Annual meeting with the financial market

Speech by the Chairman Professor Paolo Savona

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CONSOB

Commissione Nazionale per le Società e la Borsa

Chairman's speech to the financial market

1 Foreword

This is my seventh and last *Speech to the Financial Market* as Chairman of Consob. I will here report on our major initiatives to celebrate Consob's fiftieth anniversary and on the activities performed last year; furthermore, I will share some reflections on how to address the new reality of monetary and financial markets and geopolitical relations, setting out what should be done or, at least, discussed urgently, as I deem we are already behind schedule in devising a safety network to address the high risks posed to Italy's savings and real economy. My proposals do not involve my Commission Colleagues' responsibility.

2 Celebration of Consob's 50th anniversary, and the Annual Report 2024

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.

The *Annual Report* conveyed to the Italian Government at end-March this year, which we are circulating today, reports on the activity carried out by Consob's 675 staff members, who reviewed 495 prospectuses for public offerings of financial instruments and admission to trading (of which: 13 for equity instruments), examined 502 other dossiers, including 20 public offers for bank's purchase and/or exchange, performed 341 investigations for hypotheses of abuse, as well as 15 inspections directly and another 6 along with the Bank of Italy on aspects falling within our remit, and initiated 47 sanctioning investigations.

Consob's domestic and international regulatory activity accelerated considerably, contributing to defining 23 regulatory and soft law acts (of which 15 of European origin), participating in 62 international working groups and 95 thematic sub-groups within the EU, ESMA, FSB/G7, IOSCO, OECD, and other international institutions. Intense collaboration with national authorities and foreign organisations continued and enabled stipulating, as from 1993, as many as 47 cooperation agreements, 35 memoranda of understanding, and 12 collaboration agreements. Consob also performed other beneficial functions serving the collective interest, examining 2,617 actionable complaints, of which 1,562 for financial misconduct, and 961 addressed to Consob's financial dispute arbitrator (the *Arbitro per le Controversie Finanziarie – ACF*). Consob furthermore ordered the closure of another 200 websites that unlawfully solicited financial investments or performed unauthorised services in this domain.

Consob's Commission met 69 times, examined 997 dossiers, and issued 429 resolutions.

Such considerable workload places increasing pressure on Consob's tasks to be fulfilled and its human and financial resources, also owing to the fact that the costs arising from the newly assigned duties shall – as prescribed – not be charged to the State budget; hence, they are charged onto supervised entities' contributions in the same way as compensation for the supervisory service provided, whilst the costs arising from collective interests safeguard should be borne with State resources.

Also across 2024, Consob pursued performance enhancement goals by reducing decision-making times while ensuring improved quality of the services provided, to offer a competitive context enticing both Italian and foreign entrepreneurs to invest in Italy. In particular, the approval process for prospectuses for corporate bond issuance in Italy was reviewed, revitalising the sector.

Consob's main scope of action still focusses on ensuring market transparency and correct conduct as an indispensable ground for rational investment choices.

3 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 5-year period, Consob has been navigating – highly euphemistically – very rough waters, 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 nominates Bitcoin 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’ debt. 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, as a matter of fact, technologies are indeed 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 and 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 investing in or related to virtual instruments.

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/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 abuse. This requirement concerns not only the need to ensure a single authority for monetary stability, as well as for the 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 euros, and the current disparity in treatment between banks' monetary and financial instruments (e.g., the 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).

4 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 to implement 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 has 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 the Ministry of 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 seven 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 is order 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 seven national "Consob" authorities which, albeit aware of competing local rules and practices, has 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, pre-requisite for completing the single market of goods with 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 more 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 required 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 to collect 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 some 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.

5 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, indicating 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 currencies proliferation 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.

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We wish to express our heartfelt gratitude to all these institutions for their cooperation in fulfilling their own tasks as by law and, not infrequently, in tackling – together – challenges of common interest.