Strategic plan 2013-2015

CONSOB
Commissione Nazionale per le Società e la Borsa

Strategic plan 2013-2015

Foreword I

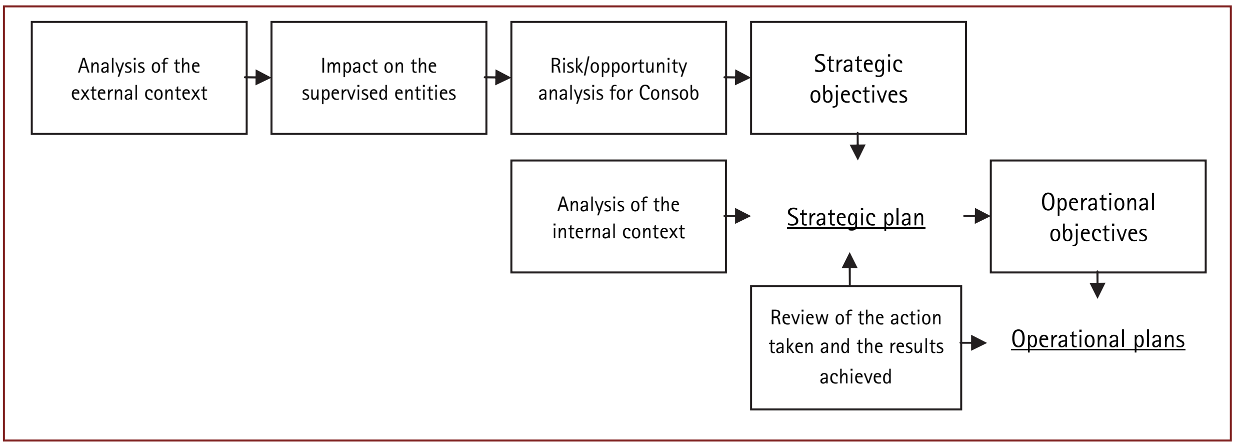
The 2013-2015 Strategic Plan is the second formal planning document produced by Consob, the first referring to the period 2010-2012. It is based on the same logical model beginning with a risk assessment relating to forecasting developments in the relevant economic-financial and institutional context (see Fig. 1).

The main purpose of strategic planning is to identify the priority courses of action to enable human and financial resources to be allocated according to effectiveness and efficiency criteria during operational planning. These priorities must be identified on the basis of their suitability for dealing with risks that can be classified in two broad categories: those attributable to changes in the economic and financial system (market risk) and those due to changes in the regulatory framework (regulatory risk).

In general terms, risk can be defined as an undesirable scenario which is likely to arise and an unfavourable consequence in terms of having negative impact on the organisation's mission. Risk assessment is therefore linked to forecasting relevant developments and requires an examination of the supervised entities and investors' reaction to these changes, and of the impact these reactions have on the institute's ability to achieve its goals.

The 2013-2015 Strategic Plan is also based on information which came to light following the completion of the previous 2010-2012 planning cycle. This information relates first to verifying the persistence of the identified risks or their different features.

Figure 1 The planning logical model



Box 1

Regulation on Credit Rating Agencies (CRA III)

The CRA III Regulation introduces an annual calendar of sovereign debt ratings, based on which rating agencies must establish and publish, at the end of the previous year, the dates on which sovereign debt ratings will be published, with some exceptions. This Regulation also defines a number of supervisory areas for national authorities operating in the sector, and for their respective areas of responsibility, regarding both the use of ratings and several transparency requirements which have been introduced, with reference to structured financial instruments.

In terms of the impact on Consob's supervisory action, two major areas of intervention can be identified:

- increased monitoring of the market price formation procedure and supervision of any suspected market abuse in connection with the sovereign debt rating publication dates as per the annual calendar, within which speculation regarding these ratings may spread and consequent anomalous market trends may arise;
- definition of the criteria and approach to supervision with regard to both the use of ratings by intermediaries, subject to Consob controls - in the context of investment services and asset management activities - and compliance with the transparency requirements imposed by the CRA III Regulation on issuers, originators and sponsors of structured financial instruments.

We examined developments in risk areas in the two three-year periods and revised the Risk Assessment Matrix used to identify the Institute's strategic objectives, based on a joint analysis of the action taken to mitigate the risks identified in the 2010-2012 Strategic Plan and the current external context (see sect. II, par. 7).

The strategic objectives were also defined taking into account the constraints deriving from the aim to reduce expenses and limit the fees on supervised entities in the next three years. This implies, on the one hand, freezing the completion of the staffing plan in the period 2013-2015 and confirming the current staffing and, on the other, reducing costs in personnel management, information systems, logistics, and purchases of goods and services.

With reference to developments in the regulatory framework and, in particular, with the entry into force of several EU Regulations (CRA III on rating agencies, and EMIR, Short Selling and Market Abuse Regulations), it is important to take due note of several new supervisory areas for the Institute, despite limited resources (for more on this subject, see Boxes 1 and 2).

The document is organised into two chapters. In the first, after highlighting the connections between the risks and the objectives of the 2010-2012 Strategic Plan, we describe the strategic objectives for each risk for the three years 2013-2015. In the second chapter, we discuss two additional areas of strategic intervention related to the need to strengthen the domestic capital market and protect investors.

Box 2

Entry into force of EU EMIR, Short Selling and Market Abuse Regulations

The EU EMIR, Short Selling and Market Abuse Regulations extend their scope to categories of entities (typically non-financial counterparties for the EMIR regulation, and individual investors for the Short Selling regulation) that were not previously subject to supervision and that may not be aware of the new rules. The aim of the regulatory initiative risks not being achieved due to nonfulfilment by these entities, also due to their lack of familiarity with the new regulations. This risk is amplified by Consob's difficulty in identifying the entities affected by the new EU regulations.

The EMIR Regulation provides for OTC derivatives to be reported to allow supervision by the authorities, but the large number of sources and methods of receiving the data makes supervision burdensome for Consob and may decrease effectiveness.

Consob must therefore extend its institutional role to include supervising new categories of entities and verifying that entities already subject to supervision fulfil the new obligations and requirements following the entry into force of the EU regulations (EMIR, and Short Selling and Market Abuse Regulations). In particular:

- identify the most relevant trading venues and non-financial counterparties subject to the rules established by the EMIR and Market Abuse Regulations, in order to concentrate supervisory activities on the most significant entities;
- raise awareness among those subject to the EMIR and Market Abuse Regulations, and the industry associations that represent them, by identifying methods and tools for increasing knowledge of the rules introduced by the Regulations and the consequent obligations as far as possible among non-financial counterparties;
- organise and streamline the collection and use of data for supervisory purposes, identifying in advance the goods markets and trade repositories that will be used, activating adequate channels for access to their data and developing an adequate communications and data-processing environment within Consob for their management.

II Risk areas and strategic objectives 2013-2015

1 Financial information: earnings manipulation and mispricing of securities

In the 2010-2012 Strategic Plan, we highlighted several risks associated with the situation of companies that were beginning to show signs of financial distress or that were already in a clear state of crisis. With reference to the impact of this risk on the Institute's mission, we stressed how *"managing the trade-off between the need for confidentiality and that of market transparency entails Consob carrying out delicate discretional assessments, the outcome of which could either entail the application of disclosure obligations that penalise the company (which in some cases, could, subsequently, turn out to be of limited use to the market), or the safeguarding of the confidentiality of the issuer at the cost of an excessive reduction in the information available to the public"*.

In the face of this risk area, we expressed the aim of **"strengthening financial information supervision while balancing the needs of market and supervised firms"**.

In line with this objective, during the three years 2010-2012, action was taken and this is documented in detail in the relevant Annual Reports.

However, given the persistently negative economic conditions, it is essential that Consob continues to focus its supervisory activities on verifying the integrity of the financial reporting provided by issuers whose business continuity is in doubt, the number of which has grown and is likely to increase further.

In view of the above, and taking into account the persistently negative economic climate, there is still a level of risk in this area that requires strategic monitoring over the next three years.

RISK AREA N. 1

Increase in the number of issuers uncertain with regard to their business continuity and consequent possibility of earnings manipulation and the mispricing of the related securities.

As economic-financial tensions increase, there is a corresponding greater risk of earnings manipulation and, therefore, the potential mispricing of securities. For this reason, priority must be given to ensuring the transparency and accuracy of financial reporting.

In these cases it is in fact possible for misalignments in terms of content and timing to occur between security market trends and the information available to investors.

To address this issue, Consob will expand the supervision of financial reporting by acquiring targeted information from issuers, calling for communication with the public and profit warnings, and expanding the analysis of "derived" financial reporting (i.e. analysts' recommendations and ratings).

STRATEGIC OBJECTIVE N. 1.1

Expand the supervision of economic-financial reporting relating to issuers of financial instruments traded on Italian markets or disseminated to the public, made available directly or derived (studies, ratings, blogs, forums), in order to promptly identify potential cases of incorrect representation of the issuers' economic-financial situation, ensure the transparency and integrity of financial markets, and combat the manipulation of information.

STRATEGIC OBJECTIVE N. 1.2

Strengthen supervision on the issuers with greater systemic risk, such as high capitalisation issuers or those belonging to the financial sector, to be implemented through a thorough, systematic review of all entities. Also to apply a "sampling" supervisory approach to small and mid-capitalisation issuers, identifying those showing signs of problems through specific risk-based models.

As usual, Consob will make use of the information acquired by the auditors and, in this context, will test its credibility and reliability by completing quality checks on the auditing firms that carry out assignments for public interest entities (PIE), as defined by Italian Legislative Decree No. 39/2010.

The new supervisory system of auditing firms – introduced by Italian Legislative Decree No. 39/2010 – is based on the coexistence of two authorities (the Ministry of Economics and Finance (MEF) for auditors of non-PIE subjects, and Consob for the auditors of PIE). Consob will, therefore, have to supervise a "variable" set of subjects, from among those currently listed in the single MEF Registry, identified on the basis of assignments involving PIEs. This requires close cooperation on regulatory and supervisory issues, as well as on and the design of information flows to and from the supervised entities and between the two authorities.

To mitigate the risk explained above, the Institute intends to pursue the following strategic objective:

STRATEGIC OBJECTIVE N. 1.3

Focus controls on medium/large-sized auditing firms with significant involvement in audits of listed companies (through direct, preventive supervision) and to evaluate the criteria for the implementation and exercise of its mandate under Article 22 p. 4 of Decree 39/2010 for the performance of quality checks on small-sized statutory auditors (not focused on auditing listed companies).

2 Conflict of interest between controlling shareholders and minority shareholders

In the 2010-2012 Strategic Plan, we highlighted several risks related to the quality of the governance of listed companies. With reference to the impact on Consob as an institution, this risk was formulated as follows: *"The high concentration of ownership structures and the presence of controlling shareholders able to significantly influence the strategic decisions and the management of the company, and the lack of effective internal control mechanisms have resulted in the low overall quality of governance and the scant participation of minority shareholders in corporate life"*.

To mitigate this risk area, we identified the objective of **monitoring related-parties transactions and corporate governance mechanisms**.

To pursue this objective, during the three years 2010-2012, the Institute implemented several significant initiatives after the approval of Regulation No. 17221, aimed at ensuring the transparency and procedural and substantive fairness of transactions with related parties carried out directly or through subsidiaries. In particular, there was intensive supervision of transactions with related parties – some of which resulted in the reorganisation of the control of large listed groups – for the purpose of verifying the correct application of the above-mentioned Regulation.

The subject of transactions with related parties is also linked to takeover bids, since many operations carried out in recent years have been promoted by entities that already held a stake of more than 30%. These were, therefore, "internal" takeovers that, while not technically qualifying as transactions with related parties, raise similar needs for the protection of minority shareholders, given the relationship between the bidder and the target company. In these cases, the independent directors' opinion (see Issuers Regulation Article 39-bis) has become an important tool for enhancing the information provided to the recipients of the bid.

Despite the intensive supervision, which is fully documented in the Annual Reports, the negative developments in economic conditions suggests that the risk of transactions with related parties involving expropriation remains significant since the reduction of profitability increases the likelihood of conflicts of interest between controlling and minority shareholders.

RISK AREA N. 2

Low profitability increases the risk of conflicts of interest between controlling shareholders and minority shareholders.

For the period 2013-2015, the main objective is therefore to develop a model for evaluating the quality of the governance structure based on a dual approach. On the one hand, systematically evaluating all companies on the FTSE MIB; on the other, for companies not belonging to the FTSE MIB, we anticipate the preparation and testing of an analysis model that identifies the entities on which to focus supervision based on risk.

In addition, it is necessary to avoid the supervision of transactions with related parties being unbalanced with a bias towards important "emerging" transactions with respect to the correct application of exemptions related to ordinary transactions, so as not to increase incentives for avoiding the emergence of the transactions themselves. In addition, to avoid the risk that supervisory activities protecting minority shareholders be late and ineffective, these should not be focused solely on events but rather "preventive" measures should be put in place with regard to structural factors that could affect the substance such as assessments of the directors' independence.

STRATEGIC OBJECTIVE N. 2.1

Focus on all the companies on the FTSE MIB through a systematic analysis of conflicts of interest and, for those companies not belonging to the FTSE MIB, to direct supervision towards the corporate governance of entities at greater risk of expropriating minority shareholders according to a specific risk-based analysis model.

3 Conflict of interest between intermediaries and customers

The 2010-2012 Strategic Plan identified several risks associated with the offering strategies adopted by intermediaries which were inconsistent with the MiFID. In relation to its impact on the Consob's institutional purpose, this risk was described as follows: *"The structure and the business models of the securities intermediation industry, highly oriented towards "selling a product" rather than "providing a service", make the substantial application of the principle of serving the best interests of customers more complex and amplify potential conflicts of interest of bank operators and often even issuers. This industry structure is the reason for the scarce availability and low level of quality of the investment advice services provided to retail investors, which in turn create an environment characterised by a greater risk of conduct that does not comply with the MiFID or entails merely a formalistic application of the same. Continuing supervision of the way in which the MiFID is applied by the industry offers Consob the opportunity to redirecting the choices of operators towards an approach based on serving the customer's best interests".*

In the face of this area of risk, we identified the aim of **supervising the implementation of the MiFID regulations in the provision of investment services and promoting quality improvements and competition in the provision of the advisory service.**

In line with this objective, during the three years ending in 2012, we focused supervision on verifying the effective transition to a business model based on strategic decisions, product selection mechanisms and incentives for distribution networks coherent with the aim of serving the best interests of the customer. We also monitored the quality of investment services offered to retail customers by examining concrete methods for testing appropriateness and adequacy, especially upon placement of more complex financial products. These actions involved intermediaries that represent about 80% of the market.

However, the results of these checks revealed practices aimed merely at distributing financial products without the support of real customer service. The greatest weaknesses were found in the collection and management of the information necessary for defining investor profiles and in the procedures for verifying the adequacy of the products recommended.

Despite action to mitigate the risk, in the light of the negative developments in the external context and its related impact on the supervised subjects, there is still a level of risk in this area linked to the fact that the strong reduction in the levels of profitability increases the likelihood of conflicts of interest with customers.

RISK AREA N. 3

The decline in the profitability and liquidity of intermediaries increases the risk of conflicts of interest with customers.

With reference to intermediaries, the reduced contribution of net interest income to the profit and loss account, and the need to develop alternative sources of income, particularly commissions, as well as the increased search for retail sources of funding such as bond issues and structured products give rise - at the time of distribution - to possible conflicts of interest between intermediaries (strictly focused on profitability and liquidity) and customers (who are attempting to optimise investments). There is an increased risk of divergence between the objectives of stability for intermediaries and the protection of fairness and transparency.

To mitigate this risk, one of the priorities of supervision will be:

STRATEGIC OBJECTIVE N. 3.1

Supervise the distribution activities of intermediaries with a focus on the placement, including "door to door selling" for complex products with accentuated conflicts of interest.

Due to the outflows from mutual investment funds in 2012 and an increasingly strong presence of European players with a varied offer of funds, the commercial policies of asset management companies could be oriented towards the offer of funds that are attractive to the sales networks rather than aimed at meeting the needs of target customers.

In order to minimise the possible negative effects linked to this risk, the supervisory priority in the asset-management sector will be:

STRATEGIC OBJECTIVE N. 3.2

Monitor the coherence between the Consolidated Law on Finance (CLF) and the Regulation on Intermediaries with the commercial policies of asset management companies starting from the definition of the product line.

The need to manage the liquidity risk of the assets held in real-estate fund portfolios, in view of the imminent expiration of a significant number of real estate funds and given the downturn in the real estate market, raises the risk of possible penalties for investors and implementation of procedures which do not conform to standards of fairness.

In relation to the above risk, the priority for the period 2013-2015 will be:

STRATEGIC OBJECTIVE N. 3.3

Supervise companies that manage real-estate funds close to expiration, with particular regard to the obligation to establish and update a forward asset plan consistent with the duration of each fund and with market conditions.

4 Bank issuers funding needs

One of the risks highlighted in the 2010-2012 Strategic Plan was related to the inadequate understanding/disclosure of the characteristics of non-equity products. This risk was formulated as follows, *"Disparities in the disclosure rules applicable on the basis of current Community regulations, differences in the supervisory practices adopted to approve prospectuses and the absence of harmonised summary information on characteristics and the risk-return profile create room for regulatory arbitrage and may prevent retail investors from making an informed assessment as to the convenience of an investment in non-equity products. Other elements that contribute to create room for regulatory arbitrage are represented by differences in the rules of conduct applicable to placements (MiFID for funds and financial instruments, other directives for insurance policies)".*

In relation to this area of risk, we indicated the objective of **reforming the regulatory framework and implementing supervisory models for non-equity financial products and instruments.**

During 2010-2012, the regulatory risks underlying this objective were essentially removed with the final revision of the European directives on prospectuses and mutual investment funds, which has led to a more standardised regulatory framework and supervisory practices. Therefore, the risk of disparity among European disclosure schemes has been significantly reduced.

Regarding the offer of non-equity products to retail investors, for the period 2013-2015, the fundamental risk is that the increased funding requirements of bank issuers may lead to a lowering of transparency standards. In fact, the increased funding difficulties of the "institutional" market and the tightening of prudential supervisory standards have led to the need to recover adequate liquidity and capitalisation ratios. These needs for recapitalisation and debt-restructuring are accompanied by the growing difficulties experienced by banking foundations or major shareholders in supporting recapitalisations with the weakening of their role in control structures.

RISK AREA N. 4

Bank issuers' funding needs increase the risks of insufficient transparency of investor information, thereby impairing the proper functioning of the markets and the stability of the financial system.

Therefore, the need to ensure transparency and avoid triggering mechanisms that make bank funding more difficult make defining the information to be provided in bank issuers' prospectuses on the financial situation more complicated.

To minimise the possible effects of this risk, the priority for 2013-2015 is:

STRATEGIC OBJECTIVE N. 4.1

Ensure the correctness of disclosure in the offer documents on the products and on the issuers financial situation, particularly with regard to credit risk, and highlight the most critical offers for supervision in terms of the MiFID by implementing and developing the supervisory models for non-equity products based on product mapping and the processing of the results taken from the Memorandum of Understanding with the Bank of Italy.

With regard to the proposed *"Product intervention"* which appeared in the MiFID audit, the national supervisory authorities have been given the power to prohibit the distribution of financial instruments which can weaken investor protection, the orderly functioning of the market or the stability of the financial system, in whole or in part, of one or more EU countries.

However, in the context of the ESMA's work a framework and common criteria need to be defined to guide enforcement against producers and/or distributors of financial instruments and, in addition, several open issues need to be studied; the most important of which are:

- which definition of structured products to adopt;
- how to ensure a consistent methodology among all member states for mapping the various classes of products and the level of detail to be applied;
- what the key parameters and methodologies are for assessing the complexity and risk of products.

5 Trading fragmentation

In the 2010-2012 Strategic Plan, we highlighted several risks related to the quality of information about transactions available to the public as a result of increased fragmentation of the trading of financial instruments. With reference to the impact on the Institute's mission, this risk was formulated as follows: *"Increased trading fragmentation leads to a fall in the quality of information on transactions available to the public. This, in turn, hinders any initiatives to consolidate information and makes supervision on compliance with the transparency obligations envisaged by the MiFID more complex and onerous. Irregularities in the post-trade transparency regime for non-equity instruments and in the application of Community provisions on pre-trade transparency for equity instruments, resulting from the margins of discretion conceded by the MiFID as well as disparate supervisory approaches, imply the risk of regulatory arbitrage and may cause a generalised fall in the level of transparency (so-called race to the bottom)".*

In the face of this risk area, we expressed the aim to **enhance transparency in the secondary markets**.

In line with the this objective, during the three years 2010-2012, enforcement action was taken to ensure the high quality of post-trade information and of that sent to Consob in compliance with transaction-reporting requirements (with particular reference to monitoring the timeliness and correctness of the reports received by Consob), which are documented in detail in the Annual Reports.

Despite the action taken, in the light of the reference framework and its impact on the supervised entities, there is still a level of risk in this area at present.

RISK AREA N. 5

Growth in trading fragmentation increases the risk of non-compliance with the obligations of transparency and best execution.

In the face of a further increase in trading fragmentation and trading venues with reduced incentives to perform their "institutional" role – guided by more aggressive and profit-oriented strategic choices – access to trading information has become more difficult and costly for intermediaries and investors and, as a consequence, supervising respect of the best execution principle has become more difficult.

The possible shifting of the listing of potential IPOs and listed stocks to other European exchanges and increased incentives for operators to migrate to trading venues that are less transparent and have a distinctly profit-oriented approach increase the risk of a gradual deterioration in the quality of transaction reporting and post-trade transparency due to the multiplicity of trading venues and other obligated entities that provide disaggregated and sometimes incomplete, inconsistent or unreliable data.

To mitigate this risk, Consob will cooperate at European level in implementing the European MiFID II Directive, formulating appropriate proposals for amendments to the regulations, as well as its practical implementation, to standardise (also in terms of supervision by EU authorities) pre and post-trade information and minimise the risk of regulatory arbitrage associated with the use of transparency waivers.

To mitigate the above risks, the supervision priority will be:

STRATEGIC OBJECTIVE N. 5.1

Strengthen supervision of information flows to Consob (transaction reporting) and the public (transparency) by developing a more computerised approach to monitor the fulfilment of obligations, and to improve intermediares' compliance with best execution rules, with an in-depth analysis of automatic selection mechanisms for trading platforms ("smart order routing").

6 High-frequency trading

In the 2010-2012 Strategic Plan, we highlighted several risks linked to the increase of information asymmetries and the potential for market abuse. With reference to the impact on the Institute's mission, this risk was formulated as follows: *"The importance of the rumours' phenomenon, which indicates weaknesses in the handling of inside information by listed companies, increases the likelihood of unlawful conduct and makes ensuring orderly trading more complex. The shortcomings encountered in the application of regulations on the reporting of suspect transactions have negative repercussions on the use of Consob's resources and run the risk that the enforcement of market abuse rules is fairly ineffective".*

In the face of this risk area, we identified the objective of **enhancing the effectiveness of market abuse regulations**.

In line with this objective, during the three years 2010-2012, supervisory action was taken relating to the procedures for managing and disseminating confidential information and intermediaries' compliance with obligations relating to suspicious transactions. In addition, we set priorities for analysing and evaluating suspected cases of market abuse and signed cooperation agreements with judicial authorities.

With regard to market abuse, for the period 2013-2015, we consider the main risk to be linked to the sharp increase in new operating methods in the market such as automated trading and high-frequency trading.

RISK AREA N. 6

Significant developments in high-frequency trading and automated trading increases the risk of non-orderly trade conduct and the possibility of new forms of market abuse.

Increased trading fragmentation and more intense competition between trading venues are also related to the development of high-frequency trading. On the one hand, these factors make it difficult to identify possible market abuse and, on the other, create the risk of non-orderly trade conduct, in particular due to the possible inadequacy of tools for managing ex ante and ex post low-latency strategies by trading venues and market participants.

In this regard, Consob intends to propose rules, in the context of EU regulation, that obligate trading venues to have software for the ex post reconstruction of the trading book, in order to adequately detect abuse and enable the competent authorities to take rapid enforcement action.

At the domestic level, the supervisory priority will be the pursuit of the following strategic objective:

STRATEGIC OBJECTIVE N. 6.1

Strengthen supervision efforts aimed at raising the quality of organisational requirements and control systems for trading venues and investment firms operating in highly automated environments (algorithmic trading and HFT), by reviewing and monitoring respect of adequate levels of compliance with ESMA guidelines over time.

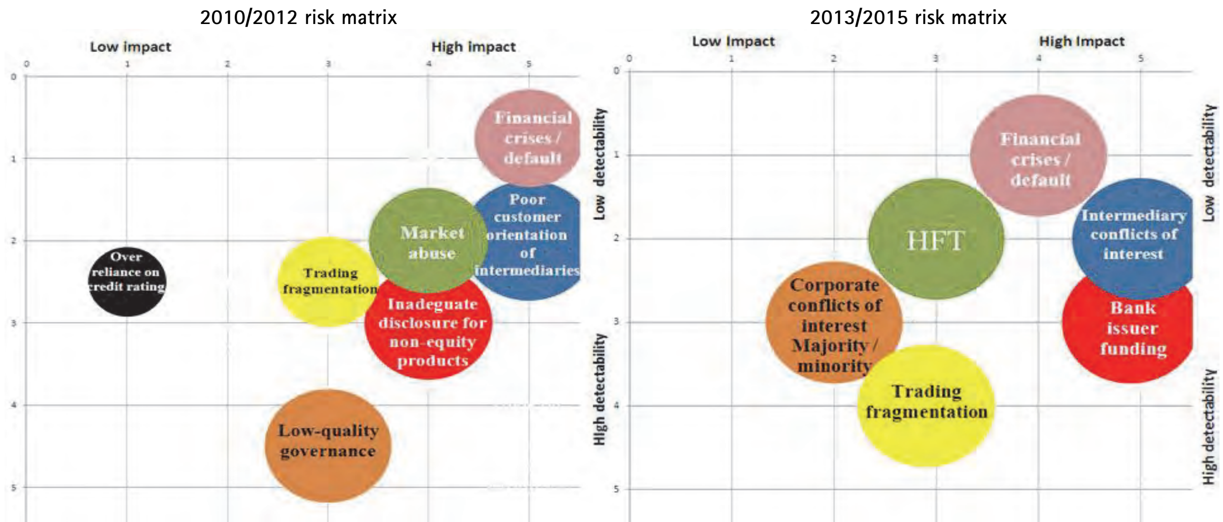
7 Risk area developments and continuity with the 2010-2012 Plan

The risk areas described above, which are the foundation for the objectives for the period 2013-2015, are consistent with those identified in the 2010-2012 Strategic Plan. Figure 2 shows changes in the risk matrices from 2010-2012 to the three years 2013-2015.

The risk areas are ordered according to three factors: impact on Consob's mission, detectability and probability; moreover, the colours of the spheres indicate which areas show continuity across the two three-year periods considered[1].

It should be noted that the top right section of the chart (high impact and low detectability) shows the priority risk areas for corrective action.

Figure 2 – 2010/2012 and 2013/2015 risk matrices



The size of the spheres indicates the probability of the event.
The colours of the spheres represent developments in risk areas that have elements of continuity from one period to the other.

By comparing the two matrices, we can see significant continuity in the risk areas in the two three-year periods analysed. However, we note that, on the one hand, the worsening of the economic conditions has increased and amplified the level of risk in several areas and, on the other hand, the emergence of new market practices such as high-frequency trading has given the various risk areas identified new and specific connotations.

(1) *The risks have been qualified in terms of the importance of the potential impact on Consob's mission, taking into account three parameters: the probability that the risk-bearing event will materialise (P); the degree of detectability of the risk-bearing event i.e. the possibility of being aware of and detecting the materialisation of the event in time (R); and the impact or severity of the event on Consob's mission (G). These criteria are quantified based on a scoring system from 1 to 5 that measures likelihood and impact (1 being low impact or low probability, and 5 high impact or high probability) and detectability (5 being, this time, a high possibility of detecting the risk factor, and 1 impossibility of detecting the risk factor). As regards presenting the Plan for the preceding three years, we decided to switch from having probability and detectability on Cartesian axes where the size of the sphere indicated impact, to showing, instead, impact and detectability where the size of the sphere indicates probability. This change in the arrangement of the variables does not affect the consistency of the data and, rather, allows a better appreciation of the critical area in the upper right quadrant, which shows low detection and high impact. In fact, the probability of the risks represented is always high for the three years of the current Plan, inasmuch as we have chosen to represent only risks whose effects could reasonably arise in the period.*

III Opportunities for improvement and medium to long-term action

1 Strengthening the domestic stock market

The size of the Italian securities markets, and the stock market in particular, reveals a structural weakness compared to all other major European economies. At the end of 2012, the issuers listed on the MTA market included 255 Italian companies, showing a further decline from the 263 at the end of 2011.

There are many reasons for the lack of development of the Italian stock exchange. First, the high fragmentation of the Italian manufacturing sector, which mainly consists of small and medium-sized enterprises, penalises access to financial markets and makes banks the main source of financing. In the current economic climate, this has exacerbated the financial fragility of small and medium-sized enterprises, which are exposed to the contraction in bank credit caused by the sovereign debt crisis and the need for banks to adopt higher capitalisation standards. Second, small and medium-sized enterprises are not always able to deal with the fixed costs associated with listing and, at the same time, are reluctant to accept the greater transparency and contestability of ownership required by the stock market.

Finally, there has been little development in investors specialised in risk capital for small and medium-sized enterprises (private equity and venture capital), especially for those younger and more innovative companies operating in more technologically advanced industries.

For this reason, the need for companies to find alternative sources of funding allows Consob to reinforce, within its mandate, the domestic stock market.

STRATEGIC OBJECTIVE N. 7.1

Ensure adequate growth and diversification in the capital market in order to favour the development of alternative sources of funding to bank loans for firms, particularly for small and medium-sized enterprises, and more opportunities for portfolio diversification for investors.

To achieve this objective, Consob organised a round table with the Italian Stock Exchange and the main industry associations of supervised entities, aiming to:

- simplify the listing process in order to provide incentives to companies to be listed, in accordance with a proper balance between the interests of the market and those of companies;
- contribute to the dissemination of the financial culture of the capital market, on both the demand and supply sides, through constant education; in particular, Consob will support the company training by providing educational tools which, on the one hand, facilitate the understanding of the administrative procedures related to admission to trading, the post-IPO stage and their duration on the list and, on the other, help to identify the correct method of writing the prospectus, through the publication of guidelines and FAQs, as well as appointing a contact person to provide the necessary support for requests for information and clarification;
- ensure the transparency and proper functioning of the secondary market for small caps. In particular, we intend to promote the conditions for improving the trading of securities on the secondary market by developing financial analyses and research, as well as support for liquidity with the Italian Stock Exchange and intermediaries.

2 Increasing interaction with investor associations

The quality and timely updating of the information kept are key to effective supervision. It is therefore desirable to increase the information contribution that the investing public can make to Consob, also through the indicative value of complaints, to improve the usability of informational assets for the purposes of supervision.

In addition, we believe that it is essential to invest in financial education to raise the level of interaction with investors. All efforts made to this end are the most natural ways to strengthen the real discernment of investors' skills, even though the results can only be achieved in the long run.

In this context, and in relation to Consob's mission to ensure the protection of investors, we have formulated the following strategic objective:

STRATEGIC OBJECTIVE N. 7.2

Create a stable relationship between Consob and consumer associations through methods of interaction that ensure a constant two-way flow between the parties involved.

To achieve this objective, we have set up a permanent round table with consumer associations that meets on a regular basis. In this context, we have defined the following three guidelines:

- to raise the level of self-protection of investors through a public awareness campaign on their rights, by identifying a learning path and the related key points for drafting an "Investor's Charter". This is also an opportunity for Consob to clearly define its role as a supervisory authority, and the powers it exercises, in order to avoid the risk that excessive investor reliance causes them not to evaluate the risks taken on with the necessary attention;
- handling complaints considering the general interest of the market as a whole, and assigning an indicative value to be used in supervision. To this end, Consob intends to provide a more rational and effective procedure for handling complaints, taking advantage of the cooperation of consumer associations. The specific objectives and benefits we intend to achieve are:
    - make the filing of complaints by investors easier and more effective,
    - increase the number and quality of the reports received by Consob, also by standardising them and consequently reducing the number of incomplete or unintelligible reports or those over which Consob has no jurisdiction,
    - promote the value of reports as a supervisory tool,
    - strengthen the cooperative relationship with consumer associations;
- ensure the rapid and effective solution of disputes originating from retail investors, with positive effects also on trust in the financial system. In this regard, Consob intends to propose that the legislator amend Article 32-ter of the Consolidated Law on Finance to introduce obligatory (rather than voluntary) methods for settling disputes between intermediaries out of court, following the model of Financial Banking Arbitration Body.