CONSOB
COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA

ANNUAL REPORT 2008

ROME, 31 MARCH 2009

Ex post supervision continued in 2008 on the transparency of financial products issued by insurance companies.

The prospectuses verified were selected by applying a model adopted as of 2007 for the supervision of mutual fund prospectuses. Specifically, 549 prospectuses were examined, i.e. around 50% of the number filed (1,136) (Table 31). The prospectuses subjected to enforcement numbered 215. In 211 cases the original document filed was amended, and in 4 cases the insurance company decided to withdraw the prospectus and instead terminate existing contracts.

Table 31

Enforcement on insurance products in 2008

Type of contract	Prospectuses filed	Prospectuses subject to enforcement	Geographic breakdown of enforcement					
			Investment unbundling	Financial structure and risk	Revaluation mechanisms	Yield scenarios	Other	*Total*
unit linked	537	127	98	50	--	43	50	*241*
index linked	428	62	26	1	--	39	10	*76*
capitalisation	171	26	11	--	14	--	5	*30*
Total	*1,136*	*215*	*135*	*51*	*14*	*82*	*65*	*347*

Supervision focused on monitoring the credit risk of index-linked financial insurance products.

Amongst other things, as these products combine a life insurance policy with a bond component, index linking guarantees reimbursement of the invested capital on maturity. The subscription of index-linked policies therefore involves the assumption of issuer counterparty risk on the bond component. The weaker credit rating of certain issuers, as a result of developments in the subprime crisis, affected the value of the underlying bonds and therefore the policies themselves.

The supervision of financial products issued by insurance companies also kept a close watch on events linked to the Lehman Brothers Group, the Icelandic banks and the Bernard L. Madoff Investment Securities LLC scam.

At the time of Transparency Directive-related amendments to the Issuers' Regulation, the formats for open-end collective investment scheme prospectuses (Italian and non-harmonised foreign) and financial insurance product prospectuses were simplified, abandoning the requirements for approval in advance of prospectuses for open-end funds (in line with the procedures for financial products issued by insurance companies), and sections of the prospectus subject to compulsory consignment were reviewed so as to highlight as much as possible the key information on risks and costs for each individual product. These amendments followed extensive public consultation and an open hearing held on 3 November.

These new aspects also level the field in terms of promoting competition between alternative products, i.e. open-end undertakings for collective investment and class III and V financial insurance products (index-linked or unit-linked and capitalisation). Fragmentation of the transparency rules for public offerings of such investment products, in fact, does not encourage full comparability with regard to description of the related risk and cost profiles.

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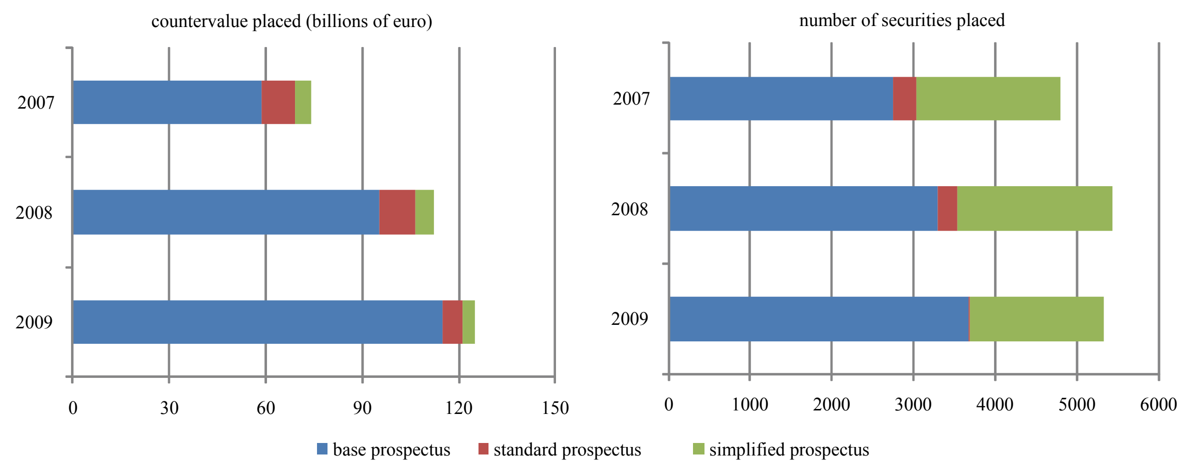
In 2009 the banks placed bonds worth over 120 billion euro with retail customers, compared to 112 billion euro in 2008 (approx. +7%), whereas the total number of securities placed has tended to remain stead (on average 5,000 securities per year in the period 2007-2009) (Fig. 71).

Fig. 71 Bond issues by Italian banks subject to public offering regulations



Source: calculations on statistical supervisory indications.

Consob continued its work to improve the information in prospectus concerning non-equity products, particularly with regard to bank and corporate bond offerings with specific complexities associated with the presence of derivatives or subordinate clauses. As part of around 30 investigations, so as to provide investors with suitable information on investment risks required to reach a reasoned opinion on the offering and comparison between different investment proposals, requests were made to include a summary of the product's risk characteristics. Amongst other things, the summary has to contain 2 tables: one referring to the theoretical value of the financial investment at the time of subscription and on illustrating that value at maturity by means of probable yield scenarios.

Analysis of the prospectuses and final terms of the more simple and widely-distributed bank bonds among non-professional investors - such as ordinary, fixed rate and floating rate bonds - shows how the returns on such investments are often lower than those on government securities or short-term interbank rates (Euribor). Specifically, the figures on bonds issued in the period 1 July 2007 to 30 June 2009 by the top 15 banking groups (by total countervalue of the bonds placed in that period) and by the cooperative banks (Bccs) show that the returns on securities placed with retail customers are aligned on average with those of Btp or Euribor bonds and are not closely linked to the issuer risk measured according to the rating (Fig. 72 and Fig. 73).

In 2009 a number of amendments to the Issuers'Regulation entered into force in relation to rules for undertakings for collective investment and financial products issued by insurance companies (unit-linked, index-linked and capitalisation policies). The main new elements refer to simplification of the format and content of documents for compulsory issue to investors.

Specifically, the simplified prospectus for Italian open-end undertakings for collective investment and the summary format for financial insurance products are now composed of a limited number of pages divided into two sections, subject to independent updating. The first section focuses on the subscription, switch and redemption methods and on company-product information. The second section provides information of a general nature, the financial structure and cost profiles, also to allow investors a better understanding of the risk-return profile, and at the same time facilitate the task of offerors or placing agents of complying with information transparency during distribution of this type of product.

For transparency purposes, the key information on the financial structure of the product is broken down according to a "three pillar" risk-based approach to the information: i) a financial investment table and, for certain products, probable yield scenarios for the financial investment; ii) the degree of risk and, where relevant, the degree to which this deviates from the benchmark; iii) the recommended investment time horizon.

In accordance with the principles outlined in the regulations for undertakings for collective investment and financial insurance products, an examination was launched in 2009 regarding potential extension of the risk-based approach for transparency to other non-equity instruments. In this context, a consultation paper was issued, "*Recommendation on the offering or listing prospectus for the trading of non-equity financial products other than undertakings for collective investment units or shares and financial products issued by insurance companies: presentation methods and information content on the risk-return profile and costs*".