

# COUNTRY REPORT ITALY 2008

## 1. Economic and Financial Background

Table 1: Key Economic and Financial Indicators		
	2007	2008
Population (million)	59.4	59.6
GDP (EUR billions)	1,535	1,542
Real GDP growth (%)	+1.5	+1.9
Inflation rate (%)	2.3	3.8
Unemployment rate (%)	6.6	7.1
Stock market capitalization (EUR billion)	733.6	550.7
Stock market capitalization (% of GDP)	47.6	35.7
Bond market capitalization (EUR billion)	2,179	2,247
Bond market capitalization (% of GDP)	141	145
Household net savings ratio	6.79	6.84 (e)
Household financial wealth (EUR billion)	3,697	3,538*
Average per capita financial wealth (EUR)	62,244	59,362

\*As of 31/03/2008

## 2. Data on funds under management and portfolios

Table 2: Net Assets by the open end funds (€)				
	June 2005	June 2006	June 2007	June 2008
<b>Home domiciled funds</b>	394.2	373.8	350.3	268.7
<i>Italian groups</i>	381.4	364.7	333.7	242.0
<i>Foreign groups</i>	12.8	9.0	16.6	26.8
<b>Foreign-domiciled funds</b>	207.0	264.5	312.7	246.8
<i>Italian groups</i>	162.9	202.2	221.4	172.3
<i>Foreign groups</i>	44.1	62.3	91.4	74.5
<b>Total AuM</b>	<b>601.2</b>	<b>638.3</b>	<b>663.0</b>	<b>515.5</b>

Table 3: Net Sales of open end funds (€)			
	July 2005 - June 2006	July 2006 - Dec 2007	Jan 2008 - June 2008
<b>Home domiciled funds</b>	-30.9	-68.4	-41.8
<i>Italian groups</i>	-29.2	-61.9	-39.2
<i>Foreign groups</i>	-1.8	-6.5	-2.7
<b>Foreign-domiciled funds</b>	46.9	6.2	-30.1
<i>Italian groups</i>	28.7	-345.0	-15.3
<i>Foreign groups</i>	18.2	6.6	-14.7
<b>Total Net Sales</b>	<b>15.9</b>	<b>-62.2</b>	<b>-71.9</b>

	<b>June 2005</b>	<b>June 2006</b>	<b>June 2007</b>	<b>June 2008</b>
<b>Equity</b>	144.1	163.5	182.5	107.7
<b>Balanced</b>	43.4	46.3	41.2	23.8
<b>Bond</b>	281.7	269.7	244.6	193.7
<b>Money market</b>	96.8	86.9	87.3	92.8
<b>Flexible</b>	17.9	46.7	73.5	62.7
<b>Hedge Fund</b>	17.4	25.1	33.9	34.7
<b>Total AUM</b>	<b>601.2</b>	<b>638.3</b>	<b>663.0</b>	<b>515.5</b>

	<b>July 2005 - June 2006</b>	<b>July 2006 - Dec 2007</b>	<b>Jan 2008 - June 2008</b>
<b>Equity</b>	1.5	-27.8	-22.6
<b>Balanced</b>	3.1	-8.8	-5.5
<b>Bond</b>	-7.4	-60.3	-30.4
<b>Money market</b>	-8.7	8.2	-3.2
<b>Flexible</b>	22.7	18.0	-9.1
<b>Hedge Fund</b>	4.8	8.4	-1.1
<b>Total Net Sales</b>	<b>15.9</b>	<b>-62.2</b>	<b>-71.9</b>

	<b>June 2005</b>	<b>June 2006</b>	<b>June 2007</b>	<b>June 2008</b>
<b>CIS</b>	613.5	658.5	690.5	547.8
<i>Open end funds</i>	601.2	638.3	663.0	515.5
<i>Closed end funds</i>	12.3	20.2	27.5	32.3
<b>Managed accounts</b>	406.3	460.1	469.2	431.5
<i>Retail</i>	148.3	165.1	165.1	126.1
<i>Institutional</i>	64.4	89.0	73.6	70.3
<i>Pension funds</i>	15.1	17.0	19.4	22.0
<i>Insurance products</i>	178.5	187.8	210.4	212.3
<b>Total AUM</b>	<b>1.019.8</b>	<b>1.118.6</b>	<b>1.159.7</b>	<b>979.3</b>

	<b>July 2005 - June 2006</b>	<b>July 2006 - Dec 2007</b>	<b>Jan 2008 - June 2008</b>
<b>CIS</b>	16.5	-61.6	-71.2
<i>Open end funds</i>	15.9	-62.2	-71.9
<i>Closed end funds</i>	0.5	0.6	0.7
<b>Managed accounts</b>	45.6	-32.3	-36.7
<i>Retail</i>	11.6	-22.7	-29.1
<i>Institutional</i>	24.2	-2.1	-4.8
<i>Pension funds</i>	2.0	2.0	1.4
<i>Insurance products</i>	7.7	-9.6	-4.1
<b>Total Net Sales</b>	<b>62.1</b>	<b>-93.9</b>	<b>-107.9</b>

### **3. Key trends in flows and assets under management**

During the current year the asset management industry is witnessing significant global outflows of assets. From January to June redemptions have exceeded subscriptions by 108 b€, worsening the negative record result of the previous six quarters (-94 b€). This trend, combined with the general negative performance of the financial markets, has led to a 16% loss of assets under management over the year ending in June 2008.

Until 2007 the positive net sales of foreign open end funds partially offset the negative figure of Italian products. In 2008 that is not happening any more; in fact, both types of funds are showing negative net sales. The same is true if we split the figures by asset class (fund categories). However, closed end funds (real estate) and pension funds are showing positive flows with a 17% and 13% rise of AUM, respectively.

So far, the ongoing debate on the reasons of what has been named the “fund crisis”, has suggested a number of possible explanations, such as a reduction in the household saving rate; a growing and unfair competition from less transparent and more expensive investment products (in particular retail structured products) offering more competitive fee agreements to distribution channels; an increase in the risk aversion of the average investor; a general loss of confidence of retail investors in the financial services industry as a whole.

### **4. Regulatory and self regulatory developments (including tax)**

#### **4.1 Eligible assets for UCITS:**

The UCITS Eligible Assets Directive (2007/16/EC) is set to be enacted. To this end last May the national regulator (Bank of Italy) took a public consultation on the proposed new piece of regulation. Final approval is expected by the end of the current year.

#### **4.2 Pensions:**

During the first months of 2008 they continue the effects of the reform of the TFR (a portion of the salary of an employee that, by law, is paid out at the end of the employment contract). Traditionally the TFR was retained monthly by the employer and an interest set by law at national level (1.5% + 0.75% of inflation rate) is calculated and paid out at the time of disbursement.

The reform, that began since January 2007, consisted in the opening up of the choices in the use of TFR so that the employees were required to choose whether to leave the TFR maturing from now on with the employer (as it was before) or to transfer it to a pension fund or an insurance plan. The aim of this reform was to increase second pillar pension schemes by applying as the default option the transfer to the pension funds. Employees could choose between transferring their funds into a so called closed end pension funds (set up by industry trade unions and managed by asset managers) or open pension funds set up and managed by asset managers. They could also choose to transfer the incoming funds to an insurance based pension product. The default option was the transfer into closed end pension funds. Conditions of transfer and tax breaks and arrangements were the same for all types of second pillar pension schemes (closed and open end and insurance plans).

The initial results of the reform were positive and showed an increase in the number of employees enrolling into the second pillar pension scheme.

#### **4.3 Other regulatory developments:**

MIFID has been adopted in the Italian regulatory framework.

Unfortunately, the MIFID adoption was also the opportunity to pass a piece of regulation which is having a strong negative impact on the breadth of offering of retail investment products. In particular, discretionary portfolio asset management of funds has been penalized by the new provision and the new interpretation of these provisions that obliges the fund manager to payback to clients all retrocessions received by the funds the portfolio is invested in. The result of this regulation interpretation has been a sharp decline in AUM in discretionary portfolio not to the advantage to funds of funds but a further drift away from transparent asset management product towards more opaque competing products.

#### **4.4 Tax rules and Taxation of Savings Directive:**

There is an ongoing discussion on a much needed impending tax reform that should harmonize the tax treatment of Italian domiciled products and foreign domiciled products; domestic funds are currently penalized by taxation on maturity vs taxation at the end of the investment period as it happens with foreign products.

### **5.0 Corporate governance - major developments**

The Corporate Governance Committee of Assogestioni promotes the development of primary legislation and self-regulation on matters concerning corporate governance; monitors the application of the Italian Stock Exchange's Code of self-discipline<sup>1</sup>; attends the annual general meetings of listed companies in order to represent the petitions of investors on governance matters; provides information and administrative support to Asset Management Companies, when lists are submitted for the election of directors or minority auditors in listed companies. An independent, outside executive search company has been commissioned (for the year 2008 Spencer & Stuart have been chosen). The advisor's task is to: (i) independently select a list of candidates to be submitted for the final choice of the Corporate Governance Committee; (ii) check the tenure and respect for the requirements of those elected;

#### **5.1 Slate voting**

One of the activities that characterises the action of the Assogestioni's Corporate Governance Committee is that of bringing together Asset Management Companies and outside operators to submit minority lists for the election of members of the administrative and control bodies of Italian listed companies.

The Italian legislator has introduced, firstly in 1998 for privatised companies and then in 2006 for all listed companies, the obligation to proceed to elect their administrative and control bodies using the list voting system. The list voting mechanism is a technique ensuring that members of the administrative body and the control body of a company are elected on the basis of appointment proposals drafted by the shareholders (and possibly also by the outgoing members of the aforesaid bodies), combined on the so-called lists which are subsequently voted upon in the general meeting. Seats are assigned on the basis of the votes collected from each list which are weighted in accordance with calculation procedures that vary in relation to the specific rules set in place by the corporate Articles of Association of the companies in question.

The lists of candidates for the post of director or auditor submitted by the asset management companies have been positively welcomed by the managers of the listed companies and are not perceived as hostile.

### **6. Fund governance**

A thorough revision of the Independence Protocol is under way and is expected to be approved by the Board of Assogestioni by the end of 2008. The Protocol will regulate with a comply-or-explain approach, conflicts of interests and will reinforce the role of independent directors within the investment management company.

### **7. Product developments**

Socially Responsible Investing (SRI) funds constitute a niche market in the asset management industry representing 1.5 bn euro in AUM in June 2008. They are classified as ethical funds according to their investment policy but do not benefit from specific legislation. Suffering from negative flow of capital since 2006, the trend of sales has been in line with that of the rest of the industry.

---

<sup>1</sup> Cfr. Attachment 1.

## **8. Other major issues and developments**

### **8.1 Fund Standards and Distribution**

#### **GIPS**

Italy was one of the first European countries to adopt the Global Investment Performance Standards (GIPS). A first version of the standards was translated into Italian and presented to the investment community in 1999. The translation of the new standards (Gold GIPS) was presented to the investment community in May 2008. Italy has also a permanent representative in the GIPS governing-bodies (European Investment Performance Committee and GIPS council). Around 30% of asset managers are GIPS compliant.

#### **Fund classification**

The Assogestioni classification of investment funds was put in place in 1984. Since then it has been updated on a regular basis in order to reflect the growing complexity of investment products. It has represented, and still represents, an essential reference point for a first-level valuation of the key characteristics of the investment policy of a fund.

At the present time, Assogestioni is also taking part to the works of the European Fund Categorization Forum to implement a Pan-European approach to peer group classification. The goal is an increase transparency in investment fund comparison for investors, their advisors and the asset management community.

#### **Fund processing**

Italy is actively involved in the works of the EFAMA Fund Processing Standardization Group. The objective of this Group is to define and develop pan-European standards relevant to the whole complex of order processing (fund subscriptions and redemptions) with a view to increasing the efficiency of fund processing procedures.

Italy also collects Fund Processing Passports (FPPs) of Italian funds, that are the documents (prepared for each class of unit/share) containing all the key "operational" information that fund promoters should provide on their investment funds in order to facilitate their trading.

Italy has also set up a National Market Practice Group (NMPG) on Investment Funds involved in the standardization of XML ISO 20022 messages and on the study of the business models of funds distribution.