



CONSOB
COMMISSIONE NAZIONALE
PER LE SOCIETA' E LA BORSA

1999 ANNUAL REPORT

ROME, 31 MARCH 2000

COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

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This document brings together data and analyses concerning the activity of the Commission and the changes in the reference framework. It provides supporting material for the report submitted to the Minister of the Treasury in accordance with Article 1/1(13) of Law 216 of 7 June 1974 and for the Chairman's address to the annual meeting with the authorities and market participants.

I. THE OWNERSHIP OF LISTED COMPANIES

The ownership structure and control of listed companies

In 1999 the downward trend in the concentration of ownership observed in the three preceding years was reversed. The share of capital held by the market, i.e. in the form of holdings of less than 2 per cent, dropped from 56.5 per cent at the end of 1998 to 47.6 per cent at the end of 1999; at the same time the average holding of the largest shareholder rose from 33.8 to 44.2 per cent (Table I.1).

TABLE I.1

OWNERSHIP STRUCTURE OF LISTED COMPANIES¹ (AT 31 DECEMBER)

	1996	1997	1998	1999
<i>TYPE OF CONTROL</i>				
DE JURE	66.8	49.1	32.3	55.0
DE FACTO	12.2	12.9	21.7	16.7
UNDER SHAREHOLDER AGREEMENTS	4.8	6.3	7.4	10.8
<i>TOTAL</i>	<i>83.8</i>	<i>68.3</i>	<i>61.4</i>	<i>82.5</i>
<i>CONCENTRATION</i>				
LARGEST SHAREHOLDER	50.4	38.7	33.8	44.2
THREE LARGEST SHAREHOLDERS	59.6	44.8	40.8	50.1
MARKET	38.9	52.9	56.5	47.6

Source: Consob ownership transparency archive. See the Methodological Notes. ¹ As a percentage of the total market value of the ordinary share capital of all the companies listed on the Stock Exchange.

The increase in the concentration of ownership in 1999, in the same way as the reductions in the preceding years, was primarily due to changes in a number of large companies involved in the privatization programme.

The majority of transactions in significant holdings in listed companies led to an increase in the concentration of ownership, whereas in 1998 the opposite had been true. There were around 600 purchases of significant shareholdings, as against 410 sales; the bias was particularly pronounced for shareholdings in excess of 10 per cent of the capital, with 105 purchases and 50 sales.

TABLE I.2

SIGNIFICANT HOLDINGS IN LISTED COMPANIES¹
(AT 31 DECEMBER)

	1998		1999	
	NUMBER	% ²	NUMBER	% ²
FOREIGN INVESTORS	176	5.9	193	6.2
INSURANCE COMPANIES	32	2.5	36	1.5
BANKS	65	4.8	83	5.3
FOUNDATIONS	31	5.1	43	4.5
INSTITUTIONAL INVESTORS	69	0.1	74	0.2
COMPANIES	155	12.6	162	19.4
STATE AND LOCAL AUTHORITIES	32	8.8	35	10.6
INDIVIDUALS	233	3.8	253	4.5
<i>TOTAL</i>	<i>793</i>	<i>43.6</i>	<i>879</i>	<i>52.2</i>

Source: Consob ownership transparency archive. See the Methodological Notes. ¹ Holdings in excess of 2 per cent of the voting capital. ² Percentage ratio of the value of holdings to the total market capitalization of ordinary shares.

The transactions involving the reallocation of control had the effect of reducing the influence of size on the type of control.

There was thus a strengthening of the “historical” features of the ownership structures of Italian listed companies, consisting in a high degree of concentration of ownership and a prevalence of types of control entailing a low degree of contestability.

The shift that occurred in the types of control shows an increase in the importance of those based on coalitions; in particular, there was an increase in new shareholder agreements. At the end of 1999 there were 70 listed companies, representing 32 per cent of the total market capitalization of the Stock Exchange, with shareholder agreements as defined in Article 122 of the Consolidated Law on Financial Intermediation. The holdings involved in these agreements were equal to around 50 per cent of the companies’ ordinary share capital on average and their market value was equal to 12.9 per cent of the total market capitalization of the Stock Exchange.

TABLE I.3

**SIGNIFICANT HOLDINGS IN LISTED COMPANIES
- DISTRIBUTION BY SECTOR¹ -
(AT 31 DECEMBER)**

	1998			1999		
	FINANCIAL	INDUSTRIAL	SERVICES	FINANCIAL	INDUSTRIAL	SERVICES
FOREIGN COMPANIES	8.0	5.0	3.2	7.5	6.3	5.0
INSURANCE COMPANIES	4.8	0.8	0.1	3.6	0.8	0.1
BANKS	9.9	0.9	--	13.7	0.8	--
FOUNDATIONS	10.9	0.1	--	11.8	0.1	--
INSTITUTIONAL INVESTORS	0.1	0.2	0.1	0.1	0.2	0.2
COMPANIES	3.3	13.9	26.4	3.4	22.0	32.8
STATE	2.5	17.4	11.5	1.4	13.6	17.5
INDIVIDUALS	2.4	5.6	4.5	4.1	5.0	4.6
<i>TOTAL</i>	<i>41.9</i>	<i>43.9</i>	<i>45.8</i>	<i>45.6</i>	<i>48.8</i>	<i>60.2</i>
NUMBER OF COMPANIES	82	102	34	91	110	39
PERCENTAGE SHARE ²	46	25	29	37.6	21.1	41.3

Source: Consob ownership transparency archive. See the Methodological Notes. ¹ As a percentage ratio to the market value of the ordinary shares of companies in the sector listed on the Stock Exchange. ² Percentage ratio of the market value of the ordinary shares of companies in the sector to the total market value of the ordinary shares listed on the Stock Exchange.

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**SHAREHOLDER AGREEMENTS IN LISTED COMPANIES
(AT 31 DECEMBER)**

	NUMBER	SHARE CAPITAL COVERED
1996	56	15.9
1997	70	14.8
1998	65	12.1
1999	70	12.9

Source: Notifications under Article 122 of the Consolidated law on Financial Intermediation. See the Methodological Notes. ¹ As a percentage ratio to the total capitalization of the Stock Exchange.

Transfers of control and take overs involving listed companies

Last year saw a level of activity in the market for corporate control that was unprecedented on the Italian Stock Exchange in recent decades. The total value of the takeover and mandatory bids made (with reference, shares offered in exchange, to their market prices) amounted to nearly € 54 billion (Table I.5). This was about 10 times the total value of the comparable bids made in the previous 7 years and equal to around 8 per cent of the total average market capitalization of the Stock Exchange in 1999.

In eight cases the change in control was the result of a takeover bid. The total value of such transactions was equal to around € 53 billion, of which the bid for Telecom Italia accounted for more than half. Some of the bids were for small or recently-listed companies with a free float of more than 51 per cent (notably Zucchini, Deroma Holding and Stayer). Moreover, for the first time since Credito Italiano took over Rolo in 1994, there were a number of transfers of control as a result of bids that were hostile or at least not agreed in advance.

TABLE I.5

PUBLIC OFFERS TO BY AND/OR EXCHANGE OF SHARES OF LISTED COMPANIES

	NUMBER OF TRANSACTIONS			MILLIONS OF EUROS ¹		
	1992-97	1998	1999	1992-97	1998	1999
TENDER OFFER	23	2	4	2	96	631
TAKEOVER BID	10	2	8	2,937	1,658	53,292
INCREMENTAL BID	2	1	--	57	126	--
MANDATORY BID	40	6	8	2,369	102	640
RESIDUAL BID	38	3	2	97	23	5
<i>TOTAL</i>	<i>113</i>	<i>14</i>	<i>22</i>	<i>7,682</i>	<i>2,005</i>	<i>54,568</i>

Sources: offer documents and Borsa Italiana Spa notices. ¹ The securities used in offers to exchange are value at the market prices obtaining the day before the announcement of the transaction.

Last year also saw eight agreed sales of a controlling interest followed by a mandatory bid. The total amount involved in these transactions, equal to around € 640 million, was substantial in comparison with the annual average for similar transactions in the period 1992-98, equal to around € 350 million.

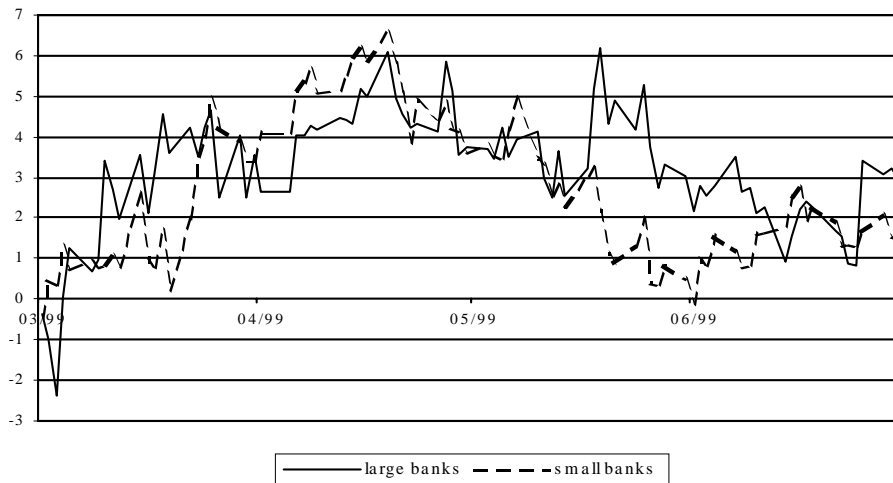
The hostile bids made during the year raised a series of problems concerning the application of the primary and secondary legislation on takeover bids, especially as regards the so-called passivity rule.

Box 1

Failed hostile takeover bids

The failure in May of the attempts to take over Banca di Roma and Banca Commerciale Italiana had an adverse effect on the share prices of the whole banking sector. Summing the daily differences between the rate of return of the banking index and that of the Mib index from March to June 1999, one finds an initial phase in which the banking index rose faster than the general index and then a sharp reversal of this trend in the month following the announcement of the abandonment of the takeover plans. The reversal was sharpest, at least initially, for smaller listed banks.

CUMULATIVE DIFFERENCE BETWEEN THE DAILY RATES OF RETURN
OF THE BANKING AND MIB INDEXES
(PERCENTAGE POINTS; PERIOD FROM 1 MARCH TO 30 JUNE 1999)



The other failed takeover bid was organized by a group of institutional investors with holdings of Riva finanziaria shares and was designed to prevent the planned merger between Riva finanziaria and Intek, its leading shareholder. The institutional investors considered the exchange ratio proposed by Intek to be inadequate; even though the ratio was basically in line with the market prices of the two companies' shares, they deemed the shares of Riva finanziaria to be undervalued, not least in view of its substantial holdings of cash. Intek subsequently managed to increase its interest above 30 per cent and to have the merger proposal approved by the extraordinary shareholders' meeting. It then made a mandatory complete-acquisition bid at a price about 4 per cent higher than the initial offer of the institutional investors.

Privatizations of listed companies

As in previous years, in 1999 privatizations helped to lengthen the official list and to boost the capitalization of the Stock Exchange. Initial public offerings of shares of Banca Monte dei Paschi di Siena, Acea, Acsm and Enel were followed by the admission to listing of the four companies.

In all four cases less than 50 per cent of the capital was placed with the market, thus allowing the public-sector shareholders (in the case of Banca Monte dei Paschi di Siena, a banking foundation) to retain legal control. Even though these were partial privatizations, the total value of the shares placed with the market was substantial, thanks primarily to the size of the Enel offering.

The total proceeds from the privatizations carried out in 1999 amounted to about € 23.5 billion, the highest figure since the beginning of the privatization programme in 1993 and equal to more than one third of the total proceeds of the privatizations carried in the eight preceding years.

Last year also saw a public offering of shares of a public-sector company that was already listed, Autostrade s.p.a. In this case the offeror, IRI s.p.a., gave up control by selling 30 per cent of the capital to a group of core investors and another 48 per cent to the market.

The breakdown of the offerings was as follows; 56 per cent to the public in Italy, 5 per cent to employees of the companies involved, and 39 per cent to institutional investors and individuals abroad. These figures point to an increase in the proportion placed with institutional investors and a reduction in that placed with the public in Italy compared with the two previous years.

The distribution of privatization offerings between the public and institutional investors appears to be influenced by whether or not the shares are of companies that are already listed. Where they are not, i.e. in the case of initial public offerings, the proportion placed with institutional investors is higher, probably because the companies in question are less well known by the general public. Considering all the transactions carried out between 1993 and 1999, the proportion placed with the public in Italy averaged 49 per cent for initial public offerings and 64 per cent for the sale of shares of companies that were already listed.

Two of the companies that were privatized in 1999, Enel and Banca Monte dei Paschi di Siena, have been included in the Mib30 index and one, Acea, in the Midex index. Of the companies that have been privatized since the start of the programme, 13 are included in the Mib30 index; they account for 60 per cent of the market value of the companies in the index and 48 per cent of the total capitalization of the Stock Exchange. Last year the volume of trading in the shares of these companies amounted to € 225 billion (44.6 per cent of the total volume traded on the Stock Exchange) and their turnover rate was three times the Stock Exchange average (230 per cent for privatized companies, as against 84 per cent for the market as a whole).

TABLE I.6

**SALES OF HOLDINGS IN PUBLICLY-CONTROLLED LISTED COMPANIES
BY MEANS OF PUBLIC OFFERINGS AND PRIVATE PLACEMENTS**

COMPANY	DATE	VALUE ¹	SELLER	% SOLD ²	BUYERS ²			
					GENERAL PUBLIC	EMPLOYEES	FOREIGN INVESTORS	INST. INVESTORS
CREDIT ORD	4.12.93	886	IRI	63.1	36.3	—	—	26.8
CREDIT RISP	4.12.93	44	IRI	17.4	—	17.4	—	—
IMI	31.01.94	1.231	TREASURY ET AL.	36.5	14.8	0.8	—	20.9
COMIT	26.02.94	1.493	IRI SPA	51.9	26.9	3.5	—	21.5
INA	27.06.94	2.340	TREASURY	47.2	31.6	0.6	—	15.0
ENI	21.11.95	3.254	TREASURY	15.0	4.3	0.7	3.3	6.7
IMI	7.07.96	259	TREASURY	6.9	—	—	—	6.9
AMGA	7.10.96	107	GENOA CITY COUNCIL	49.0	17.6	0.8	—	30.6
ENI	21.10.96	4.582	TREASURY	15.8	8.0	0.8	2.0	5.0
MONTEFIBRE	08.07.96	94	ENICHEM	66.4	8.2 ³	—	—	58.2
ISTITUTO BANC. SAN PAOLO	19.05.97	1.374	GRUPPO BANC. SAN PAOLO, TREASURY ET AL.	31.0	12.3	2.4	—	16.3
ENI	23.06.97	6.805	TREASURY	17.6	9.9	0.8	2.3	4.6
AEROPORTI DI ROMA	15.07.97	307	IRI	45.0	15.5	0.9	—	28.6
TELECOM	20.10.97	9.778	TREASURY	32.9	24.3	3.3	1.1	4.2
BANCA DI ROMA	24.11.97	1.379	IRI	36.6 ⁴	26.7 ⁵	2.4	—	7.5
SAIPEM	17.03.98	383	ENI	17.1	—	—	—	17.1
ALITALIA	22.05.98	406	IRI	18.4	—	—	—	18.4
ENI	22.06.98	6.594	TREASURY	14.0	10.5	0.6	—	2.8
AEM	14.07.98	761	MILAN CITY COUNCIL	49.0	28.9	0.5	—	19.6
BNL	16.11.98	2.620	TREASURY	64.7	34.8	3.6	—	26.3
B.CA MONTE PASCHI	18.06.99	2.217	FOND. MONTE PASCHI	21.2	7.6	2.0	—	11.6
ACEA	09.07.99	934	ROME CITY COUNCIL	49.0	15.7	10.5	—	22.9
ACSM	20.10.99	18	COMO CITY COUNCIL	25.0	13.5	1.4	—	10.1
ENEL	29.10.99	16.550	TREASURY	31.7 ⁶	18.5	1.5	14.5 ⁷
AUTOSTRAD	03.12.99	3.805	IRI	48.0	41.0	0.7	—	6.2

Sources: Consob and Ministry of the Treasury. *Relazione al parlamento sulle operazioni di cessione delle partecipazioni in società controllate direttamente o indirettamente dallo Stato*, pursuant to Article 13.6 of Law 474/1994, various years.

¹ In millions of euros. ² Excludes any bonus shares but includes the entire greenshoe option. Percentages of the pre-offering capital. ³ Includes the 2.5 per cent reserved to shareholders. ⁴ Calculated on the post-offering capital. ⁵ Includes

At the end of 1999 the ownership of the 13 privatized companies included in the Mib30 index was more highly concentrated than that of the other companies included in the index: their free float amounted to 45.5 per cent, as against 51.5 per cent for the others. Furthermore, the state continues to play an important role in the ownership of these companies, with a 17.4 per cent share of their market value, as against 2.1 per cent for the others. Firms and foundations also play a larger role, accounting for respectively 25.2 and 6.2 per cent of the market value of the privatized companies in the index, as against 12.8 and 2.7 per cent.

The ownership structures of the 13 privatized companies show marked differences according to the extent to which they have been privatized and, where they have been completely privatized, on the evolution of the structure of control subsequent to their privatization.

II. CONTROLS ON LISTED COMPANIES

Conflicts of interest and transparency: checks on the activity of corporate officers

In order to check the information provided on the occasion of corporate operations involving matters of particular importance for the protection of minority shareholders, Consob continued to monitor the compliance with its recommendations of companies' boards of directors and boards of auditors. Last year attention was focused on the completeness of the information disclosed on transactions with other companies belonging to the same group and with related parties, especially as regards the economic grounds for such transactions.

In the first few months of 2000 the Commission convened the members of the boards of auditors of listed companies that had failed to comply with its recommendations to examine the information provided and invite the companies concerned to disclose additional information on intragroup transactions where the interest in carrying them out had not been adequately explained.

As regards directors, the Commission is preparing a new communication that will specify in greater detail the transparency requirements for transactions with other group companies and related parties and impose more binding obligations as regards the economic interest in carrying them out.

As regards groups, the Commission carried out a study on all the companies listed on the Stock Exchange and the Mercato Ristretto in order to identify those with problems of operational autonomy and significant financial and commercial ties with the controlling group. The question is important, not only for the protection of minority interests but also for fulfilment of the obligation of operational autonomy, which is one of the conditions laid down by Borsa Italiana s.p.a. for a company to be admitted to listing but not for its continuing to be listed.

Rules aimed at ensuring transparency are not sufficient to ensure the complete protection of all the parties that have dealings with such companies. Accordingly, early in 2000 Consob began discussions with Borsa Italiana s.p.a. to find the most appropriate solution to the problem.

In 1999 a number of market participants cooperated with Borsa Italiana on an initial self-regulatory exercise and set up the Committee for the Corporate Governance of Listed Companies, which drew up a self-regulatory code for the working of the board of directors.

The code has not completely resolved some key questions concerning conflicts of interest (independence of directors, pyramid structures that facilitate the separation of control from property rights, and the interest in transactions with related parties) and in some cases could not have done so since their resolution requires changes in primary legislation. It is nonetheless an important step

The regulation of supervisory bodies and the code of corporate governance

The rules governing the working of a company's board of directors and supervisory bodies in relation to conflicts of interest are established at three levels: primary legislation, Consob recommendations and self-regulation.

The Consolidated Law on Financial Intermediation lays down some minimal rules of conduct. In particular, directors are required to report any transactions potentially involving a conflict of interest to the board of auditors, which in turn is required to check observance of the principles of correct administration and has broader powers to perform this task than are provided for in the Civil Code. The board of auditors is also required to give an account of the results of its supervisory activities in its report to the annual meeting of shareholders.

Consob's recommendations of February 1997 and February 1998 concerning the supervision of companies specify the information on transactions involving potential conflicts of interest that is to be provided in the annual accounts.

The recommendation of February 1997 lays down that the report on operations referred to in Article 2428 of the Civil Code must contain a description of any transactions carried out by directors under delegated powers that are atypical, unusual, intragroup or with related parties. On the other hand, the report of the board of auditors on the annual accounts must assess and comment on such transactions and on the procedures for checking the correctness of the administration of the company (adequacy of the internal control procedures, reports under Article 2408 of the Civil Code, referrals and tasks entrusted to the company's independent auditors in addition to the audit of the accounts).

The 1998 recommendation concerning the disclosure of transactions with related parties (especially those of an atypical or unusual nature), established International Accounting Standard 24 as the benchmark for the information to be disclosed. Among other things, IAS 24 requires the board of directors to give the economic reasons for each transaction carried out and describe the related contractual and financial conditions.

The code drawn up by the Committee for the Corporate Governance of Listed Companies addresses some important aspects of the problem of conflicts of interest, notably as regards the selection of directors, the composition of the board of directors and transactions with related parties.

On the question of the composition of the board of directors, the Italian code only recommends that an adequate number of non-executive members should be independent, whereas the self-regulatory codes of other countries (notably France and the United Kingdom) are more demanding in that they require the majority of non-executive directors to be independent.

The Italian code also leaves companies' considerable discretion in the definition of independence, insofar as directors can be deemed independent who do not have "business relationships" with the management, the company, or the shareholders who control the company "that could influence their independent judgement", whereas in other countries (notably France, the United Kingdom and Spain) independence presupposes the complete absence of such relationships.

Box 2

As for the manner of electing the members of the board of directors, the Italian code notes that the names presented to the shareholders' meeting are generally chosen by the majority shareholders, but does not rule out the possibility of companies establishing a nomination committee to propose candidates for election, especially for companies with widely diffused share ownership.

Lastly, as concerns transactions with related parties, the Italian code pays more attention than those of other continental European countries to identifying the information to be disclosed to the other governing bodies and the public and the manner of doing so. Although desirable, these recommendations appear less effective than the more comprehensive and detailed provisions contained in the listing rules of the London Stock Exchange.

**THE REGULATION OF TRANSACTION WITH RELATED PARTIES
IN THE CODES OF CONDUCT SELECTED EUROPEAN COUNTRIES**

ITALY	THE BOARD OF DIRECTORS IS REQUIRED TO PAY PARTICULAR ATTENTION TO CONFLICTS OF INTEREST AND TO EXAMINE AND APPROVE SIGNIFICANT TRANSACTIONS, WITH SPECIAL REFERENCE TO ANY INVOLVING RELATED PARTIES. BODIES WITH DELEGATED POWERS MUST MAKE ADEQUATE INFORMATION AVAILABLE TO THE BOARDS OF DIRECTORS AND AUDITORS ON TRANSACTIONS THAT ARE ATYPICAL, UNUSUAL OR WITH RELATED PARTIES WHOSE EXAMINATION AND APPROVAL ARE NOT RESERVED TO THE BOARD OF DIRECTORS. THE POWERS DELEGATED TO MANAGING DIRECTORS SHOULD NOT COVER THE MOST IMPORTANT OPERATIONS, ESPECIALLY WHERE THESE INVOLVE RELATED PARTIES, AND THE INFORMATION PROVIDED TO THE SHAREHOLDERS' MEETING ON SUCH OPERATIONS SHOULD BE SUFFICIENTLY DETAILED, SO AS TO ALLOW THE ADVANTAGES THEY OFFER THE COMPANY TO BE UNDERSTOOD.
FRANCE	DIRECTORS ARE REQUIRED TO INFORM THE BOARD OF EVERY CASE OF A POTENTIAL OR ACTUAL CONFLICT OF INTEREST AND MUST REFRAIN FROM VOTING RESOLUTIONS THAT CONCERN THE MATTERS IN QUESTION.
UK	WHERE TRANSACTIONS WITH RELATED PARTIES EXCEED 5 PER CENT OF CERTAIN PARAMETERS, (ASSETS, TURNOVER, RESULTS, MARKET CAPITALIZATION), A PRESS RELEASE MUST BE ISSUED AND A CIRCULAR SENT TO SHAREHOLDERS PROVIDING SUFFICIENT INFORMATION TO PERMIT THEIR EFFECTS ON THE COMPANY TO BE ASSESSED. SUCH TRANSACTION MUST ALSO BE APPROVED BY THE SHAREHOLDERS' MEETING, WITH ANY "RELATED" SHAREHOLDERS ABSTAINING. WHERE THE VALUE OF SUCH TRANSACTION FALLS BETWEEN 0.25 AND 5 PER CENT OF THE ABOVEMENTINED PARAMETERS, DETAILS MUST BE DISCLOSED IN ADVANCE TO THE LONDON STOCK EXCHANGE, TOGETHER WITH THE OPINION OF AN INDEPENDENT EXPERT RECOGNIZED BY THE LSE ATTESTING THAT THE TRANSACTION IS FAIR AND REASONABLE FOR THE SHAREHOLDERS OF THE COMPANY. COMPANIES MUST ALSO GUARANTEE THE LSE THAT THEY WILL, PUBLISH DETAILS OF SUCH TRANSACTIONS IN THEIR ANNUAL REPORTS.
SPAIN	DIRECTORS' OBLIGATIONS WHEN FACED WITH A CONFLICT OF INTEREST MUST BE SET OUT IN INTERNAL RULES APPROVED BY EACH LISTED COMPANY. DIRECTORS MUST PROMPTLY DISCLOSE COMPLETE INFORMATION TO THE MARKET, INTER ALIA ON TRANSACTIONS WITH OTHER GROUP COMPANIES AND WITH PERSONS RELATED IN SOME WAY TO DIRECTORS.

forward and, if widely observed, will help to bring corporate governance in Italy closer into line with the highest international standards. Some of the code's recommendations concerning the duties of directors and aspects of the legal framework are summarized in Box 2.

The boards of directors of listed companies

Consob took the opportunity provided by the issue of its Regulation on issuers to redefine the rules on the information that listed companies must disclose with regard to the compensation of their directors and auditors.

In particular, the new rules require the disclosure in the notes to the accounts of the remuneration paid to the individual members of the board of directors and the board of auditors by the company in which they hold their positions and by its subsidiaries, with the amounts broken down by type (emoluments, benefits, bonuses and other incentives, and fees for consultancy or other professional services).

Under Consob's new rules, information on directors' and auditors' remuneration became available in listed companies' annual reports for 1998. They reveal quite pronounced disparities, both according to the functions performed by individual executive and non-executive directors within the same company and across companies.

The Regulation on issuers also revised the rules on the disclosure of information on directors' and auditors' holdings of the company's shares. Since this information complements that on their remuneration, it was deemed desirable that they be disclosed in the same way, i.e. in the notes to the annual accounts. As for the information on remuneration, the Commission decided that the information on shareholdings should be disclosed on an individual basis, in line with the standards of transparency applied in the Anglo-Saxon countries.

The figures for the boards of directors of Italian companies listed on the official market at the end of 1999 show that on average they had 10 members, 3 of whom were executive directors. The boards of banks and insurance companies were significantly larger than the average (Table II.1). In particular, the boards of listed banks had an average of 14 members, 5 of whom were executive directors, a higher proportion than in any other sector.

It is very common among Italian listed companies for persons to sit on the boards of two or more companies not necessarily belonging to the same group (so-called interlocking directorates). At the end of 1999 there were 1,789 directors of listed companies; of these 296 (about 17 per cent) were directors of at least two listed companies and 206 (about 12 per cent) sat on the board of at least one other company not belonging to the same group. Persons sitting on more than one board had an average of 1.1 directorships in group companies and of 1.6 directorships in non-group companies.

TABLE II.1

**AVERAGE NUMBER OF DIRECTORS OF COMPANIES LISTED ON
THE OFFICIAL MARKET, BY SECTOR OF ACTIVITY**
(AT END-1999)

	EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	TOTAL
INSURANCE	3.4	10.2	13.6
BANKING	5.3	8.8	14.1
FINANCE	2.6	5.5	8.1
INDUSTRY	2.4	5.6	8.0
SERVICES	2.5	6.9	9.4
<i>TOTAL</i>	3.0	6.6	9.6

Source: Consob.

Controls on continuing disclosure requirements

Supervision of listed companies' compliance with these requirements focused, as in the past, on checking the symmetry, completeness, promptness and continuity of disclosures and on analyzing the consistency of the data disclosed with issuers' profitability and financial position.

The most serious problems arose in connection with share purchases, often not agreed with the directors of the target company, merger plans (especially in the banking sector) and the admission to listing of recently-formed companies.

The interest shown by most listed companies in the Internet and the scope for developing Internet-related business sometimes led to announcements that were unclear. In particular, press release concerning the launch of Internet-related projects often failed to provide all the information needed for investors to make a thorough assessment of their prospects.

In these cases the Commission invited the companies that had issued the press release to disclose additional information and to submit records and documents in order to verify the exactness of the information made available to the public.

Seven violations of regulatory requirements concerning the disclosure of significant facts were found. An equal number of fines, totaling 280 million lire, were imposed on directors and general managers by the Minister of the Treasury acting on a proposal from the Commission (Table II.2).

TABLE II.2

**CONTROLS ON ISSUERS' COMPLIANCE
WITH DISCLOSURE REQUIREMENTS**

	VIOLATIONS FOUND	PENALTIES ¹
1996	4	3
1997	5	7
1998	4	1
1999	7	7

Source: Consob. See the Methodological Notes. ¹ Some penalties were imposed on violations found in earlier years.

Controls on the disclosure of accounting and periodic information

Following the entry into force of the Consolidated Law on Financial Intermediation, 1999 saw major changes in the checks carried out by Consob on listed companies' annual and consolidated accounts. In fact, the Consolidated Law repealed the earlier statutory rules on the periodic disclosure of company information and entrusted the regulation of the entire matter to the Commission.

The secondary legislation is contained in Consob's Regulation on issuers.

In five instances the Commission required additional information to be disclosed to the shareholders' meeting. One of the aspects focused on was the obligation, introduced in the Regulation on issuers, for listed companies to disclose in the notes to their accounts all the fees paid for whatsoever reason and in whatsoever form to their directors, auditors and general managers, including any amounts paid by their subsidiaries.

One inspection (still under way) of a listed company was ordered in 1999 and three inspections begun in 1998 at three other companies were concluded.

In one case the Commission invoked its power to challenge the resolutions passed at a company's annual meeting approving the annual accounts.

TABLE. II.3

ACCOUNTING DATA AVAILABLE ON THE INTERNET¹
 (COMPANIES INCLUDED IN THE MIB30 INDEX AT END-1999)

	COMPANY WEBSITE	1998 ANNUAL REPORT POSTED ON WEBSITE	INDEPENDENT AUDITORS' REPORT POSTED WEBSITE
AEM	YES	YES	YES
ALLEANZA ASSICURAZIONI	YES	NO	NO
AUTOSTRADE	YES	YES	NO
BANCA DI ROMA	YES	NO	NO
BANCA FIDEURAM	YES	YES	YES
BANCA INTESA	YES	YES	NO
BANCA MONTE DEI PASCHI	YES	NO	NO
BANCA NAZIONALE DEL LAVORO	YES	NO	NO
BIPOP CARIRE	YES	NO	NO
COMIT	YES	YES	NO
EDISON	YES	YES	NO
ENEL	YES	YES	NO
ENI	YES	NO	NO
FIAT	YES	YES	YES
FINMECCANICA	YES	NO	NO
GENERALI	YES	YES	YES
MEDIASET	YES	YES	YES
MEDIOBANCA	YES	NO	NO
MEDIOLANUM	YES	YES	YES
MONTEDISON	YES	YES	YES
OLIVETTI	YES	YES	YES
PIRELLI SPA	YES	YES	NO
RAS	YES	YES	NO
ROLO BANCA 1473	YES	YES	NO
SAN PAOLO IMI	YES	NO	NO
SEAT-PAGINE GIALLE	YES	NO	NO
TECNOST	NO	NO	NO
TELECOM ITALIA	YES	YES	YES
TELECOM ITALIA MOBILE	YES	YES	NO
UNICREDITO ITALIANO	YES	YES	NO

¹ Data collected in January 2000.

Disclosure of accounting data over the Internet

The Internet offers listed companies with an extremely effective means of making accounting data available to the public.

As early as 1998 the International Organisation of Securities Commissions (IOSCO) recommended that regulatory authorities should not do anything to prevent or hinder issuers from disclosing accounting information over the Internet and even advised its being sent by e-mail to investors who so requested. IOSCO nonetheless made it clear that there should be no difference between the information made available over the Internet and that sent by traditional means.

Apart from Tecnost s.p.a., all the companies making up the Mib30 index have a website. However, only 19 posted their annual accounts for 1998; of these, 9 also made the report of the independent auditors available (Table II.3).

III. PUBLIC OFFERINGS, MERGERS AND ACQUISITIONS

Initial public offerings

Confirming the trend of the past several years, the number of Italian companies admitted to listing on the official market by means of initial public offerings rose to 21 in 1999, compared with 16 in 1998. In addition, 6 companies were admitted to trading on the Nuovo Mercato.

The value of the initial public offerings on the official market rose from around € 2 billion in 1998 to more than € 22 billion last year, primarily owing to the size of the ENEL operation, while the offerings on the Nuovo Mercato amounted to € 266 million (Table III.1). The importance of the newly-listed companies in relation to the total capitalization of the market increased substantially: the sum of their post-offering market capitalizations, calculated on the basis of the offering prices, amounted to € 66.2 billion, compared with € 4.4 billion for the companies listed in 1998.

TABLE III.1

INITIAL PUBLIC OFFERINGS (MILLIONS OF EUROS)

	CAPITALIZATION ¹	OFFERINGS		TOTAL ² OFFERING
		NEW SHARES	EXISTING SHARES	
OFFICIAL MARKET				
1996	5,550	721	945	26.6
1997	2,126	227	606	35.4
1998	3,831	609	1,230	41.7
1999	65,069	1,187	21,567	33.6
NUOVO MERCATO				
1999	719	227	39	27.9

Source: Consob. See the Methodological Notes. ¹ Capitalization of the companies admitted to listing, calculated on the basis of the offering prices and the number of shares before the offerings. ² Proportion of share capital calculated at the offering prices, taking of any capital increase. Percentages weighted by the amount of the offerings. The figure for 1999 for the official market does not include ENEL.

The companies listed on the official market and the Nuovo Mercato in 1999 placed respectively 34 and 28 per cent of their capital. Controlling shareholders maintained ownership of around 57 per cent on average; only three offerings involved more than 50 per cent of the company's capital. The proportion of the pre-offering capital disposed of by the controlling shareholder at the time of listing averaged around 24 per cent for the official market and 6 per cent for the Nuovo Mercato.

TABLE III.2

**BOOKBUILDING IN PLACEMENTS WITH INSTITUTIONAL INVESTORS
FOR SELECTED COMPANIES ADMITTED TO LISTING IN 1999¹**
(PERCENTAGES)

COMPANY	PORTION REQUESTED BY FIRST INST. INVESTOR ²	PORTION ASSIGNED TO FIRST INST. INVESTOR ²	AVERAGE PORTION ASSIGNED TO INST. INVESTORS	PORTION ASSIGNED TO THE PUBLIC IN EXCESS OF MINIMUM SET IN PROSPECTUS
<i>OFFICIAL MARKET</i>				
ACEA	5.9	0.3	..	--
AZ. COMASCA S.M.	10.8	--	0.1	1.3
BANCA PROFILO	4.9	2.8	0.3	1.6
FILATURA DI POLLONE ³	11.4	11.4	1.0	7.3
FINMATICA	20.4	0.6	..	--
GRANDI NAVI VELOCI	1.9	1.0	0.2	--
ITALDESIGN-GIUGIARO	6.0	0.8	0.1	--
MARCOLIN	6.0	2.3	0.5	--
MONTE PASCHI DI SIENA	2.8	0.2	..	--
PERMASTEELISA	3.8	1.1	0.2	8.3
VEMER ELETTRONICA	7.4	3.0	0.5	2.6
<i>NUOVO MERCATO</i>				
GANDALF	104.5	0.9	0.3	--
OPENGATE	6.7	5.0	0.6	4.0
POLIGRAF. SAN FAUSTINO	10.0	1.7	0.3	--
PRIMA INDUSTRIE	9.3	1.5	0.6	7.7

Source: Consob. See the methodological Notes. ¹ Figures in relation to post-offering share capital. ² The first institutional investor is the one that requested the largest number of shares. ³ The first institutional investor was global coordinator and lead manager.

All but one of the operations for listing involved a placement with institutional investors alongside the public offering. For the companies listed on the official market, an average of around 45 per cent of the value offered was assigned to the public and 55 per cent to institutional investors.

For those listed on the Nuovo Mercato, the proportion assigned to institutional investors was even higher (73 per cent). The offerings made during the year were well-received by the market. In particular, public offerings on the official market were oversubscribed about 13 times and those on the Nuovo Mercato 28 times; by contrast, the oversubscription ratio in placements with institutional investors was lower than in 1998.

The figures on bookbuilding in the placements of newly-listed shares with institutional investors show that a single institutional investor will often request a very large proportion of the post-offering share capital. The same investors normally also receive considerably more shares than the average proportion allotted to other institutional investors (Table III.2).

The role of intermediaries in placements and initial public offerings

The tendency for the concentration of placement activity to decline was partly interrupted last year.

TABLE III.3

INSTITUTIONAL INVESTORS' STAKES IN NEWLY-LISTED COMPANIES¹

	NUMBER OF COMPANIES ²	NUMBER OF INSTITUTIONAL INVESTORS ³	PRE-OFFERING STAKE ⁴ (% HELD)	POST-OFFERING STAKE ⁵ (% HELD)
OFFICIAL MARKET				
1996	5	2.8	53.2	25.4
1997	2	1.5	40.9	7.1
1998	4	4.3	48.3	18.9
1999	6	1.7	20.1	5.4
NUOVO MERCATO				
1999	3	2.7	42.3	19.9

Sources: Prospectuses. See the Methodological Notes. ¹ institutional investors include closed-end investment funds, venture capital companies and commercial and investment banks. ² Number of companies listed in which institutional investors were present at the offering date. ³ Average number of institutional investors present at the offering date. ⁴ Average proportion of the share capital held by institutional investors at the offering date. ⁵ Average proportion of the share capital held by institutional investors immediately after the offering.

As regards admissions to listing (excluding the ENEL operation on account of its size), in 1999 the first three global coordinators in terms of the value of global offerings had a market share of around 72 percent, compared with 60 per cent in 1998. Among the lead managers of public offerings, the combined market share of the first three declined from 88 to around 74 per cent and that of the first five from 93 to 84 per cent.

Institutional investors, such as closed-end investment funds, venture capital companies, commercial and investment banks, again held substantial stakes in companies listed during the year, with interests in 6 of those listed on the official market and in 3 of those listed on the Nuovo Mercato. However, the average number of such investors per company declined and their aggregate pre-offering stake decreased from 48 per cent in 1998 to 20 per cent, although the corresponding figure was higher (42 per cent) for companies listed on the Nuovo Mercato (Table III.3). Institutional investors disposed of a substantial portion of their holdings at the time the companies were listed.

TABLE III.4

UNDERPRICING IN INITIAL PUBLIC OFFERINGS

	NUMBER OF OFFERINGS ¹	AVERAGE UNDERPRICING ²
<i>OFFICIAL MARKET</i>		
1996	12	10.1
1997	10	7.1
1998	14	6.8
1999	17	13.2
<i>NUOVO MERCATO</i>		
1999	6	25.9

Source: based on Datastream data. ¹ Does not include offerings by privatized companies. ² Percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the historical Mib index; averages.

There was an increase compared with 1998 in the average underpricing of companies admitted to listing by way of a public offering, i.e. the percentage difference between the market price on the first day of trading and the offering price, adjusted for the movement in the stock market index (Table III.4). The average level of underpricing was appreciably higher for companies listed on the Nuovo Mercato.

The degree of underpricing tends to be inversely correlated with the presence of institutional investors in the newly-listed companies (Box 3).

New issues by listed companies, mergers and spin-offs

In 1999 most of the new issues by listed companies were again rights issues. With the entry into force of the rules on the solicitation of investors included in the Regulation on issuers, from 1 July 1999 publication of a prospectus is also required for such issues, although it does not have to be approved by Consob.

The volume of funds raised during the year by listed companies through public offerings was substantial: including new share issues made on the occasion of IPOs, it amounted to more than € 23 billion, compared with around € 8.8 billion in 1998 (Table III.5). The number of operations also increased, from 39 to 84.

TABLE III.5

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

	ISSUES OF NEW SECURITIES	OFFERINGS OF EXISTING SECURITIES	TOTAL
1996	2,306	5,612	7,918
1997	5,400	18,427	23,827
1998	8,879	11,273	20,152
1999 ¹	23,171	25,795	48,966

Sources: Prospectuses, information documents and notices of Borsa Italiana Spa. See the Methodological Notes. ¹ Official Market and Nuovo Mercato.

The year also saw numerous mergers and spin-offs of real estate business involving listed companies.

Almost all of the principle transactions involved companies belonging to the same group or else the splitting off of real estate operations.

One of the most important aspects of corporate reorganizations is the method for evaluating the share exchange ratios, particularly as regards the performance of the securities involved in the operations.

Box 3***The role of institutional investors in determining the price of initial offerings***

The prospectuses for initial public offerings show that institutional investors (closed-end funds, venture capital companies, commercial and investment banks) held stakes in 22 of the 58 companies that went public on the official market between 1995 and 1999; eleven of the 41 institutional investors involved held stakes in more than one company (with a maximum of five).

The role institutional investors perform is basically comparable to that played by venture capitalists. Their holding equity interests in companies appears to have led to a more exact evaluation of the firms' growth prospects, helping to reduce the cost of listing represented by underpricing.

The average underpricing of the 22 companies in which institutional investors held stakes was markedly less than that of the other newly-listed companies (3.6 per cent as against 14.1 per cent), although the standard deviation still points to a high degree of variability.

There continues to be a difference between the average underpricing of the two subsets of companies over the longer term, although it tends to decrease when underpricing is calculated in relation to the market price of the third month following listing.

Analysis of performance over a longer time horizon shows that beginning with the first month after listing the shares of companies in which institutional investors held stakes almost always outperform those of companies in which institutional investors are not present. However, in both cases performance is considerably weaker than that of the general index of the official market.

In addition, the average duration of shareholding by investors in companies whose market price in the first month of listing is lower than the offering price is considerably longer than in the other cases.

No single pattern of "exiting" is discernible. Whether institutional investors dispose of their holdings in one or as many as ten steps does not appear to be tied to the performance of the security in the period following listing.

INSTITUTIONAL INVESTORS IN INITIAL OFFERINGS AND UNDERPRICING¹
(UNDERPRICING ADJUSTED FOR MOVEMENTS IN THE MIB)

	OFFERING WITH INSTITUTIONAL INVESTORS AMONG SHAREHOLDERS (22) ²			OFFERINGS WITHOUT INSTITUTIONAL INVESTORS AMONG SHAREHOLDERS (36) ²		
	AFTER			AFTER		
	1 DAY	1 MONTH	3 MONTHS	1 DAY	1 MONTH	3 MONTHS
MEAN	3.6	-2.9	2.0	14.1	9.9	7.3
STANDARD DEVIATION	13.5	20.5	39.7	29.7	33.8	49.1

¹ Excluding securities of companies listed in connection with privatization whose offerings made provision for bonus shares, banks, insurance companies, transfers from the *mercato ristretto* to the official market, firms involved in mergers and acquisitions, foreign companies and companies listed on the *Nuovo Mercato*. ² Percentages.

Public offers involving unlisted securities

In 1999 Consob approved the publication of the prospectus or offer document for 16 public offers involving unlisted securities. Twelve of these were tender offers with a total value of € 835 million, a sharp decrease with respect to 1998. The remaining four were offerings for the subscription new shares with a total value of € 62 million, compared with € 19 million in 1998 (Table III.6).

TABLE III.6

PUBLIC OFFERS INVOLVING UNLISTED SECURITIES¹

TYPE OF OFFER	NUMBER OF OPERATIONS		VALUE (MILLIONS OF EUROS)		RATIO TO VALUE OF OPERATIONS INVOLVING LISTED SECURITIES ²	
	1998	1999	1998	1999	1998	1999
SALE OF EXISTING SHARES	2	--	90	--	0.8	--
SUBSCRIPTION OF NEW SHARES	4	4	19	62	1.7	15.5
TAKE OVER	13	12	1,695	835	84.5	3.6
<i>TOTAL</i>	<i>19</i>	<i>16</i>	<i>1,804</i>	<i>897</i>	<i>12.2</i>	<i>2.9</i>

Sources: Prospectuses and offer documents. ¹ Excludes offerings reserved to employees, private placements and offerings made abroad. ² Percentages. Issues of new shares by listed companies exclude the ENI public offering in 1998 and the ENEL public offering in 1999. Tender offers exclude the telecom operation in 1999.

All the take overs involved banks either as offeror or offeree company. These operations, most of which regarded local banks, are evidence of the consolidation under way in the sector through acquisitions leading to greater concentration and the creation of diversified banking groups.

IV. REGULATED MARKETS

The stock market and the derivatives markets

As in the preceding two years the rise in share prices was substantial in 1999. The historical Mib index showed a gain of more than 20 per cent, largely attributable to the performance of companies in the service sector. The rise in share prices was accompanied by a large increase in volatility, especially in the second half of the year.

Turnover in shares on the official market rose from € 423 billion to € 503 billion. However, the turnover rate declined considerably, from 107 to about 84 per cent. Trading in the shares included in the Mib30 index accounted for around 75 per cent of the total, broadly in line with the percentage in 1998.

In the first half of 1999 the proportion of trades originated by non-residents declined further with respect to the levels recorded in 1998 and for the first time since 1994 non-residents were net sellers of Italian shares (Table IV.1).

TABLE IV.1

**NON-RESIDENTS' TRANSACTIONS ON
THE ITALIAN STOCK MARKET**
(PERCENTAGES)

	TRADES ORIGINATED BY NON-RESIDENTS ¹	NET PURCHASES OF SHARES BY NON-RESIDENTS ²
1996	40.4	3.3
1997	40.8	2.7
1998	37.1	2.7
1999 ³	35.2	-2.8

Sources: Based on UIC and Borsa Italiana Spa data. See the Methodological Notes.
¹As a percentage of total trades. ² As a percentage of the stock market's year-end capitalization. ³ First half.

The turnover rate was also substantially lower last year than in 1998 on the MOT market for both bonds and government securities.

The equity market continued to expand last year with the addition of a sizable number of companies to the official list, including 28 Italian companies.

The value of the Italian companies that came to the official market (net of delistings, transfers from the *mercato ristretto* and mergers and demergers amounted to € 66.8 billion (of which more than € 50 billion from the listing of ENEL); the value of net new listings was equal to around 9 per cent of the total capitalization of the stock market at the end of 1999, compared with 2.5 per cent a year earlier.

The official market's total capitalization grew by a robust 48.5 per cent, compared with 40.7 per cent in 1998, thanks in equal measure to the rise in share prices, new listings and new share issues.

The Nuovo Mercato, a trading circuit managed by Borsa Italiana S.p.A. and reserved to companies in high-tech sectors or with high growth potential, started operating in June 1999. During the year six companies were admitted to listing on this market, raising a total of € 227 million. The total capitalization of the Nuovo Mercato stood at € 7 billion at the end of the year.

Activity in financial derivatives was relatively uneven from segment to segment. The futures market (MIF) recorded a drastic contraction in the volume of trading, which fell by 84 per cent compared with 1998, whereas the derivatives market (IDEM) recorded overall volume growth of 5 per cent.

TABLE IV.2

ITALIAN DERIVATIVES MARKETS¹
(SUMMARY DATA ON VOLUME OF TRADING - 1999)

	NUMBER OF CONTRACTS CONCLUDED ²	DAILY AVERAGE ²	PERCENTAGE CHANGE
MIB30 FUTURES	5,093	20.0	- 14
MIB30 OPTIONS	2,235	8.8	38
Isoα	1,947	7.7	50
MIDEX FUTURES	5	..	- 80
BTP FUTURES	189	0.8	- 85
OPTIONS ON BTP FUTURES	--	--	- 100
EURIBOR FUTURES	45	0.2	- 55

Sources: Based on Borsa Italiana and Cassa di Compensazione e Garanzia data. ¹ IDEM and MIF. ² Thousands. ³ On previous year.

The market in listed covered warrants, which was introduced in June 1998, recorded notable expansion in terms of products supplied, issuers and volume of trading. At the end of 1999 more

than 1,400 covered warrants were listed on the circuit managed by Borsa Italiana, compared with approximately 120 issues at the end of 1998 (Table IV.3).

LISTED COVERED WARRANTS

TABLE IV.3

	NUMBER OF ISSUES			TURNOVER ³
	OUTSTANDING ¹	NEW ²	EXPIRED	
1998	122	122	--	2.5
1999 ⁴	1,411	1391	102	11.8

Sources: Consob and Borsa Italiana Spa. ¹ At end of year. ² Admitted to listing during the year. ³ Billions of euros. ⁴ As at November 1999.

In terms of turnover, covered warrants have become the most heavily traded instruments on the stock market after shares and government securities. In January-November 1999 turnover amounted to about 12 billion, equal to around 2 per cent of the total value of trading in shares.

ISSUES OF STRUCTURED BANK BONDS

TABLE IV.4

	LISTED		UNLISTED		STRUCTURED BONDS OUTSTANDING ¹
	NO OF ISSUES	VALUE ¹	NO OF ISSUES	VALUE ¹	
1996	37	6.4	959	21.9	24.8
1997	45	6.0	1,420	33.4	59.2
1998	106	16.2	1,428	26.1	101.2
1999 ²	27	3.3	990	22.7	127.1

Sources: based on LUXOR-FI.DATA and Bank of Italy data. ¹ Billions of euros. ² First half.

The bulk of trades in listed covered warrants have the issuer as counterparty. This is partly owing to scant standardization of the securities listed, which is a deterrent to competition in trading. The absence of quotations expressed in terms of volatility also makes it difficult to compare the prices of covered warrants on the same underlying that have different maturities and strike prices.

The first half of 1999 saw further growth in structured bonds, almost all of them issued by banks. At mid-year the amount outstanding had exceeded that of ordinary bonds. The share of listed structured bonds in total structured bond issues was much smaller in the first half of 1999 than in 1998 (Table IV.4).

Supervision of the regulated markets

The emergence of anomalies in the calculation of several stock market indexes between March and July 1999 led Consob to check the organizational, information processing and control procedures with which Borsa Italiana computes and manages the indexes. This examination was also opportune in view of the importance of the indexes in question for the regular performance of the derivatives market. The tests carried out brought to light some weaknesses and Consob gave Borsa Italiana specific recommendations for their solution.

Pursuant to Article 63 of the Consolidated Law on Financial Intermediation, in January Consob authorized Borsa Italiana to operate the Nuovo Mercato for the trading of ordinary shares of domestic and foreign issuers with high growth potential. The Nuovo Mercato rapidly became the reference point for Internet companies deciding to go public. Borsa Italiana subsequently amended the rules governing the Nuovo Mercato, after obtaining Consob's authorization, to harmonize them with those of the corresponding markets in Europe and make it possible for the Nuovo Mercato to join the Euro.NM circuit (see Box 4 for a close-up of the new markets in Europe).

In October the Commission approved the amendments to the rules of the markets organized and managed by Borsa Italiana. The amendments mainly concerned the creation of the EuroMOT segment for the trading of Eurobonds, asset-backed securities and bonds issued by supranational organizations.

In August the Commission approved a series of amendments to the rules of the secondary market in government securities, run by MTS S.p.A. Among other changes, these introduced a grey market and raised the minimum tradable lot for the main securities. In November MTS S.p.A. was authorized to operate the wholesale bond market for non-government bonds and securities issued by international organizations in which states participate. The authorization was issued after consulting the Bank of Italy pursuant to Article 63.3 of the Consolidated Law on Financial Intermediation.

Research on listed companies by intermediaries

Last year Consob continued to supervise the information disseminated to the public in the form of reports and statistics produced by authorized intermediaries on listed companies. To this

The New markets in Europe

With the launch of the Nuovo Mercato in June 1999, the Euro.NM circuit linking equity markets reserved to small and medium-sized technology companies now embraces five countries. In 1996 the Nouveau Marché opened in France, followed in 1997 by Germany's Neuer Markt, Euro NM Belgium and Euro.NM Amsterdam, all with similar characteristics and purposes. The agreement among the five markets basically concerns harmonization of market rules and admission requirements, with the aim of promoting the participating markets' image and giving visibility to their listed firms. In addition, the introduction of a common trading platform is under study.

The only requirements for listing concern the minimum shareholders' equity at the time of listing (1.5 million), the minimum global offering (3 million) and the float (at least 20 per cent of the company's share capital). Companies may be listed even before they close their first annual accounts. With admission to trading, quarterly financial statements must be published and pre-existing shareholders are barred from selling further interests in the six months following listing.

The markets belonging to Euro.NM have attracted around 14 per cent of all firms listed on the equity markets in their countries since their birth. In 1999 alone they attracted around 60 per cent of all new listings. Newly-listed companies on the Euro.NM circuit accounted for the about 20 per cent of all fresh funds raised by all newly-listed companies in the five countries involved and the markets of the Euro.NM circuit account for about 6 per cent of the total capitalization of the share markets of the five countries.

The Neuer Markt saw very rapid growth in 1999, recording over 140 initial public offerings and accounting for more than 80 per cent of all newly-listed German companies. During the year the Neuer Markt overtook the Nuoveau Marché in terms of capitalization and number of listed companies. The companies listed on the Neuer Markt had a more than 60 per cent share of the funds raised on the stock market by German companies that went public in 1999.

end the Commission analyzed reports prepared by persons having a potential conflict of interest owing to their involvement in mergers and acquisitions involving the companies that were the subject of reports and scrutinized cases where intermediaries' own activity ran counter to the recommendations contained in their reports.

Box 4

The new markets in Italy, Belgium and the Netherlands are a good deal smaller in terms of capitalization and the number of new listings. In the case of Italy, in particular, a single security represents around 95 per cent of the total capitalization of the Nuovo Mercato.

The Nouveau Marché accounted in 1999 for almost 40 per cent of all newly-listed French companies, although the resources they raised were less than 0.1 per cent of total equity fund-raising by French companies admitted to the stock market last year.

THE NEW MARKETS IN EUROPE¹

	START-UP YEAR	LISTED COMPANIES ²	CAPITALIZA- TION ³	INITIAL OFFERINGS IN 1999	
				NUMBER	FUNDS RAISED ⁴
NEUER MARKT	1997	221	209.1	146	7.8
NOUVEAU MARCHÉ	1996	113	32.0	32	0.6
NUOVO MERCATO	1999	6	15.8	6	0.3
EURO.NM BELGIUM	1997	13	0.6	6	..
EURO.NM AMSTERDAM	1997	13	1.6	1	..
TOTAL EURO.NM		366	259.1	191	8.7
OFFICIAL MARKETS IN PARTICIPATING COUNTRIES		2,654	4,381.7	303	39.6

Sources: Euro.NM, Fibv, national stock markets. ¹ Domestic companies only. ² At the end of February 2000. ³ At the end of February 2000 in billions of euros. ⁴ Offerings of new shares and existing shares in billions of euros.

More than half of the research reports produced in 1998 and 1999 carried a “buy” recommendation and only around 6 per cent recommended “sell”. The frequency with which the different investment recommendations appear did not vary substantially in the two years in question (Table IV.5). Sell recommendations are also rather evenly distributed across companies of the various branches of industry. None of the twenty reports on companies listed on the Nuovo Mercato advised selling.

TABLE IV.5

**DISTRIBUTION OF REPORTS ON COMPANIES
BY TYPE OF RECOMMENDATION**

	1998	1999	TOTAL
BUY	591	575	582
HOLD	255	267	261
IMPORTANT NEWS	99	91	96
SELL	55	66	61
<i>TOTAL NUMBER OF REPORTS</i>	<i>2,288</i>	<i>2,260</i>	<i>4,548</i>

Sources: Consob. Percentages.

V. INSIDER TRADING AND MARKET MANIPULATION

The results of Consob's investigations

In 1999 Consob transmitted 38 reports to the judicial authorities concerning investigations it had initiated after finding anomalies during its market supervision (Table V.1). Thirty of these reports indicated that evidence had been found suggesting an offence had been committed, compared with 21 such cases in 1998, while the remaining investigations did not produce substantiating evidence. In particular, 22 reports concerned suspected insider trading and 8 referred to suspected episodes of market manipulation involving financial instruments.

TABLE V.1

RESULTS OF INVESTIGATIONS

	1997	1998	1999
REPORT OF SUSPECTED CRIME ¹	19	21	30
CASE CLOSED AT THE END OF PRELIMINARY INVESTIGATIONS ²	18	3	1
CASE CLOSED AT THE END OF THE INVESTIGATION ²	15	12 ³	7
<i>TOTAL</i>	<i>52</i>	<i>36</i>	<i>38</i>

Source: Consob. ¹ For 1997 and in 10 cases in 1998, reports transmitted under Article 8.3 of Law 157/1991, which was repealed by Legislative Decree 58/1998. ² Article 186 of Legislative Decree 58/1998 requires Consob to transmit a report on the investigation and findings to the public prosecutor in every case. ³ Of which 9 cases in which the investigation was closed before the entry into force of legislative Decree 58/1998.

As in 1998, the inside information that most frequently gave rise to investigations concerned changes in the control of listed companies (13 out of 22 cases). In 4 cases the information concerned significant changes in a company's assets and liabilities or financial position, in 3 investigations the event likely to influence regular price formation consisted of a merger or an acquisition, and in the last 2 cases the information concerned, respectively, a spin-off and an agreement between two companies that led to the creation of a new company (Table V.2).

TABLE V.2

TYPES OF INSIDE INFORMATION

	1997	1998	1999
CHANGE OF CONTROL	7	13	13
FINANCIAL AND ACCOUNTING INFORMATION	4	1	4
OPERATIONS AFFECTING THE COMPANY'S CAPITAL, MERGERS AND DEMERGERS	2	3	3
OTHERS	3	--	2
<i>TOTAL</i>	<i>16</i>	<i>17</i>	<i>22</i>

The number of cases of suspected market manipulation reported to the judicial authorities doubled, from 4 to 8. Six of these cases involved sham transactions intended to have a significant effect on the prices of listed instruments and the remaining 2 referred to the spreading of false information.

The outcomes of the reports transmitted to the judicial authorities

In 1999 the judicial authorities dismissed 10 reports of suspected violation of Article 180 of Legislative Decree 58/1998 that Consob had transmitted in earlier years (Table V.3) and petitioned the preliminary investigating magistrate for the partial dismissal of a report that had been transmitted during the year regarding suspected market manipulation (Article 180 of the Consolidated Law on Financial Intermediation).

For 2 reports of suspected insider trading relating to the capital and financial distress of two corporate groups, the preliminary investigating magistrate issued orders of indictment.

Two proceedings regarding suspected insider that had been reported to the judicial authorities in 1996 were concluded in 1999: in one the charge was dismissed and the other ended in an acquittal (see Chapter VII).

TABLE V.3

OUTCOMES OF THE REPORTS TO THE JUDICIAL AUTHORITIES

	1991-1998	1999
DISMISSAL	11	10
PARTIAL DISMISSAL	--	1
INDICTMENT	6	2
PLEA BARGAIN	3	--
CONVICTION	2	--
ACQUITTAL	--	1
SENTENCE OF NO GROUNDS	--	1
<i>TOTAL</i>	<i>22</i>	<i>15</i>

Some types of insider trading and market manipulation

The following are brief descriptions of two reports by Consob to the judicial authorities concerning suspected violations of Articles 180 and 181 of the Consolidated Law on Financial Intermediation, one concerning insider trading and the other referring to market manipulation.

In the case of suspected insider trading connected with a tender offer, a company that in May 1998 had increased its equity interest (direct and indirect, by means of another company) in a subsidiary company listed on the *mercato ristretto* announced a residual-acquisition tender and then continued to purchase shares until it held nearly 98 per cent of the subsidiary's share capital.

As to the case of suspected market manipulation, Consob's investigation turned up a significant volume of transactions in a security carried out by a considerable number of persons using three different intermediaries. This manipulative activity, which had lasted several years and was based on agreed matching of sales and purchases without any actual exchange of lire and securities, was aimed at creating the appearance of an active market likely to have an appreciable influence on the price of the security.

Investigating methods: determining the profits made by insiders

The seriousness of the offence of insider trading increases with the scale of the transactions carried out by the insiders and the profits they make. For this reason the Consolidated Law on Financial Intermediation provides for sanctions that increase with the amount of illicit gains (Article

180.4). An accurate estimation of the profits is therefore an important aspect of reports to the judicial authorities.

A model based on probabilistic methods has been developed that not only surmounts the above-mentioned problems of application, but is also more consistent with the latest theories of finance and statistically more robust. Box 5 briefly explains the event studies technique and the probability method.

BOX 5***The method of event studies analysis and the probabilistic model for determining the insider's profit***

The technique of event studies analysis as applied by Consob considers two successive periods of time. The first is very long (between 200 and 600 days) and ending about 20 days before the dissemination of the information. The second covers a span of time beginning 20 days before the information was disseminated and ending 20 days after.

Once the periods have been defined, an analysis is conducted to estimate whether a structural relationship can be identified between the security's daily returns and those of an appropriate reference index before the information was disseminated. Next, the returns recorded in the period during which the information was disseminated are examined to see whether they conform with that structural relationship; their failure to do so indicates a possibly abnormal return. Finally, a statistical and graphic test is used to verify whether the return is actually abnormal. In particular, if the structural relationship that has been identified also holds during the period following the dissemination of the information, the graph representing the cumulative sum of the security's abnormal returns should not show a discontinuity before and after the dissemination of the information. On the other hand, a break in the graph indicates the presence of an abnormal return. The size of the discontinuity also reflects the economic value of the information, i.e. the increase in the company's value due to its dissemination.

The probabilistic model estimates the share's possible performance on the basis of the time series of its prices. The model's underlying assumption is that the insider, knowing the value of the inside information, will only trade if the current prices are different from those he believes will be determined following the dissemination of the information. In this way, the insider's behaviour signals what should be the security's performance net of the information. The potential capital gain is given by the difference between the security's performance as forecast by the model and its actual performance.

Compared with event studies analysis, the probabilistic approach has the advantage of not requiring a long time horizon. In addition, as it observes the movement of prices and not of yields, it is more intuitive. Finally, the calculation of gains considers the characteristics of the operating strategy of the individual potential insider and thus provides more accurate results.

In any event, preliminary analysis of all the circumstances of the specific case, such as the presence of rumours and the security's liquidity, remains fundamental for appropriate utilization of the different methods of estimating insiders' gains.

VI. SECURITIES INTERMEDIARIES

Trends and structure of the sector

In the last three years there has been intense growth in the securities intermediation activities of Italian securities investment firms (SIMs) and banks.

In particular, total fee and commission income in the first half of 1999 was more than double that of the corresponding period of 1997, growing by around 140 per cent overall but with a difference in the increases recorded by SIMS and banks (59 and 196 per cent respectively). This disparity widened between the first half of 1998 and the first half of 1999: the commission income of SIMs decreased by 3.5 per cent, although the contribution of fees and commissions to their total revenues rose from 65 to 70 per cent, whereas that of banks rose by 12.5 per cent and accounted for a broadly unchanged share of banks' total income from services.

The contribution of individual investment services to total income from services also changed, presumably reflecting the performance of the Italian share market in the first half of the year; in particular, the relative importance of fees and commissions for dealing for customer account declined for both SIMs and banks; the contribution of the service of receiving orders to banks' income from services also declined.

TABLE VI.1

FEES AND COMMISSION FROM SECURITIES INTERMEDIATION¹

	SIMS				BANKS			
	1997	1998	1998 ²	1999 ²	1997	1998	1998 ²	1999 ²
TRADING	788	1,266	837	625	703	1,771	1,108	708
UNDERWRITING	167	289	96	206	2,690	5,194	2,454	3,397
INDIVIDUAL PORTFOLIO MANAGEMENT	489	874	401	447	1,082	1,648	685	1,044
RECEPTION OF ORDERS	78	130	64	91	988	1,872	1,179	882
DOOR-TO-DOOR SELLING	1,556	2,156	1,125	1,065	528	896	326	439
<i>TOTAL LIRE¹</i>		<i>4,715</i>	<i>2,523</i>	<i>2,434</i>		<i>11,381</i>	<i>5,752</i>	<i>6,470</i>
<i>EUROS³</i>	<i>3,078</i>	<i>2,435.1</i>	<i>1,303.0</i>	<i>1,257.1</i>	<i>5,991</i>	<i>5,877.8</i>	<i>2,970.7</i>	<i>3,341.5</i>

Source: Bank of Italy. See the Methodological Notes. ¹ In billions of lire. ² First half. Provisional data for the first half of 1999. ³ Millions.

Banks' fees and commissions from dealing for customer account and reception of orders were lower by respectively 36 and 25 per cent in the first half of 1999 than in the corresponding period of 1998 (Table VI.1) SIMs' income from dealing for customer account declined by around 25 per cent while that from reception of orders grew by 42.2 per cent.

The larger role of the banks in placement services was confirmed. Between the first half of 1998 and the first half of last year banks' income from this activity grew faster than the 115 per cent increase recorded by SIMs, most likely as a consequence of the increase in the number of admissions to listing.

There was a further decline in the number of SIMs in the register last year. The deletion of 20 from the register as a result of mergers, spin-offs and transformations into asset management companies testifies to the ongoing process of concentration and reorganization of the sector (Table VI.2). Among the causes for deletion there was a decline in the incidence of voluntary liquidation, the procedure normally adopted by intermediaries in crisis.

TABLE VI.2

SIMs: DELETIONS FROM THE REGISTER

MOTIVATIONS	1992-1997	1998	1999
CRISIS OF THE INTERMEDIARY ¹	37	2	1
MERGERS AND SPINOFFS	29	7	9 ²
VOLUNTARY LIQUIDATION	49	11	4
CHANGE IN ACTIVITY	51	5	--
TRASFORMED INTO BANK	5	4	--
TRASFORMED INTO ASSET MANAGEMENT COMPANY	—	--	4
TRASFORMED FROM TRUST COMPANY TO SIM	2	--	2
NON OPERATIONAL ³	38	—	—
FAILURE TO PERFORM AUTHORIZED SERVICES	--	1	--
<i>TOTAL</i>	<i>211</i>	<i>30</i>	<i>20</i>

¹ Includes treasury ministry decrees, Consob measures and failures. ² includes one SIM that transferred the line of business to a company of the same group. ³ At the time of entry into force of Legislative Decree 415/1996 (Article 60).

In contrast with the trend for SIMs, the number of banks operating in the securities investment sector increased in 1999, from 806 to 813. The activities with a significant rise in the number of authorized intermediaries were placement and management on a client-by-client basis of investment portfolios. This confirmed banks' growing propensity to engage in securities intermediation, as already evidenced in the preceding years.

Turning to collective investment undertakings, there were 816 Italian open-end investment funds in operation at the end of 1999, 16 per cent more than a year earlier. By contrast, the number of management companies decreased from 59 to 54 as a result of mergers and the exit of some companies from the market. The average number of funds per management company rose from 11.9 at the end of 1998 to 15.1 at the end of last year; the average amount of assets under management also increased, from 12,199 to 17,039 billion lire.

Net fund-raising and assets under management by Italian collective investment undertakings continued to grow, albeit more slowly than in 1998. This growth was accompanied by greater diversification of asset management products: the degree of specialization of investment funds increased, a substantial number of pension funds moved into the start-up phase and the number of real estate investment funds rose.

Net fund-raising by Italian open-end investment funds amounted to approximately 118,000 billion lire in 1999; this impressive result nonetheless fell short of the total recorded in 1998

(313,000 billion), primarily owing to net redemptions in the last four months of the year. Assets under management grew by around 28 per cent to stand at 920,000 billion lire. For the first time in a number of years net fund-raising by equity and balanced funds was appreciably greater than that by bond funds, which recorded massive disinvestment in connection with the rise in interest rates.

TABLE VI.3

**OWNERSHIP OF INVESTMENT FUND
MANAGEMENT COMPANY¹**
(PERCENTAGS OF TOTAL ASSETS UNDER MANAGEMENT)

CONTROLLING OWNER	1997	1998	1999
BANKING GROUP	83.8	93.9	94.0
INSURANCE GROUPS	7.9	5.1	4.9
JOINT VENTURE	6.0	0.1	0.2
NON-BANK FINANCIAL INTERMEDIARIES	1.2	0.2	0.2
NATURAL PERSONS	1.0	0.8	0.7
<i>TOTAL</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Sources: Consob and prospectuses. See the Methodological Notes. ¹ At 31 December; management companies of investment funds established under Italian law.

Banking groups continued to be preponderant in the ownership of investment fund management companies, controlling virtually the entire market (Table VI.3). Bank-controlled companies manage 94 per cent of total investment fund assets, whereas intermediaries that are not members of banking or insurance groups account for just over 1 per cent of the total. The figures on the composition of assets under management by distribution channel also reflect the clear-cut prevalence of the banking system: funds sold through bank branches account for around 60 per cent of the total. The share attributable to distribution networks based on financial salesmen was around 10 per cent at the end of 1999, interrupting a decline that had been under way since 1992.

Supervisory activity

Inspections of 7 Italian securities investment firms (SIMs), 3 stockbrokers and 11 financial salesmen were decided during the year. A total of 22 inspections were actually started and 23 concluded (Table VI.4).

TABLE VI.4

ON-SITE INSPECTIONS

	1997	1998	1999
<i>INSPECTIONS</i>			
DECIDED	16	24	21
STARTED	25	18	22
CONCLUDED	31	22	23
<i>INTERMEDIARIES AT WHICH INSPECTIONS WERE STARTED:</i>			
SIMS ¹	12 ²	6	8
BANKS	5	9	--
STOCKBROKERS	6	3	3
ASSET MANAGEMENT COMPANIES	1	--	--
FINANCIAL SALESMEN	1	--	11
<i>TOTAL</i>	<i>25</i>	<i>18</i>	<i>22</i>

¹ Includes trust companies. ² Includes one Community investment firm.

Of the 21 inspections decided in 1999, 16 were rather broad inquiries aimed at verifying the overall reliability of the intermediary. The others involved verification of specific aspects, such as adequacy of organizational structures and procedures and proper performance of intermediation in derivative financial instruments.

TABLE VI.5

COMPLAINTS BY RETAIL INVESTORS

	BANKS		SIMS ¹ AND STOCKBROKERS		TOTAL	
	1995-98	1999	1995-98	1999	1995-98	1999
TRADING AND RECEPTION OF ORDERS						
PRIOR INFORMATION ON FINANCIAL INSTRUMENTS	34	16	8	7	42	23
COMMISSIONS	30	3	2	--	32	3
INAPPROPRIATE TRANSACTIONS WITHOUT THE CUSTOMER'S PRIOR CONSENT	52	23	20	10	72	33
EXECUTION OF ORDERS	187	66	58	11	245	77
OTHER	56	1	88	8	144	9
INDIVIDUAL MANAGEMENT						
FAILURE TO OBSERVE CONTRACTUAL PROVISIONS	45	76	75	51	120	127
UNSATISFACTORY RATES OF RETURN	39	6	36	5	75	11
OTHER	33	2	48	6	81	8
UNDERWRITING AND DOOR-TO-DOOR SELLING						
ASSIGNMENT OF QUANTITY BOOKED OR ORDER	72	--	20	--	92	--
DESCRIPTION OF FEATURES OF PRODUCTS/SERVICES	10	34	25	6	35	40
EXECUTION OF INSTRUCTIONS	5	1	22	--	27	1
OTHER	16	8	16	8	32	16
<i>TOTAL</i>	<i>579</i>	<i>236</i>	<i>418</i>	<i>112</i>	<i>997</i>	<i>348</i>

¹ Includes trust companies.

As in the preceding years, supervisory activity benefited from the complaints lodged by retail investors. In 1999 Consob received 348 complaints, 68 per cent of which concerned banks, while the remainder concerned SIMs, asset management companies and stockbrokers (Table VI.5). Both the total number of complaints and their distribution among intermediaries were much the same as in the previous year.

The share of complaints concerning dealing and the reception of orders declined from 49 per cent in 1998 to 41.7 per cent in 1999. On the other hand, complaints regarding portfolio management services continued to increase and accounted for 42 per cent of the total last year.

Penalties and precautionary measures

The Commission initiated and concluded 12 proceedings for penalties under Articles 190 and 195 of the Consolidated Law on Financial Intermediation. In particular, it submitted proposals to the Treasury Ministry for fines amounting to around 2.3 billion lire to be imposed on some 142 corporate officers and employees of 7 SIMs and 5 banks (Table VI.6).

TABLE VI.6

**FINES PROPOSED BY CONSOB
FOR CORPORATE OFFICERS OF INTERMEDIARES
(1999)**

	SIMS		BANKS	
	NUMBER	AMOUNT ¹	NUMBER	AMOUNT ¹
DIRECTORS	42	829	43	932
MEMBERS OF THE BOARD OF AUDITORS	21	210	13	158
GENERAL MANAGERS	--	--	2	58
HEADS OF INTERNAL CONTROL	5	43.5	3	50
OTHER	3	13.5	10	54
<i>TOTAL</i>	<i>71</i>	<i>1,096</i>	<i>71</i>	<i>1,252</i>

¹ In millions of lire.

The Commission also forwarded proposals to the Treasury Ministry for fines amounting to 233 million lire to be levied on stockbrokers. All of these proposals were accepted.

During the year Consob adopted 4 precautionary and intermediary crisis management measures.

In particular, Consob issued its first injunctive remedy under Article 51.1 of the Consolidated Law vis-à-vis a SIM (Table VI.7) and the Chairman ordered the suspension of the governing bodies of another SIM as a matter of urgency under Article 53 of the Consolidated Law, with the simultaneous appointment of a special administrator.

TABLE VI.7

PENALTIES AND PRECAUTIONARY MEASURES IMPOSED OR PROPOSED BY CONSOB

	SIMS			BANKS			STOCKBROKERS		
	1997	1998	1999	1997	1998	1999	1997	1998	1999
REPRIMAND	—	—	—	—	—	—	4	1	1
FINE	4	20	25	4	10	23	3	5	3
SUSPENSION	—	—	—	—	—	—	2	2	1
APPOINTMENT OF A SPECIAL ADMINISTRATOR	—	—	—	—	—	—	—	1	1
DELETION FROM THE REGISTER	—	—	—	—	—	—	--	1 ¹	--
EXCLUSION FROM THE STOCK EXCHANGE	--	--	--	--	--	--	4	1	1
INJUNCTIVE REMEDIES	—	--	1	—	--	--	—	--	--
SUSPENSION OF GOVERNING BODIES	3	1	1	—	—	—	—	—	—
SPECIAL ADMINISTRATION	3	3	1	—	—	—	—	—	—
COMPULSORY ADMINISTRATIVE LIQUIDATION	3	1	--	—	—	—	—	—	—

See the Methodological Notes. ¹ Refers to a case of deletion from the single roll of stockbrokers.

On the basis of the findings of an inspection, Consob proposed that the Treasury Ministry should issue a decree to dissolve a SIM's administrative and control bodies and put the SIM into special administration under Article 56 of the Consolidated Law on Financial Intermediation. The Ministry adopted this measure and the crisis management procedure is still in progress under the direction of the Bank of Italy.

During the year Consob transmitted 11 reports of suspected crimes involving securities intermediation to the judicial authorities. Ten of these concerned suspected unauthorized provision of investment services, punishable under Article 166 of the Consolidated Law on Financial Intermediation, and the eleventh a case of suspected commingling of assets in violation of Article 168 of the Consolidated Law (Table VI.8).

Two cases of unauthorized provision of investment services via the Internet were reported to the judicial authorities. Investigations show that this phenomenon threatens to expand and occur with increasing frequency.

TABLE VI.8

**SUSPECTED CRIMES CONCERNING SECURITIES
INTERMEDIATION REPORTED TO THE JUDICIAL AUTHORITIES¹**

	1997	1998	1999
UNAUTHORIZED INVESTMENT SERVICES	28	6	10
BREACH OF DUTY	2	--	--
COMMINGLING OF ASSETS	2	5	1

¹ Excludes reports of suspected crimes committed by financial salesmen.

Compensation systems

The National Guarantee Fund established under Law 1 of 2 January 1991 and recognized *ex lege* by Legislative Decree 415/1996 is the only compensation system operating in Italy.

Several articles of the Fund's bylaws were amended following approval by the Treasury Minister after consulting the Bank of Italy and Consob. The amendments primarily address the need for the Fund to have objective criteria for determining the sanctions applied to intermediaries that default on mandatory contributions and the necessity of coordinating the bylaws with the regulatory provisions issued by other authorities.

In 1999 one stockbroker and one SIM were declared insolvent; both insolvencies were included in the new accounts set up by the Fund for bankruptcy proceedings for which the executory statement of liabilities was filed after 31 January 1998 (Table VI.9).

TABLE VI.9

**INTERVENTIONS OF THE NATIONAL GUARANTEE FUND UNDER ARTICLE 59 OF
THE CONSOLIDATED LAW ON FINANCIAL INTERMEDIATION**
(AT DECEMBER 1999)

		SIMS	STOCK-BROKERS	TOTAL
INSOLVENCIES ¹	1997	4	1	5
	1998	2	3	5
	1999	1	1	2
	<i>TOTALE INSOLVENCIES</i>	7	5	12
	<i>OF WHICH: WITH STATEMENT OF LIABILITIES FILED</i>	6	4	10
NUMBER OF CREDITORS ADMITTED		507	189	696
AMOUNT OF CLAIMS ADMITTED ²		18,681	14,837	33,518
<i>INTERVENTIONS OF THE FUND³</i>		<i>6,947</i>	<i>4,251</i>	<i>11,198³</i>

Source: Based on National Guarantee Fund data. ¹ With statement of liabilities filed from 1 February 1998 onwards. ² Millions of lire. ³ Interventions correlated with claims entered, including 265 million lire set aside in respect of claims for which objection proceedings are pending.

Supervision of financial salesmen

The measures adopted with respect to financial salesmen were the result of the analysis of referrals by intermediaries and retail investors and of the findings of on-site inspections.

Consob imposed 127 penalties and adopted 74 precautionary measures (Table VI.10); proceedings were dropped in 157 cases.

The Commission transmitted 106 reports of suspected crimes concerning financial salesmen to the judicial authorities in 1999. The majority of the reports regarded suspected acquisition of customer assets, unauthorized provision of individual portfolio management services and unauthorized engagement in the activity of financial salesman. In addition, Consob reported 6 cases of suspected violation of anti-money-laundering provisions to the Italian Foreign Exchange Office (UIC).

TABLE VI.10

**MEASURES CONCERNING FINANCIAL SALESMEN AND REPORTS TO
THE JUDICIAL AUTHORITIES**

	1997	1998	1999
<i>SANCTIONS</i>			
REPRIMAND	8	11	2
DEBARMENT	39	86	70
SUSPENSION FROM THE REGISTER FOR A FIXED PERIOD	5	73	51
FINE	--	--	4
<i>PRECAUTIONARY MEASURES</i>			
SUSPENSION FROM DOING BUSINESS FOR A FIXED PERIOD	64 ¹	76 ¹	74
<i>TOTAL</i>	<i>116</i>	<i>246</i>	<i>201</i>
<i>REPORTS TO THE JUDICIAL AUTHORITIES</i>	<i>58</i>	<i>137</i>	<i>106</i>

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

BOX 6***Specification of the benchmark in investment funds' prospectuses***

The problems relating to the specification of the benchmark in fund's prospectuses and above all those of the mandatory reference period for the required comparison with the fund's performance essentially concern three aspects: the evolution of investment funds' asset allocation policies in the past ten years, the effects of the introduction of the euro on the bond market and the compatibility of specifying a benchmark with flexible investment strategies.

Over the past ten years the composition of investment funds' portfolios has steadily grown less variable and more specialized, with a larger proportion of funds belonging to "pure" categories (e.g. "specialized" equity funds). However, the changes dating since 1995 have been fairly limited: between 1995 and 1998 the proportion of the financial instrument typifying the category to which a fund belongs (e.g. Italian shares for Italian equity funds) varied by less than 12 per cent of total assets for nearly every category. In the same period no changes were made in the Assogestioni classification. For years subsequent to 1995 asset allocation policies do not raise difficulties for the identification of a benchmark.

The bond market has been affected by major changes in recent years. In the past, the behaviour of interest rates, characterized by high volatility, prompted funds to choose portfolios with a shorter duration than the related market indexes. By eliminating national currencies and bringing a single pattern of interest rate movements in the euro area, the introduction of the euro has undoubtedly caused a break in portfolio choices and durations. Using an index referring to the euro-area markets for the period prior to 1 January 1999 as a benchmark would thus not permit an adequate comparison with fund returns, which were tied to a market — Italy — that was rather different from its European counterparts.

Finally, specification of a benchmark does not conflict with the adoption of flexible management policies, since the benchmark is not to be slavishly replicated except in the case of funds whose management strategy is totally passive.

The Commission's decision concerning the period for comparing a fund's performance with the benchmark reconciled two opposing needs. On the one hand, the results of comparison with benchmarks can be distorted if the reference period is excessively long; this is especially true if significant changes occurred in the characteristics of the markets and market indexes or in the behaviour of funds in the period, as in Italy. On the other, if the benchmark is to serve its twofold purpose of identifying a fund's investment style and pointing to the "quality" of its management, the comparison needs to be made over a time horizon long enough to allow the manager to deploy its chosen investment policies fully.

Regulation of disclosure requirements for collective asset management services

The introduction of a benchmark in investment funds' prospectuses pursuant to the Consob Regulations on intermediaries and public offerings was an important innovation for the collective asset management sector. The benchmark serves a twofold purpose: it provides more precise information on the fund's investment policy in addition to that already contained in the prospectus and is an instrument for evaluating the fund's past performance in terms of risk and return.

Requiring prospectuses to compare a fund's past returns with the benchmark raised a number of practical problems, particularly regarding the initial phase of application of the new rules and the length of the reference period used in the comparison.

These issues were studied carefully by the Commission, also in response to requests from market participants. In a communication published in October 1999, Consob determined that the period to be used in prospectuses for the comparison between a fund's performance and the benchmark would run from 1 January 1996 rather than the 10-year span originally envisaged.

The problems raised by the introduction of benchmarks and the motivations of Consob's decision are summarized in Box 6.

VII. JUDICIAL CONTROL

Disputes concerning supervisory measures

A total of 90 appeals were made in 1999 against supervisory measures adopted or proposed by Consob; of the appeals 49 were to administrative courts and 41 to ordinary courts (Table VII.1).

TABLE VII.1

**OUTCOME OF APPEALS AGAINST MEASURES
ADOPTED OR PROPOSED BY CONSOB¹**
(AT DECEMBER 1999)

	ADMINISTRATIVE COURTS ²			ORDINARY COURTS ³		
	1997	1998	1999	1997	1998	1999
GRANTED	--	2	1	--	4	10
REJECTED	1	5	2	2	7 ⁴	5
UNDER WAY OF WHICH:	25	51	46	--	19	26
– SUSPENSION GRANTED	2	10	12	--	9	1
– SUSPENSION REJECTED	12	19	18	--	--	--
<i>TOTAL APPEALS</i>	26	58	49	2	30	41

Source: Consob. ¹ The appeals are shown according to the year they were presented. ² Regional Administrative tribunals and the Council of State. ³ Magistrate's courts and Courts of Appeal. ⁴ Of which 4 with a revision of the penalty.

The proceedings before the ordinary courts are concluded significantly faster than those before the administrative courts. Of the appeals made in 1999, some 37 per cent had been concluded by the end of the year in the ordinary courts, as against about 6 per cent in the administrative courts. This pattern is confirmed for the appeals made in 1998 and concluded in 1999: in fact 8 of the proceedings under way at the end of 1998 in the ordinary courts were concluded during the year, as against 4 out of 51 in the administrative courts.

Last year saw the first appeals against penalties imposed by the Ministry of the Treasury, acting on a proposal from Consob, for violations of the rules on issuers contained in the Consolidated Law on Financial Intermediation and the related implementing regulations issued by Consob. The penalties in question consisted of fines on corporate officers. In particular, two measures imposing penalties for violations of disclosure requirements by listed companies were

challenged, and another for the failure of the new controller of a listed company to make a mandatory tender offer under Article 106 of the Consolidated Law on Financial Intermediation.

Worthy of note is the rejection by the Lazio Regional Administrative Tribunal of the appeal by the board of directors of a listed company against the provision of the Consob Regulation on issuers requiring listed companies to include in the notes to their annual accounts, on an individual basis and according to predetermined criteria, the remuneration received under any title and in any form by directors, members of the board of auditors and general managers.

Last year also saw the rejection of challenges of Consob decisions refusing access to administrative documents in its possession by virtue of its supervisory activity. It should be noted, however, that in an appeal against a ruling that upheld the legitimacy of Consob's refusal, the Council of State raised the question of the constitutional legitimacy of Article 4.10 of the Consolidated Law on Financial Intermediation.

Proceedings involving Consob

Fifteen claims for damages were brought against Consob in 1999; the cases are still being heard. The grounds cited for the claims, most of which were made by the clients of intermediaries, concerned the presumed liability of the Commission for alleged omission or negligence in the performance of its supervision of financial intermediaries in 13 cases; in the other two cases Consob is accused of having failed to comply with the law on the solicitation of investors.

For the first time, some of the claims for damages for alleged omission in the supervision of intermediaries have been brought, on the basis of Articles 33 and 35 of Legislative Decree 80 of 21 March 1998, before the administrative courts. In the three cases concerned, the claimants argued that, by redefining the jurisdiction of the administrative courts, Legislative Decree 80/1998 had made them exclusively competent for disputes in matters involving public services, which were to be considered as including the liability of Consob for presumed failure to perform its supervisory duty.

The Commission does not agree that its supervisory activity falls within the scope of Article 33 of Legislative Decree 80/1998 and has therefore appealed to the Court of Cassation for a preliminary ruling on the jurisdictional issue with a view to obtaining a reaffirmation of the jurisdiction of the ordinary courts.

As regards the proceedings under way, in three cases clients of intermediaries have appealed against the rejection of the claims they brought in 1995. It is also worth noting the rejection by the Milan Tribunal of a claim brought in 1994 by the client of a SIM, who, among other things, cited Consob's omission of supervision as the cause of the losses he incurred owing to the forced sale of his securities, which the SIM had illegally pledged in favour of two Swiss banks.

Insider trading and market manipulation

Under Article 187 of the Consolidated Law on Financial Intermediation, in proceedings for insider trading and market manipulation, Consob exercises the rights and powers of entities representing the interests injured by the offence.

In 1999 the Commission performed this function in one criminal case, still under way, of alleged insider trading and market manipulation (Table VII.2). The judge for the pre-trial hearings found the evidence presented by Consob to be sufficient and committed the accused to trial.

TABLE VII.2

REPRESENTATION OF INJURED INTERESTS IN PENAL PROCEEDINGS

	NUMBER OF CASES	OFFENCE	OUTCOME AT 31 DECEMBER 1999
1996	1	INSIDER TRADING ¹	PLEA AGREEMENT
1997	1	»	UNDER WAY
	1	»	ACQUITTAL
	1	»	PLEA AGREEMENT
	1	INSIDER TRADING AND MARKET MANIPULATION ²	UNDER WAY PLEA AGREEMENT FOR ONLY ONE OF THE ACCUSED
1998	1	»	UNDER WAY
1999	1	»	UNDER WAY

¹ Insider trading: Art. 2, Law 157/1991, now Art. 180, Legislative Decree 58/1998; market manipulation: Art. 5, law 157/1991, now Art. 181, legislative Decree 58/1998. ² Proceedings have also been initiated for the offence of obstructing Consob in the exercise of its supervisory functions in matters concerning insider trading (Art. 8.2, Law 157/1991).

Two insider trading trials were concluded in 1999: in one the charge was dismissed and in the other the accused were acquitted.

VIII. INTERNATIONAL RELATIONS

International cooperation

The number of cooperation requests Consob received rose substantially, from 37 in 1998 to 53 last year. This was primarily due to the increase in requests concerning integrity and experience requirements for corporate officers of investment firms intending to establish offices abroad (Table VIII.1). After declining in 1998, requests concerning insider trading and market manipulation rose slightly, respectively from 2 to 3 and from 1 to 3.

TABLE VIII.1

INTERNATIONAL COOPERATION (REQUESTS COOPERATION)

OBJECT OF THE REQUEST	FROM CONSOB TO FOREIGN AUTHORITIES			FROM FOREIGN AUTHORITIES TO CONSOB		
	1997	1998	1999	1997	1998	1999
INSIDER TRADING	11	17	43	5	2	3
MARKET MANIPULATION	4	2	--	1	1	3
UNAUTHORIZED SOLICITATION AND INVESTMENT SERVICES ACTIVITY	8	7	4	4	3	3
TRANSPARENCY AND DISCLOSURE REQUIREMENTS	2	--	--	2	1	--
MAJOR HOLDINGS IN LISTED COMPANIES OR AUTHORIZED INTERMEDIARIES	3	--	--	12	--	--
INTEGRITY AND EXPERIENCE REQUIREMENTS	3	12	10	15	30	44
<i>TOTAL</i>	<i>31</i>	<i>38</i>	<i>57</i>	<i>39</i>	<i>37</i>	<i>53</i>

The requests Consob made to foreign authorities also showed a substantial increase, rising from 38 to 57. The largest increase (from 17 to 43) was in the field of insider trading, while no requests referred to market manipulation. By contrast, the requests concerning integrity and experience requirements for corporate officers and shareholders declined from 12 to 10; for the first time some of these requests were made to non-EU authorities.

In 1999 Consob signed a Memorandum of Understanding with the China Securities Regulatory Commission and the multilateral agreement of the Forum of European Securities Commissions (FESCO). There was also an exchange of letters with the Swiss Commission Fédérale

des Banques on the exchange of confidential information. At the end of the year Consob was a party to a total of 21 international cooperation agreements.

The G7 meeting held in February 1999 set up the Financial Stability Forum, in which Italy is represented by the Chairman of the Commission.

The European Union

In its Communication Financial Services: Implementing the Framework for Financial Markets: Action Plan of 11 May 1999, the European Commission specified the objectives whose achievement it considered essential for the creation of an integrated internal market for financial services and indicated the necessary legislative measures (amendments to directives and communications providing interpretative guidance) and a timetable for their adoption.

The Commission identified four areas for intervention: completing a single EU wholesale market; developing open and secure markets for retail financial services; ensuring the continued stability of EU financial markets; and eliminating tax obstacles to the integration of national financial markets.

Discussion continued within the Council on the two proposed UCITS directives submitted by the Commission in July 1998 with the aim of radically amending Directive 85/611/EEC.

The Council also reached agreement on the text of the proposed directive on takeover bids. However, it remains blocked by the dispute between Spain and the United Kingdom on the status of Gibraltar. The FSPG has repeatedly invited the Commission and the member states concerned to arrive at a solution that would permit the formal adoption of a common position on the text of the proposal.

In December a political agreement was reached within the Internal Market Council on the proposed directive on e-commerce. The linchpin principle of the proposal consists in the provision known as the domestic market clause, whereby services provided over the Internet would be subject to the rules and regulations in force in the country in which the provider is established (home country control). The proposal also contains provisions on commercial communications, electronic contracts, the liability of suppliers of services, codes of conduct, the out-of-court settlement of disputes, cooperation between authorities and penalties.

Activity of the International Organization of Securities Commissions

The task force set up by IOSCO in the wake of the crisis of the US hedge fund Long-Term Capital Management completed its work during the year. It had been asked to identify measures to curb the systemic risks inherent in the relationships between regulated intermediaries and highly-

leveraged institutions. The task force recommended that intermediaries should put in place more efficient internal structures for monitoring risk. It also considered that there was a major role to be played by regulatory authorities, which should be able to introduce special incentives, in terms of prudential requirements, for firms with internal control systems that met the highest standards and for lending to highly-leveraged institutions that voluntarily disclosed information.

IOSCO also began an assessment of the standards prepared by the International Accounting Standards Committee (IASC) with a view to making it possible for listed companies and companies that solicit investors to draw up their annual accounts according to these standards. As the coordinator of the European members of Working Group no. 1, Consob also played a particularly active role in the Contact Committee for the accounting directives with the aim of establishing mechanisms for assessing new standards prepared by the IASC and ensuring their compatibility with Community rules. The introduction of these mechanisms will require amendments to Community law, which the Commission should propose to the Council and the European Parliament once IOSCO has approved the Committee's standards.

Another IOSCO initiative worth mentioning is the creation in 1999 of a task force to verify the extent to which the Objectives and Principles for Securities Regulation approved in 1998 have been incorporated into national laws. The members of the task force, which is headed by the Hong Kong Securities and Futures Commission, include representatives of the international financial institutions (the IMF and the World Bank), the OECD and the regional development banks.

Activity of the Forum of European Securities Commissions

FESCO is making a major contribution to the integration of the European financial services market by identifying procedures to facilitate regulatory cooperation between the competent authorities of the European Economic Area. This led in January to the signing of the multilateral Memorandum on the exchange of information and the surveillance of securities activities.

The legal harmonization undertaken by FESCO with a view to supporting the preparation of Community law was also important. Its "Standards on Fitness and Propriety" further refined the requirements of Directive 93/22/EEC for the issue to investment firms of the European passport with regard to internal organization, capital, the integrity and experience of corporate officers and the integrity of significant shareholders.

The Forum's Standards for Regulated Markets under the ISD addresses the conditions for operation of the market, for access to the market, as well as listing and admission to trading. It considered there was a need for fuller and more explicit regulatory standards and additional requirements for the cross-border operations of regulated markets than those laid down in the ISD to bolster investors' confidence in the markets considering the huge changes that have occurred in

their structure as a consequence of advances in information technology, the increase in capital flows and the introduction of the euro.

A major role is being played by the Working Group chaired by Consob charged with studying the introduction of a European passport for listed issuers. The Group has proposed the introduction of a system of shelf registration, under which issuers would periodically update the prospectuses deposited and the competent authorities would control them annually. Such documents, possibly prepared only in English or another language accepted by the competent authorities, would be subject to mutual recognition once the necessary changes had been made in the relevant provisions of Community law.

IX. CONSOB'S ACCOUNTS, STAFF AND EXTERNAL RELATIONS

Sources and uses of funds

Total income amounted to 187.9 billion lire in 1999 (Table IX.1), of which 91 billion consisted of fee income (48.4 per cent of the total). The largest portion of fee income derived from the large public offerings carried out during the year, which brought in 37.4 billion.

SUMMARY TABLE OF INCOME AND EXPENDITURE
(BILLIONS OF LIRE)

TABLE IX.1

	1997 ¹	1998 ¹	1999 ²
<i>INCOME</i>			
PRIOR-YEAR SURPLUS ³	8.5	32.4	36.6
STATE FUNDING	58.4	50.0	55.0
OWN REVENUES			
– APPLICATION FEES	2.5	4.9	5.1
– EXAM FEES	1.1	2.7	4.0
– SUPER VISION FEES	42.0	39.3	74.4
– TRADING FEES	—	—	7.5
– SUNDRY REVENUES	4.6	3.9	5.3
<i>TOTAL INCOME</i>	<i>117.1</i>	<i>133.2</i>	<i>187.9</i>
<i>EXPENDITURE</i>			
CURRENT EXPENDITURE:			
MEMBERS OF THE COMMISSION	2.4	2.4	2.5
– STAFF	64.6	63.1	62.1
– GOODS AND SERVICES	21.1	24.2	25.0
<i>TOTAL CURRENT EXPENDITURE</i>	<i>92.9</i>	<i>92.5</i>	<i>95.0</i>
CAPITAL EXPENDITURE	1.0	4.7	92.9
<i>TOTAL EXPENDITURE</i>	<i>93.9</i>	<i>97.2</i>	<i>187.9</i>

¹ Outturn. ² Preliminary outturn. ³ The 1998 surplus is the difference between total income and total expenditure plus the differences arising in respect of expenditure carryovers; the latter are not shown in the table and amounted to 0.6 billion lire. The 1998 surplus is included in 1999 income.

Current expenditure rose slightly, primarily as a result of the increase in spending on the renovation and expansion of fixed assets and purchases of goods and services. The large increase in capital expenditure, from 4.7 to 92.9 billion lire, was due instead to the start of major building

projects in Rome and Milan. In particular, last year saw work start on the restructuring of premises provided by the Milan City Council on a sixty year lease and the purchase of new premises in Rome.

The high level of capital expenditure also reflected the continuation of the programme begun in 1998 aimed at modernizing and strengthening Consob's IT systems to meet the need for even greater efficiency and effectiveness.

In December 1999 the Commission approved the fee structure for 2000. In accordance with Article 40 of Law 724/1999, it established the activities subject to fees, the persons required to pay them and the various schedules.

Consob intends to propose amendments to Article 40 of Law 724/1999 with a view to replacing the link between fees and individual services provided with a link between fees and the supervisory activity performed in relation to the various categories of market participant. The proposals will be published and made available for industry-wide consultation.

TABLE IX.2

THE STAFF¹

	PERMANENT EMPLOYEES				FIXED-TERM EMPLOYEES	TOTAL
	MANAGERS	OPERATIVE CAREER	GENERAL SERVICES CAREER	TOTAL		
1990	91	63	16	170	67	237
1993	134	72	16	222	96	318
1996	128	152	16	296	108	404
1997	125	161	21	307	96	403
1998	122	156	17	295	88	383
1999	116	205	19	340	24	364

¹ End-of-year data.

Consob's organization and staff

The entry into force of the Consolidated Law on Financial Intermediation and the consequent changes in Consob's control functions triggered a review of the Commission's organizational structure in 1998, followed last year by an analysis of the optimal manning levels of the various offices.

The reorganization, which will be completed this year, has involved the redefinition of the division of tasks between Rome and Milan and is intended to improve the efficiency of Consob's internal administration and streamline the procedures for examining applications.

In accordance with Article 62 of Law 449/1997, a total of 60 employees on fixed-term contracts were made permanent employees, including one person whose contract had expired in 1998. The other changes in the staff during the year were the addition of five fixed-term employees in Milan, hired on the basis of a competitive exam, and the voluntary departure of 25 employees.

External relations

In 1999 activity in this field was marked by the considerable expansion of Consob's website and contact over the Internet.

TABLE IX.3

VISITORS TO CONSOB'S WEBSITE (1999)

	JAN-JUNE	JULY-DEC.	YEAR
LEGAL FRAMEWORK AND DECISIONS	339,160	288,331	627,491
WHAT'S NEW	42,013	46,138	88,151
NEWSLETTER	25,806	27,895	53,701
LISTED COMPANIES	23,109	23,822	46,931
ANNUAL REPORT AND PUBLICATIONS	11,747	11,879	23,626
INVESTOR'S CORNER	9,622	9,222	18,844
REGISTERS AND LISTS	4,699	12,343	17,042
HELP	7,757	8,888	16,645
ABOUT CONSOB	7,330	7,376	14,706
LINKS	3,700	8,617	12,317
ENGLISH VERSION	1,552	4,412	5,964
YEAR 2000	1,624	4,002	5,626
<i>TOTAL</i>	<i>478,119</i>	<i>452,925</i>	<i>931,044</i>

The site, which went live in July 1998, was enlarged during the year by the addition of sections on "Listed companies", the "Year 2000", "Registers and lists" and the inclusion in the section on the "Legal framework and Consob decisions" of the Regulations issued by Consob

implementing the Consolidated Law on Financial Intermediation and the related consultation documents and preparatory works.

The site has proved to be an effective means of disseminating information and documents to market professionals and investors. The figures for the visits to the various sectors into which the site is divided are evidence of the public's growing interest in the information they contain, especially as regards primary and secondary legislation, new developments, the information on listed companies and the weekly newsletter (Table IX.3).

The creation of the site on the Internet has not brought to an end the traditional activity of Consob's offices in responding to formal and informal requests for information, which continue numerous.

APPENDIX

METHODOLOGICAL NOTES

N.B.

The symbols used in the tables in the Report and the Appendix have the following meanings:

- the observed value is nil;
- the phenomenon does not exist;
- ... the phenomenon exists but the data are not known;
- .. the data are below the significance threshold.

Rounding may cause the sum of the individual items to differ from the total shown.

THE OWNERSHIP OF LISTED COMPANIES

Tables I.1, I.2 and I.3

Consob's ownership transparency archive is based on the notifications referred to in Article 120 of the Consolidated Law on Financial Intermediation, whereby persons who own more than 2 per cent of the voting capital of an Italian listed company are required to notify the fact in writing to the company and to Consob, which disseminates the information to the market.

The figures shown in the tables are calculated with reference to holdings of companies' ordinary share capital.

The share held by the market means the percentage held by persons not subject to the disclosure requirements.

Table I.4

The information on shareholder agreements is obtained from the notifications required by Article 122 of the Consolidated Law on Financial Intermediation, whereby any agreement that limits or regulates participants' voting rights, creates obligations or gives rights with regard to consultation prior to the exercise of voting rights, imposes conditions on the transfer of shares, or provides for the concerted acquisition of shares must be notified to Consob within five days of its being concluded on pain of nullity.

CONTROLS ON LISTED COMPANIES

Table II.2

The violations consist in failure to comply with the disclosure requirements referred to in Consob Regulations 5553/1991, 11520/1998 and 11971/1999.

PUBLIC OFFERINGS, MERGERS AND ACQUISITIONS

Tables III.1, III.2 and III.5

The figures for offerings refer to the outcome of the placement, including any shares allocated to institutional investors at the offering date under a greenshoe option, regardless of the

fact that in the thirty days following the offering the greenshoes may not be exercised in whole or in part in relation to the price stabilizing activity carried out by the institutional investors concerned.

The figures for 1997 and 1998 do not include two operations carried out by foreign companies.

Table III.2

Only the offerings for which a complete list of institutional investors was available have been considered. Where the largest application was made by more than one investor, the first investor is the one that applied for and was allotted the largest number of shares.

Table III.3

The figures are based on prospectuses and refer, where the number of shares offered and placed were the same, to companies' estimates of the ownership structure before and after offerings. Where this was not the case, the data were adjusted in accordance with the actual take-up, including the exercise of the greenshoe option as appropriate. Where shareholder agreements gave control, the quantity of shares shown under "Controlling shareholder" refers to all the shares held by the participants in the agreement and not just those covered by the agreement.

The data on the number of institutional investors and the pre- and post-offering percentages held are arithmetic means, calculated with reference exclusively to companies in which institutional investors were present before the offering.

The difference between the pre- and post-offering percentages does not correspond to the holdings disposed of by institutional investors since the post-offering percentage is diluted by the increase in capital carried out at the time of listing.

Table III.5

Placements have been classified according to the date of the start of the operation and not the date of the presentation of the prospectus. The sample does not include operations serving to restructure the debt of the issuer and reserved to creditor banks; by contrast, offerings reserved to customers of the issuer have been considered public offerings.

The figures refer exclusively to securities listed on the stock exchange or issued by listed companies, securities for which admission to listing had been applied for at the time the prospectus was presented and government-guaranteed bonds.

REGULATED MARKETS

Table IV.1

The source of the data on non-residents' portfolio investment and disinvestment is Table 34 of the statistical bulletin of the Italian Foreign Exchange Office (UIC). On the basis of the classification criteria adopted by the UIC, portfolio investment in shares means acquisitions that result in a holding of less than 20 per cent of the company's share capital; this rule may nonetheless be waived if the foreign investor declares that the investment was made in a medium-long term perspective.

The use of the data referred to above involves a methodological problem insofar as the sum of non-residents' investment and disinvestment can hardly be compared with the monthly volume of trades in shares recorded by the screen-based trading system. In fact such trades are counted using the trade system view method, whereas the sum of non-residents' purchases and sales may

give rise to double counting (especially in markets with market makers). Accordingly, in order to determine the percentage of the total trading in the Italian share market attributable to foreign investors, the total value of trades carried out in the market has been multiplied by two and set in relation to the sum of non-residents' portfolio investment and disinvestment.

Table IV.5

The studies referred to in the table are those deposited with Consob pursuant to Article 69 of the Consob Regulation on issuers and, until 1 July 1998, Article 15 of Consob Regulation 5553/1991.

SECURITIES INTERMEDIARIES

Table VI.1

The income statement data shown in the table are based on supervisory reports. The revenues were derived from the following items of the automated prudential returns, annual accounts and half-yearly reports of investment firms and banks whose financial year ends on 31 December: commissions receivable for securities trading, placement, portfolio management, collection of orders and door-to-door selling of financial instruments.

Table VI.3

The figures are based on prospectuses. The analysis of management companies' ownership structures not only considered their direct shareholders but also determined the beneficiary owners of significant holdings. In classifying controlling companies, reference was made to their "prevalent activity".

In the case of management companies for which there was neither a legal controller nor a shareholder agreement, an attempt was made to establish whether there existed a "coalition" relationship that, without amounting to a shareholder agreement, nonetheless allowed control to be attributed to a particular group of investors marked by a high degree of homogeneity as regards their legal nature or form and their activity.

"Joint ventures" are companies whose shares are divided in two on a 50-50 basis and held by non-homogeneous investors.

"Non-bank financial intermediaries" constitute a residual category where control is exercised by an unlisted financial company that does not engage in either banking or insurance and for which it is not possible to identify a natural person as the controller.

Table VI.7

The figures may include more than one measure for the same intermediary.

Reprimands refer to the penalty referred to in Article 22 of Law 402/1967 for stockbrokers.

For investment firms and banks the figures refer to the proposals submitted to the Ministry of the Treasury for the application of administrative penalties and fines. The figures for 1999 consider the proposals submitted in accordance with the procedure referred to in Article 195 of the Consolidated Law on Financial Intermediation, with regard both to corporate officers for violations committed after 1 September 1996 and to intermediaries for violations committed while Law 1/1991 was in force.

The suspension measures are those referred to in Article 22 of Law 402/1967 and Article 201.4 of the Consolidated Law on Financial Intermediation.

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