

Speeches by the Chairman

Professor Paolo Savona

2019-2025



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PER LE SOCIETÀ E LA BORSA

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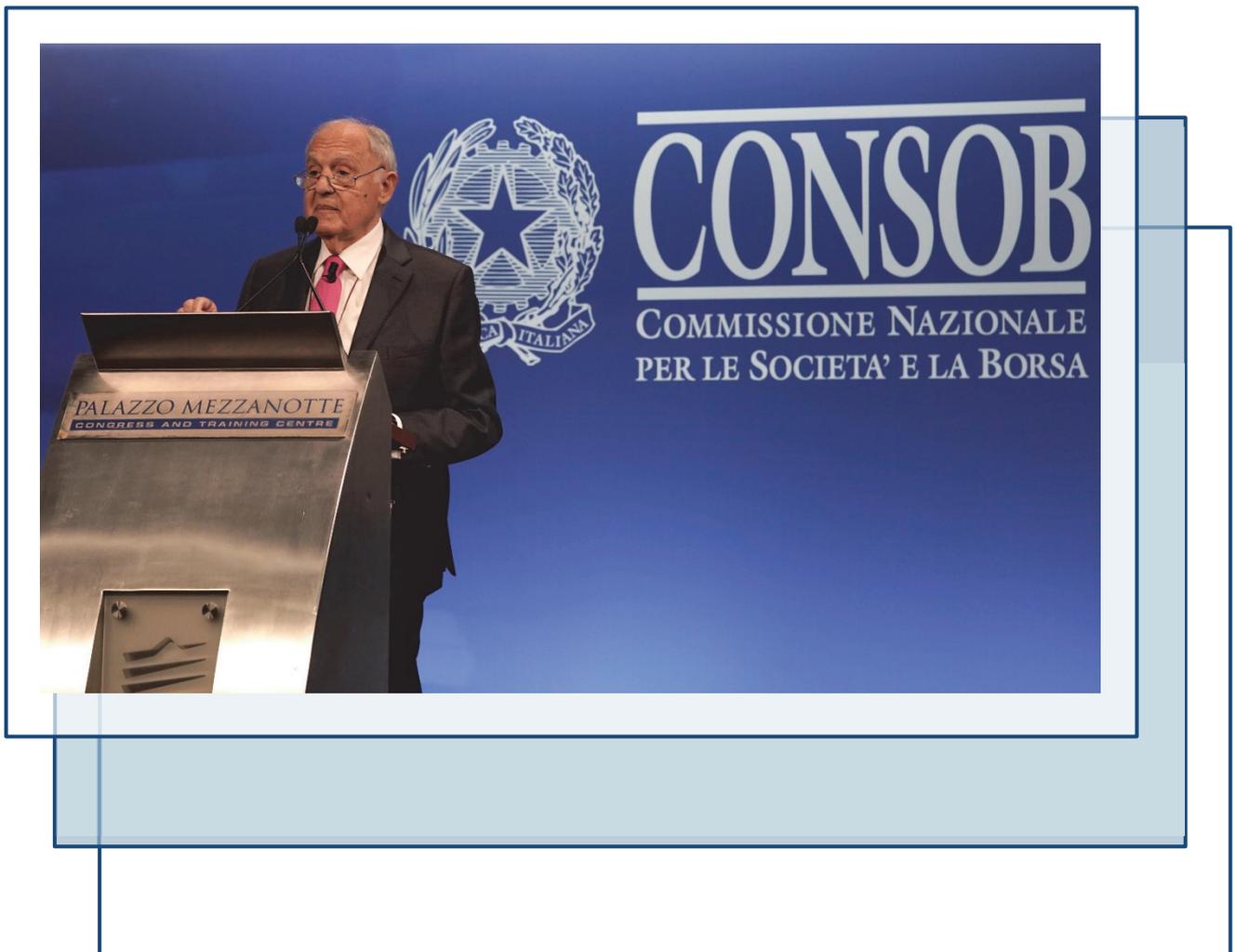
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Speeches to the Financial Market 2019–2025

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Presentation by the Author

*The difficulty lies not so much in developing new ideas
as in escaping from old ones*
(John Maynard Keynes)

*Doing things old in a new way,
that is innovation*
(Joseph Alois Schumpeter)

This collection of the *Speeches* I delivered from 2019 to 2025 on the occasion of the *Annual Meetings with the Financial Market* held at the Milan Stock Exchange allows assessing the approach that characterised my Chairmanship, held across a period of profound changes ranging from the aftermath of the 2008 financial crisis to the acceleration of Fintech, the health pandemic, the resurgence of inflation, Russia's invasion of Ukraine, the geopolitical upheaval brought about by President Trump, and the war in the Gaza Strip following the inhuman attack on Israel. According to Mervyn King, this situation has generated "structural uncertainty" which now requires a review of the economic knowledge underlying monetary, financial, and fiscal policies to guide market participants' expectations, and has unveiled the institutional architecture's growing inadequacy (regulations and entities).

The analysis of the issues that reality brought to Consob's attention was never separated from suggesting some solution, aimed at initiating a debate. The intent was not to proclaim the truth – since none exists – but rather to foster a useful debate around it (as Socrates and Popper taught us). I failed in this attempt, perhaps because the time for major institutional reforms was not ripe yet, or maybe my arguments lacked the capacity to influence political decisions.

I hope the succeeding Chairman will take up the baton in the race for reforms required by ongoing systemic changes, thus rewriting rules and

interpretations shaped by events and knowledge far from current reality. I am referring notably to the growth of technological innovations impacting on increasingly intertwined domestic and international money and finance (primarily, cryptocurrencies and tokenised securities).

Decision-making delays have weakened the previous reliability of market supervisory and democratic institutions, resulting in a so-called Wild West climate.

The gap between regulated and evolving realities has become increasingly evident, making the search for a solution more urgent. Corporate ownership internationalisation limited supervisory powers over securities markets, invasive public protection decisions urged by voters themselves, and geopolitical developments opposed to free trade have prompted a rethinking of the current institutional architecture – albeit failing to draw upon a comprehensive vision of current issues, and merely proceeding, point by point, in an uncoordinated manner.

Consob, and not only, continued to consider the current regulatory framework as an inviolable frontier, leading some to argue that the Authority was "silent" and others that it delayed or even failed to intervene. Their criticism therefore ignored how Consob is to act (informal consultations or requests covered by confidentiality) and the limitations set to its inspection function (Judiciary authorisation if it does not decide autonomously to act). The Chairman, however, was fairly "loquacious", testifying before parliamentary committees or making public statements.

Since the timescales for such an institutional reform will inevitably be lengthy, it is necessary to take a first step by establishing a transitional regime to fill the legislative gaps arising from the rapid evolution of innovations on domestic, foreign and international markets, as a result of the rigid civil law regime in force. Decision makers should be allowed, at least on an experimental basis, to exercise discretionary powers to cover legal gaps, while protecting them from potential liability claims by those who refuse the possibility to exceed legal constraints for sound principles or to stop a broader supervisory activity. Hesitations in undertaking this burdensome task stem from a lack of clarity regarding decision making responsibilities, primarily concerning the scope of "gross negligence". In the absence of such decisions, the Judiciary, whose rulings perform a role analogous to that of institutions operating under common law regime, will be called into question. Nevertheless, the Judiciary would face the same challenges as supervisory authorities in adjudicating unregulated cases and ensuring market transparency, savings protection, and operators' correct conduct, triggering other problems; in that case,

it would become more difficult to return the task of legislating to the legislative function.

On 14 March 2025, on the occasion of the meeting held at Milan's Bocconi University to celebrate Consob's 50th anniversary, a speech by a distinguished jurist allowed me to identify the differing approaches among economists and jurists as the cause of my and others' difficulties in reaching consensus on what to do. Economists address the problem of how to make the market work well, following in the footsteps of Roman praetors (so well analysed by Oscar Nuccio in his *A History of the Italian Economic Thought*), whilst jurists seek to address the issue of how market operators should operate, and notably companies managing public savings.

The difference, therefore, lies between markets' governance and operators' governance, which must be reconciled without assuming that the implementation of one guarantees the other. In the recent past, the legislation has been reorganised by drafting "Civil Codes" and "Consolidated Texts" ("*Testo Unico*" in Italian) to bring together the relevant cases in a coherent manner. However, the difficulty in tackling the matter in a unified manner is now leading to point-by-point solutions that are not always coordinated, which in fact cause decision-making hurdles, rather than reducing them.

The growing monetary and financial shift to the Infosphere (with decentralised accounting and intertwined traditional and virtual instruments) necessarily requires "open" decision-making procedures. Failing this effort, we will continue to struggle under structural uncertainty and will even exacerbate it. Of course, the conflicts arising from this approach could entail adaptation costs, yet these must be viewed as a necessary burden for ensuring an analysis and decision-making method aligned with current evolution dynamics.

Paolo Savona

1 Savings as a foundation of socio-economic stability

Most recent statistical data confirm that exports remain the driving force of our economy and mark its development model. However, exports do not depend solely on domestic entrepreneurial skills, but also on the global demand trend constantly exposed to geopolitical changes, as occurred in recent months.

Saving, on the other hand, remains Italy's development determinant under the Country's own direct and prevailing influence. Saving is Italian society's strength, elevated to a constitutional value. The ratio held in financial assets is significant and almost equal to the real estate component. Investments in construction have always been the second driver of our Country's growth and replaced exports at critical moments. Ensuring proper functioning of the two drivers requires equal commitment from public institutions.

Important productive sectors of our economy have proved their excellent ability to react to issues triggered by a process of globalisation that lacks adequate international coordination. This is clearly shown by the persistent surplus of our current foreign balance achieved in spite of the marked economic adjustment arising from the change in trade terms – the core variable of our development – triggered by external shocks. This has not prevented our Country from experiencing low growth, underemployment, and the socio-political consequences with which we are now struggling.

Without denying the existence of problems in our Country – effectively analysed by the Governor of the Bank of Italy in the recent *Concluding Remarks* – the negative assessments often conveyed by supranational institutions, national bodies and private centres almost appear preconceived ideas, as resulting from conventional parametric financial bases that fail to take account of the two pillars of our economy and society – namely, the competitive strength of our enterprises on the global market and our sound level of savings.

Italy somehow seems to be lying inside "Socrates' cave" where the dim lights of knowledge penetrate and project a distorted image of reality on the walls. What's more, in the presence of a non-stop one-way deafening chatter. Those holding top political, economic and media positions are in charge of increasing the light and mitigating the shadows so as to restore confidence in our Country's future. In fact, no insurmountable objective constraint hinders our growth.

As the distribution frequency (*kurtosis*) of the underlying observations does not exhibit normal (Gaussian) characteristics, the customary use of means that are not representative of the universe results in a biased evaluation of our actual conditions. This is reflected in negative judgements – both domestically and abroad – on our public debt's soundness. The consequence can be partly averted by complementing the means with a significance indicator or, even better, by evaluating the GDP components individually to assign them the due individual weight when formulating some judgements. This essential and elementary principle of presenting statistics has not yet been established.

Beyond this purely technical aspect, however, there are also some distorting factors linked to the underestimation of important elements of Italy's economic strength.

Italy's financial position abroad is essentially balanced, and since 2013 our savings flows have been exceeding domestic use.

Differently from important developed countries such as the United States, the United Kingdom, Canada, Greece and France in the eurozone, as well as Turkey and the entire South American Continent in the rest of the world, Italy does not absorb inflows of savings from abroad, but transfers savings flows higher than its own public debt. This condition can primarily be boasted by countries that are rich in raw materials, while Italy has compensated such shortage with its excellent entrepreneurial capacity.

For the European and global community, Italy does not represent a financial problem, rather a resource tapped by several countries to fulfill their own needs.

The current European and international institutional architecture matured at a time when the world was split into opposing geopolitical blocks and has not yet adapted to the changes arisen over the last twenty-five years – international competition between large demographic and business dimensions, unceasing technological innovations, and increasingly incisive Governments' presence in the market. Within an open economy, due account must be taken of the constraints

imposed by these forms of competition, which we can influence thanks to the force of reason.

Across the globe, all Governments, starting with EU Member States', must engage to changing such unsatisfactory situation through commitments commensurate with their respective geo-economic and political strength. Until we acknowledge countries' increased interdependence across the globe, at first supported and now deteriorated, they will tend to close themselves off in their national dimensions, weakening the socio-economic development of those who pursue isolation, with negative repercussions on all the others.

In the current global monetary structure, trade wars will sooner or later turn into currency wars, multiplying the negative effects on global growth. And, so far, no leaders have brought together the countries interested in preventing such an outcome.

The structural fall in our GDP growth rate, the parallel decrease in employment rate and the resulting impact on society and politics are therefore deeply rooted but not necessarily unchangeable.

This situation does not stem from the lack of savings, but rather from their under-use at domestic level.

Lira depreciation and public spending expansion have enabled tackling, in the short term, the main socio-economic tensions triggered by the unregulated change in international exchange rate regime and oil market monopolisation. Such traditional adjustment tools failed to remedy the imbalances arisen, and indeed even prevented activating, beyond a certain extent, fiscal tools for averting a deflationary effect associated to higher public expenditure. Recourse was therefore made to public borrowing, increasing our sovereign debt-to-GDP ratio from 50% at end 1970s to 105.5% at the time when the Maastricht Treaty was being signed in 1992.

The decision to join the euro from the outset led Italy to commit to converging towards a 60% debt-to-GDP ratio without preventively defining, at both domestic and European level, a policy for curbing the 45 percentage-point excess, devoid of deflationary features and, hence, of the necessary democratic consensus. The required techniques existed and still exist at no cost to anyone and with benefits for all.

Towards the end of the second millennium, the enlargement of the free trade area to non-market economies failed to involve a revision of WTO (World Trade Organisation) rules; therefore, the choice of the exchange rate regime was left to

the individual countries, letting the competitive conditions on the world market to be altered by exchange rates. The huge accumulation of official reserves in countries that chose fixed or *dirty* (influenced by authority interventions) exchange rates generated new market asymmetries following States' massive return to economy with sovereign wealth funds fed by accumulated official reserves; just whilst Italy, with IRI (the Institute for industrial reconstruction) shutdown, was dismantling its own analogous instrument.

On the threshold of the third millennium, the abnormal development of innovative finance resulting from the so-called "benign neglect" by the authorities triggered a global financial crisis in 2008, urging substantial interventions on public budgets which led to an abnormal growth of the sovereign debt in almost all countries. In Italy, the public debt-to-GDP ratio – which had returned to below 100% in 2007 as a result of the commitment to comply with EU agreements at least partially – rose to 132.1%, driven by the difficult adaptation to the new financial shock conveyed to the real economy.

In such conditions, the reforms required domestically and the attempt to curb public excess debt through budget surpluses have proven their intrinsic limits in reaching the stability target pursued, in the absence of parallel growth. Failing to correct the shortcomings of the EU's and global institutional architecture and policies, imbalances drag on to the detriment of all.

Domestic savings and monetary authorities thus supported the public debt increase without crowding out private debt, as a result of the rise in credit cost due to spreads on interest rates on our public debt as required by the market.

As investment in securities relies on savings that fulfilled own tax obligations, the Government must restore the belief they are actually wealth. Rules and behaviours conflicting with this goal must be amended.

Confidence is fuelled by real growth, which in turn generates confidence if the political and social climate remains favourable. The combination of confidence and growth would receive guaranteed and significant boost from a joint action by the Italian public-private sectors to implement 20-bn-EUR additional investments through domestic savings. Zero growth is epicentred in investments, from which we need start. Nevertheless, it is also necessary to reconcile social concerns and economic-financial fluctuations both at domestic and international level.

2 Italians' financial savings

At the end of 2018, Italy's financial assets amounted to 16,295 bn EUR, almost 10 times its GDP – of which: 4,218 bn EUR (22.6% as money) owned by families and 1,852 bn EUR by firms, and 2,748 bn EUR held abroad. Counterpart financial liabilities amounted to 3,764 bn EUR for firms and 2,682 bn EUR for Public Administrations, approximately the same level as foreign administrations (2,672 bn EUR). Household indebtedness remained low at 0.9 bn EUR, one of the lowest in the developed world.

Our current account surplus was approximately 33.3 bn EUR per year over 2013–2018 – on average 43.4 bn EUR in the last three-year period. Italian enterprises also boast foreign-funded investments abroad (unknown amount), held outside our national accounts albeit strategic for us.

The remaining 42.4% of total financial assets and liabilities correspond to the large amount generated from pure intermediation – namely, a lever for real growth and public debt absorption.

In the past, when our sovereign debt was deemed reliable thanks to repayment guarantee mechanisms (real growth and savings, lender of last resort, monetary sovereignty), a considerable part was held by households. Guarantees disappeared once EU agreements asked for public debt stability in return for stable exchange rates and prices. The percentage held by households was reduced, falling to 5.9% of the total outstanding (138 bn EUR out of 2,322 bn EUR) at end-2018. Most of Italian sovereign debt is currently held by domestic intermediaries (banks, insurance companies, mutual funds) and, to a lesser extent, abroad. The power to assess the repayment risk has been shifted to the market without adequately countered speculation, often fuelled by authorities' attitude to harness it as an external constraint to induce Member States to comply with EU-agreed fiscal parameters.

Economic theory and empirical research have not provided a clear answer on the optimal debt-to-GDP ratio, specifically if consumer confidence is not factored in. Japan's instance is telling: when confidence in the Country is strong and the savings base is sufficient, a 200% debt-to-GDP ratio does not conflict with the socio-economic goals pursued by politics.

This does not imply there is no limit to indebtedness; yet, as proven by an elementary criterion of economic rationality, its sustainability on average requires

an increase rate below the GDP growth rate. Any indicator involving an objective limit to growth (output gap) is not historically and practically valid, even less logical.

Should such rationality criterion be accepted at EU level and enforced by Governments, sovereign debts, including Italian debt, would be restored to the dignity of protected wealth as rightly attributed by investors, thus dispelling the objectively ungrounded suspicions about our public debt insolvency.

Refining public policies to cope with market crises and speculative attacks does not yet appear sufficient, due to response timing and qualitative and time limits in implementation. Bank deposit protection funds are a special instance in favour of savings and monetary stability, although they are pending incorporation into a single fund to validate the decision to establish a European banking union. Financing these funds is usually the responsibility of their direct beneficiaries (savers/intermediaries), yet the community is called upon to intervene when available resources are not sufficient. Although experience shows such interventions are indispensable, uncertainty is nevertheless triggered by failed or delayed recognition of the need to integrate private and public funds, justified by the need to discourage moral hazard.

Albeit improving, the increasing and detailed regulations for investor protection are marked by their inherent limits. Data show the number of measures or sanctions for misconduct is much lower than the number of preventive actions undertaken, reflecting the effectiveness of the latter. Consob's activity in 2018 was very wide-ranging, with approximately 100 dossiers per staff unit, whilst initiatives to counter financial misconduct totalled 302 – rising to 173 in the first four months of 2019 alone.

Consob staff's professionalism and the measures undertaken to ensure micro- and macro-systemic stability pose a first barrier against misconduct and distortions in the use of savings. However, without pursuing the main objectives of real domestic growth and the promotion of confidence, the results of protecting savings and channelling them towards real economy turn out to be inevitably unsatisfactory for those economies most exposed to crises; furthermore, savings flow abroad, thus serving the development of others.

If such transfers were to improve the rational distribution of global savings, as stated in economics manuals, they would be justifiable and desirable; yet this fails to occur, due to other multiple factors at stake other than the risk-return ratio within investment choices.

Beyond typical fluctuations, doubts have recently arisen on the consistency between the real economy and Italian stock exchange values.

Based on one explanation provided, this stems from the large liquidity available to operators. Nevertheless, if the Italian risk is perceived as high (as shown by the BTP-BUND spread), this explanation sounds insufficient, as it should drive savings away from the stock exchange and structurally reverse markets trends.

A strong and more rational explanation is instead that the Italian stock exchange is aware of the robust 31.8% export-to-GDP ratio, reflected in the share prices of owner companies and their financing banks. The usual objection is that export is only one of Italy's GDP components, requiring a commitment to increase productivity and investment equal to that made by enterprises perpetually competing in the global market.

The limited production base only partly justifies the fact that the size of our stock exchange and financial market remains relatively modest, although it still plays a relevant role. The new financial methods introduced by Italy to convey savings through stock exchanges have produced significant results, yet non-market belief argues that growth requires a forced allocation of the funds collected. Conversely, good evidence shows such constraints operate in the opposite direction.

3 Consob's new tasks

In light of all the above considerations, new and broader tasks emerge and require an *ad-hoc* commitment from Consob.

3.1 Governing financial innovation and enhancing supervisory instruments

Financial innovations have always posed the main challenge for securities markets regulators. The evolved system of rules and practices around traditional finance requires an update aimed at accommodating innovative finance.

History teaches that, after two centuries of crisis for the banks issuing paper money and of disputes on their capacity to multiply deposits, towards the end of the XIX century it became clear that the market as a whole had the capacity to increase payment means, but not to regulate itself.

Following the Great Crisis at the beginning of the XX century, savings protection and State intervention became the subject of political decisions and, therefore, of legislative treatment, giving rise to independent institutions such as

central banks for governing the money market and supervisory authorities for ruling on financial markets, respectively.

Nonetheless, even after the institutional framework was improved, some monetary and financial crises persisted, resulting in a constant chase between regulatory rules and their overruns by the market, which always proved more promptly inventive than the authorities' ability to regulate it.

At the beginning of the 1970s, Eurodollars led to the mentioned crisis of the Bretton Woods monetary regime, the acme of authorities' ability to govern global growth through international trade as respectfully of the free market as possible. Many had warned central banks that sooner or later they should govern international trade, but in fact they failed to take action; consequently, US dollar convertibility into gold came to an end, resulting in fiat money for all and free riders in the hands of speculators.

Global trade expansion has fostered a significant part of the global population's exit from the underdevelopment area, triggering positive effects on world growth proportionately higher than the negative ones stemming from an unregulated evolution of the foreign exchange and monetary regime.

Free trade and technological developments in communications also led to economies' "financialisation", further triggering serious issues for protecting savings and monitoring proper market functioning. The virulent expansion of "derivatives" overwhelmed the system of controls and triggered the second great global crisis within less than a century.

As well known, the subprime credits (a form of NPL – Non-Performing Loan) "predestined" to be "predestined" at the time of granting) were mainly disbursed to the US construction industry and packaged in new securities involving differentiated risks that could not be accurately assessed a priori, which enjoyed highly positive reviews from rating agencies. This spurred an unsustainable financial bubble that burst in 2008 with serious consequences for savings and growth.

In spite of the crisis, the outstanding number of derivative contracts on the global market has remained high, although the issue of the exact valuation of their market value has not been resolved, casting shadows on the accounts of the intermediaries that own them.

Being these contracts relatively small in our Country, Italy's system is less exposed to risks.

The spreading of cryptocurrencies teaches us how to protect our savings. Ideally, the use of this instrument – currently para-monetary if not strictly financial – should become a public monopoly, as occurred with base currency. Some States are moving in this direction, but private initiative shows itself to be more prepared to seize innovation and place its dominance over it. If this were to happen, the current monetary system would be disrupted and the financial system entailed; controlling the quantity of money and, even more, bringing it back into the public domain would become an issue.

Using the encrypted accounting regime should be expanded in order to ensure transparent and unalterable ownership and financial transactions. The tool is indispensable to ensure that the choices made do remain known to investors and supervisory authorities entitled to request an unalterable report in a timely manner. This will prove whether the choices made by intermediaries have subjective grounds that have bypassed or distorted the fundamentals, thus making it possible to ascertain any liability.

However, encrypted digital registers, even widespread ones, lack impenetrability – which the market still fails to perceive. Consob is investigating these aspects in depth together with the Italian cryptographic scientific community and the most advanced research centres.

Experience in the field of financial innovations suggests that the objective risk-return contributions that Artificial Intelligence (AI) can offer to asset management, as opposed to those based on parametric and subjective evaluations, is late in being incorporated into portfolio management.

Yesterday, the joint Finance and Budget Committees (*Commissioni riunite Finanze e Bilancio*) of the Italian Chamber of Deputies decided to fill the regulatory gap for micro dissemination of FinTech (internationally known as "sandbox") and decided to entitle the supervisory and monitoring authorities to stipulate agreements for experimenting the application, to their institutional activities, of AI instruments as well as encrypted and distributed accounting records, and their personnel training. Consob is finalising an agreement for setting up a research and training centre, under the proposed acronym of *SAFE (Scuola per le Applicazioni Fintech Elettroniche* – namely: School for Electronic Fintech Applications).

The meaning and implications of modern techniques are not always correctly perceived; furthermore, delays in their use coupled with persistent high costs continue to affect asset management processes. Recurring terms such as AI and blockchain are not infrequently misrepresented by asset managers who, aiming

to staunchly defend outdated methods, depict them as a complication and even as a genuine new risk versus the use of customary financial techniques.

Another accusation against new technologies claims that AI-based algorithms can be used to speculate on the stock market, ignoring they are protocols based on advanced mathematical languages where human intelligence matters in establishing the analysis procedure (algorithm) of available information (big data), but plays a neutral role when making investment decisions. If well designed, these algorithms also allow for error learning processes which the human mind would not be able to detect and correct without the aid of the enormous processing possibilities of "learning" computers ("learning machines"). The result is an improved risk-return ratio.

As in industrial competition increasingly based on technological innovations, also in the financial sector entrepreneurs' human intelligence capable of combining the best AI techniques will prevail in the future.

These technological advances mark a revolution in the scientific research logic, as they allow the inductive method to take possession of scientific foundations (which it once did not own) to elaborate observations; hence it had been expelled from the progress made by the deductive method (e.g., the one used by econometrics). The logic of observation-based research – following Leonardo da Vinci's, Galileo Galilei's and Francis Bacon's teachings, to name but three great masters who shaped our culture – resumed the centre of the market arena after long surrendering it to Daniel Bernoulli's objective probabilistic logic and Bruno de Finetti's subjective logic. Furthermore, with his pioneering research on epistemology, Giuseppe Peano propelled scientific knowledge towards Artificial Intelligence achievements.

Few people in the world reached this constantly expanding frontier; most still have to cross the distance that separates them from it. Among them, Italy.

3.2 Working together on common European and international financial rules

There is an urgent need to harmonise external and domestic financial rules as a necessary condition for fair market competition.

Consob operates within the European Securities and Markets Authority (ESMA), the International Organisation of Securities Commissions (IOSCO), the European Systemic Risk Board (ESRB), the Committee of European Auditing

Oversight Bodies (CEAOB), the Financial Stability Board (FSB) set up by the G7, the OECD Corporate Governance Committee (CGC) and Committee on Financial Markets, and several joint subcommittees and study groups.

In these fora, Consob will draw the abovementioned situations to participating countries' attention in order to ascertain their effectiveness for proper market functioning, savings protection, and the resulting economic growth.

In particular, Consob will seek solutions that support:

- a) The functional enhancement of financial market's components – with specific reference to the initiatives currently being defined, such as the simplified application practices of the "Prospectus Regulation" and the launch of secondary regulations on crowdfunding – paying major attention to the lines suggested by the *Assonime* Chairman on the occasion of the recent Shareholders' Meeting;
- b) The establishment of an EU Capital Markets Union where Italian savings are granted their fair and equal treatment in consideration of their role in pursuing income and employment goals;
- c) The launch of a common tax policy that mobilises all forms of savings for real growth, with key emphasis on eliminating tax treatment that impedes the free and proper functioning of market competition;
- d) Acceptance of the economic rationality parameter indicated as a condition of financial markets' systemic stability, with a specific focus on sovereign debt;
- e) Ongoing financial education to enable all actors, not just savers, to adapt to technological advances.

This joint action at European and international level would revive a virtuous circle of the world economy, without taking anything away from global community's Member States, but rather creating added value in terms of trust in the future for the peoples of the Planet. We now live everywhere in a mutual dependence condition which calls for better and closer international cooperation.

3.3 Contributing to launching safe assets at the EU level

In addition to the expressed need for a policy that boosts confidence and encourages the formation and retention of savings in all their forms, as well as its channelling into productive activity, a significant contribution to financial stability would be provided by the creation of a European safe asset.

The only safe asset in Europe today is in fact the German Bund. The system is asymmetric, as the issue is controlled by a single country, although demand comes from all the monetary union members. Such asymmetry triggers instability for the eurozone's financial system, and leads to capital flights during crises, hindering proper functioning of the common monetary policy. Bund supply is becoming increasingly scarce as a result of Germany's policy of public budget surpluses, whilst demand is growing both in Europe and in the rest of the world. As a result, European liquidity, which cannot be absorbed by the Bunds, is being pushed outwards, mainly towards the US Treasury Bills and Bonds, with expanding supply and rising yields. Ultimately, the abovementioned asymmetry and scarcity lead to distortions in the mechanism for monetary policy transmission to the real economy, incompatible with the monetary and financial stability of the eurozone regardless of single countries' policies and the fundamentals of their economies.

A European safe asset alternative to Bunds and Treasury Bills and Bonds would improve the distributional rationality of monetary creation, govern certain disruptions to financial stability, including from excess sovereign debt, and mitigate interest rate divergences within the eurozone.

With this new instrument, it would no longer be necessary to constrain the free investment choice of European banks in order to ensure lower risk for depositors.

Operationally, the inherent funding power in the European Stability Mechanism (ESM) could be used to issue a security with the characteristics required by all global liquidity investors. The euro would be strengthened as an international currency.

The new instrument would result in a new European yield curve, more significant than the one resulting from the absence of a European safe asset.

The ESM should allocate the funds raised from safe assets in order to grant loans to Member States that would have an alternative and low-cost source to refinance their public debts. In order to launch the initiative successfully, it should be noted that the EU avoids the mutualisation of national financial risks and, therefore, credit should be granted if the recipient accepts the preferential repayment clause.

Market analysts, people in prominent positions within institutions and individual scholars recommend this innovation, placing it among the main decisions

the European Union must make in order to improve its operational structure¹. The proposal was authoritatively supported by the Governor of the Bank of Italy. Two days ago, the European Commission issued a Communication on the future of the eurozone recommending that the European Parliament, the Council, and the European Central Bank (ECB) create an EU safe asset, assessing it an essential element for accomplishing the banking union. However, the European Commission specified the decision should be defined in conjunction with any possible choice with the regulatory treatment of sovereign securities in banks' portfolios. Serious consequences would arise if this choice were to solve the monetary stability issues but create new ones for financial stability.

Conclusions

In sum, Consob:

- will continue its efforts to implement rules and practices for smooth financial market functioning and savings protection in a faster and more streamlined manner;
- will pay special attention to checking the consistency between regulations of different origins, ascertaining their functional compliance with their pursued objectives, including reaching the new FinTech frontier;
- will pay attention to the objective of supporting savings allocation to activities that produce real growth and social well-being;
- will work with international and EU institutions to improve methods for monitoring and countering abuse, with a major effort to successfully establish the Capital Markets Union and the European safe asset;
- will strive to increase financial education from a perspective that goes beyond savers, reaching out to all citizens, regardless of their positions.

Restoring confidence in Italy's future is the primary aim of this wide-ranging action, which cannot be pursued by Consob alone. All democratic and public institutions must be called upon to work in order to define a shared strategy based on robust logical and factual foundations.

¹ The proposal was put forward by the Minister for European Affairs in an article published by the Financial Times on 27 February 2019 under the title *The time is ripe for a European safe asset* and on 28 February 2019 by Milano Finanza under the title *Come collegare stabilità e crescita* (How to connect stability and growth).

Italy's cultural and material resources are such as to enable it.

Restoring confidence in our Country's financial solvency would restore the virtuous circle of development, which refers not only to economic growth but also to the development of all the components of society. This would put an end to what has been authoritatively defined as the current "era of resentment" and would restore the "era of hope" to bring globalisation and technological innovations to the service of all.

1 Redesigning the institutional architecture whilst taking into account monetary policy changes, financial conditions, and technological innovations available

The anomaly marking the current crisis was authoritatively described as an event that did not have to face an inflationary bubble, an aggregate demand boom or systemic changes in the financial market, but rather a productive supply disruption due to largely meta-economic exogenous factors linked to the response to the outbreak of Covid-19. The current crisis, versus past crises, is neither a market failure nor an economic policy failure; on the contrary, the latter reacted promptly and rather satisfactorily, even going beyond traditional forms of intervention to prevent instability from getting out of control, primarily on the financial side.

The immediate consequences included a severe fall in production and employment coupled with arising difficulties for households and businesses. In order to cope with the socio-economic emergency, public expenditure rose, largely funded via public debts. All of these effects triggered problems in the banking and financial markets which have been so far addressed, but which do not rule out the possibility of other turbulences, should the pandemic impact on aggregate supply and demand and on employment persist for a long time.

As known, Consob pursues the intermediate objective of ensuring the proper functioning of companies and stock exchange in accordance with the ultimate objective of protecting savings, as a value in itself, but also in compliance with constitutional provisions. In performing this task, Consob is supported by IVASS (insurance supervisory authority) and COVIP (national supervisory authority on Italian pension funds), major players in the savings market, and the Bank of Italy, the Authority that ensures systemic monetary and financial stability, as well as the supervision of banks and other intermediaries. The activity performed by the above four institutions is indispensable for securing sound real activity and social stability,

through their functions exercised to varying degrees in the context of European and, in less binding forms, international institutions.

The orderly functioning of money and financial markets and their systemic stability are two sides of the same coin, creating complementary scopes of action, primarily within banks. By virtue of their "universal" feature introduced with the 1993 Reform, they collect deposits and issue financial liabilities to grant loans and purchase other assets, besides being active in the insurance sector. Their intermediation in instruments and maturities transfers risks from the asset to the liability side of banks' balance sheets, with repercussions on the balances of money and financial markets and, consequently, on production markets.

In performing their respective duties, a significant disproportion is identified as to single authorities' financial and human resources, due to the different origin and limited level of their revenues versus their tasks. Such disparities could grow as a result of the crisis, placing constraints on their necessary spending requirements, including those for embracing technological innovations.

The monetary yardstick's stability is the primary objective assigned to monetary policy (i.e., controlling inflation) to be pursued independently pursuant to the democratic principle of *no taxation without representation* – namely, no tax can be imposed if the decision is not made by those who have to pay it. Inflation works as a concealed tax – i.e., set without the participation of those who incur it. In order to pursue this objective, within their organisational structures, monetary authorities can rely on powerful tools perfected over time (money creation, interest rate variation, open market operations, imposition of official reserves, supervision inspections, use of deposit guarantee and crisis resolution funds, and other forms of intervention), compared to the much less effective instruments available to financial market authorities (direct regulation of certain transactions, authorisations to operate in the savings market, imposition of information disclosure to investors, supervision inspections and sanctions for violating rules). This instrumental discrepancy arose when money was in a dominant position compared to finance, so that monetary stability could be considered a precondition for financial stability. The chain of recent global crises shows this relationship has been reversed, yet the institutional structure has remained largely unchanged. Monetary authorities preserved and refined the available instruments for dealing with systemic crises in general, but also those of individual units in difficulty, in spite of treating monetary liabilities differently from financial liabilities.

Theoretically, the task of remedying crises that entail new costs for the community should weigh on fiscal policy; yet, in fact, the difficulty and slowness of

its decisions and their implementation involve monetary policy, which also has the advantage of intervening in a dynamic and theoretically unlimited way. As a result, both the financial system and the real system tend to depend on the monetary policy guidelines and practical implementation, affecting fiscal policy, which has broader and more deeply rooted democratic foundations than inflation control. Ideally, all monetary and fiscal policies should be allowed to *cum-petere*, namely, to contribute to the same goal – i.e., supplement or correct real market forces by ensuring stable prices in order to guarantee, under conditions of freedom, growth in income, employment, and social welfare.

In spite of the profound theoretical divergences as to the role to be played by policies, monetary intervention legitimacy for financial and real stability is rooted in rather sound practical needs because, in its absence, market instability would prevent supervisory and regulatory institutions and policy makers from implementing their respective tasks. The solution provided to the 2008 global crisis and, above all, to the current one, bears witness to the indispensable role played by the decisions made by monetary authorities, albeit they did define them as "unconventional". The term reveals they hoped to resume the institutional "normality" characterising their mandate; in fact, they did it moderately in 2019 and their action was interrupted following the outbreak of the Covid-19 pandemic crisis. Acknowledging that non-conventional operations can no longer be considered as such (as explicitly stated by the FED Chairman) and strengthening them is to the credit of those in charge. Nevertheless, as proper functioning of the capital market and support for real activity and social welfare are currently dependent on monetary policy, it is now necessary to adapt the existing institutional architecture to the reality to be faced.

This situation had been evident since the emergence of the "economy financialisation", which gave rise to a "financial industry" disconnected from the real industry, which inflated the volumes of finance, causing it to lose the servile nature of income development and wealth accumulation. A distinguished economic commentator named it the "original sin" of the markets' current unsatisfactory functioning, which will get worse if we accept the spread of financial innovations outside regulated markets (such as OTC derivatives) and the proliferation of complex instruments and superficial credit agreements that led to the 2008 crisis. A current example is the circulation of coins and financial products in electronic form (cryptocurrencies or, in general, coins and crypto-assets or tokens) which are based on Distributed Ledger Technology (DLT) and perform interchangeable functions of payment means and debt instruments, which are confusingly expanding at the initiative of private intermediaries and sovereign States.

Amongst the monetary intervention effects to guarantee financial stability, the reversal of the causality direction between political and market action, in favour of the latter. This prevents the two key institutions essential for ensuring the good functioning of societies (even before economies) from exercising mutual control – namely, on the one hand, income redistribution (a typical function of democracies) and, on the other hand, producing and switching it (typical of productive economy). Mutual conditioning is indispensable for the proven fallibility of both activities in pursuing economic stability and full employment to create a less unequal society – at least for those who do not allow themselves to be dragged into evaluations by ideological considerations.

Against this backdrop, fluctuations in confidence in financial variables' prices depend on uncertain expectations as to monetary policy development, instead of reflecting the outlook for the real economy, as would be correct. This is notably true for stock exchange prices, which tend to reflect the expectations of either growing or decreasing money creation; securities prices become the indicators measuring the temperature of institutional bodies other than the strictly productive ones. Reading the daily stock market reports, and not only, will make this clear. The very conduct of monetary policy remains exposed to and even conditioned by extra-economic origin factors, such as geopolitical and climatic imbalances, or phenomena such as Covid-19 spreading, which impose non-conventional actions.

It thus becomes necessary to define and implement a new institutional framework that takes into account and breaks the dependence between different policies and market behaviours, targeting them at income and employment growth, which remains the most effective form of savings protection.

To this end, it is helpful to recall one of the contributions conveyed by Professor Giuseppe Guarino, to whom we wish to pay homage on this important occasion. In one paper issued in 2014, in the very years when he was evaluating the European Union's architecture, he explained the "man-institution" concept, which has its counterpart in the "institution-man" concept. In his opinion, once the natural state of human beings ceased to exist – as long as it ever existed at all, as they had already lived within elementary social institutions (mother, family, tribe) – their institutional placement became increasingly complex, to the point of embracing them beyond the very domain of life, thus from before birth to after death. Guarino maintains that institutions' solidity is based on "social strength" (i.e., sharing and respecting the rules that govern them) and is enhanced by "organisational strength", a more tangible feature than the other in terms of exercising the power of command over human beings. Such an analysis implies that institutions are like human beings

– if they are born with one or more flawed organs, their behaviours will be hence conditioned and, consequently, their performances will prove unsatisfactory; i.e., if they are born with a mobility impairment, they will walk poorly, if with a circulation impairment, they will move cautiously. This is what one of the makers of the European Union, Carlo Azeglio Ciampi, defined as the Institution's "lameness", because of its failure to unify the Old Continent politically.

If institutions lack the support of social forces, attempts to impose the organisational strength of the State will increase, till this force revolts and generates revolutions. Incomplete or inadequate institutions, including supranational institutions, which not infrequently are the result of compromise, imply a number of negative consequences that are not solved by continuous buffer solutions, thus building up socio-economic tensions. This conclusion should be seen as a strong call to strive for European Union's full completion, not against its existence.

The global market is built on the confidence that financial asset holders place in being able to convert these assets into cash to be exchanged when necessary or at the set maturity. The abundant money creation reinforces such confidence, as long as it does not turn to goods and services composing the GDP, as it would then trigger inflation and thus cause several problems due to the interruption of the symbiotic links between money creation and the level of confidence.

In the European Union, more effort has been devoted to monetary institutions and less to financial institutions, with decisions and practical effects that have penalised savings. This is clearly confirmed by ESMA tasks incompleteness versus those entrusted to supranational money and banking organisations. Concrete expressions of this different focus lie in the asymmetrical effects on household portfolios resulting from the guarantee granted to bank deposits of up to 100,000 EUR, denied to larger ones and to savings invested in banks' shares and bonds by introducing the bail-in – i.e., their non-repayment in the event of bankruptcy. Instead of creating effective forms of investor empowerment in the face of differing securities exposures, the practical result is, not infrequently, to decide on hasty and confused interventions, with the related costs borne by national public budgets to avoid the social and legal consequences of possible control failures.

It is therefore urgent that our policy makers officially initiate an examination of the current situation regarding savings protection in all its forms, in implementation of Article 47 of the Constitution, which favours popular savings access to residential property, direct farming and both direct and indirect equity investment in the Country's major production domains. The situation is such to require the prompt definition of a new institutional architecture to ensure smooth

operation of money and financial markets and the exercise of public controls that are indispensable in the new global operating environment. On this occasion, as proposed further on, access of people's savings should be extended to the "large production segment" represented by the total of SMEs. This initiative is also prompted by the abnormal expansion of the financial pyramid, which is set to expand and become even more complex to manage, due to the pressing dissemination of technological innovations at global level.

The delay in placing money and finance in the so-called *Infosphere* (the "cloud" in media jargon) is part of the institutional gap highlighted above. One important aspect affects the payments system: sovereign States and private organisations have announced the creation of new encrypted currencies managed on decentralised accounting bases. Money managers (banks) and finance managers (savings intermediaries) show hesitation and even resistance in placing their ordinary business within the information technology sphere, raising ethical issues that, though understandable, often conceal the defence of the revenues enabled by the current regulatory architecture. Most institutions believe that moving towards the digitisation of the payment system and savings management will be sufficient. However, the frontier of technology is far more advanced than mere digitisation; this definition does not fully describe the task that public and private institutions are called upon to perform. A small number of more enterprising countries and operators took action in these electronic spaces, opening a geopolitical competition that puts international cooperation at serious risk while undermining the peace (painstakingly defended) and economic globalisation process that has brought freedom and well-being. In the absence of a new architecture, in the global savings market the distribution of flows and stocks will inevitably be altered, even more so than it currently results from tax havens, differentiated tax treatments, and other obstacles to national financial markets integration, such as regulatory dumping in the corporate sector.

This trend reversal in international cooperation is confirmed by the resumed protectionism of all kinds, which disrupts the benefit of globalisation due to the inability to govern its flaws. Nevertheless, if the issue is examined only from the point of view of the freedom of real and financial exchanges, we would lose the sense of reality to be faced – i.e., information control, which has always underlain every human action. The evolved relations between States shifts the economic geopolitical balance. We have moved from the *Hylesphere* (the material sphere), where conflicts had material contents (wars aimed at territorial conquests, protection of trade routes, and seizure of property by force), to the *Ideosphere* (the sphere of ideologies), centred on cultural competition and propaganda between

alternative political systems. We then climbed the first level of the Infosphere (great digital firms), with the United States in a leading position, by the well-known *https protocol (hypertext transfer protocol secure)* which the creators' foresight made available to all the peoples of the Earth.

Geopolitical competition now takes place at a second level of the Infosphere, the one between new computer protocols and the use of rapidly evolving technologies, referred to as "border free". These innovations are capable of managing increasing amounts of data that allow not only performing work "remotely" (connecting a large number of people without them moving from their physical locations), but also a wide range of monetary and financial exchanges to be performed on an entirely digital basis, requiring the Government and supervisory authorities to make a leap both in knowledge and provision of tools to support their choices and controls. The use of AI-based algorithms, as well as increasingly powerful languages (e.g., quantum physics) and adequate PCs impose a momentous change to the required levels of professionalism. Instead, we are still debating whether or not to use AI, whilst a growing number of public and private political and economic operators in the world are already adopting the new techniques available. Only the lack of knowledge about the tool does lead people to believe that, with algorithms, decisions can mechanically get out of hand, and, with them, one can speculate on the stock exchange and fail to stabilise prices with objective decisions that do not depend on personal evaluations.

The search for new protocols and new mobile connection technologies (e.g., the 5G network) has already caused closures and tensions between the United States and China, which risk turning into dangerous conflicts if they are not governed by international cooperation agreements. The natural place for their implementation would be the Geneva-based UN International Telecommunications Union (ITU), which, as far as we know, has already been appointed to refer on the issue. The knot to be unravelled requires ensuring the socialisation of the new protocols, as occurred with *https*. One of the core issues emerging from this competition concerns who will control the currency for international uses determining global savings destinations and geopolitical power redefinition.

The search for a globally valid institutional architecture, inevitably slower, must not delay the identification of a national solution to promote and participate constructively in the cooperation between States. A wide array of analyses, proposals and initiatives are available to reform these markets at a domestic and international level, yet the prevailing orientation favours preserving the old architectures, strengthening monetary policies, making financial policies dependent, and using

fiscal policies to increase the role of the State and reduce that of the market. For currency and finance, attempts are still being made to incorporate *Infotech* into existing regulations and avoid transposing these into the new technological and geopolitical context. Those countries that will not know how to choose a solution in the future will lag behind both economically and socially.

The review of the monetary and financial institutional architecture in the aftermath of epic changes is nothing new. The ongoing crises of the international monetary regime at the turn of the 19th and 20th centuries, following a series of international conferences, led to the definition of central banks as public authorities independent of executive and legislative bodies. The Great Crisis of 1929-1933, which had its epicentre in finance, was tackled by US President Roosevelt also by reorganising the institutional architecture of the credit and capital markets, giving rise, among other things, to the SEC, the forerunner of Consob. Since then, other crises, the two most serious ones being related to the War, have imposed far-sighted solutions, such as the Bretton Woods Agreement in 1944, which allowed the world to move forward on the path of prosperity, reducing the social burden of poverty and defeating the attraction exerted by centralised economies and societies closed to democracy. The 2008 global financial crisis imposed broader currency creation and stricter financial regulation, although not inspired by a new institutional architecture adapted to the emerging reality. This implied the recorded lowering of the real growth rate in the most advanced countries within systems pursuing positive freedom implementation.

The choices required in order to address the technological, monetary, and financial realities can give rise to two different regimes.

- The *first* should lead to a clear distinction between money and finance, realising Hyman Minsky's dream of putting an end to money as the servant of two masters – i.e., price stability and banking (or real development) stability – currently enabled by Decentralised Ledger Technologies (DLTs). This requires the payment system to be equipped with a public crypto-currency or – in the impossibility to overcome the national selfishness that sank Keynes' *bancor* – with a few encrypted national currencies linked by the same exchange rules for all. These are missing in the WTO laws, which allow for a free choice of fixed, floating, or *dirty* exchange rates (with interventions by national authorities). Therefore, it is not just a question of distinguishing between money and financial products, on which the regulators' attention seems to be focussed, but of identifying institutions' tasks and how the payment system and savings management should operate. The announcements released by the authorities

calling for money and financial activities digitisation do not grasp the scale and importance of the issue to be solved. If a public crypto-currency were to be created, the payment system would move independently of savings management, which would entirely flow to the free market, putting an end to the symbiosis between money and financial products by independently entrusting its management to the methods developed by decentralised accounting registers and Data Science.

- The *second* would maintain the prevailing characteristics of the existing regime, yet its regulation would be more complicated because the old and new monetary and financial instruments would coexist with the old and new methods of their management. Most Governments appear not to want to create their own crypto-currencies individually nor do they intend to do so jointly. Nevertheless, based on autonomous protocols, some of them (e.g., China and Russia) instead aim to create their own cryptocurrencies in order to foster geopolitical economic rebalancing and protect themselves both from unfavourable effects (e.g., loss of national information control) and favourable ones (e.g., seizing competing countries' information). Therefore, instead of converging towards a common solution, international relations tend to become even more complicated. This regime already operates because of the existence of some crypto-assets, identified in Bitcoins, Coins, Stable coins or Tokens, making us lose track of what we should do: unify and modernise the payment system, bringing it back into the legal sphere guaranteeing purchasing power stability and being the only legal means to release debts. Nevertheless, some hesitation still affects establishing that private and public crypto-currencies cannot coexist since they would trigger confusion, if not disaster. Significant issues related to lack of regulation can be outlined for financial crypto-assets that, following the anything but brilliant experience of ICOs (Initial Coin Offerings), seem to be directed towards their tokenisation, a monetary-financial hybrid with no public regulation. Under this alternative regime, savings protection would be much harder, if not impossible, as competition between public currencies (which seek stability) and private currencies (which seek profits) would alter the current institutional architecture, which is already experiencing the above-described close dependence between monetary, financial, and fiscal policies. Therefore, establishing that currency gives legal value to credit rights is now urgent, this power not being granted to other currencies provided for by negotiated agreements.

Consob has advanced in examining this issue and finding practical solutions for exercising its functions.

The statements by the authorities lean towards the *de facto* establishment of the second regime. Yet they are rightly hesitant about the emergence of private pseudo-cryptocurrencies such as Facebook's Libra or Telegram's Grams, both having multiple dual characteristics, as both currency and financial products. The US authorities have already spoken out against Telegram's initiative with not entirely logical procedural objections.

Whatever the outcome of choosing the monetary and financial regime, two preparatory steps in the new institutional architecture need to be taken urgently.

The *first* consists in creating as broad a common information base as possible, accessible by the supervisory authorities, laying down appropriate rules for access, in order to counter organised crime or individual criminal acts and terrorist financing. As data security (cybersecurity) must be guaranteed by the State, this service must be considered a real “public good” – i.e., an asset whose production must be guaranteed and safeguarded in order to protect the general interest and, therefore, be made available to all.

The *second* consists in entrusting the use of this database to Data Science methods that, we repeat, are the only ones that guarantee objective investment choices on a rational, transparent, and verifiable basis. Financial exchanges would take place exclusively with algorithms that provide an objective forecast of how the market will behave when information changes, eliminating speculation, subjective errors of assessment or illegal behaviour. Protecting savings must be entrusted to scientific methods used by managers, controlled by the same methods as those used by the bodies in charge. Since the commitment of human and financial resources to achieving knowledge and the application of technological innovations is considerable, and the results should be socialised by educating people to use them, this too should be considered as a “public asset”.

The private sector is moving faster than Governments, which have to catch up. Already last year, Consob announced it intends to create a School for Electronic Fintech Applications (i.e., *SAFE – Scuola per le Applicazioni Fintech Elettroniche*) but hesitations in progressing and legislative obstacles have slowed down its implementation. In order to overcome regulatory constraints, last June, Consob asked the Italian Parliament to benefit of the cooperation of universities (the natural centre where such research should be carried out), obtaining such authorisation on 28 June. An agreement with two universities (one in Rome and one in Milan, respectively) is

now being finalised. However, as a result of the crisis, budgetary constraints have taken over, slowing down the initiative and requiring the above-described institutions to jointly address the issues. In the *Concluding Remarks* read on 29 May, we were pleased to learn that the Governor of the Bank of Italy announced the creation of a "*digital innovation hub on a European scale*" that will certainly benefit everyone. Consob is in contact with its main foreign counterparts to monitor their progress in applying Data Science methods to controls. Instructive meetings on the matter have already been held.

2 The ultimate goal: strengthening the risk capital of exporting enterprises, primarily SMEs, and protecting all forms of savings by directing them to support real business

On the occasion of the 14 June 2019 meeting with the market, exports and household savings were indicated as the main assets of Italy's economy and society. As a consequence, the new institutional architecture must be designed to enhance our two strengths, within the new technological and geopolitical context here illustrated.

The Italian economy that gradually arose in the post-war period – turning from agricultural to industrial – is based on an export-led development model. The following crises brought out the success of "niche" exporting enterprises (mostly medium- and small-sized), whose products are unique not only for the typical Made-in-Italy creativity, but also for their high-tech content.

Overall, sales abroad have proven to be of greatest success and resilience to international crises within the Italian production system. They represented the way out of the 2008 crisis but, at almost one third of GDP, they are not large enough to boost income and employment unless combined with strong recovery in public and private investment, often advocated but equally often not implemented.

Saying that the competitive capacity of Italy's export will remain strong even after the pandemic shock is not reckless. Domestic, European, and international decisions have rightly set themselves the objective of avoiding serious monetary and financial consequences, as well as alleviating social costs; yet, the exit from the crisis will depend on the possibility that the abundance of cheap money will be conveyed to real activity through appropriate financial channels.

SMEs (and primarily exporters) could be the subject of an experiment aimed at stimulating risk capital in alternative to debt, which will be taken up later, when addressing the general issue of leverage. This initiative would be better targeted if complemented with a project to support their research and development activities, in order to incorporate technological innovations into processes and products. As pointed out for banks' and financial intermediaries' Fintech, Hytech methods for these companies should be studied and applied, also considering them a "public asset". This issue is already in the social utility function of politics in almost all countries, and several institutions are now working in this direction. However, there is a lack of joint consideration to bring – into a single institutional framework – the multitude of small interventions of this nature either already established or being launched.

Italian savings have historically proved highly resilient to shocks, linking to exports and creating a significant centre of savings formation in the current account surplus of the foreign trade balance. In the past, development was assessed as driven by domestic demand and public spending, but the drive has instead emerged as coming from their internal components (i.e., foreign demand and savings) to which specific attention must be devoted when implementing the reform plan of the institutional architecture urged here.

At the end of 2019, Italian households had real estate, monetary and financial wealth equal (net of debt) to 8.1 times their disposable income, of which 3.7 times in the form of financial assets, amounting to 4,445 bn EUR. Italians are anything but cicadas, as a distorted view tends to assert. Instead, Italians are ants working to support numerous foreign cicadas, even those of countries with vastly different economic relevance, such as Canada, the United States, the United Kingdom, Belgium, France, and most South American countries. This applies when looking at both the stocks and annual saving flows of the mentioned countries.

These figures do not take into account the immense artistic and environmental treasures of our Country, which are a large part of the heritage of humanity, whose added value production, through tourism and cultural exchanges, is taking on the role of driving growth in the Country's most economically disadvantaged regions.

In the first part of 2020, despite the severe nature of the COVID-19 pandemic and its feared impact on the economy, savings reacted positively, reallocating investments in favour of money, in line with investors' well-known responses to uncertainties. The most serious events took place on stock exchanges, addressed through effective monetary and fiscal support policies. However, these

interventions have further increased financial markets' dependence on monetary policy, loosening the relationship between prices on the stock exchanges and real developments. The depreciations of shares listed on the Italian stock exchange was in line with that recorded by foreign stock exchanges, and even slightly lower than that recorded by European stock exchanges. The trend shows that stock prices are recovering the pre-pandemic crisis levels. Italian mutual funds have also reacted much better than in the rest of the world, where cases of non-repaid unit redemptions have occurred.

The confirmation that Italy's foreign financial position remains substantially balanced reiterates what was stated last June – namely, that our Country does not represent a financial problem for the rest of Europe and for the world, rather its savings provide resources drawn by foreign countries in multiple ways to fuel their growth. Based on data available, on that occasion, it was requested that this contribution be recognised, averting evaluations merely focussed on public debt, and neglecting parameters that ignore the solidity and stability of domestic savings and fuel prejudices rather than inducing well-founded evaluations. This consideration shifts the focus and commitment to the role of domestic and European policy in building trust. Italy is not lacking in sound real foundations, but their proper consideration is low. One year on, there is no evidence to change the judgment then expressed.

Confidence importance in the financial market equilibrium was confirmed in 2019 by a significant drop in the spread on government bond yields, notwithstanding an initially more cautious European monetary policy and a slightly deteriorated real growth rate. Analysts attribute this improvement to the absence of worries of a change in the public debt denomination back to a national currency. The spread's recent wide fluctuation as a consequence, first, of the uncertainties arising from the pandemic crisis, and then, of the strict monetary intervention, confirms confidence volatility, with the task of keeping it under control becoming a priority objective for State powers. This will be possible if European authorities and supranational institutions tackle distorted market assessments, as already for sovereign debt stability, stressing the importance of broader and more valid indicators.

In short, we propose "seeking the truth in facts."

3 Urgent actions required

Nevertheless, Italian savings' solidity and resilience are necessary but not sufficient conditions for resources to flow towards productive capital, which remains the best condition for effective protection. A necessary step is for economic policy to include financial leverage among its objectives, in its dual configuration: for companies, the ratio of risk capital to debt; for the public sector, the forms of debt to cover the imbalance between current revenue and expenditure. If the measures selected to tackle the production crisis mainly focus on granting guarantees and incentives for corporate borrowing, their financial leverage will worsen, making the recovery of production even more difficult and slower. If these expenses and those necessary to assist families facing hardship are covered by public bonds and loans obtainable from the EU, all to be repaid, the already high public debt/GDP ratio will rise further. If, as presumable, the market fails to take into account our savings the capacity to absorb it and the strength of our exports to generate it, and if the repayment of public debt is questioned by supranational institutions, the recovery in production and the social welfare network will be further affected.

Therefore, it is desirable that action be taken in two directions: a) issuing irredeemable public bonds (consols), a typical war time instrument, to which the health situation has often been compared; they could grant a tax-exempt interest rate equal to a maximum 2% inflation rate that the European Central Bank (ECB) has undertaken not to exceed in the medium term; b) facilitating the risk capital formation to replace debt.

The conditions of the Italian savings market and the social solidarity displays that followed the two months of lockdown call for a practical verification of the expressions of commendable social values, asking retail investors to participate in their own interest to prevent costs and constraints from being imposed on the Country if public debt/GDP ratios deviate from the values agreed upon at EU level. Investing in irredeemable bonds would of course be voluntary, and the offer quantitatively open. In other countries, consol issues have been seriously discussed and analogous forms implemented, but no such practical experiments have been attempted. Should Italian citizens fail to invest in these securities, they would contribute to decisions that, ignoring the long-term effects of increased public debt, would pave the way for higher taxation. Issuing non-redeemable securities would therefore be a more democratically significant choice because, if underwritten, they would limit the risks for the Country's future and, consequently, the burden on future generations, both those already being raised and those yet to follow.

The solution of allowing risk capital to benefit from a State guarantee, within predetermined limits and conditions, but implemented quickly and in a clear and simple manner, would avert a hasty return of the State to business and allow small savers to enjoy guarantees that would remove the risk from their choices for a predetermined period. They would also benefit from the advantages of a recovery in production by the enterprises to which they entrust their savings, should the investments prove successful. The State would certainly spend less by providing non-repayable subsidies, including those intended for companies that have no chance of survival; it would also make entrepreneurs accountable for making effective use of the savings obtained, thus limiting moral hazard. Such a solution would also enable finance to be re-anchored to real activity, in line with the objective to be pursued with the new institutional architecture.

An experiment could be launched immediately, starting with the 22,058 medium-sized enterprises, giving initial preference to the 10,838 that already export and those that intend to do so by presenting credible plans. The State could encourage investors, including non-institutional ones, to build up their equity capital in order to promote popular share ownership as required by the Constitution, guaranteeing an average unit amount of 1M EUR. Once the target is reached, the cost would range from a minimum of 11 bn EUR to a maximum of 22 bn EUR, which would be immediately injected into the production cycle, with positive effects on financial leverage.

Conclusions

An analysis of the general conditions operating in Italy and its specific strengths leads to the conclusion that it would be useful, in fact necessary, to set up a public council composed of scholars and operators with high levels of theoretical and professional expertise, tasked with defining, within the year, an operational document to give life to a new institutional architecture capable of better protecting savings and channelling them towards productive activities, starting with exports. The proposal should also incorporate the objective of reaching the most advanced frontier of technology, taking into account the emerging geopolitical balances.

In 1998, even before the events described took place and technological discontinuity emerged forcefully, Carlo Azeglio Ciampi stated that it is worth asking whether the increasingly close integration between the three sectors of finance (credit, investment, and insurance), in terms of both entities and products and business strategies, makes it necessary to consolidate all the regulations governing

credit, financial, and insurance intermediation into a single consolidated law. In short, a text that meets the need for unified regulation of banking, financial, and insurance legislation, in terms of entities and products, which now require coordinated and integrated regulation. Well, I would like to bring this authoritative reflection to the attention of politicians and the market, inviting them to support it, taking into account the EU institutional framework (to which analogous requests to those put forward here should be extended), and the challenging times we are experiencing at a global and technological level.

1 A difficult year: savings and exports bore the brunt of the crisis

Due to the pandemic, 2020 was one of the worst years experienced by Italy at socio-economic level since the end of the Second World War. The European Union (EU) and Italy activated a wide range of economic policy instruments to control the effects of the emergency situation, also involving existing structures in performing new tasks. After recording a significant fall in GDP, our Country began to move towards economic recovery from the second half of the year onwards and, more clearly, in the early months of 2021; it is now proving willing to address unresolved problems, including the new attitude of the EU's fiscal policy, a necessary ground to ensure cohesion between Member States.

The 2021 results confirmed that savings and exports are the two pillars of Italy's socio-economic strength, as stated in previous *Speeches to the Financial Market*. The investor protection put in place by public institutions, including Consob, follows rules tested and perfected over time, which however require updating in light of technological innovations in the financial sector. Nevertheless, the strongest protection still stems from its anchoring to real business activity, shaped in Italy by export trends. Private consumption and public expenditure, on the other hand, do not show the same momentum as in other important foreign economies.

The Italian household savings ratio to disposable income grew by 50% across the year but, excluding savings invested in listed companies, the return remained rather low (close to zero). In light of the size of financial assets in households' hands, each percentage point of remuneration can be estimated at around 30 bn EUR (almost 2% of GDP), namely the size of a good fiscal manoeuvre in the past. Given the management fees, savings contributed to sustaining market stability significantly, without however producing the real growth expected from their "euthanasia" hypothesised by Keynes, although this is the current effect of a crisis that arose for particular and contingent reasons.

Exports struggled, decreasing in volume by approximately one seventh versus 2019, due to the concurrent effect of the global demand decline and to obstacles to domestic production due to the Covid-19 lockdown period. Imports fell more sharply, allowing our foreign trade bank account balance to remain positive, increasing slightly versus GDP. During the year, Italy's international investment position improved further, recording a profit for the first time over three decades. The international financial market only partially registered such favourable structural positioning of our Country. In the first quarter of 2021, world trade rose to levels above the pre-crisis levels, and our exports continued at growth rates double that of global ones, thus confirming our sector enterprises' resilience and dynamism. Even the foreign trade balance, after a slight negative balance in 2020, showed positive figures, confirming its role as a pillar of our savings' stability.

To cope with socio-economic difficulties, public debt heavily increased, albeit in ways other than those allegedly required by a state of emergency. However, confidence in the Italian economy's ability to react increased, as testified by the significant reduction in the spread between BTP and BUND interest rates. This outcome also stems from decisions taken by the ECB to purchase significant volumes of government bonds and by the European Commission to suspend, albeit temporarily, the Stability Pact and launch Next Generation EU (NGEU). We agree with the appraisals provided for all these decisions on the structural improvement of our real growth rate and, consequently, of the systemic stability of our economy.

However, pursuing our production relaunch now requires supplementing the decisions so far taken to incentivise companies' risk capital for improving their financial leverage and encouraging them to undertake new initiatives. A remarkable opportunity stems from the tax reform invoked and reiterated in the framework of Italy's PNRR (the National Recovery and Resilience Plan) in implementation of the NGEU, if such reform is assigned the task of considering productive demands on the same level as ethical ones within distributive equity appraisals.

The awarding of the 2020 Nobel Prize in Economic Sciences to Robert Wilson and Paul Milgrom again brought the "Pareto efficiency" principle to the attention of the ruling class. The principle sustains there is a point within income redistribution beyond which the welfare of some cannot be improved without worsening the welfare of others. Obviously, this principle applies both to present and future generations. Pareto efficiency is reached much faster when real growth is lacking, as occurred after the Covid-19 lockdown; therefore, we must wait for it to re-emerge following the recovery currently in progress.

State intervention for social purposes reached unusual forms and levels over 2021, without however easing the pressure on public resources by citizens. This should not be surprising, as the rational part of human action pushes to choose the best result at the lowest cost. Private companies, primarily exporters, are forced by competition to promptly address their problems, at risk of exclusion from the market, being such capability a cornerstone of growth and a foundation for proper functioning of democracy, which has the power to correct income distribution resulting from productive and commutative activity through regulations, duties, and taxes. When these forms are insufficient and savings are not being used by private individuals, the State resorts to borrowing, but not always drawing upon a well-founded assessment of inter-generational redistributive effects.

Recognising that both market and democracy control their respective functions, being aware of the value to be attributed to each is an indispensable step towards proper functioning of the economy and society, which requires a valuable civic education system.

2 Financial innovation emergency

Relevant official documents have thoroughly analysed the challenging domestic, European and international situation in which everyone must operate. We share the diagnosis provided and here express our hope that it will be taken on board by public opinion and conveyed to the mandate assigned to political forces.

We intend to integrate, within our remit, advanced diagnosis indicating the role played in the savings market by the creation of new virtual instruments (such as cryptocurrencies) and their interchangeability with each other and with traditional instruments. The effects on savings protection and income distribution appear to be significant and require thorough understanding to urgently follow up with regulations that fill the gaps they reveal.

Based on the standards set by current legislation, it is no longer possible to distinguish, with technical and legal certainty, the legal nature of currency and financial products, interrelated through the connection guaranteed by conversion platforms between virtual and traditional instruments. The market uses different standards from those of existing legislation, which need to be integrated into it. Securities trading in the Infosphere is increasingly interfering with international relations and geopolitical balances, whose stability plays an important role in monetary and financial exchanges, above all as a result of their growing weight in a

political environment that is no longer at the peak of the peace and prosperity outcomes achieved over the last thirty years of integration and cooperation between States.

Focussing on the subject to be regulated requires clarifying the meaning of the terms used. Here, we have resorted to the usual dichotomy between traditional instruments and virtual instruments; for the latter, the term *digital* is also used, which, however, encompasses both traditional forms (credit cards, ATM cash dispensers, and online payments) and more recent forms of payments or exchanges in encrypted instruments – the latter create new problems for market functioning due to their relations with traditional and digitised instruments, making it difficult for them to be regulated and supervised, with distorting consequences on production and trade, as highlighted by the fact that a single Bitcoin recently had the power to purchase a high-powered electric car and shortly afterwards lost half of its purchasing power.

Financial IT is a prodigious lamp from which the Genie has emerged.

Authorities will not be able to bring him back inside, as he operates in the immaterial sphere (or Infosphere), which can only be controlled by changing the information exchange protocol – i.e., by fragmenting world market's unity and thus reducing the international competitiveness rate. The pyramid of bits (IT measurement unit) has grown enormously and penetrated the market for traditional instruments, breaking the territorial contact inherent in their legal treatment.

Under current conditions, authorities can become active participants in the *Infosphere* by harnessing digital technologies. Their actions will be more effective if they cooperate with each other, although this requires that they must first understand the limits and possibilities of using the new technologies developed by Data Science and Network Science at an increasingly fast pace. Under prevailing market conditions, the warnings alone about the risks run by investors or the actual prohibitions prove ineffective.

The current system of encrypted instruments is based on the prevailing belief and convention among private individuals, who ignore the key role played by the legal nature of money as the sole medium of exchange and debt settlement for proper market functioning. The willingness expressed in several forums by Government authorities to seize technological innovation opportunities should not be interpreted as complacency towards market transparency loss, but rather as a desire to restore it by harnessing the same financial innovations. Therefore, a favourable attitude to new technologies must be complemented with clear rules on

the creation and trading of cryptocurrencies and their intertwining with traditional monetary and financial assets and liabilities, whether already digitised or not, as an indispensable guide for operators managing liquidity and savings.

The computer-based creation of private fiat currency offers its creators ("miners") the possibility of gaining purchasing power. Richard Rasmussen, an economist whose analyses cover a wide range of biological and social issues, often quoted *"It would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases."* Democracy's redistributive function and market's productive-commutative function are altered by the creation of digitised purchasing power, even more so when placed in a perfectly decentralised accounting system. Despite their importance to social equilibrium, financial innovations' ethical implications on the functioning of democracy have so far received lower consideration than other aspects of the issue, such as the digital divide, privacy, and the right to free private enterprise.

At the moment of their creation, virtual instruments have no purchasing power, as they are not backed by an economic debt-credit ratio, unlike every other transaction carried out on the market, including the creation of legal tender, which involves a public issuing institution as the debtor. The debt-credit ratio only becomes concrete when there is expectation that someone will spontaneously accept the virtual instrument created and be able to resell it to others at the appropriate time. Only exchange transactions carried out after "mining" cryptocurrencies generate a relationship to be recorded in double-entry accounting, as taught half a millennium ago by Friar Luca Pacioli. Yet, the real responsibility of the "secondary" debtor remains uncertain, being it rooted in the absence of a "primary" debtor.

Profound change is now affecting market functioning in general. Virtual instruments have prompted the emergence of the aforementioned "technological platforms" that allow for faster and less expensive methods of access to payment and securities trading services than those offered by banks and other intermediaries. The safekeeping and exchange functions they initially carried out have evolved to accommodate increasingly complicated and complex transactions, including the granting of loans guaranteed either with their own cryptocurrencies or other cryptocurrencies or the stipulation of derivatives contracts using cryptocurrencies as collateral, even for several transactions of the same type. These new market segments are rapidly evolving, and the experience before the 2008 crisis seems to be repeating itself: derivatives contracts developed until they reached a size ten times that of global GDP, taking on highly-rated complex forms. Despite the necessary

distinctions, something similar is expected to be happening in the market for virtual money and financial products, especially encrypted ones.

Rather than from the actual instrument, the problem arises from the technology used, the blockchain or decentralised accounting chain. Its original form, used by Bitcoins in 2009, is a circuit involving information exclusively confined among encrypted instrument holders, identified by a numerical code. Transactions are certified by the mechanism itself, without any external entity's intervention (banks for deposits, or financial intermediaries for debt securities).

As far as is known on hacking techniques, the original blockchain is impenetrable, unlike the one used by other cryptocurrencies, as testified by previous events involving significant amounts. These other forms have reached sophisticated solutions to protect themselves from external attacks; they are still penetrable but, as deemed by their users, the risk is compensated by the advantages gained to achieve other purposes, such as creating so-called "smart contracts". However, whether they are within or outside the scope of legality remains uncertain, notably if they include the use of cryptocurrencies. To grasp the full scope of possibilities developed by decentralised accounting technicians, the acronym DLT (Distributed Ledger Technology) is used. Only experts (professionals) are aware of its real contents, but not ordinary customers (retail), who, in fact, are less protected when they access them.

The use of these instruments in permissionless forms precludes private supervision (by boards of statutory auditors and certification firms) or public supervision (supervisory authorities). Without adequate safeguards (regulations and bodies), this leads to market transparency deterioration, which is the foundation of legality and rational choices by operators. Well-known negative effects of these techniques include shielding criminal activities such as tax evasion, money laundering, terrorist financing, and kidnapping. The Bitcoin ownership concentration that has recently been ascertained may reflect this aspect of the issue.

The river, now in the midst of virtual instruments, has been split into several and varied streams. The Internet, which is certainly not the cradle of certainties, states there are 4-5,000 cryptocurrencies in circulation (in the form of stablecoins, but largely floating) which operate more or less undisturbed. If the experience carried out over a short time by Consob, obscuring hundreds of websites that were illegally collecting savings in Italy, is applied to them, the resulting picture appears worrying.

For Italy, the issue raised is notably relevant compared to other countries by virtue of a constitutional provision that entrusts the Republic to encourage and

protect savings in all their forms, and regulate, coordinate, and control credit exercise. It would be inappropriate if we were to specify "savings in all their forms" and protect contents that also include virtual tools, without going through specific regulations.

Consob is also entrusted with the important task of guaranteeing complete and reliable information as an indispensable condition for proper functioning of the financial market – a necessary, although not sufficient, condition to encourage savings and anchor them to real activity. This is an important frontier to be reached, although it keeps moving forward. The task becomes increasingly difficult due to the enormous amount of information formed on a daily basis, which can only be managed by using the collection and processing techniques made available by Network and Data Science, because every day a mass equal to 2.5 quintillion bytes is produced (10^{18}), which can only be processed with scientific methods, and not with the human mind alone.

Besides these objective difficulties for the supervisory authorities, the recent judgments of the European Court of Justice dated 2 February 2021 and the Italian Constitutional Court dated 30 April 2021 ruled that any individuals under investigation by a supervisory authority have the right to remain silent if their answers might establish their liability for an offense punishable by administrative sanctions of a criminal nature, in the name of the constitutional principle of fair trial. Nevertheless, these judgments do not reduce operators' obligation to provide information to the market. The constitutional value of fair trial must be placed on the same footing as that of savings protection.

The need to lay down rules in this domain is not only felt by the supervisory authorities, but also by the more attentive market operators, who identify risks to their cryptocurrency business arising from uncertainties or decision-making inaccuracies, which not infrequently arise from noble ethical demands, on which discussions abound and often end up diverging from the use of innovations in finance. As history teaches, every technological revolution triggers cultural and social consequences, yet failing to halt their dissemination; and the development of virtual tools seems to confirm this experience.

If regulation were merely to put sand in the gears and, as widely discussed, satisfy itself in taxing the gains made, this could result in their continued spread and lead to a new market crisis. In this event, the responsibility for the consequences suffered by investors could fall on the State, as already happened, due to the silent or obvious legitimization of their existence and the awareness that market manipulation can be achieved through financial innovations.

The security of the techniques used remains the uncovered side of all digitisation processes, and it is therefore reasonable to consider cybersecurity a "public asset", namely a productive and social infrastructure placed at the service of general interests, but useful for every citizen. Therefore, the existence and functioning of a security system, even if left to private individuals, must be guaranteed and overseen by the State, which must nevertheless bear in mind that the diffusion of digital techniques in finance poses specific needs that must be addressed globally, otherwise its effectiveness will be reduced. The cybersecurity issue encompasses political problems of even broader content, which cannot be solved at national level and require instead close international cooperation – i.e., the emergence of a "global public asset", as were the IMF, the UN, and the WTO. The part of the Bretton Woods Agreement closest to the solutions to the problem raised here of the interchangeability between different national currencies has not stood the test of international cooperation, but the technological innovations applied to finance have reposed the urgency of its revival as a topical matter.

On cybersecurity, as on every other aspect of money and finance digitisation, several European countries are moving autonomously and independently of the ongoing regulatory process, in which however they are also involved. For the initiatives in which the national authorities have participated directly or without commenting on their content, not all the details are disclosed; however, it is known that they have taken care to maintain the information by entering themselves in the decentralised accounting circuits (or permissioned blockchains). In other words, they obtained an access key of the type experimented by Consob, which was mentioned at the beginning of this Speech. Yet, this is only the first step in a long process.

The retrieval of information by the authorities raises the delicate issue of establishing who is authorised to be present in the decentralised mechanism and to what extent they can use the data of which they become aware – i.e., how to guarantee data secrecy and use. Both problems must be resolved within the framework of the necessary legislation.

Conflicts have already arisen, on the use of virtual instruments, between private individuals and between them and some supervisory authorities, which have led the courts involved to judge concrete cases on the basis of the legislation in force. The judgments introduce new features into the regulatory framework within which the supervisory and control authorities and the market itself are obliged to move. After a long period of reflection and decision-making uncertainty, several national Government authorities seem to be oriented towards solving the problems that have arisen within the framework of new regulations.

In the United States, the Controller of the Currency, the Security Exchange Commission (SEC), the Federal Deposit Insurance Corporation and the Commodity Future Trading Commission have recently decided to jointly address the problem, but at present they are still at the level of assessing what to do. Among the decisions taken in the absence of specific legislation, the SEC provided a company that intends to use the blockchain with a no-action letter to certify the trades it intends to implement, without however formally approving its activity. One of the arguments put forward by some operators is that they merely make available an accounting technique, re-named DeFi (Decentralised Finance) used by bidders and buyers of virtual products – i.e., the entities subject to supervisory regulations, on which responsibility for decisions is transferred. This issue is analogous to the problem raised by rating companies after the derivatives crisis that had subprime credits as collateral. The legitimisation of the use of cryptocurrencies has been fully recognised with the authorisation granted to an American trading platform to be listed on the Nasdaq technology exchange.

In the European Union, the European Central Bank (ECB) has proposed the creation of a Central Bank Digital Currency (CBDC) (or crypto-euro), moving its implementation forward over time. The European Commission has put forward a Digital Finance Strategy, submitting it before Parliament and opening a wide consultation between operators. The Portuguese Presidency-in-Office is speeding up the adoption of the Market In Crypto-Asset (MICA) programme, not always in accordance with the regulatory lines suggested here. However, some experiments or decisions by Member States are already underway: the Bank of France has performed a nationwide creation of self-extinguishing crypto-euros as part of the placement process of virtual (or tokenised) EIB bonds. The German Federal Parliament has authorised the approximately 4 thousand Spezialfonds to invest in cryptocurrencies up to 20% of their investments, for an estimated amount of 240 bn EUR.

If the timeframes of an initiative at European level are lengthy, the Country should make independent arrangements, if only to be ready to integrate into the Community institutions, when they enter into force. Experiments represent the best training school for professionals capable of reaching regulations in a subject that, due to its rapid evolution, requires non-stop development.

The legitimisation of the existence of "virtual savings" in various forms is now a reality that intersects with savings generated traditionally – i.e., without spending a portion of the income produced by work or capital. Among the problems that have arisen, we must consider the worsening of the persistent discrimination in tax treatment amongst the assets owned by Italian households, which alter their

portfolio balance, with repercussions on the proper functioning of the financial market and on real activity. A specific imbalance concerns the treatment of real estate assets, which are subject to unacceptable discrimination. It has been widely demonstrated that construction and public works play a central role in all processes of productive recovery and social stability recovery, for which finance represents the indispensable fuel that drives the development engine. Solving this problem should be seen as an essential part of the reform policy undertaken as part of the mentioned PNRR.

3 To know in order to decide

Guido Carli repeated that anyone having public responsibilities should not limit themselves to raising problems, let alone expressing fears, but has the duty to put forward solutions. Luigi Einaudi had previously pointed out that you cannot decide without knowing. The analysis so far carried out moves along these lines.

The analysis of the problems raised by the dissemination of innovative techniques used by the financial industry is illustrated in the body of this *Speech*. We are faced with revolutionary changes which must be addressed fully aware of their content and urgency of their solution in order to avoid negative consequences on the micro and macro-systemic stability of the security market and, in this way, on the savings and economic growth needed to protect and harness them effectively. We believe that a broad *ad-hoc* educational campaign is necessary, that is even more incisive than the one implemented to improve Italian citizens' financial education, joined by Consob and major national institutions.

The financial market's current conditions highlight the inadequacy of the institutional architecture (rules and institutions) put in place to oversee savings protection and support income and employment growth. In the latest *Speech*, we proposed launching an initiative to unify the regulatory dictate of Italy's Consolidated Law on Banking (*Testo Unico Bancario – TUB*) and Consolidated Law on Finance (*Testo Unico della Finanza – TUF*), as suggested by Carlo Azeglio Ciampi after the 1993 banking reform; nevertheless, the situation is so complicated as to require a wider and more comprehensive analysis of all the ways in which the money and financial markets operate at both domestic and international levels.

A mandatory step involves the reaffirmation that the legal validity of contracts is guaranteed only by their denomination in sovereign currency. If, as would appear, the intention is to recognise the existence of private currencies, users

must state in a specific contractual clause that they are aware of the risks they face when using non-public currencies, and the market and savings supervisory authorities must be able, with a specific access key to the decentralised accounting, to be informed of all such transactions being implemented.

Fulfilling this task requires full knowledge of the innovative techniques that have established themselves on the global security market. There seems to be growing awareness that regulation cannot be established on a technologically neutral basis – i.e., independently of the IT tools used and their ongoing evolution.

To this end, formal consultation structures in Italy should be activated between Government bodies and independent authorities for them to give a uniform direction to decisions on this matter, also in view of the position to be taken with regard to the ongoing European and international initiatives. A first step would involve the transposition of the 2011 European Systemic Risk Board (ESRB) recommendation, which would establish a single national counterparty to take charge of macro-prudential stability. The Bank of Italy would retain a central role, justified by its participation in the Eurosystem around which European finance currently revolves, but close coordination would be ensured between the three independent supervisory authorities (Consob, IVASS, and COVIP), with the participation of Italy's Ministry of the Economy and Finance (MEF).

Banks and financial intermediaries are committed to digitising their current business and establishing partnerships with technology platforms that manage encrypted instruments, often already operating abroad. The confluence between the two actions will depend on the regulatory choices that will be made for cryptocurrencies and cryptoassets, but from now on we need to move within a broader strategy to avert our banking and financial system's technological dependence in order to protect Italian savings and remunerate them in line with the returns on invested capital.

To such end, groups of specialised professionals should be set up within public institutions to work together and successfully and more promptly transpose the new technologies applied to the payment and financial systems. The objective can be quickly achieved by co-opting high-level researchers in Italian universities and drawing on Italians operating abroad – i.e., resources waiting to be mobilised. Consob moved in this direction, attaining collaboration agreements with Italian and foreign universities and drafting a memorandum of understanding with the Ministry of Scientific Research and the Conference of Italian University Rectors, to undertake initiatives with doctoral students involved in common interest subjects. However, the financial resources and rules governing the recruitment of the necessary

professionals must be adapted, taking into account the broader service they would provide to the entire socio-economic system as a training centre for new management groups and citizens aware of the tasks ahead.

Such collaborations should be aimed at defining technical choices and regulating the use of virtual instruments and their exchange with traditional ones. In particular, they should define the access methods (or keys) to the decentralised blockchain/DLT accounting in order to guarantee the necessary information for market transparency, cybersecurity, legal validity of safekeeping content, and exchange contracts for virtual and credit instruments and derivatives or other embedded financial forms, as well as their interaction with analogous operations carried out with traditional instruments.

In light of the transformation process pace of the monetary and financial matters to be regulated and overseen, the preliminary phase of the work carried out by several public institutions and private research centres can be considered as concluded, and convergence of wills is now required, overcoming fears and hesitations, towards an operational solution free from too many compromises. Along the way a more complete regulation will be devised, as happened and continues to happen for addressing traditional instruments. "Warnings" to investors about the risks they run when trading in cryptocurrencies are no longer enough. The time for reflection is now over, and we must move on to choices.

Practical experience is the best teacher to gain the necessary knowledge to decide how to deal with the problems that have arisen in recent years on the operation of the money and financial market in the *Infosphere*.

A separate discussion should be focussed on the use of Artificial Intelligence techniques, which requires continuous commitment to verify the compliance of algorithms with the widely felt need by savers to entrust credit and portfolio management to objective, transparent and efficient choices. There are several opinions on the subject, often linked to lack of knowledge of this highly sophisticated method of choice or to hesitations about the usefulness or ethics of replacing human intelligence with artificial intelligence, which is nothing more than enhanced human intelligence. Excellent minds of men and women will always be the heart of human progress.

In the absence of an integrated view of the problems and their governance, a chain of negative effects could be initiated due to a quantitative and qualitative imbalance between legal tender and private money that would trigger Gresham's Law, according to which bad money drives good money out of circulation. Some

central banks have already perceived this possibility, which would cause the collapse of the trust system underpinning the systemic stability of the security market with effects on the real market. This could happen if the recent fears of inflation that arose in some economies were to materialise and if different growth rates were to establish among large geopolitical and economic areas over a long period of time, inducing the authorities to change their economic policy direction, increasing interest rates and reducing public spending, primarily on the usual side of infrastructure investments, with negative effects on expectations and related market behaviour. The chain would continue in the form of disturbances on exchange rates between currencies which, as economic history teaches, would interfere with international competition, world trade growth, and geopolitical cooperation, not only from the economic viewpoint.

In spite of this serious risk, confidence in the possibility that Governments and independent authorities can avert such outcome has not failed; yet, their action requires full awareness of the ways to address it, working on citizens to gain a consensus majority. An educational campaign is now even more necessary, of equal intensity to the one carried out for preventive health care or which is currently taking place for socio-environmental protection, by now an integral part of the new European Commission programme.

Since early 2020, Consob has been implementing a wide internal training programme at all levels; good awareness of the above issue has thus been attained, also preparing to face the new reality of markets. Such awareness and related commitment have not yet produced the expected results due to the regulatory constraints weighing on its implementation capabilities, analogously to those encountered by other State organisations. The Government has moved in this direction for Public Administrations (also in line with the commitment envisaged by Italy's PNRR), yet the reform strategy must be addressed to all institutions.

In conclusion, the main message of the analysis carried out is that the expectations of progress, sometimes even utopian, moved and still move humanity's conquests. Their ability to influence the resistance shown by what exists depends on citizens becoming aware of the objectives and the ways to attain them. Therefore, strong emphasis has been put on a triple commitment to education and training as a successful viaticum for the choices to be made.

1 2021, a year of economic recovery and confidence in the future

Exports and savings, the two factors underlying Italy's prosperity and its real and financial stability, also performed well in 2021. Resumed confidence in the future is a third no less important factor, mainly resulting from the successful fight against the Covid-19 pandemic and the launch of Next Generation EU (NGEU), which acted as a maieutic force on Italy's latent desire for recovery. The rise in inflation and, even more, the invasion of Ukraine by Russia cast a heavy shadow on the favourable emerging prospects, and set back monetary stability and civil international coexistence based on mutual understanding and constant dialogue between peoples, enshrined in the UN Universal Declaration of Human Rights and soundly reaffirmed in the Charter of Fundamental Rights of the European Union.

We hope peaceful international relations will be re-established so as to allow goods to newly circulate freely, while stopping weapons. In spite of multiple shortcomings, globalisation has enabled improving the standards of living of large segments of the world's populations, significantly reducing poverty levels. Yet, preference is given to emphasising that globalisation has increased the wealth of the few – a socially unsatisfactory result albeit not new in the history of countries' real development across the world. Since last century, the correction in product-and-income distribution distortions has been entrusted, within countries, to the progressive intervention of the bodies of democracy and, at international level, to the assistance between States and from NGOs, which have however performed to a modest extent. Decisions were aided by the combined action of cognitive advances in economic theory and the progress matured in democratic consciousness, with some application asymmetry in favour of the latter, as witnessed by the huge growth in public debts.

2 The importance of trade liberalisation and globalisation for Italy

Through international trade, Italy was ranked among the most developed countries and managed to cope with the serious international crises occurred in the last half a century, starting with the increasingly oligopolistic conditions of energy sources supply that led to a structural increase in oil price as from the early 1970s.

Following the 2008 global crisis, by still leveraging on exports and savings our economy succeeded in attaining a structural foreign trade surplus, long sought after to overcome the accusation that the Country was living beyond its means. Success was complemented with capital surplus vis-à-vis the rest of the world, joining a small circle of countries with mixed free market and welfare state political systems. Italians invest their savings abroad to a greater extent than foreigners do in Italy – another milestone towards the goal of bringing more financial resources to our production activities.

The positive performance of Italian exports stems from a long maturing process for our companies, able to create a climate of independence from the constraints posed by the Country's weakness factors and to benefit from the opportunities offered by the global market and pressing technological innovations, often designed by them. A good supply of low-cost savings contributed to such excellent results in recent years.

Among exporting companies, those able to interpret the importance of regulated markets for own development have gained an additional benefit in the form of increased market-assessed value, more easily mobilised in whole or in part if desired by them or appreciated by investors.

At present the productive capital of listed companies has a much higher price/profit ratio than in 2008, with positive effects reflected in the similar ratio of those not listed on official markets, yet at discounted values due to their securities' lower liquidity. Shifting the valuation of companies to regulated markets remains an objective for the community – its achievement being driven by the advantages offered by equity portfolio investment thanks to companies' profitability coupled with securities' liquidity.

Those who manage real resources have the task of working together in order to find a balance for product distribution between capital and labour. This is an inescapable part of their social function as well as an instrument for achieving

sustainable development between supply and demand at macroeconomic level, which is a direct interest objective. They also have the task of internalising environmental protection within production programmes and, consequently, companies' organisation. Meeting these requirements falls within Consob's remit to be implemented in the framework of a broader European programme, relaunched with the Sustainable Finance Action Plan published by the European Commission. Fine-tuning the rules related to the Plan's contents is at an advanced stage. Corporate compliance with these rules will help incorporate instances that go well beyond correct performance of so-called "green finance", involving social and corporate governance issues, a.k.a. ESG (Environmental, Social and Governance).

Business world initiative and public intervention also alleviated certain imbalances in the production-and-income distribution at territorial level, notably with regard to socio-economic infrastructures. Progress in this direction is still slow, with moments, such as the current one, when the existing gap reopens. Nevertheless, the decisions made on implementing Italy's PNRR (the National Recovery and Resilience Plan) and the EU provisions aimed at lagging-behind regions build up a positive scenario for resident populations. Politics must now prove able to make the most of such scenario through effective collaboration at both central and local level.

More recently, financial difficulties and supply shocks have been overcome thanks to permissive monetary policies made possible by a deflationary price trend at global level. In the presence of abundant liquidity, the thrust of an aggregate domestic and global demand eager to express itself, coupled with loosened supply constraints imposed by Covid-19, has increased the prices of several raw materials (primarily energy sources), which in turn has reignited inflation. Due to new supply constraints triggered by the war in Ukraine, such inflation has intensified the cost-push in the factor markets, fuelling the risks of social instability and financial imbalances.

The uncertainties weighing on the future are such to turn any economic forecast into pure conjecture. In these circumstances, it would be advisable to refrain from formulating hypotheses on how the economy will perform and instead devote greater attention to institutions improvement, so as to enable them to absorb socio-economic shocks and provide solid foundations to regain confidence in the future. This is the goal pursued by current efforts. Yet, the intertwining between the needs arising from economic trends and the demand for modernising tangible and intangible infrastructures distracts citizens' attention and commitment to the former and slows down – and even hinders – the process of adapting the latter. Greater

communication efforts are needed in order to explain the importance of institutional reforms with regard to welfare interventions, which alleviate individual situations without resolving crises at the root.

3 Traditional instruments' limitations in protecting savings from inflation

A good teacher, Karl Brunner, taught his students that inflation is always to be averted; however, should we run into it, the question is how to overcome it without causing irreparable damage. Although, at a theoretical level, there is no consensus on what should be done, at a practical level it is now clear that the prevailing orientation rejects the resort to monetary and/or fiscal tightening implemented to the extent necessary to significantly affect inflation, and prefers a gradual and moderate approach relying on compensatory fiscal policies to address the effects of crises. Albeit socially understandable, the latter result in increased public spending financed with more debt and at times justifying a decrease in the GDP ratio, ignoring that this results from the increase in its face value.

Not even extraordinary finance operations seem to be effective and feasible; they even worsen the situation as they prove hard to launch, take a long time to be implemented, and contribute to increasing existing uncertainties, eventually raising financial and social instability.

Protectionist policies, often invoked, are also ineffective, as they place the burden of the adjustments sought on their near and less near neighbours without bringing along the income distribution benefits they are intended to remedy.

The world is now living a difficult phase that demands sacrifices from its citizens and requires unity of purpose at national level as well as closer international coordination – all hard to obtain in the presence of internal political and geopolitical tensions.

As a result, an alternative way must be found in order to prevent inflation – the inequitable tax that violates the founding principles of democracy – from affecting financial and real stability and eroding the two pillars underlying our growth and welfare.

4 An alternative to monetary and fiscal policy tightening: a self-protecting portfolio against inflation

Last year, Italian savings still showed good stability, yet the first indications for 2022 hint at sagging flows. In 2021 a clear trend also emerged and revealed a marked acceleration in investments on speculative instruments and foreign markets, not always relying upon rational criteria. Entrusting the market alone to deal with these attitudes – not rarely prompted by predictions which reality has taken the burden of denying – could trigger serious economic and social consequences as well as conflicts with the Italian Constitution, which considers savings a public good.

A first urgently needed step – which falls within Consob's aforementioned institutional objectives – consists in channelling savings towards the productive initiatives of companies of all sizes, although the close relationship between monetary policy and regulated markets' trends triggers fluctuations in companies' value, thus discouraging such investments. Nonetheless, a stronger and healthier relationship is now emerging between prices and profits – on which inflation operates favourably – as price increases affect the global market and do not have a strong impact on the terms of trade between domestic and international companies. Inflation mainly affects those end-consumers whose resources come from substantially fixed income and savers who have invested in credit instruments.

Strengthening the component that is representative of the productive activity to which savings are to be directed is legally validated in Article 47 of the Italian Constitution, which states that safeguarding is obtained by promoting "... *direct and indirect shareholding in the main national enterprises through the use of private savings.*" These investments provide a sound basis for supplementary welfare that is self-managed by the members of a low-productivity-and-fertility society. Addressing aging population with a pension system largely anchored onto solidarity-based distribution methods does not appear suitable for the purpose of well serving citizens' life cycle and ensuring real and financial macroeconomic stability.

A second step lies in creating portfolios for savers self-protection against inflation, where equity investments play a primary role. The proposal here envisages a balanced composition between securities and real estate assets, relying on real economy developments for profitability and thus taking the burden of unusual manoeuvres on interest rates off the monetary policy. The technical solutions may be different, and policy makers would have the main task of creating the most suitable legal framework to build a protective mechanism for savings that fulfils the Constitutional dictate.

It is worth noting that a dimensional balance between securities and real estate assets is present in the aggregate amounts of our savings, although these are not subject to the same rules – primarily, but not exclusively, in terms of taxation. In other words, there is an innate boost in the saving behaviours of Italian households and businesses, as the two components have always developed in a fairly balanced manner in spite of their wide differences in treatment and the delays in the sustainable energy requalification of real estate properties. A similar attempt undertaken at European level – limited yet complementary with the proposal made – concerns the European Long-Term Investment Funds (ELTIFs) and individual savings plans (our *Piani Individuali di Risparmio – PIR*), the latter notably implemented in Italy.

The ability of such a portfolio to protect itself against inflation would be even more effective if the saver chose, in a balanced manner with respect to the euro, investments denominated in foreign currencies used for exports.

Obviously, BTP issuances indexed to domestic inflation (such as the one planned for this week) are well received by savers, as they protect the real value of the investment for a lengthy period, demonstrating confidence in public debt soundness and receiving authorities' confirmation of the valid request for protection advocated here.

The proposal's rationale is that securities with a return below the inflation rate suffer a loss of purchasing power, while real estate assets typically show increases in value.

The proposed solution has the advantage of not placing greater burdens on the State budget and would be in line with the Constitutional provisions that encourage and safeguard savings in all forms and promote house and farm ownership through private savings. The latter use should be evaluated in light of the success of food and agricultural exports resulting from initiatives that have grown over time following the implementation of such specific Constitutional approach.

As for the ways to protect savings and on the consideration that this is a primary political objective, the disputes date back to work of the Constituent Assembly and do not show signs of mitigation. Jointly with recalling fair distribution of the tax burden, mandatory reference is to be made to the writings and political commitment of Luigi Einaudi, whom we wish to acknowledge as our great teacher.

The protective bulwark erected in the post-war period for financial savings lay in assigning to our central bank the task of defending the purchasing power of the Italian lira whilst enjoying independence in monetary choices. The institutional

events and crises since the end of the Bretton Woods Agreement (1971) have made it more difficult for our central bank to fulfil such task. Today its choices must be balanced with those undertaken by the other national central banks under the European Central Bank (ECB) and with the prevailing conditions on the global market.

A first estimate on the merits of the assumptions underlying the proposal indicates that, from 2008 (year of the global financial crisis) till 2021, inflation affected the purchasing power of Italian financial savings by overall 16% (ISTAT data), to which the 12% drop in our properties' value needs be added (BIS data). If the existing portfolio had had the proposed characteristics, the overall loss would have been 14%, partly recovered in the event of a balanced currency composition. Taking into account that in the period considered the dollar revalued against the euro by 23%, a portfolio with half the assets denominated in the US currency would have reduced the indicated capital loss to 2.5%, aiming to self-protection.

Over the same period, wages were satisfactorily protected, with hourly wages rising by average 21% (ISTAT data), fully recovering inflation and benefitting from average labour productivity, albeit low (3.8%). The seven categories of paid pensions grew by average 34% (INPS data), leading us to reiterate the request that, in an economy characterised by strongly asymmetrical frequency distributions, averages should be complemented with kurtosis indicators to assess whether they correctly represent the observed phenomenon.

The trends recorded in the 2020-2021 two-year period, disrupted by supply constraints due to healthcare reasons, further confirm the validity of the proposal put forward and highlight that the mechanism offsetting inflation incidence on securities with the increase in real estate value has – also in the absence of a policy aimed at equalising its treatment – the characteristics assumed. As known, the first data for 2022, also affected by supply constraints following the invasion of Ukraine, shows rising inflation, increasing property prices, the dollar still growing slightly against the euro, stationary hourly wages, and declining equity values.

5 Encouraging and protecting savings: a virtuous circle

The implementation of the proposal for a policy of incentives and protection of savings would provide a concrete response to the reiterated need and drive to direct it towards productive activity, thus towards the formation of new capital. As a matter of fact, each investment fund incorporating equity and debt securities

issued by firms would correspond to a proportional amount of real estate investments, which have historically played a leading role in the phases of production and employment recovery. Within the proposed solution, financial and productive capital would be the two sides of the same coin in each freely built portfolio, with positive effects on the macroeconomic framework.

In doing so, we could also reduce that part of finance that generates incomes dissociated from real economy performance, and relaunch the part that instead boosts productivity, namely catalysing an economy open to competition, such as the Italian one.

Credit protection is another objective expressly set out in the Italian Constitution, whose purpose in favour of development is juridically and economically linked to the aim of encouraging and protecting savings. A serious attempt to seek full satisfaction with the relevant Constitutional values dates back to 2005 with Law No. 262, which prescribed the establishment of a commission specifically aimed at safeguarding depositors' savings and a saver-and-investor guarantee fund, regulated by principles set out in a statute of savers and investors. The implementing delegations to the Government and the Parliament have expired – having the time required by law meantime elapsed – also because the task has been largely undertaken and supplemented by the European Union. Following the emergencies triggered by serious financial crises, the Guarantee Fund was replaced by the Fund of dormant accounts and, subsequently, by the Fund for extrajudicial protection of savers and investors (under the mentioned *ACF*), also feeding the initiative aimed at enhancing the indispensable level of financial education.

In conclusion, the set of initiatives here scrutinised, complemented with a policy aimed at individual and system-based creation of a portfolio of self-protected savings, could help establish sound foundations to restore confidence in the future, activating a virtuous circle of economic development and social stability.

6 The institutional framework within which money and financial assets will operate in centralised digital accounting or decentralised digital encrypted accounting

In recent decades, the monetary and financial problems to be resolved have become even more complex due to the proliferation of the several virtual forms of securities, which started with Bitcoins and then multiplied under the currently generic definition of "cryptocurrency". Upon inception, they are portfolio activities

without an administrator and accounted in a decentralised manner on computer networks that directly connect the holders. By warning investors as to the risks involved and cooperating with the relevant authorities examining the issue for regulatory purposes, Consob, the Bank of Italy and IVASS spoke out the disorderly quantitative development of such activities mainly based on agreements between private parties and hybridisation of several traditional financial instruments (derivatives, credit, bonds, and the like).

Beyond the required choices to deal with virtual instruments and the adopted techniques, it is necessary to define an overall institutional framework of the emerged problems. This requires an international conference in order to re-establish proper functioning of the global monetary and financial system or, at least, of that part of the world willing to cooperate in this direction. Chair Ashley Alder of IOSCO, of which Consob has been a member since its establishment, spoke out in this regard. The same indication was given by Carmine Di Noia, new Director of the OECD Directorate for Financial and Enterprise Affairs, in implementing a Recommendation approved by the OECD Council on encrypted and decentralised accounting technologies.

The urgent need to regulate the various forms and uses of cryptocurrency was reiterated at the recent G7 finance ministers meeting, highlighting that virtual instruments should be treated as traditional ones, whose rules derive from more than a century of experience and refinement that still apply.

We agree on the need to convene an international conference to include the cryptocurrency market in the existing standards, without neglecting the transposition of innovative accounting techniques used by finance.

Attaining market and legal patterns for virtual instruments so as to reproduce traditional solutions – checking market conduct by granting authorisations, applying supervisory rules, imposing administrative sanctions, and interacting with civil and criminal courts – is easier than integrating them with the decentralised and IT accounting technologies that all operators, after hesitation and pondering, have by now implemented or plan to do so. New applications are now made available to highly skilled operators, thus increasing market opacity, with significant expropriations of invested savings. Albeit alerted, public authorities (i.e., regulators, supervisors and magistrates) find it difficult to regulate and judge such issues, due to the fleeting nature of the means used, and ultimately prefer to focus on conducts.

Even when taking account of the high installation costs, the use of new technologies offers potential advantages, such as reduced time and costs of safekeeping and trading of monetary and financial assets, as well as certainty and immutability of the related accounting records, which guarantee higher impenetrability against external attacks than traditional activities. After the 2008 global financial crisis, operators, managers and savers all wanted independence from official market certifiers. The different forms of Decentralised Finance (DeFi) and Financial Technologies (FinTech) create interconnecting universes, where the faster evolution of the former leads to the belief that they require particular regulatory attention. This is equivalent to recognising that there can be no technologically neutral standardisation of virtual instruments, although innovations are pressing and commit individuals and authorities to following their evolution.

This complex reality is examined, as clearly as always, in the Communication on Distributed Ledger Technologies (DLT) published by the Bank of Italy at the end of last week.

In light of the progress accomplished in creating gigantic collections of digitised data in an easy-to-use unified language drawing on increasingly powerful computers capable of processing it quickly with the methods offered by rapidly evolving data and computer science, technological innovations are the real issue when deciding on rapid adjustment of regulation, also in view of the progress expected from quantum logic application.

As shown by the aforementioned document issued by the Bank of Italy, the progress of knowledge on virtual instruments and their relevant intermediaries or service providers has reached a satisfactory level for regulatory action. Nevertheless, confusion arising from indistinct use of the term *digitisation* remains. If the purpose of the new legislation were to move to a mere digital computerisation of the entire monetary and financial activity (which is already at an advanced stage of application) without regulating the encrypted and decentralised accounting technologies used in order to obtain the necessary information from supervisory authorities, market opacity would worsen to the detriment of the allocation efficiency expected from transparent and well-regulated negotiations.

Once it has been clarified whether currency and financial instruments will be kept within either centralised or decentralised accounting in digital form, explicitly considering the differences between the blockchain accounting of Bitcoins and the accounting of other crypto (DLT) arranged in different ways, the further necessary step lies in processing information through AI techniques, providing an

objective, verifiable and non-modifiable basis for portfolio management of all types, including those proposed here.

The framework of necessary regulatory decisions requires some clarification as to the practical forms that some basic components of traditional money and financial market will take, such as: currency conversion into the Central Bank Digital Currency (CBDC), the existence of stablecoins, and the spread of tokenised securities. We do not aim to propose a specific solution here; we rather aim to provide some clarification on the form that will be decided, not necessarily complemented with an explanation of the underlying reasons. As monetary history teaches us, we cannot delude ourselves that it will be validated just following a phase of practical testing.

The large number of documents produced by the authorities provides no unambiguous answer on the morphological characteristics the CBDC will assume, at national or monetary level and, above all, within international payments; in particular, it is not clear which specific DLT accounting technology will be used. Discussions and regulatory proposals frequently take for granted that decentralised accounting systems – certainly the most widespread – are not Bitcoin impenetrable blockchains. Nevertheless, if these are present in complex virtual instruments or in instruments hybridised with traditional ones, the accounting technique must be expressly considered in order to ensure a “node” allowing the authorities to collect information so as to convey their internal transparency and correct any external opacity. This is not the only aspect requiring urgent clarification.

As a matter of fact, if virtual currency is decided to fully replace the current monetary base and its fiduciary currency, bank deposits would quit the monetary creation circuit that make up the M2. Banks would continue to manage the payment system and the savings that will flow to them (if and when wanted and authorised), yet they will have to compete with existing technology platforms, which are better equipped and organised at digital and IT level.

Whatever the choice, public legislation on the matter would re-establish the monetary monopoly and regulatory power of States and their international agreements, nowadays deferred significantly to the will of cryptocurrency operators that have given themselves their own rules spontaneously accepted by customers, and have gone so far as to set the criteria to directly manage any conflicts related to the platforms themselves, thus expropriating the State judiciary. Investors seem to appreciate the services provided by these intermediaries, in spite of their lack of transparency. In fact, they can conceal unlawful conducts and the technologies used can result in vulnerabilities, as confirmed by recent incidents of scams and hacking. It is hoped that virtual instruments' holders are aware of assuming all such

responsibilities, even though they may call for authorities' involvement on the grounds that partial public interventions have legitimised their presence on the cryptocurrency market as well as their hybridisation with traditional instruments.

More extensive use of AI will provide a firmer basis to monitor the work of all market participants (banks included) to the benefit not only of intermediaries or financial service operators but also of savers and the general public.

If, as repeatedly heard in contradictory terms, stablecoins are legitimised and banks make use thereof, current legislation will require even deeper changes, having to include the treatment of stability reserves. To such end, it will be worth taking account of the experience (concluded in 1971) of public governance of the fiduciary currency convertible into metal (gold and silver) instruments and the one still in place of the mathematical reserves of insurance companies. The recent crisis of two major companies dealing with stablecoins testifies to the misunderstanding of the concept of *stability* applied to cryptocurrencies and the potential serious repercussions of failing to resolve the issue of inclusive regulation of the forms taken and the techniques used.

Undertaking innovative accounting technologies in the form of tokenisation of traditional financial instruments raises fewer problems and proves more useful, yet it requires a precise definition of rules for their inclusion in the existing market and corporate regulatory framework. Even for these virtual forms, it remains of crucial importance to provide the delegated supervisory authorities with the power to enter the decentralised circuit in order to supervise its activity. Once the institutional morphology of central bank currency and the funding of commercial banks have been defined, integrating both traditional activities and innovative accounting technologies appears easier in order to reap the benefits of technological innovations applied to finance.

In Italy, the alleged first tokenisation initiative – of experimental value – has taken a prudential form, with the issuance of traditional certificates replicated simultaneously (mirrored) in a virtual form. Experiments that go far beyond the hybridisation of traditional instruments by virtual ones are starting to arise, should the tokenisation of real estate assets become established, as announced by a leading bank operating worldwide. The decision would make a positive contribution to the proposal put forward here to create portfolios that protect themselves against inflation. If this were the case, a remarkable share of real savings would be transferred to the Infosphere – its development aiming to embrace every aspect of the socio-economic life of those who want to join.

7 The consequent redefinition of Consob's tasks

Some clarification on the application problems related to virtual accounting technologies and the resulting morphology of monetary and financial structures paves the indispensable basis for adapting the tasks and organisation of all securities markets' supervisory institutions. This also applies to Consob, fully committed to keeping track of markets' growing complexity and the internal and international expansion of the legislation, against the background of scarce ordinary financial resources which have even decreased as a result of the difficulties affecting (with a few months' break) the Country's economic activity for over two years.

At present, Consob has the main task of ensuring transparency of financial transactions subject to its supervision as well as market operators' fair conduct, intended not only as ascertaining compliance with current legislation but also as a way of incorporating the requests for shared value creation to undertake a sustainable development path on a stable basis.

The principles governing Consob's activity are rooted in the era when the distinction between money and finance used to be sharp and fairly simple. Banks used to perform almost exclusively the functions of collecting most savings in the form of deposits, benefitting of the guarantees offered, from lender-of-last-resort functions to the existence of a crisis resolution and deposit protection mechanism, together with well-equipped supervision. This context has changed as a result of the regulatory steps undertaken to encourage new forms of financial asset management, ranging from the Mutual Funds set up in 1983 to banking system transformation, from specialisation to the standardised forms decided in 1993, from the conversion of the Italian lira into the euro approved in 1998 to the increasing liberalisation of monetary and financial trade, primarily in the EU.

The impulse to financial market growth stemming from these and other changes in the global architecture of finance enabled Italy to reach the mentioned significant results within real and financial relations with abroad, with positive domestic outcomes, which must now face countries' new isolationist tendencies as to global competition and the effects of virtual instruments' increasing quantitative and qualitative development.

Within the new context, the institutional issue to be addressed now goes beyond the regulation of manufacturing, trading and accounting for the new instruments and their interweaving with traditional activities, and affects the roles played by the various supervisory authorities of the securities market, both at domestic and European level, to define the contents of the emerging European Union

of national capital markets as opposed to those of the supervisory institutions already operating. Likewise, it will be essential to identify the institutional structure that, either *de facto* or through international agreements, will be taken on by international monetary, financial, and real exchanges.

8 Conclusions: protecting savings, defining technological competition rules in finance, and countering regulatory competition

Current experience can be considered similar to that described in *The Birds* by Aristophanes, where, among the oracle-mongers with prophecies for sale, Meton enters the scene. Famous Greek mathematician, astronomer and philosopher of the Fifth Century BC, Meton recalculated the lunar cycles by relying on the few tools available at that time, then ironically referred to as a "rounded square" and a "squared circle". The mockery went far beyond the play, as Meton was then driven out of Athens as a lunatic. Such condemnation – luckily enough no longer physical – still hangs over today's Metonians, who run the risks of anticipating economic analysis, and/or innovative techniques and political proposals that clash with the existing rules and prevailing ways of thinking.

Today's technical tools are the result of a much more advanced science than in Meton's times, and draw upon increasingly powerful computers to embrace innovative logical languages, by now borderless. It is a matter of creating and relying on a pool of professionals capable of using new "squares and circles" generated by inventive and creative skills that, similarly to those of the Greek philosopher, remain indispensable components for human progress. We can state, confidently and unrhethorically, these qualities abound in Italy, as shown by the achievements of our export companies and the top positions held by numerous young Italians worldwide within companies operating in the Infosphere.

It is now urgent to define the rules for correct and transparent use of technological innovations in the composition of securities portfolios, as an indispensable component of savings protection. An important step lies in defining the morphology that public currency will assume and whether a private currency will survive, identifying the effects of the choice made on the current banking and financial system.

A significant part of Italian enterprises, primarily those able to strengthen the range of our listed companies, are moving to foreign stock exchanges or financial markets, being attracted by the regulatory advantages offered abroad and absent in our system or, more simply, being discouraged by the administrative complexity of the procedures currently in force to access listing and remain listed. The actions and trends undertaken by Consob along with relevant authorities have been illustrated, in view of simplification that will halt possible deterioration of our financial ecosystem and promote expansion not only of regulated markets. In this context, we are witnessing a fruitful expansion of intermediaries acting in multiple forms to support companies worthy of financing, attracting and well investing the resources of the most farsighted savers.

The agreement between *Borsa Italiana* and Euronext is a test bench to give rise to forces aiming to expand the trading activities performed on a regulated basis and make Italy's regulatory specificities disappear in the European context. Often it is rightly said this must not be the result of our adaptation to regulatory competition from European and non-European financial markets; rather this must contribute to creating a level playing field for all, where the reference to companies' profitability obtained with regulatory advantages disappears, bringing to the surface the contents of their ability to manage innovative technologies in addition to labour and financial resources.

Within this complex action we had constant consultations with MEF (Ministry of the Economy and Finance), the Bank of Italy, the AGCM (Italian competition and market authority), IVASS (insurance supervisory authority), COVIP (national supervisory authority on Italian pension funds), as well as the Criminal, Civil and Administrative Judiciary, the *Avvocatura dello Stato*, the Council of State, the *Guardia di Finanza*, Italy's Postal Police, and the OCF (supervisory body and keeper of the consolidated register of financial advisers); and, in particular, we benefitted from the cooperation of COMI, the market operators and investors committee. Our heartfelt gratitude goes to all these institutions.

I also wish to thank Consob staff who coped with commitments amidst the difficulties arising in the last two years as a result of the constraints posed by the Covid-19 pandemic and markets' rapid evolution. I call upon everyone to address the necessary changes with courage, for their own good and for the benefit of the whole Country.

1 Savings and exports remain the pillars of our wealth; yet they are exposed to the effects of inflation and ongoing geopolitical changes and must gain consensus on their importance to our Country's solvency

The analyses proposed since my first *Speech to the Financial Market* in June 2019 have retained their validity and have been enriched with new contents. Savings, encouraged and protected by the Italian Constitution, remain the main object of Consob's activity aimed at contributing, through correct functioning of the financial market, to the economic and social stability of an ageing country that needs to increase real growth to sustain the general welfare level so far achieved and improve its fair distribution among citizens.

Italy's economic growth is export-led; hence exports remain the engine of our growth. Yet, to sustain exports, we need a trade-friendly international environment, which in 2022 was severely disrupted by Russia's invasion of Ukraine and heavily affected by the political tensions between China and the US. The utility function priorities of economic geopolitics tend to change, shifting from global free trade and social welfare for all people on Earth (Roosevelt's 1941 dream of the four freedoms) to national security and fighting against climate change.

World trade is suffering the consequences of this geopolitical reversal and, with it, so are Italian exports. Exports had withstood the weight of the 2008 global economic and financial crisis and attained excellent results over the past decade. This positive trend came to a halt in 2022 due to rising energy prices, which negatively affected our foreign trade balance by about 5%. If, as suggested by early 2023 data, such burden is bound to ease, Italian companies' ability to preserve their good international competitiveness level will resume in all evidence, primarily thanks to their technological innovation strengths and skills to satisfy customers' preferences. A positive contribution to these talents can come from capital market

strengthening, mainly represented by Milan Stock Exchange, which is already an objective on Italy's economic policy agenda.

In 2022, savings held up well, although the saving propensity went down due to inflation surge. The rest of the world benefitted from our savings abundance, as shown by Italy's positive overseas balance sheet and by a sound current account balance of payments, which several other important competitor countries lack instead.

The underestimation of our ability to cope with political, economic and financial shocks, embedded in the spread required on the yields of our government bonds, cannot be identified in our companies' insufficient competitiveness and in domestic savings, but, as often repeated, it instead lies in our high public debt-to-GDP ratio. Structurally favourable terms of trade and our high level of financial wealth adequacy deserve to be assessed by unprejudiced minds. Lack of a last-resort support mechanism characterised by guarantee of intervention to counter speculative attacks does have an impact on valuations, as highlighted by the sharp reduction in the spread between BTP and BUND yields recorded after the ECB's 2012 decision to purchase government bonds. Instead of pursuing public debt reduction, which would certainly have deflationary effects, a quick return to a public budget primary surplus is important and urgent, complemented with new debt issuance trend that must be proportionate to GDP growth rate and to the private savings trend that must match the new debt.

2 Reasons for reconsidering the institutional monetary and financial architecture

Despite several evident contradictions in the solutions provided to major individual crises of large banks, since 2008, monetary policy has performed well to protect the systemic stability threatened by the global financial crisis and, in 2020-2021, to cope with the effects of the decreases in output and aggregate demand resulting from the Covid-19 pandemic. The close interdependence between money governance and the real and financial economy performance calls for a reconsideration of the current institutional architecture. Worldwide stock prices are increasingly reactive to FED decisions in the US and ECB decisions in Europe, respectively, confirming the close link between monetary choices and financial market behaviour.

As far as money is concerned, the current architecture is characterised by the independence of monetary authorities' choices aimed at price stability, introduced in compliance with the democratic principle that considers the "inflation tax" as inequitable, because it lacks the indispensable approval of those who suffer it. As for financial activities, supervisory authorities' independence does not benefit from an equally sound democratic reference as money, although in Italy it receives equal institutional dignity pursuant to Article 47 of the Italian Constitution, which prescribes encouraging and protecting savings "in all their forms". Consequently, the different legal treatments reserved to money versus the financial assets that savings assume do not appear entirely coherent. Consequently, it is urgent to ensure joint consideration of the two markets in order to surpass the current privileged treatment reserved to bank deposit as part of money creation.

The market success of cryptocurrencies and platforms for their trading and integration with traditional financial instruments has made it more difficult to find a solution to the set of problems they bring to supervisory authorities' attention. Some measures have been proposed or enacted on the subject, yet a joint treatment for the instruments used and the underlying Decentralised Ledger Technologies (DLT/blockchain) is still lacking. It is advisable to clarify the concept of "technological neutrality" of the regulations agreed upon and explain why separate regulation of technological innovations is being carried out. If it means that the wide array of virtual instruments used and the decentralised ledger accounting forms can be considered on a separate basis, then the established rules are unlikely to attain stable integration into the functioning of money and financial market. If, on the other hand, the objective pursued is to make these new accounting techniques irrelevant in determining the stability of money and savings, more than one doubt then arises as to whether this is really possible.

A contribution to the joint solution of the issue lies in the application of these techniques to the creation of new forms of official money – so-called "digital currency" or Central Bank Digital Currency (CBDC) – which, if properly regulated, would enable ruling out the legal monetary use of cryptocurrencies. Introducing and disseminating official currencies with a truly decentralised ledger, such as the bitcoin blockchain, would result in demonetising bank deposits and directing bank operations to the domain of savings management, without preventing them from possibly continuing their services within a competitive payments system.

As economic theory has long pointed out, this reform would benefit both monetary policy (as it would more directly convey their effects to the real economy) and banks management. Relieved from the burden of a possible deposit flight, bank

managers could thus better match the maturity balance of their assets and liabilities, being their alteration the main cause of bank crises and frequent source of systemic risks. Furthermore, such reform would ease the constraints on monetary choices aiming to prevent banks' lack of liquidity and insolvency, reduce the burden of operating deposit guarantee and resolution schemes, and avoid discriminating – under bail-in rules – between holders of protected deposits and holders of any other unsecured bank liability, respectively.

Innovations in decentralised financial accounting system, a.k.a. "tokenisation", are spreading alongside traditional instruments, with advantages in terms of cost and pace of implementation of fully de-securitised transactions, specifically within foreign financial relations. Such dissemination also calls for an urgent coordinated treatment of all financial instruments, avoiding proceeding, as is being done, by layering new rules over the existing ones. In Italy, this development would entail a reunification of the Consolidated Law on Banking (*Testo Unico Bancario – TUB*) and the Consolidated Law on Finance (*Testo Unico della Finanza – TUF*), which would also go beyond what Carlo Azeglio Ciampi suggested, following his Government's 1993 reform of the banking regime (from specialised to universal), together with the launch of mutual funds.

As a result of delayed regulation of virtual instruments, wrongful conduct in this domain is judged in civil law regimes by applying criteria analogous to those implemented within common law regimes – i.e., through decisions taken by courts (ordinary courts or administrative judiciary) and by supervisory authorities endowed with regulatory and sanctioning powers. The regulatory vacuum is triggering disharmonious distribution of tasks between the three organs of democracy, not only restricted to the financial sphere.

3 Inflation and its remedies

In 2021, following the end of supply constraints resulting from the Covid-19 pandemic, the fast recovery of aggregate demand was fuelled by abundant liquidity and promptly mirrored onto energy prices, thus driving inflation higher. After some hesitation due to general weakness in the forecasting models used, major monetary authorities were induced to re-prioritise their original mandate, naming it "normalisation". The reversal operated mainly on the interest rate side, which had remained close to zero for years. In an economic system where investment and production growth has been driven by a long period of low-credit costs reflected in rising nominal profits, the change triggered inevitably negative effects on real

growth and financial stability. This added to inherent effects of inflation on the decrease in purchasing power of disposable incomes and greater uncertainty in market expectations. Due to the multiple instances to be reconciled, the short blanket has been pulled towards one side or the other of the several economic policy targets searching for fine-tuning, which remains economists' dream and politicians' illusion.

Part of the burden borne by monetary policy in the pursuit of real and financial stability has been eased by the launch of generous fiscal policies, including the NGEU in Europe (named National Recovery and Resilience Plan in Italy). For the time being, inflation remains misaligned with forecasts, as monetary authorities themselves admit, while insisting that they remain committed towards their 2% target. Persistently negative real interest rates confirm financial savings will definitely bear the main cost of inflation.

Inflation is like a multi-headed Hydra. If one of its heads is cut off and cauterised, the others act in its place. If consumer prices rise and money surplus is sterilised, the increase cannot be prevented from flowing through to wages. If labour cost can be curbed but commodity prices rise instead, the Hydra will not cease to operate. Politics does not have a Heracles, the mythological giant who confronted the Hydra, nor a Iolaus, who cauterised the severed heads to prevent them from regenerating.

Inflation's negative effects on savings and financial market functioning are not the only ones requiring efforts from private and public economic leaders, because history teaches us that high inflation also creates the preconditions for democracy distortion and social violence, which would harm everyone.

The path usually sought after to avoid the depression inherent both in inflation and in the instruments used to treat it lies in increasing public investment and stimulating private initiative. In current circumstances, such instruments proved insufficient in both domains, even considering the moderately good results achieved in 2022. A policy that urges savings towards investments in productive activities could allow for a head-on exit from the current inflationary crisis – i.e., not to the detriment of real growth.

The involved authorities point out that convergence timing towards the 2% target will be determined by firms' behaviour in setting prices for goods and services and by workers' conducts in demanding wage increases to offset their reduced purchasing power. The authorities themselves suggest focussing on productivity

growth, a principle that always applies albeit depending on a currently decreasing aggregate demand trend.

An economic policy aimed at interrupting the knock-on effects of inflation should seek consensus by distinguishing exogenous variables from endogenous ones. In the 1970s, following the rise in energy prices (characterising the current inflationary process), a distinction was made between external drivers (i.e., the then "sheikh's tax", today's "war tax") and internal drivers (the then "wage indexation" (a.k.a. "*Scala Mobile*"), today's "supply constraints"), respectively. A commitment was made to accept the consequences of the former on incomes via agreements setting inflation targets, and to remove the causes of the latter by working with traditional instruments.

Governments have the power, frequently called upon and at times wielded, to block the increases in prices of goods and services from being conveyed to the cost of production factors – i.e., capital and labour. However, experience shows that the exercise of such power negatively impacts on the smooth functioning of the real and financial economy, resulting in greater damage than inflation itself. A wise redistribution of the "inflation tax" requires democratic institutions to assess each component of the problem and limit sequential interventions aimed at satisfying partisan pressures. Bringing down inflation without triggering depression and social imbalances is a very difficult task, which requires strong political commitment to choosing an acceptable level of distributive equity, based on consensus among citizens and relying on productive world capacity.

4 The different impact of inflation and its possible mitigations

In 2022, consumer goods prices increased, on an average, by 8.7% (of which: 5% attributable to energy costs), labour costs by 1%, tax revenues by 9.8%, and disposable income by 6%, respectively.

Albeit sought by the political initiatives undertaken, so far, the fine-tuning between the arising economic and social pressures has not produced the expected effects, nor has it interrupted the unfolding of the circular process between inflationary impulses. Cost of living increases have been conveyed to fiscal drag, but not to wages, which have so far proved more rigid. The real value of financial wealth continues to experience a serious fall.

In spite of the numerous difficulties, productive capital has been able to react and indeed has successfully responded, improving profitability and acting as a

store of value for the savings therein invested. Conversely, that part of savings invested otherwise has not yielded analogous results, altering the income and savings life-cycle plans of individuals and households, in line with the ideas that were worth the Nobel Prize to Franco Modigliani. Nor has the fiscal support provided been able to compensate for the damage caused by inflation, due to objective constraints on increases in public expenditure, fiscal revenue and Government debt. Fiscal policies, like monetary policies, cannot be used as far as to offset the inflation effects on the budgets of individuals and households, thus urging for alternative solutions.

Amongst these solutions, it still seems appropriate to build portfolios whose securities and real estate assets shield household financial plans against inflation, provided they enjoy the same regulatory and tax treatments. The free choice of currencies of denomination for portfolio assets would also help protect savings from exchange rate fluctuations, common in times of inflation or geopolitical upheaval such as the current one. Available data confirm the protective nature of such a solution, despite the discriminatory effects of rules built up over time, inspired by ideologies with diverging ends from the primary purpose of linking savings to productive activity and fostered by contingent needs to benefit one form of investment over another. Regulation neutrality does not exclude that exceptions can be made to address specific contingencies – as long as they are short-lived – so as to avoid newly inducing structural distortions to the rational use of savings.

The array of technical solutions that could improve portfolio management and financial market functioning includes the use of algorithms produced by "enhanced" human intelligence (a more appropriate term than "artificial"), capable of following even economic sectoral trends and, within certain limits, anticipating the onset of shocks by using neural logics, swarm intelligence and genetic algorithms. Such algorithms, together with "generative" intelligence (e.g., machine learning and chatbots), have proven well suited to the purpose of managing savings, provided that they are governed by rules that dictate their rational use. To such end, nevertheless, it is necessary to determine the technical and legal treatment of data storage and use, rather than the forms taken by virtual instruments; for these, the principle is confirmed that the same rules regulating traditional financial assets and liabilities should apply, with due distinctions. Innovations in the scientific processing of data would also enable for effective preventive supervision by authorities and enterprises on an objective basis, to rationally pursue their aims.

With a view to speeding up the adoption of technological innovations, it would also be appropriate to test the role of Board advisors, widespread in Anglo-

Saxon countries. They would attend Board meetings without voting rights to suggest which of the several available innovative techniques should be adopted. Board advisors would open up new spaces in the already existing financial advisory system; it will be the market, as already is the case for several professions, that will indicate who is adequately qualified.

A joint initiative between the various supervisory authorities involved would reduce the burdens and increase the effectiveness of their actions if they were to set up an interfungible decentralised ledger accounting and data access system to serve collective interests. Based on authoritative opinions, due to the decisive role that money plays in the financial market and in the real economy, central banks should provide the necessary technological infrastructure, ensuring its security against external attacks and making it available to the institutions that need it, in compliance with clear and transparent rules to be established.

5 Features of the action plan we should undertake

Based on the analysis so far performed, it turns out that monetary policy contributes significantly to effective pursuit of Consob's tasks pursuant to law, both in terms of quantitative variables and interests it has the power to set, and because of the close relationship it establishes with financial market functioning, in particular the stock exchanges. To that end, it is essential to review the institutional architecture within which money and finance interact, to achieve the common goal of using savings for real growth. This is necessary to address the Country's future in the context of an ageing population and to support individuals and households' income and savings life-cycle plans as a form of private welfare to compensate for the public one, constantly exposed to a problematic balance. Success in pursuing the goal also depends on: the decision to create a single "decentralised digital ledger money", as the only legal tender and means of account; the extension of the same accounting technique to traditional financial instruments; and the regulated use of constantly evolving methods developed by data processing science (Artificial Intelligence techniques).

Implementing this design requires a common legal treatment for money and financial assets, now unbalanced in favour of the former, due to the underestimated dominant role of the latter in modern economic development, specifically in the present circumstances. The size of financial credit already exceeds that of bank credit. Due to fears of insolvency and of a sudden withdrawal of deposits and, in the Eurosystem, to the attraction of safe assets with an interesting yield offered by the

ECB, the reduction of bank credit would impose financial credit expansion backed by one or more forms of funding with maturity matched with that of the related investments. Knowledge of the financial wealth holding period and the likely maturity of investments thus becomes urgent.

Pending these reforms, recent initiatives undertaken by the Government go in the right direction. The Fintech Decree-Law, just passed by Parliament, introduced the option for issuers to make use of abovementioned DLT infrastructures. Furthermore, the draft law on measures to support capital competitiveness (*Interventi a sostegno della competitività dei capitali*), to which Consob contributed, provide incentives for enterprises to make use of market opportunities, such as the increase in multiple voting rights, new rules on the composition of Board of Directors (BoD) and internal auditors, setting of deadlines for authorities to approve and/or reject initiatives to raise capital on the market, the obligation to reply to requests from supervisory authorities, the restriction to gold plating practices and the granting of higher tax deductions. We hope that Parliament, in agreement with the Government, will clarify the wording of Article 17 of the said Decree-Law to avoid litigation overflow that could disrupt the simplification sought after and undermine the very efficiency of supervisory activity. Amongst the motivations underlying the proposals put forward are the reduction of distortions caused by regulatory competition with foreign countries (including taxation) and the removal of constraints caused by factors that, for simplicity's sake, we will define "pre-rational". The latter purpose should be explicitly included in the initiative undertaken for citizens' financial education.

In conclusion, money, banks and capital markets are pushed in the same direction by the power of technology, which already plays an important role within real development and social stability. An urgent need thus arises to reconsider how to realign burdens and regulations, including fiscal ones, among the various forms of savings investments by healing those distortions that have stratified over time and by countering the distributive inequality they involve.

Contemporary mankind lives immersed in the technological environment, and technical knowledge drives forms of exercising power, which influence internal relations among citizens of the same country as well as international relations among States.

Nevertheless, technologies are not all the same and, once implemented, many become indecipherable in their short-term and, even more so, long-term effects.

Primo Levi once wrote, *"Don't hide behind the hypocrisy of neutral science: you are educated enough to be able to evaluate whether a dove or a cobra or a chimera or perhaps nothing at all will issue from the egg you are hatching."*

This sagacity should certainly lie in everyone, and first and foremost in the authorities delegated to our Country's welfare, engaging advisors who are experts in "matching" the goals and values of human beings with the results of the progress automatically enabled by the technology created by human beings. We should certainly not hide behind the hypocrisy of science neutrality, and neither should we ignore its negative impacts on mankind, while avoiding being drawn into an impossible attempt to halt technological progress. There will always be someone or some country that will pursue such progress; and those who do not will be lagging behind.

Italy has always been able to cope with difficulties, many of which far more serious than the ones we are currently experiencing. There is no reason why our Country should not be so in the current difficult international circumstances where, among other things, the winds of war are blowing more strongly, driven by unquenched national egoisms. Italy has given its best at all times and in all and any circumstances. Why should the opposite happen today, knowing we have cultural and material means in stock that are just waiting to be mobilised?

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 Chairmen. 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 has 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 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 States 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 151M 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 bn 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 PNRR (the 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.

3 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.

4 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 (Distributed Ledger Technology – 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.

5 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 my previous *Speeches to the Financial 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). In 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.

6 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."*

1 Celebration of Consob's 50th anniversary

On 7 June 2024, Consob completed its half a century of life. The celebrations began on the 25th of the same month on the occasion of the traditional *Annual Meeting with the Financial Market* held in this very venue. On that occasion, a publication on Consob's *History* was delivered, complete with extensive documentation and images. Its contents were discussed on 24 October 2024 at a Conference held at the Sapienza University of Rome, focussing on the lessons from the past, and subsequently on 14 March this year at the Bocconi University of Milan, focussing on forward-looking analysis. Fifty experts, scholars or representatives from national and supranational institutions addressed the two Conferences, conveying their assessments on current and prospective financial markets' trends. The related *Proceedings* will be made available on Consob's website.

On 12 July 2024, Consob's organisational reform was approved to enhance services' efficiency in line with market expectations and make better use of Information Technology. Nevertheless, the action undertaken still cannot mend the inadequacy of the current institutional supervisory architecture resulting from the far-reaching changes in the global geopolitical context and in financial markets.

2 The institutional architecture imposed by changes in geopolitics and monetary and financial markets

Over the last five years, the Italian economy has been marked by the aftermath of the 2008 severe global financial crisis, the 2019 Covid pandemic outbreak, and the 2021 resurgence of inflation, coupled with growing uncertainty due to the war climate and its ensuing multiple risks and unpredictable effects following Russia's invasion of Ukraine in 2022, the war in the Gaza Strip triggered by Hamas' terrorist attack against Israel in 2023 and, more recently, the Israel-Iran conflict. At economic level, such turmoil adds up to the protectionist policies that

historically plagued world trade. Across this five-year period, Consob has been navigating very rough waters – highly euphemistically – with no sign of them calming down.

The more recent turmoil also stems from the "movement of the cryptocurrencies' geological fault" underlying the traditional monetary and financial ground, with possible seismic consequences of unfathomable proportions. The risk has newly arisen under the pressure of the illusion of easy gains (so appropriately described by Carlo Collodi in Pinocchio's *Field of Miracles*), fuelled by the success of those who exploited the opportunities resulting from IT development. The issue cannot be entrusted to organised private interests or addressed by regulating the related services via insufficient decisions; it instead requires aware cooperation between States, as cryptocurrencies are created and traded in the Infosphere, and thus escape traditional territorial controls. The prospects for such joint international action seem to be receding following President Trump's executive orders dated 23 January and 6 March 2025, which ban the creation of the digital dollar and nominate Bitcoins and four other "virtual" currencies to perform as international reserve of the dollar, setting the USA as the global operational centre of virtual instruments.

The US orientation is just the last act of legitimisation of cryptocurrencies in multiple ways over time, ranging from considering them taxable assets to authorising their trading through recognised trading services or regulating some specific aspects – all choices lacking an overall vision of the domestic and international problem to be addressed. It has been authoritatively acknowledged that this recognition disrupts the international monetary system which, with the tariff increases announced by the United States, also alters the foreign exchange market, a prelude to the return of systematic manipulation by States further distancing the global economy from competitive market conditions.

"Virtual" wealth is increasingly integrating "traditional" wealth, the latter becoming comparatively devalued as a result thus heightening the issue of the dimensional imbalances of finance versus real growth, so far prevalently perceived only due to possible displacement of private debt by States' debts. Such situation further urges for new international agreements to be attained in a context of weakening real growth, which contributes to dragging conducts and passing legislations that broaden the concept of State security safeguard, failing instead to review the tasks of the institutions currently designated to guarantee free, open, and transparent market functioning.

Virtual instruments are often regulated on the grounds that the rules introduced must be "technologically neutral" to avoid hindering Fintech benefits,

although technologies are in fact the very problem to be solved. The introduction of the Pilot regime confirms this issue is acknowledged by European legislators, yet it has not been concretely addressed, as decentralised accounting systems still lack the necessary transparency to exercise traditional supervisory functions. In particular, it is necessary to regulate those versions that do not allow for negotiation disclosure to parties outside the circuit, thus making it more difficult to prevent illegal use of currency and credit, ranging from tax evasion to money laundering, the financing of terrorism, and wars. Clarifications are notably urgent with regard to those cryptocurrencies used as money rather than traditional tokenised assets (DeFin), because the former are freely "mined" by private parties seizing the related seigniorage while the latter are subject to public authorisation on the related information documents. However, whereby the two forms get intertwined, the issues to be addressed then multiply and thus complicate market valuations. We cannot help identifying the arising analogy with the roots of the 2008 dramatic financial crisis resulting from widespread use of complex derivatives containing difficult-to-repay subprime loans, triggering serious economic consequences and even jeopardising national security. Following a lacklustre existence and the Bitcoin rise, in 2020 a Silicon Valley company founded in 1989 specialised in the traditional-virtual instruments intertwining, leaping to the top of global wealth rankings and even outperforming Steve Jobs' Apple (founded in 1976), whose much deeper roots result from entrepreneurial ventures that have gone down in history.

MiCAR (Market in Crypto Asset Regulation) tokens offer a means to legitimise the multiple forms of cryptocurrencies used as collateral for traditional financial instruments, becoming an incentive for their dissemination, partly because they fuel the illusion they are safeguarded by the State. Procedural simplifications for authorisation of MiCAR covered/exempted tokens are also incentives, even ahead of full application of simplifications on traditional financial instruments. Investor consensus and issuer interest ignore the systemic significance of the issue: safeguard lies with Government and supervisory Authorities, which must acknowledge the modest results of their warnings as to the high risks of virtual instruments and investing in them.

The real technological innovation to be promoted in finance is to be ascribed to the use of Artificial Intelligence (AI), which has changed the way both markets and private/public institutions now operate. AI is rapidly evolving from a representation of how the human brain works (neurological approach) to its complete reproduction (physical approach), leading scientists to redefine it as "computational neuroscience". Although AI performance is still being refined, it has meanwhile been upgraded to higher technological levels, such as quantum

annealing, which anticipates some progress achievable with quantum computers, excellence of a group at Italy's National Research Council (*Consiglio Nazionale delle Ricerche – CNR*) including Italian Giorgio Parisi, 2021 Nobel Prize in Physics. A panel of young researchers from LUISS Guido Carli University in collaboration with a private research centre experimented with this technique and obtained more effective forecasts than via econometric models. In its multiple applications, AI brings undoubted advantages to the rational use of our Planet's resources, reducing subjective incidence in decision-making and possible market distortion connivances. Like any major scientific breakthrough, AI poses new issues to citizens' life, to be addressed at educational and professional level but not exploited to prevent AI from being accepted, as there will always be someone or some Country gaining advantage by harnessing Artificial Intelligence. It would certainly be a major loss if the superiority shown by Italian culture in this domain were then only applied by other countries.

IT and AI require us to reconsider the institutional architecture of the money and financial markets as well, because the historically established link between monetary stability and bank money (deposits) protection is not coherent with the principles arising from centuries of reflections and experimentations. Money must not be remunerated, as pre-announced for the digital euro, if the aim pursued lies in minimising its possession as a medium of exchange and encouraging investment in financial instruments essential for real growth. Thus, the return ratio on real investments would contribute to directly determining financial asset remuneration, which in turn is shaped by economy's savings ratio and monetary policy choices on official interest rates and quantities. In order to re-establish a proactive chain for real growth, private currencies must be prevented from interfering with the process, unhesitatingly and unequivocally confirming the existence of one single currency having legal tender status and being the instrument of protection of values over time, although it takes the decentralised digital accounting form under authorities' control to prevent excess and/or abuse. This requirement concerns the need to ensure a single authority for monetary stability as well as equally important financial stability. Such a choice returns bank deposits to their proper financial sphere, which imposes a reorganisation of current supervisory institutions' powers to strengthen both savings protection and market functionality.

Such a reform is claimed to be impossible, to the extent that it is assessed as utopian. As history teaches us, civil progress has been achieved drawing upon "necessary" utopias, as Spanish philosopher Antoni Mellà i Ortis proposed to define

them; and the history of humanity teaches us they are indeed the main source of civil progress. The birth of the euro was also a necessary utopia to establish a single market for goods that requires a single currency; and that became a reality at the right moment (between 1998 and 2002), benefitting of the preparatory work accomplished in the previous decades. If the United States and China do not adhere to a general plan for international monetary reform, the Eurosystem could and should act as a natural experiment lab, calling on all available forces to join in and collaborate on its implementation.

Possible action lines involve:

- Turning the euro from its physical and digital form into a decentralised yet knowable accounting system (i.e., DLT instead of Blockchain), to be qualified as single electronic currency endowed with more secure features than the current bank *fiat* currency, which entails lower risks than cryptocurrencies.

As a result:

- Bank deposits would lose their monetary nature, thus relieving the central bank from the task of guaranteeing banks' solvency; the deposit guarantee schemes up to 100,000 EUR, and the current disparity in treatment between banks' monetary and financial instruments (e.g., bail-in in the event of default of other forms of their debt) would no longer be necessary.
- A single financial supervisory authority should be established to ensure transparency and legally correct trading, acting as the main advisor to Parliament and the Government on this matter.
- All relevant information should be stored on the server used for the decentralised electronic euro, establishing access criteria for institutions entitled to information in order to fulfil their own duties as assigned by law. Establishing criteria for access to information by research centres would also be necessary, information being the "raw material" to improve forecasting tools by harnessing Data Science.

Required actions also entail:

- Creating a European safe asset, not to finance expenditure as per eurobonds, but rather to master liquidity and counter, via market tools, foreign competition (also resulting from cryptocurrencies) to gain European savings. The European Commission has long been considering its creation, reiterated by a proposal put forward in 2019 by the then Italian Minister for European Affairs.

- Delegating the ECB for decisions on euro exchange rates, also beyond the contingent interventions already allowed, to counter the effects of protectionism and manipulations of relations between national currencies.
- Completing the financial asset dematerialisation process, advancing towards tokenisation – i.e., using decentralised electronic accounting within the accounting system used or to be used by the ECB for the digital euro.
- Averting current fragmentation in legislations on the treatment of traditional and virtual financial instruments and intermediaries, merging them into a consolidated European text on finance (a "*TUEF*") and harmonising them with the rules aimed at safeguarding States' security.
- Intermediaries should take care of a precise and accurate financial profiling system to help citizens plan their own consumptions' and savings' life cycles (Modigliani style), encouraging "patient" saving to orient towards forms of share ownership, and the State to decide on budgets consistently with available resources for public welfare integrated with the welfare that private individuals can provide by themselves.

Such new monetary and financial structure would create a sound ground to reduce Europe's dependence on the dollar fortunes and channel Europe's plentiful savings towards productive use, initiating a shift from an export-led model to a consumption-led model driven by the 450 million EU citizens, to compensate with domestic demand for the fall in exports, just as China is currently doing and Italy tried to do in the past and is now re-proposing. This solution is for us of major importance, as it would explicitly entrust institutions to implement the objective set out in Article 47 of the Italian Constitution to safeguard and encourage savings, but also to channel their use towards productive investments, the only ones capable of protecting it in the long term from the effects of contingent events, primarily inflation.

Achieving such an institutional architecture requires overcoming the rigidity of civil law regimes in adapting the regulatory activity to constantly evolving markets and technologies. Introducing common law elements into supervisory bodies' regulatory functions would be essential, increasing their discretionary powers, as currently applied by the Judiciary in its rulings that "create judicial precedents" (case-law).

3 Highly topical issues and the limits to their resolution due to the current institutional architecture

The attention worth paying to institutional architecture issues must not imply that highly topical issues for the financial system be neglected.

The multitude of approved regulations to regulate virtual instruments and safeguard European economies abroad, in a phase of international cooperation crisis, makes it increasingly difficult to reconcile the measures with each other. In particular, the interaction between market rules and company rules as per Italy's Consolidated Law on Finance (*Testo Unico della Finanza – TUF*) and the so-called "Golden Power" provisions proves that some aspects require fine-tuning and coordination with the rules established by the European Treaties. The relation between State's security safeguard, free competition, and international protection of economy objectives is also the object of Europe's attention, where the Regulation revision is currently being discussed as to how to assess a strengthened and harmonised screening mechanism to prevent and address security risks deriving from direct and indirect foreign investments. In Italy, the requests to the Government for such interventions are now multiplying, facing the application uncertainties of a regulation that was officially introduced as *extra-ordinem* and then became multi-purpose, boosted by the new geopolitical phase of failed dialogue between States.

The implementation of such demanding regulatory reunification task requires the advance implementation of an important element of the institutional reform proposed, namely ensuring one single telematic accounting centre to collect information on monetary and financial markets. Creating as many centres as competent authorities would be inefficient and costly. The birth of the digital euro would make it entirely natural for the ECB to agree with the other authorities on a technical solution based on the existing accounting system amongst the Eurosystem's central banks, as already co-proposed by the Bank of Italy and the IFC (Irving Fischer Committee on Central Bank Statistics) on the occasion of a meeting held last October.

Since the second half of 2024, a significant part of the banking and financial system has undertaken remarkable initiatives, launching 6 purchase and/or exchange offers that, beyond the usual work required for implementing current regulations, resulted in 52 complaints or requests for clarification from the parties involved to resolve the disputes arising from the absence of prior agreements between the parties – which is furthermore unnecessary in the contestability spirit that typically characterises a competitive market economy. Being in charge of ensuring

transparency, Consob carried out ongoing investigations into every aspect raised by transactions and complaints, resorting 63 times to its investigation powers as per Article 115 of the abovementioned *TUF* (with strictly confidential results) and 9 times to its Article 114, which requires companies to provide the market with accurate and complete information on the positions expressed within their public statements. As the process of implementing public offerings also involves ECB decisions, dialogue difficulties arose and triggered uncertainties resulting from response times although Consob had stipulated a memorandum of understanding that commits to exchanging information without specific formal reminders. These market initiatives frequently involve the exchange of shares whose ratio depends on market price trends, all the more important by virtue of the presence of international investors that base their decisions on such trends.

Consob also continues to actively collaborate on implementing the so-called "Capital Law" aimed at stimulating financial market activity conducive to real growth, launching the required secondary legislation. The regulation proposal for the Board of Directors (BoD) list was submitted to two consultations involving a large number of scholars and private institutions. On the occasion of the second consultation, objections were raised regarding Consob's interpretation of the delegation extension for presentation and voting of lists for BoD appointment, which required necessarily appealing to the State's highest authorities to protect the operators that will be applying the legislation, thus inevitably delaying the provisions launch. Within "Capital Law" implementation, Consob advanced as to the procedure on the required commitments in alternative to sanctions. At the same time, intense and ongoing efforts are being pursued to reform the *TUF* as provided for, through enabling legislation, by the aforementioned law within a Commission operating at Italy's Ministry of the Economy and Finance (MEF), composed of experts with multiple theoretical and practical approaches who are finetuning several scopes of action, such as the liability regime, inspired by the aforementioned objectives of aligning regulatory competitiveness with foreign countries and revitalising the domestic financial market.

The ongoing debate on the Italian Stock Exchange positioning within the Euronext Group raises analogous issues. The origin can however be traced back also to the agreements reached with the Government in office at the time, as they did not clearly specify whether the management of the 7 stock exchanges composing the Dutch holding company allows the Group's management to follow a purely economic allocation logic or it is necessary to protect the interests of each national stock exchange independently in order to enable the market to preserve – as some urge – savings in the territory where they originate. To this end, supervision on

Euronext has been entrusted to a College of Regulators composed of 7 national Consob-like authorities that, albeit aware of competing local rules and practices, have no power to resolve the arising interpretation dilemmas. A joint political commitment from the States indirectly represented in the shareholding structure is hence required, possibly within the EU Capital Markets Union creation process and the even more ambitious launch of the EU Savings and Investments Union, prerequisite for completing the single market of goods with its own currency. Such valuable initiatives are struggling to gather momentum, due to the strenuous defence of regulatory and institutional differences that plague the EU and prevent us from coupling savings wealth with investment recovery.

Consob also remains committed to implementing the sustainability objectives set by the European Union via the Environmental, Social and Governance (ESG) pillars, by developing the guidelines on sustainability reports to be issued by companies that report on individual contributions in this domain. Some estimates indicate that the application of these rules significantly impacts on bank and financial operators' profits. The recently announced US SEC drop in monitoring on such reports poses a serious competitiveness issue between European and US enterprises. The issue should be addressed within the planned negotiations with the United States and those countries refusing to cooperate on environmental protection, in line with the principles set out in the European Omnibus package for a clearer, more consistent, and commensurate cooperative approach to sustainability.

As far as the sanctions imposed for violations of rules are concerned, carrying out the relevant activity is becoming increasingly difficult due to the emerging trend in civil proceedings to extend the applicability of the principle implemented by the criminal Judiciary – i.e., circumstantial evidence that lacks reasonable grounds to support the charges is not accepted within trials. Failure to clarify this aspect could weaken Consob's supervisory and investigative effectiveness, for instance on insider trading and inter-operator collusion, which however involves divergent approaches across Europe that still require to be reconciled. In addition to these guidelines, new privacy protection measures (e.g., reduced access to telephone traffic and confidential data use for the purpose of collecting more accurate evidence) makes supervision even harder for collecting better factual evidence.

In a world dominated by social media that amplify the echo of fake news and telematics that multiplies scams, savers – bewilderingly – continue to ignore the warnings conveyed by relevant authorities and fail to consult the information provided on supervisory institutions' websites. Consob has recently undertaken

communication initiatives to better convey useful information to citizens via the web, drawing upon its own experience resulting from closing down 1,349 unlawful websites, many of which based abroad.

4 Conclusions

As a result of the new geopolitical phase marked by reduced international cooperation, which had significantly benefitted all countries around the globe, the economic and civil well-being of the Planet's population is now more likely to decrease. The negative effects of this phase should be anticipated and not passively experienced, setting out the necessary tools – as the ones described above – to overcome difficulties.

Our era is marked by relentless technological innovation. Nobel Prize-winning economist Robert Solow has long warned this is not manna from heaven, but it is rather the result of institutions' conducts and political choices. We can nowadays draw upon extensive knowledge of how real growth is estimated to have enabled approximately 5 billion out of 8 billion people on the Planet to identify ways to survive, and approximately 2 billion to escape poverty. Refining civil institutions has contributed to achieving this goal, and the various branches of finance have fostered endogenous development of innovations. That is why real development requires savings to be anchored to real growth. Most economically advanced countries deemed they could give up industrial manufacturing by living off finance and IT; instead, today they would like to reintroduce manufacturing by resorting to protectionism – i.e., trying to turn back “the clock of history”. The lessons drawn from a generation of great thinkers and politicians no longer seem to matter, and real growth can be achieved by downsizing the four fundamental freedoms proclaimed by Roosevelt in his message to the Nation in 1941, which inspired successful post-war choices in the West: freedom of speech and expression, freedom of worship, freedom from want, and freedom from fear.

Once again, history repeats itself and currency newly becomes politics' focus. The long history of money evolution from rudimentary and then metallic forms (marked by scarcity) to fiduciary forms (producible in unlimited quantities) has shaped our institutions to govern currency; yet, we now are at new a stage where cryptocurrencies, like every medium of exchange (private or virtual), are questioning the validity of the current institutional architecture of the money and financial markets and raising the illusion that their proliferation could benefit human growth. On the contrary, they are disrupting the system revolving around the international

use of the US dollar, without devising another one equally profitable, controllable and, as such, stabilisable. In the past, the use of both sterling and the dollar as international standards was decided by the countries leading international trade or geopolitical balances. The 1944 Bretton Woods Agreement, which enabled economic progress for its party countries, laid down flawed clauses that led to its demise in 1971. Today, the proliferation of currencies encounters consensus due to lack of analysis and market willingness, supported by public choices.

As the world's leading countries do not appear willing to tackle the issue jointly, the European Union should then undertake action, not least because it is in a position to take up Keynes' proposal at Bretton Woods and turn the euro into a currency as good as gold to prevent cryptocurrencies from being equated to gold. As argued, technologies currently enable monetary policy to perform its own task of stabilising currency purchasing power and finance to better serve real development and social welfare.

European industry's strength and the available savings wealth – as highlighted by the overall current account surplus and the positive financial positioning as to the rest of the world – enable the EU to establish a competitive structure, not only in terms of world trade but also in terms of the euro being accepted for international use. It would be enough that European operators use only the digital euro for their trade, and that the international standard of the European currency increase, not so much to pursue an advantageous position versus the dollar – as there are no constitutional grounds for this to happen, first and foremost the absence of an appropriate political union – but rather to induce the United States to sit down at the table to restore indispensable international cooperation for global growth recovery, becoming aware it is impossible to escape orthodox dollar management in the long run.

EU citizens enjoy social and individual well-being, comparatively higher than in the rest of the developed world, yet they must urge the definition of a coherent forward-looking action plan. The history of great civilisations teaches us that dominant positions are always precarious and brings to the fore the principle, embraced by Gandhi, that what matters is not what you have, but what you do.