Annual meeting with the financial market

Speech by the Chairman Professor Paolo Savona

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1974 - 2024

CONSOB

Commissione Nazionale per le Società e la Borsa

Speech by the Chairman to the financial market

1 A brief history of Consob

On 7 June 1974, Law No. 216 conveyed the functions exercised by the then Ministry of the Treasury on listed companies and stock exchanges to a new institution named the *Commissione Nazionale per le Società e la Borsa (CONSOB)*, which became an independent Authority with legal personality eleven years later via Law No. 281 of 4 June 1985. Another thirteen years later, Italy's Consolidated Law on Finance (*Testo Unico della Finanza – TUF*), approved on 24 February 1998 via Legislative Decree No. 58, conveyed to Consob extensive authorisation power and supervisory control over the securities market. The three legislative actions pace Consob's evolution milestones, complemented over time with fine-tuned definition of assigned tasks and attributions of new assignments. Over the last quarter century, the European Union has unceasingly contributed to extending and defining Consob's tasks, mostly in recent years, in order to accommodate, also in the finance sector, technological innovations and environmental sustainability, thus forerunning the creation of a single capital market functional to real growth.

On the occasion of the 50th anniversary of its foundation, Consob edited a short history (*Storia*), published by Italy's *Poligrafico dello Stato* and distributed today. The publication is the result of a concerted effort contributed by all its organisational Units, to whom our heartfelt thanks goes. The work was coordinated by Consob's Secretary General, and supervised by the current Commissioners and the three latest Presidents. The scientific direction was performed by Guido Ferrarini, with Davide Trasciatti's collaboration. Today's meeting will be followed, both in Rome and Milan, by two conferences with the scientific community to discuss our experience over the past half a century and collect suggestions for our future.

In analysing the extensive documentation gathered, we concluded that breaking down, by decades, the financial market evolution, as well as regulations and organisation concerning Consob, would prove the most suitable solution to map the issues encountered and outline the choices that shaped Consob's institutional role. Although aware of some simplification which is inherent in the time allocation established, we referred to the first decade (1974-1984) as "First steps" (*Primi Passi*), obviously towards the fulfilment of the supervisory task over the Country's companies and stock exchanges transferred to Consob from the then Ministry of the Treasury. The second (1984-1994), on "The Italian Big Bang" (*Il Big Bang italiano*), to emphasise the recognition of its independence and, primarily, the transition of stock exchange trading from grids to electronic processing. The third (1994-2004), on "The age of reform" (*L'età delle riforme*), to recall the increased regulatory effort required to link financial supervision to the Eurosystem's birth and the tasks assigned to Consob by the mentioned *TUF*. The fourth (2004-2014) on "The age of crisis and European supervision" (*L'età della crisi e della vigilanza europea*), to recall the difficulties encountered in dealing with the effects of the 2008 global financial upheaval and the increasing role played on the market by the European Union. The latest (2014-2024) on "The age of fintech, sustainability and European financial integration" (*L'era del Fintech, della sostenibilità e dell'integrazione finanziaria europea*), to retrace the steps taken so far to meet the supervisory commitments posed by these three ambitious objectives.

Over the past 50 years, the ratio of financial assets to money held by households and businesses has risen from 1 to 2.4 times, partly as a result of significant growth in equity values and new financial assets. Such growth mirrors the intention to strengthen the funds required for productive investments and transforms the content and extent of the supervisory activity to be performed. It is a natural mirroring of the global financial market evolution, to which Consob has contributed with its presence and efforts to ensure transactions transparency, improve supervisory rules, and enhance investigation and sanctioning activities.

Considering that Consob

- was established four decades after its more famous American "sister" (the SEC, Securities and Exchange Commission), founded in 1934 on the occasion of the New Deal wanted by Roosevelt to overcome the Great Depression, whose causes were identified also in financial market unruliness;
- recorded a significant leap in its activities when our financial market expanded, partly as a result of Italy's Legislative Decree

No. 385/1993, which turned the banking regime from *specialised* to *universal*;

- operated in the current millennium within the Eurosystem and the European financial system, first participating in the CESR (Committee of European Securities Regulators) and since 2011 in the ESMA (European Securities and Market Authority);
- had to cope with the typical rigidity of the civil law regime, which have become more stringent as a result of a rapidly evolving market. This resulted in making the existing rules partly obsolete and leading the jurisprudence to perform typical functions of the common law regime;

it can reasonably be argued that the performance attained is comparable to – and in some respects comparatively better than – the level attained by analogous institutions in Europe and the rest of the world, although international comparisons are distorted by persistent and profound differences in the regulatory treatment of financial supervision, which, moreover, hinders global trade.

2 A summary of the activity carried out

Together with Consob's "*History*", the customary Report on the past year's activity is also presented today, laying down the actions performed and the resources deployed by Consob to fulfil its assigned tasks. The Report opens with a brief outline of the strategy pursued to meet the challenges that the new world imposes on us and closes with an Appendix, laying down statistical data broken down by function and highlighting the increasing scale of the commitments fulfilled with almost unchanged staff resources (650 units) and comparatively reduced financial resources (203 million EUR).

In 2023, the Commission held 73 meetings to examine 962 dossiers, resulting in 402 resolutions. These mostly concern appeals to public savings, requests for information from companies and answers to questions addressed to us. All such activities aimed at raising the level of transparency in order to contribute to proper market functioning and informed investment choices by savers.

The scale of regulated market trading remains modest, with the sole exception of government bond trading, which accounts for almost three quarters of the total. Since our total savings remain abundant and a part of them remains unused domestically, as the positive balance of our foreign trade balance testifies, it becomes urgent to encourage their use in capital securities representing real investments – which, history teaches us, effectively protects savings in the longer term versus purely financial investments.

The investigation and sanctioning activities carried out last year to counter market abuse, as well as the cooperation with other State institutions, continue to be demanding and also involve a significant part of our legal sector. Consob also performs in several operational aspects of the financial market, both on the regulatory and operational side, and its activity has even accelerated over the past two years. The several initiatives launched culminated in Law No. 21 of 5 March 2024, which delegated Italy's Government to revise the Consolidated Law on Finance (*TUF*). In this regard, it is worth underlining that Consob is offering its most careful proactive commitment.

Consob's new decade (2024-2034) will presumably be marked by the same "briefness" feature authoritatively attributed to the XX century, due to shortened timeframes imposed by the incorporation of growing technological innovations, the pressing demands for environmental protection and the urgency of implementing the European Capital Markets Union. Improving the efficiency and effectiveness of overall financial market supervision would require enhancing collaboration and synergies embedded in a process of integration of the Country's existing information collection and processing structures, seizing the opportunity offered by the unifying force of data science and computing tools progress. Such a decision would favour the implementation of a global monetary and financial regime on grounds similar to those devised and proposed by Keynes at Bretton Woods, partially implemented and then discarded, not least because the computing power of PCs and decentralised accounting techniques accessible today were not available yet.

3 Geopolitical evolutions and Consob's specific needs

Consob is to operate within a geopolitical framework that tends to move more weapons than goods, reversing the direction favourable to globalised trade and peaceful coexistence. In the past, securing these conditions had brought significant benefits to the material and social well-being of all the Planet's populations. Italy is directly exposed to the deflationary effects of this trend because of its export-led development model, which urges aggregate demand shifting towards investments and domestic consumption. The required change in GDP structure has been a *querelle* since the end of the economic miracle, when difficulties arose as to aligning public demand with private demand, which could now be mitigated by channelling savings towards productive activity through market impulses.

In parallel, greater awareness has arisen as to the need to protect the ecosystem, while willingness to take joint international action to such end has weakened. In pursuing so, finance is called upon to play its specific supporting role. Still, a number of actors urge for measures to synchronise finance action with actually achievable progress on a global scale, without prematurely burdening the required public supervision documentation on the environmental impacts of companies' activities.

The evolved geopolitical framework has resulted in decelerated global aggregate demand, including international trade, which exacerbates the chronic regulatory competition between countries, introducing new protective duties and equivalent administrative constraints, justified by national instances for protection of material, political and economic security – their fulfilment would instead require strengthening international cooperation activities. Faced with such situation, the European Union undertakes to strengthen the single market with unifying rules, as their implementation is often hindered by regulatory options or "gold-plating" practices that exploit the power granted to Member Countries to divert from the jointly agreed guidelines. This generates substantial application inconsistencies in areas that are relevant to economic activities, such as business law – its unification, specifically as to tax treatment, remaining a decisive step to implement the Capital

Markets Union in Europe and thus accomplish the single market, one of the pillars underlying the construction of the European Union.

Part of this regulatory reunification process involves both traditional and "virtual" (as per OECD definition) financial sectors, with non-convergent solutions between large areas. Specifically, in the United States the creation and use of cryptocurrencies is being legitimised by putting it on equal footing with traditional instruments; conversely, differentiated regulation is being pursued in the European Union, culminating in the Markets in Crypto Assets Regulation (MiCAR) and the Artificial Intelligence Act (AI Act), due to enter into force in January 2025 and mid-2026, respectively. Italy has dealt with the issue within several legislative initiatives by completing the transposition of the first mentioned European measure and has undertaken to examine Draft-Law No. 1146 laying down provisions and delegations to the Government in the field of Artificial Intelligence (*Disposizioni e deleghe al Governo in materia di Intelligenza Artificiale*), which broadens the focus on AI effects and provides for one or more legislative decrees to be issued in order to adjust national legislation to the AI Act.

Consob is engaged in defining an operational and professional plan to cope with the growing commitments resulting from the changes set out, and is currently performing consultations with its trade unions to launch an organisational reform aiming to:

- pursue an integrated view of processes and activities;
- define and enhance supervision based on risk assessment;
- thoroughly identify personnel's tasks and responsibilities;
- improve the efficiency and effectiveness of its performance by curbing costs, reducing carry-over lines, eliminating duplication and splitting, and adjusting the organisation to the new tasks; and
- implement AI solutions for paperwork checks.

In order to attain the above objectives, *ad-hoc* actions will be implemented to ensure: modern management control; better internal and external communication; an integrated, shared and accessible database; and a plan to enhance professionalism by defining career profiles and functionally devised staff mobility systems compliantly with relevant legislation.

The process was set up in 2021 by enforcing Italy's Law No. 281 of 4 June 1985, which provided for legal and salary treatment of Consob staff to be aligned with that applying to the Bank of Italy. The decision resulted from lengthy reflection and brought significant benefits to Consob staff, while also urging them to achieve higher levels of efficiency and effectiveness. The resulting higher costs added up to those arising from Consob's new tasks, triggering discontent among supervised subjects, who chose Consob while disregarding that it simply applies the rules governing the contribution regime in force.

Analogous complaints have long arisen in the United States. In 2014, George Akerlof and Robert Shiller, economist Nobel laureates, estimated the cost of the services rendered by the SEC at a quarter of a cent per dollar ($) under supervision; by 2024, the burden decreased due to the more-than-doubled supervised financial wealth (from $50 trillion to $110 trillion). The two economists emphasised that the cost of this public service having high socio-economic relevance is significantly lower than the fees charged by intermediaries for their own services, on an average equal to a multiple of the supervisory burden. For 2024, Consob's fees charged to supervised companies amount to 151 million EUR, for the second consecutive year based on the so called "planned inflation" by the Government. Whereby leaving aside the dissimilarities between the several financial supervisory architectures, the percentage incidence on the Italian supervised volume is not dissimilar to the American one, yet the revenue is significantly lower than that obtained by the American "*sister*", which charged 2.6 billion dollars ($) based on financial wealth that is eighteen times greater than ours. In order to fulfil the new demanding supervisory tasks, the resulting requirements will have to be distinguished between the charge for the service rendered to supervised subjects and that provided to the community, currently being evaluated as part of the organisational reform mentioned above.

In order to achieve the stated objectives, modern information technology will be used consistently with a multi-year investment plan approved by the Commission and partly benefitting of the funds allocated to Consob by Italy's National Recovery and Resilience Plan. It would be beneficial and cost-saving for the community if shared information gathering and processing capacity were achieved between the securities' supervisory institutions both within the Country and in the Eurosystem, with a view to the indispensable definitive transition to the digital euro and financial instruments tokenisation. Pursuit of this objective has already begun by participating in the relevant infrastructure known as the *Polo Strategico Nazionale (PSN)*, aimed at migrating all strategic data and services of Italy's Public Administration to the national cloud.

Consob's efficiency and effectiveness would improve by abolishing the obligation to approve major operating decisions by a qualified majority of four out of five votes (this *quorum* does not apply to other independent authorities operating in Italy). The same would be pursued if, in implementing the delegated power on the *TUF* reform, Consob's proposals were accepted for introducing instruments aiming to deflate sanctioning procedures, such as settlement or assessing violations relevance – e.g. thus avoiding burdensome administrative proceedings for minor infringements which cause marginal damage to investors and market transparency. Aligning Consob's civil liability with most advanced foreign legal systems would also be appropriate in order to actually identify when Consob's responsibility for serious misconduct actually arises, avoiding easy interpretative suggestions that may excessively amplify this concept of guilt. Several documents from international bodies deal with the issue of excessive liability extended to situations other than gross negligence and wilful intent. Lastly, lightening the administrative burden would foster our financial market development, making duties converge towards the standards applied by other European markets and the rest of the world, avoiding the negative effects of regulatory competition between Countries.

4 Directing savings towards real activity

Channelling domestic savings into real assets by means of market instruments has long been on Italy's agenda. Its achievement regained momentum with the so-called *Libro Verde su "La Competitività dei mercati finanziari italiana a supporto della crescita*" (Green book on Italian financial markets' competitiveness in support of growth), resulting in the approval of Italy's Law No. 21/2024. The Law simplifies market access conditions for issuers (primarily SMEs), rationalises institutional investors' interventions, and redefines some top management appointing procedures, partly shifting them from managers' choice to shareholders' choice. On this latter aspect, evaluations have not been unanimous, and it is now up to the market to respond to the momentum conveyed by the Law. Lastly, this amended some statutory regulations and passed provisions on free float, strengthening so-called "assets allocated to support Italian companies" and financial education.

The initiative furthermore sought to respond to the concerns arising from Euronext Milan companies delisting, also involving foreign stock exchanges. Delisting may be offset, in perspective, by the increased admissions to Euronext Growth Milan for companies wishing to test the opportunity to raise capital on that market for their own development. In general, listing choices are encouraged by low entry- and permanence- costs, swift admission procedures, profitable taxation, and the volume of liquidity flowing into trading – its absence inducing companies to look abroad where one or more of these conditions are gainful.

Channelling savings towards financing productive activities also enables protecting savings invested in plans that fulfill individuals and households' lifecycle needs, potentially relieving welfare pressures on public budgets. Over the past year, such close relationship has strengthened both at microeconomic level (thanks to corporate profits' good performance), and at macroeconomic level (as a result of greater resilience to the global crisis proven by Italy's economy compared to Europe and wide regions worldwide). Savings should receive as much care as money and other new financial instruments, to prevent it from becoming an adjustment variable for imbalances triggered by other factors. An example thereof is the bail-in clause, stipulating that bank deposits are protected by their guaranteed scheme up to 100,000 EUR, while all other banks' liabilities, potentially intended to finance real investments capable of protecting savings, are penalised in the event of insolvency.

The Italian economy's good resilience and domestic savings capacity struggled to translate into the spread decrease demanded by the market on our public bonds, which finally emerged in the early months of 2024, being well received by Italian savers and enjoying resumed attention from abroad while remaining exposed to the mentioned geopolitical risks. This result should also produce a rise in Italy's public debt ratings, easing the burden on real growth due to public debt's higher cost and thus increasing potential income.

5 Money and finance: the new institutional architecture resulting from centralised to decentralised accounting

In the foreseeable future, money and financial assets will complete their dematerialisation process, moving from centralised to decentralised digital forms of accounting (DLT). Full use will depend on solving current issues and ensuring this form of wealth ownership can be supervised and secure inalterable recording and storing platforms (cyber security). Much will also depend on how quickly citizens learn to use them. To this end, legislators should no longer consider such accounting technologies as neutral, as they instead are the problem to be solved.

Implementing this process requires bringing the rules governing both traditional and virtual instruments back to unity. The rational solution suggests keeping the whole monetary creation in the hands of central banks alone, reunifying under a single unit of account and debt relief means (legal tender) all the existing official forms (metallic, paper and bank deposits, i.e. M2) and, whereby legitimised, those used *de facto* by the market (cryptocurrency, stablecoin, and others). Such a reform would also bring bank deposits, as well as traditional and virtual assets, under a single financial supervisory authority.

In order to ensure rational management of savings, it is desirable to move from investment choices based on traditional techniques or predominantly subjective evaluations to choices based on modern AI techniques as well as information gathering and processing tools, in order to foster higher net returns on savings, encouraging its desired channelling towards productive initiatives. Main leaders of these innovations argue about the timing of an IT revolution for every socio-economic life aspect, the most optimistic ones claiming that it is already in place while the least optimistic ones reckoning it will be ready within this decade.

The main advantage from introducing the above institutional specialisations and technological innovations would be that monetary stability choices in terms of quantity and interest rates would develop independently of banking stability needs, thus overcoming the mutual constraint in the current institutional architecture. Financial stability's historically subordinate position to monetary stability, which originated in the preponderant role played by banks in the savings market vis-à-vis other intermediaries (including stock exchanges) would cease to exist. Official interest rates would thus fully perform the function, highlighted by economic theory and practical experience, of rebalancing trends in real investment profits and aggregate demand.

The new architecture does not preclude the use of the organisational capacity and cultural prestige acquired by central banks to perform stability's dual task, provided it is carried out with due operational independence. Nor is this architecture an obstacle to banks development, as they would not lose market share in payment, credit and savings management systems, by operating without the current constraints resulting from belonging to the monetary circuit. This architecture would also enable for a rational response (i.e. based on objective data) to the disjointed disputes that recur with every crisis as to monetary choices' size and timing, attempting to reconcile them with the pressing demands to protect real growth and social welfare – i.e., equally noble intentions although sometimes at odds with price stability.

Turning from a general consideration to a specific one on the Eurosystem, the creation and use of the euro would remain under ECB direct control, whose accounts – by virtue of decentralised yet controllable features and the operational experience developed amongst its associated central banks – could become the basis for managing all payments, including those related to all types of financial transactions. Widespread use of this specific technology could foster a closer market link between national currencies and an international agreement on the rules of State intervention in fixing exchange rates, namely one of the most widespread forms of protectionist policies.

Implementing such institutional changes – intrinsic to technologies and markets' evolving nature – will require time and obvious caution. Nevertheless, pursuing partial achievements while being unaware of the monetary and financial system direction would not prove rational, as future uncertainty would continue to prevail, thus raising the complexity of governing mixed public and private economies increasingly involved in the aforementioned geopolitical evolutions.

6 Simplifying complexity and reducing uncertainty

On the dangers of associating complexity and uncertainty – which besets not only the economy, but also social coexistence – there is joint raising awareness, both at home and abroad, of the need to work so as to simplify the former and reduce the latter. Conversely, there is no agreement on the plurality of solutions aimed at reconciling the heterogeneous individual and social utility functions that arise today. Some call for more statehood, others for more market, without finding a way to dose the two forces in order to enhance growth and fairer distribution of income. In the past, the debate on the subject was very lively and rich in ideological overtones, which have not disappeared; yet the issue is now further complicated by finance turning from real development "handmaid" to mobile wealth creator via parthenogenesis.

This latest metamorphosis is marked by cryptocurrencies' dizzying growth. In principle, one cannot understand how dematerialised assets can be legitimatised with no debtor counterparts at the origin, which arise from a mathematically refined "artisan" enterprise and live on pact agreements between private individuals, with no controls on governance. The purchasing power they generate has an increasing value versus that generated by productive activity, thus altering income and wealth distribution, which is to be set by the bodies of democracy, in the acquired knowledge that the market has neither the structure nor the task to do so. Legal tender – be it central bank money or bank deposits – is born with a debt counterpart, which is lacking in the case of cryptocurrencies, be they used as currency or as a financial instrument – this negative feature adding up to their lack of market accountability and transparency. The issue was repeatedly analysed on the occasion of previous Speeches to the Market, calling for the new crypto instruments, whereby legitimised, to comply with the same rules as traditional instruments, yet always insisting on the need to provide for an *ad-hoc* regulation for the decentralised accounts used. Even for derivatives, at the origin of the 2008 crisis, proper above-the-line accounting (i.e. with a debtor counterpart) was long neglected and replaced by a below-the-line reminder between commitment and risk accounts.

The above considerations lead to Consob's direct interest in identifying how to link the digital euro accounting with traditional and tokenised financial instruments accounting and detecting money and finance institutional architecture. Failing that, planning supervisory authorities' activities and drawing up their financial statement would be exposed to changes within the *de facto* and *de jure* institutional architecture, due to ceaseless technological innovations introduced by best skilled operators.

Following recent regulatory decisions, it is worth noting that the market has imposed its will on government authorities that could not ignore, as with derivatives, the size attained by cryptocurrencies and cryptoassets within savers' portfolios, spurred by CASPs (Crypto Asset Service Providers) and, more recently, by the new attitude of traditional intermediaries (banks and other asset managers). As a matter of fact, after sharing strong reservations on these innovations with supervisory authorities, they decided to operate in this sector, bringing along the weight of their market influence. It would not be a novelty if the market strength were recognised, but it would be whereby the law were denied equal strength as citizens' right to be governed by it rather than by the initiative of few market operators. Collaboration between the two forces, in mutual interest, and specialisation in the exercise of supervisory tasks must therefore be urged.

7 Conclusions

In conclusion, history continues undeterred to offer us surprises and calls for new efforts to improve financial market functioning and protect savings.

Essential steps include reversing finance's current growth trend as an end in itself and channelling savings towards financing income and employment development, which can be accomplished by confirming official money as the sole legal tender for payments and by incorporating data science and PCs computing power innovations into financial management. An institutional distinction between money creation at the official level and in the form of bank deposits would be a *viaticum*, reunifying the latter under financial supervision remit and thus producing, upon equal terms, a public good that complements monetary supervision.

Investment plans for savings, based on individuals and families' lifecycle needs, would thus be respected and incentivised, delegating financial intermediaries to manage them rationally and entrusting the bodies of democracy to decide on fair distribution of the resources produced. If well-structured and well-explained, such a reform would enable for an economic policy easing the pressure on State accounts and reducing the weight of taxation and public debt on GDP.

Monetary and financial supervisory authorities would identify this new institutional architecture as the independence and effectiveness of their respective strengthened actions, and could move from a formal approach (fulfilling their assigned tasks for preventing and sanctioning market's pathological aspects) to a functional approach in order to improve the physiological content of real growth and, along with it, individual and social welfare.

It must be acknowledged that the world is evolving in this direction and everyone's behaviour – like it or not, whether restrained or not – will have to take it into account. A century ago Søren Kierkegaard, existential philosopher of immobility, warned, "*The same is also true for man; in the end there comes a time when he no longer has the freedom to choose, not because he has chosen, but because he has not, and others have instead chosen for him.*"

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