

Annual Report 2017

Rome, 31 March 2018



CONSOB

COMMISSIONE NAZIONALE
PER LE SOCIETÀ E LA BORSA

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Annual Report 2017

Consob activity

| | | |
|------|--|-----|
| I | Markets supervision | 5 |
| II | Supervision of issuers and audit firms | 29 |
| III | Supervision of corporate disclosure | 51 |
| IV | Supervision of intermediaries | 61 |
| V | Inspection activity and sanctions | 83 |
| VI | Regulatory activity | 93 |
| VII | Investor protection | 97 |
| VIII | Back-office activities and international cooperation | 103 |

| | |
|----------|-----|
| Contents | 111 |
|----------|-----|

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Consob activity

1 Trading platforms

In 2017 the main Italian regulated markets recorded a general reduction in trading in both domestic shares and securities, in line with the decrease recorded in the previous year. Albeit to different degrees, this phenomenon affected almost all the markets, managed by Borsa Italiana or by MTS (Tab. 1).

Tab. 1 Italian regulated markets

| market | market segment | financial instrument | trading volumes ¹ | | | no. of transactions ² | | | average value of transactions ³ | |
|-----------------------|----------------|-------------------------------|------------------------------|-------|--------------------------------|----------------------------------|--------|--------------------------------|--|-------|
| | | | 2016 | 2017 | percentage change ⁴ | 2016 | 2017 | percentage change ⁴ | 2016 | 2017 |
| Borsa Italiana | | | | | | | | | | |
| MTA ⁵ | | equities, rights | 623 | 626 | .. | 75,111 | 69,428 | -8 | 8 | 9 |
| | | <i>of which: MTA domestic</i> | 615 | 606 | -2 | 73,949 | 67,563 | -9 | 8 | 9 |
| | | <i>MTA foreign</i> | 8 | 20 | 150 | 1,162 | 1,865 | 60 | 7 | 10 |
| MIV | | equities | .. | .. | -5 | 80 | 70 | -13 | 2 | 4 |
| MOT | | bonds | 215 | 205 | -5 | 3,668 | 3,411 | -7 | 59 | 60 |
| EtPlus | | listed funds | 108 | 98 | -9 | 5,099 | 4,388 | -14 | 21 | 22 |
| Idem ⁶ | | derivatives | 1,318 | 1,021 | -23 | 49,020 | 34,151 | -30 | 27 | 30 |
| SeDeX ⁷ | | derivatives | 23 | 19 | -17 | 2,808 | 2,174 | -23 | 8 | 9 |
| MTS | | | | | | | | | | |
| MTS | | bonds | 1,385 | 1,216 | -12 | 216 | 213 | -1 | 6,413 | 5,697 |
| BondVision | | bonds | 924 | 856 | -7 | 145 | 179 | 24 | 6,365 | 4,770 |

Source: Consob calculations on market data. Rounding may cause deviation from total figure. ¹ Amounts in billions of euro. ² Expressed in thousands. ³ Amount in thousands of euro. ⁴ Percentage change to previous year. ⁵ Since 11 July 2016 MTA does not include the MTA International segment anymore, now merged with the new daily trading Global Equity Market, operated by the Borsa Italiana. ⁶ Idem market includes the following segments: Equity, Idex (derivatives on commodities), and Agrex (agriculture derivatives); notional values. ⁷ On 24th November 2017, the regulated market ceased to exist and was transformed into a multilateral trading facility. On 20th November 2017 with advice n. 21825 Borsa Italiana gave official communication of the start of activity of the multilateral trading facility SeDeX.

As regards multilateral trading facilities (MTFs), there was a general increase in trading volumes in 2017 for equity financial instruments, among which, in order of significance, the growth of trading on the AIM Italia-MAC, Order Driven Hi-MTF and EuroTLX platforms (Tab. 2).

Tab. 2 Italian multilateral trading facilities

| market | market segment | financial instrument | trading volumes ¹ | | | no. of transactions ² | | | average value of transactions ³ | |
|-----------------------|--------------------------|----------------------|------------------------------|------|--------------------------------|----------------------------------|-------|--------------------------------|--|---------|
| | | | 2016 | 2017 | percentage change ⁴ | 2016 | 2017 | percentage change ⁴ | 2016 | 2017 |
| Borsa Italiana | | | | | | | | | | |
| | Global Equity Market | equities | 1 | 1 | -9 | 235 | 197 | -16 | 5 | 6 |
| | AIM Italia-MAC | equities | .. | 2 | 567 | 138 | 566 | 310 | 2 | 4 |
| | ExtraMOT | bonds | 3 | 3 | -24 | 53 | 42 | -21 | 63 | 59 |
| EuroTLX Sim | | | | | | | | | | |
| | EuroTLX | equities | .. | .. | 100 | 25 | 45 | 80 | 7 | 9 |
| | | bonds, certificates | 67 | 56 | -16 | 2,320 | 2,170 | 3 | 30 | 25 |
| Hi-MTF Sim | | | | | | | | | | |
| | <i>order driven</i> | equities | .. | .. | 233 | 3 | 7 | 172 | 3 | 3 |
| | | bonds | 2 | 1 | -38 | 74 | 55 | -25 | 21 | 18 |
| | <i>quote driven</i> | bonds | 12 | 6 | -47 | 173 | 1,105 | -36 | 67 | 55 |
| | <i>request for quote</i> | bonds | 2 | 1 | -56 | .. | .. | -47 | 7,193 | 4,618 |
| MTS | | | | | | | | | | |
| | BondVision MTF | bonds | 25 | 12 | -52 | 5 | 4 | -16 | 4,981 | 2,932 |
| EMid Sim | | | | | | | | | | |
| | e-Mid Repo | Repo trasactions | 20 | 91 | 353 | .. | .. | 133 | 60,989 | 138,015 |

Source: Consob calculations on market data. Rounding may cause deviation from total figure. ¹ Amounts in billions of euro. ² Expressed in thousands. ³ Amounts in thousands of euro. ⁴ Percentage change to previous year.

Trading attributable to systematic internalisers (SIs) involved over three thousand financial instruments (an increase on the 2,739 in 2016) for a traded amount of approximately 156 billion euro (up approximately three billion euro on the previous year (Tab. 3)).

Tab. 3 Systematic internalisers in Italy

| financial instruments | no. of operators | | no. of financial instruments | | trading volumes | | | no. of transactions | | | average value of transactions | |
|------------------------------|------------------|------|------------------------------|-------|-----------------|------|-----------------------|---------------------|-------|-----------------------|-------------------------------|------|
| | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | % change ⁴ | 2016 | 2017 | % change ⁴ | 2016 | 2017 |
| equities | 2 | 2 | 83 | 90 | 42 | 51 | 21 | 2,880 | 3,266 | 13 | 1 | 16 |
| other financial instruments | 16 | 9 | 2,656 | 3,002 | 111 | 105 | -5 | 5,569 | 4,889 | -12 | 82 | 21 |
| <i>of which:</i> | | | | | | | | | | | | |
| government bonds | 3 | 3 | 547 | 450 | 4 | 3 | -25 | 83 | 93 | 12 | 9 | 32 |
| bonds issued by parent group | 7 | 7 | 456 | 284 | 2 | 1 | -60 | 92 | 30 | -67 | 42 | 27 |
| bank bonds | 5 | 4 | 400 | 232 | 1 | .. | -60 | 59 | 26 | -56 | 21 | 15 |
| corporate bonds | 2 | 2 | 140 | 107 | 1 | .. | -98 | 2 | 1 | -60 | 24 | 26 |
| supranational bonds | 2 | 2 | 91 | 77 | .. | .. | .. | .. | .. | .. | 370 | 30 |
| derivatives OTC ⁵ | 1 | 1 | 1,022 | 1,822 | 102 | 100 | -2 | 5,037 | 4,511 | -10 | 20 | 22 |
| ETF/ETC | — | 1 | — | 16 | — | 1 | — | — | 221 | — | — | 5 |

Source: Consob calculations on market data. Rounding may cause deviation from total figure. ¹ Amounts in billions of euro. ² Expressed in thousands. ³ Amounts in thousands of euro. ⁴ Percentage change to previous year. ⁵ Contracts for difference (CFD).

With the entry into force of the MiFID II-MiFIR (Directive 2014/65/EU Markets in Financial Instruments Directive - MiFID and Regulation (EU) no. 600/2014 Markets in Financial Instruments Regulations - MiFIR), ESMA became responsible for defining the operational thresholds relevant for the application of the systematic internalisation regime. With a view to this evolution of the regulatory framework, in 2017 Consob was notified by investment firms that they intended to discontinue the systematic internalisation performed in the past.

In view of the above-mentioned regulations coming into effect, Borsa Italiana also presented a petition to revoke the authorisation of the SeDeX regulated market with consequent launch of the new SeDeX Market multilateral trading facility (MTF).

As a result of Consob granting the said petition, at the end of the trading session on Friday November 24, 2017, the SeDeX regulated market closed, followed by the seamless launch of the new 'SeDeX Market' MTF on the following Monday (November 27). All issuers whose financial instruments were listed on the SeDeX regulated market requested transfer to the new SeDeX MTF (due to the effects of the market transformation into MTF on the admission of new instruments to trading; see Chapter III 'Supervision of corporate disclosure').

Finally in December 2017, on request from the market operator Borsa Italiana Spa, Consob registered the 'AIM Italia - Mercato Alternativo del Capitale' multilateral trading facility (Alternative Capital Market) as a growth market for small and medium-sized enterprises (SMEs), pursuant to Article 69, paragraph 1, of the Consolidated Law on Finance.

In 2017, MTS SpA also provided for the reorganisation and streamlining of the offer of trading platforms.

1.1 The MTA market

In line with the trend of the FTSE MIB index, which grew by almost 14 percentage points in 2017, the capitalisation of domestic companies listed on the market increased significantly from 522 to 634 billion (around +21 percent) in the past year. The Market Capitalization To GDP Ratio also grew from 32 to 37 percent (Tab. 4).

AIM Italia's market capitalisation almost doubled from approximately 2.9 billion euro at the end of 2016 to 5.6 billion euro at the end of 2017. The number of listed companies also grew significantly, from 77 to 95.

Tab. 4 Indicators of equity markets operated by Borsa Italiana
(amounts in billions of euro)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------------|------------|-------------|------------|-------------|--------------|-------------|
| MTA¹ | | | | | | | |
| capitalisation | 332 | 365 | 445 | 480 | 571 | 522 | 634 |
| as % of GDP | 21.1 | 23.3 | 28.6 | 29.5 | 35.1 | 31.6 | 37.1 |
| trading volumes | 684 | 487 | 526 | 702 | 792 | 615 | 606 |
| no. of domestic listed companies | 263 | 255 | 249 | 245 | 242 | 240 | 240 |
| no. of listed companies ² | 3 | 2 | 7 | 6 | 10 | 6 | 14 |
| no. of revoked companies ³ | 12 | 10 | 13 | 11 | 13 | 8 | 14 |
| dividend / price ratio ⁴ | 5.0 | 4.2 | 3.1 | 3.0 | 2.7 | 3.4 | 2.9 |
| earning / price ratio ⁴ | 8.8 | 7.2 | 5.0 | 5.2 | 4.2 | 5.2 | 5.6 |
| price- earnings ratio ⁵ | 11.1 | 13.9 | 20 | 18,9 | 23.7 | 19.1 | 17.7 |
| AIM Italia-MAC | | | | | | | |
| capitalisation | 0.6 | 0.6 | 1.2 | 2.0 | 2.92 | 2.9 | 5.6 |
| trading volumes | .. | .. | 0.1 | 0.3 | 0.8 | 0.3 | 2 |
| listed companies | 24 | 27 | 36 | 57 | 74 | 77 | 95 |
| <i>total no. of listed companies⁶</i> | <i>328</i> | <i>323</i> | <i>326</i> | <i>342</i> | <i>356</i> | <i>387</i> | <i>421</i> |
| <i>Ftse Mib (var.)⁷</i> | <i>-25.2</i> | <i>7.8</i> | <i>16.6</i> | <i>0.2</i> | <i>12.7</i> | <i>-10.2</i> | <i>13.6</i> |

Source: Borsa Italiana, Bloomberg, Thomson Reuters Datastream. ¹ Data refer to companies first listed on MTA. Figures include MIV segment (Investment Vehicles Market). Data referred to domestic companies prior to 2014 are not comparable with following years data, following Borsa Italiana reclassification of MTA listed companies starting 1 January 2015. ² Figures referred to newly admitted companies following IPO, company division, merger and companies previously listed on a different market. ³ Figures referred to companies revoked following takeover bid, merger, change of listing market and other provisions of Borsa Italiana Regulation. ⁴ Percentage values relative to Datastream index of companies listed on Italian market, calculated on current prices and, respectively, non expected dividends and expected profits. The *dividend yield* ratio represents the expected yield relative to actually distributed profits, whilst the *profit-price* ratio includes non distributed profits. ⁵ The *price-earnings* ratio is an indicator of the higher or lower value attributed to listed companies by the market with reference to expected profits. ⁶ Including non domestic companies. ⁷ Percentage values on previous year.

As regards trading, after the significant fall the previous year, 2017 saw the value of domestic companies' shares traded on the MTA Domestic market register a further modest fall from 615 to 606 billion euro (approximately -1.5 percent).

Trade on the AIM Italia-MAC, however, increased considerably where trading values brushed the two billion euro mark (up from approximately 300 million in 2016).

As regards the breakdown of trading according to operator type, 29 percent of the values traded on the MTA is attributable to operators in High Frequency Trading (HFT), in line with 2016 (Tab. 5).

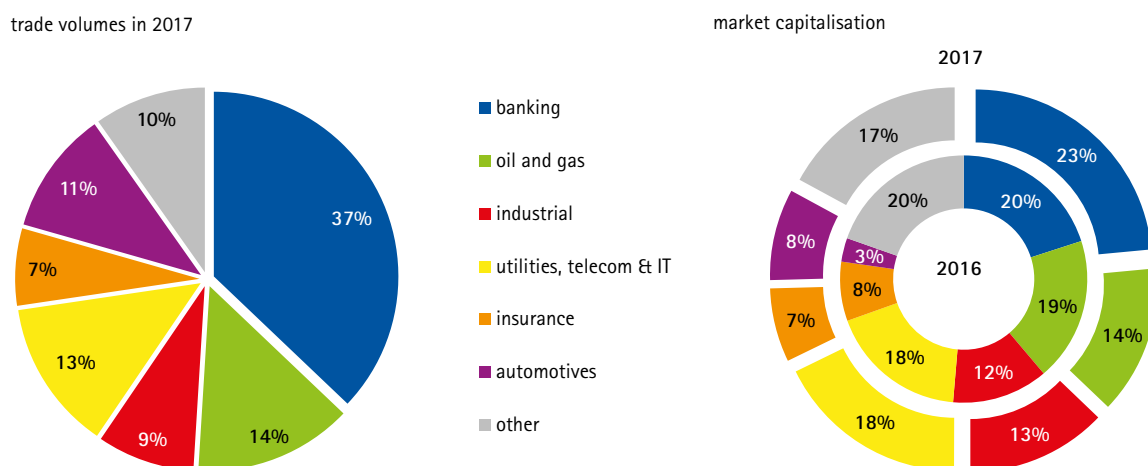
Tab. 5 High Frequency Trading transactions on MTA

| | 2016 | 2017 |
|---|------|------|
| share of transactions referable to HFT market | 29 | 29 |
| <i>of which foreign HPFRs</i> | 28 | 27 |
| share of the 3 major HTF operators | 27 | 25 |
| share of HTF transactions of the 3 most traded securities | 40 | 37 |
| <i>share of retrail and non HFT online market players</i> | 16 | 18 |

Source: calculations based on Borsa Italiana data.

The breakdown of trading and capitalisation according to listed company sector also underwent various changes in 2017, on the basis of the differences in reactivity of the various sectors to the overall volatility of the market (Fig. 1).

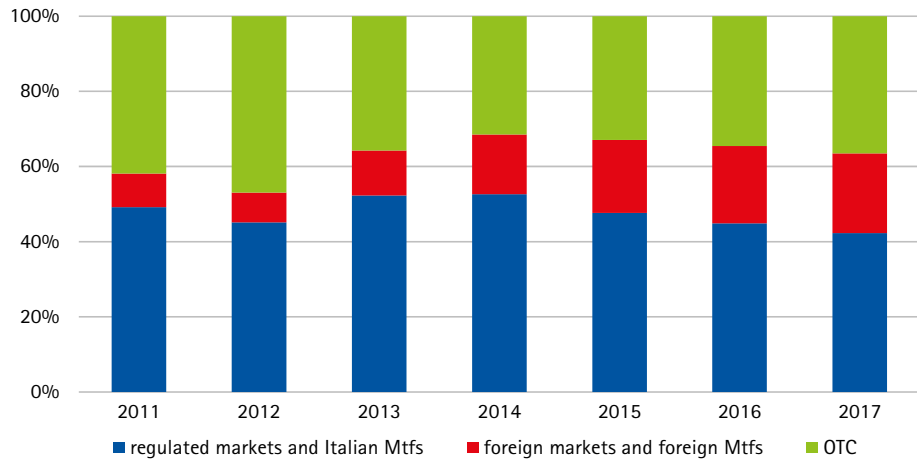
Fig. 1 Sector breakdown of trade volumes and market capitalisation of Italian equities



Source: calculations based on Bloomberg data. The chart on the left shows the sector breakdown of trade volumes of Italian shares in 2017. The chart on the right shows the market capitalization at the end of 2016 in the inner ring, market capitalization at the end of 2017 in the outer ring. 'Other' includes consumer goods, health expenditure, real estate, commodities and media.

With reference to the fragmentation of share trading, in 2017 the proportion of trading for domestic companies on Italian regulated markets stood at approximately 42 percent, continuing the downward trend recorded over the last three years (in detail, it fell from 53 percent in 2014 to 45 percent in 2016 (Fig. 2).

Fig. 2 Trading volume breakdown by trading platform

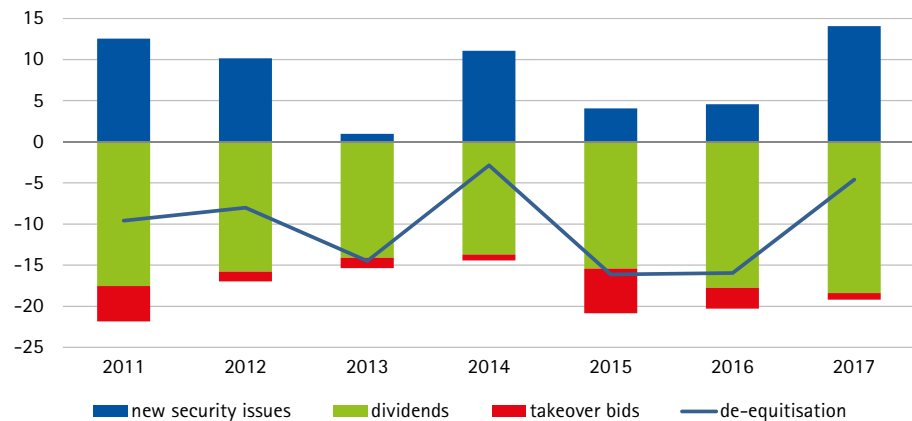


Source: calculations based on Consob and Borsa Italiana data.

As regards the stock market's function of channelling investments, 2017 saw an improvement in the balance between the resources collected and those distributed by companies listed on the MTA. The de-equitisation index indeed returned to its highest levels since the beginning of the decade (-4.6 billion euro), an increase on the minimums of the last two years (Fig. 3).

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

(billions of euro)



Source: calculations based on Consob, Borsa Italiana, and Datastream data on share and convertible bonds listed on MTA. De-equitisation indicator is the difference between new issues on the one hand, and the sum of dividends and takeover bids. Total dividends of domestic listed companies are calculated on the basis of market dividend yield (Datastream estimation) and on the market value of those companies as of year-end.

The improvement of this index is due, on the one hand, to the greater resources collected over the year by listed companies through increases in paid in capital (approximately 14 billion euro compared to around 4.6 billion euro in 2016) and on the other hand, resources resulting from Initial Public Offerings (IPOs), which rose from around 0.2 to 0.5 billion euro.

1.2 The EtfPlus market

At the end of 2017, there were a total of 1,226 Exchange Traded Products (ETPs) listed on Borsa Italiana's EtfPlus market, of which 785 were *Exchange Traded Funds* (ETFs) and 315 Exchange Traded Commodities and Exchange Traded Notes (ETCs/ETNs).

In line with previous years, during 2017, the assets managed by ETPs increased to over 65 billion euro (+23 percent compared with 2016; Tab. 6).

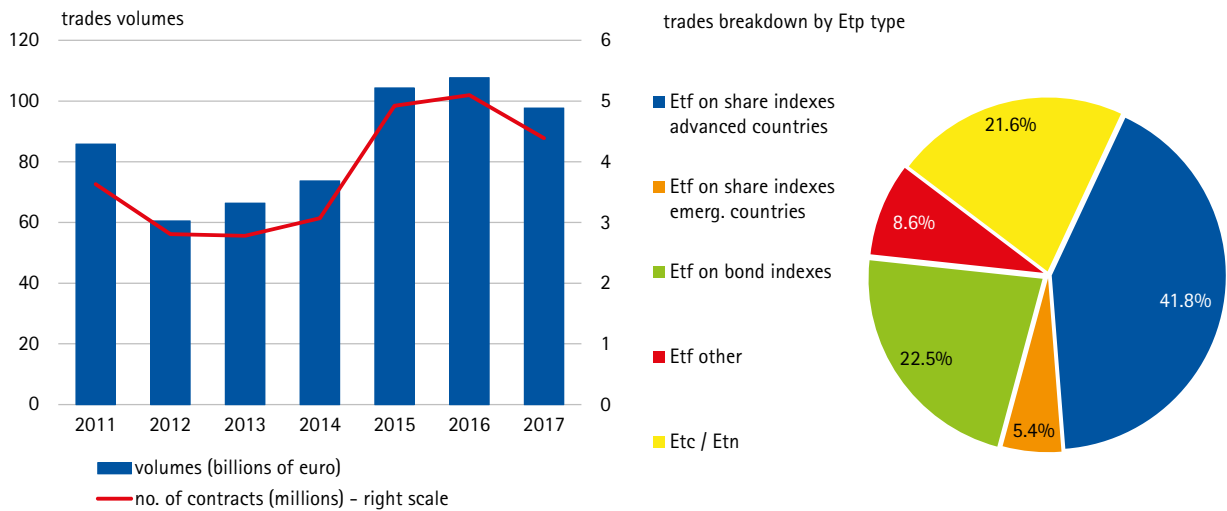
Tab. 6 Wealth under management invested in ETPs traded on Etfplus market
(end of period data; volumes in billions of euro)

| | equity Etf advanced countries | equity Etf emerging countries | Etf on bond indexes | Etf other | Etc / Etn | <i>total</i> | <i>% change</i> |
|------|-------------------------------------|-------------------------------------|---------------------------|--------------|--------------|--------------|-----------------|
| 2011 | 6.7 | 3.5 | 4.8 | 1.7 | 1.9 | 18.6 | -6.1 |
| 2012 | 7.3 | 3.3 | 5.7 | 1.8 | 2.6 | 20.7 | 11.3 |
| 2013 | 11.7 | 2.8 | 8.0 | 2.3 | 1.9 | 26.7 | 29.0 |
| 2014 | 15.2 | 2.9 | 13.2 | 3.0 | 2.7 | 37.0 | 38.7 |
| 2015 | 21.1 | 2.5 | 15.8 | 3.9 | 4.3 | 47.6 | 28.6 |
| 2016 | 20.7 | 3.2 | 19.3 | 4.6 | 5.1 | 52.9 | 11.1 |
| 2017 | 24.0 | 4.6 | 24.1 | 6.3 | 6.1 | 65.1 | 23.1 |

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

As regards trading, the total value of trading on the EtfPlus market recorded a fall of nine percentage points, sharper than that of the MTA market, down to 97.6 billion euro from 107.7 billion the previous year. In the same period, the number of transactions fell by approximately 14 percent to 4.4 million contracts (Fig. 4).

Fig. 4 Exchange traded products listed on EtfPlus

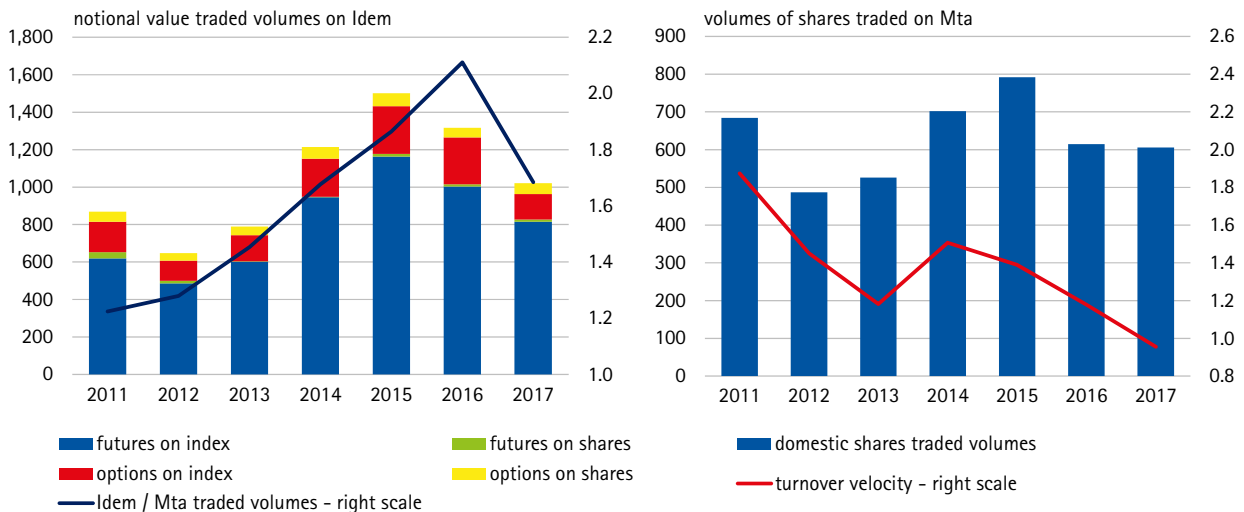


Source: Borsa Italiana.

1.3 The IDEM market

In 2017, the notional trading value for derivative instruments traded on Borsa Italiana's IDEM market was down 22.5 percent, falling from around 1,317 billion euro in 2016 to 1,021 billion euro, against the substantial stability of the values traded on the stock market (Fig. 5).

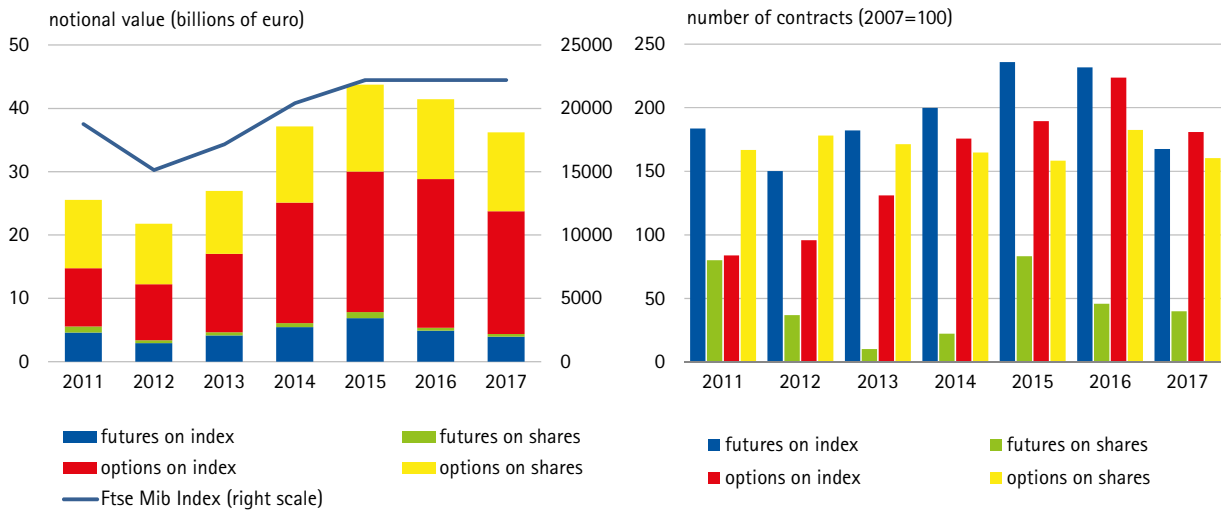
Fig. 5 Financial instruments transactions on Idem and share transactions on MTA
(billions of euro)



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

With reference to the open positions, over the course of the year, the average notional daily value of open interest was fell further than in 2016, falling from 41.4 to 36 billion euro (approximately -13 percent; Fig. 6).

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



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

1.4 The SeDeX market

Over the year, trading of covered warrants and certificates listed on the SeDeX recorded a significant fall in traded values, from 23.2 to 19.1 billion euro (-18 percent), in line with the contraction already seen in 2016 and despite particularly dynamic origination, with new issues and instruments in place at the end of the year around the maximum values since 2011 (10,274 and 9,420 instruments respectively; Tab. 7).

Tab. 7 Covered warrant and certificates listed on SeDeX market
(end of period data; amounts in billions of euro)

| | number of issues | | | trading volumes |
|------|------------------|-------------------------|----------------------|-----------------|
| | outstanding | new issues ¹ | matured ² | |
| 2011 | 3,880 | 4,769 | 4,232 | 11.3 |
| 2012 | 4,759 | 4,917 | 4,038 | 9.6 |
| 2013 | 5,140 | 5,425 | 5,044 | 16.3 |
| 2014 | 4,173 | 4,606 | 5,494 | 24.7 |
| 2015 | 5,609 | 7,006 | 5,524 | 33.6 |
| 2016 | 6,696 | 8,549 | 7,461 | 23.2 |
| 2017 | 9,420 | 10,274 | 7,261 | 19.1 |

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

Whilst the dynamism of origination cut across all categories of financial instruments, the sharp decrease of the overall traded value is essentially due to the plain vanilla instruments only (down from 7.4 billion euro in 2016 to 2.8 billion euro in 2017, with a decrease of 62 percent; Tab. 8).

Tab. 8 Breakdown of covered warrant and certificates listed on SeDeX market
(end of period data; amounts in billions of euro)

| segment and category | plain vanilla | | investment | | leverage | | exotics | | total | |
|----------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|
| | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes | no. of issues | trading volumes |
| 2011 | 2,176 | 8.2 | 1,101 | 2.2 | 511 | 0.9 | 92 | .. | 3,880 | 11.3 |
| 2012 | 2,935 | 6.3 | 1,070 | 2.3 | 667 | 0.9 | 87 | .. | 4,759 | 9.6 |
| 2013 | 3,575 | 6.3 | 941 | 4.0 | 546 | 5.9 | 78 | .. | 5,140 | 16.3 |
| 2014 | 3,105 | 6.2 | 827 | 4.1 | 172 | 14.1 | 69 | .. | 4,173 | 24.4 |
| 2015 | 4,128 | 10.4 | 1,143 | 4.9 | 275 | 18.3 | 63 | .. | 5,609 | 33.6 |
| 2016 | 4,559 | 7.4 | 1,191 | 3.2 | 891 | 12.5 | 55 | .. | 6,696 | 23.2 |
| 2017 | 6,956 | 2.8 | 1,271 | 4.4 | 1,141 | 11.9 | 52 | .. | 9,420 | 19.1 |

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

As in previous years, again in 2017, operation on the SeDeX market featured a noticeable concentration of trading: in particular, over half of the overall traded value can be attributed to the first five covered warrants and certificates per category. The highest concentration was recorded for the leverage certificate category (approximately 43 percent; Tab. 9).

Tab. 9 Trade concentration on SeDeX market
(percentage value of 5 most traded securities per category on total trades)

| category | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| leverage | 5.5 | 31.6 | 43.6 | 46.0 | 41.0 | 42.9 |
| plain vanilla | 29.3 | 19.8 | 14.3 | 13.5 | 14.1 | 8.1 |
| investment certificates | 1.9 | 2.3 | 1.7 | 1.9 | 1.4 | 1.6 |
| <i>total</i> | <i>36.7</i> | <i>53.8</i> | <i>59.6</i> | <i>61.5</i> | <i>56.5</i> | <i>52.6</i> |

Source: calculations on Borsa Italiana data.

1.5 Bond markets

In 2017, the bond trading value was down in all major trading venues, both wholesale and retail (Tab. 10).

In particular, on the MTS government bond wholesale market, the trading value fell by approximately 12 percent to 1.216 billion euro, thus

returning to 2015 levels. In the same period, the BondVision platform also recorded a reduction in the traded values, although to a more limited extent (-7.4 percent).

Tab. 10 Bonds traded on Italian markets
(end of period data; amounts in billions of euro)

| | regulated markets and wholesale MTF | | | | Regulated markets and retail MTF | | | | <i>total</i> |
|------|-------------------------------------|----------------------------|----------------------------|------------------------------------|----------------------------------|----------------|---------------|--------------|--------------|
| | MTS (gov. bonds) | BondVision (gov. bonds) | MTS (non-gov. bonds) | BondVision MTF (non-gov. bonds) | MOT ¹ | EuroTLX MTF | Hi-MTF MTF | ExtraMOT MTF | |
| 2011 | 868 | 562 | .... | 6 | 204 | 84 | 16 | 3 | 1,743 |
| 2012 | 567 | 645 | 1 | 8 | 321 | 104 | 20 | 5 | 1,671 |
| 2013 | 904 | 804 | .. | 7 | 330 | 90 | 24 | 5 | 2,164 |
| 2014 | 1,487 | 1,041 | .. | 9 | 323 | 91 | 23 | 6 | 2,980 |
| 2015 | 1,225 | 1,082 | .. | 36 | 277 | 79 | 19 | 4 | 2,722 |
| 2016 | 1,385 | 924 | .... | 25 | 215 | .... | 15 | .... | 2,788 |
| 2017 | 1,216 | 856 | .... | 12 | 204 | 56 | 8 | 2 | 2,354 |

Source on MTS, Borsa Italiana and EuroTLX data. Rounding may cause deviation from total figure. ¹ Transactions on bonds traded on EuroMOT are included.

The values traded on the MOT, the main retail bond market, also fell compared to the previous year, from around 215 to 204 billion euro (-5 percent). Finally, it is worth noting the Hi-MTF platform trading volume fell by almost a half (from 15 billion to around 8 billion euro).

2 Supervision of trading platforms

2.1 Regulatory supervision

In 2017 Consob intensively supervised the changes made by trading infrastructure operators to the rules and regulations of their respective markets and the relative implementation provisions.

The changes to Italian trading venue regulations adopted over the year (in particular in the second half of 2017) served to adapt to the new regulatory framework established by MiFID Directive II and the MiFIR Regulation and by primary and secondary domestic legislation for their transposition and application respectively.

In the same way as for regulated markets, Consob supervised intensively the changes made to MTF and IS operating rules to verify their conformity with EU directives and, in particular, the new MiFID II-MiFIR framework.

2.2 Supervision of admission, suspension, exclusion and withdrawal of financial instruments

With reference to Borsa Italiana's the decisions on admission to trading on its MTA Regulated Market, Consob supervised the new 2017 listings, as authorised and as required by the Consolidated Law on Finance (Article 64, paragraph 1-*bis*, as incorporated in Article 66-*ter*, paragraph 6 of the Consolidated Law on Finance, with effect from January 3, 2018). In all cases subject to supervision, Consob found no grounds for prohibiting the execution of the operational decisions made by Borsa Italiana.

In 2017, Consob received nine notices from Borsa Italiana announcing the delisting from trading of MTA listed shares (Tab. 11). Consob evaluated these measures within the scope of its responsibility, taking into account any information beyond that considered by the market operator, as well as the purposes of protecting investors, transparency and orderly trading, finding that there were no grounds for prohibiting the execution the delisting decision, pursuant to Article 64, paragraph 1-*bis* of the Consolidated Law on Finance.

Tab. 11 Shares delisted from MTA in 2017

| date | Financial instrument | cause |
|-----------|--------------------------------|--|
| 02 Jan | Banca Popolare di Milano | merger of Banca Popolare di Milano and Banco Popolare |
| 02 Jan | Banco Popolare | merger of Banca Popolare di Milano and Banco Popolare |
| 24 Jan | Moleskine | delisting following takeover bid launched by DM Invest |
| 15 May | Banca Popolare Etruria e Lazio | impossibility to guarantee the orderly functioning of the market |
| 15 maggio | Premuda | impossibility to guarantee the orderly functioning of the market because of insufficient amount of free float |
| 04 Aug | Ciccoella | admission to insolvency procedures |
| 3 Oct | Banca Popolare di Spoleto | impossibility to guarantee the orderly functioning of the market: changes in the issuers economic fundamentals |
| 23 Oct | Save | takeover bid launched by Agorà Investimenti |
| 8 Nov | Bonifiche Ferraresi | takeover bid launched by B.F. Holding |

Source: Consob.

In addition Borsa Italiana, at the request of the Commission (Resolution no. 20193 of November 17, 2017), which exercised its powers under Article 64, paragraph 1-*bis*, letter *c*) of the Consolidated Law on Finance, ordered the indefinite suspension of securities issued or guaranteed by Banca Carige Spa from trading on Italian regulated markets and MTFs, due to the lack of the proper information framework. Following the notice issued by the Bank, with Resolution no. 20196 of November 20, 2017, Consob ordered the Resolution referred to above to be revoked, readmitting the securities to trading.

Finally, in 2017, Borsa Italiana adopted six fixed term suspension measures for financial instruments traded on the MTA, on grounds of the absence or expectation of disclosure of price-sensitive information by the issuer, and a fixed term measure suspending trading of shares listed on the MIV regulated market following a takeover bid (Tab. 12).

Finally, as at December 31, 2017, shares issued by Olidata Spa, in liquidation behead been suspended indefinitely since March 29, 2016.

Tab. 12 Temporary suspension of trading on regulated markets before price-sensitive communications released by the issuer in 2017

| date | issuer | regulated market |
|---------|---------------|------------------|
| 31 Mar | Premuda | MTA |
| 3 Apr | Alba | MIV |
| 7 June | CTI Biopharma | MTA |
| 3 July | CHL | MTA |
| 31 July | Prelios | MTA |
| 1° Aug | Indel B | MTA |
| 14 Dec | Molmed | MTA |

Source: Consob.

3 Supervision of market trading and information integrity

3.1 Supervision of transparency and orderly performance of trading

In 2017, usual supervision of the correctness of information transmitted in compliance with transaction reporting obligations, with particular reference to the monitoring of the promptness and correctness of the reports received by Consob and to the fulfilment of *pre-* and *post-*trading transparency obligations, revealed certain cases of irregularity and even failures of reporting, against which the appropriate supervision measures were taken.

In the second half of 2017, surveillance activities focused on the launch of the new MiFID II-MiFIR transaction reporting regime, as well as on the entry into force of the publication and disclosure of *post-*trading information obligations.

In this context Consob held several meetings with trade associations, trading venue operators and intermediaries, to provide regulatory, as well as technical and operational, clarifications.

In the second half of 2017, verification began of the choices made by intermediaries in relation to the channels used to fulfil their transparency and transaction reporting obligations.

3.2 The supervision of market information integrity, buybacks and internal dealing

With reference to regulated information disclosure systems (SDIR) and related storage mechanisms, on 15 February 2017, Spafid Connect Spa was authorised to replace Bit Market Services Spa in the management of the SDIR-NIS system and the NIS-Storage storage mechanism, renamed for this purpose 'eMarket SDIR' and 'eMarket Storage' respectively.

With reference to the disclosure of price-sensitive information on the internet, Consob carried out an exploratory study on the methods used for this purpose by issuers of listed securities traded on multilateral trading facilities or widely distributed to the public.

3.3 Highly dilutive capital raising

From December 15, 2016, the so-called rolling model came into effect for the management of highly dilutive capital raising, i.e., transactions with the issue of subscription rights with which the issuer aims to collect on the market financial resources exceeding the capitalisation of the company.

The rolling model was adopted by domestic market operators at the initiative of Consob with the purpose of preventing the repetition of the heavy and irregular fluctuations in share prices which occurred in almost all highly dilutive transactions between 2009 and 2016. These price fluctuations are caused by investors' poor knowledge of the functioning of market mechanisms, attempts at speculation and technical reasons. The scarcity of securities generated, for technical reasons, during capital raising prevents market forces from independently rebalancing security prices.

The first highly dilutive rights issue to which the rolling model was applied was the operation launched by Banca Carige Spa on November 22, 2017. The rolling model proved to be fully effective in so far as it avoided price anomalies. Around a third of the new shares offered by the issuer were issued in the advance delivery windows provided for by the model.

4 Supervision of post-trading and OTC derivatives

In 2017, migration concluded of the central depositories of European countries to the pan-European Target 2 Securities (T2S) platform, managed by the European Central Bank .

At the end of the year, the T2S system regulated an average of around 550,000 daily transactions in securities, for a value of approximately 800 billion euro, of which slightly fewer than a fifth were performed by the Italian central depository, Monte Titoli Spa.

T2S will now focus on improvements to the platform functions and the harmonisation of operating practices in order to increase cross-border trading. Once achieved, these objectives should make it possible to obtain the full benefits of the use of a shared pan-European platform.

With a Warning Notice dated June 16, 2017, Consob drew the depository intermediaries' attention to certain aspects related to the treatment of the financial instruments subject to full reduction measures following bank resolutions.

In 2017, Consob and the Bank of Italy (as the Italian authorities competent for the supervision of central counterparties) carried out the annual review of the provisions, strategies and procedures of Cassa di Compensazione e Garanzia, the Italian central counterparty authorised in May 2014 to provide clearing services pursuant to Regulation (EU) no. 648/2012 (European Market Infrastructure Regulation - EMIR). The assessments made were also shared with the EMIR Board.

Consob also made its own contribution in the context of the other boards of European central counterparties of which it is required to be a member. In 2017, there was further intensification of the supervision of derivative contract counterparties. Consob's access to the trade repositories registered with ESMA allowed it to acquire data to monitor the accuracy of the reports made.

Again in 2017, Consob also carried out data quality reviews for the counterparties with the greatest number of reports flagged as non-compliant by their respective trade repositories. The analysis focused on parties with the greatest number of reports rejected and not reconciled with their respective counterparties and on the counterparties most active on the derivatives market.

On May 22, 2017, as a result of the monitoring of reports to the trade repositories, Consob published a Warning Notice on the obligation of reporting derivative contracts correctly pursuant to the EMIR Regulation.

With regard to the identification codes used in reports to the trade repositories, Consob continues to contribute, in its capacity as a member of the ROC (Regulatory Oversight Committee; the supervisory body of the LEI System), to work to expand the LEI System and promote the use of the LEI code as the identification code of the parties operating on the financial markets.

At the end of 2017, about 60,000 Italians had acquired a valid LEI code for fulfilling the obligation of reporting contracts pursuant to the EMIR and MiFIR Regulations.

In 2017, Consob also examined the first notice of exemption from the obligation to exchange guarantees for infra-group derivative transactions from a qualified non-financial counterparty. In this respect, as the conditions required by Article 11.7 of the EMIR Regulation were met, Consob did not raise any objections to the exemption from the obligation to exchange guarantees.

5 Supervision of short selling

In 2017, Consob imposed only one ban on short selling, pursuant to Article 23 of Regulation (EU) no. 236/2012 (Short Selling Regulation), as compared to the seven imposed in 2016.

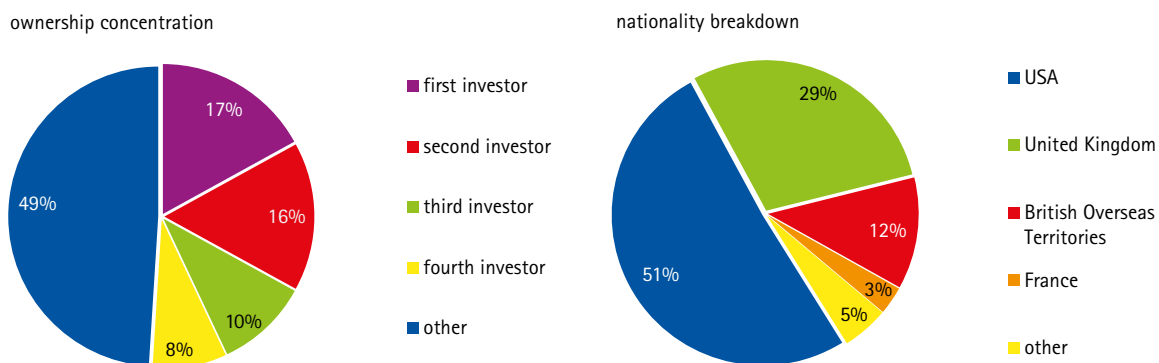
With regard to the exemption system, as at December 31, 2017, 20 domestic intermediaries were authorised for exemptions for market-making activities, as compared to 19 in the previous year. As at the same date, moreover, there were more than 2,000 financial instruments subjected to exemption, mainly consisting of Italian and foreign shares and related instruments (e.g., derivative instruments), also including financial indices and sovereign debt securities. Over the year, Consob approved applications for exemption by market-maker operators for new financial instruments (12 compared to 21 in 2016).

Finally, in line with the figure at the end of 2016, 18 intermediaries were exempted in their capacity as primary dealers in Italian Government bonds, most of them foreign.

As regards the net short positions (NSPs) on Italian securities, in 2017 around 7,660 notifications on Italian shares were received, as compared to 8,500 the previous year. In 73 percent of cases, the notifications concerned positions between 0.2 and 0.5 percent of the share capital of the securities concerned. The remaining 27 per cent was for positions of 0.5 percent or over. These positions were then published daily on the Consob website pursuant to Articles 6 and 9 of the Short Selling Regulation.

The NSP value reported to Consob at the end of 2017 was around 2.3 percent of the market capitalisation of the FTSE MIB index (a decrease compared to the 2.7 percent recorded at the end of 2016).

Fig. 7 Short net positions on shares of Italian listed companies: ownership concentration and nationality breakdown of investors
(as of 31 December 2017)



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

6 Supervision of the dissemination of corporate studies and ratings

6.1 Supervision of the dissemination of research studies and investment recommendations

Supervision carried out in 2017 also took into account the final definition of the guidelines on investment recommendations (subjected to consultation and subsequently published by Consob in October), aimed at providing operators with useful information and advice on the operational application of some of the new obligations introduced by Regulation (EU) no. 596/2014 (Market Abuse Regulation - MAR; see Chapter VI below, 'Regulatory activity'). This included the partial review and improved definition of the conditions and circumstances under which Consob may exercise the power to require the publication of investment recommendations pursuant to Article 69-*novies*, paragraph 2, of the Issuers' Regulation (for more detail on the supervisory activities in this field, see Chapter III below, 'Supervision of corporate disclosure').

The investment recommendations (or 'studies') submitted to Consob in 2017, pursuant to Article 69-*novies*, paragraph 1, of the Issuers' Regulation (relating to issuers listed on regulated markets and on AIM Italia) counted 19,807, of which 3,059 were monographic (15.4 percent of the total) and 16,748 non-monographic (84.6 percent), with a slight increase compared to 2016 (Tab. 13).

Tab. 13 Analyst researches on Italian companies: breakdown by type of research and intermediary nationality

| | 2016 | | 2017 | | % change ¹ |
|-------------------------|---------------|--------------|---------------|--------------|-----------------------|
| | number | weight | number | weight | |
| type of research | | | | | |
| monographic | 2,861 | 15.1 | 3,059 | 15.4 | 6.9 |
| non monographic | 16,070 | 84.9 | 16,748 | 84.6 | 4.2 |
| total | 18,931 | 100.0 | 19,807 | 100.0 | 4.6 |
| intermediary | | | | | |
| Italian | 1,506 | 52.6 | 1,655 | 54.1 | 9.9 |
| foreigner | 1,355 | 47.4 | 1,404 | 45.9 | 3.6 |
| total | 2,861 | 100.0 | 3,059 | 100.0 | 6.9 |

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

The breakdown of monographic studies on listed companies according to type of operating board confirms the clear prevalence of positive assessments, already observed in previous years (Tab. 14).

Tab. 14 Monographic researches on listed companies by type of recommendation (percentages)

| | recommendation | | | | number of studies |
|------|----------------|------|------|--------------------|-------------------|
| | buy | hold | sell | altro ¹ | |
| 2014 | 53.0 | 36.8 | 8.1 | 2.0 | 2,529 |
| 2015 | 57.7 | 34.9 | 6.7 | 0.7 | 2,978 |
| 2016 | 61.0 | 32.3 | 6.3 | 0.4 | 2,861 |
| 2017 | 60.5 | 34.9 | 4.1 | 0.5 | 3,059 |

Source: Consob. ¹ Includes judgements such as 'under review', not rated and the like.

With reference to the degree of coverage by authorised intermediaries, the number of companies listed on regulated markets operated by Borsa Italiana and subject to monographic investment recommendations increased from 196 in 2016 to 203 in 2017, in part as a result of certain IPOs made over the year (Tab. 15).

Tab. 15 Listed companies subject of monographic studies by level of coverage

| | number of companies ¹ | level of coverage | | | | | |
|------|----------------------------------|-------------------|------|---------|---------|--------|------|
| | | ≥ 100 | ≥ 51 | 25 - 50 | 13 - 24 | 5 - 12 | ≤ 4 |
| 2015 | 210 | 30,7 | 11,0 | 11,5 | 12,9 | 17,9 | 16,0 |
| 2016 | 196 | 30,1 | 15,3 | 14,3 | 13,8 | 12,2 | 14,3 |
| 2017 | 203 | 26,0 | 13,5 | 10,8 | 13,0 | 18,8 | 17,9 |

Source: Consob. ¹ Companies listed on regulated markets managed by Borsa Italiana. The figure does not include companies listed on AIM Italia covered by monographic studies delivered to Consob, amounting to 23, 11 and 16 for 2015, 2016 and 2017 respectively. The number of securities covered, including saving and priority shares, is equal to 208, 201 and 207 for 2015, 2016 and 2017 respectively.

6.2 Supervision of rating disclosure

In 2017, the supervision of the disclosure of ratings concerning listed issuers and the Italian government, intended to verify the correctness and transparency of the information framework and the effects on trends and trading of rated securities, did not reveal any cases of possible infringements of European regulations worth reporting to the ESMA. The supervision also focused on ratings of the sovereign debt of the Italian government included in the so-called 'annual calendar' required by European regulations.

7 Supervision of market abuse

7.1 Prevention

The monitoring of the orderly conduct of market trading was based, as usual, on evidence of trend irregularities identified by the Consob supervision systems, via real time and delayed reports, as well as on the analysis of the supervision data streams received from the competent foreign authorities.

The relevant events that affected the issuers (including corporate transactions, industrial agreements, capital raises and buybacks) were analysed with reference not only to trading on regulated markets, but also to trading implemented in other trading venues and off-market. Not infrequently, this picked up on the prima facie cases of irregularities subsequently confirmed by reports of suspicious trading sent to Consob mainly by supervised entities (Italian and foreign trading venue operators and intermediaries) pursuant to the current legislation (Article 16, MAR).

Consob forwarded forty-two reports received from supervised Italian entities to its equivalent foreign authorities (23 to supervisory authority members of the ESMA Council and 19 to other authorities, mainly the U.S. SEC; see also Chapter VIII below 'Back-office activities and international cooperation').

Of the reports received, 57 percent concerned conduct attributable in the first instance to the abuse of insider information and 31 percent to the assumption of market manipulation. The remaining 12 percent concerned conduct involving both types of offence or cannot immediately be identified on the basis of the information included or can be attributed to attempted market manipulation/use of insider information (these offences introduced by the new market abuse regulations).

The financial instruments subject to reporting were predominantly shares (78 percent), followed by ETFs, certificates (8 percent), bonds (7 percent), derivatives (5 percent) and, in the remaining cases, combinations of instruments.

In order to make the supervision timely and consistent with the actual severity of the reported suspected conduct, Consob applied a system of preliminary assessment of the severity of the received reports (so-called triage) intended to establish the level of urgency of starting checks and investigations, the degree of detail required and the scope of possible supervision measures necessary.

Over the year Consob carried out activities for educating intermediaries and held four one-to-one meetings to resolve certain critical issues that emerged in activities to identify market manipulation and in the consequent Consob reporting methods adopted by the supervised entities.

The average quality of the content of reports received on suspect trading has constantly improved over time, enabling the timely launch of investigations, with positive effects on the efficiency of administrative actions. Improvements have concerned the description of the suspect conduct, which, in most cases, included elements to suggest the concrete existence of irregularities.

With reference to the new regulatory framework and the new European rules on market abuse, Consob proposed a consultation on operational guidelines concerning the management of insider information and investment recommendations, which were later adopted in October 2017. As regards the new provisions of the MARs on insider information and the deferment of public disclosure, see Chapter VI 'Regulatory activity'.

7.2 Repression

In 2017, Consob concluded ten investigations into market abuse, with six of them resulting in charges for administrative offences (Tab. 16).

Tab. 16 Results of investigations on market abuse

| | cases of administrative and/or criminal offence | <i>of which for insider trading</i> | cases in which no offence was found | <i>total</i> |
|------|--|-------------------------------------|--|--------------|
| 2011 | 15 | 7 | 14 | 29 |
| 2012 | 12 | 4 | 14 | 26 |
| 2013 | 13 | 4 | 9 | 22 |
| 2014 | 13 | 5 | 22 | 35 |
| 2015 | 14 | 10 | 3 | 17 |
| 2016 | 4 | 2 | 5 | 9 |
| 2017 | 6 | 4 | 4 | 10 |

Source: Consob.

In five of the six investigations which resulted in charges for administrative offences, reports were also transmitted to the Judicial Authorities for investigation of possible criminal offences.

In two of the four cases of alleged abuse of insider information, the information related to the promotion of a voluntary full takeover bid for the shares of a listed company and the promotion of a mandatory takeover bid as a result of the transfer of a controlling stake in a listed company.

In the other two cases, the information referred to the termination of a contract significant to the income prospects of a company and to the merger by incorporation of an unlisted company with a listed company (Tab. 17).

Tab. 17 Type of inside information in cases of insider trading

| | change of control – takeover bids | Gains and losses – and liabilities, cash flows | assets equity transactions- mergers, spin-offs | other | of which cases of front running | total |
|------|-----------------------------------|--|--|-------|---------------------------------|-------|
| 2011 | 5 | -- | -- | 2 | -- | 7 |
| 2012 | 4 | -- | -- | -- | -- | 4 |
| 2013 | 1 | 1 | -- | 2 | -- | 4 |
| 2014 | 1 | 1 | 1 | 2 | 1 | 5 |
| 2015 | 1 | 1 | 1 | 7 | 1 | 10 |
| 2016 | 1 | -- | -- | 1 | -- | 2 |
| 2017 | 2 | -- | 1 | 1 | -- | 4 |

Source: Consob.

The case of market abuse (transaction manipulation) concerned the trading of bonds that produced continuous artificial price support, thereby providing false and misleading information about the price in question. The case of information manipulation involved the disclosure of false or misleading information in relation to a proposal of capital investment in a listed company submitted to the same listed company.

In 2017, Consob initiated administrative sanctioning proceedings for market abuse against 33 natural persons, one entity for joint and several liability (pursuant to Article 6, paragraph 3, of Law no. 689 of November 24, 1981) and one entity both for joint and several liability (pursuant to Article 6, paragraph 3, of Law no. 689 of November 24, 1981) and individual liability laid down in Article 187-*quinquies* of the Consolidated Law on Finance (Tab. 18).

Tab. 18 Operators involved in cases of market abuse

| | authorised intermediaries ¹ | institutional insider ² | other ³ | operatori esteri | total |
|----------------------------|--|------------------------------------|--------------------|------------------|-------|
| insider trading | | | | | |
| 2011 ⁴ | 1 | 4 | 5 | -- | 10 |
| 2012 | -- | 2 | 4 | -- | 6 |
| 2013 | 3 | 1 | 10 | 3 | 17 |
| 2014 | -- | 5 | 4 | 1 | 10 |
| 2015 | 2 | 9 | 7 | 2 | 20 |
| 2016 | -- | 2 | 12 | -- | 14 |
| 2017 | -- | 2 | 27 | -- | 29 |
| market manipulation | | | | | |
| 2011 | -- | 7 | 7 | -- | 14 |
| 2012 | 1 | 8 | 6 | -- | 25 |
| 2013 | 2 | 12 | 12 | -- | 26 |
| 2014 | 1 | 18 | 9 | 1 | 29 |
| 2015 | 0 | 7 | 2 | -- | 9 |
| 2016 ⁵ | -- | 23 | -- | -- | 23 |
| 2017 | -- | 1 | 3 | 2 | 6 |

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

In 2017, Consob also sent numerous requests for news, information and documents on market abuse (737), with a significant increase in those sent to foreign authorities. Half of requests were addressed to authorised intermediaries, approximately one fifth to private entities, 11 percent to foreign authorities; seven percent of the requests were sent on behalf of foreign authorities (Tab. 19).

Tab. 19 Request for data and information on market abuse
(number of addressee entities)

| | authorised intermediaries ¹ | listed companies and parent companies or subsidiaries | private entities | of which hearings | public sector entities ² | foreign entities | total | of which on behalf of foreign entities |
|------|--|---|------------------|-------------------|-------------------------------------|------------------|-------|--|
| 2011 | 161 | 7 | 109 | 57 | 2 | 61 | 340 | 29 |
| 2012 | 207 | 9 | 71 | 30 | 27 | 50 | 364 | 40 |
| 2013 | 154 | 14 | 78 | 39 | 81 | 22 | 349 | 11 |
| 2014 | 173 | 6 | 37 | 20 | 63 | 24 | 303 | 45 |
| 2015 | 215 | 19 | 100 | 42 | 47 | 21 | 402 | 42 |
| 2016 | 370 | 21 | 145 | 58 | 147 | 49 | 732 | 59 |
| 2017 | 375 | 15 | 135 | 51 | 128 | 84 | 737 | 53 |

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

A total of five sanction proceedings (ten in 2016) were initiated for infringements of the regulations on the public disclosure of price-sensitive information.

With reference to the regulations on managers' transactions in securities of the managed companies (internal dealing), now regulated by Article 19 of the MAR (persons discharging managerial responsibilities in the issuer, as well as persons closely associated with them) and by Article 152-*octies* of the Issuer's Regulation (significant parties), upon conclusion of the usual checks of the completeness and timeliness of public disclosure, two sanctioning proceedings were launched against two natural persons, i.e., listed issuers' directors, for the failure to disclose/delayed disclosure of information on trading transactions involving the issuer's securities carried out by them or by persons closely associated with them.

In addition, Consob imposed the first sanction for infringements of the Short Selling Regulation, with Resolution no. 20064 July 12, 2017.

With regard to measures taken, proceedings concluded and sanction resolutions on insider trading and market abuse, see Chapter V below 'Inspection activity and sanctions'.

7.3 Legal representation

In 2017, Consob brought a civil action in three new criminal proceedings on market abuse (including one for insider trading and two for market manipulation).

Four criminal proceedings in which Consob had previously brought civil action were also concluded in first instance. In two cases, the liability of the accused was established and they were ordered to pay damages to Consob; in a third case, the proceedings ended with plea bargaining; finally, a fourth case ended with a judgement against Consob. Consob appealed this ruling, considering invalid the principles expressed in the decision of first instance.

It is worth mentioning Judgement no. 11836 of November 27, 2017, filed on February 13, 2018, in Consob's favour: in a significant case of market abuse involving trading manipulation, the Court of Milan, First Criminal Division, granted Consob compensation for non-financial damage to the integrity of the market.

In addition, two proceedings were concluded on appeal. In the first proceedings - concerning a case of trading manipulation - with Judgement no. 2115 of March 17, 2017, filed on June 15, 2017, the Court of Appeal of Milan, Second Criminal Division, confirmed the first instance judgement completely, including compensation for damages in Consob's favour. With regard to territorial jurisdiction, the judgement states that, '*the territorial*

jurisdiction for the crime of trading manipulation perpetrated by the accused through the entry of artificial trading proposals in the computerised book must be regarded as properly rooted in the Court of Milan, i.e., in the court of the registered address of Borsa Italiana - the operator of the regulated market on which the financial instruments subject of the purchase orders described in the charge are traded".

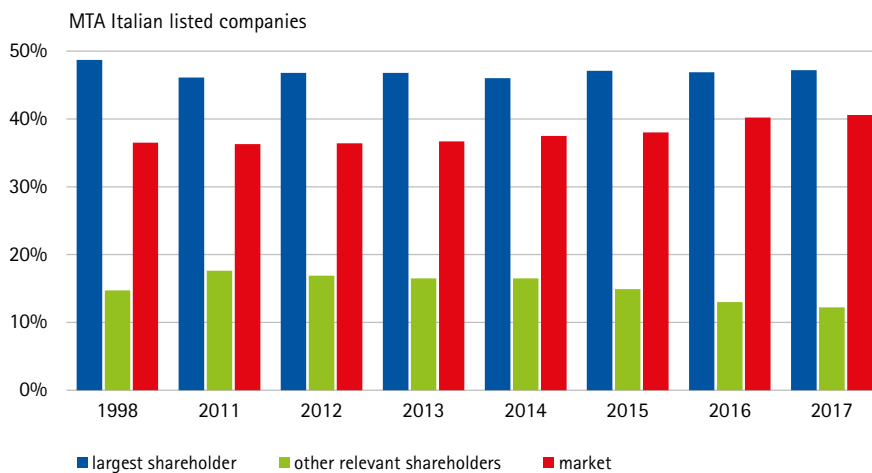
With regard to the price sensitivity requirement, the judgement notes that, *'the very legislative formulation of this case in terms of a victimless crime excludes the need for an ex post verification of the actual appreciable alteration of the price of the securities and the effects on the market. Rather, pursuant to case-law, such a finding is only useful for corroborating a posteriori the existence of something already inferable upstream'.*

In the second case - again concerning alleged trading manipulation - the Court of Appeal of Milan, II Criminal Division, confirmed the civil findings of the judgement of first instance in favour of Consob, with Judgement no. 1696 of March 1, 2017, filed on May 26 2017.

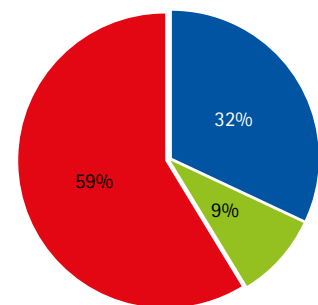
1 The ownership structure of listed companies

At the end of 2017, the ownership structure of Italian listed companies was still characterised by high ownership concentration and the consequent lack of control contestability. The average ordinary shareholding with voting rights held by the main shareholder is 47.2 percent; other relevant shareholders hold 12 percent of share capital, whereas the market share is on average 40.6 percent (Fig. 8).

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



FtseMib companies at the end of 2017



Source: Consob. Data on Italian companies with ordinary shares listed on Borsa Italiana – MTA Stock Exchange. Mean values of the ordinary voting capital. The item 'market' reports the portion of ordinary shares held by non relevant shareholders.

2 Shareholders' meetings and corporate bodies

According to evidence gathered since 2012, the shareholders' meetings of the 100 Italian companies with the highest capitalisation record an average participation of over 70 percent of share capital. In 2017, the presence of institutional investors reached its highest level since 2012, standing at 19.4 percent of share capital. This figure reflects the growth in participation of foreign institutional investors (from 10.4 to 18.3 percent of share capital), while the Italian presence remains stable at about one per cent of the capital (Tab. 20).

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

| | no. of participants | | share of capital at the AGM | | | |
|------|---------------------|--------------------------------|-----------------------------|--------------------------------|--|--|
| | total | <i>institutional investors</i> | total | <i>institutional investors</i> | <i>Italian institutional investors</i> | <i>foreign institutional investors</i> |
| 2012 | 454 | 350 | 70.2 | 11.5 | 1.1 | 10.4 |
| 2013 | 408 | 338 | 70.3 | 13.0 | 0.9 | 12.1 |
| 2014 | 407 | 353 | 70.7 | 17.5 | 0.9 | 16.5 |
| 2015 | 479 | 402 | 71.1 | 18.1 | 0.9 | 17.3 |
| 2016 | 532 | 448 | 70.6 | 19.1 | 1.2 | 17.9 |
| 2017 | 623 | 469 | 71.3 | 19.4 | 1.2 | 18.3 |

Source: Consob calculations on say-on-pay votes reported in the minutes of AGMs held in the first semester of the relevant year. Average values of the largest 100 Italian companies by capitalisation listed on Borsa Italiana – Mta Stock Exchange; cooperatives are excluded.

At the end of 2016, the Boards of Directors of Italian listed companies consisted on average of ten directors, in line with previous evidence. The average size of the management boards of companies that adopt the two-tier governance system has however decreased over the years, standing at 4.3 at the end of 2016 (6.5 in 2011). This dynamic was also characteristic of supervisory boards, consisting of around 13 members, down from the 17.4 members of 2013 (Tab. 21).

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

| | board of directors ¹ | management board | supervisory board |
|------|---------------------------------|------------------|-------------------|
| 2011 | 10.2 | 6.5 | 14.3 |
| 2012 | 10.0 | 6.3 | 14.2 |
| 2013 | 9.9 | 6.6 | 17.4 |
| 2014 | 9.8 | 6.5 | 17.3 |
| 2015 | 9.8 | 6.0 | 17.0 |
| 2016 | 9.9 | 4.3 | 13.0 |
| 2017 | 9.9 | 4.5 | 10.5 |

Source: corporate governance reports of Italian listed companies with ordinary shares listed on Borsa Italiana – Mta Stock Exchange. ¹ Figures include companies adopting the single-tier system.

Most Italian listed companies use the traditional governance system (227 companies out of 231), two use the one-tier system and two the two-tier system. Compared to 2011, when three companies used the one-tier system and seven the two-tier system, the number of issuers that have chosen governance systems alternative to the traditional system has fallen (Tab. 22).

Tab. 22 Italian listed companies by management and control system
(end of the year)

| | single-tier ¹ | | two-tier ² | | traditional | | total | |
|------|--------------------------|---------------------------|-----------------------|---------------------------|-------------|---------------------------|-------|---------------------------|
| | no. | % market cap ³ | no. | % market cap ³ | no. | % market cap ³ | no. | % market cap ³ |
| 2011 | 3 | 0.1 | 7 | 8.1 | 250 | 91.8 | 260 | 100.0 |
| 2012 | 2 | 0.1 | 6 | 7.5 | 243 | 92.4 | 251 | 100.0 |
| 2013 | 2 | 0.1 | 5 | 8.6 | 237 | 91.3 | 244 | 100.0 |
| 2014 | 2 | 0.1 | 4 | 10.7 | 232 | 89.2 | 238 | 100.0 |
| 2015 | 2 | 0,1 | 4 | 11.3 | 228 | 88.6 | 234 | 100.0 |
| 2016 | 2 | 8.5 | 3 | 0.9 | 226 | 90.6 | 231 | 100.0 |
| 2017 | 2 | 8.1 | 2 | 0.8 | 227 | 91.1 | 231 | 100.0 |

Source: Consob. Data on Italian companies with ordinary shares listed on Borsa Italiana spa – Mta Stock Exchange. ³ Market value of ordinary shares of companies in each group in percentage of the market value of ordinary shares of all listed companies. ¹ The single-tier model envisages a board of directors appointed by the shareholders' meeting and a management control committee of non-executive independent members of the board. ² The two-tier model envisages a supervisory board appointed by the shareholders' meeting and a management board appointed by the supervisory board. ³ Market value of ordinary shares of companies in each group in percentage of the market value of ordinary shares of all listed companies.

At the end of 2017, a third of the total number of company directors were women (33.6 percent), thus reaching the target female share set by Law no. 120 of July 12, 2011. Companies with at least one female director totalled 226, equal to 98.7 percent of the total number of listed companies (Tab. 23). In particular, all FTSE MIB companies had at least one woman on their board, with an average female share of 35.4 percent of the total (Tab. 24).

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

| | female directorship ¹ | | diverse board companies ³ | |
|------|----------------------------------|---------------------|--------------------------------------|---------------------|
| | no. | weight ² | no. | weight ⁴ |
| 2011 | 193 | 7.4 | 135 | 51.7 |
| 2012 | 288 | 11.6 | 169 | 66.8 |
| 2013 | 421 | 17.8 | 202 | 83.5 |
| 2014 | 521 | 22.7 | 217 | 91.9 |
| 2015 | 622 | 27.6 | 230 | 98.3 |
| 2016 | 701 | 31.6 | 226 | 99.1 |
| 2017 | 760 | 33.6 | 226 | 98.7 |

Source: Consob. Data on corporate boards of Italian companies with ordinary shares listed on Borsa Italiana spa – Mta Stock Exchange. ¹ Figures refer to the board seats held by women. ² Weight on total number of directorships. ³ Diverse-board companies are firms where at least one female director sits on the board. ⁴ Weight on total number of companies.

Tab. 24 Female representation on boards of directors of Italian listed companies by market index
(data as of 31 Dec 2017)

| | diverse-board companies | | | average weight of women on boards ³ |
|----------------------|-------------------------|---------------------|---------------------------|--|
| | no. | weight ¹ | % market cap ² | |
| Ftse Mib | 34 | 100.0 | 74.6 | 35.4 |
| Mid Cap ⁴ | 36 | 97.3 | 14.7 | 32.3 |
| Star ⁴ | 70 | 98.6 | 7.5 | 33.2 |
| other | 86 | 98.9 | 2.9 | 34.9 |
| <i>total</i> | <i>226</i> | <i>98.7</i> | <i>99.7</i> | <i>34.0</i> |

Source: Consob. Data on corporate boards. ¹ As a percentage of the number of Italian listed companies in each market index. ² As a percentage of the market value of ordinary shares of all Italian listed companies. ³ Data refer solely to companies with at least one woman in the board. ⁴ Companies both in the Star and in the Mid Cap indexes are included only in the Star category.

The average age of the directors of listed Italian companies is 56.6 years, in seven percent of cases they are foreigners and 15.6 percent of them are 'family directors', i.e., controlling shareholders or relatives of the controlling shareholder. As regards their level of education, almost nine directors out of ten hold a university degree and, of these, around two out of ten hold post graduate degrees (PhD and/or master's degree). In terms of professional category, most are managers (70 percent of the total); this is followed by professionals/advisors (21 percent) and academics (8 percent). The characteristics of directors vary somewhat according to the size and industry sector of the company (Tab. 25).

The characteristics of directors have changed over time, mainly due to the appointment of women following entry into force of Law 120/2011 (Tab. 26).

Tab. 25 Directors' attributes of Italian listed companies
(data as of 31 Dec 2016)

| | no. | % women | average age | % foreigners | % family ¹ | education | | professional background | | |
|-----------------------------|--------------|-------------|-------------|--------------|-----------------------|----------------|------------------------------|-------------------------|----------------------------|------------|
| | | | | | | % first degree | % post graduate ² | % manager | % consultant /professional | % academic |
| financial | 575 | 32.3 | 57.7 | 4.3 | 6.4 | 88.2 | 20.9 | 65.6 | 22.1 | 11.7 |
| industrial | 1,090 | 30.6 | 56.6 | 7.8 | 21.8 | 85.2 | 19.6 | 72.4 | 20.4 | 6.6 |
| services | 495 | 31.9 | 55.4 | 8.5 | 12.7 | 88.1 | 26.6 | 70.9 | 20.6 | 7.9 |
| Ftse Mib | 431 | 32.7 | 57.9 | 9.7 | 5.1 | 92.6 | 27.1 | 72.2 | 14.2 | 12.8 |
| Mid Cap ³ | 419 | 30.3 | 57.2 | 7.2 | 11.9 | 91.2 | 20.4 | 68.3 | 22.7 | 8.4 |
| Star ³ | 642 | 29.8 | 56.6 | 6.2 | 22.0 | 82.1 | 18.4 | 71.7 | 20.1 | 8.1 |
| other | 668 | 32.6 | 55.4 | 6.0 | 18.7 | 84.4 | 21.5 | 68.9 | 24.9 | 5.4 |
| family | 1,308 | 30.6 | 56.8 | 7.2 | 25.8 | 85.2 | 20.3 | 70.7 | 21.3 | 7.4 |
| State and local authorities | 192 | 32.8 | 55.1 | 4.2 | — | 90.1 | 24.3 | 70.3 | 20.8 | 7.3 |
| financial institutions | 92 | 28.3 | 53.4 | 17.4 | — | 95.7 | 31.8 | 71.7 | 20.7 | 7.6 |
| mixed ⁴ | 123 | 32.5 | 56.1 | 6.5 | — | 94.3 | 19.8 | 72.4 | 21.1 | 6.5 |
| no UCA ⁵ | 445 | 33.3 | 57.3 | 5.8 | — | 85.6 | 22.3 | 67.9 | 19.8 | 11.7 |
| <i>total</i> | <i>2,160</i> | <i>31.3</i> | <i>56.6</i> | <i>7.0</i> | <i>15.6</i> | <i>86.7</i> | <i>21.6</i> | <i>70.2</i> | <i>20.9</i> | <i>8.2</i> |

Source: corporate governance reports and ownership structure of Italian companies with ordinary shares listed on Borsa Italiana – MTA market, published in 2017. Industry classification by Borsa Italiana. Data refer to available reports. ¹ Number of directors that are either a family member of the controlling shareholder or the controlling shareholder in percentage of the total number of directors included in each category. ² Number of graduated directors who attended a post-graduate course and/or hold a PhD in percentage of the total number of graduated directors in each category. ³ Companies both in the Star and in the MidCap indexes are included only in the Star category. ⁴ Companies not included in any of the previous categories (i.e. companies controlled by both financial institutions and families). ⁵ Companies that do not have the ultimate controlling agent (UCA), i.e. cooperative companies, widely held, non-widely held, and listed companies controlled by a non-controlled company.

Tab. 26 Directors' attributes of Italian listed companies by gender
(data as of 31 Dec 2016)

| | no. | % foreigners | average age | % family ¹ | education | | professional background | | | | |
|------|-----------------|--------------|-------------|-----------------------|----------------|------------------------------|-------------------------|------|------|------|-----|
| | | | | | % first degree | % post graduate ² | | | | | |
| 2012 | <i>director</i> | 2,401 | 5.0 | 57.6 | 16.2 | 84.4 | 15.3 | 76.4 | 15.4 | 8.0 | 0.2 |
| | <i>female</i> | 283 | 5.3 | 50.5 | 25.8 | 82.7 | 20.9 | 68.7 | 17.8 | 13.2 | 0.4 |
| | <i>male</i> | 2,118 | 4.9 | 58.5 | 14.9 | 84.6 | 14.5 | 77.4 | 15.1 | 7.4 | 0.2 |
| 2015 | <i>director</i> | 2,222 | 7.1 | 56.7 | 15.8 | 85.6 | 20.5 | 70.3 | 21.2 | 8.0 | 0.5 |
| | <i>female</i> | 617 | 7.5 | 50.9 | 13.1 | 88.5 | 29.7 | 54.1 | 33.2 | 12.2 | 0.5 |
| | <i>male</i> | 1,605 | 7.0 | 58.9 | 16.9 | 84.5 | 16.7 | 76.5 | 16.6 | 6.4 | 0.6 |
| 2016 | <i>director</i> | 2,160 | 7.0 | 56.6 | 15.6 | 86.7 | 21.6 | 70.2 | 20.9 | 8.2 | 0.6 |
| | <i>female</i> | 677 | 7.1 | 51.6 | 11.8 | 90.3 | 29.0 | 55.4 | 31.6 | 12.4 | 0.6 |
| | <i>male</i> | 1,483 | 7.0 | 58.9 | 17.4 | 85.0 | 18.0 | 77.0 | 16.0 | 6.3 | 0.7 |

Source: Consob. ¹ Number of directors linked through a family connection to the controlling shareholder in percentage of the total number of directors included in each category. ² Number of graduated directors who attended a post-graduate course and/or hold a PhD in percentage of the total number of graduated directors in each category.

The characteristics of directors vary somewhat depending on their having or not having links with the controlling shareholder. With regard to the level of education, most of directors with a university or post graduate degree are non-family directors. In addition, the latter have more varied professional profiles, with a non-managerial background in 34.1 percent of cases, compared to 6.5 percent of family directors (Tab. 27).

Tab. 27 Directors' attributes in Italian listed companies by gender and relationship with the controlling shareholder
(data as of 31 Dec 2016)

| | | no. | average attendance ¹ | education | | professional background | | | |
|-----------|----------------------------|-------|---------------------------------|----------------|------------------------------------|-------------------------|-----------------|-------------|---------|
| | | | | % first degree | % postgraduate degree ² | % managers | % professionals | % academics | % other |
| directors | <i>family</i> ³ | 338 | 91.8 | 71.6 | 15.3 | 93.5 | 6.2 | -- | 0.3 |
| | <i>non-family</i> | 1,822 | 92.0 | 89.5 | 22.5 | 65.9 | 23.6 | 9.8 | 0.7 |
| women | <i>family</i> ³ | 80 | 89.9 | 65.0 | 19.2 | 82.5 | 16.3 | -- | 1.3 |
| | <i>non-family</i> | 597 | 92.5 | 93.6 | 29.9 | 51.8 | 33.7 | 14.1 | 0.5 |
| men | <i>family</i> ³ | 258 | 92.4 | 73.6 | 14.2 | 96.9 | 3.1 | -- | -- |
| | <i>non-family</i> | 1,225 | 91.8 | 87.4 | 18.7 | 72.8 | 18.7 | 7.7 | 0.8 |

Source: Consob. ¹ Average percentage of board meetings attended by the directors included in each category (directors appointed during the year who have been in charge for less than 200 days are excluded) ² Number of graduated directors who attended a postgraduate and/or a hold a PhD in percentage of the total number of graduated directors in each category ³ The director is either a family member of the controlling shareholder or is himself the controlling shareholder.

In most listed companies, at least one director holds directorships in other listed companies (interlocking directors). In particular, with the exception of forty-six companies that have no interlocking directors, seventy-six companies have boards with fewer than a quarter of interlocking directors, 78 companies have interlocking directors making up between one quarter and a half of the board, and the remaining 26 companies have over half the board made up of interlocking directors (Tab. 28).

Tab. 28 Interlocking in Italian listed companies by industry
(data as of 31 Dec 2017)

| percentage of interlockers on the board of directors ² | financial | | non financial | | total | |
|---|-----------|---------------------|---------------|---------------------|------------|---------------------|
| | no. | weight ¹ | no. | weight ¹ | no. | weight ¹ |
| 0% | 8 | 11.8 | 38 | 4.8 | 46 | 7.1 |
| < 25% | 18 | 33.6 | 58 | 30.2 | 76 | 31.3 |
| 25% to 50% | 18 | 23.9 | 60 | 54.5 | 78 | 44.4 |
| 50% to 75% | 8 | 30.7 | 16 | 10.4 | 24 | 17.1 |
| ≥ 75% | -- | -- | 2 | 0.1 | 2 | 0.1 |
| <i>total</i> | <i>52</i> | <i>100.0</i> | <i>174</i> | <i>100.0</i> | <i>226</i> | <i>100.0</i> |

Source: Consob. Data on corporate boards of Italian listed companies with ordinary shares listed on Borsa Italiana. Data do not include companies in liquidation as of 31 December 2017. ¹ As a percentage of market value of each sector. ² The interval includes the lower threshold.

On average, the boards of listed companies feature around five independent directors (according to the criteria of both the Consolidated Law on Finance and the Code of Corporate Governance), equal to 47.6 percent of the total. There are more independent directors found in the financial sector (six on average, totalling 53.6 percent of the board) and lower in industrial enterprises (four directors, equal to 44 percent of the total; Tab. 29).

Tab. 29 Independent directors on board of directors of Italian listed companies
(data as of 31 Dec 2016)

| | independent directors (by the Consolidated Law on Finance – Tuf) | | independent directors (by the Corporate Governance Code) | | independent directors (by Corporate Governance Code and/or Tuf) ¹ | |
|--------------|--|---------------------|--|---------------------|--|---------------------|
| | mean | weight ² | mean | weight ² | mean | weight ² |
| financial | 6.0 | 53.1 | 5.1 | 45.7 | 6.1 | 53.6 |
| industrial | 4.1 | 42.8 | 3.8 | 40.0 | 4.1 | 44.0 |
| services | 4.9 | 48.8 | 4.7 | 46.4 | 5.0 | 49.7 |
| <i>total</i> | <i>4.7</i> | <i>46.7</i> | <i>4.3</i> | <i>42.9</i> | <i>4.8</i> | <i>47.6</i> |

Source: Consob and Corporate governance report and ownership structure of Italian companies with ordinary shares listed on Borsa Italiana – MTA market. Industry classification by Borsa Italiana. ¹ Directors who are independent according to both definitions are counted only once. ² Percentage of independent directors on corporate boards.

At the end of 2016 the boards of Italian listed companies had 96 directors elected from minority groups, equal to 7.7 percent of the total (Tab. 30).

Tab. 30 Minority directors on board of directors of Italian listed companies
(data as of 31 Dec 2016)

| | companies with at least one minority director | minority directors | | minority and/or independent directors ¹ | |
|--------------|---|--------------------|---------------------|--|---------------------|
| | | mean ² | weight ³ | mean ² | weight ³ |
| financial | 27 | 1.1 (2.1) | 8.7 | 6.3 | 54.7 |
| industrial | 42 | 0.6 (1.7) | 6.3 | 4.2 | 45.2 |
| services | 27 | 1.0 (1.9) | 10.1 | 5.2 | 51.6 |
| <i>total</i> | <i>96</i> | <i>0.8 (1.9)</i> | <i>7.7</i> | <i>4.9</i> | <i>48.9</i> |

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

With reference to board committees, at the end of 2016, the majority of listed companies had established a remuneration committee (200 companies) and an internal control and risk management committee (208 companies). Nomination committees can be found in 126 companies, an increase on past years (in 2012, only 95 companies had such a committee).

All the committees are made up of an average of three members, with the average number of independent directors ranging from 2.5 to 2.7 and of women 1.3. In the course of the year, internal control and risk management committees met on average eight times and nomination committees 5.2 times, whilst the remuneration committees held an average of 4.6 meetings (Tab. 31).

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

| | | adopted | | size and composition | | | average no. of meetings |
|--------------------------------------|------|-------------------------------|---------------------|------------------------|----------------------|---|-------------------------|
| | | no. of companies ¹ | weight ² | average no. of members | average no. of women | average no. of independent directors ³ | |
| remuneration | 2012 | 215 | 98.9 | 3.1 | 0.4 | 2.4 | 3.4 |
| | 2013 | 210 | 98.9 | 3.1 | 0.6 | 2.5 | 3.7 |
| | 2014 | 200 | 99.0 | 3.1 | 0.8 | 2.6 | 3.7 |
| | 2015 | 204 | 99.0 | 3.1 | 1.1 | 2.5 | 4.2 |
| | 2016 | 200 | 98.7 | 3.2 | 1.2 | 2.5 | 4.6 |
| internal control and risk management | 2012 | 220 | 98.9 | 3.2 | 0.5 | 2.7 | 6.7 |
| | 2013 | 216 | 99.1 | 3.2 | 0.7 | 2.6 | 6.9 |
| | 2014 | 206 | 99.4 | 3.2 | 0.9 | 2.7 | 7.1 |
| | 2015 | 212 | 99.6 | 3.2 | 1.2 | 2.7 | 7.4 |
| | 2016 | 208 | 99.5 | 3.2 | 1.3 | 2.7 | 7.8 |
| nomination | 2012 | 95 | 69.9 | 3.3 | 0.4 | 2.5 | 4.1 |
| | 2013 | 112 | 79.9 | 3.3 | 0.6 | 2.6 | 4.1 |
| | 2014 | 114 | 82.1 | 3.3 | 0.7 | 2.7 | 3.9 |
| | 2015 | 123 | 81.8 | 3.2 | 1.0 | 2.6 | 4.3 |
| | 2016 | 126 | 81.5 | 3.3 | 1.3 | 2.6 | 5.2 |

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

In 2016, 184 company boards performed the self-assessment recommended by the Code of Corporate Governance (84 percent of the total), a figure in line with the findings of the past two years. Only 39 companies adopted plans for the succession of directors; among these, 16 operate in the financial sector and 16 in the industrial sector (Tab. 32).

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

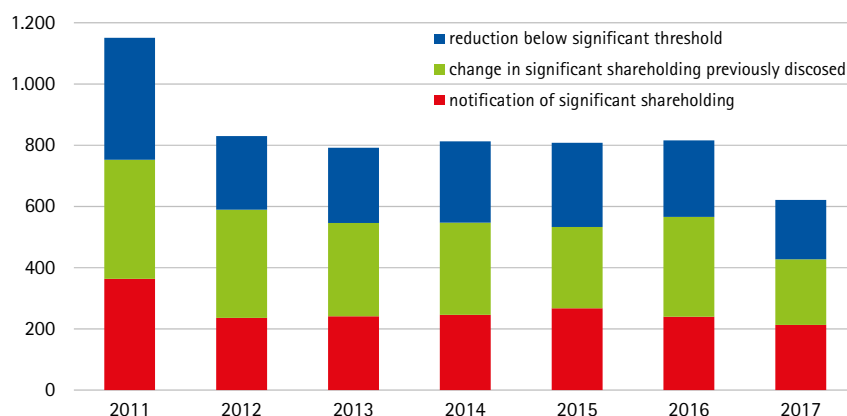
| | self-evaluation | | succession plan | |
|------------|-------------------------------|---------------------|-------------------------------|---------------------|
| | no. of companies ¹ | weight ² | no. of companies ³ | weight ² |
| 2011 | 176 | 68,7 | 7 | 2,7 |
| 2012 | 177 | 73,1 | 13 | 5,4 |
| 2013 | 181 | 76,4 | 20 | 8,4 |
| 2014 | 184 | 81,8 | 23 | 10,2 |
| 2015 | 184 | 80,7 | 30 | 13,2 |
| 2016 | 184 | 83,6 | 39 | 17,7 |
| of which | | | | |
| financial | 44 | 20,0 | 16 | 7,3 |
| industrial | 98 | 44,5 | 16 | 7,3 |
| services | 42 | 19,1 | 7 | 3,2 |
| total | 184 | 184 | 80,7 | 30 |

Source: corporate governance reports and ownership structure of Italian companies with ordinary shares listed on Borsa Italiana – Mta market. Industry classification by Borsa Italiana. 1 Number of companies declaring that the board performed the self-evaluation process. 2 Number of companies in each group in percentage of the total number of listed companies. 3 Number of companies declaring the existence of a succession plan. It includes seven cases in which the plan does not relate to the directors but only to executives, and excludes 13 companies that declare a forthcoming introduction of the plan or the existence of alternative mechanisms of succession.

3 Ownership structure disclosure

In 2017 Consob received 621 notifications pursuant to Article 120 of the Consolidated Law on Finance regarding relevant holdings, both shareholdings and holdings of financial instruments, held by companies listed on the MTA (Fig. 9). This significant decrease as compared to 2016, when 816 notifications were received, is explained in part by certain changes made to the regulations on ownership structure disclosure.

Fig. 9 Disclosure of major shareholdings in Italian listed companies



Source: Consob.

About 33 percent of notifications referred to exceeding the primary disclosure threshold, 32 percent concerned the reduction of holdings within this threshold, and the remaining 35 percent related to the variation of relevant holdings already held, broken down into disclosure of major variations in a holding already disclosed (24 percent of the total) and disclosure of other variations in the securities held or in the investment chain (11 percent). The latter also included voluntary disclosure by shareholders for the purpose, for example, of updating their size or method of shareholding.

During the period under consideration, 101 notifications were made regarding investments in financial instruments and/or aggregate holdings.

In 2017, there were 14 notifications from listed issuers referring to transactions in treasury shares (23 in 2016), half of which were for sale transactions and half for acquisitions that exceeded the disclosure threshold.

With reference to the type of declaring entity, in line with 2016, there was a prevalence of foreign entities, with 61 notifications, and legal persons, with 82 percent of notifications.

On 16 October 2017, Decree Law no. 148 of October 16, 2017 came into effect, (converted, with amendments, by Law no. 172 of December 4, 2017, in force since December 6, 2017), which introduced paragraph 4-*bis* (so-called 'anti-raid rule' or declaration of intentions') to the body of the Article 120 of the Consolidated Law on Finance . This provision requires purchasers of shareholdings totalling or greater than 10, 20 and 25 percent of the capital of Italian listed companies to state the objectives they intend to pursue in the six months following the acquisition. Consob shall issue the implementing regulations of the aforesaid provision, which has been applicable since the publication of the Decree Law 148/2017 in the Official Journal (see the Chapter VI below 'Regulatory activity').

In 2017, Consob received 134 notifications relating to relevant shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance (140 in 2016), with reference to 62 listed companies. Of the notifications received, around half (66) relate to changes in shareholders' agreements already in place, figure in line with that of the previous year, whereas notifications on the conclusion of new shareholders' agreements showed a slight decrease (44 in 2017 compared to 46 in 2016). There was a slight increase in notifications of dissolution or failure to pursue the objectives envisaged in the agreement (24 cases compared to 22 the previous year).

2017 was the first year of full operation of the loyalty share regulations introduced into national legislation by Law no. 116 of August 11, 2014, (the so-called 'competitiveness decree'). In the last three years, this institution was adopted in the by-laws of 35 issuers. In 2017, after a maturation period of 24 months, 14 companies recorded the implementation of the entitlement to vote by applicant shareholders.

4 Takeover bids and exchange tender offers

In 2017, 17 takeover bids were put forward (16 offers in the strict sense and a commitment to squeeze-out pursuant to Article 108 of the Consolidated Law on Finance), all involving shares (Tab. 33). Excluding 2016, when there were 23 takeover bids, 14 of which for shares, trading increased as compared to the last few years (seven offers overall in 2015, ten in 2014 and nine in 2013).

Tab. 33 Takeover bids and/or exchange tender offers in 2017

| offering company | company object of takeover/exchange bid | period | kind of offer | | | amounts ¹ | weight ² |
|--|---|-------------------|-----------------------|-----------|---------|----------------------|---------------------|
| ORDINARY SHARES | | | | | | | |
| Dali Italy Bidco Spa | Dada Spa | 18/12/17-24/01/18 | takeover bid | mandatory | global | 20.9 | 0.9 |
| Edison Spa ³ | Frendy Energy Spa | 22/11/17-19/12/17 | takeover bid | mandatory | global | 4.6 | 0.2 |
| Borgosesia Spa in liquidaz. | Borgosesia (Kronos) | 13/11/17-05/12/17 | takeover/exchange bid | voluntary | global | 16.1 | 0.7 |
| Borgosesia Spa in liquidaz. ⁴ | Borgosesia (Kronos) | 13/11/17-05/12/18 | takeover/exchange bid | voluntary | global | .. | .. |
| Monte dei Paschi di Siena Spa | Monte Paschi di Siena | 31/10/17-20/11/17 | takeover/exchange bid | voluntary | partial | 1,536.0 | 62.6 |
| Fri-el Green Power Spa | Alerion CleanPower Spa | 30/10/17-17/11/17 | takeover bid | voluntary | global | 70.0 | 2.9 |
| Hrd Italia Srl | Gequity Spa | 16/10/17-03/11/17 | takeover bid | mandatory | global | .. | .. |
| Agorà Investimenti Spa | Save Spa | 18/09/17-13/10/17 | takeover bid | mandatory | global | 401.9 | 16.4 |
| Chiara Finanziaria Srl | Caltagirone Editore Spa | 24/07/17-08/09/17 | takeover bid | voluntary | global | 0.1 | .. |
| Double 2 Spa ³ | Ital TBS Tel&Bio Services | 26/06/17-14/07/17 | takeover bid | voluntary | global | 90.3 | 3.7 |
| B.F. Holding Spa | Bonifiche Ferraresi Spa | 29/05/17-16/06/17 | takeover/exchange bid | voluntary | global | 40.9 | 1.7 |
| Italmobiliare Spa | Italmobiliare Spa | 19/05/17-09/06/17 | takeover bid | voluntary | partial | 159.6 | 6.5 |
| Time for Ticket Srl | Best Union Company | 08/05/17-09/06/17 | takeover bid | mandatory | global | 2.5 | 0.1 |
| Lem Spa | Alba Spa | 08/03/17-28/03/17 | commitment to buy | | global | 1.9 | 0.1 |
| Sofil Sas | Parmalat Spa | 09/02/17-10/03/17 | takeover bid | voluntary | global | 105.2 | 4.3 |
| Servizi Societari Srl | Meridie Spa | 06/02/17-03/03/17 | takeover bid | voluntary | global | 2.5 | 0.1 |
| Eiss | Mediacontech Spa | 30/01/17-17/02/17 | takeover bid | mandatory | global | .. | .. |
| <i>total</i> | | | | | | <i>2,452.6</i> | <i>100.0</i> |

Source: Consob. Takeover and exchange bids launched in 2017. ¹ Amounts in millions of euro. ² Percentage on total amount. ³ The offer refers to shares negotiated on AIM. ⁴ Takeover bid on savings shares.

Many takeover bids promoted in 2017 distanced themselves from the 'typical' takeover bid/ exchange tender offer models, showing innovation and specific features both in the structure and in the determination of the essential components.

In terms of value, the 17 takeover bids totalled 2,453 million euro, a decrease of about 14 percent compared to 2,849 million euro of 2016. Excluding the MPS takeover bid, the figure for 2017 fell to 895 million euro, a reduction of 68 percent on the previous year. The largest takeover bid in 2017 was Agorà Investimenti's bid on Save Spa shares, for an value of 401 million euro (16.5 percent of the total).

With regard to the type of financial instrument, the takeover bids performed involved: shares listed on the MTA in 13 cases (for an value of 95.9 percent of the total); shares traded on the Investment Vehicle Market (IVM) in two cases (0.2 percent of the total); unlisted shares admitted to trading on AIM Italia in two cases (3.9 percent of the total).

Particular note should be taken of the two bids for unlisted shares traded on AIM Italia that, together with the numerous admissions to trading in the past years, bear witness to the growing interest of investors and industry in this platform of access to the capital market, characterised by simplified regulatory requirements.

Six bids were mandatory and due to exceeding the control thresholds established in Article 106, paragraphs 1 and 1-bis, of the Consolidated Law on Finance. In one case, moreover, a commitment to squeeze-out arose pursuant to Article 108 of the Consolidated Law on Finance, while in nine cases the bids were voluntary (Tab. 34).

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

| | mandatory bids (global) | | | non mandatory bids | | total | of which | | |
|------|-------------------------|---------------|-------------------|--------------------|---------|-------|-----------|--------------------|--------------------------------|
| | acquisition of control | consolidation | commitment to buy | global | partial | | competing | aimed at delisting | takeover/exchange tender offer |
| 2015 | 4 | -- | -- | 2 ¹ | -- | 6 | -- | 4 | -- |
| 2016 | 10 | -- | -- | 3 | 1 | 14 | 4 | 9 | 1 |
| 2017 | 6 | -- | 1 | 7 ² | 2 | 16 | -- | 9 | 4 ² |

Source: Consob. ¹ The mandatory takeover bid on Pirelli&C spa shares went alongside a global voluntary bid on saving shares. ² The voluntary global takeover bid on Borgosesia Spa shares refers to ordinary and savings shares. The figure does not include a takeover/exchange bid declared ineffective.

With reference to the objectives of the takeover bids, the main objective of the mandatory bids was to exploit the potential integration and synergies between the target company's operations and those of the bidder, with the exception of one case involving a change of control and another case involving the commitment to squeeze-out arising from the redefinition of the ownership structure (broadening of the existing shareholders' agreement) in order to engage a financial partner assigned to bear the costs of the following takeover bid for the purpose of delisting.

Finally, in the context of voluntary takeover bids involving ordinary shares, two bids (TBS and Alerion) can be attributed to control acquisition operations, whilst for another three (Meridie, Parmalat and Caltagirone Editore) the bid document indicated the objective of security delisting, which however, was never achieved.

Overall, nine operations were promoted with the objective of current or future delisting, in line with the 2016 figure (Tab. 35).

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

| offer | company object of takeover/exchange bid | period | delisting | amounts ¹ |
|--|---|-----------|-----------------|----------------------|
| Takeover and/or exchange bids on ordinary shares for delisting purpose in 2016 | | | | 8,080.9 |
| Takeover and/or exchange bids on ordinary shares for delisting purpose in 2017 | | | | 6,754.2 |
| Dali Italy Bidco Spa | Dada Spa | mandatory | yes | 66.7 |
| Edison Spa | Frendy Energy Spa - AIM | mandatory | no | 20.2 |
| Agorà Investimenti Spa | Save Spa | mandatory | yes | 1,162.3 |
| Chiara Finanziaria Srl | Caltagirone Editore Spa | voluntary | no | 153.0 |
| Double 2 Spa | Ital Tbs - AIM | voluntary | yes | 92.8 |
| Time for Ticket Srl | Best Union Company Spa | mandatory | no | 28.1 |
| Lem Spa | Alba Spa | mandatory | yes | 30.5 |
| Servizi Societari | Meridie | voluntary | no ² | 6.2 |
| Lactalis | Parmalat | voluntary | no | 5,194.4 |

Fonte: Consob. ¹ Market capitalisation based on the bid price (millions of euro). ² The delisting took place after the takeover bid by merging the target company with a non-listed holding company.

The rate of subscription to the bids was smaller for both transactions with low or negative premiums (Mediacontech and Gequity) and bids (such as Parmalat and Caltagirone Editore) that, while having premiums in line with those of similar transactions, were the subject to counterstrategies implemented by activist funds that did not consider the offer price to be fair with respect to the intrinsic value of the shares (Tab. 36).

Tab. 36 Takeover bid subscription

| bidder | target company | bid type | | % subscribed ¹ | one month premium ¹ | one year premium ¹ |
|---|-----------------------------|-----------------------|-----------|---------------------------|--------------------------------|-------------------------------|
| Double 2 Spa | Ital TBS Tel & Bio Services | takeover bid | voluntary | 95.43 | 17.7 | 28.5 |
| Agorà Investimenti Spa | Save Spa | takeover bid | mandatory | 87.94 | 4.41 | 18.7 |
| Borgosesia Spa in liquidazione ² | Borgosesia (Kronos) | exchange bid | voluntary | 83.96 | 32.1 | 125.0 |
| Dali Italy Bidco Spa | Dada Spa | takeover bid | mandatory | 78.37 | -3.0 | 1.9 |
| Fri-el Green Power Spa | Alerion CleanPower Spa | takeover bid | voluntary | 73.96 | 6.1 | 15.0 |
| B.F. Holding Spa | Bonifiche Ferraresi Spa | takeover/exchange bid | voluntary | 72.54 | 31.6 | 36.8 |
| Servizi Societari Srl | Meridie Spa | takeover bid | voluntary | 64.68 | 26.6 | 23.1 |
| Edison Spa | Frendy Energy Spa | takeover bid | mandatory | 42.41 | 5.8 | 11.8 |
| Time for Ticket Srl | Best Union Company Spa | takeover bid | mandatory | 36.54 | 12.2 | 17.6 |
| Sofil Sas | Parmalat Spa | takeover bid | voluntary | 15.11 | 19.2 | 26.2 |
| Borgosesia Spa in liquidazione ³ | Borgosesia (Kronos) | exchange bid | voluntary | 3.55 | 32.1 | 148.1 |
| Hrd Italia Srl | Gequity Spa | takeover bid | mandatory | 0.74 | -85.7 | -86.1 |
| Chiara Finanziaria Srl | Caltagirone Editore Spa | takeover bid | voluntary | 0.29 | 21.6 | 30.4 |
| EISS | Mediacontech Spa | takeover bid | mandatory | 0.15 | -21.5 | -62.9 |

Source: Consob. Excluded commitments to buy, partial takeover bids and MPS takeover bid. ¹ As a percentage of the bid total number of shares. ² Voluntary global takeover bid on ordinary shares. ³ Voluntary global takeover bid on savings shares.

In 2017, eight transactions were granted exemption from the takeover bid obligation, despite causing the threshold established in Article 106 of the Consolidated Law on Finance for the purpose of new shareholders promoting a mandatory takeover bid.

With Resolution no. 20025 of June 7, 2017, on the acquisition, in agreement, of a shareholding in Unipol Gruppo Finanziario Spa (UGF) and, indirectly, in Unipol Sai Spa, which was performed as a result of the spin-off of Finsoe Spa in favour of its own shareholders that were then to sign a shareholders' agreement regarding UGF shares, Consob exempted exceeding the thresholds referred to in Article 106, paragraphs 1 and 1-*bis*, of the Consolidated Law on Finance, from the takeover bid obligation, pursuant to and for the purposes of the combined provisions of Articles 106, paragraph 1, and 109, paragraph 1, of the Consolidated Law on Finance,

Among other significant cases, three delistings were performed without a takeover bid procedure in 2017.

5 Supervision of transactions with related parties

Transactions with related parties are a central area in corporate governance supervision for the protection of shareholders and other stakeholders.

In order to reduce the risk of potential expropriation, Consob performed quality control of the procedures for transactions with related parties, in order to ensure their updating and suitability to the governance of issuers even in the event of deviation from the one-share-one-vote principle. In particular, the adoption of loyalty and multiple voting shares, almost exclusively by companies which already subject to the sole control of a shareholder, suggested a wider review of the suitability and updating of the procedures for transactions with related parties in relation to the changes in ownership structures.

Still from a preventive point of view, the governance structure and the subscription to the best practices of corporate governance by recently listed companies were the subject of further examination for the purpose of assessing their adequacy to the more mature and complex reference context of the listed issuers.

The supervision of the application of the regulations on transactions with related parties was performed by means of dialogue with the companies and their supervisory bodies, with the objective of examining their transaction procedures and checking the actual proper performance of the tasks assigned to each of the actors involved.

The activity carried out in 2017 highlighted the risk that the formalistic and restrictive interpretation of the elements defining the scope

of application of the regulations may lead to the avoidance in substance of the controls envisaged for such transactions.

A restrictive interpretation of the quantitative 'significance' of a transaction, leading to the non-application or incorrect application of Consob Regulations, emerged with regard to multi-annual contracts (mistakenly considered on the basis of the annual value only), transactions characterised by a wide range of contractual services (not adequately considered in their entirety) and modifications of transactions already determined as being of greater significance.

In addition, restrictive applications of defining elements for the identification of the scope of related parties may lead to a denial of the existence of correlation between the issuer and companies that may in any case be traced to the reference partner. In such cases, as in the past, supervision was intended to stimulate, in the light of the guidelines issued by Consob in its general communications and of the dialogue with companies to deal with actual cases, the assessment of the substantial relationship between shareholders and companies and their transparency to the market.

With reference to the more general issue of transactions in a potential conflict of interest, Consob monitored certain transactions that, although not performed with related parties, are in any case affected by interests potentially in conflict with the interest of the company involved. In one specific case, in part as a result of due dialogue between Consob and the issuer, the board of the this issuer resolved to extend voluntarily the controls provided for by the Regulations on related parties to a transaction with a potential conflict of interest.

In 2017, an overall 63 information documents on transactions of greater significance with related parties were published. These regarded mainly loans or the transfer of assets such as business branches, shareholdings and property, which involved the listed company and its reference shareholder (Tab. 37).

Tab. 37 Material related party transactions disclosed by Italian listed companies in 2017

| object | counterparty | | | total |
|--|--|--------------------------------------|---------------------------------|-----------|
| | directors / companies related to directors | controlling or relevant shareholders | subsidiary or associate company | |
| supply of goods and services, sponsoring, investment | 1 | 8 | -- | 9 |
| financing | 2 | 18 | 7 | 27 |
| capital transactions | -- | 6 | 1 | 7 |
| transfer of assets | -- | 16 | 4 | 20 |
| <i>total</i> | <i>3</i> | <i>48</i> | <i>12</i> | <i>63</i> |

Source: Consob.

Also in 2017, Consob received information about some 22 transactions of greater significance that, insofar as ordinary and concluded under market or standard equivalent conditions were exempted from the obligation to publish an information document. These transactions were performed mainly by companies with medium-high capitalisation and operating in finance and industry. All ordinary transactions were carried out with counterparties that are attributable to the reference shareholders and, in around three cases out of four, are related to the company's core business, i.e., the supply of typical goods/services for non-industrial enterprises and financing for banks.

The enforcement activity carried out by Consob with regard to transactions with related parties led to the launch of nine sanctioning proceedings against issuers or supervisory bodies for infringement of the disclosure requirements relating to transactions with related parties, and of the duties of the supervisory body regarding the said transactions (on the measures adopted over the year see the Chapter V below 'Inspection activity and sanctions').

6 Supervision of corporate governance and internal supervisory bodies

In 2017 Consob continued the monitoring - launched in the previous two years - of the information disclosed to the public on internal controls, adherence to the Code of Corporate Governance and the remuneration of executive directors in companies chosen for their market representativeness or recently listed. Although the best practices recommended by the Code of Corporate Governance have been widely adopted by issuers, transparency over implementation methods differs among the various listed companies.

In line with the evidence emerged in previous years, there is lot of room for improvement in the assessment of the actual independence of parties that declare to meet this requirements and the relative transparency of their corporate governance reports. This is particularly important when it comes to professional or asset-based relationships between an independent director and the issuer or related parties, whose significance must be assessed by corporate bodies.

The 2017 shareholders' meeting season featured growing attendance by institutional investors, in particular in companies with the highest degree of capitalisation. Larger institutional investors or those with more marked orientation towards stewardship are increasingly active in direct dialogue with the company, even for corporate governance profiles. Over the past five years, voting on remuneration policies has stimulated the scrutiny of director and management incentive mechanisms by institutional investors,

who focus increasingly on engagement by seeking dialogue with issuers not only before shareholders' meetings but also in a structured, ongoing way.

Furthermore, investor interest increasingly extends to the issuers' approach to social and environmental issues. The best and most recent practice of larger issuers in their dialogue with investors shows, on the one hand, that the usual functions of investor relations are supported by corporate structures specialised in ESG (*Environmental Social Governance*) and, on the other hand, that the chairman of the board of directors is assigned the task of senior supervision of shareholders' relations, confirming the strategic importance of this activity. The imminent implementation of the new non-financial information standards, introduced by Legislative Decree no. 254 of December 30, 2016, will increase the comparability and completeness of the information provided by issuers on corporate and environmental issues (see Chapter VI below, 'Regulatory activity').

Consob's personnel took part, as mere spectators, in certain shareholders' meetings regarding the renewal of corporate bodies, resolutions on recapitalisation and governance-related changes to by-laws. Among these are to be noted the adoption by two high capitalisation issuers (Unicredit and Mediaset) of changes to the by-laws to include the provision of the right of the outgoing board of directors to submit a slate of candidates for the renewal of the board of directors

The recognition of by-law practices in matters of slate voting also brought to light the existence of provisions which may discourage the submission of slates by minorities by making it more difficult by placing particular additional constraints on the composition of the slates and the number of candidates to be indicated for the purposes of valid presentation. Therefore, the existence of these clauses was brought to the attention of the corporate bodies of some issuers

Consob discussed all areas of corporate governance with the supervisory bodies, in order to verify their performance of supervisory tasks, even in terms of prevention and continuity, and to speed up the detection of critical issues or areas for improvement in the governance of the issuers.

The supervision of fulfilment by corporate supervisory bodies of their tasks of verifying the adequacy of internal control systems and compliance with the principles of sound management brought to light certain shortcomings, sometimes also involving the infringement of the principles of sound management. In particular, supervision has detected the inadequacy of the organisational structure and the lack of means to control the work of top executives, in relation to the lack of precise definition of roles, tasks and relative responsibilities in the management of the company, which allowed the interference of the front-line directors in the work of the corporate bodies.

One case was identified of the systematic alteration of data concerning the issuer's typical activity, made possible by both the inadequacy of business processes and procedures and by the lack of in-depth assessment by the control and risk committee and the board of statutory auditors. Shortcomings in both internal procedures for the procurement and supply of goods and services and sales-related processes were also identified with regard to this poor assessment.

In 2017, the supervisory bodies made thirteen reports of irregularities encountered as a result of their investigations into the internal control system, transactions with related parties or other corporate transactions. The increasingly productive dialogue with supervisory bodies testifies to the improved understanding and more effective performance of preventive and continuous supervision of compliance with the rules.

In line with the senior management role in the internal control system adopted by the board of statutory auditors over the years, Legislative Decree 254/2016 has also attributed to this body the task of supervising compliance with the new obligations of transparency in the area of non-financial information, whose initial application is expected with the publication of the 2017 annual financial statements.

Within the scope of supervision of the application of the law on gender quotas, Consob monitored the composition of the corporate bodies resulting from the shareholders' renewal and variations over time due to the resignation of directors or statutory auditors. In 2017, there were no infringements of gender allocation criteria that led to the adoption of formal warning measures by Consob, given that the temporary misalignments in the composition of the bodies were eliminated promptly by the ordinary corporate processes of replacing members of the less represented gender.

7 Supervision of auditing firms

At the end of 2017, there were 36 entities carrying out statutory auditing of public-interest entities (PIEs) and entities subject to intermediate regime (ESRI) that, pursuant to the legislation in force, fall under the supervision of Consob (33 in 2016); namely 26 auditing firms, two Cooperative Federations in Trentino Alto Adige and eight natural person auditors. There were around 1,450 auditing assignments for PIEs and ESRI.

The auditing market is highly concentrated: approximately 89 percent of the assignments for the statutory auditing of annual and consolidated financial statements of issuers with listed shares were held by four large auditing firms (the so-called 'Big Four'), a figure slightly up on the 88 percent of the previous year (Tab. 38).

Tab. 38 Distribution of Italian listed companies by independent audit firm

| | independent audit firm | | | | | | | |
|------|------------------------|---------------------------|-----------------------|---------------------------|----------------------|---------------------------|---------------------|---------------------------|
| | <i>big four</i> | | medium-size companies | | small-size companies | | <i>total</i> | |
| | no. of appointments | market share ¹ | no. of appointments | market share ¹ | no. of appointments | market share ¹ | no. of appointments | market share ¹ |
| 2013 | 211 | 87 | 30 | 12 | 3 | 1 | 244 | 100 |
| 2014 | 207 | 86 | 26 | 11 | 8 | 3 | 241 | 100 |
| 2015 | 211 | 91 | 12 | 5 | 8 | 4 | 231 | 100 |
| 2016 | 203 | 88 | 23 | 10 | 4 | 2 | 230 | 100 |
| 2017 | 204 | 89 | 18 | 8 | 7 | 3 | 229 | 100 |

Source: Consob. ¹ Percentage value.

Article 16, paragraph 3, point 3, of Regulation (EU) no. 537/2014, on the statutory auditing of PIEs introduced the obligation for the supervisory authorities of auditors of the PIEs of EU Member States to publish a list, to be updated annually, containing information on the auditors and auditing firms that recorded in the previous calendar year less than 15 percent of their total fees from auditing assignments from PIEs in their Member State of reference. This provision is intended to prevent those whose turnover from EIP auditing assignments is insignificant from being excluded from selection procedures for EIP auditing assignments.

In February 2017, for the first time Consob published on its website information on the four auditing firms (KPMG PricewaterhouseCoopers, Ernst & Young and Deloitte & Touche) whose revenue from PIE auditing in 2016 exceeded 15 percent of the total turnover in the reference country, referring to the appropriate 'Statutory Auditing' section of the Italian Ministry of Economy and Finance website for a list of all the other statutory auditors. The same information was also confirmed for 2017.

Legislative Decree no. 39 of January 27, 2010, allows the parties - provided that the requirements established by Ministerial Decree no. 261 of December 28, 2012, are met - to terminate statutory auditing engagements in advance, using, as well as the right of withdrawal for just cause (at the initiative of the entity under audit), resignation from the assignment (at the initiative of the statutory auditor) or termination of the auditing contract by mutual agreement

2017 recorded a significant overall increase in cases of early termination of contracts for the statutory auditing of PIEs and ESIRs, going from 71 in 2016 to 105. This growth is due mainly to the cases of mutually agreed termination (Tab. 39).

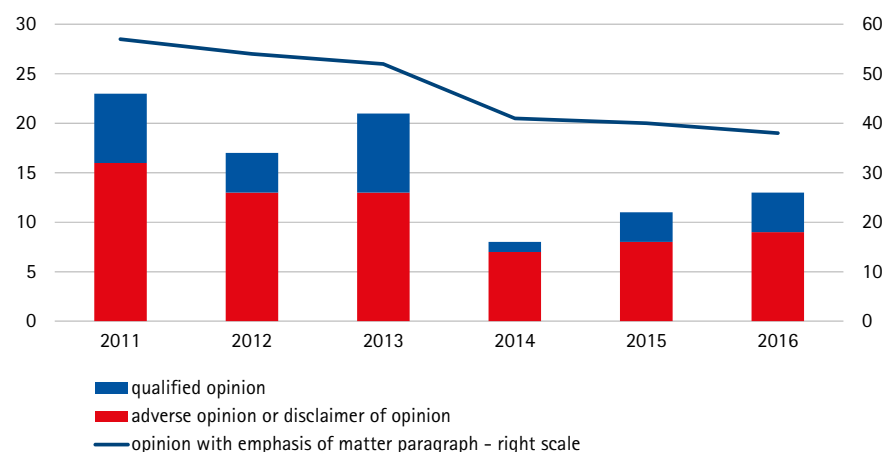
Tab. 39 Cases of dismissal of independent auditors

| | dismissal | consensual termination | resignation |
|------|-----------|------------------------|-------------|
| 2013 | 37 | 45 | 3 |
| 2014 | 32 | 16 | 6 |
| 2015 | 24 | 62 | 2 |
| 2016 | 27 | 37 | 7 |
| 2017 | 36 | 67 | 2 |

Source: Consob.

With reference to the opinions expressed by the auditing firms on the annual and consolidated financial statements of listed Italian issuers for the financial year 2016, as compared to the previous year, there is a marginal increase in cases of impossibility to express an opinion and qualified opinions, as well as a slight fall in opinions with requests for disclosure (Fig. 10).

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



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

Supervision of auditors: quality controls and enforcement

In 2017 supervision was performed by means of preventative quality control to verify the existence and the proper application of internal auditing procedures adopted by the auditing firm and to examine a sample of audit assignments.

The above-mentioned areas of procedure were analysed using the same methodology adopted by the other Member States, i.e., the 'Common

Audit Inspection Methodology' (CAIM) within the framework of the Committee of European Auditing Oversight Bodies (CEAOB), the authority that coordinates the European regulators (for the activities of the Committee, see Chapter VIII 'Back-office activities and international cooperation').

Verifications of organisational and procedural compliance continued with follow-ups for another two auditing firms whose final reports on quality control had already been submitted in the previous year. Furthermore, the analysis of organisation and procedural documentation is in progress for nine small and medium-sized auditing firms, in the light of the provisions of the aforementioned quality control principle (ISQC Italy 1).

As a result of complex planning, in 2017 international cooperation was initiated with the US audit supervisory authority (the Public Company Accounting Oversight Board - PCAOB), through a joint inspection of quality control performance in a large auditing firm.

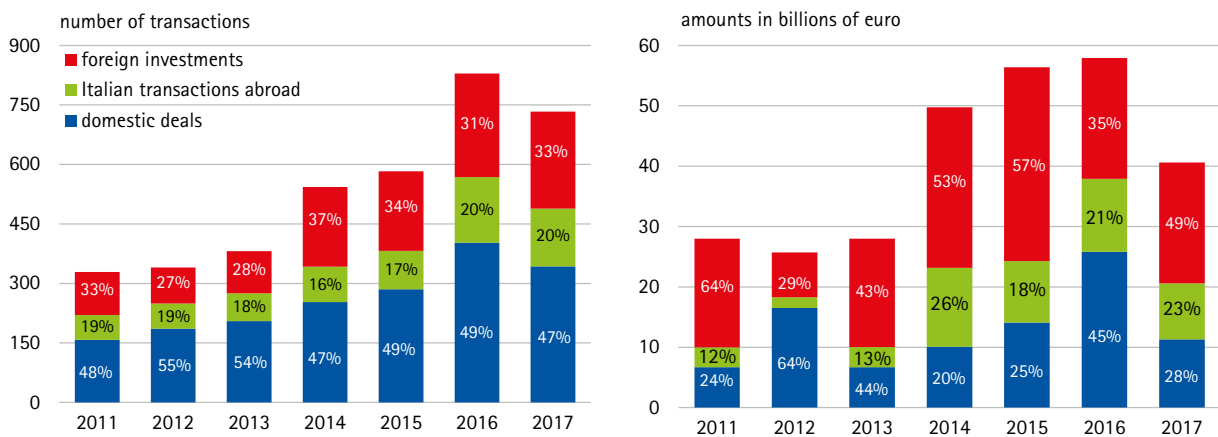
Over the year, enforcement activities were undertaken for specific cases, mainly relating to the auditing of financial statements of banks. In particular, as a result of the investigations into the method of execution of statutory auditing assignments, four sanctioning proceedings were initiated, one of which was concluded in December 2017 with the issue of a measure against a an auditing firm for the work it carried out for a bank.

In the context of the supervision of quality controls, enforcement, as well as for the purposes of international cooperation with other supervisory authorities, an overall 19 requests for information and/or hearings were made with regard to statutory auditors (24 in 2016), exercising the powers assigned by articles 20 and 22 of Legislative Decree 39/2010, and the application of Regulation (EU) 537/2014.

1 Raising of venture capital and extraordinary finance transactions

In 2017, Italian companies experienced 733 mergers and acquisitions (M&A), for a total value of approximately 41 billion euro. This figure is lower than the maximum values of 2016 (829 transactions for 58 billion euro), although it is clearly higher than that of investments in the preceding five years (Fig. 11).

Fig. 11 Mergers and acquisitions of Italian listed companies

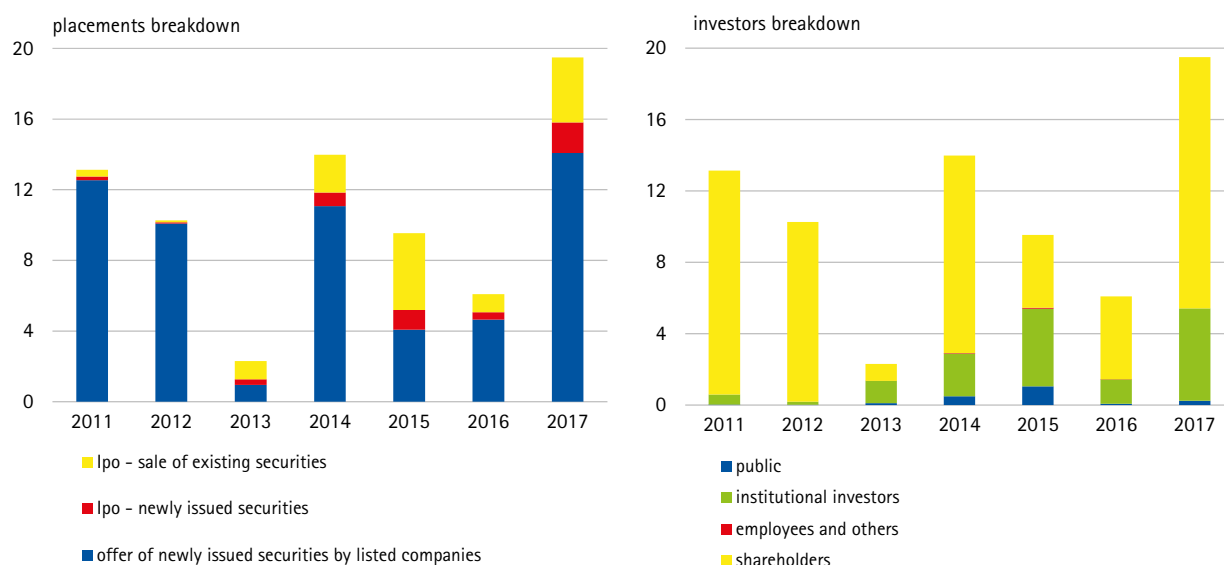


Source: KPMG.

The raising of resources through stock market placement recorded significant growth in 2017, reaching almost 20 billion euro (compared to around six billion in 2016), mainly due to capital raises by means of rights issue and in part to the increase of offerings for listing (Fig. 12).

In 2017, the trend of admissions to listing with placement showed signs of recovery. The number of Italian companies admitted to listing more than doubled, from 14 in 2016 to 32, seven of which on the *Mercato Telematico Azionario* (MTA), one on the Investment Vehicle Market (IVM) and 24 on the AIM Italia - Mercato Alternativo del Capitale (Alternative Capital Market) (Tab. 40).

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



Source: Borsa Italiana.

Tab. 40 Initial public offerings by Italian companies aimed at admission to listing
(amounts in millions of euro)

| | no. of companies | pre-offering capitalisation ¹ | IPO value | | | proportion of post-offering capitalisation ² |
|------|------------------|--|--------------|-------|-------|---|
| | | | subscription | sale | total | |
| 2011 | 8 | 1,602 | 61 | 379 | 440 | 26.4 |
| 2012 | 6 | 602 | 71 | 113 | 184 | 29.6 |
| 2013 | 16 | 3,389 | 312 | 1,032 | 1,344 | 35.9 |
| 2014 | 26 | 6,865 | 765 | 2,175 | 2,940 | 38.5 |
| 2015 | 27 | 13,144 | 1,056 | 4,688 | 5,744 | 41.7 |
| 2016 | 14 | 2,826 | 417 | 1,026 | 1,443 | 44.5 |
| 2017 | 32 | 9,577 | 1,735 | 3,896 | 5,631 | 46.5 |

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

The most significant operation was the re-listing of Pirelli & C, with a pre-offering capitalisation calculated at the offer price, of 6.5 billion (68 percent of the IPO of the year) and a value of 2.6 billion (46 percent of total value).

There was also an increase in companies that over the year applied for admission to trading on AIM Italia (24 against 11 in 2016).

The results of offerings for listing confirm the consolidation of the role played by institutional investors, who have become over time almost

exclusive beneficiaries of the same offerings, with the share allocated to the public reduced to little more than 4 percent (see also the next paragraph; Tab. 41).

Tab. 41 Italian listed companies: results of offerings

| | allocated percentage ¹ | | | supply - demand ratio ² | |
|------|-----------------------------------|-------------------------|----------------------------|------------------------------------|------------------------|
| | public | institutional investors | other parties ³ | public offering | institutional offering |
| 2011 | 6.8 | 92.9 | 0.3 | 1.0 | 1.9 |
| 2012 | 10.0 | 90.0 | -- | 6.2 | 16.5 |
| 2013 | 7.2 | 92.8 | .... | 11.0 | 21.3 |
| 2014 | 17.3 | 82.7 | -- | 3.9 | 3.2 |
| 2015 | 19.3 | 80.7 | -- | 1.4 | 5.9 |
| 2016 | 5.4 | 94.6 | -- | 2.4 | 7.8 |
| 2017 | 4.1 | 95.9 | .. | 1.4 | 2.1 |

Source: Consob and Borsa Italiana. Data include initial public offerings seeking admission to listing on the AIM/Mac since 2012, and on each MTFs in the periods prior to unification, also via pre-bookings with reserved capital increase. Japanese tranche of Moncler public offering in 2013 (approximately 68 millions of euro) are included in the institutional investors category. ¹ Weighted average by the amounts offered; percentage data. ² The average value of supply-demand ratio are calculated only on offerings for which both the public and institutional figures are known. ³ These are named parties for which a certain amount of shares is reserved, also as a result of agreements reached prior to listing.

2 Supervision of public offerings and admission of shares to trading

In 2017, Consob approved fifteen prospectuses for the admission to trading of shares of both already listed and newly listed companies, seven prospectuses for capital increase through rights issue and two prospectuses for offerings of unlisted securities by Italian issuers. Consob also issued three equivalence opinions (Tab. 42).

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

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-----------|-----------|-----------|-----------|-----------|-----------------------|-----------|
| admissions to listing of shares ¹ | 7 | 2 | 5 | 10 | 16 | 13 | 15 |
| of which: through public offering | 5 | 2 | 3 | 9 | 13 | 6 | 2 |
| rights issue ² | 23 | 7 | 11 | 17 | 9 | 4 | 7 |
| other offerings ³ | -- | 1 | 1 | -- | -- | -- | -- |
| unlisted securities offerings of Italian issuers ⁴ | 31 | 24 | 10 | 19 | 15 | 6 | 2 |
| judgements of equivalence | 6 | 7 | 6 | 2 | 4 | 5 | 3 |
| <i>total</i> | <i>67</i> | <i>41</i> | <i>33</i> | <i>48</i> | <i>44</i> | <i>28⁵</i> | <i>26</i> |

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

All the transactions for admission of shares to trading on the regulated market were concluded favourably. Of these, six were for the implementation of industrial investment and corporate integration projects or external line growth projects and were carried out through both capital raise in kind and inverse mergers involving listed SPACs. The remaining nine cases relate to transactions of first admission and include seven issuers that can be qualified as small- and medium-sized enterprises (SMEs) pursuant to Article 1, paragraph 1, letter *w-quater.1)* of the Consolidated Law on Finance, thereby indicating the interest of domestic companies in the stock market.

As mentioned in the previous paragraph, the most significant initial takeover bid was that of Pirelli & C, with more than two billion euro raised. The other eight transactions were merely for admission to trading and concerned offerings intended exclusively for institutional investors.

With reference to the capital raises through rights issue, Consob examined recapitalisation transactions of issuers in situations of serious financial tension (Il Sole 24 Ore, Carraro, Pininfarina, Industria e Innovazione) performed within the framework of debt rescheduling and company reorganisation projects, even through the admission of new financial backers or new corporate assets.

Significant recapitalisation transactions of listed bank issuers (Banca Carige, UBI Banca and Unicredit) continued, including in compliance with the requests of the European Central Bank.

Compared with the previous years, the number of offerings of unlisted securities by Italian issuers fell. During the year, Consob only approved one public offering prospectus, from an unlisted bank that intended to widen its corporate base, and one intended for the establishment of a new bank.

In 2017, Consob also issued a refusal to approve the prospectuses of a company in the energy sector. These prospectuses were related to a first tranche of bond-type equity-related financial instruments (SFPs, strumenti finanziari partecipativi), to be offered and listed on the MOT, and a second tranche to be offered in exchange to holders of ordinary shares issued by another company in the same sector.

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

With reference to the supervision of the completeness, consistency and comprehensibility of the information provided in the prospectuses concerning non-equity Community financial instruments, in 2017, Consob approved 550 prospectuses, of which 86 referred to debenture loans, 417 to

UCIs, 43 to covered warrants and certificates and four relating to the admission of warrants to listing (Tab. 43).

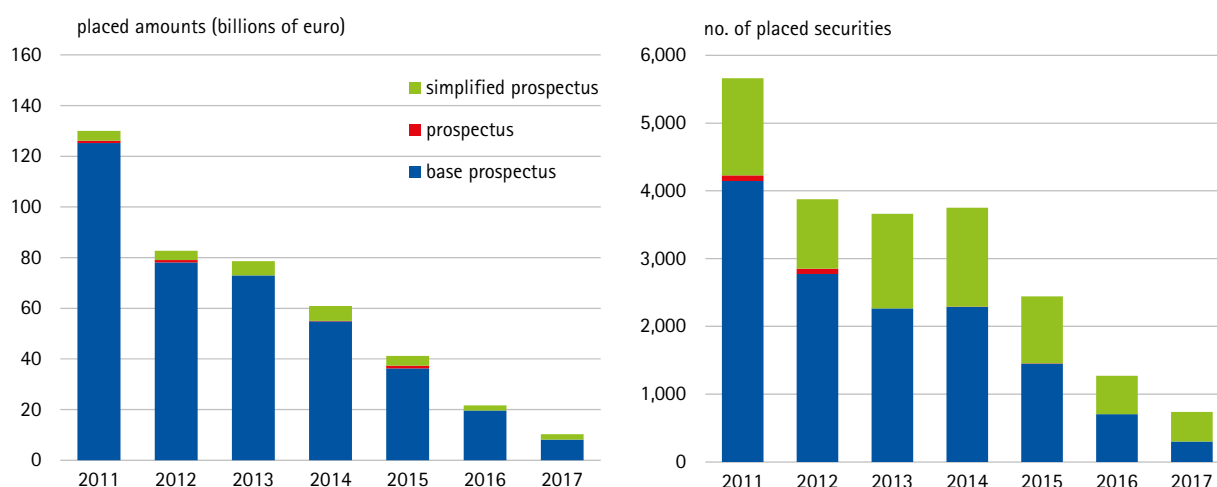
Tab. 43 Supervision of public offerings and admission to trading of non-equity instruments
(number of prospectuses)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------------|--------------|--------------|------------|------------|------------|------------|
| bonds | 777 | 535 | 517 | 313 | 272 | 146 | 86 |
| <i>of which: base prospectuses</i> | 416 | 286 | 196 | 148 | 117 | 58 | 30 |
| <i>prospectuses</i> | 14 | 7 | 3 | 8 | 8 | 3 | 1 |
| <i>registration documents and supplements</i> | 347 | 242 | 327 | 157 | 147 | 85 | 55 |
| covered warrant ¹ and certificates | 66 | 52 | 104 | 58 | 33 | 46 | 43 |
| admission to listing of warrants | -- | -- | -- | 1 | 1 | -- | 4 |
| UCITS² | 330 | 415 | 478 | 537 | 424 | 412 | 417 |
| <i>total</i> | <i>1,173</i> | <i>1,002</i> | <i>1,009</i> | <i>909</i> | <i>730</i> | <i>604</i> | <i>550</i> |

Source: Consob. ¹ Number of prospectuses approved during the year, each normally concerning the issue of multiple series of covered warrants (4,740 in 2017, for the greater part directly admitted to trading in regulated markets, and 520 certificates). The total includes 19 base prospectuses, three registration documents, and 21 supplements. ² The figure includes public offering of Italian mutual funds and SICAV shares, admission to listing of units of Italian closed-end funds and financial instruments issued by foreign management companies; it also includes distributed harmonised foreign UCITS funds. It is noteworthy that: i) from 1 July 2009, no prior authorisation is required for the publication of prospectuses for open-end Italian UCITS; ii) the 1 July 2011 marked the entry into force of a new notification procedure between the authorities of the originator member state and Consob, pursuant to article 93 of Directive 2009/65/EC and Regulation EU 584/2010.

With regard to non-equity financial products placed by credit institutions, in 2017 (for domestic prospectuses relating also to the previous year) the progressive reduction continued in both volumes (around 10.3 billion euro compared to more than double that in 2016) and number of securities offered (around 740 compared with just over 1,270 in 2016 (Fig. 13).

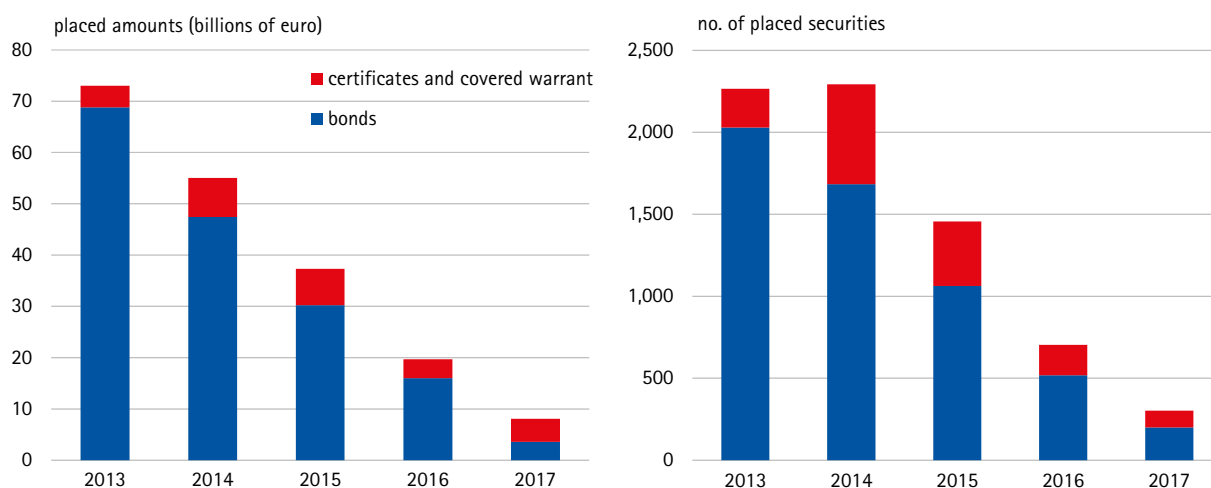
Fig. 13 Bonds, certificates and covered warrants offered by Italian banks by category of prospectus
(domestic prospectuses)



Source: Consob.

In the context of offers under the ordinary scheme, the reduction in the amount placed only concerned the bond segment (whose volumes are brought to about Euro 3.5 billion) down 78 percent on the previous year (Fig. 14).

Fig. 14 Bonds, certificates and covered warrants offered by Italian banks by category of prospectus
(domestic prospectuses under ordinary scheme)



Source: Consob. Figures refer to offerings under ordinary scheme pursuant to artt. 94 et seq. of Consolidated Law on Finance.

Regarding the financial structure of bank issuers' debenture loans, in continuity with the evidence of the previous year, issues characterised by pre-set rates (fixed rate and step up/step down) prevail in number. In terms of volumes actually placed, however, mixed rate bonds hold the largest share of the value with just over a third of the total. There is also a noticeable absence of public offerings of subordinated bonds.

With reference to certificates and covered warrants, which are mainly admitted directly to trading on the relative trading market, issues show an overall decrease compared to 2016.

This decrease seems due to the reduction recorded in the covered warrant segment (only partially mitigated by a relative increase in the certificates segment) and can also be attributed to the transformation of the SeDeX into a MTF at the end of November 2017.

In 2017, the bond market of non-financial companies showed signs of recovery after three years of substantial stability. Corporate issues recorded an increase in number of over 80 percent, for a total volume of 43 billion euro (compared with 22 billion in 2016).

In 2017, Consob verified the completeness of documents and the validity of the certificate of approval of 493 documents approved and notified to Consob by EU authorities, pursuant to Directive 2003/71/EC (Prospectus Directive). These documents consist of 89 base prospectuses, 28 information prospectuses and 376 supplements (517 in 2016).

In 2017, seven subjects (six in 2016) were authorised to proceed with ten issues of so-called *Titoli di Risparmio per l'Economia Meridionale* (bonds for Southern Italy economy) within the previously communicated limits (six entities and nine issues in 2016).

4 Corporate disclosure supervision

In the course of the year, Consob conducted the usual supervision of corporate disclosure and ownership structures, initiating 539 requests for information pursuant to Article 115 of the Consolidated Law on Finance and 28 requests for disclosure of data and information pursuant to Article 114 of the Consolidated Law on Finance (Tab. 44).

Pursuant to Article 69-*novies*, paragraph 2 of the Issuers' Regulation, qualified entities were requested to publish four investment recommendations (11 in 2016), all produced by foreign intermediaries with branches in Italy, due to the spreading of news and indiscretions in the market about their content, which resulted an incorrect framework of information for investors and a significant variation in the price and/or the trading of the financial instruments subject of the said recommendations. Consob also sent three warning letters and initiated proceedings to challenge financial statements as well as against alleged non-conformity pursuant to Article 154-*ter*, paragraph 7, of the Consolidated Law on Finance.

In ten cases, Consob decided to notify the Judicial Authorities of potentially criminally significant facts established in the course of its supervision.

In the course of the year, Consob also received 260 notifications of delay in the disclosure of insider information pursuant to Article 17, paragraph 4, of Regulation (EU) no. 596/2014 (Market Abuse Regulation - MAR) and four requests for authorisation to delay the disclosure of insider information pursuant to Article 17, paragraph 5 of the MAR (the first since the legislation came into force).

Tab. 44 Supervision of corporate disclosure and ownership structure

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|------|------|------|------|
| request of information pursuant to art. 115, Consolidated Law on Finance ¹ | 611 | 570 | 691 | 633 | 502 | 448 | 539 |
| request to publish data and information pursuant to art. 114, Consolidated Law on Finance ² | 129 | 128 | 171 | 106 | 89 | 65 | 28 |
| waiver of disclosure of data and information pursuant to art. 114, par. 6, Consolidated Law on Finance | 9 | 1 | 17 | 5 | -- | -- | -- |
| delays in disclosure pursuant to art. 114, par. 3, Consolidated Law on Finance | 4 | 6 | 13 | -- | 3 | -- | -- |
| request for immediate publication of researches when there are rumours, pursuant to art 69-novies of Issuers' Regulation | 2 | -- | 9 | 29 | 14 | 11 | 4 |
| delay in disclosure of inside information | -- | -- | -- | -- | -- | 70 | 264 |
| written reprimand | -- | -- | 2 | 10 | 6 | 3 | 3 |
| challenges of Financial statements | -- | 1 | 1 | 1 | -- | -- | 1 |
| non-compliance proceedings pursuant to art. 154-ter, par. 7, Consolidated Law on Finance | -- | 10 | 5 | 5 | 2 | 1 | 1 |
| reports to legal authorities | 3 | 8 | 13 | 18 | 8 | 22 | 10 |

Source: Consob. ¹ The figure includes information requests on ownership structure. The figure referred to 2014 includes requests for information related to the approval of takeover bids and exchange tender offer documents. ² The figure for 2012 includes a request for supplementary information concerning related-party transactions.

In 2017, a total of five sanctioning proceedings were initiated for infringements of the regulations on the disclosure of price-sensitive information to the public. With reference to the regulations on internal dealing, now regulated by Article 19 of the MAR (persons discharging managerial responsibilities in the issuer, as well as persons closely associated with them) and by Article 152-*octies* of the Issuer's Regulation (significant parties), upon conclusion of the usual checks on the completeness and timeliness of public disclosure, two sanctioning proceedings were launched against two natural persons, listed issuers' directors, for the failure to disclose/delayed disclosure of information on trading transactions involving the issuer's securities performed by them or by people closely associated with them (for the procedures concluded and the sanctions resolved, see Chapter V below 'Inspection activity and sanctions').

4.1 Accounting information

The financial and accounting reporting of listed companies is supervised by means of sampling as provided for in Articles 118-*bis* of the Consolidated Law on Finance and 89-*quater* of the Issuer's Regulation, and consistent with the relative principles issued by ESMA (*Guidelines on enforcement of financial information*).

As usual, with the *European common enforcement priorities for 2016 financial statements* of October 28, 2016, (ESMA/2016/1528), ESMA indicated certain priorities of supervision for the 2016 financial statements, reiterated in Consob Communication no. 0031948/17 of March 10, 2017.

According to these priorities, Consob determined the parameters for the identification of the risk-based part of the sample, as referred to in paragraph 3 of Article 89-*quater* of the Issuer's Regulation.

Finally, ESMA warned issuers of the need to assess their exposure to financial, operational and/or strategic risks deriving from the withdrawal of the United Kingdom from the European Union, and to provide adequate information about on such exposure.

In line with its Founding Regulations, ESMA performs periodic peer reviews of the supervisory activities of National Competent Authorities (NCAs), so as to promote a common approach to national enforcement. Therefore, in application of the 2016 Work Programme, in the first half of 2017 ESMA conducted a review of the convergence in approaches achieved in the application of the Guidelines on enforcement of financial information of October 28, 2014.

The peer review focused on the adequacy of the human and financial resources of the NCAs, the system for selecting the supervision sample and the effectiveness of the procedures for the analysis of financial information disclosed by issuers included in the supervision sample.

In November, Consob first exercised its power to publish the list of companies required to disclose regulated information that fail to fulfil their obligations, in order to notify the market of the non-compliance of these companies.

As usual, in 2017 Consob assessed the opportunity of subjecting certain listed companies to specific additional periodic obligations of disclosure, on the basis of the powers conferred by Article 114 of the Consolidated Law on Finance. These obligations are subject to review on the occasion of the publication of issuers' accounting documentation (financial statements and interim statements), in order to take account of the evolution of the companies' situations.

4.2 The banking and insurance sectors

In 2017, signs emerged of the easing of tensions in the banking sector in the face of, *inter alia*, a reduction in the rate of new Non-Performing Loans (NPLs) and receivables and this despite the persistence of conditions of low profitability. There remain, however, certain significant risk profiles for the sector that necessitated further targeted investigation by Consob.

In particular, intense supervision was undertaken of the significant extraordinary transactions and restructuring processes implemented by bank issuers that exhibited criticalities. In line with the risk based approach, Consob focused its attention on the budgetary areas of greatest interest for

the sector and for investors, also taking into account the priorities identified by ESMA for financial statements (ECEP; see paragraph above) and the initiatives launched by other European and international authorities .

Reference is made in particular to the actions implemented by credit institutions in compliance with European regulator instructions, intended in part to limit and reduce the high level of impaired exposures (NPLs) of Italian banks.

In the context of the monitoring of the information on transactions concerning the distressed assets of banks, it proved particularly difficult to verify compliance with all the conditions of IAS 39 for the definitive removal of securitised loans and receivables from the financial statements (accounting derecognition).

In several cases, the effects of the NPL transfer transactions required resorting to considerable capital reinforcements (including Banca MPS, Carige and Creval, in addition to Unicredit). There were also significant rescue operations in 2017 of banks in distress by large listed banking groups (among them, Intesa Sanpaolo-Veneto Banks, UBI-*good banks* in resolution, BPER-Cariferrara), resulting in certain cases in recourse to significant capital share increases (UBI) and complex accounting recognition pursuant to the IFRS 3 principle ' Business Combinations'.

In 2017 Consob also paid particular attention to the disclosure by banks of information on the effects of the adoption of the new accounting standard IFRS 9 ' Financial Instruments', which will replace IAS 39 as from the financial statements for financial years beginning on January 1, 2018, in view of the fact that the new standard involves significant changes to the methods of classification and assessment of financial instruments for all credit institutions.

Finally, significant changes occurred for insurance companies, as a result of the entry into force on January 1, 2016, of the new prudential supervisory regime provided for by Directive 2009/138/EC (Solvency II) and of the new IFRS 17 international accounting standard , which will come into force from 2021, completing and replacing the current standard IFRS 4.

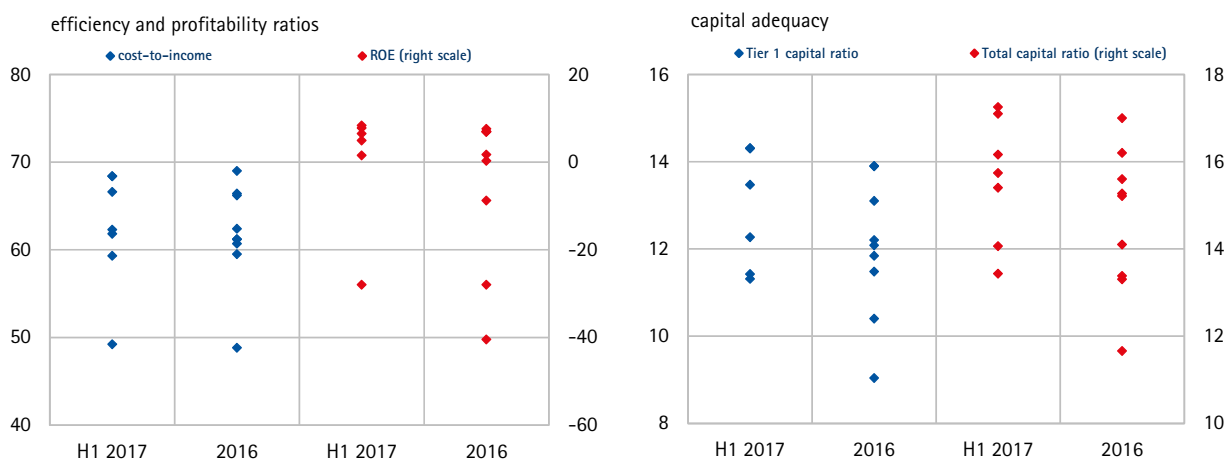
The new IFRS 17 standard, currently pending endorsement by the European Commission, establishes completely new regulations on insurance contracts and will result in significant changes to the preparation and presentation of insurance accounting, with additional impact on the commercial and development strategies of new products, and on business operations in general.

In the course of the year, the possibility was evaluated for insurance companies to defer the application of IFRS 9, which came into force on January 1, 2018, until entry into force of IFRS 17 in 2021.

1 Banks

In the first half of 2017, the profitability of the leading Italian banks showed signs of improvement on the previous year, while operational efficiency remained stable overall. The level of capital adequacy increased, as attested to by the increase of the primary solvency ratio (Tier1 ratio) and the total solvency ratio (total capital ratio; Fig 15).

Fig. 15 Income and solvency ratios of major Italian banking groups



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

In aggregate terms, as at June 30, 2017, the net profit of the leading banking groups showed an increase of 46 percent compared to the first half of the previous year, due to the growth in net commissions (+6 percent), and in particular in commissions from brokerage activities. Alongside the fall in net interest margin (-3.4 percent) and income from financial transactions (-21,1 percent), which are significant sources of revenue to banks, in the first six months of 2017 there was also a drop in intermediation margin (-2.3 percent). Operating costs fell by just over one percentage point, whereas net writedowns on loans recorded a significant increase (around 28 percent) due to the progressive impairment of credit quality (Tab. 45).

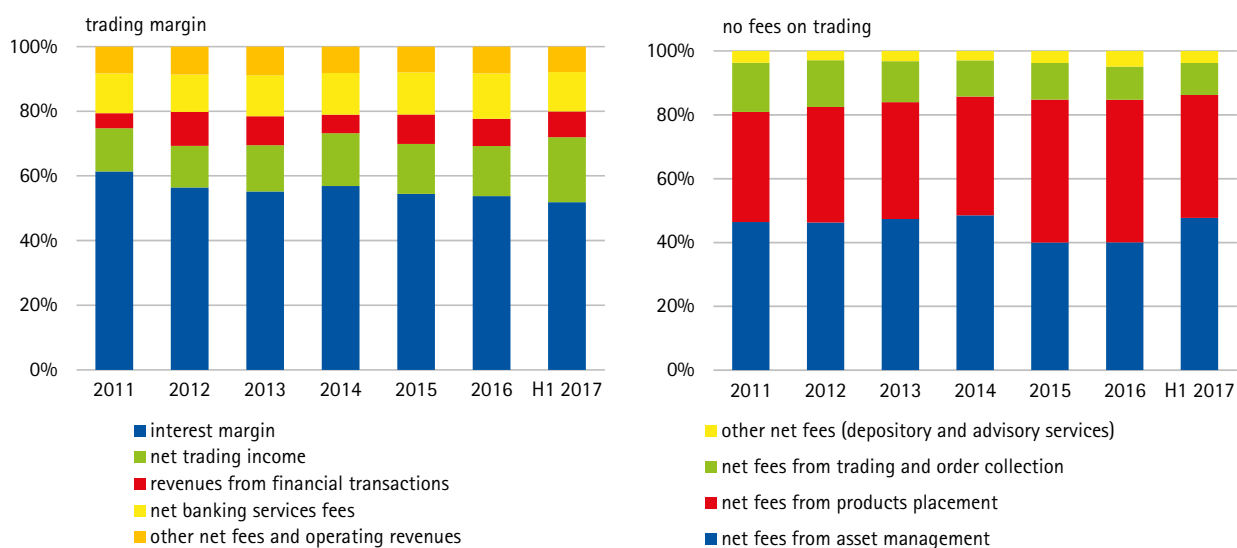
Tab. 45 Aggregate income statement for the major Italian banking groups
(millions of euro and year to year percentage changes)

| | 2013 | 2014 | 2015 | 2016 | 30 giu. 2017 | var. % ¹ | 30 set. 2017 ² |
|---|---------|---------|---------|---------|-----------------|---------------------|------------------------------|
| interest margin (a) ³ | 32,042 | 32,713 | 30,395 | 28,621 | 13,399 | -3.4 | 19,146 |
| net fees (b = b.1 + b.2 + b.3) | 19,921 | 20,852 | 19,635 | 19,437 | 10,045 | 6.0 | 15,300 |
| of which : <i>investment services and collective asset management (b,1)</i> | 8,339 | 9,366 | 8,574 | 8,247 | 5,203 | 13.1 | |
| trading of securities and currency; order receipt | 1,068 | 1,063 | 984 | 855 | 522 | -1.6 | |
| individual portfolio management | 622 | 645 | 1,029 | 1,018 | 787 | 27.1 | |
| collective portfolio management | 3,250 | 3,813 | 2,321 | 2,207 | 1,656 | 13.6 | |
| depository bank activity | 80 | 83 | 80 | 77 | 40 | 5.3 | |
| securities custody | 40 | 21 | 47 | 85 | 31 | -26.7 | |
| placement and distribution of financial and insurance products, | 3,048 | 3,482 | 3,838 | 3,681 | 2,002 | 15.4 | |
| advising | 231 | 259 | 275 | 324 | 164 | 7.3 | |
| <i>banking services (b,2)⁴</i> | 7,396 | 7,429 | 7,256 | 7,479 | 3,154 | 6.3 | |
| <i>other net fees (b,3)⁵</i> | 4,165 | 4,057 | 3,806 | 3,712 | 1,688 | -11.9 | |
| profit/loss on financial transactions (c) ⁶ | 5,171 | 3,326 | 5,121 | 4,505 | 2,050 | -21.1 | 3,228 |
| other net operating revenues (d) | 964 | 641 | 645 | 708 | 354 | -26.4 | 397 |
| profit/loss on insurance operations (e) | 790 | 932 | 997 | 995 | 527 | -7.7 | 759 |
| trading margin (f = a+b+c+d+e) | 58,888 | 58,464 | 56,793 | 54,266 | 26,375 | -2.3 | 38,830 |
| operating costs (g) ⁷ | 34,537 | 34,013 | 33,196 | 33,598 | 15,000 | -1.1 | 22,266 |
| operating income (f-g) | 24,351 | 24,451 | 23,597 | 20,668 | 11,376 | -3.9 | 16,564 |
| net credit provisions | -28,850 | -24,038 | -13,216 | -26,274 | -8,880 | 27.9 | -10,553 |
| net provisions on other financial transactions | -1,305 | -938 | -410 | -1,441 | -386 | 71.4 | -949 |
| net profit ⁸ | -4,495 | -1,577 | 7,150 | -12,511 | 4,830 | 46.0 | 8,349 |

Source: consolidated financial statements and interim reports of the eight largest Italian banking groups in terms of total assets. Rounding may cause discrepancies in the total figure. The data also take into account the banking groups eventually acquired by or merged into present groups, except for HVB (consolidated into UniCredit from 1 November 2005). ¹ Percentage change in the first half of 2017 on the first half of 2016. ² Data as of 30 June and 30 September 2017 do not include BNL group. ³ Including dividends on equity investment, capital gains and losses on participations valued according to the equity method and the balance of interest rate hedging transactions. ⁴ Net commissions for guarantees issued and credit derivatives, collection and payment services, on current accounts, credit cards and ATM services. ⁵ Net commissions for servicing on securitisation transactions, factoring and tax collection services. ⁶ The item includes the net result of trading, hedging and assets and liabilities measured at fair value, plus gains or losses from the disposal or buyback of financial assets and liabilities. ⁷ Administrative expenses and value adjustments on plants, property and equipment and intangible fixed assets. ⁸ Including minority interests.

In terms of intermediation margin, the interest margin continued to fall in June 2017, reaching 51 percent. Among the net commissions from securities brokerage, the relative weight of the profits from asset management grew to 48 percent at the end of the first half of last year, while the incidence of revenues related to financial product placement fell to 38.5 percent (Fig. 16).

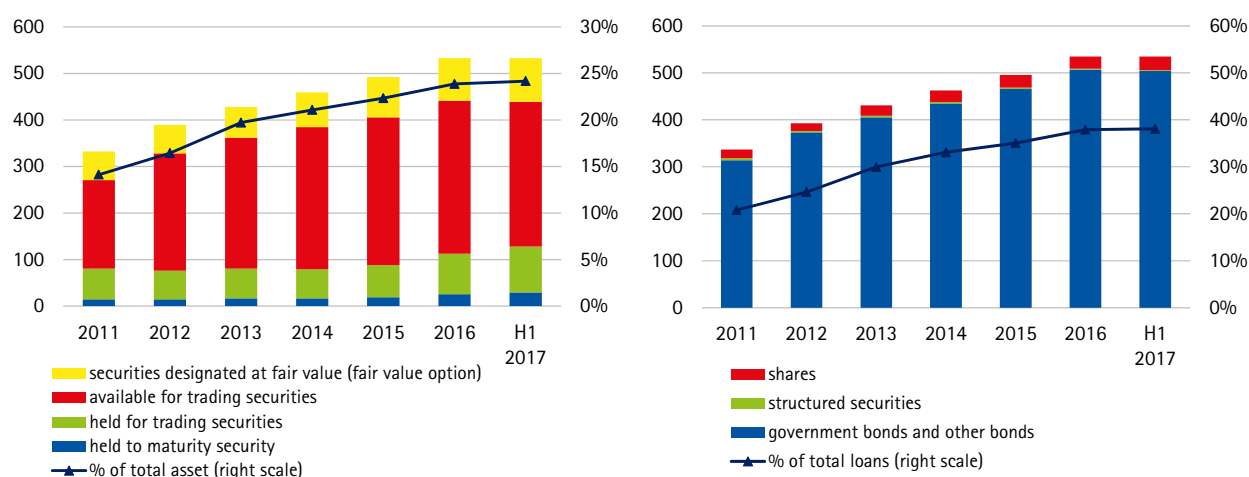
Fig. 16 Revenue breakdown for major Italian banking groups



Source: consolidated financial statements and interim reports of the eight major Italian bank groups in terms of total assets. Figures as of 30 June 2017 do not include Bnl Group.

The securities portfolio of the leading Italian banks remained almost stable compared to the end of 2016 at 24 percent of the total assets. Available-for-sale financial assets decreased from 329 billion euro in 2016 to 311 billion euro in June 2017; on the contrary, tradeable securities were up (+14 percent) along with securities held to maturity (+15 percent). In the same way, the incidence of securities on the total investments remained unchanged at around 38 percent (Fig. 17).

Fig. 17 Security portfolio breakdown for major Italian banking groups
(end of period amounts; billions of euro)

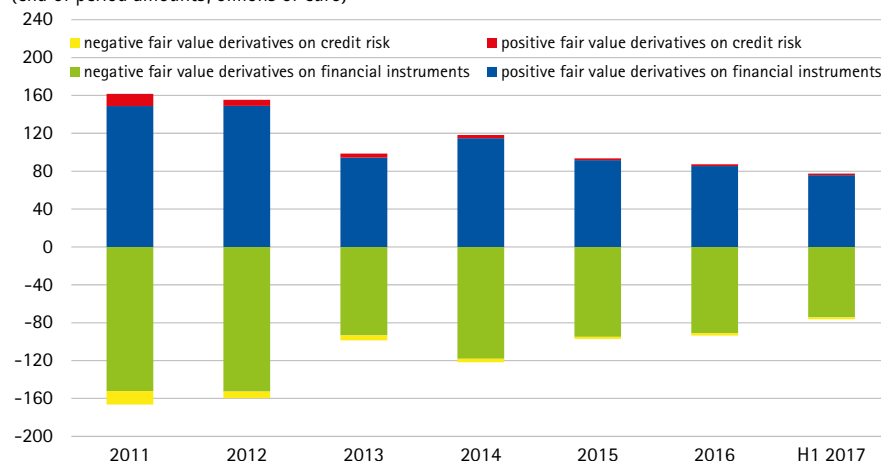


Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups in terms of total assets. Financial assets other than securities (i.e. credit facilities and loans) and already sold assets not yet cancelled, or impaired assets, are excluded. UCITs are included among bonds and Treasury bonds. Figures as of 30 June 2017 do not include Bnl Group.

The gross value of the derivatives market (intended as the sum as an absolute value of the fair value of derivative assets and liabilities) was down from 181 billion at the end of 2016 to around 154 billion in June 2017. However, the net market value (given by the difference between the fair value of derivatives recognised as assets and those recognised as liabilities) was up to around one billion euro (-6 billion in 2016; Fig. 18).

Fig. 18 Fair value of trading derivatives for major banking group

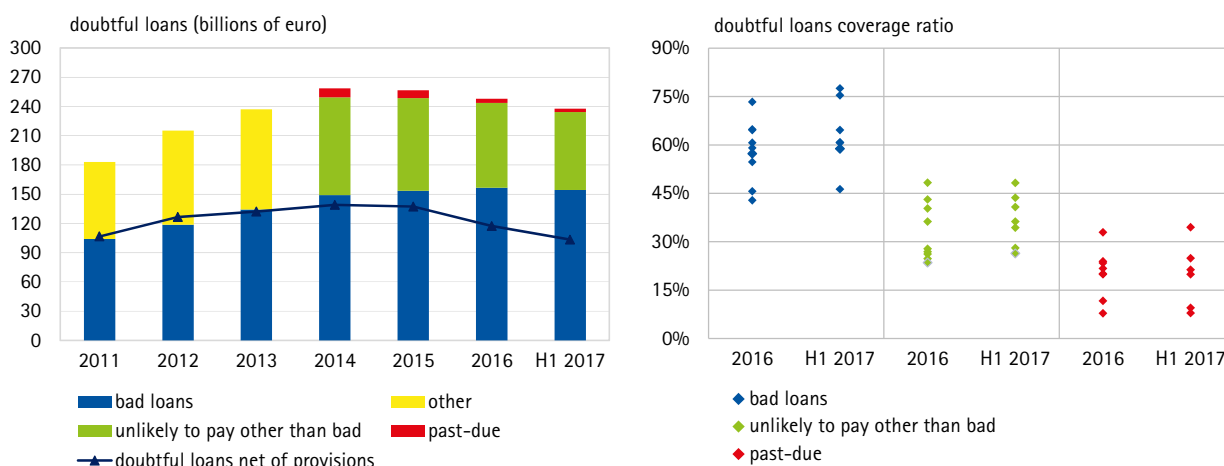
(end of period amounts; billions of euro)



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

With reference to the credit quality for the leading banking groups, in June 2017 the total amount of gross credit exposures continued to decrease due to a slight fall in the percentage of impaired loans and likely bad debts, against the persisting stability of non-performing loans (Fig. 19).

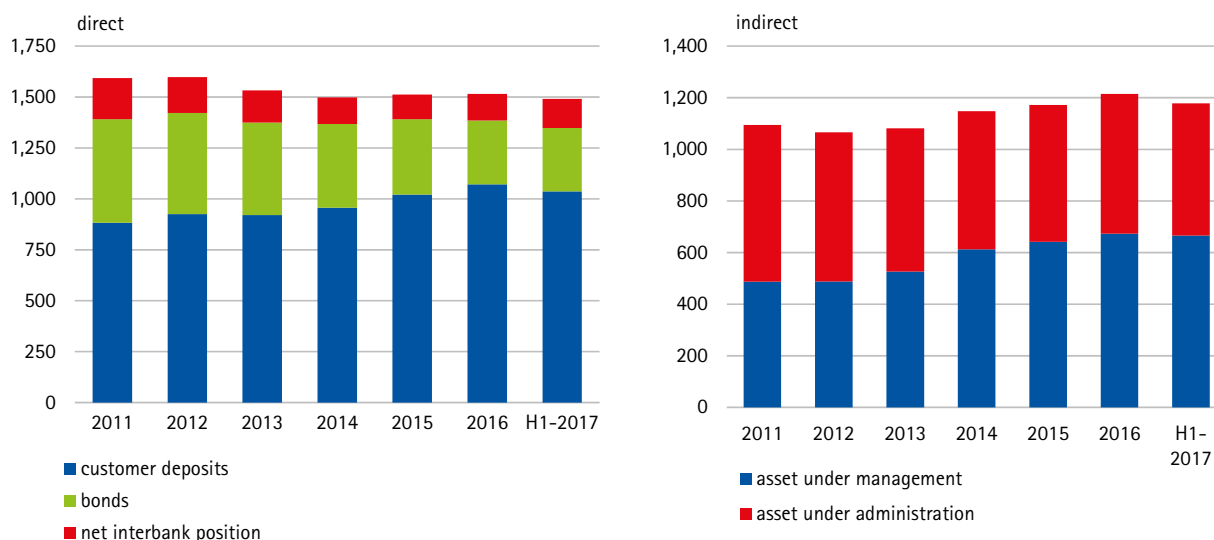
Fig. 19 Credit quality of main Italian banking groups



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

In the first half of 2017, the direct funding of the main credit institutions fell by around 10 percent due to the drop in interbank funding, while bond funding and deposits from customers were substantially stable; indirect funding, however, showed a reduction of 5.5 percent attributable to administered investment (Fig. 20).

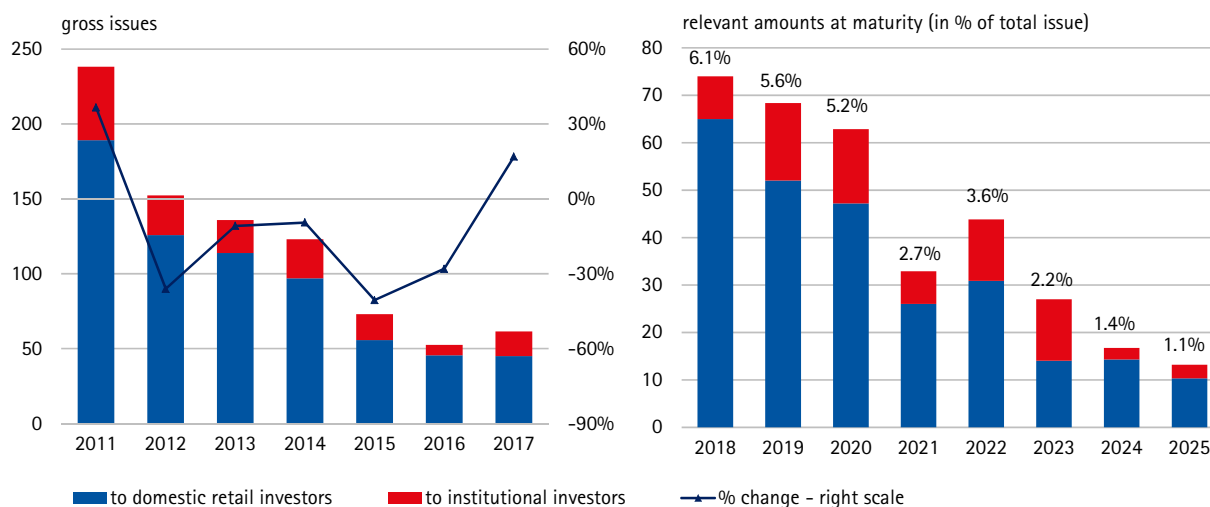
Fig. 20 Funding of major Italian banking groups
(year-end amounts, billions of euro)



Source: calculations on data from consolidated annual and interim reports of the eight largest Italian banking groups in terms of total assets. Assets under management include technical provisions related to insurance and welfare products issued by companies part of the banking group. Direct funding does not include subordinated and trading liabilities. Figures as of 30 June 2017 do not include Bnl bank group.

Bond issuing by Italian banks increased by approximately 17 percent compared to 2016, reaching 61.5 billion euro (up from 53 billion in 2016; Fig. 21).

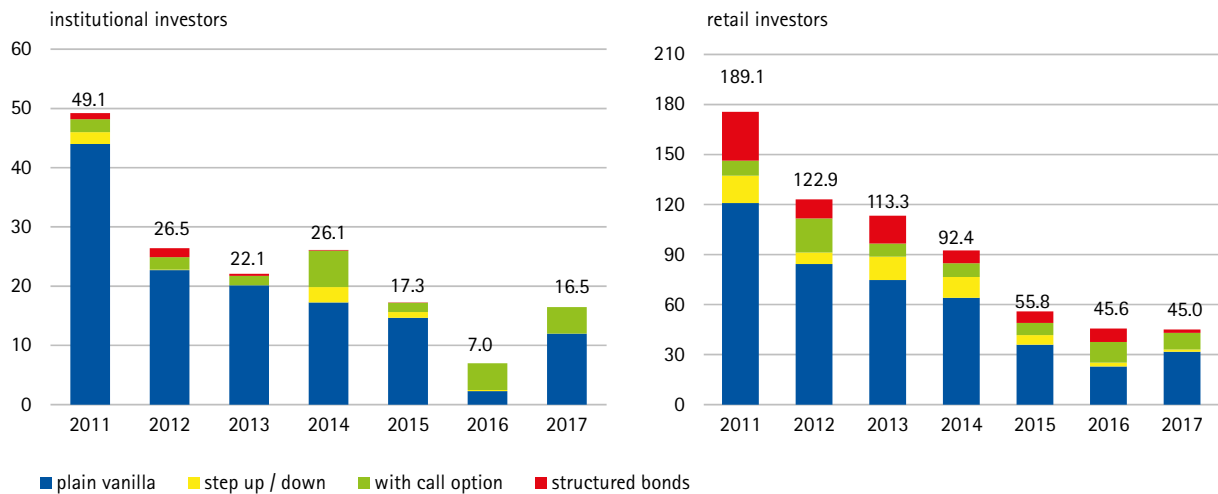
Fig. 21 Italian bank bond issues
(amounts in billions of euro)



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

The lion's share of the value of bonds in 2017 is attributable to the so-called plain vanilla securities, intended for both retail investors and the Euromarket (Fig. 22).

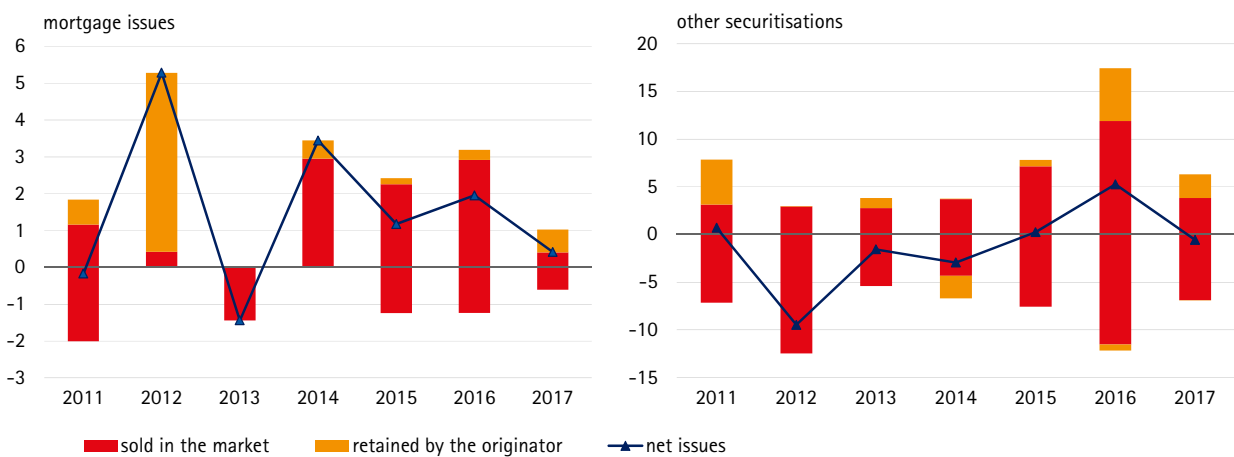
Fig. 22 Bank bond issues breakdown
(placed amount in billions of euro)



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

In 2017, the securitisation market in Italy showed very little activity, as attested to by the volume of net issues of loans and other types of securitisation, with low overall total amounts (Fig. 23).

Fig. 23 Securitisation issues in Italy
(billions of euro)

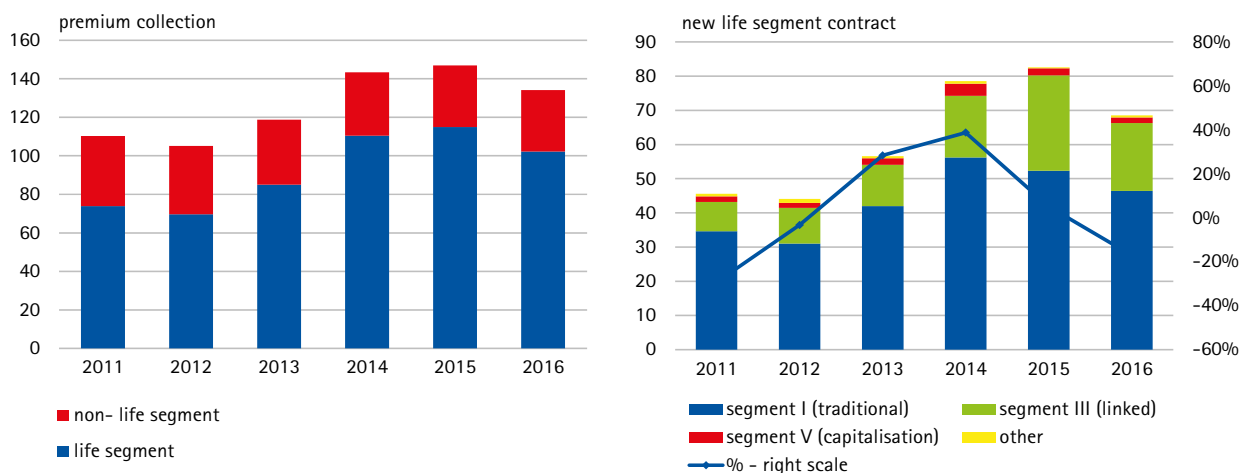


Source: calculations on Dealogic Data.

2 Insurance

In 2016, the premium income of Italian insurance companies recorded a decrease in the life segment compared with the previous year, while the non-life segment remained substantially stable (Fig. 24).

Fig. 24 Premiums collected by Italian insurance companies
(end of period amounts; billions of euro)



Source: calculation on IVASS data. Figures are net of reinsurance and of amount placed in Italy by foreign insurance companies.

In 2016, the profitability trend of insurance companies was slightly uneven compared to the previous year, increasing in the non-life segment and decreasing in the life segment.

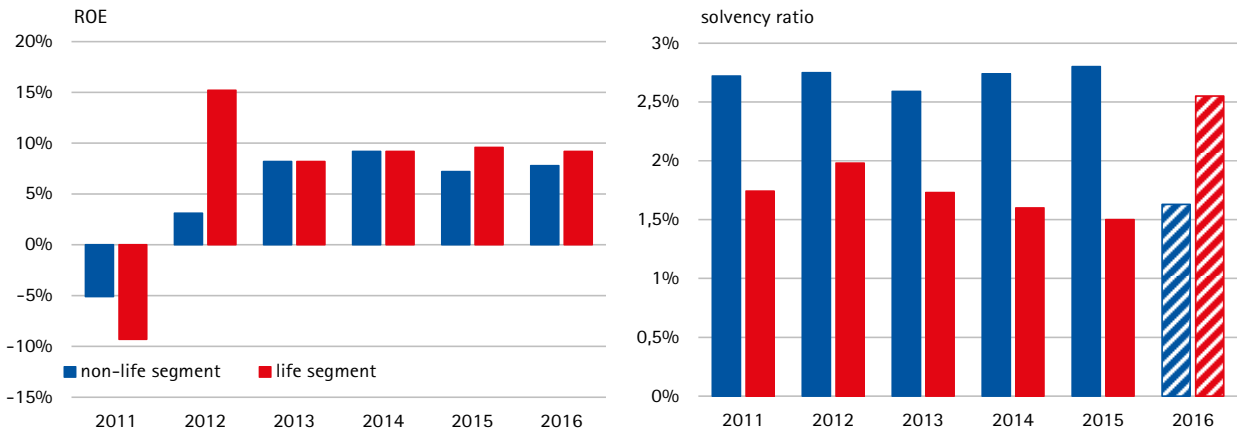
As regards solvency indexes, on January 1, 2016, Directive 2009/138/EC (so-called Solvency II), and in particular the new prudential supervision regime and the new capital solvency requirements, subject of disclosure in financial statements published at the close of the financial year 2016, came into force. Insurance companies thus drew up their solvency ratios in accordance with the new provisions, recording even data for 2015 in their first Solvency II reports.

In particular, for companies that operate in the non-life segment only, the average Solvency II value is 1.63 (against 2.83 for the same ratio calculated according to the Solvency I Directive); for those in the life segment, the ratio is 2.55, calculated according to the new prudential supervision system, compared to the 1.32 calculated according to Solvency I (Fig. 25).

At the end of 2016, the Solvency II technical reserves for the life segment relating to Italian direct written premiums totalled around 526 billion euro (excluding linked insurance policies and pension funds; Fig. 26).

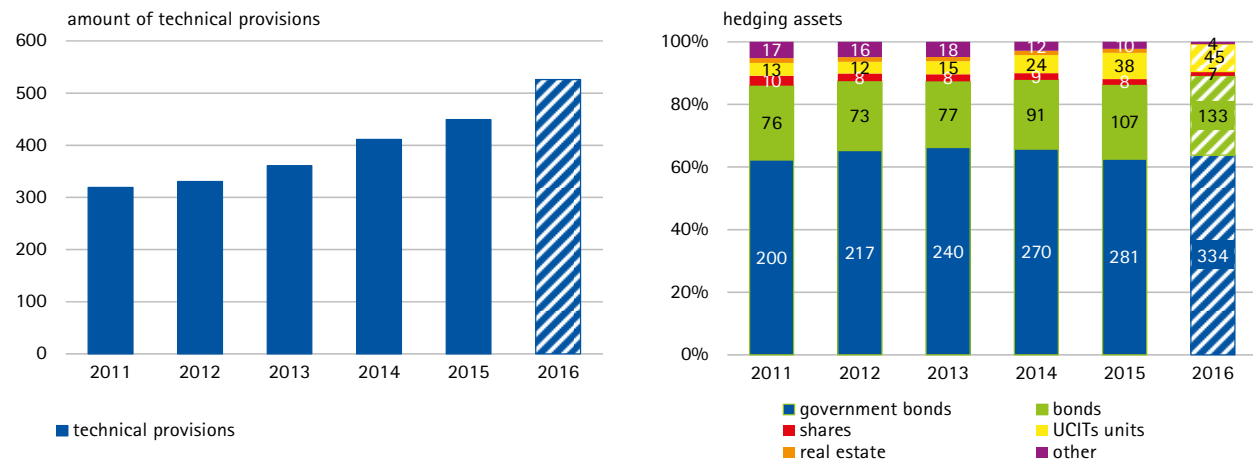
As regards the non-life segment, at the end of 2016 the total Solvency II technical reserves stood at around 57 billion euro (Fig. 27).

Fig. 25 Profitability and solvency indicators of Italian insurance companies



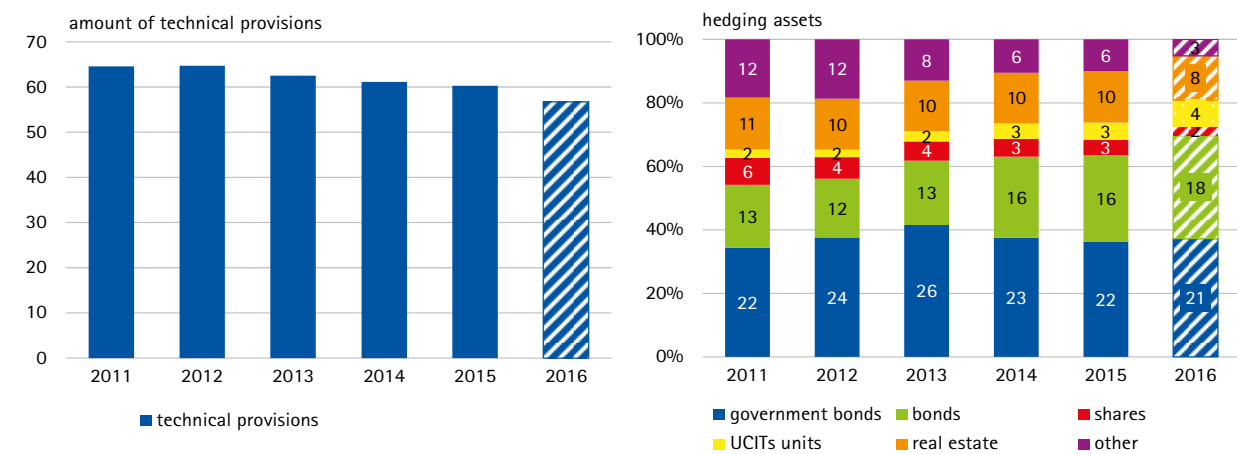
Source: calculations on IVASS data. Over the period 2007 – 2015 the solvency ratio is reckoned according to Solvency I regulation; in 2016 the solvency ratio is reckoned according to new prudential regime following Solvency II.

Fig. 26 Technical provisions and investments in life segment
(amount of technical provisions; billions of euro)



Source: calculations on IVASS data. In 2016 technical provisions and assets are measured according to Solvency II criteria.

Fig. 27 Technical provisions and investments in non-life segment
(end of period amounts; billions of euro)



Source: calculations on IVASS data. In 2016 technical provisions and assets are measured according to Solvency II criteria.

3 Entities authorised to provide investment services

In 2017, the number of banking intermediaries authorised to provide investment services continued to decrease. This is explained in part by the consolidation and concentration caused by rationalisation and crisis situations, which in recent years have concerned banks in particular (Tab. 46).

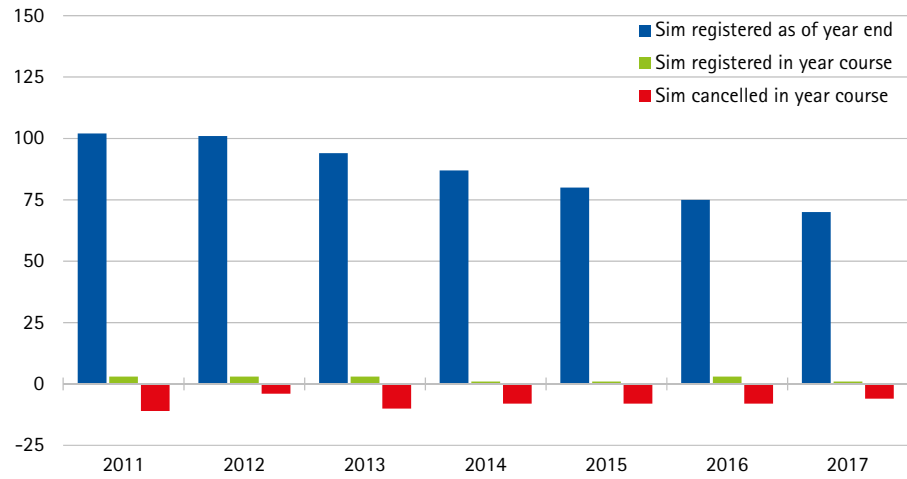
Tab. 46 Authorised investment service intermediaries

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------------|------------|------------|------------|------------|------------|------------|
| <i>total number of authorised providers</i> | <i>778</i> | <i>744</i> | <i>723</i> | <i>692</i> | <i>663</i> | <i>603</i> | <i>543</i> |
| banks | | | | | | | |
| <i>no. of authorized providers</i> | <i>676</i> | <i>643</i> | <i>629</i> | <i>605</i> | <i>583</i> | <i>528</i> | <i>473</i> |
| advice | 651 | 617 | 602 | 583 | 560 | 510 | 456 |
| trading on one's own account | 500 | 467 | 461 | 445 | 421 | 382 | 338 |
| trading on behalf of third parties | 499 | 466 | 461 | 447 | 425 | 386 | 339 |
| placement with prior subscription ¹ | 225 | 208 | 201 | 195 | 184 | 173 | 152 |
| placement without prior subscription ¹ | 651 | 616 | 603 | 587 | 565 | 511 | 453 |
| individual management | 181 | 170 | 169 | 166 | 158 | 154 | 143 |
| receipt and transmission of orders and brokerage | 660 | 624 | 614 | 593 | 572 | 518 | 463 |
| MTF management | 1 | 1 | 1 | 1 | 2 | 2 | 2 |
| <i>average number of services per provider</i> | <i>4.7</i> | <i>4.6</i> | <i>4.6</i> | <i>5.0</i> | <i>4.6</i> | <i>4.7</i> | <i>4.6</i> |
| investment firms | | | | | | | |
| <i>no. of authorized providers</i> | <i>102</i> | <i>101</i> | <i>94</i> | <i>87</i> | <i>80</i> | <i>75</i> | <i>70</i> |
| advice | 94 | 92 | 84 | 77 | 70 | 64 | 61 |
| trading on one's own account | 14 | 14 | 15 | 16 | 15 | 14 | 14 |
| trading on behalf of third parties | 20 | 20 | 22 | 23 | 22 | 20 | 19 |
| placement with prior subscription ¹ | 5 | 5 | 5 | 5 | 4 | 5 | 5 |
| placement without prior subscription ¹ | 47 | 46 | 44 | 45 | 42 | 40 | 39 |
| individual management | 46 | 44 | 43 | 39 | 38 | 38 | 37 |
| receipt and transmission of orders and brokerage | 49 | 50 | 48 | 46 | 43 | 39 | 36 |
| MTF management | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| <i>average number of services per provider</i> | <i>2.7</i> | <i>2.7</i> | <i>2.8</i> | <i>2.9</i> | <i>3.0</i> | <i>3.0</i> | <i>3.1</i> |

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

The number of authorised Italian investment firms and trust companies has also fallen as compared to previous years (Fig. 28).

Fig. 28 Italian investment companies (SIM) and trust companies Register



Source: Consob.

On the basis of the notifications received by the respective authorities of the EU Member States, there are 66 EU investment companies recorded on the relative list of entities authorised to operate in Italy through the establishment of a branch (60 at the end of 2016). Most of these companies (51) are based in Great Britain.

The *Fondo nazionale di garanzia* (Italian National Guarantee Fund) is the compensation system operating in Italy for investor receivables from intermediaries for the provision of investment services and the custody and administration of financial instruments. This system ensures the provision of compensation, within the limit of 20,000 euro for each investor, in the event of compulsory liquidation, bankruptcy or agreement with creditors of the intermediaries.

To date, this compensation system has intervened in 38 cases of insolvency (relating to 21 Italian investment firms, ten stockbrokers, five asset management companies and two banks; Tab. 47). The special management (hedged in part by the Ministry of the Economy and Finance) for past insolvencies closed on June 30, 2017.

Tab. 47 National Investor Compensation Fund interventions

(as of 31 December 2017; amounts in thousands of euros)

| | insolvencies ¹ | | | | total |
|---|---------------------------|---------------|----------|----------|-----------|
| | investment firms | stock brokers | AMCs | banks | |
| 1997-2011 | 18 | 9 | 3 | 1 | 31 |
| 2012 | -- | 1 | -- | 1 | 2 |
| 2013 | 2 | -- | 1 | -- | 3 |
| 2014 | -- | -- | 1 | -- | 1 |
| 2015 | -- | -- | -- | -- | -- |
| 2016 | 1 | -- | -- | -- | 1 |
| 2017 | -- | -- | -- | -- | -- |
| <i>no. of insolvencies</i> | <i>21</i> | <i>10</i> | <i>5</i> | <i>2</i> | <i>38</i> |
| <i>for which liability statements have been filed</i> | <i>20</i> | <i>10</i> | <i>5</i> | <i>2</i> | <i>37</i> |
| no. of creditors admitted | 2,774 | 1008 | 1 | -- | 3,783 |
| amount of admitted credits² | 25,385 | 41,396 | 3,751 | -- | 70,532 |
| Fund interventions³ | 9,386 | 11,408 | -- | -- | 20,794 |

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

4 Supervision of banks and Italian investment firms

In 2017, in the context of the risk based supervision of the fairness and transparency of intermediary conduct, 77 requests were sent to banks for data and information on the methods for the provision of investment services.

Many interventions focused on the composition of financial products and on the level of concentration of investors' portfolios, as well as, for bank issuers with widely distributed securities, transactions in retained securities. In five cases, the request was accompanied by a warning notice upon initiation of the monitoring of the operating methods adopted by banking intermediaries that were in conflict of interests in the distribution of retained securities, particularly when the operators were facing significant recapitalisation requirements (Tab. 48).

Tab. 48 Supervision of banks, Italian investment firms and European investment companies
(number of initiatives)

| | | banks | Italian and European investment companies |
|------|---|------------|---|
| 2013 | request of data information pursuant to art. 8, sec.1 of Consolidated Law on Finance ¹ | 101 | 68 |
| | convening of directors and management pursuant to art. 7, sec.1 lett. a) of Consolidated Law on Finance | 20 | 2 |
| | <i>total</i> | <i>121</i> | <i>70</i> |
| 2014 | request of data information pursuant to art. 8, sec.1 of Consolidated Law on Finance | 79 | 25 |
| | convening of directors and management pursuant to art. 7, sec.1 lett. a) of Consolidated Law on Finance | 47 | 2 |
| | <i>total</i> | <i>126</i> | <i>27</i> |
| 2015 | request of data information pursuant to art. 8, sec.1 of Consolidated Law on Finance | 129 | 46 |
| | convening of directors and management pursuant to art. 7, sec.1 lett. a) of Consolidated Law on Finance | 35 | 1 |
| | <i>total</i> | <i>164</i> | <i>47</i> |
| 2016 | request of data information pursuant to art. 8, sec.1 of Consolidated Law on Finance | 132 | 33 |
| | convening of directors and management pursuant to art. 7, sec.1 lett. a) of Consolidated Law on Finance | 7 | 1 |
| | <i>total</i> | <i>139</i> | <i>34</i> |
| 2017 | request of data information pursuant to art. 8, sec.1 of Consolidated Law on Finance | 77 | 37 |
| | convening of directors and management pursuant to art. 7, sec.1 lett. a) of Consolidated Law on Finance | 14 | -- |
| | <i>total</i> | <i>91</i> | <i>37</i> |

Source: Consob. ¹ The figure does not include a request to an auditing firm pursuant to art. 8, sec 2 of Consolidated Law on Finance (following investigation concerning an Italian investment firm).

The investigations led to the initiation of 13 sanctioning proceedings against banks, with the involvement of 214 corporate officers (for the proceedings concluded and the sanctions imposed, see Chapter V 'Inspection activity and sanctions').

In 2017, verification continued of the fairness and transparency of investment firm conduct in the performance of investment services for clients. The supervisory activity resulted in formal requests for data and information and inspections.

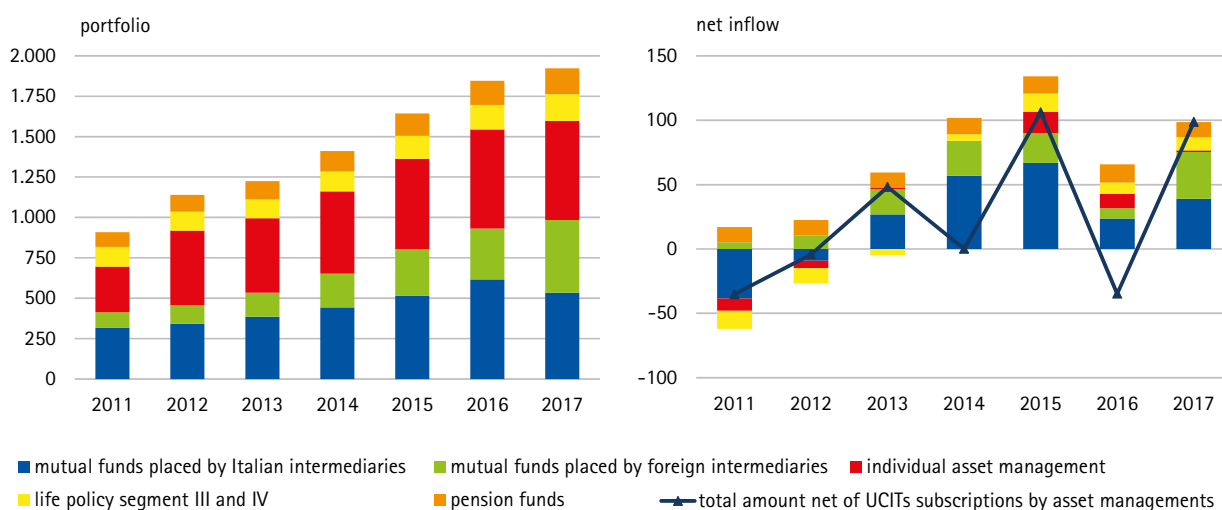
Upon ascertainment of the alleged infringement of sector regulations, a letter of notification was issued to one Italian investment firm.

In 2017 verification continued, in close collaboration with the Bank of Italy and IVASS, of the possible existence of interlocking positions, in infringement of the prohibition of accepting or holding interlocking positions in competing Italian investment firms or groups of investment firms operating in credit, insurance and finance markets (so-called 'prohibition on interlocking directorates', introduced by Leg. Decree no. 201 of December 6, 2011, converted into Law no. 214 of December 22, 2011).

5 Asset management

In 2017, the assets attributable to asset management products continued to grow, reaching an total of 1,923 billion euro, against 1,845 billion in 2016 (+4 percent). The net funds raised also recorded an increase in all sectors with the exception, as in 2016, of pension funds and individual asset management (Fig. 29).

Fig. 29 Portfolio composition and net inflow of asset management products placed in Italy
(billions of euro)

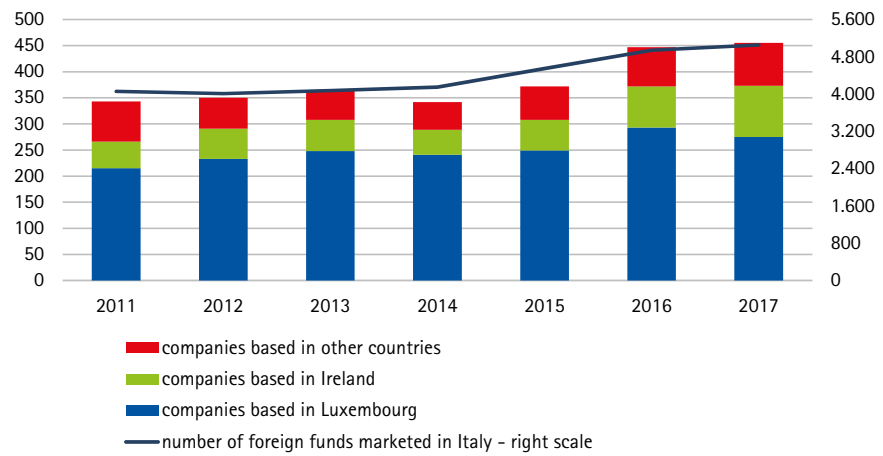


Source: calculations on Ania, Assogestioni, Bank of Italy and Covip data. End of period data. Figures on mutual funds distributed in Italy include Italian companies controlled by foreign intermediaries, Italian open-end funds (harmonized and non harmonized) and foreign funds promoted by Italian intermediaries (roundtrip funds); funds of funds are also included. Figures related to individual portfolios are net of investments in mutual fund units. Figures related to life policies are net of reinsurance and of amounts placed in Italy by foreign insurance companies. Figures regarding asset managements and pension funds are provisional and partly estimated.

The number of foreign funds marketed in Italy increased over the year from 4,943 to 5,055 units (approximately +2 percent). In particular, the number of companies based in Luxembourg (-18 units) decreased, whereas a significant increase was recorded in the number of companies based in Ireland and in other countries that market funds in Italy (+19 and +7 units respectively; Fig. 30).

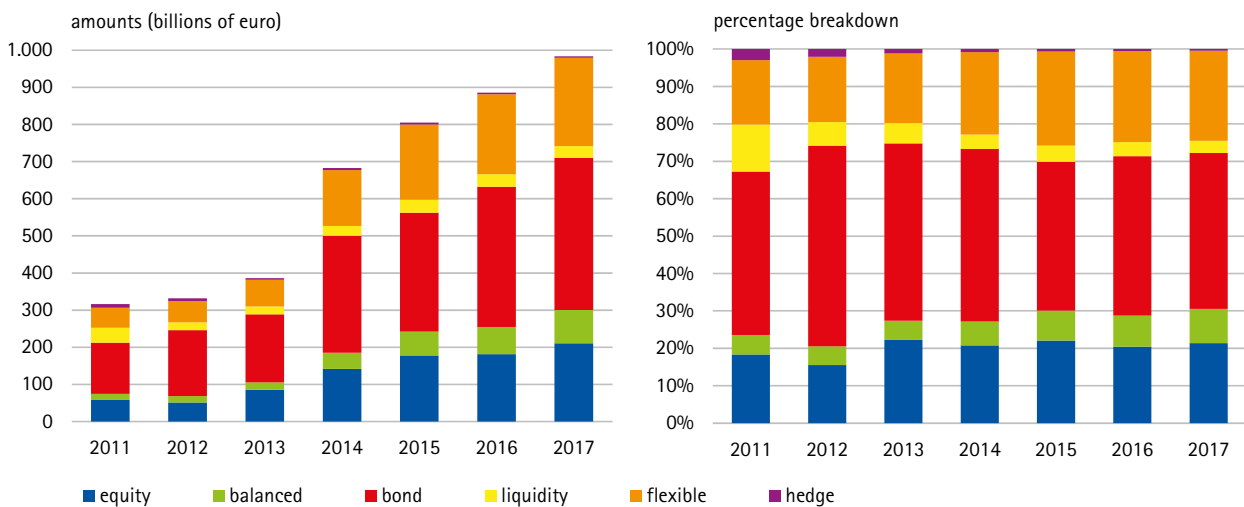
Overall, in 2017 the managed assets attributable to mutual funds marketed in Italy rose to 984 billion euro from 886 billion in the previous year (+11 percent). The percentage composition of managed assets confirms the predominant weight of bond funds and, compared to 2009, highlights the progressive reduction in the weight of monetary funds and hedge funds (the latter moreover marginal in terms of stock), against the substantial stability of equity funds, and the growth of balanced and flexible funds (Fig. 31)

Fig. 30 Number of foreign funds marketed in Italy and number of foreign companies authorised to fund marketing: breakdown by registered office



Source: prospectuses

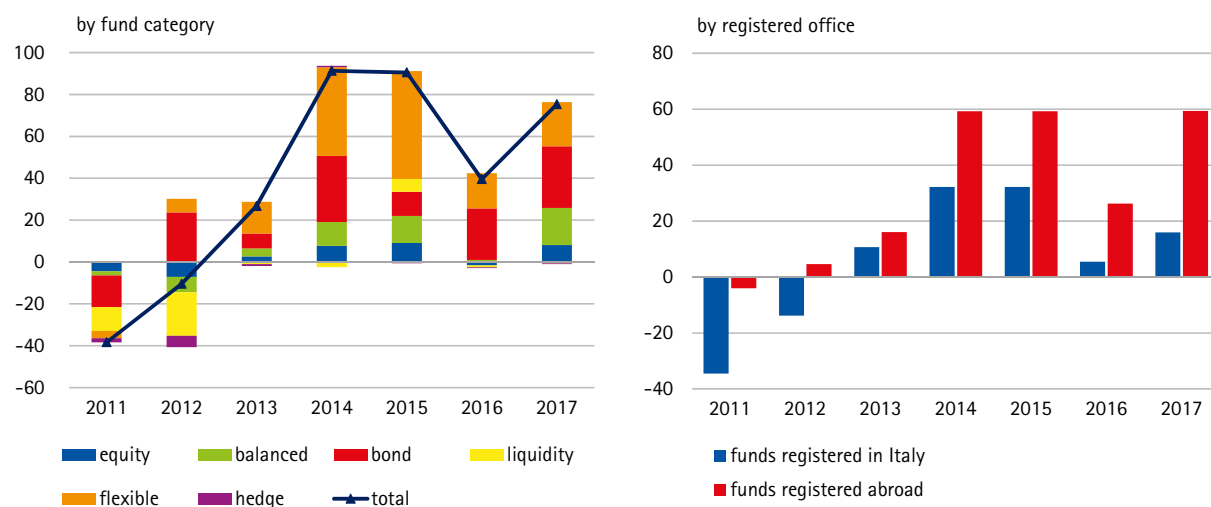
Fig. 31 Net asset of mutual funds placed in Italy



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

Net funds raised referring to mutual funds showed strong growth, rising from around 40 billion euro in 2016 to 75 billion euro. The phenomenon concerned, albeit to different extents, all major segments; distribution according to nationality shows that the most significant figures were recorded by funds domiciled abroad (59 billion euro at the end of 2017, compared with 26 billion at the end of 2016; Fig. 32).

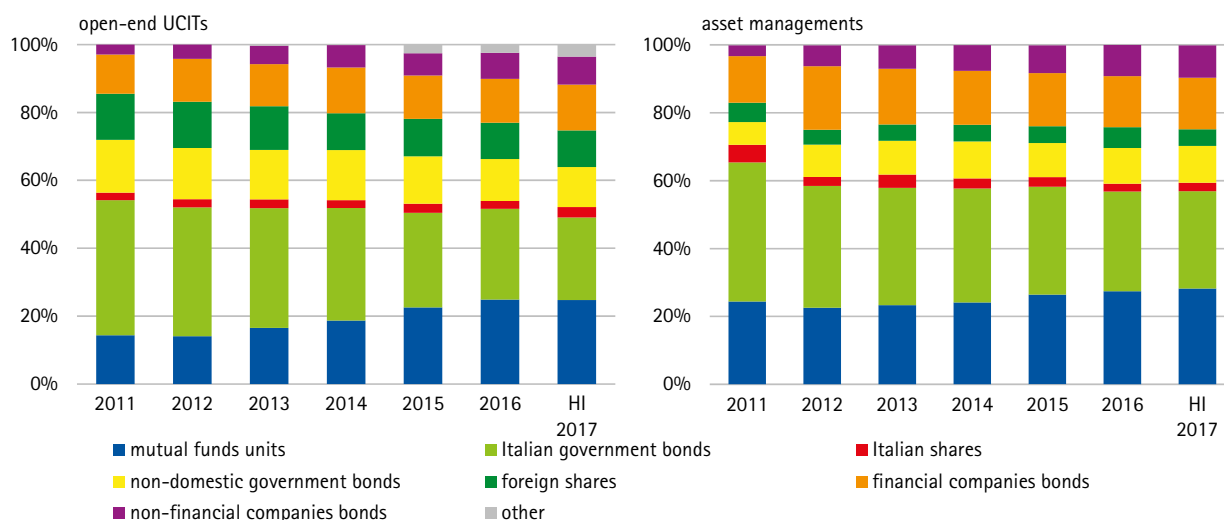
Fig. 32 Net inflows for mutual funds placed in Italy
(billions of euro)



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

As usual, about half of the assets of Italian-law open-end funds is invested in units of collective investment undertakings and Italian government bonds. However, the data as at June 30, 2017 highlight a decrease in the weight of government bonds (down to 24 percent from 40 percent at the end of 2011) and an increase in the incidence of units in UCIs (around 25 percent against 14 percent at the end of 2011; Fig. 33).

Fig. 33 Asset breakdown of Italian open-end UCITs and asset management schemes of Italian intermediaries

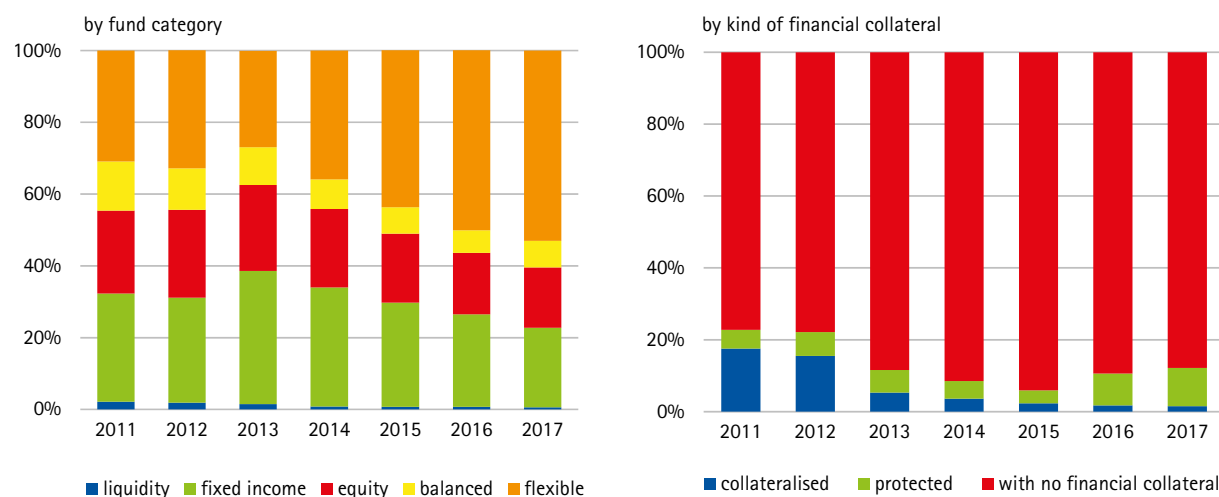


Source: Consob.

Similar dynamics are also observed for individual asset management in Italy: as at June 30, 2017, investments in Italian government bonds counted for around 29 percent of the portfolio (a decrease compared to 2011, when it was around 41 percent), while units in UCIs reached 28 percent (compared to 24 percent at the end of 2011).

As regards funds connected to unit-linked policies, over the year, the incidence of flexible management grew from 50 to 53 percent of assets managed. In 2017, there was again a predominance of non-guaranteed funds, with around 88 percent of the total assets of funds connected to unit-linked policies (Fig. 34).

Fig. 34 Asset breakdown of mutual funds connected to unit linked policies



Source: calculations on Ania data.

6 Supervision of asset management companies

In 2017, in line with a risk-based approach, the supervision of asset management companies relied on information acquired through requests for data and information, meetings with corporate officers and inspections.

As regards the operators of UCITS (entities falling within the scope of application of Directive 2009/65/EC), analysis focused on the fairness of conduct in managed fund investment decisions, including the conformity of such decisions with the investment policy outlined in the offering documentation.

With particular reference to market funds, analysis considered management decision conformity to the permitted benchmark deviation defined in the offering documentation, in accordance with Scheme 1 of

Annex 1B of the Issuers' Regulation (which distinguishes between 'low', 'significant' and 'important' deviation).

Over the year, Consob continued supervision of the real estate fund segment. This segment recorded a decrease in the number of asset management companies managing closed-end real estate funds (from 54 in 2016 to 50) and an increase in the number of real estate funds (from 441 to 463).

As at June 30, 2017, the equity under management amounted to around 46 billion euro, an increase of more than 5 percent compared to the previous year. Moreover, the average figure highlights the continuous improvement of the liability position of real estate funds (Tab. 49).

Within the scope of supervision of real estate fund management companies, particular attention was devoted to the managers of the funds intended for retail investors, in view of the said funds' approaching maturity.

Tab. 49 Closed-end Italian real estate funds¹
(billions of euro)

| | no. of asset management companies | no. of active funds | net asset value (A) | total assets (B) | total debt ((B-A)/B) % | percentage breakdown of assets | | | |
|-------------------|-----------------------------------|---------------------|---------------------|------------------|------------------------|--------------------------------|-----------------------|--------------------------|--------------|
| | | | | | | property and property rights | financial instruments | securities and liquidity | other assets |
| 2011 | 57 | 323 | 31.3 | 53.6 | 41.5 | 87.7 | 4.0 | 4.4 | 3.8 |
| 2012 | 58 | 343 | 31.5 | 53.4 | 41.1 | 88.1 | 4.4 | 3.4 | 4.2 |
| 2013 | 55 | 348 | 32.9 | 55.1 | 40.2 | 87.6 | 4.9 | 3.7 | 3.9 |
| 2014 | 55 | 391 | 37.6 | 58.3 | 35.6 | 86.6 | 5.3 | 4.5 | 3.6 |
| 2015 | 53 | 412 | 40.6 | 60.4 | 32.9 | 86.0 | 5.4 | 4.4 | 4.1 |
| 2016 | 54 | 441 | 44.1 | 64.9 | 32.0 | 85.9 | 5.2 | 5.5 | 3.4 |
| 2017 ² | 50 | 463 | 46.4 | 68.2 | 31.9 | 86.3 | 5.8 | 4.6 | 3.3 |

Source: calculations on funds reported data. ¹ Rounding may cause discrepancies in the total figure. ² Figures are updated as of 30 June 2017, as a consequence of the procrastination of the Annual Relation due data for alternative investment management companies (pursuant to art. 3, sec. 1, lett. b) of d.m. n. 30/2015).

With reference to the managers of reserved real estate funds, the supervisory activity focused on of the methods of managing conflicts of interest.

Among the parties operating in the Italian asset management market, there has recently been an increase in asset management companies directly involved in the distribution of own products and services, including by means of financial advisors authorised to practise door-to-door selling ('SGR-*rete*'). The choice not to use intermediary distributors may derive from vertical business integration strategies within the same group or from the specific operating features of certain *SGR-rete*.

In this respect, Resolution no. 20197 of November 22, 2017, updated the disclosure obligations of asset management companies, including the obligation to disclose information on the marketing of own UCIs or those of third parties.

Within the scope of the supervision of these entities, a proposal was submitted to the Bank of Italy to place an *SGR-rete* under special administration (pursuant to Article 56 of Consolidated Law on Finance) for serious infringement of asset management regulations, with particular reference to the suitability of the investment process and the control of situations of conflict of interest.

In addition, in 2017 thirty-six opinions were forwarded to the Bank of Italy.

With regard to the supervision of transparency, in 2017, the risk-based analysis continued of UCITS offer documentation intended for retail investors, also based on the assessment of the consistency between the information included in the Key Investor Information Documents (KIIDs) and the more detailed information included in the prospectus.

The documents of applications to market units of Italian reserved Alternative Investment Funds (AIFs) in Italy and/or other EU Member States of pursuant to Article 43 of the Consolidated Law on Finance were also examined (41 investigations), as well as those of applications to market non-reserved AIFs to retail investors in Italy, pursuant to Article 44 of the Consolidated Law on Finance.

Moreover, pursuant to EU Directives on investment funds, 620 notifications from foreign authorities for the marketing of European UCITS units or shares in Italy (pursuant to Article 93 of Directive 2009/65/EC) were also examined for the purposes of completeness of documentation and regularity.

Finally, 339 notifications concerning the marketing in Italy of units or shares of Alternative Investment Funds (AIFs) by AIF managers under foreign law (pursuant to Article 32 of Directive (EU) 2011/61) and five notifications concerning the marketing of European VEnture CApital funds (EuVECA - pursuant to Regulation (EU) no. 345/2013) underwent examination

With reference to the structure of the board of directors of asset management companies and the independence requirements of directors, in 2017, Consob analysed the composition of the boards of directors of the 15 leading Italian banking and insurance asset management companies that manage at least one Italian-law retail fund. With total assets of approximately 363 billion euro in 2017, these asset management companies represent around 98 percent of total assets held by open-end funds managed by companies incorporated under Italian law (Tab. 50).

Tab. 50 Infra-group interlocking in asset management companies
(number of directors)

| | | position held in asset management companies | | | | | | | <i>total</i> |
|------|---|---|-----------|-----------|-----------------------|----------|-----------------|-----------|--------------|
| | | executive directors | | | independent directors | | other directors | | |
| | | of which: | | | of which: | | of which: | | |
| | | president | CEO | | president | | president | | |
| 2013 | position held in parent company | 5 | 4 | -- | 3 | -- | 16 | 4 | 24 |
| | position held in other group companies | 12 | -- | 7 | 6 | 1 | 20 | 2 | 38 |
| | no position held in other group companies | 7 | 1 | 5 | 40 | 2 | 20 | 3 | 67 |
| | <i>total</i> | 24 | 5 | 12 | 49 | 3 | 56 | 9 | 129 |
| 2014 | positions held in parent company | 3 | 2 | -- | 2 | -- | 6 | 1 | 11 |
| | position held in other group companies | 11 | -- | 7 | 4 | 1 | 27 | 5 | 42 |
| | no position held in other group companies | 8 | 2 | 5 | 39 | 2 | 10 | 2 | 57 |
| | <i>total</i> | 22 | 4 | 12 | 45 | 3 | 43 | 8 | 110 |
| 2015 | positions held in parent company | 1 | -- | 1 | 3 | 1 | 6 | 1 | 10 |
| | position held in other group companies | 6 | -- | 6 | 4 | 1 | 27 | 6 | 37 |
| | no position held in other group companies | 7 | -- | 7 | 41 | 3 | 13 | 3 | 61 |
| | <i>total</i> | 14 | -- | 14 | 48 | 5 | 46 | 10 | 108 |
| 2016 | positions held in parent company | 1 | -- | 1 | 2 | 1 | 8 | 1 | 11 |
| | position held in other group companies | 6 | -- | 6 | 4 | 2 | 28 | 7 | 38 |
| | no position held in other group companies | 7 | -- | 7 | 41 | 2 | 7 | 2 | 55 |
| | <i>total</i> | 14 | -- | 14 | 47 | 5 | 43 | 10 | 104 |
| 2017 | positions held in parent company | 1 | -- | 1 | 2 | 1 | 4 | 1 | 7 |
| | position held in other group companies | 5 | -- | 5 | 5 | 2 | 26 | 6 | 36 |
| | no position held in other group companies | 7 | -- | 7 | 41 | 2 | 12 | 4 | 60 |
| | <i>total</i> | 13 | -- | 13 | 48 | 5 | 42 | 11 | 103 |

Source: information sheets. Data relate to a sample based on the 15 major asset management companies (SGR) controlled by banking or insurance groups, by volumes of assets under management in 2017; in the case of directors holding office both in the parent group and in other companies belonging to the group, the position in the former is considered prevalent. For the definition of Executive Director reference was made to article 2381 of the Italian Civil Code, while the definition of Independent Director derives from Assonime Code of Conduct.

7 The supervision of financial advisors authorised to practise door-to-door selling

During 2017, financial advisors authorised to practise door-to-door selling registered on the dedicated FA Register increased in number, reaching 55,897 (up from 55,119 at the end of 2016). In the same period, the number of active advisors fell from 36,819 to 36,359.

No criticalities occurred in the holding and management of the Register by the Body of Financial Advisors referred to in Article 31, paragraph

4, of the Consolidated Law on Finance (effective since January 1, 2009). In particular, over the year, only one complaint was received against the measures taken by the Body, subsequently deemed manifestly unfounded.

In 2017, pending the launch of the new regulatory framework as outlined by the Stability Law for 2016, the supervision of financial advisors qualified to practise door-to-door selling was mainly driven, as usual, by reports from intermediaries, complaints from investors, communications from the Body of Financial Advisors, the Judicial Authorities and the Judicial Police, as well as audits conducted by intermediaries (Tab. 51).

Tab. 51 Supervision on financial advisors

| type | reference to regulation | 2016 | 2017 |
|--|---|------|------|
| reports and complaints | | 311 | 365 |
| requests of data, information and documents | | 196 | 126 |
| | <i>of which pursuant to art. 8, sec. 1, Tuf</i> | .... | 26 |
| | <i>pursuant to art. 31, sec. 7, Tuf</i> | .... | 100 |
| charges followed by administrative sanction procedures | | 85 | 52 |
| cases without administrative sanction procedures |  | .... | 231 |
| notification of precautionary measures | pursuant to art. 55, sec. 2, Tuf | 25 | 29 |
| precautionary activity suspension up to 60 days | pursuant to art. 55, sec. 1, Tuf | .... | 20 |
| precautionary activity suspension up to 1 year | pursuant to art. 55, sec. 2, Tuf | .... | 34 |
| notifications to criminal courts |  | .... | 55 |

Source: Consob.

As always, the risk-based approach adopted for the supervision of financial advisors qualified for door-to-door selling was based on objective criteria of preventive selection, such as reports and complaints concerning infringements of the sector regulations.

Over the course of the year, 365 reports were received (311 in 2016); 126 requests for data and information were made to intermediaries relating to financial advisors qualified for door-to-door selling (196 in 2016) and 52 administrative sanctioning proceedings were initiated (85 in the previous year).

With specific regard to precautionary inspections pursuant to Article 55, paragraph 2, of the Consolidated Law on Finance, 29 proceedings were initiated in 2017, as compared to 25 launched in 2016 (for proceedings concluded and related sanctions see Chapter V 'Inspection activity and sanctions').

With regard to network intermediaries, according to the risk based supervision model and in the light of Consob Communication no. 0012130 of February 11, 2016 concerning financial advisor network controls, checks

continued in 2017 of the suitability of the internal financial advisor network control procedures and the proactive orientation of operators toward solutions to reduce the risk of unfair conduct.

Furthermore, again from the point of view of a proactive supervision approach, meetings were held with the supervised entities in 2017 in order to draw their attention to the reference regulations, partly in view of the transposition of Directive 2014/65/EU MiFID (II) and the adaptation of national legislation to Regulation (EU) no. 600/2014 (MiFIR).

8 Supervision of equity crowdfunding portals

As at December 31, 2017, there were 20 operators of equity crowdfunding portals registered in the ordinary section of the corresponding register (16 at the end of 2016), and two operators registered in the special section for banks and investment firms (one at the end of 2016).

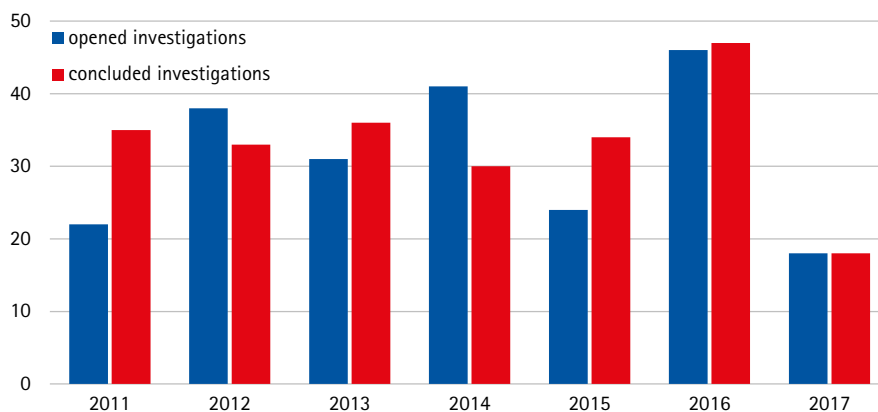
Within the scope of this supervisory activity, two requests for data and information were sent pursuant to Article 50-*quinquies*, paragraph 6, of the Consolidated Law on Finance, to as many portal operators, and an audit was conducted on one operator (see Chapter V below 'Inspection activity and sanctions'); moreover, 15 meetings were held with portal operators or entities that requested clarifications in order to launch equity crowdfunding portal operating initiatives.

1 Inspections

In 2017, eighteen audits were initiated and eighteen concluded, including seven initiated in 2016; at the end of the year, seven inspections were thus still underway (Fig. 35).

In one case, access was assisted by the Special Currency Police Unit of the Guardia di Finanza (Italian Finance Police). The Bank of Italy also requested four inspections to be carried out on the basis of existing memoranda of understanding.

Fig. 35 Inspection activity



Source: Consob.

Of a total of 18 inspections initiated in 2017, five focused on the rules of conduct and transparency of intermediaries, whereas seven (two of which carried out on behalf of the Bank of Italy) concerned the application of anti-money laundering controls. In addition, two cases involved inspections to detect possible infringements regulations on corporate disclosure; one concerning equity crowdfunding and the other the quality control system of an auditing firm. Finally, two inspections were performed to verify intermediary profiles pertaining to the institutional competence of the Bank of Italy, upon request of the same bank (Tab. 52).

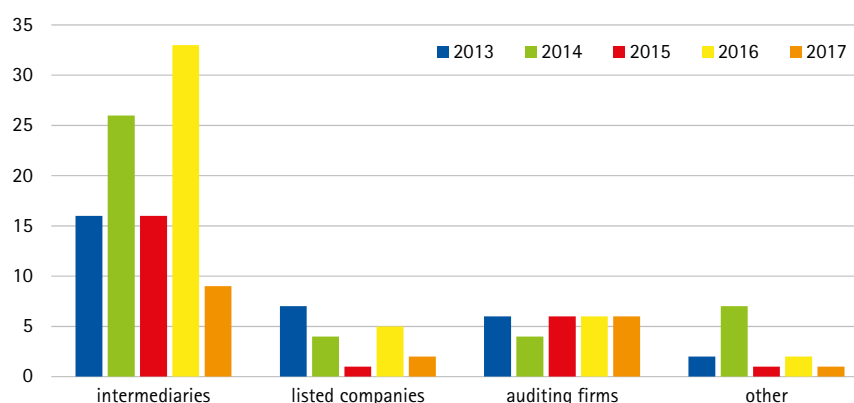
Tab. 52 Areas of inspection activity

| | intermediaries and products | | issuers and audit firms | | | markets | other | | |
|------|-----------------------------|--|-------------------------|------------------------------------|--------------------|--------------|--------------|------------------|--------------------------|
| | investment services | real estate funds and retail investors | corporate disclosure | ownership structure / takeover bid | audit appointments | market abuse | crowdfunding | money laundering | other areas ¹ |
| 2013 | 5 | 1 | 2 | 9 | 4 | 4 | -- | 4 | 2 |
| 2014 | 11 | 3 | 1 | -- | 1 | 16 | -- | 6 | 3 |
| 2015 | 7 | -- | 3 | -- | 4 | 3 | -- | 5 | 2 |
| 2016 | 23 | -- | 4 | 8 | 1 | 2 | -- | 7 | 1 |
| 2017 | 5 | -- | 2 | -- | 1 | -- | 1 | 7 | 2 |

Source: Consob. ¹ Figures refer to area subject to Banca d'Italia supervision other than laundering.

The entities subjected to controls were: nine intermediaries, six auditing firms, two listed companies and the operator of an online equity crowdfunding portal (Fig. 36).

Fig. 36 Investigated entities



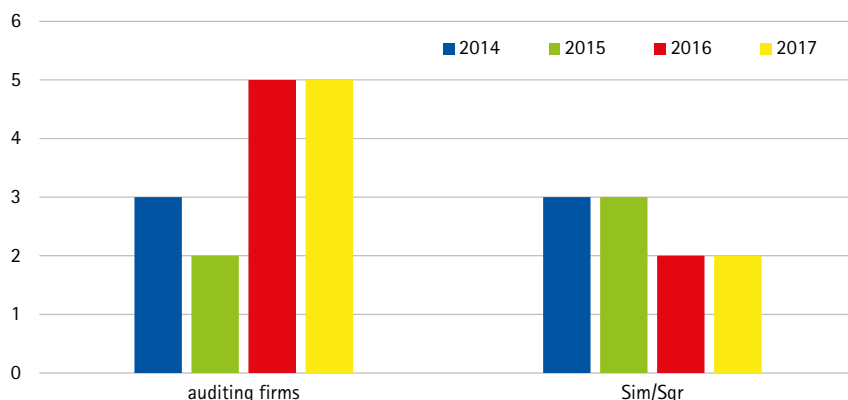
Source: Consob. The class 'listed companies' does not include listed intermediaries which are included among 'intermediaries'.

2 Supervision for the prevention of money laundering and terrorist financing

Over the year, anti-money laundering inspections were launched in relation to five auditing firms and, at the request of the Bank of Italy, two asset management companies (Fig. 37).

Based on the results of the checks carried out, sanctioning proceedings were initiated against two auditing firms, one of which was also reported to the Judicial Authorities.

Fig. 37 Investigated entities for suspected money laundering



Source: Consob.

Moreover, investigations were made following the numerous reports of possible irregularities related to money laundering attributable to financial advisors.

Various different items of evidence were forwarded to the Bank of Italy and the Financial Intelligence Unit for further investigation according to their respective areas of responsibility on anti-money laundering and counter terrorist financing, within the framework of the collaboration agreements regulated by special memoranda of understanding.

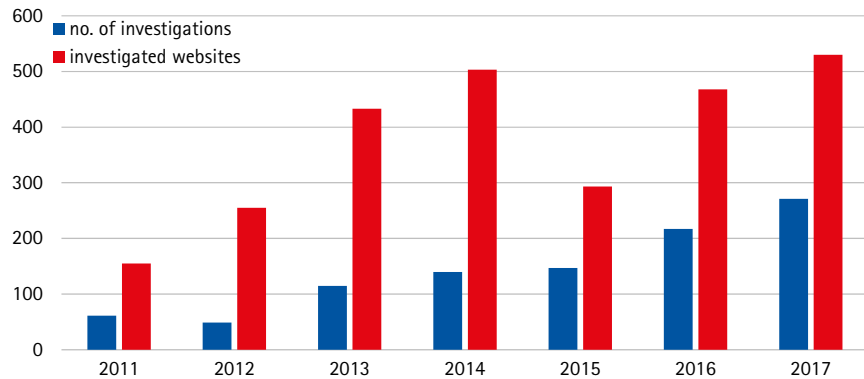
Finally, Consob actively participated in the work of the Financial Security Committee (CSF) - instituted by Law Decree no. 369 of October 12, 2001, converted into Law no. 431 of December 14, 2001, - aimed at the coordination of the national system to combat money laundering and terrorist financing. Within the context of this collaboration, Consob has, inter alia, contributed specifically to the implementation of Directive 2015/849/EU (The Fourth EU Anti-Money Laundering Directive - AMLD4), with the enactment of Legislative Decree. no. 90 of May 25, 2017.

3 Investigations and measures against abusive behaviours

3.1 Investigations

In 2017 Consob greatly stepped up action to fight against abusive behaviours, thanks also to the greater number of reports received from investors. Over the year, 271 inspections were undertaken in relation to abusive behaviour performed via the internet and falling within Consob's sphere of action, which involved the analysis and investigation of 530 websites (Fig. 38).

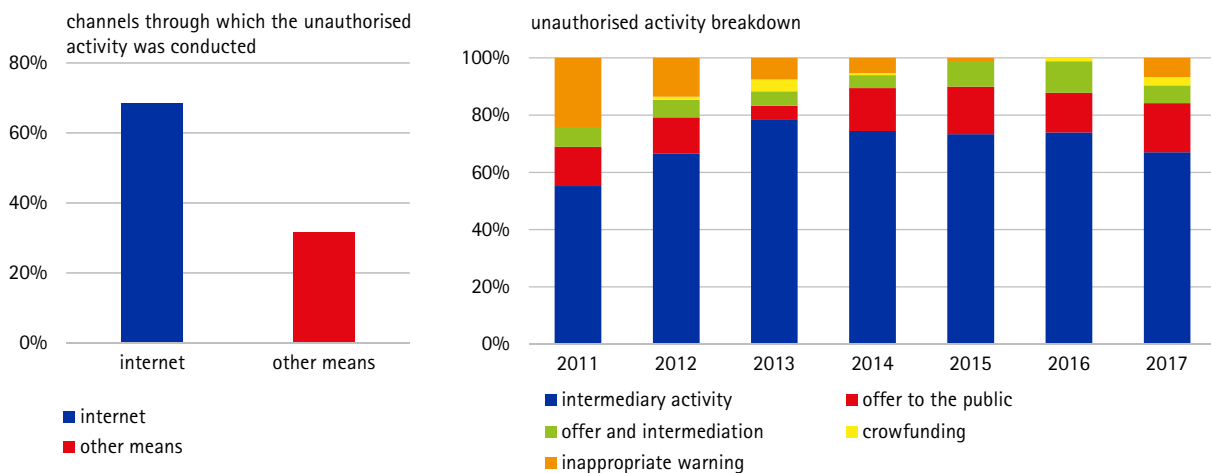
Fig. 38 Investigation of websites for market abuse



Source: Consob.

In the course of the year, 209 investigations were initiated, an increase of 15 percent on 2016; 65 percent of these investigations concerned suspected unauthorised financial intermediation. In line with the previous year, in 2017 abusive behaviour was mainly implemented via the web (websites, emails and social networks in 68 percent of cases), or through cold calling, an increasingly widespread telephone-based practice (Fig. 39).

Fig. 39 Unauthorised activity



Source: Consob.

Investigations into abuse involving infringements of the Issuer's Regulation focused mainly on schemes presented to investors as highly profitable investment opportunities.

Consob also intervened in certain cases of investment proposals involving the alleged sale of goods such as precious stones and gold.

In 2017, there were increasingly frequent cases of unauthorised operators offered the opportunity to invest using cryptocurrencies.

There was also an increase in the number of web-based schemes proposed by foreign entities operating through so-called 'referrals'(websites managed by Italian entities) to publicize and promote their schemes to the public resident in Italy. Referrals are liable and may be sanctioned by Consob if the subject of the trading offered qualifies as financial products and is performed without the required prospectus.

As regards the infringement of the provisions on investor solicitation, in many cases, possible profiles of interest to the Italian Competition Authority (AGCM) were identified. The Authority was informed of the unfair commercial practices discovered (multilevel marketing with pyramid affiliate remuneration mechanisms) or cases of misleading advertising.

Finally, over the year Consob also examined certain cases of 'participatory financing' or lending based crowdfunding or social lending, cases which do not fall within the scope of the application of the equity based crowdfunding regulations.

3.2 Measures

In 2017, Consob adopted 167 measures against abusive behaviour, with a growth of 14 percent over the previous year (Tab. 53).

Tab. 53 Enforcement measures for unauthorized provision of investment services, unauthorized offer and advertisement of unauthorized offer of financial products

| | infringement of regulations on investment solicitation | | communications aimed at investor protection | report to legal authorities | total |
|------|--|-------------|---|-----------------------------|-------|
| | temporary prohibition ¹ | prohibition | | | |
| 2011 | 3 | 6 | 1 | .... | 10 |
| 2012 | 6 | 6 | 16 | 41 | 69 |
| 2013 | 2 | 2 | 25 | 50 | 79 |
| 2014 | 3 | 2 | 47 | 66 | 118 |
| 2015 | 6 | 5 | 44 | 63 | 118 |
| 2016 | 14 | 12 | 44 | 77 | 147 |
| 2017 | 12 | 13 | 54 | 88 | 167 |

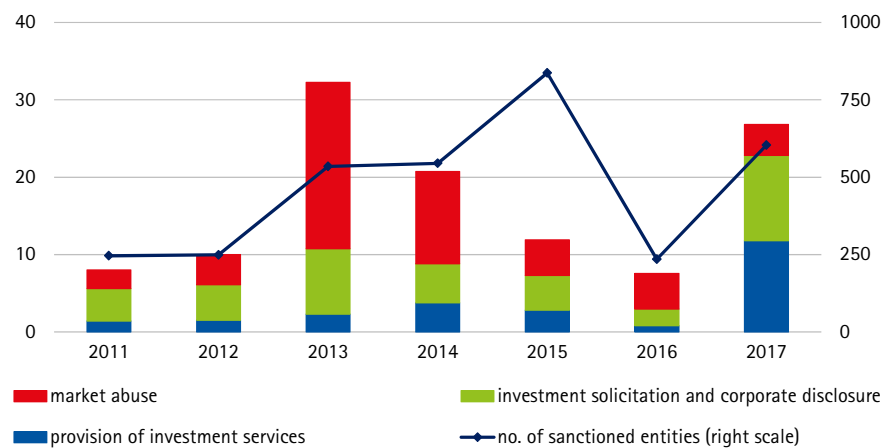
Source: Consob. ¹ The figure relative to 2014 includes an initiative which eventually resulted in the prohibition to provide investment services during 2015.

4 Sanctioning measures

In 2017, 156 sanctioning proceedings were completed (152 in 2016), of which 151 concluded with the application of sanctions (136 in 2016). These sanctions were issued against 550 entities liable for infringements of regulations on market abuse, intermediaries, advisors and issuers. The remaining five proceedings ended with the dismissal of charges for all parties involved.

The total pecuniary sanctions imposed were 27.8 million euro, a significant increase on the 7.8 million in 2016, due to the higher sanctions applied overall for infringements of issuer regulations and the rules on the provision of investment services. In 2017, an increase was also recorded in additional prohibitive sanctions, with a total of 209 months of bans (112 following proceedings for market abuse and 97 in relation to issuers), as compared to 144 months imposed in 2016; an increase was also seen in precautionary suspension measures against financial advisors authorised to practise door-to-door selling (54 in 2017 against 19 adopted the previous year). Similarly, over the same period, the value of confiscated assets also increased, from 1.1 million to 1.9 million, mainly for infringements involving market abuse (Fig. 40).

Fig. 40 Financial penalties imposed by Consob
(millions of euro)



Source: Consob. Figures include reduced fines and precautionary measures in relation to financial advisors.

4.1 Measures against market abuse

In 2017, Consob adopted six sanctioning proceedings for infringements of market abuse regulations (seven in 2016), of which five for abuse of insider information and one for market manipulation (Tab. 54).

Tab. 54 Disciplinary measures for market abuse offences
(millions of euro)

| | | no. of cases | no. of entities fined | amount of sanctions | amounts confiscated | no. of entities given additional penalties | additional penalties (months) |
|------|------------------------|--------------|-----------------------|---------------------|---------------------|--|-------------------------------|
| 2011 | | 7 | 9 | 2.4 | 1.2 | 8 | 36 |
| 2012 | | 12 | 19 | 3.9 | 6.0 | 16 | 126 |
| 2013 | | 14 | 26 | 21.6 | 1.8 | 20 | 231 |
| 2014 | | 9 | 21 | 11.9 | 0.4 | 13 | 156 |
| 2015 | | 20 | 33 | 4.6 | 0.6 | 31 | 138 |
| 2016 | | 7 | 16 | 4.6 | 1.1 | 13 | 142 |
| 2017 | <i>insider trading</i> | 5 | 10 | 2.5 | 1.2 | 9 | 76 |
| | <i>manipulation</i> | 1 | 6 | 1.5 | 0 | 3 | 36 |
| | <i>total</i> | <i>6</i> | <i>16</i> | <i>4.0</i> | <i>1.2</i> | <i>12</i> | <i>112</i> |

Source: Consob. *Insider trading* is punishable pursuant to arts.187-bis, quarter, quinquies and sexies of the Consolidated Law on Finance (Tuf); *market manipulation* is punishable pursuant to arts.187-ter, quarter, quinquies and sexies of the Consolidated Law on Finance (Tuf).

4.2 Measures relating to intermediaries and financial advisors

In 2017, 15 sanctioning procedures were initiated against financial intermediaries for procedural shortcomings and infringements of the general rules of due diligence, fairness and transparency in the provision of investment services and activities (ten in 2016). In two cases, the financial intermediaries were also sanctioned for having provided Consob with false information (Tab. 55).

Tab. 55 Monetary sanctions inflicted on financial intermediaries
(millions of euro)

| | no. of involved intermediaries ¹ | | | | no. of representatives sanctioned | | | | amount of penalties | | | |
|------|---|------------------|--------------------------|--------------|-----------------------------------|------------------|--------------------------|--------------|---------------------|------------------|--------------------------|--------------|
| | banks | investment firms | asset management company | <i>total</i> | banks | investment firms | asset management company | <i>total</i> | banks | investment firms | asset management company | <i>total</i> |
| 2011 | 2 | 7 | 2 | <i>11</i> | 4 | 37 | 2 | <i>43</i> | 0.5 | 0.8 | 0.1 | <i>1.4</i> |
| 2012 | 2 | 3 | 2 | <i>7</i> | 3 | 5 | 18 | <i>26</i> | 0.1 | 1.0 | 0.4 | <i>1.5</i> |
| 2013 | 5 | 3 | 6 | <i>14</i> | 30 | 17 | 55 | <i>102</i> | 0.8 | 0.2 | 1.3 | <i>2.3</i> |
| 2014 | 4 | 8 | 4 | <i>16</i> | 42 | 31 | 28 | <i>101</i> | 2.6 | 0.9 | 0.3 | <i>3.7</i> |
| 2015 | 8 | 3 | 7 | <i>18</i> | 121 | 26 | 74 | <i>221</i> | 1.6 | 0.3 | 0.9 | <i>2.8</i> |
| 2016 | 2 | 5 | 3 | <i>10</i> | 38 | 23 | 19 | <i>80</i> | 0.2 | 0.4 | 0.2 | <i>0.8</i> |
| 2017 | 9 | 5 | 1 | <i>15</i> | 224 | 47 | 11 | <i>282</i> | 11.0 | 0.7 | 0.1 | <i>11.8</i> |

Source: Consob. Rounding may cause discrepancies in the total figure.

As regards financial advisors, in 2017, there were a total of 52 disciplinary measures adopted overall (81 in 2016), including 28 strikings from the register and 23 limited suspensions (from one to four months); in one case the sanction consisted of a written warning. In addition, 85 communications were sent to the Judicial Authorities for cases of possible criminal significance that emerged during the investigations. With regard to precautionary measures taken against financial advisors authorised to practise door-to-door selling, in 2017 Consob adopted 54 precautionary suspension measures (against 19 in the previous year; Tab. 56).

Tab. 56 Sanctions and precautionary measures inflicted on financial advisors

| | sanctions | | | | | as a percentage of the registered advisors | precautionary measures | reports to legal authorities |
|------|-----------|----------------------------|------------------------------------|-------------------|-------|--|----------------------------------|------------------------------|
| | reprimand | cancellation from register | temporary suspension from register | monetary sanction | total | | Temporary suspension of activity | |
| 2011 | 1 | 92 | 23 | -- | 116 | 0.42 | 28 | 68 |
| 2012 | -- | 70 | 14 | 1 | 85 | 0.35 | 32 | 38 |
| 2013 | -- | 44 | 18 | 1 | 63 | 0.27 | 20 | 27 |
| 2014 | -- | 37 | 22 | 9 | 68 | 0.31 | 39 | 67 |
| 2015 | -- | 83 | 39 | -- | 122 | 0.42 | 30 | 76 |
| 2016 | 2 | 38 | 39 | 2 | 81 | 0.27 | 19 | 55 |
| 2017 | 1 | 28 | 23 | -- | 52 | 0.29 | 54 | 85 |

Source: Consob.

As regards the unauthorised provision of investment services and activities, as well as to unauthorised door-to-door selling, 26 sanctioning measures were adopted in 2017 against 24 natural persons and 16 legal persons, with financial penalties totalling 390,000 euro.

4.3 Measures involving issuers

In 2017, Consob adopted 48 sanctioning measures for infringements of issuers' and public disclosure regulations (a significant increase compared to the 24 measures adopted in 2016). The related financial penalties totalled 11 million euro (2.1 million euro in 2016; Tab. 57).

In 2017 two sanctioning measures were also adopted for infringements involving transactions performed by managers in securities of their managed companies (internal dealing), which led to penalties for a total of 34,000 euro. As regards short selling, one sanctioning measure was adopted against a company for the infringement of the Short Selling Regulation, with the application of a penalty of 550,000 euro and confiscation of a total of 674,000 euro (for further details, see Chapter I 'Markets supervision'). Finally, in 2017 a sanctioning measure was adopted

for infringements of the transaction reporting regulations pursuant to Article 65, paragraph 1, letter *b*), of the Consolidated Law on Finance, with a penalty of 20,000 euro against two corporate officers of a bank.

Finally, there was particularly intensive sanctioning activity in relation to three banks that reported crisis situations in recent years.

Tab. 57 Administrative sanctions imposed for breach of Issuers Regulation and breach of regulation on corporate and financial disclosure
(millions of euro)

| | no of cases ¹ | | | | | | | no. of entities fined | | | | | | | amount of sanctions ¹ | | | | | | |
|------|-------------------------------------|---------------|----------------------|--|----------------------|----------------------------------|--------------|-------------------------------------|---------------|----------------------|--|---------------------|----------------------------------|--------------|-------------------------------------|---------------|----------------------|--|----------------------|----------------------------------|--------------|
| | initial and secondary public offers | takeover bids | corporate disclosure | relevant shareholdings and shareholders agreements | independent auditing | board of auditors responsibility | <i>total</i> | initial and secondary public offers | takeover bids | corporate disclosure | relevant shareholdings and shareholders agreements | (internal) auditing | board of auditors responsibility | <i>total</i> | initial and secondary public offers | takeover bids | corporate disclosure | relevant shareholdings and shareholders agreements | independent auditing | board of auditors responsibility | <i>total</i> |
| 2011 | 11 | 3 | 13 | 33 | 3 | -- | 63 | 15 | 1 | 6 | 12 | 3 | -- | 37 | 1.1 | 0.3 | 0.7 | 1.2 | 0.4 | -- | 3.7 |
| 2012 | 5 | 4 | 18 | 17 | 5 | 5 | 54 | 12 | 10 | 18 | 25 | 4 | 14 | 83 | 0.9 | 0.4 | 0.8 | 1.3 | 0.1 | 0.9 | 4.4 |
| 2013 | 10 | 4 | 11 | 8 | 1 | 4 | 38 | 18 | 4 | 11 | 26 | 1 | 18 | 78 | 1.8 | 0.6 | 1.1 | 0.6 | .. | 4.1 | 8.2 |
| 2014 | 6 | -- | 12 | 9 | 5 | 8 | 40 | 53 | -- | 13 | 9 ² | 9 | 38 | 122 | 2.1 | -- | 0.3 | 0.5 | 1.0 | 1.1 | 4.9 |
| 2015 | 5 | -- | 24 | 4 | 3 | 12 | 48 | 22 | -- | 24 | 4 ³ | 3 | 74 | 127 | 0.6 | -- | 0.3 | 0.1 | 0.5 | 2.8 | 4.3 |
| 2016 | 3 | -- | 10 | 1 | 6 | 4 | 24 | 4 | -- | 10 | 1 | 6 | 12 | 33 | 0.2 | -- | 0.3 | .. | 1 | 0.5 | 2.1 |
| 2017 | 18 | -- | 16 | 5 | 5 | 4 | 48 | 160 | -- | 16 | 5 | 5 | 11 | 197 | 7.8 | -- | 1.9 | 0.4 | 0.6 | 0.3 | 11 |

Source: Consob. Rounding may cause deviation from total figure.

In 2017, in addition to providing the usual technical support to the Ministry of Economy and Finance (MEF), Consob also conducted intensive regulatory activity, preparing the national legislation on financial markets, resulting in large part from the process of adaptation to European legislation. The transposition of Directive 2014/65/EU (Markets in Financial Instruments Directive - MiFID II) into the national law with Legislative Decree no. 129 of August 3, 2017 was central to this activity, as well as the adaptation of the national regulatory framework to Regulation (EU) no. 600/2014 (Markets in Financial Instruments Regulations - MiFIR), both of which redesigned the architecture of the financial instrument markets with particular emphasis on the protection of investors and the efficiency and transparency of trading venues.

1 Transposition of EU directives and regulatory activity

Once the adaptation of the Consolidated Law on Finance to MiFID II and MiFIR was completed, Consob fully rewrote Regulation no. 16190 on intermediaries (Intermediaries' Regulation) and Regulation no. 16191 on markets (Market Regulation).

The new Intermediaries' Regulation, adopted with Resolution no. 20307 of February 15, 2018, includes a general revisiting the regulations on the authorisation of Italian investment firms and the operation in Italy of EU and third country investment firms, investor protection, financial advisor activities and the knowledge and expertise required of the staff of intermediaries authorised to provide investment information.

In the new Market Regulation, adopted with Resolution no. 20249 of December 28, 2017, aspects concerning the organisational, operating and transparency requirements of trading venues, algorithmic and high frequency trading regulations, as well as the requirements of the new role of data communication providers, including Approved Publication Arrangements (APAs), Consolidated Tape Providers (CTPs) and Authorised Reporting Mechanisms (ARMs).

On July 3, 2016, the new provisions entered into force in Italy introduced by Regulation (EU) no. 596/2014 (Market Abuse Regulation - MAR) on market abuse and the associated technical standards of regulation and implementation, which broadened the subjective and objective scope of application of the regulations beyond that previously outlined by Directive 2003/6/EC (Market Abuse Directive - MAD).

The MAR, together with related delegated and implementing measures, greatly harmonised the European framework of rules applicable to the public disclosure of inside information, controls to ensure confidentiality and rules on the transparency of transactions performed by corporate officers of issuers and the fair presentation of investment recommendations.

With the adoption of the Resolution no. 19925 of March 22, 2017, Consob concluded the revision of its regulations on issuers and markets, as well as the transactions with related parties, in order to adapt them to the new regulatory framework on market abuse.

This work on regulations led Consob to identify the need to provide adequate tools to help operators rebuild the full body of sector regulations, consisting in part of EU provisions directly applicable in Italy as well as domestic provisions for implementing the former. Therefore, guidelines were adopted in October 2017 on investment recommendations and the management of inside information. A public consultation process was held on these recommendations between April and July 2017, as well as a cycle of meetings for debate with the various associations representing the parties concerned. These guidelines are an operational tool intended to facilitate the full and correct application of the MAR, overcoming the doubts emerged and raised by operators after the entry into force of the new regulatory framework in July 2016.

With Consob's Resolution no. 20204 of November 29, 2017, the Equity Crowdfunding Regulation was also amended (Regulation no. 18592 of June 26, 2013, and subsequent amendments), in order to transpose the innovations introduced by Law no. 232 of December 11, 2016, (Budget Law 2017), which extended the relative regulations included in the Consolidated Law on Finance, previously only applicable to start-ups and innovative SMEs, to all small- and medium-sized enterprises, as defined by EU regulations. Subsequently, Legislative Decree no. 129/2017, implemented MiFID II, providing further amendments to the provisions of the Consolidated Law on Finance on raising venture capital through web portals.

Finally, the process was completed to adapt secondary legislation to Directive 2014/91/EU (Undertakings for Collective Investment in Transferable Securities - UCITS V), transposed into national law by Legislative Decree no. 71 of April 18, 2016, for improving harmonisation of the UCITS depository regulations, equipping asset management companies with sound, prudent remuneration and incentive policies, and strengthening the sanctioning

system and the powers of intervention of national and EU supervisory authorities.

With Resolution no. 20250 of December 28, 2017, the Issuers' Regulation was adapted to the Consolidated Law on Finance as amended by Legislative Decree no. 224 of November 14, 2016, for the adaptation national legislation to the provisions of Regulation (EU) no. 1286/2014 on key information documents for Packaged Retail and Insurance-based Investment Products (PRIIPs).

Legislative Decree no. 254 of December 30, 2016, gave implementation into national legislation of Directive 2014/95/EU on the disclosure of non-financial information by certain large undertakings and groups. This Legislative Decree introduces the obligation for large Public-Interest Entities (PIE) to submit a non-financial statement including information on their personnel, respect for human rights, environmental impact, the fight against corruption, as well as information on the board diversity policy applied.

Article 9 of this legislative decree requires that Consob govern by means of regulation (having consulted with the Bank of Italy and IVASS on the responsibilities of their supervised entities): the methods of submitting the non-financial statement; any further methods of publishing the non-financial statement in relation to the companies register, as well as the necessary amendment or supplementary information required by Consob in case of incomplete or non-compliant statements; the procedures and terms of the checks made by Consob of non-financial statements; the standards of behaviour and the procedures adopted by auditors to verify compliance of the information. In implementation of Article 9, with Resolution no. 20267 of January 18, 2018, Consob adopted a new Regulation that governs the methods of publication, verification and supervision, of non-financial statements.

The transposition of the MiFID II Directive provided an opportunity for introducing to the Consolidated Law on Finance a unified set of rules covering the systems of reporting infringements in the regulated financial sector. The new rules, included in Articles 4-*undecies* and 4-*duodecies* respectively, concern the so-called 'internal' and 'external' whistleblowing. In particular, 'internal whistleblowing' concerns systems for the personnel of an organisation to report events that may constitute infringements of the rules governing the activity performed. 'External whistleblowing' concerns systems for the personnel of an organisation to report events that may constitute infringements of legislation to the competent public authorities.

In addition to these reports, pursuant to Implementation Directive (EU) 2015/2392 concerning the MAR, it is any alleged infringements of this Regulation can also be reported to Consob.

Since January 3, 2018, Consob has launched two dedicated telephone and internet channels for receiving immediately any reports on alleged infringements of the current legislation from the personnel of supervised entities, or on market abuse from anyone concerned.

2 Additional regulatory interventions

In November 2017, Consob launched a public consultation to define in detail the criteria for the determination of listed companies classifiable as SMEs as referred to in Article 1, paragraph 1, letter *w-quater.1*), of the Consolidated Law on Finance first introduced by Leg. Decree no. 91 of June 24, 2014, (so-called 'Competitiveness Decree '), subsequently amended by Legislative Decree no. 25 of February 15, 2016, transposing the Transparency Directive.

The evolution of the reference regulatory framework, in part as a result of the issuing of Legislative Decree no. 130 of August 6, 2015, and the related implementing provisions concerning the institution of the Financial Dispute Arbitrator (ACF), made it necessary in 2017 to amend the regulation identifying the types of sensitive and judicial data and the executable transactions pursuant to Articles 20, paragraph 2, and 21, paragraph 2, of the Personal Data Protection Code, adopted by Consob with Resolution 15138 of February 8, 2006, and subsequent amendments.

Consob also provided technical support for the drafting of Law no. 163 of October 25, 2017 (European Delegation Law 2016-2017), intended to implement a set of further European acts affecting the discipline of financial markets at national level.

The same law also contains guiding principles and criteria for the Government mandate to make changes to the Consolidated Law on Finance necessary for the full implementation of the MAR and related technical regulation standards.

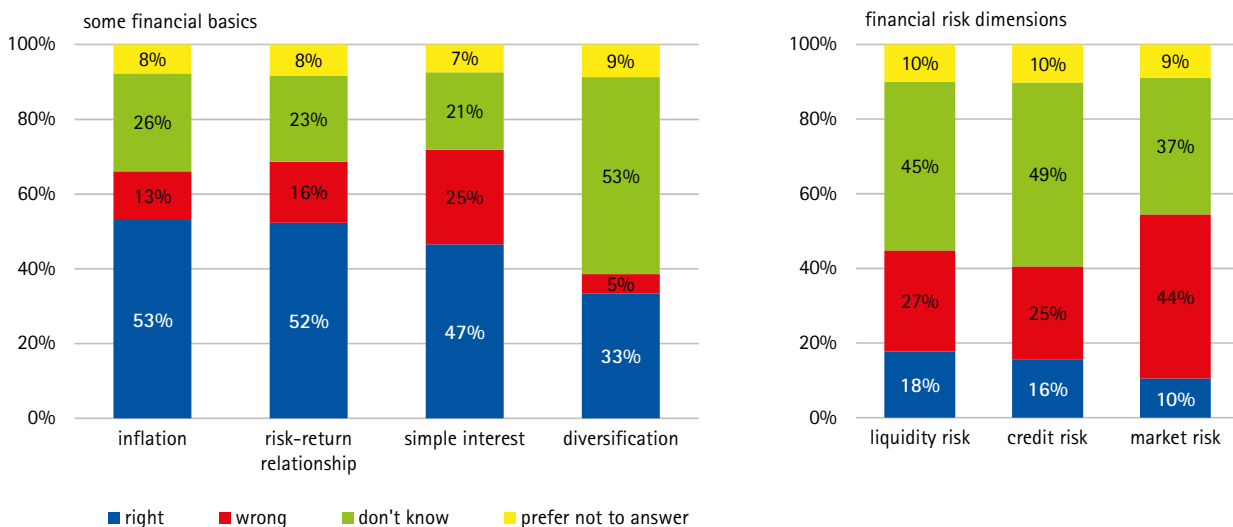
Consob also provided technical support in the issuing and conversion of Leg. Decree no. 148 of October 16, 2017, amending Article 120 of the Consolidated Law on Finance regarding transparency of the ownership structure of listed issuers (see Chapter II 'Supervision of issuers and audit firms').

1 Financial education

1.1 The financial knowledge of Italians

Findings for 2016, referred to in the Consob Observatory on the approach to finance and investment of Italian households, confirm that the financial expertise of Italians remains limited. Basic notions such as inflation, simple interest rate, risk-return ratio and portfolio diversification are obscure to the majority of respondents (the percentage of correct definitions swings in fact between 33 percent and 53 percent), while significantly lower levels of understanding (between 10 percent and 18 percent) were recorded for more sophisticated concepts regarding certain descriptive dimensions of the risk of a financial product, frequently found in information intended for investors (Fig. 41).

Fig. 41 Financial knowledge



Source: calculations on GfK Eurisko data – Consob Observatory on 'The approach to finance and investments of Italian households'.

Alongside actual financial knowledge, it is important to identify the knowledge perceived, since behaviour and attitudes towards investment can also (or only) be guided by self-assessment. The relationship between actual

knowledge and perceived knowledge displays a misalignment in approximately 40 percent of cases, which (especially in relation to more sophisticated notions) is mainly translated into an overstatement of own financial literacy (so-called upward mismatch).

Twenty percent of financial decision makers also state with a lack of familiarity any financial product at all (th 15 percent for the investor sub-sample), while the remaining 80 percent refers more frequently to bank accounts, government bonds and bank bonds.

In order to explore the potential related to financial education and the levers that are likely to improve its effectiveness, the Consob Observatory also measures interest towards financial matters and the emotional attitude towards the management of personal finances.

Almost half of the survey respondents expressed an interest in learning and improving knowledge of financial matters. Financial knowledge and interest in finance are positively correlated, thus revealing that, apart from causality relationships, they one stimulates and reinforces the other. However, interest appears more intense when there is clear understanding of the usefulness of improved knowledge in terms of pursuing a specific objective (e.g. choosing a financial adviser or managing personal finances).

Regarding the emotional attitude toward finance, the Observatory explored certain attitudes which may adversely affect individual choices and inclination towards learning. In particular, reference is made to the different negative attitudes that may be generated by anxiety, such as for example a resigned attitude ('there is no point being careful about saving: I could lose everything even if it is not my fault'), avoidance ('I prefer not to think about the state of my personal finances') or delegation ('I would prefer someone I trust to handle my finances'). Observatory evidence shows that so-called financial anxiety, i.e., the apprehension experienced by nearly half of respondents in the management of their personal finances, is found less frequently among people who are more knowledgeable, thus suggesting that improving individual expertise reduces their discomfort . A further positive effect would be the strengthening of interest, which is negatively associated with financial anxiety.

1.2 Financial education initiatives

Since September 2017, Consob has taken part in the Committee's planning and coordination of financial education activities, established by Article 24-*bis* of Decree Law no. 237 of December 23, 2016, converted with amendments by Law no. 15 of February 17, 2017.

In addition to Consob, the Committee also includes the Ministry of Economy and Finance, the Ministry of Education, University and Research, the Ministry of Economic Development, the Ministry of Labour and Social Policies,

the Bank of Italy, IVASS, COVIP, The National Council of Consumers and Users and the Financial Advisors Supervisory Body(OCF).

In late 2017 and early 2018, the Committee launched numerous initiatives, also in part developed by specially established sub-work groups engaging human resources from the various institutions represented.

The Committee first drew up and submitted to the competent parliamentary committees an outline of its financial, insurance and social security education programme. In March 2018, the process was concluded with the issuance of the opinions of Parliament and Government and the adoption of the programme.

The Committee has also created a national financial education portal (www.quellocheconta.it), launched publicly in early 2018.

In October 2017, Consob also participated in the first edition of World Investor Week (WIW), a campaign to raise awareness of the importance of financial education and investor protection promoted by the International Organization of Securities Commissions (IOSCO), the world forum of the supervisory authorities of national financial markets.

In Italy, Consob, as a member of IOSCO and the coordinator of WIW for our country, sought to promote the diffusion of the campaign messages through a series of events designed to encourage reflection on the need to strengthen the basic knowledge investors and improve the capacity to apply such knowledge in everyday financial decisions. To this end, Consob collaborated with several public and private subjects such as ADEIMF, ANASF, the Bank of Italy, FEDUF, the Global Thinking Foundation, the Museum of Saving, QfinLab and Redooc as well as the leading Italian Universities.

During WIW, Consob organised various training initiatives on subjects involving financial planning, the investment of savings process, objective and subjective notions of financial risk and the concept of risk diversification.

In addition, in the course of this week and again within the framework of the conference 'Investments, competences and decision-making styles', the latest Consob report on the investment decisions of Italian households was presented, the main findings of which have been briefly described above.

Finally, an issue of *Quaderno di finanza* was published, entitled *Challenges in ensuring financial competencies. Essays on how to measure financial knowledge, target beneficiaries and deliver educational programmes* (published in early 2018 and also available in Italian).

In 2017 Consob signed a memorandum of understanding with Unioncamere Nazionale with the purpose of increasing the financial culture of entrepreneurs, students and citizens. Within the scope of said protocol and

with the collaboration of the Consorzio Camerale per il credito e la finanza (Consortium of Chambers of Commerce for credit and finance), the 'Together for Economic Citizenship' roadshow was launched at the end of the year. Events were held and will continue to be held in the course of 2018 at the premises of six Chambers of Commerce, namely the ones of Rome, Novara, Bari, Maremma and Tirreno, Pescara and Livorno.

In 2017 management and updating of the *investor education* area of Consob's website continued. This is the first point of contact with the investing public and a useful tool for the collection of educational materials, and in the course of the year it recorded around a million hits concentrated in particular on the section dedicated to 'concepts and tools'. Among other things, this section hosts pages devoted to basic financial concepts, educational videos and the interactive tools useful for monitoring the household budget, checking one's own financial knowledge, understanding cognitive limits and the most common behavioural errors that may affect financial decisions.

2 Complaint management

In 2017 Consob received 2,287 complaints, in sharp decline compared with the previous year (-47 percent; Tab. 58).

Tab. 58 Complaint management
(year-end data)

| | received complaints | accepted complaints | as a percentage of total |
|------|---------------------|---------------------|--------------------------|
| | total | total | |
| 2014 | 1,506 | 940 | 62 |
| 2015 | 1,762 | 1,372 | 78 |
| 2016 | 4,354 | 3,907 | 90 |
| 2017 | 2,287 | 1,948 | 85 |

Source: Consob. Figures may include a number of complaints still under review.

The examination of the data on the type of entities reported in the complaints received in 2017 for which proceedings could be initiated shows a reduction of complaints against banks (from 3,051 in 2016 to 1,150 in 2017; - 62 percent), although most complaints are still against banks (46 percent of the total).

As regards the subject of prosecutable complaints, examination of the data confirms that most of the complaints concern financial intermediation for irregularities in the provision of investment services or their provision without authorisation.

With reference to the transmission channel for complaints, in 2017, 182 complaints were received through the online application made available to the public in July 2015.

3 The activity of the Financial Dispute Arbitrator

The Financial Dispute Arbitrator (ACF) was established by Consob with Resolution no. 19602/2016 and has been operational since January 9, 2017 in the alternative resolution of disputes among retail investors and intermediaries in the case of infringement by the latter of the obligations of due diligence, fairness, disclosure and transparency in the provision of investment services and collective investment schemes.

Consob's commitment to the institution and initiation of operations of the Financial Dispute Arbitrator was particularly significant, both in creating the regulatory structure and defining the organisational aspects and in the constitution and composition of the decision-making body (Board). Indeed, Consob provides human, financial and technological resources for the operation of the ACF and, through the Technical Secretariat Office, ensures assistance to the Board and technical support for the investigation of complaints, as well as for the management of the ACF website.

Between January 9, 2017, and December 31, 2017, 1,839 appeals were submitted to the ACF, with a particularly significant peak in the period from May to July. In that period, indeed, an increasing number of investor-shareholders of Banca Popolare di Vicenza and Veneto Banca turned to the ACF, just before and after the launch of Decree Law no. 99 of June 25, 2017, which sanctioned the launch of the procedure of compulsory administrative liquidation of the two banks.

The distribution of appeals according to region of residence shows that 31 percent (567 appeals) were received from the Veneto region, followed by Lombardy (13 percent), Apulia (7 percent), Lazio (6.9 percent), Piedmont (6.4 percent) and Emilia Romagna (5.9 percent).

Complaints involved 111 intermediaries in total; mainly banks (91), followed by asset management companies (11), Italian investment firms (4), other investment companies (2), insurance companies (2) and Italian collective investment managers (1).

The size of the reimbursements claimed was on average around 55,000 euro, with a minimum of 41,000 and a maximum of 500,000 euro, corresponding to the maximum authorised refund of the ACF. The total value of the reliefs sought exceeded 80 million euro.

From May 5, 2017 (the date on which the decision-making started subsequent to conclusion of the primary investigations) to December 31, 2017, the Board of the ACF held 28 meetings and adopted 307 decisions of

which 189 accepted the claim (fully or in part) and 118 rejected it. In more than 60 percent of cases, therefore, the decision was wholly or in part in favour of the claimants, with average compensation of 27,000 euro for a total of around 5.2 million euro.

The decisions of the ACF have almost always found in favour of investors. In only one case, it was established that the decision deliberately found against the losing party intermediary, an event that was duly made publicly known.

The constitution of the ACF extended the range of instruments to protect investors, with a reduction in times and costs compared to traditional recourse to civil justice, which, however, is still possible if recourse to the ACF does not settle the dispute to the satisfaction of both parties.

With reference to intermediaries, since the adoption of its initial decisions, the ACF has also included among its objectives the provision of support to improve the quality of complaint handling procedures, for which it is expressly required that authorised intermediaries must consider the guidelines drawn up by the ACF.

For more details regarding the activities of the ACF, reference should be made to the annual report published by the Arbitrator in March 2018.

Back-office activities and VIII international cooperation

1 Financial management

Total expenditure for the FY 2017 (131.7 million euro) is more than 7 million euro higher than the final figure for 2016 (Tab. 59).

Tab. 59 Revenues and expenditure
(millions of euro)

| items | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 ² |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|
| EXPENDITURES | | | | | | | |
| current expenditure | | | | | | | |
| Commission members | 2.3 | 2.3 | 1.2 | 0.7 | 0.8 | 1.3 | 1.4 |
| staff | 82.0 | 88.1 | 88.3 | 88.7 | 90.8 | 92.9 | 96.3 |
| goods and services | 21.5 | 16.0 | 16.1 | 13.9 | 13.7 | 14.7 | 14.5 |
| property refurbishment | 3.6 | 3.7 | 4,8 | 5,7 | 5,0 | 9,8 | 12,7 |
| provisions for legal risks | 17,8 | 1,0 | 0,0 | 0,0 | 0,0 | 0,0 | 1,9 |
| other expenditures | 1,3 | 3,0 | 0,3 | 2,5 | 2,7 | 2,8 | 0,8 |
| <i>total current expenditure</i> | <i>128,5</i> | <i>114,1</i> | <i>110,7</i> | <i>111,5</i> | <i>113,0</i> | <i>121,5</i> | <i>127,6</i> |
| capital expenditure | 1,4 | 4,4 | 3,3 | 0,8 | 2,9 | 2,5 | 4,1 |
| <i>total expenditure</i> | <i>129.9</i> | <i>118.5</i> | <i>114.0</i> | <i>112.3</i> | <i>115.9</i> | <i>124.0</i> | <i>131.7</i> |
| REVENUES | | | | | | | |
| previous year surplus ¹ | 14.5 | 14.3 | 18.3 | 13.7 | 14.0 | 15.0 | 12.1 |
| state funding | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 |
| supervisory fees | 116.6 | 108.9 | 98.0 | 99.9 | 108.9 | 108.3 | 111.6 |
| other revenues | 12.0 | 12.2 | 10.4 | 8.6 | 8.7 | 11.0 | 13.4 |
| <i>total revenues</i> | <i>143.5</i> | <i>135.8</i> | <i>126.7</i> | <i>122.2</i> | <i>131.6</i> | <i>134.6</i> | <i>137.3</i> |

Source: Consob. ¹ The surplus results from the difference between total revenue and total expenditure, and the difference deriving from the management of residual assets and liabilities. The 2016 surplus, including the amount in the 'Fondo pluriennale vincolato' is recorded among 2017 revenues. ² Provisional data.

In particular, current expenditure (127.6 million euro) increased by around 6 million euro, while capital expenditure (4.1 million euro) increased by 1.6 million euro.

Total revenues for 2017 (excluding budget surplus) amounted to 125.2 million, of which 13.4 (approximately 11 percent) from other income (essentially receivable interest, the application of property restoration funds, pecuniary administrative sanctions collected for the infringement of the regulations governing the activities under Part II - Intermediary Regulations of the Consolidated Law on Finance and amounts paid to Consob as a result of court orders) and 111.6 million (89 percent) from income from supervisory contributions received. In addition to that, there is the 0.2 million transfer from the State to the *Fund for the out-of-court protection of the savers and investors*, intended to provide free access procedures for the resolution of financial disputes by the Arbitrator (ACF) established by Consob.

Contributions come mainly from entities that promote public investment, issuers, intermediaries (banks, Italian investment firms and stockbrokers), auditing firms and statutory auditors (Tab. 60).

Tab. 60 Fees breakdown by category of supervised entities
(millions of euro)

| | investment firms and stockbrokers | banks | independent auditors | financial advisors | market operators ¹ | issuers | UCITs ² | entities soliciting retail investment | other | <i>total supervisory fees</i> |
|------|-----------------------------------|-------|----------------------|--------------------|-------------------------------|---------|--------------------|---------------------------------------|-------|-------------------------------|
| 2011 | 1.7 | 20.1 | 12.1 | 5.2 | 5.7 | 23.1 | 11.5 | 34.7 | 2.5 | <i>116.6</i> |
| 2012 | 1.4 | 17.7 | 12.7 | 4.9 | 5.7 | 23.5 | 10.4 | 30.5 | 2.1 | <i>108.9</i> |
| 2013 | 1.5 | 16.2 | 12.5 | 4.7 | 5.2 | 22.5 | 8.8 | 23.9 | 2.7 | <i>98.0</i> |
| 2014 | 2.6 | 17.1 | 12.9 | 4.7 | 5.3 | 22.5 | 9.5 | 23.5 | 1.8 | <i>99.9</i> |
| 2015 | 2.8 | 17.1 | 12.5 | 4.9 | 5.5 | 27.6 | 11.0 | 25.5 | 2.0 | <i>108.9</i> |
| 2016 | 2.8 | 18.6 | 12.2 | 5.1 | 5.5 | 26.5 | 12.5 | 23.3 | 1.8 | <i>108.3</i> |
| 2017 | 2.9 | 21.1 | 13.0 | 5.5 | 5.5 | 29.3 | 15.0 | 15.9 | 3.4 | <i>111.6</i> |

Source: Consob. ¹ Including Borsa Italiana, MTS Spa, Cassa di compensazione e garanzia Spa, Monte Titoli Spa and Organismo dei consulenti finanziari. ² Including supervisory fees paid by individual portfolio management provided by asset management companies (SGRs).

2 Internal organisational and functional structure

2017 saw the implementation of numerous initiatives concerning the internal organisation and functioning of Consob, aimed both at the continuous improvement of the infrastructure and the simplification of the organisational structure and processes.

In order to regulate the activities relating to the implementation of Article 22, paragraph 7, of Decree Law no. 90 of June 24, 2014, converted into Law no. 114 of August 11, 2014, also in 2017, Consob and the Italian Competition Authority (AGCM) - following the Agreement concluded at the end of 2014 and the consequent implementation arrangements of 2015 and 2016 - signed an agreement defining the activities and procedures to be managed jointly for the year 2017.

With specific regard to negotiations, Consob started the two-yearly planning (three-yearly in the case of works) of acquisitions prescribed by Article 21 of the Code of public contracts (Legislative Decree no. 5018 April 2016), and the consequent publication of the same in the section 'Transparent Authority - Public Procurement and <contracts' by way of implementation of the National Anti-Corruption Authority (ANAC) guidelines adopted with Resolution 1310 of December 28, 2016.

Particular focus was given to the area of 'public contracts' risk under the 2018-2020 Three-Year Corruption Prevention and Transparency Plan. In this context, the stages of the relative processes were updated, the relevant activities in each individual stage identified and risky events, irregular behaviour and general and specific prevention measures were supplemented and updated. In addition, 'implementation indicators' were developed for prevention measures, in relation to each individual phase of the purchase cycle.

In 2017 debate with auditors continued for the adoption by Consob, in its Human Resources Regulations, of the reform of careers already adopted by the Bank of Italy.

3 Human resources management

At the end of 2017, Consob had 609 personnel members, six more than at the end of the previous year, with 14 new recruits (of which 12 from competitive selections announced in previous years for protected categories) and eight terminations of service over the course of the year (Tab. 61).

Tab. 61 Human Resources
(as of 31 December)

| | permanent positions | | | total | fixed-term positions ¹ | total |
|------|------------------------------|---------------|-----------------|-------|-----------------------------------|-------|
| | managers and middle managers | white collars | other employees | | | |
| 2011 | 260 | 280 | 22 | 562 | 48 | 610 |
| 2012 | 278 | 276 | 21 | 575 | 52 | 627 |
| 2013 | 317 | 232 | 17 | 566 | 52 | 618 |
| 2014 | 349 | 198 | 13 | 560 | 54 | 614 |
| 2015 | 365 | 180 | 13 | 558 | 48 | 606 |
| 2016 | 400 | 183 | 13 | 596 | 7 | 603 |
| 2017 | 429 | 159 | 14 | 602 | 7 | 609 |

Source: Consob. ¹ Figures include personnel seconded to Consob from other entities.

In 2017, five competitive selection procedures were launched, four of which are in the final stages, for the recruitment of 75 people. The search for specific professional figures, in line with the current evolution of the

market, is aimed at optimising the teams of the supervisory structures and of Consob itself.

As regards the flexibility tools designed to combine the needs of Consob with those of employees (smart working), in the course of the year, the number of home workers further increased from 32 in 2016 to 39 in 2017.

With reference to personnel training, in 2017 as already in the previous year, priority was awarded to initiatives on topics of common and specialist interest performed within Consob, sometimes with the intervention of external teachers and trainers and addressing broad categories of employees. Video streaming was often used for these initiatives, which is of significant benefit in terms of cost savings without compromising the quality and continuity of training.

As part of the process of intensification of collaboration with the academic world initiated in previous years, several new agreements were signed with prestigious Italian universities all over the country.

4 Information Technology systems

2017 was characterised by a series of technical and organisational initiatives to improve the efficiency of information systems used by Consob for its supervisory activities.

In organisational terms, the establishment in December 2016 of the Information Infrastructures Division gave new impetus to the definition of the Information Technology strategy, in line with the institutional objectives of supervision and the need for the technological modernisation of the information systems.

As regards the technical initiatives - which Consob's Plan for Information Technology Development 2018-2020 identifies according to a multi-annual approach consistent with the evolution of the strategic objectives - in 2017, the information systems and databases were adapted to the evolution of the reference regulatory framework or newly created to support Consob's activities.

Within the scope of the applications to support communication and investor protection, development began in 2017 of the computer application to process whistleblowing reports pursuant to Law no. 179 of November 30, 2017.

A project was planned for 2018 for the overall revision of the Consob website with the aim of implementing a series of features to speed up research (specifically with regard to the regulatory section) and navigability.

As regards cross sector back-office applications, technical updating of the financial accounting system platform continued; new functions connected with the programming, planning and reporting were also activated.

In early 2018, integration was begun of the aforesaid system with the Information Technology system in support of the activities of the Financial Dispute Arbitrator (ACF), for which a set of maintenance interventions are envisaged.

Since many activities planned for 2017 were postponed to the next year in order to give priority to the development of applications for supervision, among the projects for technological innovation, ICT security and ordinary ICT management, it should be noted that 2018 will include continuation of the multi annual disaster recovery project (with the finalisation of the technical infrastructure and logistics of the Milan offices) and the wider process of modernization of Consob's computer systems will continue.

5 External relations, conferences and research

Again in 2017, the website was confirmed as the main tool for external communications, in terms of managing relations with investors and the public in general (Tab. 62).

Tab. 62 Number of accesses to Consob website
(thousands)

| section | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|
| home page (what's new) | 1,275 | 1,305 | 1,178 | 904 | 1,601 | 1,505 | 1,347 |
| for investors | 199 | 180 | 159 | 220 | 460 | 475 | 833 |
| for supervised entities | 322 | 340 | 271 | 218 | 380 | 390 | 413 |
| for journalists | 5 | 6 | 4 | 5 | 9.5 | 9 | 10 |
| Consob | 1,154 | 1,160 | 968 | 703 | 705 | 680 | 852 |
| issuers | 3,177 | 3,119 | 2,706 | 1,283 | 1,883 | 1,785 | 1,382 |
| intermediaries and markets | 1,090 | 1,088 | 988 | 771 | 987 | 957 | 1,200 |
| Consob decisions / newsletter | 977 | 982 | 891 | 476 | 531 | 612 | 732 |
| regulation | 2,065 | 2,100 | 1,618 | 730 | 1,436 | 1,341 | 1,621 |
| publications and press releases | 191 | 188 | 126 | 55 | 45 | 195 | 404 |
| links to other websites | 4 | 4 | 5 | 3 | 9 | 10 | 14 |
| search engine | 116 | 112 | 147 | 57 | 31 | 15 | 15 |
| help and site map | 9 | 10 | 7 | 4 | 19 | 57 | 42 |
| interactive area | 51 | 54 | 36 | 36 | 35 | 36 | 36 |
| English version | 322 | 340 | 343 | 532 | 762 | 901 | 473 |
| transparency ¹ | – | – | – | 168 | 229 | 241 | 255 |

Source: Consob processing of Google Analytics data.

Consob received many requests for assistance from the public as well as reports on corporate and market operations (Tab. 63).

Tab. 63 Request of documents and information on Consob activity

| | applicants | | | applications breakdown | | | | |
|------|--|-----------------------------------|--------------|---|------------------------------|----------------------|-------|--------------|
| | institutional investors, intermediaries, operators | retail investors, students, other | <i>total</i> | resolutions, communications, prospectuses | amended laws and regulations | data and information | other | <i>total</i> |
| 2011 | 315 | 1,385 | <i>1,700</i> | 188 | 270 | 792 | 450 | <i>1,700</i> |
| 2012 | 321 | 1,394 | <i>1,715</i> | 183 | 275 | 801 | 456 | <i>1,715</i> |
| 2013 | 340 | 1,265 | <i>1,605</i> | 175 | 260 | 830 | 340 | <i>1,605</i> |
| 2014 | 346 | 1,254 | <i>1,600</i> | 180 | 258 | 810 | 352 | <i>1,600</i> |
| 2015 | 542 | 1,260 | <i>1,802</i> | 194 | 240 | 1,008 | 360 | <i>1,802</i> |
| 2016 | 548 | 1,502 | <i>2,050</i> | 210 | 230 | 1,160 | 450 | <i>2,050</i> |
| 2017 | 591 | 1,410 | <i>2,001</i> | 221 | 250 | 1,110 | 420 | <i>2,001</i> |

Source: Consob.

Also in 2017, Consob actively participated in school-work alternation projects, organising meetings at its headquarters with highschool students and teachers, proposing solutions in line with their needs and demands.

Moreover, in 2017 collaboration continued with Italian universities, focusing on organising conferences and seminars.

As regards research, many studies were published over the year that contributed to academic debate on economics, finance and law.

As regards the usual periodic publications, several documents were prepared on the structural and situational analysis of the domestic financial market.

6 International cooperation

As usual, in 2017, Consob engaged in international cooperation with the authorities of the other Member States and third countries, in order to facilitate the exercise of their respective functions in the context of the ever increasing integration of financial markets (Tab. 64).

The number of requests for assistance received from both EU and non-EU authorities increased slightly compared to 2016 (71 and 68 respectively), more than half of which were for establishing the requirements of shareholders or corporate officers in foreign investment firms and other intermediaries.

Tab. 64 Exchange of information between Consob and foreign supervisory authorities

| topic | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-----------|------------|------------|------------|------------|------------|------------|
| Requests to foreign authorities | | | | | | | |
| insider trading | 27 | 16 | 12 | 21 | 65 | 68 | 56 |
| market manipulation | 18 | 14 | 11 | 15 | 10 | 12 | 10 |
| unauthorised public offerings and provision of investment services | 14 | 33 | 42 | 26 | 27 | 21 | 26 |
| transparency and corporate disclosure | -- | -- | 2 | 1 | 1 | 1 | 23 |
| relevant shareholding in listed companies and authorised intermediaries | 5 | 1 | 1 | 0 | 1 | -- | -- |
| integrity and professional requirements | 1 | 1 | 1 | 2 | 3 | 1 | 2 |
| infringement of rules of conduct | 1 | 1 | 8 | 3 | 3 | 1 | 2 |
| transaction reporting pursuant to art. 25 MiFID | -- | -- | -- | 0 | 0 | -- | -- |
| short sales | -- | -- | -- | 2 | 1 | 8 | 1 |
| requests to remote member pursuant to art. 57 MiFID | 24 | 67 | 97 | 70 | 51 | 89 | 38 |
| establishment in Italy of branch of a European investment firm | -- | -- | -- | 5 | 8 | 7 | 11 |
| <i>total</i> | <i>90</i> | <i>133</i> | <i>174</i> | <i>145</i> | <i>170</i> | <i>208</i> | <i>169</i> |
| Requests from foreign authorities | | | | | | | |
| suspicious transactions | 5 | 9 | 3 | 9 | 12 | 23 | 32 |
| unsolicited assistance | -- | -- | -- | 20 | 16 | 23 | 58 |
| <i>total</i> | <i>5</i> | <i>9</i> | <i>3</i> | <i>29</i> | <i>28</i> | <i>46</i> | <i>90</i> |
| Requests of from foreign authorities | | | | | | | |
| insider trading | 11 | 9 | 7 | 17 | 15 | 21 | 23 |
| market manipulation | 5 | 5 | 1 | 3 | 2 | 1 | 1 |
| unauthorised public offerings and provisions of investment services | 4 | 2 | 1 | 2 | 1 | 2 | 2 |
| transparency and corporate disclosure | 3 | -- | -- | -- | 1 | 1 | -- |
| relevant shareholding in listed companies and authorised intermediaries | 1 | -- | -- | -- | -- | -- | -- |
| integrity and professional requirements | 50 | 30 | 38 | 65 | 62 | 43 | 44 |
| infringement of rules of conduct | -- | 1 | -- | -- | -- | -- | -- |
| transaction reporting pursuant to art. 25 MiFID | -- | -- | -- | -- | -- | -- | -- |
| short sales | -- | -- | -- | -- | -- | -- | 1 |
| requests addressed to remote member pursuant to art. 57 MiFID | -- | 1 | -- | -- | -- | -- | -- |
| <i>total</i> | <i>74</i> | <i>48</i> | <i>47</i> | <i>87</i> | <i>81</i> | <i>68</i> | <i>71</i> |
| Reports received from foreign authorities | | | | | | | |
| suspicious transactions | 11 | 22 | 41 | 40 | 59 | 55 | 95 |
| unsolicited assistance | -- | -- | -- | 8 | 6 | 6 | 6 |
| <i>total</i> | <i>11</i> | <i>22</i> | <i>41</i> | <i>48</i> | <i>65</i> | <i>61</i> | <i>101</i> |

Source: Consob.

Assistance at EU level is provided according to the obligations established by EU legislation, in compliance with the ESMA guidelines on cooperation arrangements and the exchange of information, as well as the annexed Multilateral Memorandum of Understanding governing cooperation for the purposes of supervision and enforcement. Cooperation with non-EU Authorities is provided in accordance with the IOSCO Multilateral Agreement, with more than 115 signatories.

In addition, in implementation of the bilateral agreement concluded in 2016 pursuant to Article 47 of Directive 2014/56/EU (Audit Directive), Consob cooperated intensively with the Public Company Accounting Oversight Board (PCAOB) in an investigation into possible infringements of US legislation on audits, which also involves an Italian statutory auditor of issuers with securities traded on US markets.

Contents

Annual Report 2017

Consob activity

I Markets supervision

| | | |
|-----|---|----|
| 1 | Trading platforms | 5 |
| 1.1 | The MTA market | 7 |
| 1.2 | The EtfPlus market | 11 |
| 1.3 | The IDEM market | 12 |
| 1.4 | The SeDeX market | 13 |
| 1.5 | Bond markets | 14 |
| 2 | Supervision of trading platforms | 15 |
| 2.1 | Regulatory supervision | 15 |
| 2.2 | Supervision of admission, suspension, exclusion and withdrawal of financial instruments | 16 |
| 3 | Supervision of market trading and information integrity | 17 |
| 3.1 | Supervision of transparency and orderly performance of trading | 17 |
| 3.2 | The supervision of market information integrity, buybacks and internal dealing | 18 |
| 3.3 | Highly dilutive capital raising | 18 |
| 4 | Supervision of post-trading and OTC derivatives | 18 |
| 5 | Supervision of short selling | 20 |
| 6 | Supervision of the dissemination of corporate studies and ratings | 21 |
| 6.1 | Supervision of the dissemination of research studies and investment recommendations | 21 |
| 6.2 | Supervision of rating disclosure | 23 |
| 7 | Supervision of market abuse | 23 |
| 7.1 | Prevention | 23 |
| 7.2 | Repression | 24 |
| 7.3 | Legal representation | 27 |

| | | |
|------------|--|----|
| II | Supervision of issuers and audit firms | |
| 1 | The ownership structure of listed companies | 29 |
| 2 | Shareholders' meetings and corporate bodies | 29 |
| 3 | Ownership structure disclosure | 37 |
| 4 | Takeover bids and exchange tender offers | 39 |
| 5 | Supervision of transactions with related parties | 42 |
| 6 | Supervision of corporate governance and internal supervisory bodies | 44 |
| 7 | Supervision of auditing firms | 46 |
| | | |
| III | Supervision of corporate disclosure | |
| 1 | Raising of venture capital and extraordinary finance transactions | 51 |
| 2 | Supervision of public offerings and admission of share to trading | 53 |
| 3 | Supervision of public offerings and admission to trading of non-equity instruments | 54 |
| 4 | Corporate disclosure supervision | 57 |
| | 4.1 Accounting information | 58 |
| | 4.2 The banking and insurance sectors | 59 |
| | | |
| IV | Supervision of intermediaries | |
| 1 | Banks | 61 |
| 2 | Insurance | 67 |
| 3 | Entities authorised to provide investment services | 69 |
| 4 | Supervision of banks and Italian investment firms | 71 |
| 5 | Asset management | 73 |
| 6 | Supervision of asset management companies | 76 |
| 7 | The supervision of financial advisors authorised to practise door-to-door selling | 79 |
| 8 | Supervision of equity crowdfunding portals | 81 |

| | | |
|-------------|--|-----|
| V | Inspection activity and sanctions | |
| 1 | Inspections | 83 |
| 2 | Supervision for the prevention of money laundering and terrorist financing | 84 |
| 3 | Investigations and measures against abusive behaviours | 85 |
| | 3.1 Investigations | 85 |
| | 3.2 Measures | 87 |
| 4 | Sanctioning measures | 88 |
| | 4.1 Measures against market abuse | 88 |
| | 4.2 Measures relating to intermediaries and financial advisors | 89 |
| | 4.3 Measures involving issuers | 90 |
| | | |
| VI | Regulatory activity | |
| 1 | Transposition of EU directives and regulatory activity | 93 |
| 2 | Additional regulatory interventions | 96 |
| | | |
| VII | Investor protection | |
| 1 | Financial education | 97 |
| | 1.1 The financial knowledge of Italians | 97 |
| | 1.2 Financial education initiatives | 98 |
| 2 | Complaint management | 100 |
| 3 | The activity of the Financial Dispute Arbitrator | 101 |
| | | |
| VIII | Back-office activities and international cooperation | |
| 1 | Financial management | 103 |
| 2 | Internal organisational and functional structure | 104 |
| 3 | Human resources management | 105 |
| 4 | Information Technology systems | 106 |
| 5 | External relations, conferences and research | 107 |
| 6 | International cooperation | 108 |