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CONSOB

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

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Speech by the Chairman to the financial market

Milan, 6 May 2013

«... there is, however, no advantage in reflections
on the past further than may be of service to the present.
For the future we must provide by maintaining what
the present gives us and redoubling our efforts ...»

Thucydides, *The Peloponnesian War*, I, 123

Mr Prime Minister, Mr Vice-President of the Chamber of Deputies, Mr President of the Regional Government of Lombardy, Mr Vice-Minister of the Economy, Mr Vice-President of the High Council of the Judiciary, Mr Governor, Authorities, Ladies and Gentlemen,

the Commission, once again, thanks the City of Milan and Borsa Italiana for the hospitality.

In 2012 Consob continued its programme of saving costs, which have fallen by 7.1 per cent, compared to the previous year, a reduction of 9.2 million euro. Despite the cancellation of public contributions, these measures allowed a reduction of 6.6 per cent (equivalent to 7.7 million euro) in the contributions from supervised entities compared to 2011. Between 2011 and 2012, these contributions fell by 14.9 per cent (17 million euro). A review of the charging criteria also enabled a fairer distribution of Consob overall operating costs, partly in order to take account of the growing difficulties faced by market players in the current economic climate. Consob intends to continue limiting the burden on the supervised entities in future years.

The reduction in spending was approved by the Board of Auditors, set up in 2012. The Board, entrusted with controls on Consob's accounting and compliance with the law governing its action, validated the strategy and measures adopted by the Commission.

Additional measures were also taken to reorganise and adapt the Commission's structure to reflect the evolution of the financial system. This involved a more efficient distribution of personnel, and the strengthening of its powers of inspection.

Speaking both personally and on behalf of the Commission, I would like to take this opportunity to thank everyone for their diligence and hard work, in fulfilling duties that have been made even heavier by the current economic situation.

Luigi Spaventa sadly died at the start of the year. He led Consob from 1998 until 2003 with great dedication and competence.

1 Macroeconomic scenario

Five years on, the crisis in Europe has not yet come to an end. With the passage of time, it has transformed from a financial crisis into one that affects the real economy. It seems that the positive link between finance and growth has been broken. Our country is feeling the effects of this crisis more than others: this is evident in the sharp contraction in GDP, linked to a fall in disposable income and a rise in the rate of unemployment.

The crisis is influencing our lives, and uncertainty about the future is growing. The growth model of Western democracies, hitherto considered the only model able to guarantee growth and well-being, has been called into question. Old certainties are crumbling away, as wealth is redistributed around the globe. The questions which we are all facing are: how will our lives change? Will we be able to maintain the same level of economic security? What does the future hold in terms of job prospects and, above all, opportunities for the younger generations? These are difficult challenges facing societies that have experienced well-being for over 60 years, believing this was sustainable and would steadily grow over time.

These are crucial issues. To address them, we should start with the awareness that, as President Napolitano recalled in his inaugural speech on 22 April, Italy has "great reserves of human and moral resources, of intelligence and labour".

Societies such as those in Italy and Europe, based on democratic institutions and the free market, allow us to operate in an inclusive environment in which everyone – assuming they have the ability and the will – can use their own talents and contribute to improving living conditions for themselves, and their communities.

Finance can, once again, act as a fundamental driving force. The dawn of the Renaissance in Italy marked the birth of the credit system. Letters of credit and bills of exchange were invented. They were innovations that gave new impulse to economic growth. With the passage of time, finance has turned from a means into an end, and its link with manufacturing activities has been lost. Its task should neither be overstated, nor demonized. It is now the task of Parliament and other institutions to restore the connection between growth and finance, without impairing the indissoluble link between economic growth and economic freedom, starting with the concrete issues of regulation and controls on the stability of the economic system.

In this scenario, following last year's collapse in market confidence, which challenged the very survival of the common currency, the decisions taken by Europe's institutions – above all by the European Central Bank (ECB) have brought some relief.

The result was a general, albeit discontinuous relaxing of the tensions on the market during 2012. Consequently, in countries with greatest exposure to the crisis, the 10-year yields of government bonds fell, down to levels significantly below those reached in November 2011. The return on the 10-year Italian BTP (long-term Treasury bond) is now 3.87 per cent, almost half the peak rate reached in November 2011. The decisions taken by European institutions have also benefited the equity markets: in particular the FTSE MIB, which after rising by 8 per cent in 2012, recorded a further increase of 4 percentage points in 2013. These figures are reassuring. However, stock market prices are still significantly lower than they were before the Lehman crisis, and are a long way from the far more positive results observed in the major European countries and in the United States.

It is a fragile peace. This is evidenced by the events at the beginning of this year, when the financial markets were again upset by economic and political tensions in several countries, including Italy, and by the escalation of the crisis in Cyprus.

In this continuing situation of uncertainty, the markets are still subject to herding behaviour by investors, and to episodes of contagion which create a divide between share prices and the fundamental values of companies. The activity of collecting savings has been seriously compromised as a result.

Prospects for economic activity in the eurozone remain weak. The recession affecting the peripheral countries is jeopardising the recovery of public finances, and is amplifying their vulnerability to renewed turbulence on the markets. The core countries, which in certain cases have already witnessed a significant fall in domestic demand, are also suffering from the slowdown in the peripheral economies, due to the reduction in commercial exchanges within the eurozone, which has become a major factor in the propagation of the crisis.

There are still differences between the conditions of bank credit available to the private sector in the various European countries. In the countries most exposed to the crisis, the contraction in household and business lending has continued (the February figures available for Italy show a 1.4 per cent reduction compared to the previous year), while the number of non-performing loans has increased (by 1 per cent in the past year, in relation to total loans in Italy).

There are still difficulties in restoring the mechanism through which monetary policy is transmitted to the real economy.

In this context, policies adopted by the central banks can provide a vital contribution. The Central Bank of Japan (BoJ) has recently introduced various new measures. Although the effects of such measures are still unclear, they could pave the way for a review of monetary policy actions in other countries.

Injections of liquidity, however, are not sufficient long-term solutions. The answer must be found through direct action in the real economy, starting with a review of the scope of public action, and the effective liberalisation of the markets. The result will be greater competition and productivity.

The far reaching reforms of European economic governance, which began in 2010 and are still ongoing, mark an important step towards launching a path of balance and sustainable growth for all eurozone countries, through the consolidation of public finances.

However, the reforms have not been enough to chase away the spectre of bleak austerity that is looming over markets and Governments, and which could trigger a general crisis.

Although a tight rein on public spending and respect for taxpayers' needs should guide the hand of every government, the necessary rebalancing of the public finances in the eurozone most indebted nations must take place safeguarding economic growth. This is essential in order to improve the ratios of public finance, on which the measures will be based. Recovery can only take place with a more gradual approach to the goals established in the fiscal compact presently agreed on.

No response can be effective unless a solution is first found to the problem underlying all other problems: the future of the European Union. Due to being "incomplete" in political and economic terms, the EU suffers more than other global economic areas from the permanent fragmentation of its financial system. As long as national differences predominate, it will be impossible to achieve globally competitive, growth-oriented financial markets. Small markets will prevail, damaging each other in their fight for survival.

2 Evolution of the regulatory system

In 2012, the regulatory framework in Europe continued to evolve along the lines laid down by the G20 and promoted by the Financial Stability Board (FSB) in response to the international financial crisis. The process of reviewing the directives of the Financial Services Action Plan (FSAP) also continued.

The primary objective of the stock market initiatives launched in response to the crisis is to bring the more opaque markets – on which over-the-counter (OTC) products are traded – within the regulatory perimeter: this is a worrying source of systemic risk. To address this risk, and to improve the transparency of financial trades, in 2012 the European Market Infrastructure Regulation (EMIR) was completed, introducing mandatory centralised clearing, and the obligation to notify OTC derivatives contracts to the trade repositories.

Consob has played an active role in developing Europe's regulatory framework. In certain cases it has anticipated the regulations at national level, as in the case of short selling and high-frequency trading (HFT), an area in which the Commission was one of the first European authorities to act.

In other cases Consob has proposed that the more stringent regulations implemented at national level should be adopted at European level. This is currently taking place with the updating of the Markets in Financial Instruments Directive (MiFID) which, as we know, introduced important reforms to the regulations governing markets and intermediaries, with the aim of gradually increasing the level of protection for investors. In particular, as far as the markets are concerned, Consob considers that the rules on transparency for equities should be extended to non-equities, as is already the case at the national level. With regard to the regulations governing intermediaries, an approach intended to outline specific organisational and governance requirements, and more rigorous rules of conduct, has been agreed upon. There is also a need to develop independent advising, and to extend the MiFID regulations to the distribution of financial instruments by investment firms and to the distribution of financial instruments issued by banking intermediaries.

With regard to issuers' governance, Consob has already taken action in many of the aspects identified in the Action Plan: European company law and corporate governance, recently published by the European Commission. Italian legislation is already in line with many of the Plan's provisions, for example with regard to the gender representation in boards of directors, remuneration policies, and related party transactions.

Remarkable in this context is the update of the Corporate Governance Code, recently reviewed by the Corporate Governance Committee. Principles of sound corporate governance are now more important than ever. With regard to directors' remuneration, for example, as highlighted by the European Commission, it is essential to encourage remuneration policies that stimulate the creation of long-term value, based on a close connection between remuneration and results.

However, the intensive harmonising activity of European regulations has not overcome the differences on certain crucial issues. Such is the case of the financial transaction tax, the so-called Tobin Tax, proposed by the European Commission in September 2011, and still under review by the Council.

A reinforced cooperation procedure has been launched in this area, involving only 11 members of the European Union. Contrasts have emerged between member countries, especially with regard to the application of the tax to public debt instruments, a scenario that Italy is strongly opposed to.

While awaiting the Community decision, various member states including Italy have already introduced a financial transaction tax into their own legislation. The tax has been implemented with an attempt to limit its application in order to oppose tax evasion and neutralise its impact on smaller companies. Despite this approach, while unequivocal data is not yet available, there is a continuing risk of potentially permanent regulatory arbitrage, both in terms of delocalisation of major sectors of the national financial industry and penalization of derivatives transactions.

3 The financial system and supervisory activity

The new system of rules that is now emerging must be supported by a supervisory activity that takes into account the rapid evolution of the market, the behaviours of financial players, and the structural characteristics of the domestic financial system.

Traditionally, Italian investors hold poorly diversified investment portfolios, mainly managed portfolios (in September 2012 this category accounted for 91 per cent of financial wealth). The low portfolio diversification has been accompanied by a crisis in managed investments, particularly in the segment of mutual funds promoted by Italian intermediaries. Despite the signs of recovery observed in recent months, over the past five years, the net inflows from collective investment schemes and portfolio management were negative, at approximately -190 billion euro (160 of which can be ascribed to funds alone), a value equal to about 25 per cent of managed stocks at the end of 2008. The international comparison highlights the weaknesses in domestic investment management even more clearly: the total assets (funds and managed portfolios) handled by resident companies were equivalent to 43 per cent of GDP in Italy, compared to 60 per cent in Germany, 150 per cent in France and 270 per cent in the United Kingdom.

This weakness is due to a lack of independence in strategic decisions deriving from the ownership structures of asset management companies, the vertical integration between production and distribution, and the limited capacity for innovation.

While on the one hand the banks' significant presence in the capital of asset management companies increases the risk of conflicts of interest and lowers the managers' performances, on the other – as recent cases have illustrated – it can limit the effectiveness of the monitoring activity that mutual funds can and should carry out on the corporate governance of listed issuers.

The role of the pension funds sector is still marginal. The lack of specialised operators in this sector, together with individuals' reduced awareness of the coverage that will be available from the first pillar in the future, are disincentivising the growth of private pension schemes. A cause for concern is the possibility that, in the future, a public pension system financially sustainable could reveal socially non-sustainable because of the inevitable decrease of the amounts of granted incomes. As a consequence, it is necessary to promptly remove all hindrances to the development of pension funds, first of all modifying the tax system and the rules governing the transfer of accrued pension entitlements.

In a context in which the decisions of retail investors are not guided by the intermediaries' advising and management services, it is crucial to supervise conflicts of interest in the sales of financial products. These conflicts derive from the circumstance that Italian banks are to a large extent funded through the issuance of bonds sold to retail investors.

It is now a long time since Consob has intensified the controls in this area, which conventionally relate to the disclosure of information and intermediaries' business conduct. With regard to the placement of complex products, the Commission has intervened more frequently and with greater effort than in the past, also fully using its powers of inspection, in order to verify the actions taken by the intermediary towards the customer. Particular attention has been paid to the customer profiling criteria applied by intermediaries, in order to improve the tools they use to evaluate the adequacy of a proposed investment, in the light of latest studies on behavioural finance as well.

Five years after the introduction of MiFID, there are still critical issues relating to intermediaries' organisational structures and practices. This is a sign that the problems caused by conflicts of interest with customers cannot be considered solved.

There may be an adverse impact on investors, not only from the retailing of inadequate financial products but also from the lack of controls, which on the one hand guarantee the proper management of issuers and on the other the completeness of information available to the market.

In this context, supervision of the governance of listed companies has been reinforced. Adequate market information has been guaranteed in the largest related party transactions, some of which are very complex and relate to the restructuring of large listed groups. Particular attention was paid to the valuation of takeover bids launched in 2012. Most of these bids were made by the majority shareholders in the company involved. As a result, a need has arisen to strengthen the guarantees available to minority shareholders.

Similar attention has been paid to investigating whether the sales of majority stakes without a takeover bid were actually bailing-out operations or implied the intention to avoid the mandatory bid.

Consob officials continue to attend, as observers, the annual general meetings of listed companies called to deliberate on particularly complex issues. Their presence not only acts as a deterrent, but also allows them to gather first-hand information about how these meetings are conducted, so that subsequent supervisory measures can be tailored accordingly.

The regular functioning of the markets has been guaranteed by intensive controls on continuous disclosures, and on the progress of trading. Specific investigations have been conducted on more than 200 irregularities linked to insider trading and market manipulation. This has led to requests being made to intermediaries, and hearings with the parties involved, leading in some cases to the formulation of allegations. With regard to the financial information disclosed to the market, particular attention has been paid to the banking sector, and in general to the balance sheet entries that are more sensitive to the crisis, with particular reference to the valuation of goodwill and receivables.

Actions have been stepped up to oppose unauthorised financial activity, which can also involve misuse of the web.

During the year, 183 disciplinary procedures were completed as a result of the supervisory activities. Of that number, 162 resulted in fines deriving from breaches of the Consolidated Law on Finance and of the related implementing regulations.

The worsening of the crisis has made the Commission's controls more complex. The crisis has impacted the economic and financial equilibrium of many companies, who have needed to source new funds from the markets, in many cases through extraordinary transactions, cost-cutting, and heavy budgetary adjustments.

Consob has had to intervene in all these cases, also through necessary moral suasion, aware of the importance of stability in the economic and financial system, yet always following a single guiding light: ensuring protection of investments, and of the members of the public who place their hopes for the future in such investments.

4 Investor protection

Let us return to the crucial issue of investor protection.

Article 47 of the Italian Constitution reads as follows: "The Republic encourages and protects saving in all its forms". This constitutional rule was originally proposed by the Honourable Togliatti to the Constituent Assembly. We must ask ourselves to what extent it can be realised, particularly in the turbulent circumstances we are now experiencing.

Without savings and accumulation, it is not possible to build up the investments needed for economic growth, and to offer a future to the younger generations.

Over the past 20 years, Italian savings have fallen by almost two thirds, from 22 per cent to 8 per cent of disposable income. Everything possible must be done to reverse this trend as soon as possible.

This is why the interpretation of Article 47 of the Constitution should be a dynamic one, rather than a static desire to protect the status quo. Strict rules, thorough controls and exemplary penalties are not enough. We must lay the foundations for a stable economic and financial system that can withstand fluctuations on the market, to create a dynamic economy that will guarantee steady growth of the domestic product. This is an essential condition in order to lay the foundations for any form of investor protection, and to allow savings to actually build up.

The illusion often nurtured by many - that savings can be protected merely by introducing the strictest possible set of national rules - has been shattered by the reality of market globalisation. The flight of capital, and the delocalisation of financial operators towards more "accommodating" legislations, can render strict regulations completely useless. The difficulties in the decisions that governments and regulators now face lie precisely in finding the balance between protecting and attracting savings. We are walking along a rocky and dangerous path.

We must also accept the new need for protection. While once the buyers of finance products were part of a small elite of well-off, informed and aware investors, more recently – and this in itself is a good thing – involvement with the financial markets has spread to layers of the population who were previously excluded. However, an adequate financial culture has not developed at the same rate. Investors tend to invest in financial products in the same way as they approach the purchase of consumer goods. Often, they make do with little detail, or are unable to understand all the available information. Nevertheless, they do expect the product they purchase to satisfy the expected returns. The protection demanded from institutions is shifting away from fraud and other illegal acts towards a guarantee on the results of an investment.

However, no supervisory activity – not even the highest quality one - can guarantee that expectations about returns will be satisfied. The responsibility for economic decisions is always an individual one. However, we cannot simply ignore the widespread demand for greater protection. This is why the focus of the Authorities' supervisory activity is gradually moving away from ex post sanctions, which must be increasingly timely, towards preventive actions which can also take the form of guidelines and moral suasion.

With regard to financial products, the caveats included in prospectuses – which are often overly long and incomprehensible – are not enough. More must be done. The proposal of product intervention formulated as part of the MiFID review could be implemented immediately in Italy, with specific legislation to enforce it. It is intended to introduce powers for national authorities to ban or limit the distribution of specific financial products considered harmful to investors or damaging to the regular functioning and integrity of the market or to systemic stability. The new Financial Conduct Authority (FCA) in the United Kingdom has already been given this power, following the recent reform of the regulation of the financial system.

The quality and timeliness of information are critical variables in the effectiveness of supervisory actions. In this perspective, a vital contribution could come from regular discussions with consumers' associations, which Consob has recently intensified by setting up a specific consultation group. The main aim is to define an "Investors' Charter", through which investors will be accompanied through a learning process in order to raise awareness of the risks associated with various types of investment, of their rights, and how those rights can be exercised.

5 Prospects for reform

We are facing new challenges, which require a redefinition of supervision at European and national level, and more incisive powers for the authorities.

The recent proposal of the European Commission, to transfer the supervisory activity for large banks to a single authority (Banking Union) represents a significant change to the current structure of the system. The regulatory competencies will remain with the European Banking Authority (EBA), while prudential supervision, for the largest eurozone banks, will be transferred to the ECB.

In the other sectors, the competencies of European authorities - European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) – will remain almost exclusively at a regulatory level (the main exceptions being the powers of supervision of rating agencies and trade repositories, and ESMA's coordination role with regard to short selling). Supervision of the related sectors will remain instead at national level: this approach is unsatisfactory.

There are still major divergencies between the various members of the Union, in terms of distribution of competencies and supervisory practices adopted by each. The lack of centralised supervision, in many cases, ends up favouring those who resort to less scrupulous practices.

As with the approach adopted in banking sector, we also need a level playing field in our sector. This is why it is time to think of reforming the financial system, to create a kind of Financial Union, in which the European authority could play a stronger role in regulation and supervision. Europe would thus present itself as a cohesive, homogeneous entity, in the same way as competing economic areas in other large continents such as the United States, China, India and Brazil.

The devolution of powers from the national authority to the European one would be justified by higher protection granted to European investors, who would be given the same level of safeguard across the continent.

The centralisation of supervision in Europe is a complex but necessary process, which could be implemented by bringing forward the structural review of the European authorities, scheduled for 2014. The European Commission has already started to look into this possibility.

With regard to Italy, despite the fact that Consob has had very tough challenges to face, in a context worsened by the crisis, and by the episodes widely reported in the press, it must be remembered that the International Monetary Fund, on completing its supervision assessment last March, judged the Italian system to be "robust" and "sophisticated", even compared to more advanced countries.

In particular, the report highlights that Consob, partly by strengthening its co-operation with the Bank of Italy, now has a knowledge of intermediaries and products that is much deeper than that found in many other advanced countries. This knowledge has been crucial in order to identify and manage conflicts of interest in various areas of the financial markets.

For Italy, this is a confirmation. It is the second time in a few years that the IMF has endorsed the Italian system of market controls. This endorsement must not allow us to withdraw from relentless commitment to do more and better.

The IMF also found that the current distribution of competencies between the authorities - in the field of managed investments and investment services, for example - could be made more consistent by completing the so-called twin peaks model of supervision, in which two different authorities exist, one dealing with systemic stability, and the other with disclosure and fairness.

In drawing its conclusions, the IMF raised the possibility of rationalising the Consob's investigation powers. This could take place through an amendment to the Consolidated Law on Finance.

The first step should be to extend investigation powers provided for in the market abuse laws to all of Consob's areas of supervision: powers that could be exercised against anyone who has relevant information. Another necessary step would be to introduce fines against corporations, for a larger number of offences in addition to market abuse.

Additional measures could also be adopted in order to identify illegal activity quicker and more effectively, thus giving Consob knowledge of such offences as soon as possible. A possible tool is the so-called whistle-blowing, a concept introduced by the review of the Market abuse directive, and enacted into Italian legislation by law no. 190 of 2012 (the anti-corruption provision). People with knowledge of such conduct would thus have an incentive to report it, as they would be adequately protected.

The leniency programmes already experimented in antitrust laws have also yielded positive results. Leniency programmes consist of providing benefits or exemptions for those co-operating with the investigating authorities.

These instruments would represent a set of effective measures that could potentially anticipate risk situations for investors and markets, placing the supervisory authorities in a position to prevent risks and conclude their investigations swiftly and successfully.

Finally, it would be appropriate to strengthen Consob's powers with regard to offences committed by the directors of listed companies, acting on three fronts: (a) giving the Commission the authority to report wrongdoing by directors to the courts; at present Consob can bring such charges only against auditors; (b) extend to other offences the accessory sanction that entails temporary prohibition against holding the position of director, manager and other control position in listed companies in the same group (this penalty currently only applies to breaches of market abuse regulations and to the unauthorized solicitation of public savings); (c) make provision for a specific punishment for directors breaching the laws on related party transactions; again, currently such charges can only be brought against auditors.

The possibility of taking precautionary measures intended to prevent directors from committing more serious offences could allow intervention to take place before irreparable damage is done.

Changes to the existing legislative approach should also be made with regard to the sanctioning system. The system should not function on a purely punitive basis, but should also safeguard market integrity and guide the behaviour of operators. For this reason there is a need to concentrate on events that could cause greatest harm to the general interest. Wasting energy pursuing trivial offences, according to the principle of mandatory disciplinary action, risks to undermine the overall effectiveness of supervisory activity. On the basis of the delegation contained in the 2010 Community law, Consob has already contributed to a plan for the overall reform of the disciplinary provisions in the Italian Consolidated Law on Finance, which could provide a solution to this issue. These issues should be taken up by the government without delay.

Still on the subject of repressive activity, legislative action must be taken to extend Consob's collaboration with the judicial system in areas other than market abuse. This collaboration was recently strengthened after the signing of a memorandum of understanding with the Public Prosecutor's Office of Milan, and is gradually being extended to other prosecutor's offices, such as in Rome. It will allow information to be exchanged more quickly, without waiting for investigations to be concluded. It will allow administrative investigations and criminal proceedings to run simultaneously, providing a quicker response in the efforts to combat illegal activity. With the same goal in mind, with regard to investigation activities, Consob has already signed a new memorandum of understanding with the Guardia di Finanza.

6 Market growth

Let us turn our attention to the situation of the domestic financial market, and the reasons why it is not performing its natural role - that of driving growth.

Italy's manufacturing industry has traditionally been based on small and medium-sized companies, and has a higher level of fragmentation compared with other European countries. This is a structural limitation that has a negative impact on productivity.

In recent years, competitive pressures deriving from globalisation and the effects of the financial crisis have highlighted the ability of many companies to innovate and restructure, and successfully address the challenges posed by international competition. However, if these same companies are unable to grow to the size required by their export markets, they will be unable to maintain their competitive edge in the long term. They must be allowed to grow. To do so, the restraints preventing their growth must be removed, and companies must be provided with adequate capital.

The sluggish civil justice system, over-regulation, red tape and the lack of competition in many strategic markets are hampering the efficient running of economic activity. There is room to resolve these issues with adequate intervention, without creating extra costs for public finances. This would help to form an open, competitive market able to attract foreign investment without fears of being "taken over".

An additional hindrance to companies' development is the lack of funding opportunities. In a situation characterised by a credit squeeze caused by macroeconomic factors and restrictions imposed by the evolution of prudential legislation, firms need to find suitable forms of access to capital markets.

The share market is not currently able to perform this function. At the end of 2012, there was still a small number of issuers listed on the national regulated market (255 Italian firms listed on MTA market, a further drop compared to the 263 at the end of 2011). This number is significantly lower than in other EC countries: 1009 companies in the United Kingdom, 528 in France and 757 in Germany. If we extend this analysis to include non-regulated markets for small and medium-sized companies, the comparison is particularly unfavourable: at the end of 2012, the London Stock Exchange AIM (Alternative Investment Market) counted 870 national firms compared to the 27 listed on the Aim-Mac (Aim Italia – Mercato alternativo del capitale). In the same period, the total capitalisation of Borsa Italiana rose slightly, to 22.5 per cent over GDP, from 20.6 per cent at the end of 2011. This figure is, however, still a long way behind those recorded in Europe's main economies (43 per cent in Germany, 68 per cent in France, and more than 126 pecent in the United Kingdom).

The reasons for the unattractiveness of the share market are linked to the trend in prices, which in recent years has disincentivised new entries while simultaneously leading to a large number of delistings. However, there are more important underlying reasons, connected on the one hand to Italian companies' traditional aversion to stock market listings, and on the other, to the modest contribution of institutional investors and the low propensity of the retail market to invest in shares either directly or through managed investment products.

The financing issue faced by small and medium-sized companies is crucial not only in Italy but also in the rest of Europe and in the United States. Today, we can no longer imagine that these issues may be resolved with public intervention. We need to find a road that simplifies and provides more direct links between savings and those who require capital to finance their companies.

There are many public and private operators that can help to solve this problem. In order to coordinate their activities more effectively, Consob has set up a working group which recently launched the *PiùBorsa* project. The project's members, each playing their own part in a Memorandum of Understanding, have agreed to launch a series of joint measures to develop the domestic securities market.

The aim of the project is to define a roadmap along which companies seeking capital will be guided, all the way through to the listing process. New educational initiatives have been planned in this area, intended to diffuse a more equity-oriented attitude. Scouting programmes have also been stepped up, with a view to selecting outstanding companies to be listed on the stock market. Simplified entry procedures and reduced administrative burdens - with the same level of protection for investors - could be decisive in this regard.

Particular attention has been paid to the issue of transparency of costs related with the listing procedure and to annual costs connected with the status of listed company on regulated markets. For its part, Consob is also committed to cut off supervisory contributions payed by newly-listed companies for the first three years.

In some countries, tax incentives offered to new listings have been successful. However, their impact on public finances must be assessed.

The development of the domestic equity market is also hampered by the lack of adequate demand from institutional investors dedicated to trading on newly-listed equities, and small-caps in particular. One possible route to solve this problem could be the creation of a Fund of Funds. This is an instrument aimed at gathering resources from institutional investors in order to finance investment funds which buy up newly-listed shares during the public offer stage and on the secondary market. Successful fund raising of such a Fund could be guaranteed by the participation of a wide range of operators (foundations, insurance companies, pension funds, local banks, government and regional authorities).

The growth of an efficient corporate bond market could enable companies to meet their financing requirements while allowing them to adapt to the technical and regulatory aspects of financial markets, and this would then facilitate their listing on the stock exchange. The financial intermediaries would be able to consolidate a process of specialisation relating to the issuing and placement of financial instruments, which would also have a positive impact on the offer of listing services on the share market.

A strong impulse for the extension of the stock market list could also come from a new wave of privatisations - not only of large national companies but also of the many utilities owned by local authorities.

Italy is the first country in the world to have adopted regulations for equity crowdfunding. This is an important opportunity for the development of start-ups that can raise capital through web portals. Consob is currently working on the definition of the secondary regulations, essential in order to create a reliable environment for investors, which is not too onerous for webmasters and is accessible to companies using portals. It is an important opportunity that will allow many young people to transform creative ideas into successful businesses.

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Mr Prime Minister, Authorities, Ladies and Gentlemen,

Last year, when concluding my speech, I made the point that many Europeans were becoming increasingly intolerant of the "dictatorship of the spread". Their resentment is understandable. Recent research has shown that the part of the rise in the spread deriving from the imported contagion affected the figure.

This moment has passed, and we now need to look at the part of the spread that is ascribable only to ourselves. Our enemy is no longer "outside" us, and within out-of-reach markets, but in the closure of factories, and the jobs that are lacking.

We are paying the price for the mistakes of the past. But, as Thucydides reminds us: "there is, however, no advantage in reflections on the past further than may be of service to the present ... For the future we must provide by maintaining what the present gives us and redoubling our efforts".

After twenty years of economic stagnation and five years of deep crisis, we have realised that short run actions are not enough. More must be done. We need to put the manufacturing economy in a position to restart.

At that point, finance can once again be a positive driver for growth. But it will have to assume the responsibility and transparency that has so often been lacking in recent years.

Despite the difficulties it now faces, our country has all the qualities needed to play a leading role in the growth of Europe. We have a solid manufacturing tradition. Many businesses, especially those operating in foreign markets, are success stories. The real economy still has the hallmarks of excellence. Foreign investors are again looking at our markets. The gradual opening up of ownership structures is a natural prospect, and one that we should view without prejudice.

The climate of shared responsibility – a vital new development –, the empowerment of women and of young people, which have occurred almost miraculously in politics, represent the first positive signs of change.

Our future, and the hopes we leave to our children, depend on the choices of today.

The general interest, and the confidence in our abilities, are the tools that will help us to successfully address the important challenges that await us.