

Italy: Report on the Observance of Standards and Codes

This paper on Italy was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on March 2013. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Italy or the Executive Board of the IMF.

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International Monetary Fund
Washington, D.C.



ITALY

September 6, 2013

FINANCIAL SYSTEM STABILITY ASSESSMENT— BACKGROUND MATERIAL

REPORTS ON OBSERVANCE OF STANDARDS AND CODES

Prepared By
**Monetary and Capital
Markets Department**

These reports are background documents to the Financial System Stability Assessment report, and were prepared in the context of the work of the Financial Sector Assessment Program (FSAP) mission that visited Italy in January and March 2013. The FSAP findings were discussed with the authorities during the Article IV Consultation mission in June 2013.

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Glossary

ABI	Italian Banking Association
AC	Additional criteria
AIFMD	Alternative Investment Fund Managers Directive
AIM	Alternative investment market (Mercato Alternativo del Capitale)
AMA	Advanced measurement approach
AMC	Asset Management Company
AML/CTF	Anti-money laundering/counter-terrorism financing
BCBS	Basel Committee for Banking Supervision
BCP	Basel Core Principles for Effective Banking Supervision
BI	Banca d'Italia
BIA	Basic Indicator Approach
BL	Banking Law (Legislative Decree 385/1993 and subsequent amendments)
BoS	Board of Supervisors
CAL	Compulsory Administrative Liquidation
CCR	Central Credit Registry
CEBS	Committee of European Banking Supervisors
CEREP	Central Repository
CFL	Consolidated Financial Law (Legislative Decree n. 58/2008)
CFT	Combating Financing of Terrorism
CIS	Collective Investment Schemes
CL	Consolidated Law on Finance (IOSCO)
CONSOB	Companies and Stock Exchange Commission
COVIP	National Supervisory Authority for Pension Funds
CRA	Credit Rating Agencies
CRD	Capital Requirements Directive
DGF	Deposit Guarantee Fund
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pension Authority
ELMI	Electronic Money Institutions
EMIR	European Market Infrastructure Regulation
ERM	Enterprise Risk Management
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FSB	Financial Stability Board
FATF	Financial Action Task Force
FITD	<i>Fondo Interbancario di Tutela dei Depositi</i> —Fund for interbank deposits

FIU	Financial Intelligence Unit
FGDCC	<i>Fondo di Garanzia Depositanti</i> BCC—Deposit insurance agency for mutuals
FNG	<i>Fondo Nazionale di Garanzia</i>
FSAP	Financial Sector Assessment Program
FSC	Financial Stability Committee
FSSA	Financial System Stability Assessment
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
HF	Hedge Funds
IAD	Internal Audit Department
IAS	International Auditing Standards
IASB	International Accounting Standards Boards
IAIS	International Association of Insurance Supervisors
IBNR	Incurred but not reported claims
ICAAP	Internal Capital Adequacy Assessment Process
ICCS	Interministerial Committee for Credit and Savings
ICP	Insurance Core Principles
IF	Investment Firm
IFRS	International Financial Reporting Standards
IGT	Intra-group transactions
IOSCO	International Organization of Securities Commissions
IOSCO MMoU	IOSCO Multilateral Memorandum of Understanding
IRB	Internal Ratings Based
ISA	International Standards on Auditing
ISVAP	<i>Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Pubblico</i> — Insurance Supervisory Authority prior to January 1, 2013
IT	Information Technology
IVASS	<i>Istituto per la Vigilanza sulle Assicurazioni</i> —Insurance supervisory authority
KIID	Key Investor Information Disclosure
KIRT	Key Insurance Risks and Trends
LAT	Liability Adequacy Test
MBA	Masters of Business Administration
MCR	Minimum Capital Requirement
MEF	Minister of Economy and Finance
MiFID	Market in Financial Instruments Directive
MMoU	Mutual Memorandum of Understanding
MOCE	Margin on Current Estimate
MoJ	Ministry of Justice
MoU	Memorandum of Understanding
MTFs	Multilateral Trading Facilities
MTS	<i>Mercato Telematico dei Titoli di Stato</i>
NCAAs	National Competent Authorities
NPL	Nonperforming Loan

ORSA	Own Risk Solvency Assessment
PIEs	Public Interest Entities
RAM	Risk Assessment Matrix
RAS	Risk Assessment System
RAMs	Regulated Markets
ROSC	Report On The Observance Of Standards And Codes
RRD	Bank Recovery and Resolution Directive
RRP	Recovery and Resolution Plan
RWA	Risk weighted asset
SA	Special Administration
SICAV	<i>Società di investimento a capitale variabile</i> (investment company)
SIFI	Systemically important financial institution
SMEs	Small and Medium Enterprises
SRO	Self-Regulatory Organizations
SREP	Supervisory Review and Evaluation Process
SRTs	Suspicious Reporting Transactions
SSM	Single Supervisory Mechanism
UIF	Financial Intelligence Unit

BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

A. Introduction

1. This assessment of the current state of the implementation of the Basel Core Principles for Effective Banking Supervision (BCP) in Italy has been completed by Ms. Fabiana Melo, Financial Supervision and Regulation Division, Monetary and Capital Markets Department, and Mr. Jose Tuya, external consultant, as part of an FSAP update undertaken by the International Monetary Fund (IMF) in January 2013. It reflects the regulatory and supervisory framework in place as of the date of the completion of the assessment. It is not intended to assess the merits of policy and implementation issues regarding European Union (EU) regulatory framework. In addition, it is not intended to represent an analysis of the state of the banking sector or crisis management framework, which are addressed in the broader FSAP exercise.

2. An assessment of the effectiveness of banking supervision requires a review of the legal framework, and detailed examination of the policies and practices of the institutions responsible for banking regulation and supervision. In line with the BCP methodology, the assessment focused on BI as the main supervisor of the banking system, and did not cover the specificities of regulation and supervision of other financial intermediaries, which are covered by other assessments conducted in this FSAP. The assessment did not cover issues related to the newly agreed Single Supervisory Mechanism¹ in the Euro Area, as at the time of the assessment the operational and regulatory details of the structure were not fully defined. It is important to note, however, that even in the envisaged structure local supervisors will retain direct oversight responsibilities regarding a large number of banking institutions, and will continue in many levels to be involved in the supervision of the institutions that will be under direct ECB supervision. Therefore, the assessment of banking supervision in Italy should provide a useful picture of current supervisory processes applicable to Italian banks and the areas where further improvements could be made.

3. This Report on the Observance of Standards and Codes (ROSC) summarizes the findings and recommendations of the assessment, and should be read in the context of the

¹ In summer 2012, the European Council launched a project for the set-up of an integrated system of bank supervision at European level. In September 2012, the EU Commission issued proposals for a single supervisory mechanism (SSM) for banks in the euro area as an important step in strengthening the Economic and Monetary Union (EMU). In the proposal of the new single mechanism, ultimate responsibility for specific supervisory tasks related to the financial stability of all Euro area banks will lie with the European Central Bank (ECB). National supervisors will continue to play an important role in day-to-day supervision and in preparing and implementing ECB decisions. The Commission also proposed to have the SSM in place by January 1, 2013. To allow for a smooth transition to the new mechanism, a phasing-in period is envisaged. As a first step, as of January 1, 2013, the ECB will be able to decide to assume full supervisory responsibility over any credit institution, particularly those which have received or requested public funding. As of July 1, 2013, all banks of major systemic importance will be put under the supervision of the ECB. The phasing-in period should be completed by January 1, 2014 when the SSM will cover all banks. Discussions to finalize the proposal are underway at the European level.

accompanying FSAP documents. The Financial System Stability Assessment (FSSA) and accompanying notes and ROSCs provide a complete picture of the institutional setting and market structure. These FSAP documents also cover the preconditions for effective banking supervision, including a description of the macroeconomic framework, financial stability policy formulation; public infrastructure; crisis management, recovery and resolution, the adequacy of systemic protection (or public safety net); and market discipline.

B. Information and Methodology Used for Assessment

4. **The Italian authorities agreed to be assessed according to the Revised Core Principles (BCP) Methodology issued by the BCBS (Basel Committee of Banking Supervision) in September 2012.**

The current assessment was thus performed according to a revised content and methodological basis as compared with the previous BCP assessment carried out in 2006. Therefore, the two assessments will not be directly comparable, as the revised BCP have a heightened focus on risk management and its practice by supervised institutions and its assessment by the supervisory authority, raising the bar to measure the effectiveness of a supervisory framework (see box for more information on the Revised BCP).

5. **The Italian authorities also chose to be assessed and rated against not only the Essential Criteria, but also against Additional Criteria.**

To assess compliance, the BCP Methodology uses a set of essential and additional assessment criteria for each principle. The essential criteria (EC) were usually the only elements on which to gauge full compliance with a CP. The additional criteria (AC) are recommended best practices against which the Italian authorities have agreed to be assessed and rated. This option was not available to assessed countries before the 2012 Revised BCP; in fact, Italy is the first country being rated also against ACs. The assessment of compliance with each principle is made on a qualitative basis. A four-part grading system is used: compliant; largely compliant; materially noncompliant; and noncompliant. This is explained below in the detailed assessment section. The assessment of compliance with each CP is made on a qualitative basis to allow a judgment on whether the criteria are fulfilled in practice. Effective application of relevant laws and regulations is essential to provide indication that the criteria are met.

6. The assessment team reviewed the framework of laws, rules, and guidance and held extensive meetings with BI officials, and additional meetings with auditing firms, and banking sector participants. The authorities provided a self-assessment of the CPs rich in quality and comprehensiveness, as well as detailed responses to additional questionnaires, and facilitated access to supervisory documents and files, staff and systems.

7. The team received excellent cooperation from the authorities. The team extends its thanks to staff of the authorities who provided excellent cooperation, including extensive provision of documentation and access, at a time when staff was burdened by many initiatives related to the European and global regulatory changes.

8. The standards were evaluated in the context of the Italian financial system's structure and complexity. The CPs must be capable of application to a wide range of jurisdictions whose

banking sectors will inevitably include a broad spectrum of banks. To accommodate this breadth of application, a proportionate approach is adopted within the CP, both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a country against the CPs must, therefore, recognize that its supervisory practices should be commensurate with the complexity, interconnectedness, size, and risk profile and cross-border operation of the banks being supervised. In other words, the assessment must consider the context in which the supervisory practices are applied. The concept of proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction will not be directly comparable to that of another.

Box 1. The 2012 Revised Core Principles

The revised BCPs reflect market and regulatory developments since the last revision, taking account of the lessons learned from the financial crisis in 2008/2009. These have also been informed by the experiences gained from FSAP assessments as well as recommendations issued by the G-20 and FSB, and take into account the importance now attached to: (i) greater supervisory intensity and allocation of adequate resources to deal effectively with systemically important banks; (ii) application of a system-wide, macro perspective to the microprudential supervision of banks to assist in identifying, analyzing, and taking pre-emptive action to address systemic risk; (iii) the increasing focus on effective crisis preparation and management, recovery and resolution measures for reducing both the probability and impact of a bank failure; and (iv) fostering robust market discipline through sound supervisory practices in the areas of corporate governance, disclosure, and transparency.

The revised BCPs strengthen the requirements for supervisors, the approaches to supervision, and supervisors' expectations of banks. The supervisors are now required to assess the risk profile of the banks not only in terms of the risks they run and the efficacy of their risk management, but also the risks they pose to the banking and the financial systems. In addition, supervisors need to consider how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risk to which individual banks are exposed. While the BCP set out the powers that supervisors should have to address safety and soundness concerns, there is a heightened focus on the actual use of the powers, in a forward-looking approach through early intervention.

The number of principles has increased from 25 to 29. The number of essential criteria has expanded from 196 to 231. This includes the amalgamation of previous criteria (which means the contents are the same), and the introduction of 35 new essential criteria. In addition, for countries that may choose to be assessed against the additional criteria, there are 16 additional criteria.

While raising the bar for banking supervision, the Core Principles must be capable of application to a wide range of jurisdictions. The new methodology reinforces the concept of proportionality, both in terms of the expectations on supervisors and in terms of the standards that supervisors impose on banks. The proportionate approach allows assessments of banking supervision that are commensurate with the risk profile and systemic importance of a wide range of banks and banking systems.

C. Main Findings

9. The core supervisory process at the Banca d'Italia (BI) is strong, and it has a well-defined and integrated supervisory approach. BI is well regarded both in terms of independence, professional qualification, and integrity. The various components of its supervision are integrated in the Supervisory Review and Evaluation Process (SREP). Key pillars of the approach are offsite analysis, onsite inspections, and analytical data.

10. The authorities have made progress in addressing the recommendations of the 2006 FSAP, although some issues remain. Regarding legal protection of supervisors, the legal framework was amended in 2005 and 2006, establishing that staff are not legally liable for actions taken or omissions made while discharging their duties in good faith; regarding loan loss provisioning, the rules were modified in 2012 to consider as nonperforming loans past due from 90 days (instead of previously 180 days), and the Banking Law (BL) was amended in 2008 to allow the regulation of related-party lending limits and procedures. Some issues previously identified remained: the procedure for covering legal costs of supervisors, the lack of power to remove members of the board and senior officials of banks, and the power to remove external auditors of banks.

11. Nevertheless, there are areas requiring attention so that Italy can meet the highest standards of supervisory effectiveness. For instance, the lack of powers to suspend and remove directors and senior managers continues to negatively affect BI's timely corrective action capacity, and is not conducive to good corporate governance, in particular given the narrow definition of fit and proper existent in legislation. Similarly, the lack of power to remove external auditors can be a significant limitation in an environment where the supervisor is not capable of issuing or interpreting accounting standards.

12. The Bank of Italy collects and analyzes a wide range of information. The information ranges from detailed credit records to feed the credit registry to broader risk management overview contained in the ICAAP. Through the in-house tool SIGMA, the data is accessible to the offsite unit and analyzed. Based on results and risks identified, onsite inspections are scheduled to supplement the offsite observations. As a result of SREP, banks receive risk assessment grades. Key risk areas (credit, financial, operational, profitability, capital, strategic and governance) are risk graded and an overall risk grade is assigned to the bank. The risk ratings are the foundation for determining the scope of the supervisory plan for each bank.

13. The supervisory coverage of banks is comprehensive and the follow-up process is intensive. Through reviews of inspection reports, bank communications and SIGMA screens a picture of the bank-specific risk develops. BI takes supervisory action on quantitative issues such as credit risk, loan classifications, and capital adequacy, but also on judgment issues such as the adequacy of corporate governance and internal controls.

14. Deficiencies in the legal and regulatory framework are largely mitigated by intensive and intrusive supervisory action on- and offsite, on a bank-by-bank basis. Nevertheless, in such

cases, it is recommended that the regulatory framework is completed so it is clear to the market what the supervisory expectations are. A good example is the framework for management and control of country and transfer risk. While the regulatory framework is not adequate, BI addresses the risk, when considered material, on the largest internationally active banks. However, other Italian banks have active exposures to country risk, and the regulatory framework is too general to be conducive to good management of country and transfer risk. BI is strongly recommended to issue guidance that can be understood and applied to all banks, in particular, banks need to be made aware that an overall deterioration of credit risk in a country can lead to many private contracts not being observed, independently of sovereign risk or currency risk.

15. In the same spirit, the regulatory framework for concentration risk is mostly focused on large exposures and management of name risk, while the revised CP has been considerably expanded from the previous methodology, and the focus has shifted from “large exposures” to “risk concentration”—which includes not only name risk but by industry, economic sector, geographic region, and by market (for instance, when banks are exposed to particular asset classes, products, collateral, or currencies). Supervisory practice, however, does consider such concentrations on a case by case review. The regime for large exposures should be revised, as there are exceptions to the limits that reduce its prudential effect, such as risk-weighting of exposures for the application of large exposure limits to some asset classes—although BI’s scope for revision may be limited by EU legislation on the issue.

16. The new framework for related party lending has come into force in January 2013, and therefore, assessors could not observe implementation. A review of the regulation, however, showed that some deficiencies may reduce its effectiveness. Besides exceptions to the limits and enhanced procedures, some exposures are risk weighted for the calculation of limits, there is no explicit requirement that the board member or persons involved are excluded from the decision-making process, and no requirement that all related party lending should occur in no more favorable terms than those to non-related party. The definition of connected parties for this legislation is different from that used to define connected parties in the large exposures regime: in the case of related parties, the economic dependence is not considered. BI is empowered to impose stricter definitions of connected parties by judgment other than control, and to intervene in situations when economic influence is the real element connecting the related parties in transactions which may be detrimental to the bank. Therefore, supervisory practice may mitigate the issues raised above, but since implementation is in its infancy that could not be observed.

17. Loan loss provisioning practices are heavily influenced by fiscal and judicial requirements over prudential considerations. On the fiscal side, banks are allowed to deduct losses resulting from circumstances of legal certainty and accuracy of loss amount. These circumstances have so far been met by declaration of insolvency and court judgments; the judicial process is lengthy and ranges from 6 to 11 years depending on the region. Without the legal certainty support, write downs can only be deducted within 0.30 percent of the overall book value of the loans, with a deferred tax asset arising from the excess, which is amortized in 18 years. As banks structure their provisioning/write-offs also trying to avoid problems with the “Agenzia delle Entrate,”

the result is a longer timeframe for loan workouts. In June 2012, a decree (Growth Decree) was issued to encourage banks to open some lending capacity by writing off or selling NPLs. The Growth decree provides for the tax deductibility of losses resulting from small loans delinquent for over six months and for losses resulting from the sale of assets or, more in general, from derecognition according to IAS 39, for IAS-adopting companies. However, the banks are awaiting further interpretation of the decree.

18. The NPLs may remain on the books for years and include interest, according to IAS 39, based on bank management's estimation of collectability and collateral support. The latter is valued taking into account costs for obtaining and selling the collateral. Onsite inspections sample the loan portfolio and review loan classification and practices to ensure IFRS compliance. Valuation of real estate collateral is hampered in the current environment of declining prices and low turnover volume. Provisioning practices are assessed to ensure compliance with prudential rules. In response to the deterioration of the macroeconomic conditions as well as of the credit quality, at the time of the assessment, BI was performing a broad horizontal monitoring activity at the main medium-large banking groups, aimed at checking their coverage ratios against those observed immediately before the financial crisis (2007) and at assessing the robustness of the provision criteria and practices.

Table 1. Summary Compliance with the Basel Core Principles—ROSC

Core Principle	Comments
1. Responsibilities, objectives, and powers	
	<p>Responsibilities, objectives and powers are clearly defined. Powers seem to be mostly adequate and used in practice, according to evidence presented to assessors. BI, although responsible for initiating procedures for the revocation of license, depends on the final decision on liquidation, which is issued by a MEF decree. There are some limitations on powers for corrective actions (see CP 11).</p>
2. Independence, accountability, resourcing and legal protection for supervisors	
	<p>In particular given the changes in the legal framework since 2005, BI has governance framework conducive to independence of supervisory decisions, and adequate transparency and accountability. Interviews with external parties confirm BI is currently well regarded both in terms of independence, professional qualification, and integrity. Resources, including for recruitment and training, seem to be adequate for the conduction of supervisory activities. The legal protection of supervisors, although improved since 2005, may still be an issue, since reimbursement of legal costs only after the end of judicial proceedings means employees need to bear all the costs of defending their actions and decisions taken in good faith in the exercise of their supervisory functions. The Board of BI has made a decision, on December 18, 2012, to allow the anticipation of reimbursement to staff in cases of legal suits. The assessors welcome the developments, and the effectiveness of the measures will likely be fully observable when the next BCP assessment takes place.</p>
3. Cooperation and collaboration	
	<p>BI and the other financial system regulators actively collaborate and exchange information. In October 2007, BI and Consob signed an MOU that established two permanent committees: (i) the strategic committee to discuss and exchange information on major issues, and (ii) the technical committee that deals with operational aspects and implementation of guidance issued set by the strategic committee. BI, Consob, and ISVAP in 2006 concluded a coordination agreement concerning the identification of financial conglomerates and the authorities responsible for coordinating supplementary supervision. There are six financial conglomerates; BI is coordinator for three and ISVAP for the others. Coordination has been effective, joint examinations have taken place.</p>
4. Permissible activities	
	<p>The permissible activities of banks are clearly defined and the uses of the word “bank” controlled.</p>
5. Licensing criteria	
	<p>The criteria and assessment process for licensing applications is clearly established in laws and regulations, and involve the assessment of ownership structure, governance, and fitness and propriety of board members. The licensing framework and practice, although well established, needs to be enhanced: BI cannot revoke the license if it finds it was granted based on false application if the bank has already started operation; BI does assess the sources of initial capital, but initial capital can be mostly subscribed with assets (up to 7/10), and shareholders are allowed to use borrowed money for the initial subscription. BI can apply stricter conditions and refuse the operations. However, there is no legal restriction to shareholders being leveraged or borrowing money to finance capital subscription or increases, and therefore, the regulatory framework does not seem supportive to denials based on BI’s assessment of shareholders being able to provide “additional financial support.” The responsibility of assessment of fitness and propriety of the board and senior management lies with the bank’s board itself; BI does not systematically perform its own verification, although in practice it does conduct ad-hoc investigations. In addition, the integrity requirements laid down in Ministerial Decree No. 161/1998 are narrow, in the sense that they do not include adverse regulatory judgments. In other words, the</p>

Core Principle	Comments
	<p>adverse judgment and sanctions by regulatory agencies, including Consob and BI, if are not related to criminal activities, may not be grounds for denial based on fitness and propriety. BI can deny a license and “disqualify” a board member when it finds the appointed person lacks one of the integrity requirements listed in the Ministerial decree No. 161, but cannot otherwise remove or mandate the removal of a member of the board (see CPs 11 and 14). These deficiencies are mitigated by a very well structured licensing procedure and good quality of analysis. Some occur very rarely in practice, and BI actively imposes conditions on authorizations.</p>
<p>6. Transfer of significant ownership</p>	
	<p>BI has the power to review, reject, and impose prudential conditions on proposals to transfer significant ownership.</p>
<p>7. Major acquisitions</p>	
	<p>Bound by the EU legal framework, acquisitions for non-financial investments do not need prior approval or prior notification. Acquisitions of financial firms below 10 percent of regulatory capital in EU and G-10 countries, even if such level means control, do not require approval, only notification. In the first case, the deficiency is mitigated by the limits, but these limits would still allow for a significant participation in industrial and other non-financial business that can bring additional risks to the enterprise. In the second case, the ex-ante notification of 30 days provides a very limited timeframe for BI to assess the suitability of financial, managerial, and organizational resources involved in the acquisition. In the EU environment, it is unclear whether in such situations BI would be able to exercise the power conferred to it by Art. 53 BL to suspend or prohibit the acquisition. Therefore, the regulatory framework permits some situations where acquisitions may imply control of the acquired undertaking and BI would not be able to make a throughout ex-ante analysis. If an undesirable situation occurs, BI would need to rely on its correct and remedial powers—however, divestment procedures may take long, and risks brought to the bank may have already festered. BI has actively used its powers to approve with conditions. Assessors were shown evidence of such supervisory action.</p>
<p>8. Supervisory approach</p>	
	<p>Setting the scope for the supervisory activities for individual banks is a forward looking risk-based process. Banks are categorized based on systemic significance and level of risk. In determining the level of risk, BI incorporates not only current risk indicators but also looks at risk management and corporate governance issues that may lead to future problems. The analysis of individual banks and banking groups is complemented by macro-prudential analysis that aims at identifying vulnerabilities in the financial system that may pose systemic risks and affect the real economy. SREP is performed annually and results in banks being assigned a risk rating that is used to determine the appropriate supervisory scope of activities for the bank.</p>
<p>9. Supervisory techniques and tools</p>	
	<p>The supervisory process is detailed and involves a blend of onsite and offsite activities. The process is based on a compendium of activities contained in the SREP guidance; some of the key elements of which include: Risk Assessment System, ICAAP, credit registry, onsite inspections, and offsite reviews. Offsite analysis is systematic, carried out at set intervals, and based on analysis of data and information that banks report to BI. Based on the offsite analysis results, inspections are planned and carried out. Inspections may be: full scope, targeted (business areas, specific risks, operational profiles, corrective action follow-up) and horizontal. Inspections focus on exposure to significant risks and risk management: adequacy of structural and functional components of governance and control systems, as well as economic and capital safeguards; the reliability of data and information given to BI; the compliance with the regulatory framework with particular attention to prudential requirements.</p>

Core Principle	Comments
10. Supervisory reporting	
	There is ample supervisory reporting and statistical returns and in depth analysis of the information received.
11. Corrective and sanctioning powers of supervisors	
	BI has several powers and tools to apply early corrective measures to address unsafe and unsound practices and activities. The assessors were given access to many examples when such actions were taken, and market participants confirm a very active mode of supervision to curb practices and management that are considered unsound. In particular, BI attributes significant importance to the SREP process and adjustments to the capital. It lacks, however, the important capacity to remove—or even suspend—administrators and members of the board. Unsuitable administrators are often removed by moral suasion but formal powers only exist when the narrow experience and integrity requirements defined by Ministerial Decrees are not met anymore or under crisis procedures. BI believes the issue will be solved when the CRD IV is transposed into Italian law, as it should provide the supervisor the power to temporarily ban the bank’s managers from exercising functions in financial institutions. Another issue that BI believes will be solved at EU level is the capacity to impose pecuniary sanctions not only on individuals, but on the entity. Currently, such sanctioning is only possible for AML breaches.
12. Consolidated supervision	
	BI has broad authority to conduct consolidated supervision. It is empowered to require detailed information on the ownership structure of all the companies/organizations, and any plan to modify the structure or the composition of the group must be previously submitted to BI. All banks and financial intermediaries (investment firms, investment fund management companies, and nonbank financial companies size, and/or operational features thresholds) belonging to banking groups are subject to BI supervision on an individual basis. BI collects information on the banking group that is required for supervision. The holding company is required to transmit information and statistics covering the entire group. Regarding related companies not included in a banking group, BI may: (i) require, via the holding company, information; (ii) carry out onsite inspections to verify information; (iii) require an audit of annual accounts. Also with regard to companies not included in a banking group, when calculating capital requirements on a consolidated basis, BI may consider business operations of such companies and require their consolidation if they are deemed to be material for the stability of the banking group.
13. Home-host relationships	
	Cross-border supervision and home-host coordination plays a key role in consolidated supervision. BI has established supervisory colleges for the two major cross-border banking groups, while a simplified structure was established for the other Italian cross-border groups. Cross-border inspections are conducted as warranted. The ability of BI to develop resolution plans and set in motion early coordination to address evolving bank problems and possible resolution on a cross-border basis is limited. The current legislation provides for information exchanges by BI with foreign ministries and resolution within the scope of liquidation or insolvency proceedings. A proposed directive will resolve the confidentiality issues that currently limit the ability of EU bank supervisors to share confidential information with foreign MEF and Resolution Authorities other than bank supervisors. Additionally, BI is actively implementing the FSB crisis management and resolution recommendations.
14. Corporate governance	
	BI regulations identify a full range of tasks and responsibilities for the board and senior management; but some areas need enhancements. BI lacks authority to remove directors (see CP 11). BI has issued significant guidance on corporate governance. A proposed guidance for which the consultation period has just concluded would strengthen the corporate governance framework.

Core Principle	Comments
15. Risk management process	
	<p>BI has set in place an extensive risk-management regulatory and supervisory compendium of requirements. Some of the guidance is principles-based and/or deficient in certain areas as noted in the CPs addressing operational, credit, country/transfer and concentrations risk.</p>
16. Capital adequacy	
	<p>At the time of the assessment, Italy's capital adequacy framework was consistent with Basel II standards.</p>
17. Credit risk	
	<p>There is no requirement that large exposures or highly risky and complex operations be approved by the Board nor is there a requirement that lending transactions be on market terms (arm's length).</p>
18. Problem assets, provisions, and reserves	
	<p>Loan provisioning and write-off is heavily influenced by the judicial and fiscal framework. This results in NPLs remaining on the books for years. While the current practice is accommodated by the flexibility of IFRS, the prudential aspects are not sufficiently reflected resulting in highly aged NPLs.</p>
19. Concentration risk and large exposure limits	
	<p>BI has a wealth of information to monitor and analyze concentration risk in bank portfolios, in particular in the loan portfolios, and has conducted such analysis on a bank by bank basis within the SREP process and system-wide. Although monitoring of concentration risk in the broader sense of the revised CP is conducted occasionally, based on general guidelines for credit risk and market risk evaluation, there is no systematic guidance or review beyond name risk/large exposures. However, even the case of large exposures, there are exceptions to the limits that reduce its prudential effect, i.e., limits are imposed on a risk-weighted basis for some exposures, and exposures in the trading book are not included in the limit but are covered by a separate capital charge. Also, the same limits do not apply on both solo and consolidated basis—banks in a group are subject to larger solo limits than other banks calculating the limit on a solo basis, provided that the consolidated limited is complied with. The authorities have explained that the framework is given by EU level legislation and a different treatment would be an infringement of EU Law. The deficiencies in this CP are somewhat mitigated by evidence of strong supervisory action in many instances. In the case of large exposures, assessors were presented several examples of supervisory action. Assessors were also shown examples where, even in absence of specific regulation on concentration on sector or market products, strong supervisory action was taken to curb such types of concentration.</p>
20. Transactions with related parties	
	<p>Italy's framework for related party lending was majorly deficient before the amendments to the BL in 2006 and to Circular 263 in 2011. At the time of this assessment, however, the new framework had just entered into force, and there was no sufficient evidence available to assess implementation, as required by the methodology. For that reason, compliance could not be verified and will need to be reviewed in future assessment updates. In addition, the new regulatory framework may need enhancements. In particular, the various exceptions to the limits may affect their effectiveness (exposures are risk weighted, intra-group exposures, including cross border, if between the parent and wholly owned subsidiary, are not only exempt from the limits but also of the approval and monitoring procedures). There is no specific requirement that the board member or persons involved are automatically excluded from the decision-making process, or that all related party lending should occur in no more favorable terms than those to non-related party. The regulation allows BI to impose case-by-case stricter definition, therefore the capacity of BI to impose definitions of connected parties by judgment other than control remains to be determined in practice, as well as its capacity to intervene in situations when economic influence is the real element connecting the related parties. These</p>

Core Principle	Comments
	<p>deficiencies might be mitigated by the specific procedures for related party transactions approval and disclosure, active enforcement of risk management procedures by BI and by the use of its powers to require consolidation, and other corrective measures under its power. As mentioned above, however, the regulatory framework only came into full force in December 31, 2012; there was not yet evidence of implementation that could be presented to assessors.</p>
21. Country and transfer risks	
	<p>There are no specific requirements for management of country risk and transfer risk. The general risk management and internal control regulations apply (see CP 15). According to the Circular 269, Part I, Section III, Chapter 4, country risk is considered as components of credit risk. Regulations do not define transfer risk. BI assesses the appropriateness of banks' practices regarding country risk on a case by case basis, through offsite and onsite analysis, as part of the annual SREP. In practice, it only happens when country risk is considered material. Assessors were shown evidence that BI does review country risk in depth in the large internationally active banks. However, the regulatory framework is too general to be conducive to good country and transfer risk management in the banks not using IRB. Also, the guidance seems to overlook country risk derived to exposures within the EU, as if the only sources of country and transfer risk were availability of euro and sovereign risks. BI is strongly recommended to issue guidance on country and transfer risk that can be understood and applied by all banks; in particular, banks need to be made aware that an overall deterioration of credit risk in a country can lead to many private contracts not being observed, even when not linked to any specific restrictions imposed by governments. In other words, country risk may be linked to the possibility that political and/or economic events occur and influence the quality of the banks portfolio.</p>
22. Market risk	
	<p>Banks are required to have adequate market risk management processes, which are verified by BI. Onsite visits allow assessing the materiality of risks with a thorough evaluation of banks business models going beyond the regulatory trading book and taking into account the threats arising from unexpected deteriorations of market conditions. Banks are required to have procedures for calculating prudential value adjustments of scarcely liquid positions. Such adjustments must reflect the degree of liquidity of the position, and are made, if necessary, also in excess of valuation adjustments for accounting purposes.</p>
23. Interest rate risk in the banking book	
	<p>Banks are required to have adequate interest rate risk management processes, which are verified by BI. IRRBB is part of the ICAAP. Materiality of IRR exposures is gauged by drawing on prudential reports. BI assesses the adequacy of the risk management process mainly through onsite examinations. Appropriate IRR limits are required to contain risk exposure and consider both the results of stress tests and the economic context.</p>
24. Liquidity risk	
	<p>Banks are required to have in place policies and systems for governance of liquidity risk. Banks are required to identify and measure liquidity risk on a forward looking basis according to a methodology similar to the Basel 3 liquidity coverage ratio (LCR), even though the use of internal models to measure inflows and outflows is permitted to a limited extent. Banks must keep a liquidity buffer consistent with the chosen appetite risk level.</p>
25. Operational risk	
	<p>AMA and TSA banks comprise some 90 percent of the Italian banking system, as measured by the banks total assets. For all banks, BI calculates, under RAS, a score for operational risk, which uses both quantitative assessment and qualitative. It is clear that requirements for operational risk management are much more detailed and stringent for TSA and AMA banks. Guidance for BIA banks on operational risk monitoring and control is at very high level, in fact, the regulatory basis for action is derived from the general internal controls framework. There is no specific requirement that an operational risk management policy is approved by the board, or that all banks have adequate channels of information of operational risk data and events to boards</p>

Core Principle	Comments
	<p>or the supervisor. The regulation does not properly guide BIA banks on how to identify, assess, evaluate, monitor, report and control or mitigate operational risk. Furthermore, the regulatory framework, even for the more sophisticated banks lacks guidance on IT and outsourcing. However, in spite of the deficiencies in the regulatory framework, assessors were presented evidence, both from the supervisor and from market participants, that actual supervision of operational risk, in particular for TSA and AMA banks, is intensive and intrusive, and supervisors have actively required corrective actions related to operational risks. Capital add-ons are often imposed based on weaknesses of management (even for BIA banks) or relevant findings in AMA frameworks. Market participants confirm the technical quality of the BI team involved in the supervision of operational risk is high and that analysis conducted by BI both onsite and offsite constantly challenges and questions the bank's adequacy of operational risk management and quantification.</p>
26. Internal control and audit	
	<p>Banks are required to have adequate internal controls, have an independent compliance function, and a permanent internal audit function. The internal audit function can be outsourced by small banks. BI assesses the bank organizational structure during the annual SREP. In particular; it verifies that there is an appropriate balance in skills and resources of back-office, control and operational functions.</p>
27. Financial reporting and external audit	
	<p>BI lacks authority to require banks to replace an external auditor and also lacks the authority to review the work papers of external auditors</p>
28. Disclosure and transparency	
	<p>Financial reporting and disclosure are adequate and in accordance with internal standards. Italy implemented full IFRS and BI closely monitors banks' compliance. Information disclosed by BI and the banks in their financial statements meets Pillar 3 and Basel recommendation</p>
29. Abuse of financial services	
	<p>Laws are in place for AML/CFT procedures, and BI requires banks to have adequate policies and processes to prevent abuse. BI collaborates with the FIU and assessors were shown evidence of close cooperation.</p>

D. Recommended Actions

Recommended Actions to Improve Compliance with the Basel Core Principles and the effectiveness of regulatory and supervisory frameworks	
Reference Principle	Recommended Action
1. Responsibilities, objectives and powers	<ul style="list-style-type: none"> Introduce legal changes to allow BI to withdraw banking licenses independently from the MEF
5. Licensing criteria	<ul style="list-style-type: none"> Expand the definition of fit and proper so that adverse regulatory judgments can be taken into consideration. Amend regulatory framework so that BI routinely receives the underlying documentation relative to the banks' assessment of fitness and propriety, so that it can conduct its own assessment as part of a normal licensing process. Amend supervisory guidance for licensing providing more explicit guidance for the assessment of financial suitability of major shareholders, including a sustainability analysis of leverage levels and the capacity to provide additional capital in the first years of the new institution or under a scenario of stress.
7. Major acquisitions	<ul style="list-style-type: none"> It is recommended that prior notifications are extended to all cases where acquisition will imply control, even within prescribed limits, to allow timely preventive measures by BI.
11. Corrective and sanctioning powers of supervisors	<ul style="list-style-type: none"> Introduce legal changes to provide BI with the power to remove and suspend bank's managers from exercising functions in financial institutions. Introduce legal changes to provide BI with the capacity to impose pecuniary sanctions not only on individuals, but also on the entity.
13. Home-host relationships	<ul style="list-style-type: none"> Resolution is pending adoption of EU legislation.
14. Corporate governance	<ul style="list-style-type: none"> Implement internal control regulation that just completed the consultation period.
15. Risk management process	<ul style="list-style-type: none"> See risk management recommendations in CPs 17, 19, 21, and 25.
17. Credit risk	<ul style="list-style-type: none"> Issue guidance requiring that credit transactions be made on market terms and that large and/or high-risk operations over a certain threshold be approved by the Board.
18. Problem assets, provisions, and reserves	<ul style="list-style-type: none"> Develop prudential guidelines to expedite the turnover of NPLs.
19. Concentration risk and large exposure limits	<ul style="list-style-type: none"> Issue guidance/regulation covering the whole spectrum of concentration risk management and monitoring required by the revised CP.

<ul style="list-style-type: none"> • Review current exceptions to large exposures regime that may undermine prudential considerations. • Review limits as to apply consistently on both solo and consolidated basis.
<p>20. Transactions with related parties</p> <ul style="list-style-type: none"> • Amend regulations to require explicitly that the board member or persons with conflict of interest are excluded from the decision making process. • Amend regulation to require that related party transactions do not occur in more favorable terms than those to non-related party clients.
<p>21. Country and transfer risks</p> <ul style="list-style-type: none"> • Issue guidance on country and transfer risk that can be understood and applied by all banks. In particular, banks need to be made aware that an overall deterioration of credit risk in a country can lead to many private contracts not being observed, even when not linked to any specific restrictions imposed by governments. In another words, country risk may be linked to the possibility that political and/or economic events occur and influence the quality of the banks portfolio.
<p>25. Operational risk</p> <ul style="list-style-type: none"> • Amend regulations to provide more guidance, in particular to BIA banks, on how to identify, assess, evaluate, monitor, report and control or mitigate operational risk. • Amend regulations to clarify that the operational risk management policy needs approval by the board, that all banks must have adequate channels of information of operational risk data and events to boards or the supervisor. • Enhance regulations on IT and outsourcing, as planned.
<p>27. Financial reporting and external audit</p> <ul style="list-style-type: none"> • Propose amendments to CFL granting BL authority to review external auditor work papers and to remove auditors for bank-specific prudential reasons.

E. Authorities' Response to the Assessment

19. The Italian authorities appreciate the positive assessment of Italy's banking supervisory rules and practices. The authorities emphasize that Italy is the first country to be evaluated and rated according to the full set of the new Basle Core Principles—Essential and Additional Criteria—which are both stricter and broader in scope than the previous BCP release and now attach greater importance to the effectiveness of actual supervision. We wish to submit a few general remarks and a number of more specific comments on the Report's evaluations and recommendations.

General Remarks

20. Regulatory choices of the Italian authorities have to be consistent with EU legislation: it is impossible for Italy to implement any recommendation inconsistent with EU law. Within this framework, the degree of freedom available to national authorities is limited and will decrease further over the next few years. In the case of the rules governing major acquisitions (CP 7), for

example, EU directives do not envisage prior approval by supervisors: the Italian requirement of prior notification of major acquisitions to the Bank of Italy (and the Bank's power to block the acquisition for prudential reasons) thus appears to strike an appropriate balance. Similar considerations apply to certain exemptions from the large exposure regime (CP 19), which are provided for in the EU legislation and not subject to derogation by Member States.

21. A second general comment refers to the application of one specific critical remark to the grading of more than one CP, thereby inflating the count of not fully positive evaluations and generating a negative bias in the overall assessment. For example, the lack of powers of supervision in respect of banks' board members and managers affects four CPs: CP1 on "Responsibilities, objectives and powers," CP5 on "Licensing," CP 11 on "Corrective powers" and CP 14 on "Corporate governance." Similarly, the final grade of CP 15 (risk management) is affected by weaknesses pertaining to the CPs dedicated to specific risk profiles.

22. A third observation is that some of the recommendations concern measures that have already been adopted by recent or forthcoming regulations (e.g., legal protection for bank supervisors and licensing), as is more extensively described in the specific remarks on CP2, CP5, and CP21.

23. Notwithstanding these general considerations, the Italian authorities broadly share the IMF's recommendations and, within their regulatory powers, intend to take—indeed in many cases have already taken—the necessary steps to implement them. In particular, the transposition of the forthcoming CRD IV will provide the opportunity for a review of the requirements of integrity and experience for banks' directors and of the sanction regime.

Specific remarks

Protection for Bank Supervisors (CP2)

24. The Bank of Italy has now issued an internal regulation (circular 283 of April 15, 2013) implementing the decision of BI's Board of Directors of December 18, 2012) that BI will pay the legal costs of employees (as well as former employees) in advance for lawsuits concerning actions and/or omissions in the performance of their duties. BI will also reimburse such legal costs where they have not been requested in advance or where they come to more than the amount advanced, not only after the final judgement (as in the previous regulation), but also after each intermediate judgment (lower court, appeal, etc.), at which the court finds the employee or former employee not liable.

Licensing (CP5)

25. The IMF recommends amending the regulatory framework to ensure that BI routinely receives the underlying documentation relative to the banks' assessment of experience and integrity of bank directors and managers, as part of its own assessment and normal licensing procedures. We would like to point out that already under current regulations, BI gets the minutes of the meetings at which banks' boards of directors assess their directors' qualifications, and if necessary BI also

requires banks to transmit the relevant background documentation. In our view, therefore, this recommendation is already in effect.

26. In addition, the recommendations call for an enhancement of the fit-and-proper-person criteria for banks' shareholders, including the capacity to provide additional capital and the sustainability of the leverage level. In this respect, we note that BI already verifies shareholders' requirements, including financial soundness, pursuant to EU legislation (Directive 2007/44/EC) and the criteria laid down in the CEBS, CESR, EIOPA Guidelines, according to which financial soundness is to be understood as the "capacity of the acquirer to finance the proposed acquisition and to maintain a sound financial structure for the foreseeable future." In any case, to make it clearer that evaluation of major shareholders' financial soundness is an integral part of BI's review process, our new Supervisory Instructions on bank licences, adopted in April 2013, now contain an explicit provision envisaging the assessment of major shareholders' capacity to provide additional capital and sustain the leverage level.

Loan loss provision (CP 18)

27. The IMF recommends developing prudential guidelines to expedite the turnover of non-performing loans; more generally, it suggests prudential guidance to ensure a minimum level of harmonization in loan loss provisions and write-off practices.

28. The Bank of Italy notes that the adequacy of banks' loan loss provisioning and of banks' policies and practices in this regard and the homogeneous interpretation and application of existing rules across the banking sector is regularly monitored as part of the on- and offsite supervisory activity. Moreover, in November 2012, a series of inspections focused on provisioning policies was undertaken at twenty banking groups. Findings were incorporated in banks' financial statements for 2012.

Concentration risk and large exposure limits (CP 19)

29. With reference to the recommendation on large exposure limits at solo level, the Italian authorities note that limits higher than that allowed at consolidated level, provided that the latter is complied with, are consistent with the integrated nature of banking groups as envisaged in the Italian Banking Law; such higher limits constitute merely formal deviation from the general rule envisaged by the CP. In the cases where EU legislation allows national discretion, such exemptions and limits will be carefully reviewed, considering among other things the impact on intra-group liquidity management and the need to ensure a level playing field.

Related party transactions (CP 20)

30. The current Italian regulatory framework on transactions with related parties represents significant progress since the previous IMF assessment. Following amendments to the primary legislation, the Bank of Italy has adopted completely new, comprehensive supervisory provisions for all banks, entailing quantitative limits to exposures, governance arrangements and specific requirements on internal control systems. Listed banks are also subject to a regulation issued by the

securities market regulator CONSOB that imposes additional requirements concerning the decision-making process and disclosure to the market.

31. In our view, the overall assessment of CP 20 is unduly severe. In particular, the Italian authorities note that the overall assessment of lack of material compliance with CP 20 is due largely to the fact that as the new BI regulation only went into effect in January 2013, no evidence of its effectiveness is available yet. In particular, the Bank of Italy is confident that its off- and onsite controls, once fully operating, will effectively complement the regulation assessed by the IMF and will ensure robust and effective supervisory action even where the particular situation calls for a specific supervisory intervention (to be assessed on a case-by-case basis). Moreover, for listed banks (which accounted for more than 60 percent of total banking system assets at the end of 2011), the rapid implementation of the new BI rules on RPT was less urgent, since in any case these banks have to comply with the CONSOB Regulation on RPT (applicable to all listed companies since January 2012).

32. As to the judgment of potential weaknesses in BI Regulation, the Italian authorities note that it is incorrect to say that there is no requirement for board approval. Actually, board approval is always required when the transaction value exceeds 5 percent of regulatory capital. Moreover, CP 20 does not explicitly prohibit risk-weighting; the weights applied are those for concentration risk, which are limited to specific asset classes and are more stringent than those for credit risk. Similarly, economic connection in the definition of related parties is not required under CP 20. In any event, the supervisory regulation authorizes BI to impose a broader definition of related parties on a case-by-case basis (including based on influence in decisions or economic dependence).

33. As to the exclusion of the conflicted board member from the decision-making process, the Italian authorities note that while the Civil Code does not specify exclusion as a general rule, the regulation already envisages cases in which the interested member cannot take part in the approval process, as required by CP20. With respect to the arm's length principle, the regulation does not impose market conditions, as transactions may not all have comparable market prices, but relies instead on the assessment of independent directors, who are called on to consider also the economic terms of related party transactions (duly motivating any deviation from market conditions) and weigh their advantageousness for the bank.

34. However, the Bank of Italy is open to re-assessing the effectiveness of the Regulation when an impact assessment of its implementation in practice becomes possible. BI has instituted a periodic reporting system covering both banks' risk exposures towards related parties and the decision-making processes required for RPTs. A first set of data suitable for thorough analysis will be available by March 2014 to permit the possible fine-tuning of the Regulation. The authorities will also consider whether the legislation on conflicts of interest needs modification to systematically exclude the interested party from the approval process.

Country and transfer risks (CP 21)

35. The subject of country and transfer risks (CP 21 and CP 15) is addressed in the new draft Supervisory Instructions on internal controls systems, information systems and business continuity, which will go into force shortly.

External auditors (CP 27)

36. As to the recommendation that the Bank of Italy be given the power to remove auditors and to review external auditors' papers, in the opinion of the Italian authorities this is not a regulatory priority. The current framework is consistent with the overall supervisory approach to external audits. It does not assign any supervisory task to external auditors, whose function is limited strictly to the auditing of financial accounts. Moreover, pursuant to Legislative Decree 39/2010 the external auditors of listed financial intermediaries—most importantly banks—are supervised by the securities market regulator, Consob. Consob assesses auditors' organization and activity, to verify their independence and technical capability. In carrying out this task, Consob periodically runs quality checks on external auditors and has access to their working papers. Where irregularities are detected, the regulator has the power to revoke the audit assignment.

IAIS CORE PRINCIPLES FOR EFFECTIVE INSURANCE SUPERVISION

A. Introduction

37. This report is a full assessment of Italy's compliance with the Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS), as adopted in October 2011. The review was carried out as part of the 2013 Financial Sector Assessment Program (FSAP) assessment of Italy. The assessment was carried out by Dr. Rodolfo Wehrhahn, Technical Assistance Advisor in the Financial Supervision and Regulation Division, Monetary and Capital Markets Department, and Ms. Christina Urias, former Insurance Commissioner, Consultant.

B. Information and Methodology Used for Assessment

38. Regulation and supervision of the insurance industry in Italy is the responsibility of the newly established Institution for the Supervision of Insurance (IVASS). IVASS is the supervisory authority of the insurance sector that includes insurers, reinsurers, intermediaries, as well as entities and organizations which, in any form, perform functions partly included in the operational cycle of insurance or reinsurance. The FSAP took place only after one month of IVASS operation, and the assessment focused on processes and practices that reflect the older agency, ISVAP. Since there is a significant change in the governance and structure of the new agency, an update of the assessment in a few years is warranted.

39. The assessment is based solely on the laws, regulations, and other supervisory requirements and practices that were in place at the time of assessment. Ongoing regulatory initiatives are noted by way of additional comments. The assessors had access to a complete self-assessment on the ICPs and responses to a detailed questionnaire IVASS provided prior to the commencement of the exercise.

40. The assessment has been informed by discussions with regulators and market participants. The assessors met with staff from IVASS, insurers, industry associations, professional bodies and audit firms. The assessors are grateful for the full cooperation extended by all.

C. Main Findings

41. Italy has taken steps to address shortcomings identified in the last FSAP from 2005–2006. IVASS has enhanced inspection powers and supervisory processes, with increased emphasis on risk-based supervision, onsite inspections, reinsurance activities, enhanced corporate governance and risk management requirements and public disclosure.

42. IVASS has reached international best practice in several areas of supervision. IVASS actively exercises group supervision and by 2000, IVASS established the first college of supervisors.

Intragroup transactions and related party participations limits are strictly monitored and enforced. Reinsurance reporting is comprehensive and contains details that allow tracking exposures to any given reinsurance, even at an individual risk level. IVASS collection of monthly data in key areas that allow for close monitoring of the liquidity risk in the insurance sector is commendable. IVASS has effectively enhanced its corporate governance and risk management supervision and is actively involved in the internal models pre-approval process in furtherance of preparations for Solvency II implementation. The supervision of conduct of business affords broad consumer protections.

43. Highly qualified IVASS staff members are each assigned to handle all aspects of supervision for individual companies. However, upgrading the quality and focus of onsite inspections would help ensure a full scope analysis of the market. Whereas IVASS has a general policy of conducting onsite inspections every four years, there are occasions where the onsite inspections do not occur within that time parameter and this may be problematic, especially for significant insurers. In addition, all supervisory staff perform inspections in all areas of supervision, without specialized training and expertise in particular focus areas of inspection sufficient to ensure the proper level of expertise and sophisticated depth and granularity of analysis to specific areas of supervision.

44. Supervisory quality controls need attention. To enhance the quality and consistent application of best practice supervision, IVASS needs to implement quality controls and communication and coordination processes between supervisory divisions to avoid gaps in supervision and to ensure a consistent and effective level of supervision, particularly of significant companies and groups. The creation of a task force of experienced supervisors is recommended. The task force should be charged with:

- Sharing best practice within the organization and institutionalizing such procedures.
- Discussing new and complex regulatory issues to develop IVASS position on those matters.
- Providing quality control for the whole supervisory activity.
- Being a source of reference for companies in trouble.
- Ensuring adequate checks and balances and peer review on the supervision.

45. A group-focused supervisory approach for the nationally significant insurers and sophisticated offsite monitoring together with ad hoc inspections for smaller entities is recommended. Individual knowledge, while currently sufficient, will be challenged with the introduction of Solvency II, and enhanced oversight of nationally significant insurers will become even more critical. Higher standards on risk management and governance, ORSA requirements, internal model use, will all require a higher degree of specialization. Further, the same level of specialization on offsite monitoring will be required for the onsite inspection to achieve a level of intrusiveness and intensity necessary to audit compliance with the extensive and detailed regulatory requirements and uncover potential vulnerabilities. The supervision of smaller insurers could be

done through sophisticated offsite monitoring, including market-wide comparisons, and complemented with ad hoc onsite supervision.

46. Further clarification of appropriate margins, parameters, and technical reserve calculation methodologies is necessary to assure adequacy of technical reserves. The assessors found some evidence of miscommunication with external auditors and actuaries on acceptable technical reserves calculation methodologies, risk margins, and parameters that suggested that enhanced communication with insurers and service providers was necessary in order to clarify what is acceptable. Consistent application of acceptable technical reserves calculations would also provide uniformity and stability across the market.

47. Operational and reputational risks to IVASS are high, given the limited transitional time available. IVASS had been in existence only since January 1, 2013, although some preliminary preparation to implement the transition has been occurring since September 2012. IVASS is required to provide its new structure in the next four months. Clear assignment of responsibilities and substantial operational delegation will be necessary to guarantee continuity in the duties of supervision. The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II.

Table 2. Summary Compliance with the Insurance Core Principles—ROSC

Core Principle	Comments
1. Objectives, Powers and Responsibilities of the Supervisor The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.	<p>IVASS is the authority responsible for the supervision of the insurance sector in Italy. The law defines the objectives of supervision as: the prudent management of insurance and reinsurance companies, transparency and fairness in the behavior of insurers, intermediaries and the other insurance market participants, with regard to stability, efficiency, competitiveness and the smooth operation of the insurance system, to the protection of policyholders and of those entitled to insurance benefits and protection.</p> <p>IVASS publishes registrations of insurers, and intermediaries on its website and publishes its regulations in the Official Journal. To maintain fairness for consumers, IVASS requires intermediaries to fulfill a list of basic disclosure requirements for the sale of insurance products to consumers.</p> <p>IVASS coordinates regulatory activities with other national regulatory authorities when the nature of insurance products overlaps with other financial products subject to supervision by the Ministry of Finance CONSOB, COVIP, and the Antitrust Authority.</p> <p>IVASS has independent power to propose changes in legislation and regulation, and in the past, ISVAP made use of such power.</p> <p>The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge and special attention will be required to address new developments in insurance regulation, particularly with the advent of Solvency II. An internal communications strategy is recommended</p>

Core Principle	Comments
	throughout the transition.
2. Supervisor The supervisor, in the exercise of its functions and powers: is operationally independent, accountable and transparent; protects confidential information; has appropriate legal protection; has adequate resources; and meets high professional standards.	<p>IVASS is a newly established authority (formerly ISVAP) for the supervision of insurance, now operating with the Bank of Italy, under the oversight of the President of IVASS (who also serves as the Director General of the Bank of Italy) and Council of IVASS, who serve with banking regulators in a Joint Directorate responsible for strategic financial and insurance supervision.</p> <p>The Council is in charge of IVASS organization, personnel, budget decisions, and IVASS internal matters. The currently published list of Joint Directorate, president and council responsibilities indicate that virtually all supervisory, inspection and anti-fraud decisions, international relations, consumers, intermediaries and loss adjusters must be approved by the president and council. The list is comprehensive and includes such ministerial functions as writing letters to insurers for routine documentation for supervisory activity, to invitations to consumer associations to schedule meetings with IVASS staff. Once IVASS is fully organized and structured in the next 120 days, it is recommended that the president and council exercise the authority to delegate ministerial matters to appropriate heads of IVASS Divisions.</p> <p>Internal audit is performed by one staff member that also has other duties. The scope and audit detail need to be strengthened, which will require additional resources.</p> <p>The supervisory process is informal and quality control over the supervisory process is lacking in formal supervisory processes.</p> <p>It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identify troubled companies and then implement a troubled company task force.</p> <p>The assessors recommend instituting a formal internal quality controls process for supervision and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure accuracy and consistency in regulatory action.</p> <p>IVASS has the discretion to directly hire up to 5 percent (20 persons) of staff without public competition. This provides IVASS with the availability to have access to specialized skills, if needed.</p> <p>While the powers to take immediate action are enacted in regulation, supervisory action suffers delays. There have been a few examples of undue delays requiring several years of ISVAP periodically writing letters, before it finally took action to shut down an unsound operation and notify consumers</p> <p>Following the financial crisis, Parliament introduced elements of asset evaluation in anti-crisis measures that are not market consistent and deviate from established accounting principles; however, IVASS has maintained regulatory oversight of the insurer's financial position as companies are obliged to disclose all calculations with and without application of the anti-crisis measures, and IVASS still has the power to intervene in regulatory solvency situations.</p>
3. Information Exchange and Confidentiality Requirements The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.	

Core Principle	Comments
	<p>IVASS exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements, and has the power to obtain information, documents and perform inspections from regulated entities and groups and financial conglomerates, including the non-regulated entities within groups.</p> <p>IVASS has extensive cooperation activities with supervisory authorities both in the EU and with non-EU jurisdictions, and currently has MoUs in place with Swiss authorities (FINMA) and the Missouri Department of Insurance, Financial Institutions and Professional Registration in the U.S. and is signatory of the IAIS MMoU.</p>
<p>4. Licensing</p> <p>A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.</p>	<p>The Insurance Code defines insurance activities and classes of insurance business subject to licensure. The licensing requirements set forth in the regulations are clear, objective, and public.</p> <p>For non-EU applicants, IVASS applies the same procedures and conditions and also checks with third country regulators to confirm the solvency of the company, fit and proper status of owners, management and key persons and to determine if there are any problems with home authority.</p> <p>IVASS maintains follow up on the newly licensed entity.</p>
<p>5. Suitability of Persons</p> <p>The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfill their respective roles.</p>	<p>The Insurance Code requires Board of Directors members, Senior Management and Significant Owners of an insurance undertaking to be suitable for the role.</p> <p>IVASS can ask a company to remove the appointed actuary. Upon receiving IVASS notice, the actuary usually resigns, because if the actuary is removed, he/she cannot work as an actuary anymore; resignation avoids this problem for the actuary and still allows the actuary to work elsewhere. This regulatory gap presents a serious problem for IVASS and the industry. IVASS should take steps to enact regulations to ensure that actuaries and other professionals are prohibited from working in the industry in the event of adverse suitability findings.</p>
<p>6. Changes in Control and Portfolio Transfers</p>	<p>IVASS approval and advance authorization is required for any significant acquisition in ownership, portfolio transfer or merger, or an interest in an insurer or reinsurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurance undertaking. IVASS regulations govern the particular requirements and IVASS has published clear and objective procedures for proposed acquisition or changes in control.</p>
<p>7. Corporate Governance</p>	<p>Italy's two-tier system of corporate governance requires insurers to establish and implement a corporate governance framework, including a Board of Directors and Board of Statutory Auditors with independence requirements for both boards. Recent enhancements to Regulation 20/2008 include specific instructions for compliance standards, and identify the roles and responsibilities related to these Board functions.</p> <p>Regulation 39/2011 governing remuneration policies, includes a "fairness to customers" consideration, to the</p>

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	extent that the regulation requires the insurer to take into account “maintain(ing) efficiency in the management of services to customers.”
8. Risk Management and Internal Controls	
	Regulation 20/2008 requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management (Article 21), compliance (Article 23), actuarial matters (Regulations 21, 16, 7, 22, and Insurance Code, Articles 31,34,190) and an internal audit function (Article 15). ISVAP began requiring risk management functions in 2005 (Article 30), and Regulation 20 /2008 established the standards and implementation requirements.
9. Supervisory Review and Reporting	
	<p>IVASS financial supervision utilizes “Fast Track” indicators for preliminary analysis of key areas/ratios of an insurer’s financial position to establish an annual inspection plan. The criteria and financial and actuarial indicators were comprehensive and objective.</p> <p>Essentially, the staff members although with particular skills act as generalists; since there is no formal specialization of specific supervisory skills or services, with the most relevant exception of actuarial skills which are mainly devoted to the assessment of technical provisions.</p> <p>The two Supervisory Divisions operate independently overseeing the particular companies assigned to each division. This divided unilateral supervision process challenges the ability for IVASS to maintain internal controls on the quality and consistency of supervision between the divisions and between individual staff members. The assessors file reviews demonstrated delays in taking regulatory action and the absence of ladders of intervention procedures assuring consistency and prompt regulatory action when needed; in addition, the insolvency of a major insurer and the fact that there had been no inspection of that insurer for more than four years. There are no regularly scheduled staff meetings between the divisions, or standing task forces or uniform procedures to focus on troubled companies or market-wide issues, such as under-reserving for technical provisions, that might adversely impact the entire sector. The absence of internal quality controls over financial analysis and examination creates the danger of regulatory gaps and failure to discover a troubled company far enough in advance. IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies.</p> <p>Individual staff members handle asset valuation individually in each division, and there is no centralized asset valuation process to assure accuracy and consistency in asset valuation.</p> <p>IVASS is in the process of preparing for the implementation of the Solvency II regime that will require a fully risk based proportionate and forward-looking supervision. EIOPA does not yet provide a full scope of training and supervisor coordination services for member jurisdictions to ensure consistent Solvency II supervision. IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities.</p> <p>There are no objective formal criteria for requiring an inspection and there is no set requirement for inspection frequency of a supervised entity. IVASS attempts to conduct an inspection of a regulated entity once every four years, but this benchmark is not followed.</p>
10. Preventive and Corrective Measures	
	IVASS has the power under the Insurance Code to take timely preventive and corrective measures to assure the prudent and sound management of insurance companies for the protection of policyholders.

Core Principle	Comments
11. Enforcement	
<p>IVASS has the power to timely impose and enforce corrective action when problems are identified. IVASS regulations provide the necessary range of regulatory enforcement options; however, it should be noted that IVASS must obtain Joint Directorate approval on several enforcement activities.</p> <p>In the event a parent holding company does not infuse capital into the insurance entity as requested, IVASS can only order a ring fencing of the insurance entity. IVASS has the power to limit dividend distribution only in cases involving breach of the group solvency margin when the parent undertaking is an insurance holding company, but may require the undertaking to set aside distributions in an ad hoc reserve net of assets (Article 228). It is recommended that legislation be amended to explicitly enable IVASS to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the undertaking's solvency.</p> <p>IVASS has the power to directly address management and corporate governance problems, including the power to directly communicate with the Board of Directors, Board of Statutory Auditors, Senior Management, auditors, and appointed actuaries, and can also order Board of Directors and shareholder meetings to address specific regulatory matters (Article 188). IVASS can remove or restrict board members, but does not have the power to impose sanctions on board members individually, sanctions are only imposed against the undertaking. It is recommended to allow for individual pecuniary sanctions in the Insurance Code.</p> <p>The IVASS fine and penalty structure includes different levels for different situations and may not be sufficient to deter improper actions. IVASS indicated that fines and penalties are capped in certain situations and considering the size and financial status of the undertaking, may not have the desired preventive impact. IVASS should consider legislative proposals to increase and restructure the fine and penalties for certain offenses.</p>	
12. Winding-Up and Exit from the Market	
<p>The Insurance Code defines insolvency and provides for a range of options for insurers to exit the market according to IVASS procedure and EU Directive 2001/17 EC (Article 245–265). In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders. The Insurance Code also provides triggers for the withdrawal of authorization and winding up of insurers.</p> <p>Legal proceedings for winding up are lengthy and complicated, and there is a risk of loss for policyholders and beneficiaries. Legal proceedings on claims, particularly can delay final resolution for many years. IVASS recognizes a need for improvement regarding timely provision of benefits payments to policyholders. Apart from motor vehicle liability situations, policyholders are partly paid within three years. The assessors recommend instituting procedures to expedite payments to policyholders during the resolution process, either by partial distributions or setting timeframe deadlines for payments to policyholders.</p>	
13. Reinsurance and Other Forms of Risk Transfer	
<p>Reinsurance regulation has developed constantly and with the latest changes in August 2012, IVASS is in observance with the IAIS reinsurance principle.</p>	
14. Valuation	
<p>The valuation of assets and liabilities is undertaken in a reliable manner. However, the fact that accounting (and regulatory) framework is substantially based on amortized cost diminishes severely its usefulness for</p>	

Core Principle	Comments
	<p>regulatory purposes, in particular in case of winding up situations. In addition, the anti-crisis measures allowing insurers to adjust the reported value on sovereign bonds have added a level of complexity that certainly does not increase the transparency or usefulness of the accounting to take regulatory actions.</p> <p>The Solvency I framework requires to determine technical provisions in a prudent way; therefore, the technical provisions do not calculate the Current Estimate nor the MOCE explicitly. In the life business, technical assumptions have to be most likely foreseeable and have to include a margin for adverse deviation of the elements considered. However, there is no explicit requirement to evaluate the size of the margin.</p> <p>In the nonlife business, technical provisions are determined in a prudent manner. Also to calculate the provisions for claims outstanding the ultimate claim cost is to be used. This approach implies an implicit margin in the determination of the technical provisions. However, there is not much transparency on the size nor required sufficiency of the margin.</p> <p>The amortized cost valuation used under Solvency I has deviations from an economic valuation. The valuations of most assets and liabilities would reflect its economic value, except in a winding up situation where the amortize cost valuation might not necessarily reflect their economic value. Further, under current in force valuation measures related to the anti-crisis law, certain sovereign bonds are valued at cost.</p> <p>Current valuation methods, excluding the anti-crisis measures, appear as a whole to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful.</p> <p>With the implementation of Solvency II clarity on the resilience assessment of the insurers will be gained. In the mean time for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudence that needs to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used.</p>
15. Investment	<p>The Regulation adopts a combination of principle-based and rules-based requirements. The principle-based requirements include the provision to invest in assets belonging to the undertaking that guarantee the security, yield, liquidity, and an adequate diversification. There are concentration limits per type of asset and issuer for assets representing technical provisions.</p> <p>Investment in derivatives is allowed only if they contribute to a reduction of investment risks or facilitate efficient portfolio management. The board is required to set and review on an annual basis general policies for the use of derivative financial instruments, including structured products.</p>
16. Enterprise Risk Management for Solvency Purposes	<p>IVASS requirements address all standards of this ICP with the only exception of the solvency position aspect of the ORSA. Under current solvency regime the value of the capital position has a minor relevance in risk management compared with the risks that regulation requires to be addressed.</p>
17. Capital Adequacy	<p>A total balance sheet approach will be in place with the entry into force of Solvency II. For the time being, the current approach is still based on Solvency I and hence does not consider interdependence between assets, liabilities, regulatory capital requirements, and capital resources for determining the solvency requirements.</p> <p>The current supervisory system requires that the insurer maintain a sufficient solvency margin as determined by Solvency I calculations. In the present legislation, two explicit solvency control levels apply: the required solvency margin and the guarantee fund. The levels of intervention in case of breach of solvency margin requirements different from those requested in case of breach of guaranteed fund that are more severe and urgent in nature that can quickly lead to freeze of assets, intervention, and winding up.</p>

Core Principle	Comments
	<p>The current Solvency I regime is not explicit on how, where, and to what extent each risk is addressed. Hence, the calibration of the required capital for a given risk is not possible or at least is cumbersome.</p> <p>The law allows the supervisor to request a variation to regulatory capital requirements only in emergency situations to protect policyholders.</p> <p>The available solvency margin shall consist of the net assets of the insurance company free of any foreseeable liabilities, less any intangible items. Further, IVASS may require the insurer to deduct from the elements of the margin available assets where a trend that can also adversely affect the solvency of the insurer is identified.</p> <p>The measures adopted in line with the anti-crisis law decree issued in 2008 allow the difference between cost value and market value of certain sovereign bond to be used as capital in the form of a “non-distributable reserve.”</p> <p>Under Solvency I, several quantitative and qualitative limits do apply on different kind of eligible capital resources, substantially mirroring a tiering system. The current guaranteed fund (MCR) can be covered by capital of the highest quality.</p> <p>Under Solvency I, insurers have to calculate their solvency margin according to the formula envisaged by directives, so they are not allowed to use internal models.</p> <p>Solvency I regulation currently in place does not allow to calculate solvency capital requirement using approaches different from the formula defined by law, therefore, internal models are not applicable for insurers’ solvency requirements. However, in preparation for Solvency II, IVASS has already started the analysis of internal models developed by companies and is strongly involved in the pre-application process for their future use. Approximately 65 percent of the Italian insurance market, based on premium, is considering the use of an internal model.</p> <p>The full ICP is expected to be observed with the implementation of Solvency II.</p>
18. Intermediaries	
	<p>The Insurance Code (Article 110) requires intermediaries to be registered in the IVASS Register. The IVASS Intermediaries Supervision Department manages the Register and is responsible for intermediaries’ supervision. Intermediaries must report material changes to their registration information. Law 135/2012 requires moving intermediaries’ registration out of IVASS to an ad hoc private institution to manage the Register under IVASS supervision. The assessors agree this is a positive step to establish a separate organization to oversee registration matters and maintain the Register. This will allow IVASS the ability to focus on supervision of intermediaries’ conduct and business practices to ensure regulatory compliance. IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to proper governance, adequate systems and bylaws having due regard to the particularities of the insurance intermediation in Italy.</p> <p>Currently, IVASS has 28 people in the Intermediaries Department, 19 of which handle Register updates and 9 handle offsite intermediary monitoring. Offsite monitoring includes consumer complaint investigation on intermediaries and sanctions if necessary. The department may request onsite inspection if necessary. IVASS does not require reporting of intermediaries’ financial statements and does not publish any market-wide notices if the department discovers problems in certain area of supervision. It is recommended that IVASS initiate a practice of market-wide notification of issues or problems that their supervision and inspections have revealed as a systemic problem.</p> <p>IVASS does not have the resources to ensure ongoing supervision of intermediaries’ compliance with Regulations and focuses its activities on registration.</p>

Core Principle	Comments
	There is no direct IVASS reporting from intermediaries, they report to their principal insurer and the insurer reports to IVASS on intermediary training.
19. Conduct of Business	
	<p>IVASS has a regulatory and supervisory framework that ensures the fair treatment of consumers in the insurance sector. IVASS has the power to regulate advertising and stop misleading advertising; intermediaries must submit prospective advertising to insurers for approval.</p> <p>Currently, there is no ombudsman requirement for the industry, and although the department can investigate and fine a company for violations, it cannot require a company to pay a claim of any amount. IVASS can use the opportunity under the current transition to consider introducing alternative dispute resolution schemes for insurance.</p>
20. Public Disclosure	
	<p>IVASS requires the timely disclosure of significant financial and business activities and performance information to assess the insurer's financial position, performance (by underwriting/investment activities and line of business), business activities and risks, together with a description of the valuation principles applied at the solo and group level. Solo entities use Italian GAAP with regulatory reporting enhancements and IFRS consolidated financial statement reporting is required for group entities.</p> <p>IVASS is preparing for Solvency II implementation and recognizes the additional public disclosures that will be required. However, IVASS anticipates a good alignment with current disclosure requirements on market consistent valuation and narrative reporting.</p> <p>Disclosure of technical provisions and methodology, future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology, where used, are described in narrative way in notes at both the solo and group level. Insurers use IVASS templates for reporting and publish disclosure of technical provisions by line of business (including IBNR reporting in notes on accounts), which are updated annually and semi-annually as appropriate, and are available in the statistical data section of the IVASS website. Following Italy's proposal, claim development disclosures will be included under Solvency II requirements.</p> <p>Disclosure of technical provisions and methodology, future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology, where used, are described in narrative way in notes at both the solo and group level. Insurers use IVASS templates for reporting and publish disclosure of technical provisions by line of business (including IBNR reporting in notes on accounts), which are updated annually and semi-annually as appropriate, and are available in the statistical data section of the IVASS website. Following Italy's proposal, claim development disclosures will be included under Solvency II requirements.</p> <p>Management reports at the solo and group level include reporting on business performance, material risk exposures, and the insurer's view of business development, portfolio changes, claims frequency and reinsurance arrangements. It is recommended that IVASS require the disclosure of stress testing results and other sensitivity analysis that insurers perform also at solo level, following IFRS7. The solvency position of the insurer is disclosed at the point of sale. This practice is commendable.</p>
21. Countering Fraud in Insurance	
	<p>The Insurance Code and Regulations, particularly those enacted last year, provide the authority for IVASS to take action to deter and prevent fraud in the insurance sector.</p> <p>IVASS created an Anti-Fraud Division last year and expects to issue its first report on 2012 data in early 2013. The industry has published general fraud information in the past and, with the enhanced Claims</p>

Core Principle	Comments
	<p>Data Bank reporting, more information will now be available to enhance anti-fraud activity. Because the antifraud reporting requirements were only recently enacted in 2012 (Regulation 44), the effectiveness of these measures is not yet known. The division keeps records on who accesses the Claims Data Bank (insurers and authorities—intermediaries cannot access the Data Bank) and verifies insurer reporting to the Data Bank.</p> <p>At present stage, the Anti-Fraud Division activities appear focused on monitoring the quality of the data in the Claims Data Bank and insurer's anti-fraud activities rather than proactively engaged in combating fraud and active fraud prevention. IVASS should implement specialized training for fraud division staff members to enhance the quality of fraud prevention activities. A proactive approach with increased inspections is recommended.</p>
<p>22. Anti-Money Laundering and Combating the Financing of Terrorism</p>	
	<p>Regulation 41/2012 requires insurers to implement explicit anti-money laundering and counter terrorist financing controls. Delay in establishing this new IVASS regulation following the 2005 FSAP (Italian legislation foresaw, in 2007, that ISVAP enact regulation on these matters) was due in part to working with Bank of Italy to ensure regulatory alignment with Bank of Italy legislation. The IVASS Inspection and Anti-Fraud Division is responsible for AML/CTF oversight and enforcement.</p> <p>The IVASS Inspection and Anti-Fraud Division has only conducted one AML/CTF inspection since the enactment of Regulation 41/2012. In the past, it has used existing regulatory authority (Regulation 20/2008) in prior inspections of internal control system. Enactment of Regulation 41/2012 clarified the Anti-Fraud Division practices that were already in effect before the enactment. Companies must now have a designated AML function and designate the person in charge of AML activities. However, the implementation of this requirement has not been supervised yet. It is recommended that the anti-fraud division provide specific AML/CTF training for its staff and promptly initiate focused AML/CTF inspections. Communication with industry on expectations and requirements under the new regulation is recommended.</p> <p>Required intermediary recording procedures would provide records for transactions, thereby providing IVASS with the opportunity for greater oversight over improper transactions, although IVASS cannot directly receive and collect suspicious transaction reports (Law 231/2007 (art. 41)). With the enactment of Regulation 41/2012, IVASS has the authority over intermediaries in this regard, but IVASS has not conducted any onsite inspections of intermediaries in this area.</p> <p>Under the EU Directive, AML only applies to life insurers. The assessors recommend applying these requirements to non-life companies because those engaged in AML try to find channels that are less controlled and regulated. Even applying these standards only to the life companies doing business in Italy, the Anti-Fraud Division currently can only do 5 inspections a year, it would take at least 10 years to inspect all companies to whom the law was applicable.</p> <p>The lower number of inspections and followed actions is probably not sufficient for proper supervision of the AML regulation. The assessors recommend IVASS to implement a risk-based approach to prioritize exposures and conduct inspections.</p> <p>Insurers report aggregated AML data to UIF monthly and UIF can order inspections as appropriate. IVASS does not have information on Bank of Italy and UIF activities and IVASS does not get individual company information, but only obtains UIF general data, of the inspections performed and criminal investigation information. IVASS maintains an onsite tool for internal operations data in AML, including indicators for suspicious transactions. The Inspection and Anti-Fraud Division also reviews insurers'</p>

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	intermediary report, but does not maintain specific records on individual companies.
23. Group-Wide Supervision	
	<p>In addition to legal entity supervision, IVASS has supervisory powers to carry out group-wide supervision through both offsite analysis and onsite inspections (Insurance Code, Articles 213-214), utilizing the common framework of the EU Directive and includes all entities in the group, including non-insurers.</p> <p>IVASS supervision includes all relevant group entities by considering interconnectedness and appropriate material risk factors.</p> <p>IVASS currently uses the capital requirement from the capital assessment of the group's home jurisdiction if deemed "comparable" and intends to continue to use the home jurisdiction group capital calculation if the home jurisdiction is deemed "equivalent" under Solvency II. IVASS considers the group's consolidated balance sheet—using the sum of the capital of the solo entities within the group, without a diversification benefit. In the event of a deficiency, IVASS requests the insurance parent to infuse capital into the insurance entity, and if the parent company refuses, IVASS can then prohibit dividend payments up to parent entity. In addition, if assets are held in a country that does not provide transparent information, the group should exclude those assets from solvency calculations.</p> <p>IVASS determination to narrow the scope of the group when there are "legal impediments to obtaining necessary information" from a third country could be problematic if IVASS cannot get information necessary for proper group supervision. It is recommended that IVASS eliminate this exception and take all available steps to obtain the necessary information.</p> <p>IVASS has an effective and efficient group-wide supervision framework to supplement its solo supervision, including the power to conduct offsite analysis and onsite inspections. IVASS cooperates with cross border supervisors and has conducted joint group inspections with other relevant supervisors, including branches and subsidiaries operating in Italy. EIOPA participates in joint inspections and acts as mediator as necessary. IVASS does not currently have any joint inspections plans through a supervisory college.</p> <p>IVASS considers all of the requirements explicitly listed in ICP 23.7 in its group inspections, and incorporates those requirements in its group supervision framework, requiring group reporting on capital adequacy, intra-group transactions and risk concentrations, including risk concentrations on reinsurance, and shares these considerations with other supervisors in supervisory colleges.</p>
24. Macroprudential Surveillance and Insurance Supervision	
	<p>IVASS has access and published a large amount of statistics and market information.</p> <p>The amount of data received and the level of granularity allows IVASS to gain a fair picture of the market and also to analyze trends, and eventually develop or recommend the appropriate macro-prudential measures should they be necessary.</p> <p>IVASS vulnerability tool enhancing EIOPA's equivalent tool is praiseworthy. The section on qualitative assessments has been useful to exclude certain type of systemic vulnerabilities in the market.</p> <p>IVASS is recommended to develop an early warning system leveraging from tools recently used by EIOPA/ESRB, like the Risk Dashboard identification by calibrating the different indicators to reflect the current situation of the Italian market.</p> <p>The EIOPA stress test should not be seen as a substitute for the industry-wide stress test developed to analyze the resilience of the Italian market as a whole to extreme but plausible macro scenarios. Also reverse stress testing is recommended as further macroprudential surveillance tools.</p> <p>IVASS collects monthly data in key areas that allow for close monitoring of the liquidity risk in the insurance</p>

Core Principle	Comments
	<p>sector. The further development of tools to address systemic risk that could result from the current anti-crisis measures is necessary, and a public communications strategy on the anti-crisis measures is recommended. Also to be prepared for an acute situation, the development of extreme measures tools, like delayed payment of surrenders or payments in sovereign instruments should be considered.</p> <p>IVASS should remain actively engaged in the international discussions on the determination of G-SII and start developing the framework to determine and supervise domestic systemic insurers. Not only consideration to the size of the insurers but also connectivity and substitutability should be considered. The new structure of IVASS having a close tie to BoI will benefit IVASS in the development of macroprudential surveillance tools by taking advantage of the long standing experience of BoI in this area. An integrated approach is recommended but with due regard to maintaining the relevance of the insurance sector in the systemic risk discussions.</p>
	<p>25. Supervisory Cooperation and Coordination</p>
	<p>IVASS has vast experience in the supervision of cross-border groups and applies international best practice in the setting up and running of supervisory colleges. The first supervisory college was established in 2000. IVASS follows the Helsinki Protocol as well as CEIOPS/EIOPA guidelines that IVASS itself has contributed to develop through its constant and active participation in the CEIOPS/EIOPA works. Current collaboration agreements are in place with countries where over 95 percent of the insurance premium emanates.</p> <p>IVASS has developed and implemented a communication platform that is commended for allowing efficient confidential supervisory relevant information sharing among supervisors in a timely manner.</p> <p>Colleges where the members belong to the EU including Switzerland run smoothly. The presence of a non EU participant (excluding Switzerland) in a college has generated operational difficulties related to confidentiality requirements at the EU national level. As the Italian insurers expand into third countries, these difficulties need to be overcome.</p> <p>IVASS is recommended to take a leadership role in implementing the required measures to allow for a similar approach to the cross-border supervision that applies to the EU colleges for colleges with the participation of third countries' authorities.</p>
	<p>26. Cross-Border Cooperation and Coordination on Crisis Management</p>
	<p>Activities on cross-border cooperation are carried out by IVASS mainly within the EIOPA framework and the MoU signed in 2008 for the effective cross-border financial stability cooperation between ministries of finance, central banks, and other financial sector supervisors.</p> <p>IVASS meets regularly with other relevant supervisors and authorities as part of the CoS (Colleges of Supervisors). These meetings provide the platform for the gathering and dissemination of relevant or essential information in going-concern and emergency situations, developing a common understanding of the risk profile of the cross-border insurers, achieving coordination of supervisory review and risk assessment at a group level, as well as establishing supervisory plans for the mitigation of risks. Specific and flexible emergency plans are adopted during the CoS meetings in order to manage the particular issues of a cross-border crisis as well as single insurers.</p> <p>IVASS proactive sharing within the colleges of its detail analysis on the exposure and concentration risk of the Italian insurance groups to sovereign assets is commendable.</p> <p>IVASS together with the other EU supervisors performed a few simulation exercises to assess the ability of prompt reaction in case of emergency of crisis situation mainly by testing the efficiency of the contact points.</p> <p>Italian groups are basically exclusively active in EU based on premium volume, and cross-border</p>

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	<p>cooperation and coordination on crisis management are well developed and present less difficulties due to the implementation of the EU directives and EIOPA's efforts in this area. For groups that include third countries not much has been done with respect to crisis preparedness. Colleges have not tested crisis simulations beyond EU, and there are no resolution plans among cross-border supervisors that involve third countries.</p> <p>IVASS is recommended to develop for relevant third countries similar agreements and procedures currently available for the cross-border crisis preparedness among EU members.</p> <p>IVASS does not require insurers to regularly test their contingency plans nor have they been inspected. It is advised that IVASS should require an annual test of the contingency plans and supervise compliance.</p>

D. Recommended Actions

Recommended Actions to Improve Compliance with the Basel Core Principles and the effectiveness of regulatory and supervisory frameworks	
Reference Principle	Recommended Action
1. Objectives, Powers and Responsibilities of the Supervisor	<ul style="list-style-type: none"> • The transition into the new organization needs careful attention to avoid the loss of IVASS institutional knowledge. Change management and effective internal communications strategy are recommended.
2. Supervisor	<ul style="list-style-type: none"> • It is recommended that the president and council exercise the authority to delegate ministerial matters to appropriate heads of IVASS Divisions to ensure quick efficient operability. • The scope and audit detail need to be strengthened, proper resourcing is recommended. • The assessors recommend instituting a formal internal quality controls process for supervision, and the development of formal supervisory processes that allow for emergency action and cross checking of the activities of each supervisory division to ensure accuracy and consistency in regulatory action. • IVASS should establish formal procedures and timelines to ensure more expedient regulatory action to protect consumers on timely basis. • It is recommended that IVASS develop clear and consistent fundamental procedures for financial analysis supervision that identifies troubled companies, and then implement a troubled company task force consisting of employees with significant areas of expertise that would regularly meet and focus on all elements of supervision of nationally significant troubled companies, to ensure the exercise of prompt and efficient regulatory action. • New regulatory requirements and obligations resulting from forthcoming changes in EU legislative frameworks, including Solvency II and implementing measures, will have heavy staffing and budget impacts, thus consideration should be made to limit cross-budget support practices.
3. Information Exchange and Confidentiality Requirements	<ul style="list-style-type: none"> • Article 10.8 requirement for reciprocity agreements might prevent IVASS from obtaining the

necessary supervisory information in a given case, and IVASS may consider taking appropriate action to recommend modify that requirement from primary law.
<p>5. Suitability of Persons</p> <ul style="list-style-type: none"> • IVASS should take steps to enact regulations to ensure that actuaries and other professionals are prohibited from working in the industry in the event of adverse suitability findings.
<p>7. Corporate Governance</p> <ul style="list-style-type: none"> • IVASS should regularly evaluate the Board Members for quality of performance of their duties.
<p>8. Risk Management and Internal Controls</p> <ul style="list-style-type: none"> • To make the performance checklist effective, the ability to sanction the board for poor performance in the risk oversight is recommended.
<p>9. Supervisory Review and Reporting</p> <ul style="list-style-type: none"> • IVASS should consider developing specialized staff expertise in specific supervision areas (financial analysis, inspection expert, governance and enterprise risk management expertise, etc.) to drill down into the specific details of specified areas of supervisory responsibilities. • It is recommended that IVASS establish formal processes across both divisions that set forth trigger points and specific ladders of intervention to ensure consistent and expedient regulatory action. • IVASS should implement internal quality controls and adopt formal communication and peer review processes that ensure accuracy and consistency in offsite analysis and onsite inspections, particularly for nationally significant companies. • IVASS should develop guidelines along with a centralized asset valuation process to ensure that all staff members conduct the same valuation.
<p>10. Preventive and Corrective Measures</p> <ul style="list-style-type: none"> • It is recommended IVASS consider enhancing the regulations to add specificity to the ladder of intervention tools (new business restrictions, freezing assets, imposing liquidity requirements, reducing exposure limits, increased solvency margin, and recovery plans with specified timelines).
<p>11. Enforcement</p> <ul style="list-style-type: none"> • It is recommended that legislation be amended to explicitly enable IVASS to restrict or suspend dividends or other payments to shareholders, when such payments would jeopardize the company's solvency. • IVASS should consider legislative proposals to increase and restructure the fine and penalties for certain offenses. • IVASS can remove or restrict Board members, but does not have the power to impose sanctions on Board members individually, sanctions are only imposed against the company. It is recommended to allow for individual pecuniary sanctions in the Insurance Code.
<p>12. Winding-Up and Exit from the Market</p> <ul style="list-style-type: none"> • The assessors recommend instituting procedures to expedite payments to policyholders during the resolution process, either by partial distributions or setting timeframe deadlines for

payments to policyholders.
<p>13. Reinsurance and Other Forms of Risk Transfer</p> <ul style="list-style-type: none"> • IVASS should evaluate the market need for securitization of insurance risk, and if necessary, draft appropriate regulation. • To enhance transparency of reinsurance treaties, a mandatory treaty clause stating the completeness of the reinsurance treaty and thus avoiding the use of side letters is recommended. • Reinsurance credit currently follows the static and not risk sensitive Solvency I rules. A more risk sensitive approach is recommended that takes the credit worthiness of reinsurers into account. • Consider monitoring the total exposure to individual reinsures of major risks.
<p>14. Valuation</p> <ul style="list-style-type: none"> • Current valuation methods, excluding the anti-crisis measures appear, as a whole, to be prudent. However, due to the lack of transparency in the determination of the margins, its regulatory usefulness is doubtful. The implementation of Solvency II is recommended to gain clarity on the resilience assessment of the insurers. • In the mean time, for the purpose of transparency and consistency in the market, IVASS should provide guidance on the expected level of prudence that needs to be applied. This should be done at a high level by stating for instance confidence levels or requirements on the stochastic models to be used
<p>17. Capital Adequacy</p> <ul style="list-style-type: none"> • Implementation of Solvency II framework will allow the observance of this principle. The swift implementation of Solvency II is recommended. • IVASS is recommended to maintain the resources and focus in the approval work of internal models to avoid possible deficiencies in the capital determination emanating from the use of internal models under Solvency II.
<p>18. Intermediaries</p> <ul style="list-style-type: none"> • IVASS is recommended to devote sufficient attention to the establishment of this new institution in particular to proper governance, adequate systems and bylaws having due regard to the particularities of the insurance intermediation in Italy. • IVASS should consider publishing any market-wide notices to intermediaries if the department discovers problems in certain areas of activity. • It is recommended that IVASS re-direct its focus on intermediaries from maintaining the Register to proactive supervision of intermediaries' conduct of business. • IVASS should adopt a risk-focused approach and prioritize its inspections of intermediaries, focusing on larger and more problematic intermediaries.
<p>19. Conduct of Business</p> <ul style="list-style-type: none"> • The creation of alternative resolution scheme is recommended.
20. Public Disclosure

<ul style="list-style-type: none"> • It is recommended that IVASS require the disclosure of stress testing results and other sensitivity analysis that insurers perform also at solo level following IFRS7.
<p>21. Countering Fraud in Insurance</p> <ul style="list-style-type: none"> • Considering the new establishment of the anti-fraud division, it is recommended IVASS institute a training program, utilizing police and loss control and prevention courses for staff members to gain specialized knowledge and expertise in fraud prevention and detection.
<p>22. Anti-Money Laundering and Combating the Financing of Terrorism</p> <ul style="list-style-type: none"> • On a quarterly basis and on aggregate form, insurers and intermediaries should inform IVASS on all suspicious transactions reported. • AML/CTF training for IVASS staff working in this area is recommended.
<p>24. Macroprudential Surveillance and Insurance Supervision</p> <ul style="list-style-type: none"> • IVASS is recommended to develop an early warning system leveraging from tools recently used by EIOPA/ESRB, like the Risk Dashboard identification by calibrating the different indicators to reflect the current situation of the Italian market. • The EIOPA stress test should not be seen as a substitute for the industry-wide stress test developed to analyse the resilience of the Italian market as a whole to extreme but plausible macro scenarios. Also reverse stress testing is recommended as further macroprudential surveillance tools. • Tools to address systemic risk that could result from the current anti-crisis measures need to be further developed, like delayed payment of surrenders or payments in sovereign instruments should be considered, and a public communications strategy on the anti-crisis measures is recommended. • IVASS should remain actively engaged in the international discussions, on the determination of G-SII and start developing the framework to determine and supervise domestic systemic insurers. Not only giving consideration to the size of the insurers but also connectivity and substitutability should be considered. • IVASS participation in national stability board should continue with a strong voice on insurance risks.
<p>25. Supervisory Cooperation and Coordination</p> <ul style="list-style-type: none"> • IVASS is recommended to take a leadership role in implementing the required measures to allow for a similar approach to the cross-border supervision that applies to the EU colleges for colleges with the participation of third countries' authorities.
<p>26. Cross-border Cooperation and Coordination on Crisis Management</p> <ul style="list-style-type: none"> • IVASS is recommended to develop for relevant third countries similar agreements and procedures currently available for the cross-border crisis preparedness among EU members. • It is advised that IVASS should require an annual test of the contingency plans and supervise compliance.

E. Authorities' Response to the Assessment

48. IVASS acknowledges issues highlighted by FSAP as well as recommendations thereto and is firmly committed to take necessary actions to improve quality and quantity of its own activity. These results will be sought by exploiting synergies with the consolidated experience in supervisory activity and with technical structures of Bank of Italy, as envisaged in IVASS's establishing law 135/2012. Synergies with Bank of Italy will be sought at first in main areas of onsite inspections, procedural settings and support for IT handle of data and analysis. Moreover, we would like to underline a couple of points: (i) notwithstanding our generalistic organizational setting, specialization of resources is taken into account in practice when carrying out supervisory activity, both onsite and offsite, in order to involve knowledge and skills appropriate to issues under scrutiny; (ii) concerning the need for more detailed procedures underpinning supervisory actions as highlighted by the FSAP, it is to be noted that, where the Italian insurance framework is more principle-based, IVASS has developed internal procedures and tools in order to ensure consistency of approach towards supervised entities; this will also be developed for other areas, in order to further improve consistency.

49. Nevertheless, IVASS wishes to underline that the point in time in which the Assessment took place significantly influenced its results. The FSAP was carried out in early January 2013, in the very first days of IVASS, so that the activity and forthcoming organization of the new Authority could not be subject to assessment. Moreover, in 2012 ISVAP had undertaken an internal reorganization meant to rationalize processes and resources in the view of the forthcoming Solvency II regime; however, this reorganization could not fully deploy its intended benefits due to the transformation into IVASS as announced in summer 2012.

IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

A. Summary

50. An assessment of the level of implementation of the IOSCO Principles in the Italian securities market was conducted from January 18 to 31, 2013 as part of the FSAP by Ana Carvajal, Monetary and Capital Markets Department (MCM), and Malcolm Rodgers, external consultant. The previous IOSCO assessment was conducted in 2004. Since then, significant changes have taken place in the Italian market, in terms of market development as well as upgrading of the regulatory framework. In addition, IOSCO approved a new set of Principles in 2010 and a revised Methodology in 2011.

51. Italy exhibits a high level of implementation of the IOSCO principles. Overall the legal and regulatory framework is sound and the regulatory authorities have developed extremely sophisticated arrangements for offsite supervision that have resulted in a robust system of supervision. These arrangements have been developed using extensive data reporting obligations that allow the Banca d'Italia (BI) and the Commissione Nazionale per le Società e la Borsa (Consob) to have a much more precise understanding of intermediaries and products and their characteristics than is currently available to regulators in many advanced jurisdictions. Staff use these tools to the fullest to target their supervisory interventions. Furthermore, analysis at a system-wide level by BI complements microprudential supervision and helps in the identification of risks arising from the securities market.

52. However, these arrangements need to be complemented by additional onsite inspections to make the system more effective, although the current coverage of inspections (measured by assets and number of clients) is very high. While the robustness and sophistication of such offsite tools allow adjustments in the use of onsite inspections and altogether the current approach of Consob and BI has delivered an adequate level of supervision, onsite work remains a key tool to identify weaknesses in conduct practices, which cannot easily be detected via reporting. The same applies to operational risk, and more generally to poor governance, internal controls, and risk management systems.

53. In addition, the enforcement strategy should be continuously monitored to ensure that there is the right mix of tools to affect behavior, and tools available to the regulators should be strengthened. In this regard, remedial actions are necessary components of any enforcement program, but they are not sufficient. Stronger use of pecuniary sanctions is a natural complement to corrective actions. To this end, it is critical that the powers to impose pecuniary sanctions on licensed entities be strengthened, both in terms of the ability to impose penalties on legal entities and individuals, as well as in the level of fines that can be imposed. Finally, criminal sanctions, in particular imprisonment, should be used sparingly but strategically to punish the most egregious violations and send clear deterrence messages to the market. The assessors acknowledge that criminal enforcement is a challenging area for both advanced and emerging economies.

54. Consob has done very effective work on identifying conflicts of interest across a range of areas in the securities markets. This is particularly important in the Italian context, where banks dominate the securities industry. It is critical that policy and supervisory actions, including enforcement, continue to be taken to address these issues.

55. Finally, strengthening of the licensing framework is required and a few refinements to the current allocation of responsibilities between BI and Consob are encouraged. On the former, it is necessary that the definition of fit and proper be strengthened and the regulatory authorities be given the power to remove individual directors. On the latter, the mission recommends that a consultation process with Consob be established for the review of applications by banks seeking to provide investment services. In addition, the current framework could benefit from a streamlining of the chosen twin-peak structure, aimed at eliminating possible ambiguities or inconsistencies and strengthening the functional approach.

B. Information and Methodology Used for the Assessment

56. The assessment was conducted based on the IOSCO Objectives and Principles of Securities Regulation approved in 2010 and the Methodology adopted in 2011. As has been the standard practice, Principle 38 is not assessed due to the existence of a separate standard for securities settlement systems. A technical note on the oversight framework for clearing and settlement of securities markets will be delivered during this mission.

57. The IOSCO methodology requires that assessors not only look at the legal and regulatory framework in place, but also at how it has been implemented in practice. The recent global financial crisis has reinforced the need for assessors to take a critical look at supervisory practices, to determine whether they are effective enough. Among other things, such judgment involves a review of the strength of offsite monitoring, as well as of the inspection programs for different types of intermediaries, the cycle, scope, and quality of inspections, as well as how the agency follows up on findings, including the use of enforcement actions.

58. The assessors relied on: (i) a self-assessment prepared by the Commissione Nazionale per le Società e la Borsa (CONSOB) and the Banca d'Italia (BI); (ii) the review of relevant laws and reports; (iii) review of supervisory files; (iv) meetings with staff from Consob, BI, the Minister for Economy and Finance (MEF), and prosecutorial authorities; as well as (v) meetings with market participants, including issuers, banks and their association, securities firms, fund managers, and their associations, as well as with the exchange, trading venues, external auditors, credit rating agencies, and law firms.

59. Consob and BI extended full cooperation and engaged in very candid conversations regarding the regulatory and supervisory framework in Italy. The assessors also want to extend their appreciation to all other public authorities and market participants with whom they met.

C. Main Findings

60. The preconditions for effective regulation and supervision of securities markets appear largely to be in place. Foreign issuers can tap the markets under similar conditions to domestic issuers. The same authorization requirements apply to both domestic and foreign corporations that want to provide investment services, including CIS management, or to operate an RM or an MTF in Italy. The tax system has created some distortions for the development of capital markets. For example, a favorable treatment of bonds versus deposits prompted banks to be active in the issuing of bonds, which in practice were considered quasi-deposits; this favorable treatment was eliminated last year. The implementation of a financial transaction tax could potentially distort the development of capital markets as it is only applicable to equity transactions and equity derivatives transactions. The company law is modern, and the insolvency framework includes restructuring procedures, but insolvency procedures are very protracted. The judiciary's independence, specifically capacity and resources, in connection to criminal enforcement of securities regulations needs to be strengthened. Italy has implemented International Financial Reporting Standards (IFRS), and auditing standards do not have major differences with international standards.

61. Principles for the regulator: Overall the legal framework for BI and Consob is sound and provides each of them with a clear mandate. Arrangements are in place to ensure coordination and cooperation. There is also a strong framework of transparency, independence, and accountability, both to the government and the public. The rights of third parties are adequately protected via the imposition of due process obligations. BI and Consob are subject to ethical rules. However, the framework for independence for both Consob and BI should be further strengthened, in particular in regard to the protection of staff during the course of legal actions, as well as their respective code of ethics in regard to securities transactions. In addition, strengthening of the licensing and enforcement powers in the specific areas discussed in this assessment is needed. Finally, a few refinements in current allocation of responsibilities between Consob and BI are encouraged.

62. Principles for enforcement: Both Consob and BI have broad investigation and inspection powers in line with their respective mandates. There is a wide range of enforcement tools available including sanctions. However, in the areas of intermediaries and CIS, Consob and BI can only impose pecuniary sanctions on the individuals involved and not on the regulated entities (although regulated entities are severally liable for payment) and the level of such sanctions (other than for market abuse/short selling offences) appears low. The supervisory approaches of BI and Consob, which altogether have delivered an adequate level of supervision, rely heavily on robust offsite monitoring, and a more limited use of onsite inspections, although their coverage by market share (in terms of assets and investors covered) is high. The enforcement approach relies more on remedial actions, which while necessary might not be sufficient, and pecuniary sanctions for breaches other than market abuse/short selling violations are low mainly due to the limitations in the legal framework as stated above and judicial practices. Criminal enforcement faces challenges, as there is a preference for settlements and even when convictions take place conditional execution is given; all of which affects the deterrent effect of the criminal system.

63. Principles for issuers: Issuers of securities subject to public offerings and products admitted to trading on an RM are subject to robust disclosure obligations at the moment of registration and on a periodic and on-going basis. Consob has developed a robust program to monitor their compliance with their disclosure obligations. Basic rights of shareholders are imbedded in company law. Additional protections exist in connection with issuers listed in an RM, including the obligation to launch a mandatory tender offer, and notification obligations for substantial and insider holdings. Issuers admitted to trading only in MTFs are not subject by law to these additional disclosure and fairness obligations. However, the listing rules of Borsa Italiana do impose requirements in both areas, although less stringent than for issuers admitted to trading in an RM. The alternative investment market (AIM) is currently not significant in size. There is an additional category of issuers widely held which is subject to less stringent requirements than issuers admitted to trading in a RM; however, currently it does not appear to be significant in size.

64. Principles for auditors, credit rating agencies (CRAs), and other information service providers: Auditors of public interest entities (PIEs) are subject to oversight by Consob. Such oversight is mainly exercised through a quality control review, conducted via onsite inspections that are carried out on a three-year cycle. The inspections program appears robust. CRAs that provide services in Italy were subject to a thorough registration process by cross-European colleges of supervisors. They are now under the supervision of the European Securities and Markets Authority (ESMA), which is in the process of implementing its supervisory program for CRAs. There is a framework in place for all persons who provide recommendations on securities, which is based on fair disclosure; in addition, regulated entities are subject to organizational requirements to minimize potential conflicts of interest.

65. Principles for collective investment schemes: The authorization framework for AMCs and SICAVs includes capital requirements, fit and proper, and organizational requirements, and the process to review applications by BI is thorough. However, there are limitations on the definition and verification of fit and proper requirements and BI cannot order the removal of individual directors except in narrow circumstances. CIS that are offered to the public are subject to similar disclosure obligations as issuers. Consistently with the EU legislation, only the prospectuses of closed-end funds are subject to pre-authorization by Consob; however, the fund rules of any CIS other than a hedge fund or reserved fund must be pre-approved by BI. In addition, through its offsite monitoring Consob conducts ex-post checks of prospectuses. The supervisory program for AMCs and CIS relies heavily on robust offsite monitoring, and a more selective use of onsite inspections, although the coverage of the latter in terms of market share (measured by assets and investors) is high. Rules concerning custody of assets are robust including the requirements that assets must be entrusted to a depositary bank which is required to hold a separate license by BI and is under its supervision, including through onsite inspections. In addition, external auditors are required to submit annual reports on compliance with segregation obligations. BI has developed guidance for the valuation of assets of CIS, including in connection with illiquid assets, which are consistent with IFRS. Conditions of suspensions of redemptions must be disclosed in the offering documents. Suspensions must be notified to Consob.

66. Principles for securities intermediaries: The authorization framework for IFs includes capital requirements (initial and ongoing), fit and proper, and organizational requirements, and the process to review applications is thorough. However, there are limitations on the definition and verification of fit and proper requirements, and neither BI nor Consob can order the removal of individual directors except in narrow circumstances. The supervisory program for IFs by both Consob and BI relies heavily on robust offsite monitoring and a more selective/targeted use of onsite inspections, although the market coverage (measured by assets and clients) is high. The legal framework provides the authorities with robust crisis management and resolution tools in connection with banks, IFs, and AMCs. In particular, special administration is available to deal with troubled firms, and their liquidation can be done on an administrative basis via a compulsory liquidation. An investor compensation scheme is in place.

67. Principles for secondary markets: RMs operators are subject to authorization requirements, which include financial, fit and proper, and organizational requirements; and the process to review applications is thorough. MTFs must hold a license of IF or market operator, and therefore, are subject to strong authorization requirements. Trading venues are subject to pre- and post-trade transparency requirements, including in relation to financial instruments other than shares (although not required by EU law), and SIs are also subject to post-trade transparency. These obligations are complemented by obligations on intermediaries to report off-market transactions. Consob and BI, as for wholesale markets in government securities, have developed robust arrangements for market surveillance, which are complemented by the RMs and MTFs. Consob and BI have also developed both formal and informal arrangements to oversee Borsa Italiana, MTS, and the MTFs. Cassa di Compensazione e Garanzia (CC&G) monitors clearing members' exposures on a daily basis, and has powers to request members to post additional margins intraday. Default procedures are transparent. There are reporting obligations in connection with short selling, as well as in connection with failed settlements.

Table 3. Summary of Implementation of IOSCO Objectives and Principles of Securities Regulation—ROSC

Principle	Comments
Principle 1. The responsibilities of the Regulator should be clear and objectively stated.	
	BI and Consob mandates are clearly defined by the CL. The specific allocation of responsibilities between the authorities is complex and requires a significant amount of cooperation and coordination. Arrangements for such coordination and cooperation are in place.
Principle 2. The Regulator should be operationally independent and accountable in the exercise of its functions and powers.	
	Overall, the framework for independence and accountability is robust; however, for both BI and Consob, it is important that arrangements concerning the defense of staff during the course of law suits be strengthened.
Principle 3. The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.	
	Both BI and Consob have broad powers to carry out their functions. A few limitations apply in the area of intermediaries and CIS, in particular (i) they do not have the power to remove individual directors except when they no longer meet the fit and proper criteria of MEF regulations which are narrowly defined or they are sanctioned for market abuse or a public offering violations, and (ii) they can only impose pecuniary sanctions on individuals of such regulated entities but not on the legal entities, although the latter are jointly and severally liable for payment. And the level of the sanctions for breaches different from market abuse/short selling violations is low. Both BI and Consob appear to have sufficient resources.
Principle 4. The Regulator should adopt clear and consistent regulatory processes.	
	Development of regulations is subject to a consultation process. Requirements for licensing are clear and available in the websites of BI and Consob. Decisions that can affect third parties are subject to due process, including the right to appeal to the judiciary.
Principle 5. The staff of the Regulator should observe the highest professional standards, including appropriate standards of confidentiality.	
	Staff of both BI and Consob are subject to ethical rules, derived from the general rules for the public administration. Such general rules are complemented by the codes of ethics and terms of employment. In general in both cases there is a duty to notify conflict of interest, and in the case of Consob, there is the specific requirement to notify securities transactions. The rules of each authority contain specific provisions regarding the use of information and the obligation of staff to keep the confidentiality of the information they have. The internal audit units are in charge of monitoring compliance with ethical obligations.
Principle 6. The regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate.	
	There are processes in place at both BI and Consob to identify systemic risk. They both exchange information on a regular basis. In addition, a financial stability committee has been set up with a view to support risk identification and monitoring and crisis management cross-sectorally.

<p>Principle 7. The Regulator should have or contribute to a process to review the perimeter of regulation regularly.</p>
<p>There are processes in place at both BI and Consob to support the identification of risks to the perimeter of regulation. In addition, they are obliged to review their regulations on a three-year cycle. They both actively support MEF in the discussion of EU directives and regulations.</p>
<p>Principle 8. The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.</p>
<p>There are important conflicts of interest in the Italian market that relate to (i) the ownership structure of issuers, and (ii) banks' role as issuers and distributors of securities. Consob has adopted policy measures to tackle these conflicts of interest, and review of their compliance is part of the supervisory program of Consob.</p>
<p>Principle 9. Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.</p>
<p>RM and MTFs play a limited role in market surveillance and listing of issuers. As a result, they have not been considered SROs for the purposes of this principle.</p>
<p>Principle 10. The Regulator should have comprehensive inspection, investigation and surveillance powers.</p>
<p>Both BI and Consob have been given broad powers to supervise, and inspect regulated entities, conduct surveillance of authorized securities markets, and conduct investigations in connection with breaches to securities laws. To this end, they both have been given compulsory powers commensurate to their respective mandates.</p>
<p>Principle 11. The Regulator should have comprehensive enforcement powers.</p>
<p>Consob has been given broad powers to request information from third parties, including the use of compulsory powers in connection with breaches to securities laws. A wide range of enforcement tools are available to Consob and BI, except that for breaches different from market abuse, short selling and issuers related violations, pecuniary sanctions in the areas of intermediaries and CIS can only be imposed on the natural persons and not on the legal entities—although the latter are jointly and severally liable for their payment—and the level of such sanctions for breaches other than market abuse/short selling violations appears low.</p>
<p>Principle 12. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.</p>
<p>The supervisory approach of BI and Consob relies heavily on robust offsite monitoring and a more limited use of onsite inspections, although the coverage by market share (measured in terms of assets and clients) is high. The enforcement approach relies more on remedial actions, which while necessary might not be sufficient. Furthermore pecuniary sanctions imposed for offences other than market abuse/short selling violations are low to a large extent due to the limitations in the law and judicial practices. Criminal enforcement faces challenges, including a strong reliance on settlements and conditional execution which can detract from the deterrent effect that criminal enforcement should have.</p>

Principle 13. The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.
Consob and BI are required to cooperate with each other, including by sharing information. Consob is the point of contact for requests for information from international regulators. The CL empowers Consob to share information with them, even if it is confidential.
Principle 14. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
Several MoUs govern cooperation between Consob and BI. There is also a protocol for coordination in relation to financial stability signed by BI, Consob, IVASS and the MEF, which established the financial stability committee. Consob is signatory of the IOSCO MMoU.
Principle 15. The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.
Consob regularly collects information on behalf of foreign regulators. Under the IOSCO MMoU, no request for assistance has been refused.
Principle 16. There should be full, accurate and timely disclosure of financial results, risk and other information that is material to investors' decisions.
Issuers of securities subject to public offerings and issuers of securities to be admitted to trading in an RM must submit a prospectus. In addition, issuers with securities traded in an RM are subject to robust on-going and periodic requirements. Issuers whose securities are widely held are subject to ongoing and periodic disclosure obligations; however, periodic financial obligations are more limited than for issuers admitted to trading in a RM. Nevertheless, currently this category does not appear to be significant in size. Issuers with securities admitted to trading on AIM are subject to on-going obligations and periodic obligations by virtue of their contract with the exchange, which are more flexible than those of the RM. The AIM market caters to SMEs and is currently not significant in size.
Principle 17. Holders of securities in a company should be treated in a fair and equitable manner.
Issuers with securities admitted to trading in an RM are subject to, among others, tender offer and related party transactions rules and notification of substantial and insider holdings is required. Issuers whose securities are widely held are subject to many, but not all these obligations (e.g. they are not subject to notification of substantial and insider holdings, although change of control must be notified and insider information disclosed). However, as indicated in Principle 17, this category is currently not significant in size. Issuers admitted to trading on AIM Italia, the only equity MTF, are subject to similar obligations than those of issuers admitted to trading in a RM, although under more flexible rules. AIM caters to SMEs and is currently not significant in size.
Principle 18. Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.
Issuers with securities admitted to trading in an RM must submit their annual financial statements prepared according to IFRS. Consob monitors compliance via a risk-based approach. Issuers with widely held securities must apply IAS/IFRS. Issuers admitted to trading on AIM can also use local GAAP or US GAAP. AIM is currently not significant in size.
Principle 19. Auditors should be subject to adequate levels of oversight.

Auditors of PIEs are subject to oversight by Consob conducted via onsite inspections on a three-year cycle. Onsite inspections appear robust. Preference has been given to remedial measures, but disciplinary actions have been taken.
Principle 20. Auditors should be independent of the issuing entity that they audit.
There are robust rules on independence of auditors of PIEs that apply not only at the audit firm level but also at the level of its network. There are also rotation requirements.
Principle 21. Audit standards should be of a high and internationally acceptable quality.
Domestic auditing standards apply. Such standards are of high quality and consistent with ISAs.
Principle 22. Credit rating agencies should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.
ESMA is the direct supervisor of CRAs in Europe. All CRAs that provide services in Italy were subject to a thorough registration process, through colleges of European regulators, including Consob. ESMA has conducted onsite inspections of the large CRAs and is in the process of finalizing the implementation of a risk framework to support its supervisory program. Additional resources are necessary for ESMA to carry out its functions effectively.
Principle 23. Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them.
There are rules on fair disclosure including disclosure of conflicts of interest that apply to any person who provides recommendations. In addition, regulated entities are subject to organizational requirements to avoid, mitigate and manage conflicts.
Principle 24. The regulatory system should set standards for the eligibility, governance, organization and operational conduct of those who wish to market or operate a collective investment scheme.
AMCs are subject to authorization requirements which include capital, fit and proper and organizational requirements. The review of applications is thorough. However, the definition of fit and proper is very narrow and the process for its verification relies mainly on self-certification. The supervisory programs at Consob and BI to ensure compliance with such obligations rely heavily on robust offsite arrangements and a more limited use of onsite inspections, though their market coverage (measured by assets and clients) is high.
Principle 25. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.
Rules on segregation are robust, including the requirements that assets must be placed in custody with a depositary bank, which is required to obtain a separate license from BI. In addition, external auditors are required to submit an annual report on compliance by AMCs with segregation obligations. Changes to fund rules must be approved by BI. Significant changes to the fund rules must be notified to investors.
Principle 26. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.

CIS are required to submit a prospectus. Only the prospectuses of closed-ended funds are subject to pre-approval by Consob, consistently with the EU legislation. However, BI pre-approves the fund rules for every CIS and through its risk-based program Consob reviews on an immediate basis the disclosure documents of CIS where the risks to misleading disclosure are higher (i.e., new or complex products), and on an annual basis a selected but significant number of disclosure documents for other CIS based on risk criteria. CIS are subject also to robust periodic disclosure obligations towards investors.

Principle 27. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.

BI has developed rules for the valuation of CIS assets, including illiquid assets, which are consistent with IFRS. External auditors must verify valuations done by AMCs in their annual reports.

Principle 28. Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.

AMCs that manage HFs are subject to the same authorization requirements and periodic reporting obligations to the regulators as any other AMC. HFs are part of the regular supervisory program of BI and Consob, and Consob and BI can share confidential information with other regulators in the terms described under Principle 13.

Principle 29. Regulation should provide for minimum entry standards for market intermediaries.

IFs are subject to authorization requirements which include capital, fit and proper and organizational requirements. The review of applications is thorough. However, the definition of fit and proper is narrow and the process for its verification limited.

Principle 30. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.

IFs are subject to minimum and ongoing capital requirements that reflect the risks they undertake. They are subject to periodic reporting of capital (monthly or quarterly depending on their activities) and must submit annual audited financial statements. BI monitors closely prudential requirements.

Principle 31. Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.

IFs are required to put in place robust internal controls and risk management mechanisms. A risk management function, an internal compliance function, and an internal audit function must be established. Reports from the three units must be submitted on an annual basis to BI and Consob. IFs are also subject to information disclosure obligations to clients, as well as to suitability obligations in connection with investment advice. Consob's and BI's supervisory programs to ensure compliance with such obligations rely heavily on robust offsite reviews and a more limited use of onsite inspections although their coverage by market share (measured in terms of assets and clients) is high. In the last years, Consob has conducted thematic inspections on MiFID implementation by banks.

Principle 32. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.

The legal framework provides the authorities with robust crisis management and resolution tools in

<p>connection with banks, Ifs, and AMCs. In particular, special administration is available to deal with troubled firms, and their liquidation can be done on an administrative basis via a compulsory liquidation. An investor compensation scheme is in place.</p>
<p>Principle 33. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.</p>
<p>There are authorization requirements for RMs and MTFs that include financial, fit and proper and operational requirements. The process to review applications by Consob and BI is thorough. RMs and MTFs are also subject to periodic reporting, including an annual audit report on their IT systems.</p>
<p>Principle 34. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.</p>
<p>RMs and MTFs are required to have market surveillance mechanisms in place. Such systems complement BI and Consob's own market surveillance systems. In connection with their respective responsibilities and duties, Consob and BI have developed robust supervisory programs to oversee <i>Borsa Italiana</i>, MTS and the operators of MTFs, which include onsite inspections.</p>
<p>Principle 35. Regulation should promote transparency of trading.</p>
<p>There is pre- and post-trade transparency imposed not only in equity markets but also in bond markets (although not required under EU law), and SIs. In addition, securities intermediaries are obliged to report off-market transactions in financial instruments admitted to trading in a RM. The challenges brought by fragmentation in the equity markets appear to be much more limited in the Italian context. There is more fragmentation in the bond markets; however, market solutions seem to be in place to consolidate prices.</p>
<p>Principle 36. Regulation should be designed to detect and deter manipulation and other unfair trading practices.</p>
<p>Market abuse constitutes both an administrative infraction and a criminal infraction. Italy allows both administrative and criminal actions to proceed at the same time. The level of sanctions is high. Consob has robust systems in place to detect market abuse, and is active in investigating cases. It has imposed sanctions, as well as referred cases to the criminal prosecutors.</p>
<p>Principle 37. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.</p>
<p>CC& G monitors clearing members' exposures on a real time basis and has powers to request members to post additional margins on an intraday basis. Default procedures are transparent. There are reporting obligations in connection with short selling, as well as in connection with failed settlements.</p>
<p>Principle 38. Securities settlement systems and central counterparties should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.</p>
<p>Not assessed.</p>

D. Recommended Actions

Principle	Recommended Action
Principle 1	<ul style="list-style-type: none"> • A mandatory consultation process with Consob should be established for the review of applications of banks that wish to be authorized to provide investment services. • The current framework could benefit from a streamlining of the chosen twin peak structure, aimed at eliminating possible ambiguities or inconsistencies and strengthening the functional approach. • Consideration should be given to transferring to Consob the approval of fund rules.
Principle 2	<ul style="list-style-type: none"> • Stronger arrangements for the legal protection of staff should be pursued, such as an arrangement that allows the regulatory authorities to provide financial support for staff defending legal actions throughout the course of the action rather than only after its conclusion.
Principle 3	<ul style="list-style-type: none"> • Although the legal entities to which the authors of the violations belong are jointly and severally liable for payment, the legal framework should be reformed to provide the regulatory authorities with the power to impose pecuniary sanctions on regulated entities as well as individuals in the areas of intermediaries and CIS where this is currently not possible. In addition, the level of sanctions for breaches different from market abuse/short selling violations should be increased. • The legal framework should be reviewed to provide the authorities with the power to remove individual directors from boards of financial intermediaries in cases where this is currently not possible. • The legal framework should be reformed to consolidate the compulsory powers given to Consob by different provisions of the CL into one single provision, applicable to all areas under Consob's mandate. • The legal framework should be reformed to transfer residual functions currently vested in the MEF to the regulatory authorities. • Allocation of resources should be reviewed in particular the allocation of resources between onsite and offsite functions.
Principle 5	<ul style="list-style-type: none"> • The current regulations and/or terms of employment should be reviewed and strengthened, in particular in connection with transactions in securities, as described in this assessment.
Principle 11	<ul style="list-style-type: none"> • The legal framework should be reformed to provide the regulatory authorities with the power to impose pecuniary sanctions on regulated entities as well as individuals in the areas where this is currently not possible. In addition, the level of sanctions for breaches different from market abuse violations should be increased.
Principle 12	<ul style="list-style-type: none"> • Although altogether the current approach of Consob and BI has delivered an adequate level of supervision, it should be complemented by a more intensive use of onsite inspections. It is acknowledged that BI has developed a new model for short onsite visits more suited for smaller intermediaries that is currently being tested. In addition, the strategy towards enforcement should be kept under monitoring to ensure a good balance in the use of remedial (corrective) actions and sanctions. • Consob should work together with the criminal authorities to identify mechanisms to strengthen criminal enforcement.

<p>Principle 16</p> <ul style="list-style-type: none"> • The current framework should be reviewed to ensure that issuers of widely held securities are subject to an adequate level of periodic and ongoing disclosure, consistent with the Principles, in particular if this category were to expand.
<p>Principle 17</p> <ul style="list-style-type: none"> • The current framework should be reviewed to ensure that equity issuers of widely held securities are subject to requirements for the protection of investors that are consistent with the Principles, in particular if this category were to expand.
<p>Principle 24</p> <ul style="list-style-type: none"> • Regulations from MEF should be amended to include a more comprehensive definition of fit and proper requirements and give the regulatory authorities more comprehensive mechanisms to verify compliance.
<p>Principle 29</p> <ul style="list-style-type: none"> • Regulations from MEF should be amended to include a more comprehensive definition of fit and proper requirements and give the regulatory authorities more comprehensive mechanisms to verify compliance.
<p>Principle 31</p> <ul style="list-style-type: none"> • Consob and BI should make more use of onsite inspections. It is acknowledged that BI has developed a new model for short on site visits more suited for smaller intermediaries that is currently being tested. In addition the strategy towards enforcement should be kept under monitoring to ensure a good balance in the use of remedial (corrective) actions and sanctions.
<p>Principle 35</p> <ul style="list-style-type: none"> • The level of fragmentation in both the equity and bond markets should be kept under monitoring, to assess the potential need for measures to ensure the existence of a consolidated tape.
<p>Principle 37</p> <ul style="list-style-type: none"> • Prompt implementation of the European Market Infrastructure Regulation (EMIR) should allow for portability of clients margins and positions

E. Authorities' Response to the Assessment

68. The Italian authorities wish to express their appreciation to the FSAP mission for its assessment of the Italian security regulatory and supervisory structure. The Authorities welcome the recognition of a high level of compliance with the IOSCO Principles and of a positive track record in the implementation of a robust system of supervision. The Authorities wish also to recall that the evaluation has been conducted with the new release of the IOSCO principles, which is more demanding and more oriented toward the quality and outcomes of supervision.

69. The Assessment has provided a number of recommendations for further improvement. Authorities will duly consider all recommendations and, in particular, will implement those needed to achieve Fully Implemented status for all principles.