past year, Consob assisted the Ministry of Economy and Finance (MEF) in drafting the normative text containing proposed amendments to the TUF for the pertinent profiles. This text was put up for consultation from 9 May to 9 June 2016 and its transposition will be completed in 2017.

The regulations on provision of investment services by financial intermediaries will be affected by important innovations.

Moreover, with the implementation of MiFID II, the requirement will be introduced for financial intermediaries to make use of personnel with specific advisory service knowledge and competence. In this regard, Consob notified ESMA of its intention to comply with and implement into national law the Guidelines for assessing the knowledge and competence of natural persons providing customers with advice on investments or information about financial instruments and services on behalf of a financial intermediary. Published on 17 December 2015, the 'Guidelines for the assessment of knowledge and competence' will be applied starting from 3 January 2018; from this date on, all the personnel in direct contact with customers must meet the requirements set forth therein.

In view of the transposition at the national level of the Guidelines, at the end of 2016, Consob initiated a preliminary consultation with the financial market for the purpose of acquiring elements of analysis of the aspects that must be defined at the domestic level, so as to enhance issues specific to the Italian context while complying with the objective of maximum regulatory convergence.

As pertains to market regulations, the transposition of the MiFID II - MiFIR package will result in a significant expansion of domestic regulation.

With regard to penalty regulations, the transposition of the MiFID II will provide an opportunity for an overall rationalisation of the TUF's regulatory system, aimed at distinguishing financial intermediary regulation violations from market violations.

Together with the MiFID II transposition, the change will also be completed to the structure of the supervisory powers pertaining to financial advisors provided for in art. 9, sec. 1, point o) of the 2014 European Delegation Law and art. 1, sec. 36 of the 2016 Stability Law.

With the European Delegation Law and the 2016 Stability Law, the supervisory system on financial promoters (renamed 'off-site financial advisors' by the Stability Law), independent financial advisors (renamed 'self-employed financial advisors') and financial advisory firms underwent a radical reform.

The current regulatory framework provides for a differentiated regime for off-site financial advisors with respect to independent financial consultants and financial advisory firms. More specifically, keeping the Register of off-site financial advisors is up to the Body provided for in art. 31, sec. 4 of the TUF, while their supervision and the power to impose penalties over them are attributed to Consob (arts. 31, sec. 6, and 196 of the TUF). However, for independent financial consultants and financial advisory firms, keeping the register, supervision and the power to impose penalties are all attributed to the Body provided for in arts. 18-*a* and 18-*b* of the TUF. This Body, ordered in the form of an association with legal personality under private law, will work in compliance with the principles and criteria established by Consob, with its regulation and under its supervision. In addition, the expenses pertaining to the register of financial advisors are charged to the parties concerned.

In 2016, following the transposition of Directive 2014/91/EU (known as UCITS V), some legislative measures were taken with regard to UCITS regulations. Changes were made to depositary regulations, the penalty system and manager remuneration and incentive policies. As part of this process, Consob provided its technical contribution to the MEF for the drafting of Legislative Decree no 71/2016, which amended the TUF with regard to depositary regulations and the penalty system.

With regard to manager remuneration policies, during 2016, the proposed amendments to the Issuers' Regulation and the joint Banca d'Italia-Consob Regulation on the organisation and procedures of financial intermediaries providing investment or collective asset management services were subjected to public consultation.

Lastly, also as part of the UCITS V Directive transposition process, the Commission provided Banca d'Italia with its competent opinion on the amendment provision scheme for the collective asset management Regulation of 19 January 2015. The amendments are intended to bring the current regulatory framework into line with the new UCITS V derived depositary regulations and to implement the rules concerning the direct granting of loans by EU AIFs in Italy, introduced in the TUF by Legislative Decree 18/2016, converted with amendments into Law no 49 of 8 April 2016.

In the course of the year, Consob worked on the transposition of Directive 2014/56/EU, amending Directive 2006/43/EC, concerning the legal audit of accounts and consolidated accounts. Consob provided its technical contribution to the MEF in drawing up Legislative Decree no 135 of 17 July 2016, amending Legislative Decree no 39 of 27 January 2010 and laying down national auditing regulations.

In 2016, the reform of the administrative penalties system initiated by Legislative Decree 72/2015, concerning unlawful matters pertaining to Consob and Banca d'Italia, was completed.

The transposition of Directive 2004/109/EC was also completed, concerning the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, amended by the new Transparency Directive (2013/50/EU) and transposed by Legislative Decree no 25 of 15 February 2016.

Legislative Decree no 25430 of December 2016 implemented Directive 2014/95/EU, which amended Directive 2013/34/EU, concerning the disclosure of non-financial and diversity information by certain large undertakings and groups.

2 Adaptation of domestic legislation with EU norms

Starting from 3 July 2016, the new provisions introduced by the MAR Regulation and the related Level 2 acts will be applied all over Italy; they regulate issuers' requirements on continuous market disclosure, expanding their subjective and objective scope of application with respect to the previous MAD Directive.

On the occasion of the public consultation submitting to the market secondary regulation modification proposals for the purpose of implementing the new EU Regulation, an open hearing was held in Consob during which the

consultation document was presented and indications on the application of the new regulations were provided to the market, including management of privileged information, the insider list, manager operations and buyback/stabilisation transactions.

Consob also informed ESMA that it will comply and implement in domestic law its Guidelines pursuant to arts. 11 and 17, sec. 11 of the Regulation on the subject of market surveys and delays in the publication of privileged information.

Lastly, Consob notified ESMA of its decision to keep in force for the transition period provided for in art 13, sec. 11 of the Regulation the three market practices that Consob had admitted in the previous administration with Resolutions 16839 of 19 March 2009 and 18406 of 13 December 2012, concerning market liquidity support, purchase of treasury stock to build a portfolio and repurchase of bonds at pre-determined conditions. At the same time, Consob initiated the examination at ESMA to verify the consistency of the three procedures with the Regulation and related implementing provisions.

In 2016, the domestic regulatory framework was made compliant with the provisions introduced by EU Regulation 909/2014 (CSDR), concerning central depository requirements, and with EU Regulation 648/2012 (EMIR) on OTC derivatives, central counterparties and trade repositories. To this end, Consob, assisted the MEF in drafting Legislative Decree no 176 of 12 August 2016 for the pertinent profiles.

In 2016, the domestic legislation was adapted to the provisions of EU Regulation 1286/2014, on documents containing key information for packaged retail investment and insurance-based investment products (PRIIPs). The Regulation introduced the Key Information Document (KID), containing the key information that must be provided to retail investors when purchasing PRIIPs, in order to facilitate understanding and comparability.

3 Additional regulatory interventions

With resolution 19602 of 4 May 2016, the Commission approved the Founding Regulation of the Arbitro per le controversie finanziarie (ACF – Alternative Financial Dispute Resolution Body) while abrogating, as of the ACF start date, Resolution 18275 of 18 July 2012, which had established the Chamber of Conciliation and Arbitration.

The Regulation sets out the criteria for the composition of the ACF and for carrying out decisional procedures for out-of-court dispute resolution. This regulatory intervention follows the enactment of Legislative Decree no 130 of 6 August 2015, implementing Directive 2013/11/EU on alternative consumer dispute resolution. This decree requires Consob

supervised parties to adhere to out-of-court systems for settling disputes with investors, under penalty of administrative penalties. With Resolutions 19700 and 19701 of 3 August 2016, Consob adopted both the organisational and operational provisions of the ACF and the code of ethics to which the members of the deciding collegial body conform their conduct.

Resolution 19520 of 24 February 2016 completed the modification of equity crowdfunding regulation (Regulation 18592 of 26 June 2013 and subsequent amendments) implementing the changes introduced by the so-called "popular banks decree".

During the year, the domestic legislator intervened to change equity crowdfunding legislation and extend the ability to offer financial instruments through online portals to all small and medium-sized enterprises (SMEs) as well as UICs and companies that invest mainly in SMEs (for details on *Discussion paper no 6, Quality of regulation in Consob's experience. From the measurement of administrative burdens to the evaluation cycle. The case of equity crowdfunding*, see Chapter IX 'Support activities and international cooperation').

Recommendations

In October 2016, Consob published the guidelines on drafting 'Investor Notices' and adding them to prospectuses for public offering and admission to trading financial instruments (Recommendation 0096857). This Recommendation comes from the need to enhance investor protection, as investors often have a low level of financial culture and operate in an unstable and volatile economic/financial environment. This measure recognises the widespread practice of using 'Investor Notices' to report particular risk profiles concerning the economic, equity, financial and operating situation of issuers, the financial instruments described in prospectuses and/or the good outcome of the whole public offering/admission to trading operation.

In the prospect of increased retail customer protection, Consob also issued a communication in October in relation to the distribution of financial instruments through a multilateral trading venue.

Concentrating the issuance and trading phases in a single location, higher levels of transparency in terms of the price formation process, cost verifiability and time to complete operations can be encouraged already in the primary market phase. Indeed, exchange on a multilateral trading venue favours a more efficient and transparent price formation for distributed instruments, thanks to the potential presence of multiple interests in buying and selling and the possibility of comparing the prices and yields of a broad set of products.

4 Issuance of agreements to Banca d'Italia

In the context of regulatory activities carried out in 2016, Consob provided for the issuance of agreements to Banca d'Italia on matters of institutional competence.

Specifically, the Commission issued an agreement on some resolution proposals by the Interministerial Committee for Credit and Savings (ICRC), in accordance with the provisions of art. 127 of the Consolidated Law on Banking (TUB), according to which the decisions pertaining to the ICRC provided for in Title VI of the TUB, concerning the transparency of contractual conditions and customer relations, are taken upon proposal of Banca d'Italia, in agreement with Consob.

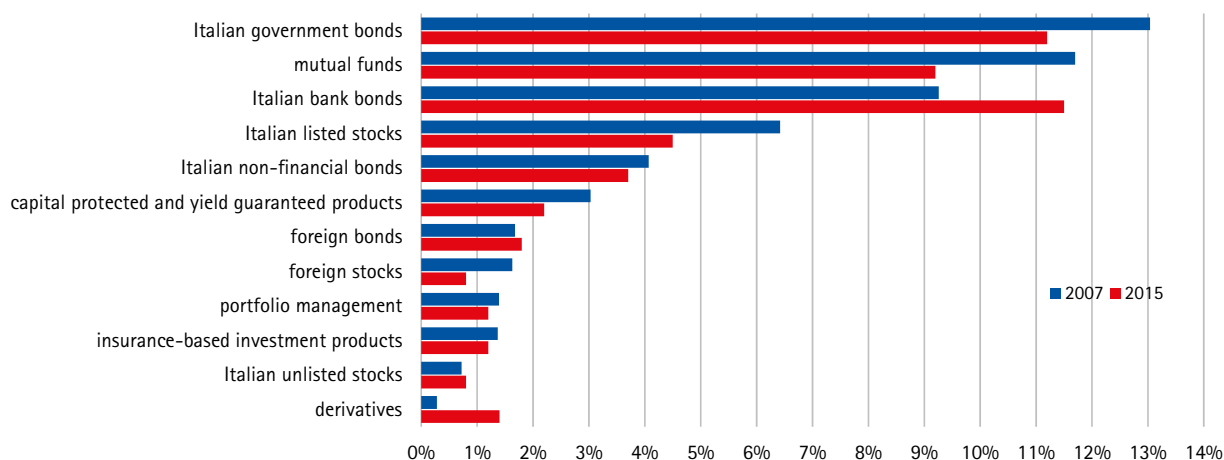
Pursuant to art. 6, sec. 1 of the TUF, an opinion was also issued to Banca d'Italia on a communication regarding a change to the transitional regime of capital conservation buffers applicable to investment companies and groups thereof.

1 Household investment choices

In recent years, the participation of Italian retail investors in financial markets has shown a gradual recovery towards values close to the pre-crisis level; at the end of 2015, in fact, the share of households that owned at least one financial product amounted to 50 per cent of the total compared to 55 per cent in 2007.

Specifically, investment decreased in domestic government bonds, asset management products and Italian listed shares. However, the share of households that own Italian bank bonds increased; this being the most widespread product at the end of 2015 (Fig. 43).

Fig. 43 Italian household financial market participation by financial product
(percentage of households holding the specified financial product)

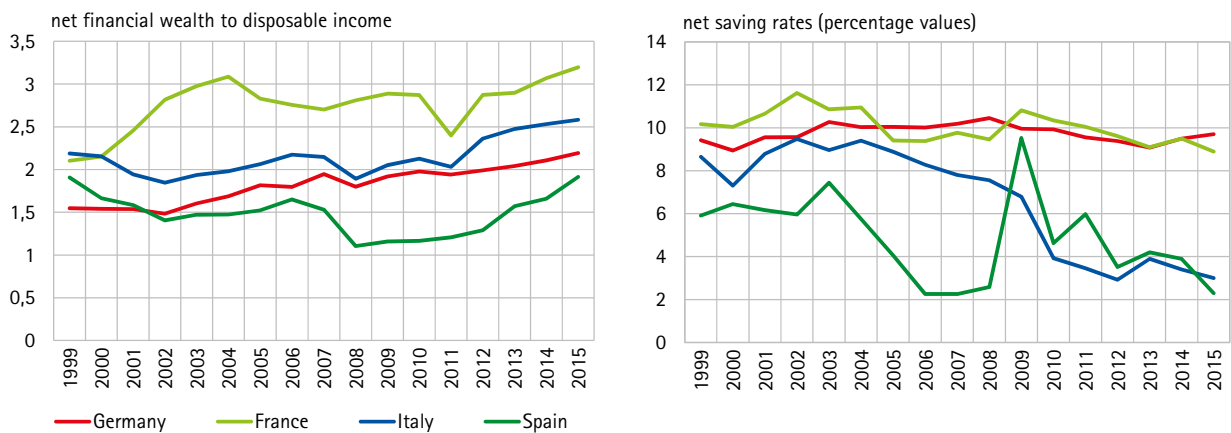


Source: calculations on GfK Eurisko – Multifinanziaria Retail Market data. See Methodological Notes.

The financial wealth and savings rate of the main Eurozone countries showed substantially stable trends compared to previous years and confirmed the heterogeneity of their economic context.

The net financial wealth of Italian households (equal to financial assets net of financial liabilities) at the end of 2015 did not register significant changes compared to the previous year, reaching 2.6 times the disposable income. The net domestic saving rate continued to decline (from 3.4 in 2014 to around 3 in 2015) further widening the gap with France and Germany (whose savings rates were respectively equal to approximately 9.7 and 9 per cent) that began in 2005 (Fig. 44).

Fig. 44 Household net wealth and net saving rates in some euro area countries
(annual data)



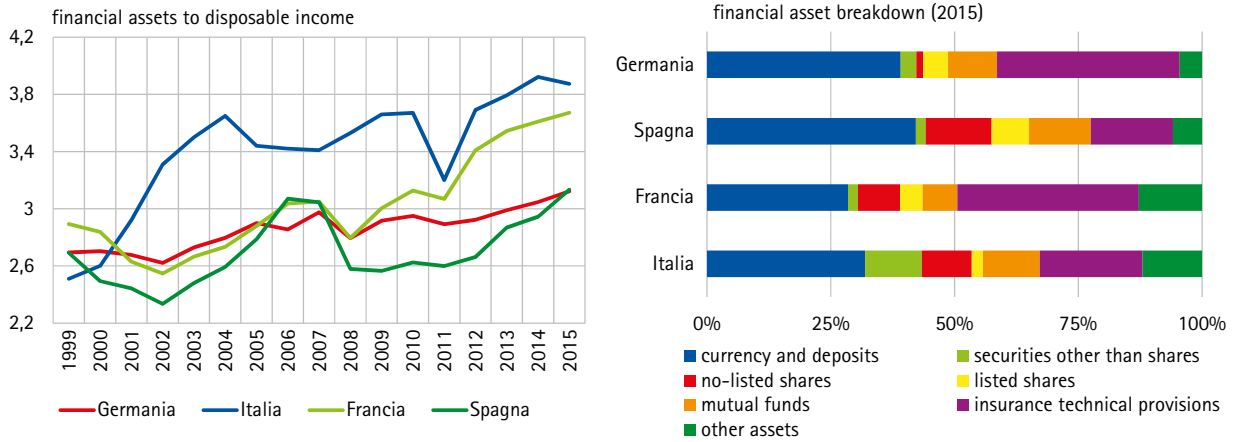
Source: European Commission and Eurostat.

During the course of 2015, Italian investors' financial assets were equal to about four times the disposable income, a slight decrease compared to 2014. This ratio continued to stay higher than in the major economies of the Eurozone, although the gap with other countries was tending towards reduction (Fig. 45). As regards to portfolio composition, Italian households continued to hold a significantly high proportion of financial wealth in bonds and certificates of deposit (11 per cent of the total amount compared to 3 per cent in Germany, 2 per cent in France and one per cent in Spain) although lower than the 2014 figure (around 14 per cent). There was again less propensity to invest in the stock market than in other Eurozone countries, as shown by the relevance of listed shares on financial wealth (2 per cent in Italy compared to 8 per cent in Spain and 5 per cent in France and Germany). A strong discrepancy is seen in relation to investments in insurance policies and pension funds (20 per cent in Italy against almost double in Germany and France). The share of financial wealth in deposits and working capital held by Italian households was equal to 32 per cent, 10 percentage points lower than in Spain and Germany.

The dynamics of financial liabilities were confirmed at the end of 2015 (stable in France and Germany or slightly down in Spain and Italy) as well as the dynamics of consumer credit and mortgage loans recorded since 2014 (Fig. 46).

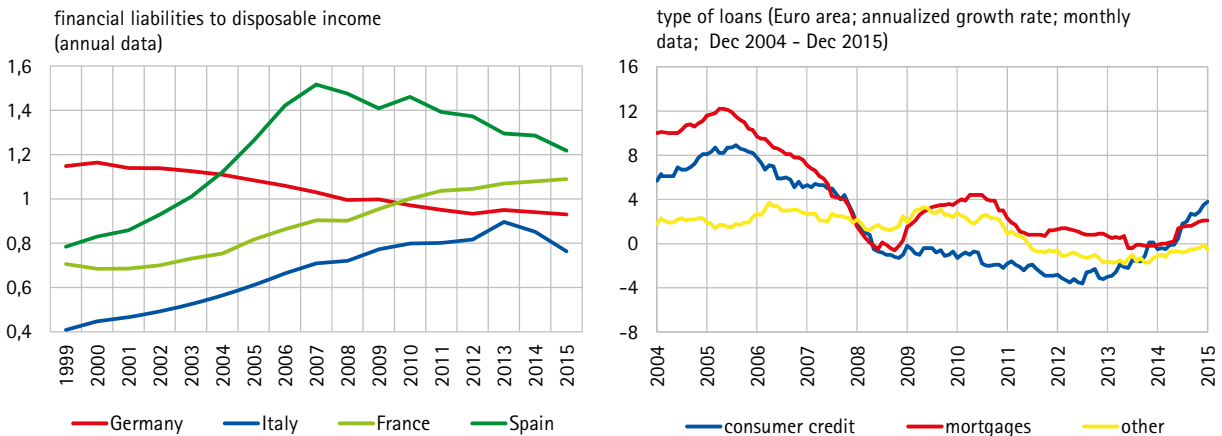
The balance between financial assets and liabilities remained fairly stable in the Eurozone, despite an increase in purchased shares. In Italy, the balance between investment flows was positive and growing, from around 3 per cent of the disposable income in 2014 to 4 per cent in 2015 (Fig. 47).

Fig. 45 Breakdown of household financial wealth by type of asset
(annual data)



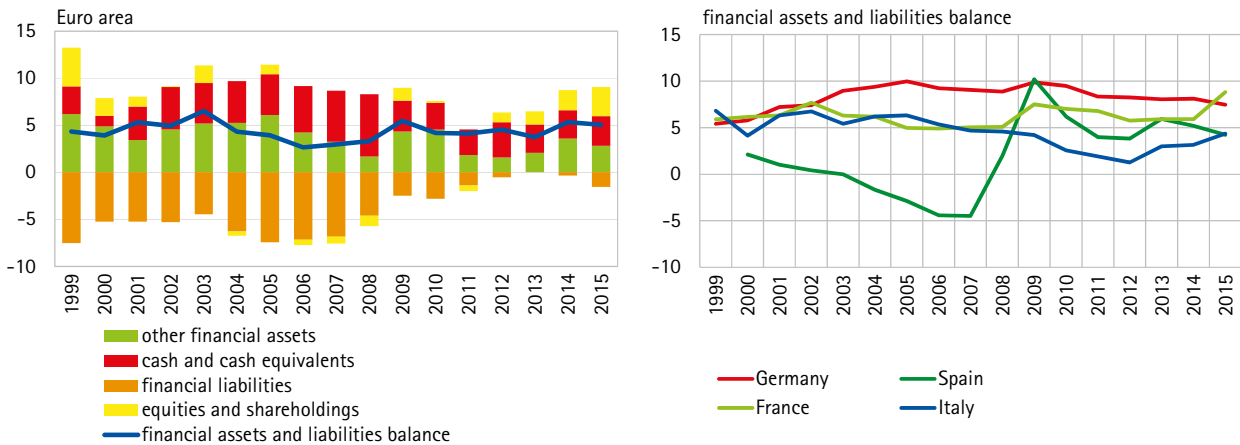
Source: European Commission and Eurostat.

Fig. 46 Financial liabilities and type of loans in the Euro area



Source: calculations on BCE ed Eurostat data.

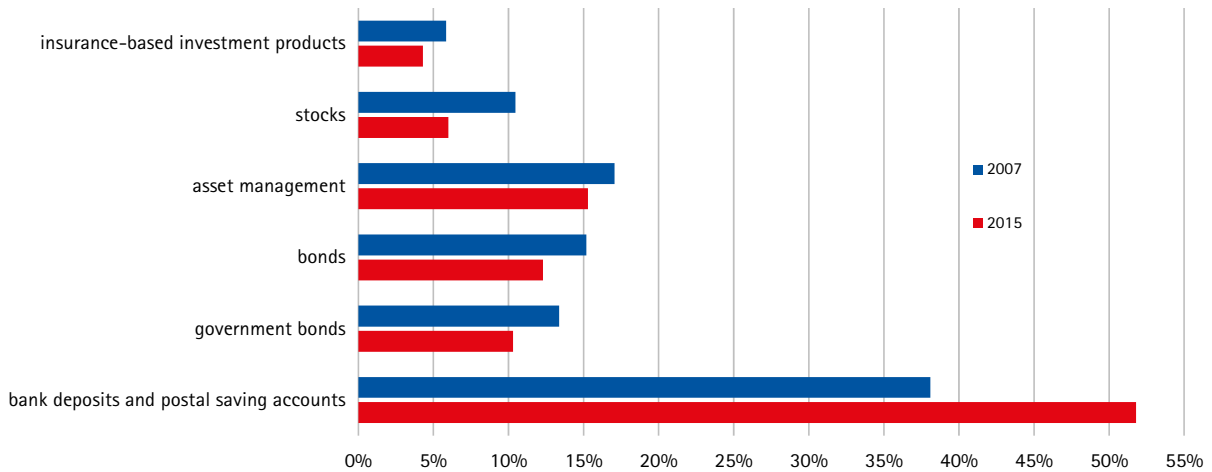
Fig. 47 Trends in household debt in the euro area
(annual data in percentage of disposable income)



Source: calculations on BCE and Eurostat data.

In line with the dynamics of investments, after 2007, the portfolio composition of Italian investors reflected an increased interest in bank and postal deposits (whose incidence on total assets rose from 38 per cent in 2007 to 52 per cent in 2015), compared to the decrease in wealth held in shares (-43 per cent), public debt securities (-23 per cent) and bonds (-19 per cent; Fig. 48).

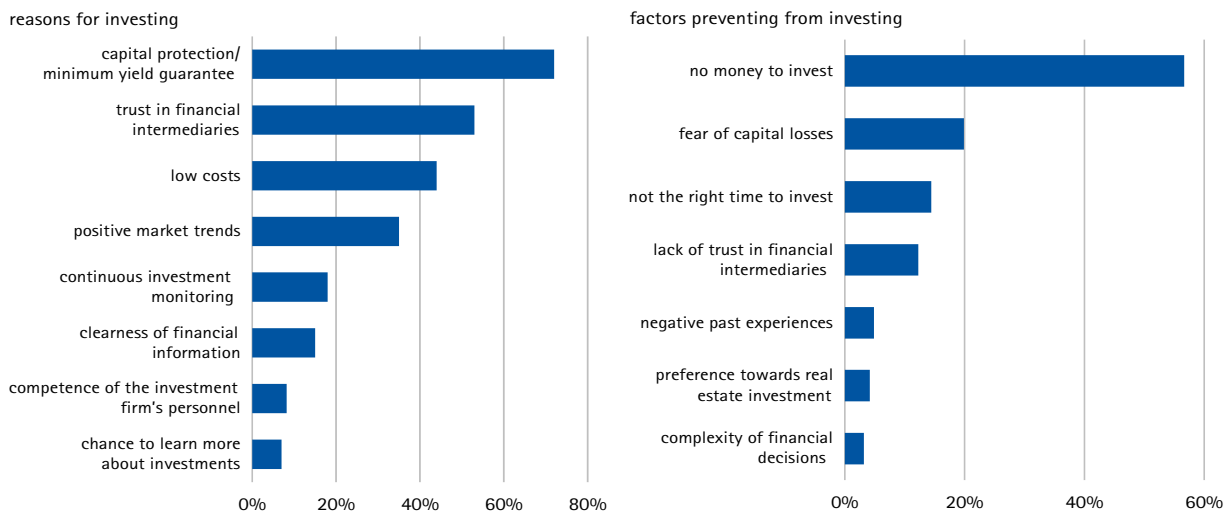
Fig. 48 Breakdown of Italian household financial wealth by type of asset



Source: calculations on GfK Eurisko – Multifinanziaria Retail Market data. See Methodological Notes.

Key elements that encourage participation in financial markets are the ability to purchase products with guaranteed minimum capital and/or return and confidence in intermediaries (as reported, respectively, by 72 and 53 per cent of investors), while absence of savings to invest (almost 60 per cent), fear of incurring capital losses (20 per cent), exposure to market trends (15 per cent) and lack of confidence in intermediaries (more than 10 per cent) were the main factors discouraging investment (Fig. 49).

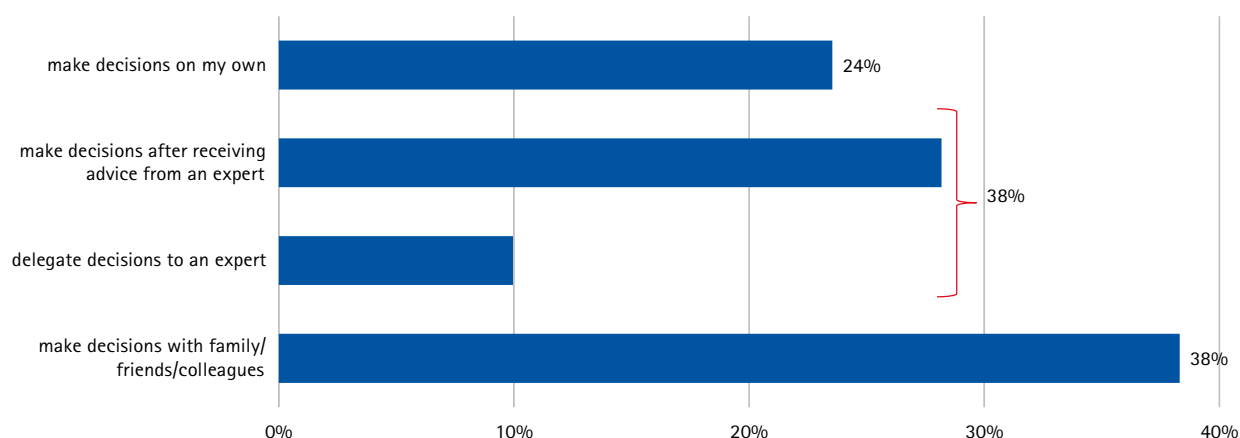
Fig. 49 Drivers of willingness to invest



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

Regarding the style of investment, 24 per cent of respondents decided independently, 38 per cent followed the suggestions of family and colleagues (informal advice), 28 per cent asked a professional for advice and the remaining 10 per cent delegated an expert (Fig. 50).

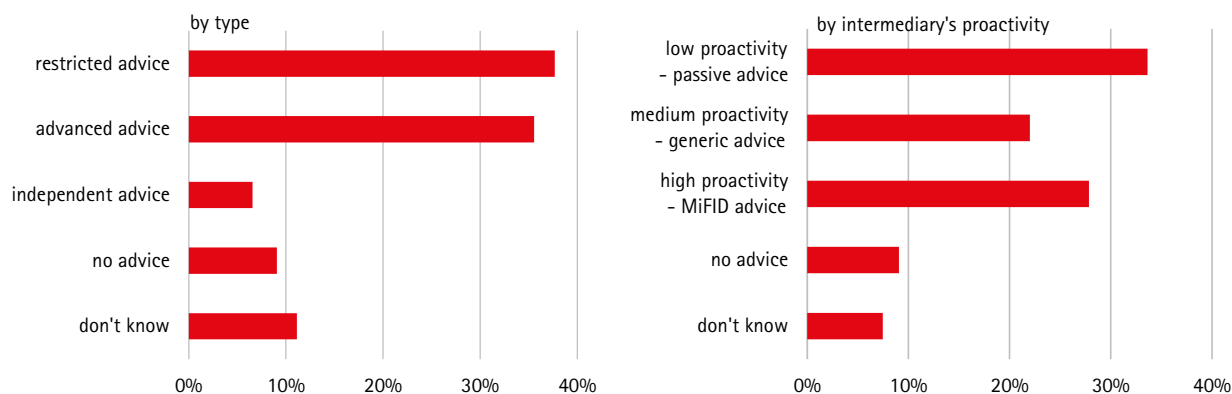
Fig. 50 Household investment habits



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

At the end of 2015, around 80 per cent of households operating on the financial market stated that they received advice on a restricted (i.e. referring to a limited set of financial instruments), advanced (based on a wide range of products and on a periodic adequacy assessment) or independent basis (i.e. provided by a professional who does not receive commissions from banks or other companies, being remunerated exclusively by clients, and offers personalised advice on a wide range of products). However, only 28 per cent of said households reported using MiFID advisory services (i.e. personalised recommendations concerning a specific financial instrument); all the others received passive or generic advice (based on low levels of interaction with advisors and generic recommendations; Fig. 51).

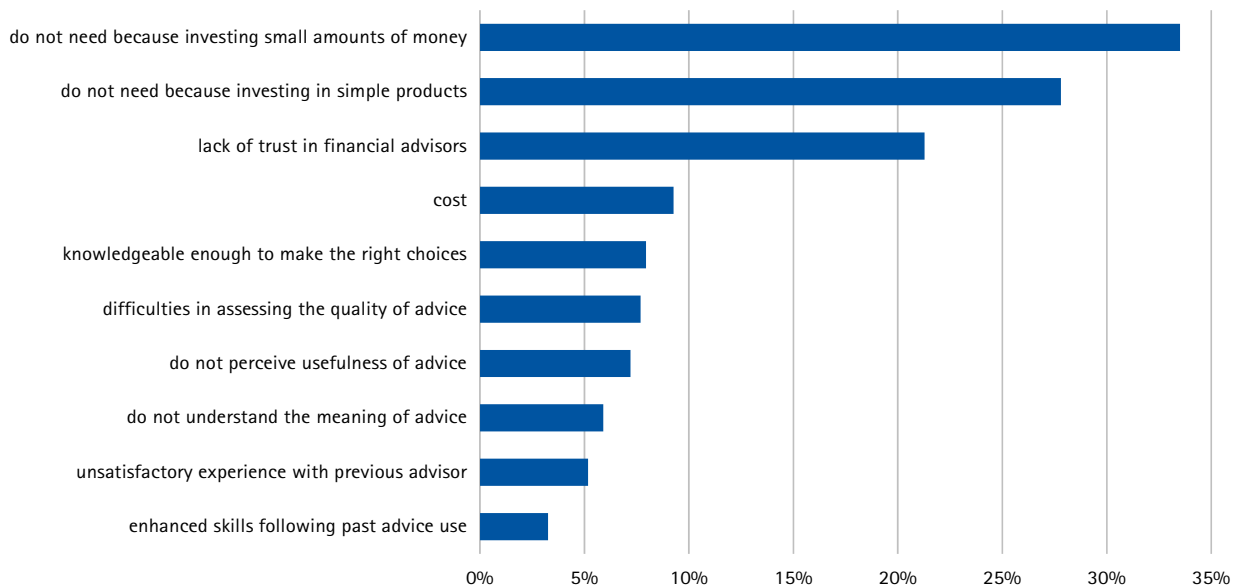
Fig. 51 Dissemination of advisory services among investors



Source: calculations on GfK Eurisko – Multifinanziaria Retail Market data. See Methodological Notes.

The main reasons discouraging the use of advisors were the reduced size of investments (34 per cent), the habit to invest in products considered to be very simple (28 per cent) and lack of confidence in intermediaries (22 per cent; Fig. 52).

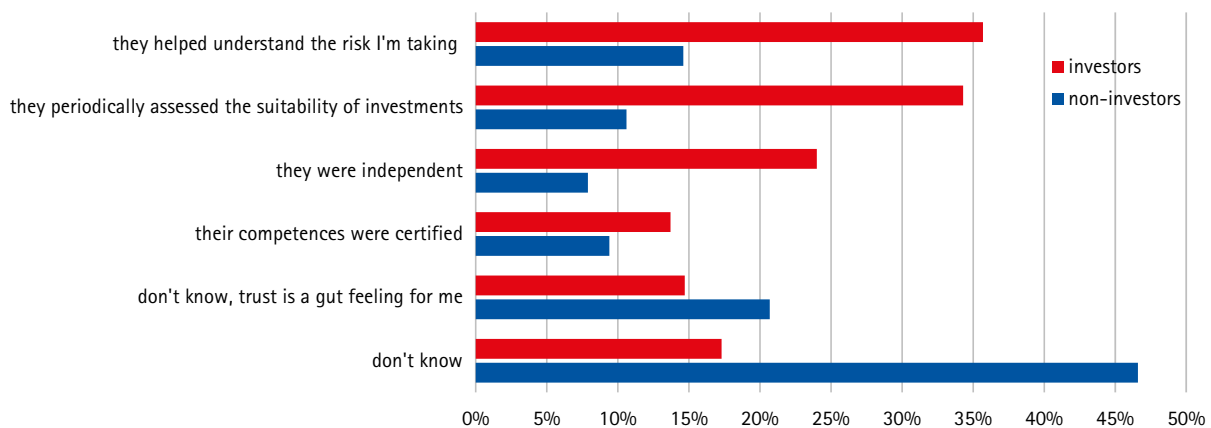
Fig. 52 Deterrents for seeking financial advice



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

Some of the factors that could increase confidence in advisors are: commitment to guiding customers in understanding risks and monitoring investments (approximately 35 per cent), independence (almost 25 per cent) and certification of advisor expertise (15 per cent; Fig. 53).

Fig. 53 Drivers of trust in financial advisors



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

About 15 per cent of investors defined confidence as a subjective perception, fuelled by instinct rather than the specific characteristics or skills of an advisor; this circumstance was more widespread among non-investors (21 per cent), who in half of the cases were not able to indicate any element that could increase their confidence in professionals.

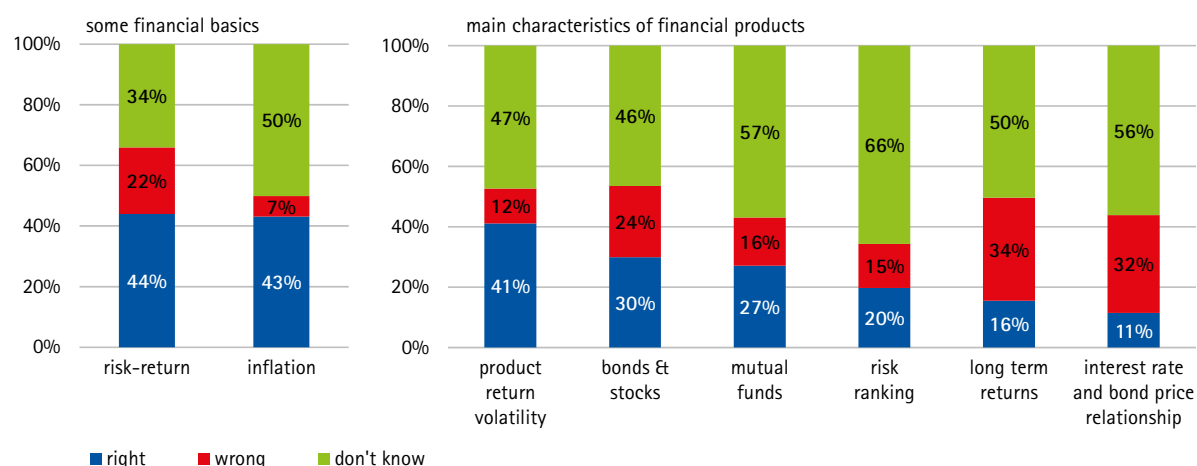
2 Financial education

2.1 The financial knowledge of Italians

Evidences published in Consob's Report on financial investments of Italian households for 2016 confirm the low level of financial knowledge of Italian investors. Only slightly more than 40 per cent were able to correctly define some basic notions, such as inflation and the relationship between risk and return; more sophisticated concepts regarding the characteristics of the most widespread products showed even lower percentages (as far down as 11 per cent; Fig. 54).

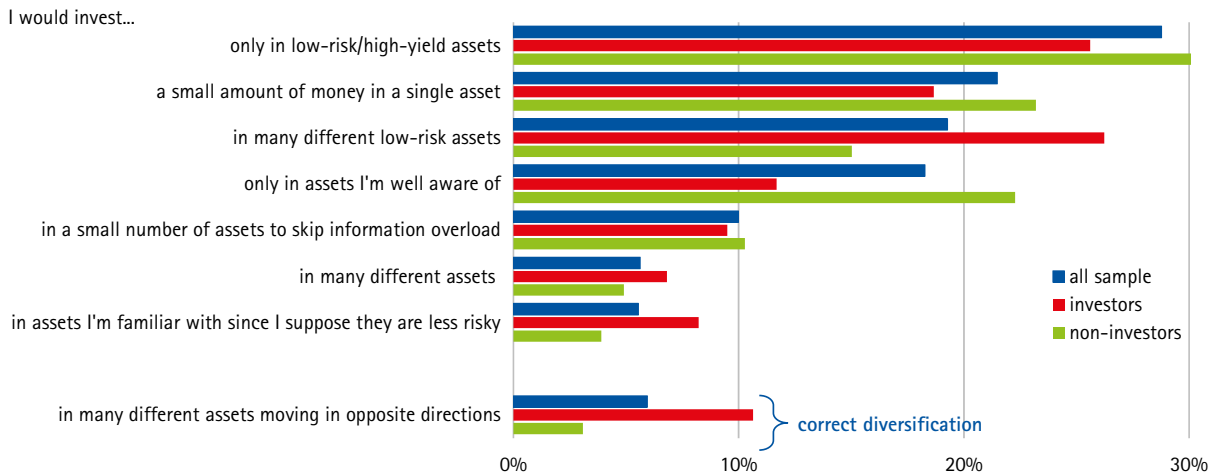
Knowledge about the concept of diversification is just as limited; only 6 per cent of the respondents knew the implications of correct diversification of financial assets, while 52 per cent only caught one aspect of it, stating to be willing to invest in numerous low-risk securities (erroneous diversification), or did not understand the risk-return trade-off, stating to be willing to invest only in low-risk, high-yield products (Fig. 55).

Fig. 54 Financial knowledge



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

Fig. 55 Attitudes towards portfolio diversification

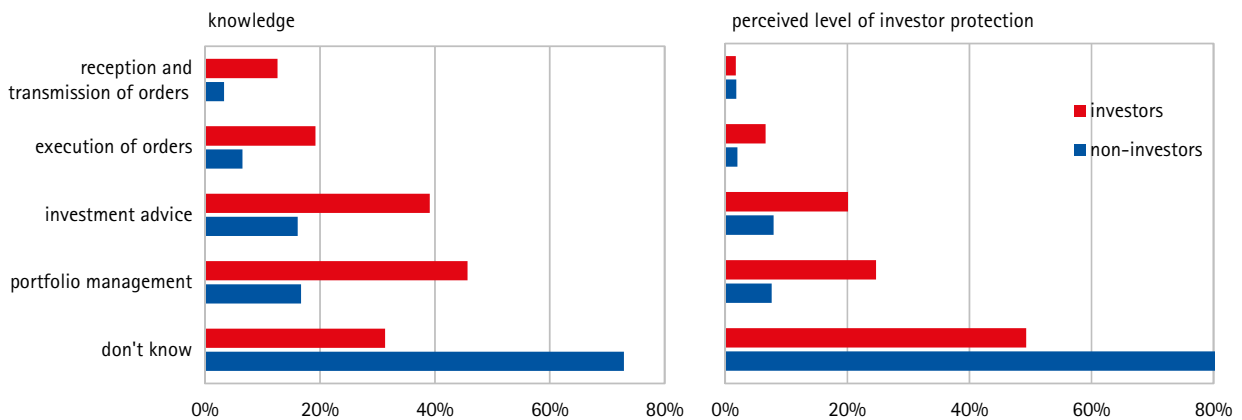


Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

The other respondents showed inclination towards certain behavioural biases, such as: small-portfolio bias (i.e. the tendency to invest a small sum of money in a single financial activity, referable to 20 per cent of the sample); overconfidence in private information (i.e. the propensity to buy only very well known securities, showing possible overestimation of one's ability to access 'important' information; 18 per cent); information overload (i.e. the willingness to invest in few securities because of one's inability to process too much information, reported by 10 per cent of respondents).

In addition to showing limited knowledge of basic financial concepts, Italian financial decision-makers also showed a lack of familiarity with investment services and, consequently, with the level of protection associated with each service (Fig. 56).

Fig. 56 Household knowledge of investment services

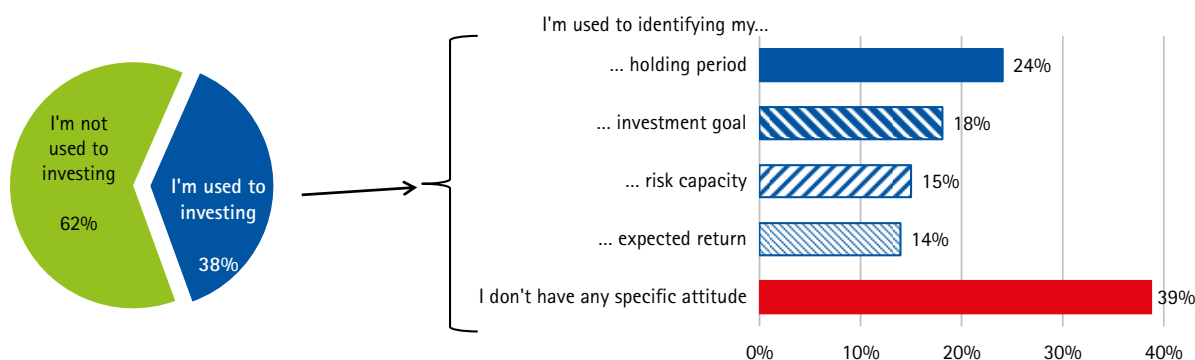


Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

The percentage of individuals claiming to know a specific service varied from 7 per cent (in the case of receipt and transmission of orders) to around 30 per cent (portfolio management). Unsurprisingly, the percentage of individuals stating they did not know any financial services was higher among non-investors than investors (70 and 30 per cent, respectively).

One last inquiry regarding skills in financial choices involved awareness of the founding elements of an investment decision. About 40 per cent of the investors surveyed reported that they did not have a specific attitude for recognising the elements that should be assessed before investing (in terms of objectives and time horizon, for example), while the percentages of those who pay attention to one or more profiles oscillated between 14 and 24 (Fig. 57).

Fig. 57 Investment decision making



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'. See Methodological Notes.

2.2 Financial education initiatives

A low level of knowledge and financial skills requires targeted interventions coordinated between the various parties involved, starting with the financial system sector authorities and public institutions. With this in mind, during the year, the dialogue continued between supervisory authorities (Consob, Banca d'Italia, COVIP and IVASS), and political institutions with the aim of defining a national Strategy for financial education, intended as a means to raise the level of protection of savers, to promote their trust in financial markets and to stimulate more careful financial planning and investment activities.

As a first step towards the definition of a national Strategy, in line with the best practices identified by the OECD, Consob, Banca d'Italia, IVASS, COVIP and some private individuals, carried out a survey of the financial education initiatives implemented in Italy in the three-year period 2012-2014. This survey confirmed the need for a coordination and systematicity that are lacking; the initiatives conducted so far, in fact, although numerous and sometimes very valid, are inevitably heterogeneous and fragmented and reach a limited audience of recipients.

The conference held in January 2017, during which the results of the survey were illustrated, was the opportunity for the promoters of the census to illustrate the basic steps and the conditions necessary to begin a national Strategy for financial education.

The Italian legislator endorsed the need to provide Italy with a national Strategy for financial education, as proposed jointly by Consob, Banca d'Italia, IVASS and COVIP, with Legislative Decree 237/2016, converted with amendments by Law 15/2017, containing urgent provisions for the protection of savings in the credit sector, as amended by art. 24-*a*, containing general provisions concerning financial education, insurance and social security. Art. 24-*a* organises the contents of the pre-existing parliamentary initiative law proposals aimed at regulating the subject of financial education, under discussion in both branches of the Parliament.

In particular, these provisions provide for the systematic organisation of coordination of the activities of public and private entities intending to undertake initiatives in the fields of financial, insurance and social security education according to guidelines defined by the MEF, in agreement with the Ministry of Education. For the implementation of the aforementioned Strategy, a National Committee, composed of eleven members, of which one is appointed by Consob, has been established at the MEF.

While waiting for the Strategy to become operational, Consob has continued and will continue to implement its investor education activities.

In particular, during 2016, the contents of the institutional portal of financial education, the main instrument of the campaign to raise awareness among savers as to their rights and the forms of protection provided for by regulation, were further refined, also on the basis of the evidence available in terms of training requirements and taking into account the indications of behavioural finance.

In particular, in May, SAV€Rio il \$alvadanaro was made available, the new tool that allows for planning and controlling personal expenses in relation to disposable income, favouring the achievement of one's savings target.

As highlighted on the educational page dedicated to the phases of the investment process, the correct and conscious management of money is a primary condition for the economic and financial wellbeing of citizens as well as the necessary prerequisite to establish the amount of resources that can be allocated to investment, under the broader 'financial planning' process.

The intuitive and easy-to-use SAV€Rio il \$alvadanaro application allows you to record actual income and expenses, measure the savings achieved over time (for example, a month or a year) and plan revenue and monetary expenses, based on their nature (for example education, health or

leisure). SAV€Rio can therefore be a support tool to verify, on the basis of the deviations between the programmed and actual items, whether the style of consumption is balanced and sustainable and which items to monitor with greater attention to identify possible adjustments (such as the elimination of any waste and/or the search for additional sources of 'income').

In the 'resources and games' area of the portal, a series of interactive tools were added aimed at increasing one's self-awareness of certain individual characteristics that can significantly affect the quality of investment choices, such as the level of financial knowledge, tolerance towards risk, the inclination to act on impulse and the most common behavioural errors.

Lastly, throughout the course of the year, training activities continued for the consumer Associations, launched in 2014, on topics of greater interest to savers, such as the illustration of the training courses and interactive tools offered on the institutional portal, or the evidence drawn from the last Consob Observatory on the investment choices of Italian families.

3 The management of complaints

The number of complaints received by Consob throughout 2016 recorded a substantial increase compared to the previous year. In fact, over the course of twelve months, 4,354 complaints were received, compared to 1,762 received in 2015 (+147 per cent). The quota of accepted complaints on the total number of complaints received increased from 62 per cent in 2014 to 90 per cent in 2016 (Tab. 56).

Tab. 56 Complaints
(year end data)

| | received complaints | | accepted complaints | |
|------|---------------------|--------|---------------------|--------------------------|
| | number | number | number | as a percentage of total |
| 2014 | 1,506 | 940 | | 62 |
| 2015 | 1,762 | 1,372 | | 78 |
| 2016 | 4,354 | 3,907 | | 90 |

Source: Consob. Figures may include a number of complaints under examination as to prosecutability.

With reference to the type of parties involved, it emerges that the prosecutable complaints are related to banks in 3,051 cases (+298 per cent compared to the previous year, when the banks were already the main recipient of the reports).

In addition, there was an increase in complaints concerning unauthorised parties involved in investigations of illegal activities (+35 per

cent compared to 2015) and EU companies without branches (+128 per cent compared to 2015), confirming a trend already observed in the past. In 2016, in contrast to the previous year, the number of complaints related to collective asset management companies (+60 per cent) and to off-site financial advisors (former financial promoters, +48 per cent).

Also in light of the increase in complaints regarding unauthorised parties and EU investment firms operating in Italy under the freedom to provide services, the Commission published a communication to protect Italian investors from the risks associated with investing in contracts for difference, rolling spot forex platforms and binary options.

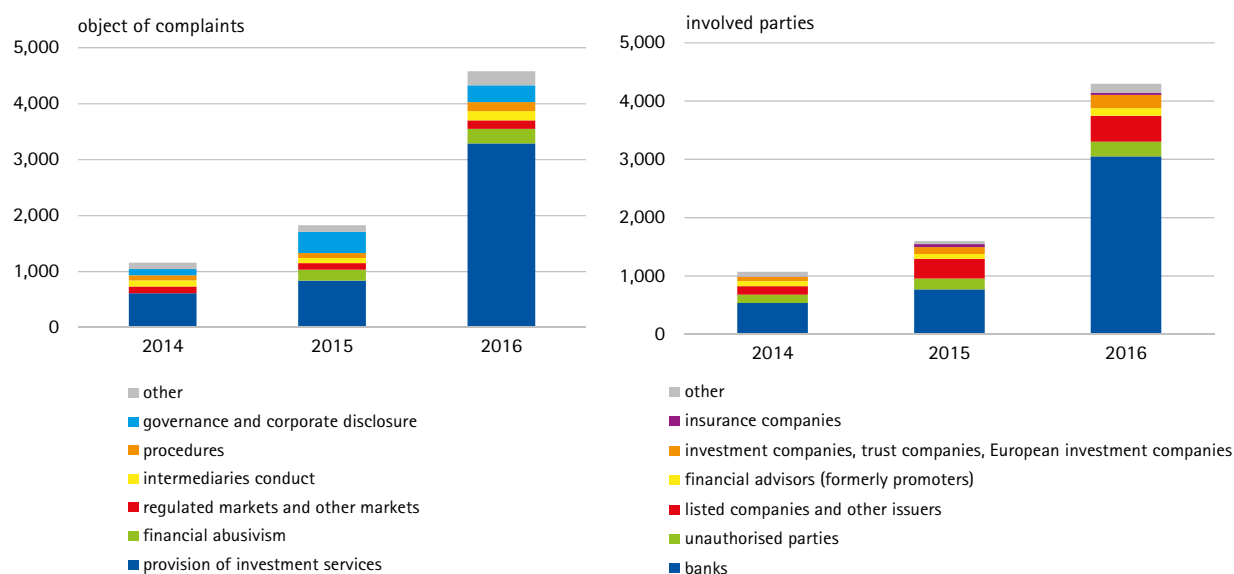
The communication firstly pointed out that investment in these products is not suitable for most investors, both because of the intrinsic high risk of such products, mainly due to the possibility of being able to operate them in a 'leveraged' way and therefore to expose them to the risk of losses even well above the initially invested capital, and in consideration of their high level of complexity. Also highlighted was the fact that it is appropriate to operate with such products only after having effectively understood and assessed all the risks associated with the investment in question and after having ascertained that the offering party is authorised to operate in Italy.

The products in question are often offered by investment firms or EU banks operating in Italy on the basis of the authorisation granted by the supervisory authority of their country of origin. With regard to these subjects, Consob, on the basis of current EU legislation, has limited direct supervisory and/or intervention powers. In particular, as for banks and EU investment firms with branches in Italy, Consob is only responsible for supervising compliance with the rules of conduct by the branch in carrying out its business with Italian customers. The banks and EU investment companies that operate in Italy under the freedom to provide services are supervised exclusively by the authority of the country of origin, including on behaviour regarding Italian customers. In the case of EU companies operating under the freedom to provide services, it should also be considered that disputes relating to contracts for difference, rolling spot forex platforms and binary options between Italian customers and EU companies cannot be presented to the ACF recently established in Consob.

In Italy, moreover, there are numerous unauthorised entities, that is, entities without authorisation to operate in Italy, who offer the instruments mentioned on the Internet and are not subject to supervision by any authority.

With regard to the subject of complaints, in line with previous years, most of them concerned financial intermediation and, in particular, the anomalies in the provision of investment services or the unlawful performance of them (Fig. 58).

Fig. 58 Breakdown of complaints filed to Consob in 2016 by regulated area



Source: Consob. The class 'financial abusivism', introduced from 2015 onwards, includes the non authorised provision of investment services previously included in the class 'provision of financial investment' and the unauthorised offers previously included in the class 'other' together with the complaints referred to public offers for subscription and sale. The class 'other' includes claims concerning extraordinary corporate operations, auditing, public offers for subscription and sale, takeover and exchange bids, dematerialised and centralised management. As for involved parties, the class 'other issuers' includes issuers of financial instruments widely diffused among the public, foreign issuers of financial instruments listed in Italy and issuers of financial instruments traded on multilateral trading facilities; the class 'investment companies, trust companies, European investment companies' includes European investment companies with or without a branch in Italy, the class 'other' includes: asset management companies, companies operating regulated markets, delisted companies, audit firms, foreign collective asset managers, bidders.

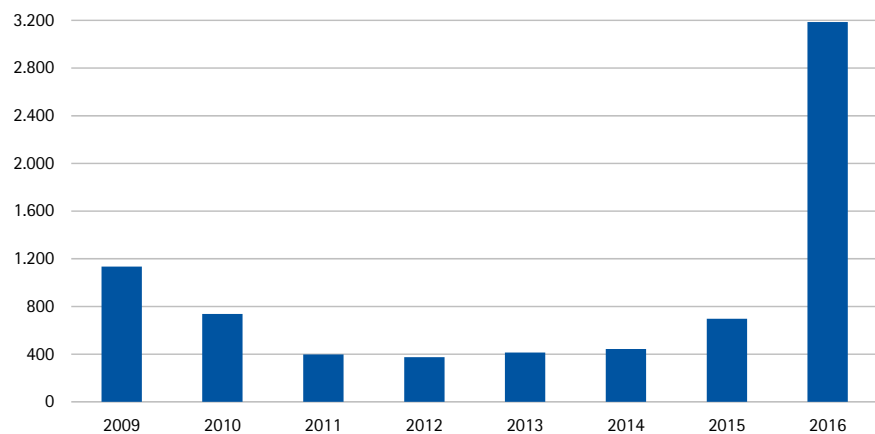
A novel element that characterised 2016 is that of the considerable number of complaints concerning independent auditors, widespread issuers, centralised management of financial instruments and extraordinary finance transactions. In general, however, the figure does not constitute evidence of widespread violations connected to these parties or to the aforementioned activities, since most of the complaints referred to aspects connected to the same situation.

There were significantly more complaints regarding investment services received by Consob in 2016 than in previous years. The figure is mainly attributable to reports connected to the events connected to certain bank issuers already illustrated above (Fig. 59).

Throughout 2016, Consob received reports from consumer associations regarding commercial offers for the purchase and sale of diamonds carried out by specialised companies through its websites or through bank branches. The regulation of transparency and fairness on investment services is not per se applicable to the sale of diamonds or other tangible assets, even if it takes place through the banking channel, nor is the publication of an information prospectus required in such cases. However, as already clarified in communication 13038246 of 6 May 2013, the sale of a tangible asset, such as diamonds, can take on the characteristics of the offer

of a financial product if elements are explicitly provided for, including through linked contracts, such as, for example, promises of return, repurchase obligations, realisation of profits or restrictions on the enjoyment of the good. In this regard, Consob has specific in-depth analyses under way and has begun a collaboration with Banca d'Italia and with the competition and market Authority (AGCM).

Fig. 59 Complaints received concerning investment services



Source: Consob.

Furthermore, at the beginning of 2017, the Commission drew the public's attention to these operations and to the need to be extremely careful when making investments that may present risks that are not immediately perceptible.

Consob has also recommended to always follow the general rule of considering joining contract proposals only with an adequate understanding and only when combined with clear and complete documentation. Lastly, it expressed the need for bidders, in particular bank operators, due to the reliability they enjoy as a result of their specific professional position, to always make potential buyers fully aware of the applicable rules, contractual conditions and costs, including commission costs, present in the sales operations offered at the counter.

4 The activity of the Chamber of Conciliation and Arbitration

Throughout 2016, the Chamber of Conciliation and Arbitration was involved in the administration of 181 conciliation proceedings (71 in 2015), aimed at resolving disputes between investors and financial intermediaries with reference to information, transparency and fairness obligations that the latter must observe in the contractual relationships with investors.

Northern Italy is confirmed to be the area from which came the greatest number of requests initiated during the period under examination (138 requests, equal to 76 per cent of prosecutions; Tab. 57).

Tab. 57 Geographic area distribution of claims
(end of year data)

| | 2014 | 2015 | 2016 |
|-------------------|------------|-----------|------------|
| North | 68 | 45 | 138 |
| Centre | 28 | 14 | 11 |
| South and Islands | 17 | 12 | 32 |
| <i>total</i> | <i>113</i> | <i>71</i> | <i>181</i> |

Source: Consob.

As of December 31, 2016, out of 12 cases in which the intermediary joined the conciliation attempt (6.6 per cent of the total), two ended with an agreement and nine with a negative outcome, while one proceedings is still ongoing. The total number of non-acceptances is 164, equal to 90.6 per cent of the requests, while in five cases the intermediary is still waiting for a reply (Tab. 58). The percentage of subscriptions decreased compared to 2015, when it stood at 35 per cent, mainly due to the failure to adhere to procedures by two intermediaries, whose incidents generated numerous controversies.

Tab. 58 Intermediaries' adhesion to conciliation attempts
(year end data; percentage values)

| | adhesions | refusal to adhere | under examination |
|------|-----------|-------------------|-------------------|
| 2014 | 47 | 44 | 9 |
| 2015 | 35 | 61 | 4 |
| 2016 | 7 | 91 | 3 |

Source: Consob.

The total amount of claims for compensation received in 2016 was approximately 42 million euro (35 million in the previous year); however, the amount of requests to which the intermediary adhered was 392 thousand euro (24.8 million euro in 2015), while the amount repaid following the positive outcome of the dispute amounted to 4,150 euro (about 54 thousand in 2015).

With regard to the type of financial products subject of the conciliation requests received, there was a strong impact from disputes related to the sale by intermediaries of their own financial instruments (shares and bonds), followed by derivative instruments (in particular certificates). The median amount of compensation claims received ranged between approximately 18 and 146 thousand euro (Tab. 59).

Tab. 59 Claims by investment type and requested compensation amounts

| financial instruments | received application (as a percentage of the total) ¹ | amount of compensation claims (thousands of euro) ² |
|---|---|---|
| shares and bonds issued by the intermediary | 71 | 145.8 |
| other shares and bonds | 6 | 57.5 |
| derivatives | 14 | 18.1 |
| mutual funds and ETF | 6 | 85.0 |
| other products | 4 | 29.3 |

Source: Consob. ¹ Rounding may cause discrepancies in the total figure. ² Median value.

As of 31 December 2016, the number of registered members on the list of conciliators was 324, while the number of registered members on the list of arbitrators was 449 (respectively, 375 and 500 at the end of the previous year).

As part of the activity of managing the lists, the Chamber of Conciliation and Arbitration thereby proceeded to remove 51 members from the list of conciliators and 51 arbitrators.

Throughout the year, no tenders were published concerning the updating of the lists of conciliators and arbitrators, pursuant to art. 3, sec. 4 of Consob resolution 18275 of 18 July 2012, in respect of the planned institution of the ACF. In fact, due to the imminent start of the new dispute resolution body, the adequacy of the lists of conciliators and arbitrators was established for the completion of the procedures until the date when the new deciding body would become operational.

Art. 2, sec. 1 of the resolution establishing the ACF states that, "Consob shall adopt, with subsequent resolutions, provisions for implementing regulation governing the organisation and operation of the ACF, and determine the starting date of operations." With the subsequent provision 19783 of 23 November 2016, the start date of operations was set to 9 January 2017. As stated above, this new body, having different characteristics from the old Chamber, does not require the cooperation of conciliators and arbitrators. Therefore, as of 9 January of this year, the operations of the lists held by the Chamber also ceased.

With reference to the operations of the ACF, it should be noted that in the first months of 2017 around 400 appeals were received, for disputes relating to the provision of investment services and to the collective management service (data from the end of March).

Back-office activities and VIII international cooperation

1 Financial management

The total expenditure for the 2016 financial year, equal to 124 million euro, increased by 8.1 million euro compared to the final figure for the previous year (Tab. 60).

Tab. 60 Revenues and expenditure
(millions of euro)

| items | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ² |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|
| REVENUES | | | | | | | | |
| previous year surplus ¹ | 11.5 | 6.5 | 14.5 | 14.3 | 18.3 | 13.7 | 14.0 | 15.0 |
| state funding | 7.9 | 1.0 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.3 |
| supervisory fees | 87.8 | 108.9 | 116.6 | 108.9 | 98.0 | 99.9 | 108.9 | 108.3 |
| other | 11.1 | 6.8 | 12.0 | 12.2 | 10.4 | 8.6 | 8.7 | 11.0 |
| <i>total revenues</i> | <i>118.3</i> | <i>123.1</i> | <i>143.5</i> | <i>135.8</i> | <i>126.7</i> | <i>122.2</i> | <i>131.6</i> | <i>134.6</i> |
| EXPENDITURE | | | | | | | | |
| current expenditure | | | | | | | | |
| for Commission members | 2.6 | 2.0 | 2.3 | 2.3 | 1.2 | 0.7 | 0.8 | 1.3 |
| staff | 70.6 | 80.1 | 82.0 | 88.1 | 88.3 | 88.7 | 90.8 | 92.9 |
| goods and services | 23.3 | 18.2 | 21.5 | 16.0 | 16.1 | 13.9 | 13.7 | 14.7 |
| restoration and extension of fixed assets | 4.0 | 3.9 | 3.6 | 3.7 | 4.8 | 5.7 | 5.0 | 9.8 |
| provision for risk of compensation claims | 18.3 | 0.4 | 17.8 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| unclassified expenditure | 0.8 | 1.2 | 1.3 | 3.0 | 0.3 | 2.5 | 2.7 | 2.8 |
| <i>total current expenditure</i> | <i>119.6</i> | <i>105.8</i> | <i>128.5</i> | <i>114.1</i> | <i>110.7</i> | <i>111.5</i> | <i>113.0</i> | <i>121.5</i> |
| capital expenditure | 3.2 | 2.8 | 1.4 | 4.4 | 3.3 | 0.8 | 2.9 | 2.5 |
| <i>total expenditure</i> | <i>112.9</i> | <i>108.6</i> | <i>129.9</i> | <i>118.5</i> | <i>114.0</i> | <i>112.3</i> | <i>115.9</i> | <i>124.0</i> |

Source: Consob. ¹ The surplus represents the difference between total revenues and total expenditure, plus the difference deriving from management of positive and negative financial residuals. The 2015 surplus, including the amount in the 'Fondo pluriennale vincolato' is recorded among 2016 revenues. ² Provisional data.

In particular, current expenditure (121.5 million euro) increased by 8.5 million euro compared to the 2015 final figure, due to higher personnel expenses and the acquisition of goods and services, as well as provisions for the Fund for the extrajudicial protection of savers and investors and the Fund of charges for contractual renewals, offset in part by lower provisions for the restoration of fixed assets.

Capital expenditure (2.5 million euro) decreased by 0.4 million euro. This is essentially attributable to the acquisition of hardware and software products and to extraordinary maintenance work on the property owned.

The total revenue for 2016, net of the administration surplus of the previous year, amounting to 119.6 million euro, of which 11 million euro (9.2 per cent) referring to different income (essentially interest income, use of funds to restore fixed assets and amounts paid to Consob for judicial measures), 108.3 million euro (90.6 per cent) to supervisory contributions and 0.3 million euro to the transfer by the State allocated to the Fund for the extrajudicial protection of savers and investors.

The contributory income refers mainly to the categories of stakeholders that solicit public savings, issuers, intermediaries (banks, investment companies and stockbrokers), auditing firms and statutory auditors (Tab. 61).

Tab. 61 Fees by category of supervised entities
(final data; millions of euro)

| | investment firms and stockbrokers | banks | independent auditors | financial advisors | market management companies ¹ | issuers | UCITs ² | entities soliciting retail investment | other | <i>total supervisory fees</i> |
|------|-----------------------------------|-------|----------------------|--------------------|--|---------|--------------------|---------------------------------------|-------|-------------------------------|
| 2009 | 1.3 | 13.1 | 9.0 | 5.0 | 5.4 | 14.7 | 8.6 | 29.1 | 1.6 | <i>87.8</i> |
| 2010 | 1.6 | 16.9 | 11.9 | 5.5 | 5.7 | 19.8 | 10.7 | 34.8 | 2.0 | <i>108.9</i> |
| 2011 | 1.7 | 20.1 | 12.1 | 5.2 | 5.7 | 23.1 | 11.5 | 34.7 | 2.5 | <i>116.6</i> |
| 2012 | 1.4 | 17.7 | 12.7 | 4.9 | 5.7 | 23.5 | 10.4 | 30.5 | 2.1 | <i>108.9</i> |
| 2013 | 1.5 | 16.2 | 12.5 | 4.7 | 5.2 | 22.5 | 8.8 | 23.9 | 2.7 | <i>98.0</i> |
| 2014 | 2.6 | 17.1 | 12.9 | 4.7 | 5.3 | 22.5 | 9.5 | 23.5 | 1.8 | <i>99.9</i> |
| 2015 | 2.8 | 17.1 | 12.5 | 4.9 | 5.5 | 27.6 | 11.0 | 25.5 | 2.0 | <i>108.9</i> |
| 2016 | 2.8 | 18.6 | 12.2 | 5.1 | 5.5 | 26.5 | 12.5 | 23.3 | 1.8 | <i>108.3</i> |

Source: Consob. ¹ Including Borsa Italiana, MTS Spa, Cassa di compensazione e garanzia Spa, Monte Titoli Spa and Organismo dei consulenti finanziari. ² Including supervisory fees paid by individual portfolio management provided by asset management companies (SGRs).

2 Internal organisation and functional structure

In 2016, an organisational innovation of particular importance was represented by the establishment of ACF the non-judicial resolution system for disputes between savers and intermediaries (see Chapter VI 'Regulation activity').

The ACF is a non-judicial resolution body for disputes between retail investors and intermediaries in the event of violation of the obligations of diligence, correctness, information and transparency in the provision of investment services or collective asset management service. The activity of the ACF is characterised by the total gratuity of appeals for savers as well as for the speed of decisions, which are taken within six months and which, when the ACF recognises the reasons for the investors, will settle the obligations to which intermediaries are required to comply.

The board of the ACF is composed of the president and four members chosen among people of specific competence and experience, with undisputed independency and honourability, and in possession of specific requisites of professionalism.

In support of the Body, the technical Secretary of the ACF was also set up for financial disputes within Consob. This organisational unit takes care of the steps necessary for the establishment and functioning of the board, the orderly and correct progress of proceedings (including the processing of online disputes and the definition of website content) and the drafting of the annual report of the ACF.

During the year, the Commission also launched a reflection on possible changes in its organisational structure. One of the first results of the evaluations carried out was the establishment of the Information Infrastructures Division with the aim of increasing the ability to forecast technological trends, centralise the resources and the IT skills of Consob, strengthen the cost controls of projects and outsourcing. This has made it possible to simplify the structure of the Administration Division, the organisational unit responsible for managing Consob's back-office activities (for further details see paragraph 4 below).

With regard to the methods of carrying out work, from January 2016 a discipline based on a wide flexibility of working time was introduced, which aims to achieve the right synthesis between organisational well-being and efficiency.

In order to regulate the activities related to the implementation of art. 22, sec. 7 of Legislative Decree 90/2014 (converted into Law 114/2014), Consob and the competition and market Authority (AGCM) have signed the Agreement aimed at defining the activities and procedures to be jointly managed for 2016, following the agreement signed at the end of 2014 and the subsequent implementation agreements of 2015.

With specific regard to the Bank's negotiation activities, the two-year plan (three years in case of works) of the acquisitions required by art. 21 of the new Procurement Code (Legislative Decree no 50/2016) and the subsequent publication of the same in the section of the site 'Transparent authority - Tenders and contracts', in the implementation of the guidelines of

the National Anti-Corruption Authority (ANAC), adopted by resolution 1310 of 28 December 2016.

In line with the provisions of art. 22 of Legislative Decree 90/2014 and on the basis of the Agreement signed in 2015 between the independent authorities for the carrying out of competitions, also in 2016 the various authorities gave notice of the competitions during the activation phase in order to allow the possible identification of profiles with a common interest for which joint competitions should be launched.

Finally, during the year, the process of mapping Consob's processes continued, with the aim of allowing both the identification of any critical elements of an organisational nature and the interventions needed to address them and the assessment of the risks of corruption to which Consob is potentially exposed and the definition of the most suitable measures to mitigate them.

Furthermore, as part of the corruption prevention system, the commitments undertaken in the programme of activities provided for in the first update of the three-year Corruption Prevention Plan (2016-2018), approved at the end of 2015, have been implemented. These commitments have been included in Consob's annual operational planning cycle.

3 Human resources management

At the end of 2016, Conson's workforce amounted to 603 staff, three fewer than the previous year due to ten suspensions from the service and seven hirings made during the year (Tab. 62 and Tab. 63).

Tab. 62 Human Resources
(as of 31 December)

| | permanent employees | | | | fixed-term employees ¹ | total |
|------|---------------------|------------------|-------------------------|-------|-----------------------------------|-------|
| | management career | operating career | general services career | total | | |
| 2009 | 231 | 287 | 13 | 531 | 47 | 578 |
| 2010 | 239 | 270 | 21 | 530 | 45 | 575 |
| 2011 | 260 | 280 | 22 | 562 | 48 | 610 |
| 2012 | 278 | 276 | 21 | 575 | 52 | 627 |
| 2013 | 317 | 232 | 17 | 566 | 52 | 618 |
| 2014 | 349 | 198 | 13 | 560 | 54 | 614 |
| 2015 | 365 | 180 | 13 | 558 | 48 | 606 |
| 2016 | 400 | 183 | 13 | 596 | 7 | 603 |

Source: Consob. See methodological notes. ¹ Figures include personnel seconded to Consob from other public entities.

Tab. 63 Personnel breakdown by grade and organisational unit
(data as of 31 December 2016)

| organisational unit | executives | managers | employees | other ¹ | <i>total</i> |
|--|------------|------------|------------|--------------------|--------------|
| General Management | 2 | 8 | 9 | 2 | 21 |
| Secretary General | 1 | 1 | 2 | | 4 |
| Attorney General | 1 | | | | 1 |
| Arbitro per le Controversie Finanziarie | 1 | | | | 1 |
| Legal Advisor | 7 | 24 | 6 | | 37 |
| Offices not coordinated within a Department ² | 7 | 40 | 41 | 1 | 89 |
| Departments | | | | | |
| Issuers Information | 4 | 27 | 12 | | 43 |
| Corporate Governance | 7 | 25 | 9 | | 41 |
| Markets | 9 | 43 | 21 | | 73 |
| Intermediaries | 4 | 53 | 21 | | 78 |
| Inspectorate | 4 | 34 | 5 | | 43 |
| Research | 4 | 19 | 9 | 1 | 33 |
| Administration | 9 | 21 | 33 | 9 | 72 |
| Informative Infrastructure | 4 | 19 | 9 | | 32 |
| Regulatory Strategies | 1 | 8 | 3 | | 12 |
| Consumer Protection | 5 | 11 | 6 | 1 | 23 |
| <i>total</i> | <i>70</i> | <i>333</i> | <i>186</i> | <i>14</i> | <i>603</i> |

Source: Consob. The position of both fixed-term employees and personnel seconded to Consob from other public entities are aligned to the position held in the entity from which they come. ¹ 'Other' include personnel of the general services career.

With regard to staff training, initiatives on topics of collective and specialised interest were carried out within Consob, also with the participation of external teachers and directed at large categories of employees. Frequently, video streaming was also used, obtaining tangible benefits in terms of cost containment without jeopardising the quality and continuity of the training activity.

In the area of human resources management, in 2016 a discussion was started with the trade unions for the reform of careers and treatment of staff.

2016 was characterised by the start of collaborations with different universities, distributed throughout the national territory and among the most active in the field of research of disciplines of institutional interest.

The aim pursued was to define, also through the formalisation of special agreements: i) joint study and collaboration paths through the tool of curricular and extra-curricular internships of working groups and training sessions, aimed at implementing projects related to the area of juridical-economic studies; ii) special projects in the field of digitisation of financial intermediation processes and the reconstruction of the European and

domestic regulatory framework in matters of interest to Consob; iii) other projects aimed at supporting and developing financial education.

4 Information technology systems

In 2016, a series of technical and organisational initiatives were undertaken, aimed at improving the performance of Consob information systems, in consideration of their growing importance and transversality in Consob operations.

The organisational area includes: the reorganisation of the IT sector of Consob, with the establishment of the Information Infrastructures Division (resolution 19824 of 21 December 2016); the launching of a training programme aimed at retraining the staff assigned to the IT sector; the planning of a programme to strengthen the sector itself, through the entry of staff to be selected among qualified resources with specific expertise in the field of IT design and development.

With regard to technical initiatives, Consob's IT development Plan for 2017 identified three macro areas of aggregation, identifiable in the administrative and general supervisory infrastructures. These infrastructures respond, respectively, to the macro objectives concerning the simplification and automation of the operational processes to support supervision, the rationalisation of the application and infrastructure and the optimisation of expenditure, to be achieved also due to the standardisation and reuse of common technical components and services.

The evolution of the regulatory framework, both domestic and European, has made it necessary to adapt information systems and databases to support institutional activities.

In the area of administrative information systems, most of the multi-year activities for the implementation of the institutional data warehouse system have been completed, based on the integration of the operational databases and on the aggregation of Consob's information assets, in order to allow an analysis also through business intelligence tools.

The new website was also completed, for which development activities are planned in 2017, through the upgrading of the current search engines and the greater automation of the publication activities relating to the section called 'Transparent authority' as well as the activities aimed at improving the site area dedicated to investor education.

During the year, the IT system for the activities of the ACF was implemented, operational from January 9, 2017.

Among the projects related to general information systems, it is particularly important to provide Consob with a disaster recovery system, in accordance with art. 50-*a* of the Digital administration Code.

5 External relations, conferences and research

In 2016, the relationship with the public and savers was, as usual, significant. The website was confirmed as the main tool of external institutional communication.

The high number of visits, in line with previous years, confirms the importance of the instrument in the acquisition of data and information by both operators (to whom the section called 'services for operators' is dedicated) and students, scholars and savers, recipients of the sections 'Consob and its activities' and 'financial education' (Tab. 64).

Tab. 64 Number of access to Consob website
(thousands)

| pages | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| home page (what's new) | 1,873 | 1,819 | 1,275 | 1,305 | 1,178 | 904 | 1,601 | 1,505 |
| for investors | 173 | 193 | 199 | 180 | 159 | 220 | 460 | 475 |
| for supervised entities | 309 | 388 | 322 | 340 | 271 | 218 | 380 | 390 |
| for journalists | 12 | 12 | 5 | 6 | 4 | 5 | 9,5 | 9 |
| Consob | 1,454 | 1,254 | 1,154 | 1,160 | 968 | 703 | 705 | 680 |
| issuers | 3,679 | 3,275 | 3,177 | 3,119 | 2,706 | 1,283 | 1,883 | 1,785 |
| intermediaries and markets | 1,020 | 1,121 | 1,090 | 1,088 | 988 | 771 | 987 | 957 |
| Consob decisions/Newsletter | 968 | 935 | 977 | 982 | 891 | 476 | 531 | 612 |
| regulation | 1,906 | 2,127 | 2,065 | 2,100 | 1,618 | 730 | 1,436 | 1,341 |
| publication and press release | – | – | 191 | 188 | 126 | 55 | 45 | 195 |
| other websites? | 209 | 9 | 4 | 4 | 5 | 3 | 9 | 10 |
| site search engine | 209 | 196 | 116 | 112 | 147 | 57 | 31 | 15 |
| help and site map | 15 | 16 | 9 | 10 | 7 | 4 | 19 | 57 |
| interactive area | 44 | 97 | 51 | 54 | 36 | 36 | 35 | 36 |
| English version | 845 | 290 | 322 | 340 | 343 | 532 | 762 | 901 |
| transparency ¹ | – | – | – | – | – | 168 | 229 | 241 |

Source: Consob. ¹ Data available from March 2014..

Written requests for assistance as well as reports on events concerning corporate and market transactions were higher compared to previous years.

Out of the over 2,000 requests received by Consob from the public and the savers, around 900 were sent through the External Integrated System (EIS) and the specific form available there; in addition, numerous requests for data and information were received both by telephone, e-mail and ordinary mail (Tab. 65).

Tab. 65 Requests of documents and information on Consob activity

| | applicants | | | subject of application | | | | |
|------|--|--------------------------------------|-------|--|------------------------------|----------------------|-------|-------|
| | institutional investors and market operators | retail investors, students and other | total | resolutions, communications and prospectuses | amended laws and regulations | data and information | other | total |
| 2009 | 175 | 2,640 | 2,715 | 80 | 1,100 | 1,470 | 65 | 2,715 |
| 2010 | 308 | 1,291 | 1,599 | 178 | 264 | 763 | 394 | 1,599 |
| 2011 | 315 | 1,385 | 1,700 | 188 | 270 | 792 | 450 | 1,700 |
| 2012 | 321 | 1,394 | 1,715 | 183 | 275 | 801 | 456 | 1,715 |
| 2013 | 340 | 1,265 | 1,605 | 175 | 260 | 830 | 340 | 1,605 |
| 2014 | 346 | 1,254 | 1,600 | 180 | 258 | 810 | 352 | 1,600 |
| 2015 | 542 | 1,260 | 1,802 | 194 | 240 | 1,008 | 360 | 1,802 |
| 2016 | 548 | 1,502 | 2,050 | 210 | 230 | 1,160 | 450 | 2,050 |

Source: Consob.

As far as the study activity is concerned, during 2016 two issues of the report on financial market trends (Risk outlook); the new issue of the Report on corporate governance of Italian listed companies, which contains data on ownership structures, corporate bodies, shareholders' meetings and related party transactions of Italian listed issuers; the second issue of the Report on the investment choices of Italian households, which provides evidence on the investment choices of Italian retail investors in light of their decision models, level of financial knowledge and behavioural attitudes. The Statistical Bulletin was also published, a six-monthly document containing data on phenomena of interest to the Consob based on statistical surveillance reports.

These documents were presented during public events involving representatives of institutions, industry and academia. Furthermore, research work has been published aimed at contributing to the academic debate on issues of economics, finance and law.

Legal Research Paper no. 11, *Business judgment rule e mercati finanziari. Efficienza economica e tutela degli investitori*, deals with the limits and criteria with respect to which it is possible to scrutinise the merit of the decisions of the directors of public limited companies under a judicial review, comparing the jurisprudential regulation in force in the USA with the discipline developed in European civil law countries and in particular in Italy. Also published was Position Paper no. 6, *L'equity-crowdfunding Analisi sintetica della normative e aspetti operativi*, originated by a collaboration between Consob and the Italian Board of Professional Accountants and Auditors, with the aim of spreading knowledge of the characteristics and peculiarities of equity crowdfunding operations of and related opportunities to be used by the different actors of the production chain. Legal Research Paper no 10, *Crisi sistemiche e regolamentazione finanziaria. Dai bulbi di*

tulipani ai mutui sub-prime. The Paper analyses from a historical perspective the stages of evolution of financial innovation and regulation of derivatives, showing how they have coincided with deep financial crises which were followed by deep economic recessions. *Discussion Paper* no 6, *La qualità della regolazione nell'esperienza della Consob Dalla misurazione degli oneri amministrativi al ciclo della valutazione Il caso dell'equity crowdfunding* explains the implications of policy deriving from the implementation procedures of the better regulation instruments. Finally, Consob Working Paper no 83, *Financial advice seeking, financial knowledge and overconfidence. Evidence from the Italian market*, studies the determinants of demand for financial advice and, in particular, the relationship between financial knowledge, both actual and perceived, and the demand for advice.

As part of the collaboration with Italian universities, there is the organisation of conferences and seminars with the Bocconi University and the Catholic University of Milan as well as workshops on specific topics of institutional interest.

6 International cooperation

In 2016, the Commission continued exchanging information with the supervisory authorities of the EU Member States and non-EU countries.

The Consob submitted a total of 208 requests for cooperation with other foreign supervisory authorities (compared with 170 in 2015), most of which concerned the possibility of market abuse (80 cases). In turn, the Commission received requests for information in connection with 68 cases (81 in 2015), particularly regarding checks of integrity and professionalism (43 cases; Tab. 66).

Consob also notified 23 suspicious transaction reports to the competent foreign authorities (12 in 2015), while the latter submitted 55 suspicious transaction reports (59 in the previous year). Consob also provided and received assistance in the absence of a specific request, respectively, in 23 and 6 cases.

At the European level, cooperation and the exchange of information between national competent authorities in Europe and ESMA are regulated by the Multilateral Memorandum of Understanding on Cooperation Arrangements and Exchange of Information, implementing the ESMA guidelines, also signed by Consob and entered into force in May 2014.

Cooperation between the authorities for enforcement purposes continues to be regulated by a multilateral memorandum of understanding signed at IOSCO, of which Consob is a signatory.

During 2016, Consob signed a bilateral cooperation agreement (Statement of Protocol) with the US Regulatory Authorities of Auditors,

PCAOB (Public Company Accounting Oversight Board), and a related agreement for the protection of personal data (Data Protection Agreement).

Tab. 66 Exchange of information between Consob and foreign supervisory authorities

| subject | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-----------|-----------|-----------|------------|------------|------------|------------|------------|
| Request of information to foreign authorities | | | | | | | | |
| insider trading | 23 | 20 | 27 | 16 | 12 | 21 | 65 | 68 |
| market manipulation | 14 | 23 | 18 | 14 | 11 | 15 | 10 | 12 |
| unauthorised public offerings and provisions of investment services | 3 | 10 | 14 | 33 | 42 | 26 | 27 | 21 |
| transparency and corporate disclosure | 1 | 8 | -- | -- | 2 | 1 | 1 | 1 |
| major shareholding in listed companies and authorised intermediaries | 2 | 9 | 5 | 1 | 1 | 0 | 1 | -- |
| integrity and professionalism requirements | -- | -- | 1 | 1 | 1 | 2 | 3 | 1 |
| infringement of rules of conduct | 3 | 3 | 1 | 1 | 8 | 3 | 3 | 1 |
| transaction reporting ex art. 25 MiFID | 1 | -- | -- | -- | -- | 0 | 0 | -- |
| short sales | 6 | 4 | -- | -- | -- | 2 | 1 | 8 |
| requests addressed to remote member pursuant to art. 57 MiFID | 2 | 5 | 24 | 67 | 97 | 70 | 51 | 89 |
| establishment in Italy of branch of a European investment firm | -- | -- | -- | -- | -- | 5 | 8 | 7 |
| <i>total</i> | <i>55</i> | <i>82</i> | <i>90</i> | <i>133</i> | <i>174</i> | <i>145</i> | <i>170</i> | <i>208</i> |
| Reports filed to foreign authorities | | | | | | | | |
| suspicious transactions | 6 | 9 | 5 | 9 | 3 | 9 | 12 | 23 |
| unsolicited assistance | -- | -- | -- | -- | -- | 20 | 16 | 23 |
| <i>total</i> | <i>6</i> | <i>9</i> | <i>5</i> | <i>9</i> | <i>3</i> | <i>29</i> | <i>28</i> | <i>46</i> |
| Requests received from foreign authorities | | | | | | | | |
| insider trading | 5 | 9 | 11 | 9 | 7 | 17 | 15 | 21 |
| market manipulation | 2 | 4 | 5 | 5 | 1 | 3 | 2 | 1 |
| unauthorised public offerings and provisions of investment services | 8 | 6 | 4 | 2 | 1 | 2 | 1 | 2 |
| transparency and corporate disclosure | 1 | 2 | 3 | -- | -- | -- | 1 | 1 |
| major shareholding in listed companies and authorized intermediaries | -- | 1 | 1 | -- | -- | -- | -- | -- |
| integrity and professionalism requirements | 36 | 41 | 50 | 30 | 38 | 65 | 62 | 43 |
| infringement of rules of conduct | 2 | 5 | -- | 1 | -- | -- | -- | -- |
| transaction reporting pursuant to art. 25 MiFID | -- | -- | -- | -- | -- | -- | -- | -- |
| short selling | -- | -- | -- | -- | -- | -- | -- | -- |
| requests addressed to remote member pursuant to art. 57 MiFID | -- | 1 | -- | 1 | -- | -- | -- | -- |
| <i>total</i> | <i>54</i> | <i>69</i> | <i>74</i> | <i>48</i> | <i>47</i> | <i>87</i> | <i>81</i> | <i>68</i> |
| Reports received from foreign authorities | | | | | | | | |
| suspicious transactions | 5 | 8 | 11 | 22 | 41 | 40 | 59 | 55 |
| unsolicited assistance | -- | -- | -- | -- | -- | 8 | 6 | 6 |
| <i>total</i> | <i>5</i> | <i>8</i> | <i>11</i> | <i>22</i> | <i>41</i> | <i>48</i> | <i>65</i> | <i>61</i> |

Source: Consob.

7 ESMA related activities

During 2016, Consob participated as usual in the working groups established by ESMA.

Regarding the activities relating to market regulations, Consob chaired the Trading Post Standing Committee (PTSC), the Market Integrity Standing Committee (MISC), and the Working Group on the implementation of the MAR Regulation relating to market abuse and participated also in the Secondary Markets Standing Committee (SMSC).

The PTSC is engaged in the development of regulation and supervision policies for OTC derivative transactions, central counterparties and trade repositories (pursuant to the EMIR Regulation), supervision of CSDs (pursuant to the CSDR Regulation), as well as transparency of financing transactions through securities (pertaining to Regulation SFTR).

The Market Integrity Standing Committee, MISC, developed a new set of Q&As on the MAR Regulation, applicable as of 6 July 2016

The Working Group on market abuse prepared the final report containing technical implementing rules on the annual procedures of transmission to ESMA of information on investigations carried out and the penalties imposed by the national authorities in cases of market abuse as well as an opinion for the European Commission regarding certain amendments on the binding technical standards concerning inside information disclosure procedures.

Resulting from the outcome of two public consultations held in 2016, technical advice opinions were published requested by the European Commission for the implementation of the Benchmark Regulation. Two public consultations on technical standards and implementing regulations provided for by the aforementioned Regulation Benchmark were also launched during the year, to be submitted to the European Commission for endorsement by 1 April 2017.

As part of the Committee devoted to secondary markets, SMSC, they are finalising work for the development of the remaining implementation measures of the Directive MiFID II and MiFIR Regulations

On behalf of the European Commission, an analysis was also carried out on whether to temporarily exclude the exchange traded derivatives from the requirement for central counterparties to ensure non-discriminatory access to a trading venue, at the end of which ESMA considered exclusion unnecessary; based on the work done, the European Commission will issue second-level measures, implementing the MiFIR.

The attention of the SMSC is currently directed towards the adoption of operational measures to ensure the smooth implementation of the new regime applicable to secondary markets as of 3 January 2018.

International activity has also been intense with regard to the areas related to the regulation of investment products and intermediaries.

In particular, Consob participated in the work of the Investor Protection and Intermediaries Standing Committee (IPISC), contributed to the task force established to develop implementation measures with regard to MiFID II/MiFIR and participated in the work of the Investment Management Standing Committee (IMSC) and the other standing committees of ESMA.

With reference to the work of the IPISC, the group has taken steps in relation to the growing sales on a cross-border basis of speculative contracts (such as CFDs, binary options and rolling spot forex platforms) on EU markets, publishing a series of Q&As as well as a warning in which the risky nature of the products mentioned is highlighted as well as the particularly aggressive way in which they are offered to customers, sometimes in violation of MiFID conduct requirements (see above Chapter VII 'Investor protection').

In implementing the regulatory framework established by MiFID II, the IPISC published two consultation documents relating to the formulation of guidelines regarding product governance and senior staff requirements.

Guidelines were finalised related to the practices of cross-selling, containing measures to strengthen transparency safeguards in connection with the bundling of products and the management of conflicts of interest stemming from remuneration models.

A statement was published in which ESMA provides guidance on the correct application of MiFID regulation on the part of banks and investment firms during the distribution of financial instruments falling within the scope of bail-in, regarding which Consob had already issued a communication in November 2015.

In the context of the work of the Joint Committee, held jointly with EBA and EIOPA, a public consultation has begun on a Discussion Paper which describes the evolutionary lines of the market for the use of technologies for the management and use of big data, i.e. the mass of information available to financial institutions regarding their clients and activities, giving an account of the main advantages and risks involved. The group also published Q&As on the subject.

With regard to asset management, the IMSC has published several updates on the Q&As regarding the application of the Directive on Alternative Investment Fund Managers (AIFMD), the Regulations EuVECA/EuSEF and the UCITS Directive. The Committee also finalised the guidelines on policies regarding compensation under the AIFMD and UCITS V Directives, providing guidance on issues such as proportionality, governance, risk alignment requirements and transparency. The second public consultation on the

guidelines was also launched relating to the method of segregation of fund assets and provision of custodial and depository services.

The IMSC was also involved in the creation of regulatory technical standards provided for in the Regulations on long-term investment funds (ELTIF) and contributed to the work carried out within the Joint Committee for the implementation of the PRIIPs Regulation

As part of the initiatives provided for in the Action Plan on the Capital Markets Union (CMU), the group, at the request of the European Commission, developed an opinion in which they outlined the key principles which should inspire any regulation on credit-exercising (*loan origination*) by alternative investment funds and on which it would be appropriate to launch a preliminary consultation.

The second opinion was also published with which ESMA provided an assessment on whether to extend the European passport, in accordance with the AIFMD, to managers and funds of non-EU countries.

The IMSC Committee also produced a statement aimed at strengthening investor protection of in relation to so-called closet index tracking funds, i.e. funds marketed as forms of active management, but that in fact replicate a benchmark.

In terms of a prospectus, the Corporate Finance Standing Committee (CFSC) updated its Q&As and positively evaluated the equivalence of the Turkish legal system on the matter, compared with EU legislation; therefore, a prospectus drawn up according to the Turkish legislation may constitute a valid prospectus in the Union for approval in accordance with the Directive.

During 2016, Consob continued its participation in the Standing Committee of ESMA, CRSC (Corporate Reporting Standing Committee), and its permanent subgroup EECS (European Enforcers Coordination Sessions), to promote the consistent application of the IFRS in the European Union and convergence of supervisory practices.

Consob has actively contributed to the work of the Supervisory Convergence Standing Committee (SCSC), a group dedicated to the strengthening of the single rule book and convergence of supervisory practices, issues now recognised as a priority also in the action plan outlined by the European Commission on the CMU.

With regard to rating agencies, in the course of 2016 guidelines were finalised related to the validation and review process of the methodologies applied in the preparation of assessments of creditworthiness in order to appropriately define the degree of discretion of judgments and to improve their quality.

A cooperation agreement was also concluded between ESMA and the pertinent South African authority to establish a framework for the exchange of information in the supervision of credit rating agencies.

8 Activities related to IOSCO and other international organisations

In 2016, Consob continued its participation in the permanent working groups of IOSCO in relation to accounting profiles, auditing and transparency (Committee 1), secondary markets (Committee 2), intermediaries (Committee 3), international cooperation and adherence to the IOSCO MMoU (Committee 4 and Screening Group), collective investment schemes (Committee 5) and the protection of retail investors (Committee 8).

The permanent groups of Committee 1 operate in Accounting, Enforcement areas, Disclosure and Auditing, including the group that manages IOSCO's database containing the decisions taken with regard to enforcement, in order to facilitate communication and information exchange between the IOSCO member countries.

In relation to the Committee's work in secondary markets, Committee 2, there was a report on the regulatory and operational approaches taken by the authorities and by the participants of the main financial markets to deal with cyber risk.

In the area of international cooperation, Consob participated in the Screening Group practices that assess the ability of supervisors to comply with the IOSCO cooperation standards and to sign the IOSCO Memorandum of Understanding. There are currently more than 110 signatories of the IOSCO MMoU. The work of the Screening Group on the definition of how to implement the new IOSCO Multilateral Agreement (Enhanced MMoU) is also in the process of finalisation, endorsed by the Presidents Committee of IOSCO in 2016. The Enhanced MMoU will complement the existing MMoU in order to further strengthen international cooperation instruments for purposes of enforcement.

Consob has also participated in the work of the Assessment Committee, with the task of promoting greater convergence of national rules to the IOSCO international principles and of ensuring their periodic updating of them.

During 2016, the Committee published the results of the second review on the implementation of the IOSCO standards on financial benchmarks, published in July 2013, the results of which have provided the basis for the drafting of new guidelines to be implemented correctly by benchmark directors. The country review of the Republic of Trinidad and Tobago was also carried out, in which the compliance of the country's

national rules to the IOSCO Principle was assessed. The Working Group Implementation Task Force also drew up proposals for amendments to the methodology of the IOSCO Principles, on which there is an ongoing internal consultation, in order to take into account market developments and new standards developed by the Board with effect from the previous revision.

Consob is contributing to the development of a toolkit containing examples of measures needed to prevent and punish misconduct in professional relations.

Consob also participates in the working groups of the Financial Stability Board (FSB) pertaining to matters within its competence. In 2016, analyses were conducted in the area of shadow banking and vulnerabilities in the area of collective management and the resulting systemic risks.

On the subject of legal auditing, in 2016, according to EU Regulation 537/2014, the CEAOB Committee (Committee of European Auditing Oversight Bodies) was established for the coordination between supervisory authorities concerning legal auditors, which replaces the European Group of Auditors' Oversight Bodies (EGAOB).

Consob continued its participation in the IFIAR (International Forum of Independent Audit Regulators), which brings together the supervisory authorities of auditors of EIPs of more than 50 countries.

Methodological notes

Instructions

The following conventional signs are used in the tables:

- quantity identified as zero;
- non-existent phenomenon;
- ... the phenomenon exists but the figures are unknown;
- .. the figures are below the significance threshold.

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

Figure 10

The types of opinion issued by independent auditing firms are described below.

- 1) Opinion with reservations. The auditor expresses an opinion with reservations if it ascertains: 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) Opinion impossible owing to serious limitations. 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) Opinion impossible owing to uncertainties. 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 the business continuing to be a going concern, auditors must issue a disclaimer when they consider that the action taken by the directors is based on highly questionable assumptions.

Tables 39–40

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 over-allotment at the close of the public offering. Note, therefore, that the data are independent of the fact that, after stabilisation by the placement agents, the greenshoe option might 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 take 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 equity interest is based on proportional distribution of the shares sold in accordance with the specifications 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 in any shareholders' agreements by parties to such agreements. In the absence of a controlling shareholder, the largest shareholder is indicated;
- non-voting shares are deducted from the share capital of the issuer for the purpose of calculating percentages held by major shareholders and for capitalisation.

Figures 18–23, Table 44

Data refer to the following Italian banking groups: Intesa SanPaolo, Unicredit, MPS, BNL, Mediobanca, UBI, Banco Popolare and Banca Popolare di Milano. This sample essentially represents 2/3 of the entire Italian banking system in total asset terms. For the years prior to 2009 the figures include the main banks subsequently incorporated into the banking groups considered through merger and acquisition operations, with the exception of HVB which is included in the data only from the date of consolidation in the Unicredit financial statements.

Figures 43, 48, 51

Multifinanziaria Retail Market is a sample survey conducted by GFK Eurisko Srl, which gathered questionnaires from a sample of 2,500 households in which the financial head of the household is aged between 18 and 74 (bank employees, insurance company employees and financial advisers are excluded from the survey). The financial head of the household is the person with the highest earnings (if no-one works the most senior male, and if there are no males the most senior female). The 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 itself.

Figure 48

Since the data are provided for bands, a punctual value for financial wealth and investments is attributed to each household calculating the average of the furthest points of the band (the only exception being the last open band of financial wealth, for which the lowest amount in the band has been considered). In order to obtain the portions invested in the different categories of financial assets, the punctual value of each investment is multiplied by the punctual value of each household's financial wealth, thus obtaining 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 household (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; percentages of each financial asset derive from this figure.

Figure 51

'Restricted advice' means advice based on a limited selection of products and/or providers, typically those from the banking group the advisor belong to. 'Advanced advice' means advice based on a sufficient range of sufficiently diverse financial instruments available on the market and providing the client with a periodic assessment of the suitability of the financial instruments recommended. 'Independent advice' means advice based on a sufficient range of sufficiently diverse financial instruments available on the market, and remunerated exclusively by the investor to whom the service is rendered. 'High proactivity – MiFID advice' refers to households declaring to have received a personal recommendation in respect of one or more transactions relating to financial instruments by their advisor in the last 12 months. 'Medium proactivity – generic advice' refers to households declaring to have been contacted by their advisor in the last 12 months without receiving any personal recommendation. 'Low proactivity – passive advice' refers to households declaring to have not been contacted by their advisor in the last 12 months.

Figures 49, 50, 52-57

The Observatory on 'The approach to finance and investment of Italian households' is a survey conducted by GfK Eurisko Srl. It collects data from 1,000 households representative of the population of Italian retail financial decision makers, defined as the primary family income earner (or the most senior male, when nobody works, or the most senior female, when there are no male family members), aged between 18 and 74 and excluding bank employees, insurance company employees and financial advisers. Statics refer to the whole population as inferred from sample data and weights provided by GfK Eurisko Srl.

Table 62

Senior management career comprises the following grades: Director General, Deputy Director General, Official General, Central Co-manager, General Manager, Manager and Co-manager. Junior management career comprises the following grades: First Officer, Grade 1 Officer and Grade 2 Officer. Operating career comprises the following grades: Chief Deputy, Deputy, Senior Assistant, Assistant and Deputy Assistant. General services career includes the grades of First Head Operator, Head Operator, First Operator, Operator.

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