January 2014

ITALY - Action Plan to Implement the Financial Stability Board Principles for Reducing Reliance on Credit Rating Agency Ratings

Foreword

The Action Plan set out in the attached template articulates a list of steps that competent national authorities are taking, or will take, to implement the Financial Stability Board (FSB) Principles, with a view to reducing references to Credit Rating Agency (CRA) ratings in the national financial regulation and eliminating over the medium term sole or mechanistic reliance on external ratings through standards, laws, regulations and supervisory practices[1].

Italian authorities' room for maneuver in implementing the Principles is constrained by the continued reference to CRA ratings in international standards. Besides, the authorities' action, initiatives and timetable are largely steered by the EU regulatory framework and agenda. A major effort in this regard is represented by the recent EU regulatory package covering measures to reduce reliance to ratings, which includes an amended CRA regulation (commonly referred to as CRA III regulation) setting out the principles to reduce overreliance on credit ratings, as well as regulatory changes in the asset management sector (amendments to the UCITS Directive and AIFMD) and occupational and retirement pensions (amendments of IORPD) with regard to reducing sole and mechanistic reliance on credit ratings. Initiatives at the national level are to a large extent strictly connected with the implementation of the roadmap set forth under EU legislation to reduce over-reliance on CRA ratings. This Action Plan must therefore be read in conjunction with, and considered as a complement to, the parallel EU Action Plan.

The Action Plan is intended to be comprehensive and cross-sectoral with a view to ensuring, to the extent possible, a level playing field across different financial agents and areas. It covers banking, insurance, collective investment schemes, occupational retirement schemes, investments firms, financial market infrastructures, and public entities engaged in investment activity and other financial transactions. The review of other references to credit

[1] See Financial Stability Board, "Principles for Reducing Reliance on CRA Ratings", published on 27 October 2010, available at http://www.financialstabilityboard.org/publications/r_101027.pdf

ratings in domestic laws or regulations that do not trigger sole or mechanistic reliance on CRA ratings is still under evaluation and is not covered in the attached template.

Some of the national initiatives included in the Action Plan have been initiated immediately following the launch of the G20 roadmap in 2012 and have already been implemented.

As a living document, the Action Plan is set to be updated in line with the review of the international standards against the FSB Principles and the unfolding of the EU Action Plan and legislation in this area.

Italy will closely monitor international policy developments and will continue to actively contribute to European and international work on reducing mechanistic reliance on CRA ratings, including further work by standard setters on alternative approaches to the use of CRA ratings.

The Italian authorities will continue their dialogue with market participants to raise awareness about potential risks of over-reliance on CRA ratings and encourage them to enhance their credit assessment capabilities.

Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Remove references to CRA ratings in laws and regulations relating to banks.	EU Commission/ Council/Parliament, Italian Parliament, Banca d'Italia. The Government is expected to be delegated by the Parliament to amend, where appropriate, the national primary legislation to implement the CRAIII package, including the Directive 2013/14/EU.	See also EU response.	See also EU response Directive 2013/14/ EU is due to be fully transposed into the national legislation of each Member State by December 2014. Amendments of secondary legislation for banks - aimed at reducing overreliance on credit ratings - will be made according to the evolution of primary legislation

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.	EU Commission/ Council/Parliament	See EU response	See EU response

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Enhance supervisory processes and procedures to assess the adequacy of banks' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	EU Commission/ EBA / Banca d'Italia	See also EU response Over the past five years, seven major banking groups have been allowed to use internal rating models (IRB) to compute capital requirements for credit risk (the first IRB model was recognized in 2008). In terms of total assets, these banking groups account for about 75% of the national banking system. In the last quarter of 2013 two additional banking groups were authorized to use internal estimates of risk parameters to compute Risk-Weighted Assets for a large portion of their credit portfolio.	See also EU response According to the roll-out plans agreed with banks during 2014 some extensions of IRB models are scheduled for banks already in the IRB regime. In the same time meetings with some banks still under the standardized approach have been already scheduled to evaluate the opportunity to start the validation process.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
3.2 Prudential supervision of banks (Principle III.2)			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	Banca d'Italia	Please find below some considerations for IRB and Standardized banks. For IRB banks the validation process requires banks to comply with a large set of requirements referring to the methodological framework, the organizational structure and the IT resources. Just after the introduction of Basel 2, the NSA issued some guidelines highlighting the importance of having robust data set for developing PD and LGD models and further stressed the central role of the management in the development of internal models. Regarding the standardized banks, the vast majority of financial institutions use their own models to perform risk assessment of credit portfolio. These models are subjected to on-site and off-site review by the NSA. In addition in 2008 the NSA issued some guidelines requiring banks to perform internal risk assessment also in case external ratings are used for risk management purposes or for computing capital requirements. It's also worth nothing that the relevance of external ratings has proven to be quite low. The proportion of exposures covered by external ratings is limited in case the great part of credit portfolios is made by Small and Medium enterprises.	

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b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.	Banca d'Italia	Regarding banks' internal controls, the prudential rulebook (Circular of the Bank of Italy no. 263 "New regulations for prudential supervision of banks"- fifteenth revision, issued on 2 July 2013) provides expressly that the use of external ratings does not exhaust the bank's process of assessment of creditworthiness and that banks must equip themselves with internal methods that permit an assessment of the credit risk deriving from exposures to single counterparty/issuer as well as the credit risk across the entire portfolio. These methods must not be mechanically based on the ratings assigned by External Credit Assessment Institutions (ECAIs**).** For more details please see: http://www.bancaditalia.it/vigilanza/normativa/norm_bi/circ-reg/vigprud/263CIRC_15AGG.pdf	Already at present.

Annex II: Central bank operations

Action to be taken	**Responsible national authority**	**High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)**	**Milestones and expected completion date** **(e.g. “end-2014” or “one year after new international standards agreed”)**
3. Application of the basic principles to particular financial market activities (Principle III)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.			
3.1 Central bank operations (Principle III.1)			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	Banca d'Italia	To assess the credit standards of eligible assets for monetary policy operations, Banca d'Italia follows the rules common to all Eurosystem's National Central Banks With regard to an assessment of the Eurosystem's current reliance on external ratings against the background of FSB Principle III.1, it is noted that, due to the very broad set of collateral which the Eurosystem accepts for credit operations, the elimination of external ratings entirely in the determination of an instrument's eligibility would indeed be challenging. Notwithstanding this, the Eurosystem's reliance on CRA ratings or on any other credit assessment source is not automatic, as the Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils its requirements for high credit standards on the basis of any information it may consider relevant. The Eurosystem thus may reject, limit the use of assets, or apply supplementary haircuts on such grounds, if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such measures can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral assets submitted.	Banca d'Italia In-house Credit Assessment System (BI-ICAS) for the assessment of eligible credit claims for the assessment of eligible credit claims has become effective in November 2013. April 1, 2014: full compliance to the loan level criteria required for eligible ABS. As regards the timetable for actions in reserves management, as Banca d'Italia has already reduced reliance on ratings, defining eligibility criteria taking account also of balance sheet data and market information, future activities will be focused on improvements of the currently used methodology.

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		The Eurosystem can also apply positive discretion and waive the minimum credit rating threshold in certain situations where it has available information relevant for the credit risk assessment.. Moreover, the Eurosystem refines its frameworks on an ongoing basis inter alia to reduce any overreliance on external credit ratings. With regard to the concrete steps for further reducing reliance on CRA ratings, it is recalled that the assessment of the credit standards of eligible assets for Eurosystem monetary policy operations relies on the Eurosystem Credit Assessment Framework (ECAF) which defines the procedures, rules and techniques to ensure that the Eurosystem's high credit standards are met for all eligible assets. Within this framework, a number of steps are currently being taken to further reduce reliance on external credit ratings: i) ECAF due diligence procedures on CRAs' ratings, rating processes and methodologies will be enhanced – an action plan in this regard is currently being elaborated; ii) the Eurosystem has amended eligibility criteria for ABS to introduce specific loan-by-loan information requirements for ABS accepted as collateral in Eurosystem credit operations. This will improve the transparency of these instruments towards the Eurosystem and help facilitate any independent risk assessment of these instruments. The loan level criteria are currently being phased in, with full compliance required by 1 April 2014. Besides already existing systems of this kind at several	

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		National Central Banks (NCBs), a number of NCBs are also building In-house Credit Assessment Systems (ICAS) for non-financial corporations with the aim to have these operational in the next 1 – 2 years. Banca d'Italia has implemented an Internal Credit Assessment System (BI-ICAS) for the evaluation of monetary policy collateral. The main aim is to allow counterparties in monetary policy operations to use a higher share of their assets as collateral, contributing to the establishment of a level playing field and giving the opportunity to mobilize credit claims versus non-financial companies to banks that do not intend to develop an IRB system. The system can also be used by Banca d'Italia for internal purposes, supporting research functions. At the end of June 2013, after the approval by the Governing Council of the ECB, the BI-ICAS has become one of the recognized credit assessment sources within the Eurosystem Credit Assesment Framework (ECAF) and, starting from 26 August 2013, it has replaced VALCRE, the system formerly in use for temporarily eligible credit claims only. In November 2013, the new BI-ICAS has become fully operational and it is currently used for the assessment of eligible credit claims, for counterparties that choose BI-ICAS instead of the external sources (ECAIs, External rating tools, IRBs) currently available. As regards reserves management, Banca d'Italia is working on a broader approach based on several warning indicators. Criteria for eligible bank counterparties have already reduced reliance on ratings, taking account also of balance sheet and market indicators.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.			
c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness.			

Annex III: Insurance/Reinsurance Companies

Action to be taken	**Responsible national authority**	**High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)**	**Milestones and expected completion date** **(e.g. “end-2014” or “one year after new international standards agreed”)**
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	EU Commission based on technical advice from ESMA, IVASS	References to ratings in the insurance prudential regulation into force have always been very limited[i]. Presently only a few secondary law provisions still contain some limited references to ratings, in particularly related to specific categories of financial instruments backing technical provisions (e.g. securitised and derivatives). In the aftermath of the crisis, IVASS has nevertheless decided to amend some aspects of secondary legislation with a view to reducing over-reliance on external credit ratings. In particularly, Regulation 36 was amended in July 2012 to ensure that insurance undertakings, taking into account the nature, size and complexity of their business, do not solely rely on external ratings in the assessment of the credit risks of their investments. A few months before a similar intervention aimed at avoiding automatisms related to external ratings in the investment policies of insurance undertakings addressed Regulation 32 on index-linked contracts. See also EU response.	In view of the limited relevance of those provisions and based on the expectation of having most of them superseded by the upcoming new European regulatory framework (Solvency II), Italy is not considering specific amendments to the domestic legislative framework. However, the transposition of Solvency II, to be completed by the end of March 2015, and the associated comprehensive review of the current national regulatory framework of the insurance sector, will also grant the opportunity to reassess existing references to rating with a view to reducing potential elements of over-reliance.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.		See EU response.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
a) Enhance supervisory processes and procedures to assess the adequacy of insurers’/reinsurers’ own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	IVASS.	Being the current regulation largely consistent with the need of reducing the reliance, IVASS efforts will, in the nearest future, focus on the need to improve insurers’ capacity to make their own assessment. To this aim, in July 2013, IVASS adopted a public Communication addressed to all insurance undertakings operating in Italy, aimed at encouraging the use of alternative internal processes to assess credit merit and making clear supervisory expectations on due diligence (see also Annex IV). Next actions will include: - enhancing the knowledge of insurers’ internal credit risk assessment practices. - contributing to properly shaping the forthcoming European prudential regime on insurance and reinsurance undertakings, Solvency II (Directive 2009/138/EC) See also EU response.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.		See answer a)	

Annex IV a): Investment Funds Management (including collective investment schemes and alternative investment schemes)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
a) Remove references to CRA ratings in laws and regulations for investment funds management.	EU Commission /Council / Parliament/ ESMA.	See EU Response[ii].	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management	EU Commission/ Council/ Parliament/ ESMA, Italian Parliament	According to the CRA III Regulation (directly applicable since 21 June 2013) collective portfolio managers shall not solely or mechanistically rely on credit ratings for assessing the creditworthiness of an entity or financial instrument, but they shall make their own credit assessment. The same provision has been included in sectoral directives by Directive 2013/14/EU (amending Directive 2003/41/EC on institutions for occupational retirement provision, Directive 2009/65/EC on UCITS and Directive 2011/61/EU on alternative investment funds). See also EU response[iii]. Moreover, already at present, collective portfolio managers are required by EU sectoral legislation[iv] and Italian laws[v] and regulations to comply with specific due diligence requirements in the selection and monitoring of their investments, in accordance with the general obligation to act in the best interests of the fund and unit-holders and the integrity of the market. Collective portfolio managers must have adequate knowledge of the financial instruments in which the fund assets are invested and their liquidation conditions, also on the basis of correct, transparent and appropriate valuation systems. Before ordering the execution of transactions, they must carry out qualitative and quantitative analyses about the contribution of the investment to the risk and profile and liquidity of the fund, so as to ensure that the investment is consistent with the objectives, investment strategy and risk limits of the fund. The said obligations imply that CRA ratings cannot be used as the only parameter to assess the creditworthiness of investments or to decide whether to invest or divest. Moreover, collective portfolio managers are required to employ adequate resources and procedures to ensure the efficient provision of services and to set up suitable internal control mechanisms aimed at guaranteeing compliance with those procedures. They shall employ a risk-management process which enables them to monitor and measure at	The CRA III Regulation is binding in its entirety and directly applicable since 21 June 2013. Directive 2013/14/EU shall be transposed into the Italian law by 21 December 2014. Already at present.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		any time the risk of the positions and their contribution to the overall risk profile of the portfolio. They shall set up a permanent risk management function which is required, among other, to implement the risk management policy and procedures and ensure compliance with the risk limit system of the fund. In addition, they shall set up a permanent and effective compliance function which is required, among other, to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures, policies and procedures put in place to detect any risk of failure by the firm to comply with its obligations under applicable laws and regulations. It must also be noted that collective portfolio managers are subject to strict record-keeping obligations which cover the analysis performed for the purposes of investments/disinvestments, the strategies decided and the controls carried out.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit	Consob and Banca d'Italia	According to the CRA III Regulation, sectoral competent authorities in charge of supervising collective portfolio managers and the other entities referred to in Article 4(1) shall, taking into account the nature, scale and complexity of their activities, monitor the adequacy of their credit risk assessment processes in line with specific sectoral legislation. The same provision has been included by Directive 2013/14/EU in sectoral Directives to contribute to the reduction of over-reliance on credit ratings by institutions for occupational retirement provisions, UCITS and alternative investment funds when making their investments. In line with the above provisions, under a joint and coordinated initiative, on 22 July 2013	The CRA III Regulation is binding in its entirety and directly applicable since 21 June 2013. Directive 2013/14/EU shall be transposed into the Italian law by 21 December 2014.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
assessment processes.		CONSOB, Banca d'Italia, IVASS and COVIP issued parallel communications aimed at reducing over-reliance on credit ratings in the investment choices of collective investment portfolio managers, insurance companies, and pension funds. In particular, the communications issued by the supervisory Authorities taking into account the respective sectoral regulatory frameworks focus on the obligations, for asset management companies, insurance companies and pension funds, of a correct assessment of creditworthiness of the investment activities and a diligent, transparent and correct behaviour in the interest of investors, pension funds participants and market stability. Consob and Banca d'Italia regularly monitor collective investment management activities through off-site examinations and on-site inspections, in order to check the compliance with the above mentioned rules and principles, as well as the provisions of Directive 2013/14/EU (when transposed into the Italian law). Hence, the supervisors assess the adequacy of their risk assessment processes and due diligence requirements (including use of CRA ratings in the management companies' investment policies) and verify that the supervised entities do not solely or mechanistically rely on credit ratings when adopting their investment and disinvestment decisions. Consob draws the attention of the entities authorised to perform collective portfolio management activities on their obligation to adopt, in the interest of the investors and the integrity of the market, appropriate measures that limit the sole or mechanistic reliance on credit ratings when adopting their investment and disinvestment decisions. The compliance with the general principle to act always in the best interest of investors and the integrity of the markets and with the specific rules referred to under Principle 1 letter b) above implies that, in the exercise of its own management discretion in relation to each UCITS, the collective portfolio manager must adopt correct, transparent and appropriate internal credit	Already at present.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		risk assessment processes and perform the necessary due diligence activities before ordering the execution of investment or disinvestment transactions related to, or depending from, a certain level of the credit rating or credit rating changes. Moreover, for each UCITS managed, the collective portfolio manager has to keep records documenting the aforesaid analyses and assessment activities that form the basis of the investment and disinvestment decisions taken. In its Communication put forward on 22 July 2013, the Banca d'Italia asked the managers to define and implement their own risk management system, with the view to adopting procedures aimed at assessing the creditworthiness of the investment funds assets. Consequently, managers shall not rely solely and mechanistically on external ratings and the automatic effects deriving from external ratings shall be gradually eliminated. Additionally, the Banca d'Italia encouraged the strategic supervisory body, the management body and the risk management function of the asset management companies to strengthen their risk management system, namely the procedures whose objective is to design, select, implement, oversee and perform the internal credit rating system. This goal shall be pursued taking into account the nature, scale and complexity of the managers' activity.	
		The financial enterprises to which the communications are addressed will have to set up appropriate internal process of assessment of all the different risks related to the	

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		investment activities, in order not to rely completely and mechanically on credit ratings. Regarding asset management companies and pension funds, obligations will be limited to the responsibilities related to the management mandate or to the further provisions that regulate the relations with customers. As mentioned in the aforesaid communications, the Authorities, in line with the various dispositions and regulations on the matter, will verify the compliance with the aforesaid obligations and check the adequacy of the internal process of credit assessment and of the overall risk management systems. For more details please see the communications at: http://www.consob.it/main/documenti/bollettino2013/c0062557.htm http://www.bancaditalia.it/vigilanza/normativa/norm_bi/comunicazioni/Rating22lug.pdf; http://www.ivass.it/ivass_cms/docs/F13648/Lettera%20al%20mercato%20su%20utilizzo%20giudizi%20agenzie%20di%20rating.pdf http://www.covip.it/wp-content/uploads/Circolare_rating.PDF A translation of Consob Communication dated 22 July 2013 is also attached. Consob and Banca d'Italia have the power to impose administrative sanctions in case of violations committed by collective portfolio managers. Consob and Banca d'Italia have also powers of supervisory intervention vis-à-vis collective portfolio managers, such as for instance (i) the power to order to put an end to irregular conduct, (ii) the power to order the suspension or the temporary limitation of the issuance or	

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		reimbursement of units of collective investment schemes in the interest of unit-holders or in the public interest; and (iii) the power to convene meetings of the board directors, board of auditors or managers[vi].	
3. Application of the basic principles to particular financial market activities (Principle III.3)			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
a. Insurance companies (in their capacity as institutional investors)	IVASS	The CRA III Regulation require sectoral competent authorities to assess the use of references to credit ratings by insurance companies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole or mechanistic reliance on such credit ratings, in line with specific sectoral legislation.	The CRA III Regulation is binding in its entirety and directly applicable since 21 June 2013.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b. Investment managers (i.e. managers of collective investment schemes)	Consob and Banca d'Italia	The CRA III Regulation (binding in its entirety and directly applicable since 21 June 2013) and Directive 2003/14/EU (to be transposed into the Italian law by 21 December 2014) require sectoral competent authorities to assess the use of contractual references to credit ratings - including the use of references to credit ratings issued by CRAs in the manager's investment policies - and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole or mechanistic reliance on such credit ratings in line with specific sectoral legislation. In the communications dated July 22, 2013 referred to in the answer under Principle II above, Consob and Banca d'Italia draw the attention of collective portfolio managers that also the references to the creditworthiness included in the offer document and in the fund rules have to comply with the principles to reduce sole or mechanistic reliance on credit ratings, considering that the above documentation must in any case truly reflect the investment policy adopted by the manager itself. See response under Principle II question a) above.	Already at present
c. Alternative investment managers (e.g. hedge funds, endowments).		See answers under Principle II question a) and 3a, letter b), above.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Require changes to internal limits and investment policies.			
a. Insurance companies (in their capacity as institutional investors)			
b. Investment managers (i.e. mangers of collective investment schemes).		See answers under 2a and Principle III question a), above.	
c. Alternative investment managers (e.g. hedge funds, endowments).		See answers under 2a and Principle III question a), above.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
.			
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)			
b. Investment managers (i.e. mangers of collective investment schemes).		See answers under 2a and Principle III question a), above.	

Action to be taken	**Responsible national authority**	**High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)**	**Milestones and expected completion date** **(e.g. “end-2014” or “one year after new international standards agreed”)**
c. Alternative investment managers (e.g. hedge funds, endowments).		See answers under 2a and Principle III question a), above.	
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			
a. Insurance companies (in their capacity as institutional investors)			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b. Investment managers (i.e. mangers of collective investment schemes).		See answers under 2a and Principle III question a), above.	
c. Alternative investment managers (e.g. hedge funds, endowments).		See answers under 2a and Principle III question a), above.	

Annex IV b) Occupational retirement schemes[vii]

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
a) Remove references to CRA ratings in laws and regulations for occupational retirement schemes.	European Commission/Council/Parliament/ Italian Parliament	See also EU Response. EU Regulation 462/2013 and EU Directive 2013/14/UE set that occupational pensions should avoid relying solely or mechanistically on credit ratings or using them as the only parameter when assessing the risk involved in their investments and in setting their investment policies. The general principle against over-reliance on credit ratings should therefore be integrated into the risk-management processes and systems of occupational pensions. For occupational retirement schemes, no reference to CRAs ratings is in place in national law and regulations.	See also EU Response.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for occupational retirement schemes	European Commission /Council/ Parliament/ Italian Parliament	See also EU Response. There is no need to develop alternative standards of credit assessment, as current national laws and regulations have no reference to replace. See above.	See also EU Response.

Action to be taken	**Responsible national authority**	**High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)**	**Milestones and expected completion date** **(e.g. “end-2014” or “one year after new international standards agreed”)**
2. Reducing market reliance on CRA ratings (Principle II)			

Action to be taken	**Responsible national authority**	**High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)**	**Milestones and expected completion date** **(e.g. "end-2014" or "one year after new international standards agreed")**
a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes.		Covip issued a communication in 2012 (*Circolare* 386/2012) to encourage pension fund administrators to consider CRAs ratings only as one of factors to consider in investment selection process. Other different factors should be considered, if relevant for the selection of investments. Following the EU legislation on CRA (EU Regulation 462/2013 and EU Directive 2013/14/UE), COVIP issued a communication *(Circolare* 5089/2013) in coordination with other National Authorities, aiming to avoid a mechanistic reliance on CRAs ratings by pension funds and encourage the development of an internal credit assessment in the investment process. Consistently with this objective, when in the investment policy statements or in the investment mandates a minimum CRAs rating is required, it has to be further specified that CRAs ratings is only one of factors to consider in investment selection process. Other information has also to be considered and assessed. The same criteria should be applied in case of direct management by pension funds themselves. The additional information requested by the note n. 5089/2013 should be included in the "*Document on investment policy*" (a comprehensive review and the documentation of the investment process as a whole, including risk management and the process of selection of investments). In the same note, for any needed changes of pension fund by-laws, aimed at easing the reference to CRAs ratings, COVIP granted exemption from the general rule requiring prior approval by COVIP. For more details please see the communication at: http://www.covip.it/wp-content/uploads/Circolare_rating.PDF Both notes are immediately applicable.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III.3)			
b) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
Occupational retirement schemes	COVIP	COVIP, in compliance with the EU Directive 2013/14/UE and EU Regulation 462/2013 and COVIP note n. 5089/2013, will monitor the adequacy of IORPs' credit assessment processes, including the use of references to credit ratings issued by CRAs in the investment process and in the investment documents (investment policy statement and mandates to asset managers), and, where appropriate, encourage mitigation of the impact of such references. COVIP, as already done recently, may decide to meet pension funds and asset managers' associations to consider practical implications of the regulation on CRA rating in terms of changes of the current (pension funds') investment mandates to asset managers.	
c) Require changes to internal limits and investment policies.			
Occupational retirement schemes	COVIP	See above.	
d) Incentivize compliance with the CRA Principles.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Occupational retirement schemes		See above.	
e) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			
Occupational retirement schemes		See above.	

Annex V: Collateral Policies for Central Counterparties (CCPs)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	EU Commission/ Council/ Parliament, Italian Parliament.	See also EU response. Art. 33 Law 6 August 2013, n. 97 (*Disposizioni per l'adempimento degli obblighi derivanti dall'appartenenza dell'Italia all'Unione Europea - Legge europea 2013*), including implementing measures for the EU Regulation No 648/2012. Entry into force: 4 September 2013. The implementation of CPSS-IOSCO	The EU Commission's review of EMIR will further assess, from an EU-wide perspective, the efficacy of the mentioned requirements See also EU response.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		Principles for Financial Market Infrastructures (PFMIs) in Italy has recently been assessed by the International Monetary Fund (IMF) under the FSAP with specific regard to the Italian CCP - Cassa di Compensazione e Garanzia spa (CC&G). As part of the background documentation of the FSAP for Italy, a Technical Note on financial risk management and supervision was prepared by the IMF team in March 2013[viii]. It is worth noting that the CC&G assessment has been the first carried out by the IMF against the new standards, which are more stringent and detailed than the previous ones; the IMF assessed CC&G's financial risk management and its current supervisory arrangements. As far as cyclicality is concerned, the EMIR (Regulation no. 648/2012 of the European Parliament and of the Council) and ESMA Regulatory Technical	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		Standards - RTS (Commission Delegated Regulation no 153/2013 of 19 December 2012) fully implement the PFMIs requiring to limit cyclicality in margin requirements and collateral arrangements, as respectively stated in articles 28 and 41 of ESMA RTS. Moreover, the EMIR provides that by 17 August 2015 the EU Commission shall assess, after consulting the European Systemic Risk Board, the efficiency of margin requirements to limit cyclicality and the need to define additional intervention capacity in this area. The Competent Italian Authorities, in cooperation with the college of supervisors of CC&G, will proceed to verify the compliance of the Italian CCP with all EMIR requirements in order to grant authorization to offer clearing services in the EU territory.	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	Banca d'Italia and Consob	The "Sovereign Risk Framework" was adopted in March 2012 by the Italian CCP CC&G and the French CCP LCH.Clearnet SA within their interoperability link. The framework does not exclusively rely on credit rating agencies and external opinions.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs' own credit assessment processes.	Banca d'Italia and Consob	The whole interoperability arrangement between *Cassa Compensazione e Garanzia* (CC&G – the Italian CCP) and LCH.Clearnet shall be subject to the prior approval of the competent authorities of the CCPs involved (for Italy Banca d'Italia and Consob). The sovereign risk framework adopted by the two CCPs within their interoperability link for the clearing of Italian Government bonds does not exclusively rely on CRAs but also on other parameters set by the two CCPs. The procedure under article 41 of EMIR	According to EMIR the competent authorities shall grant authorisation after having verified whether the applicant CCP complies with all the requirements laid down in the regulation. The mentioned requirements set for the CCP pursuant to the ESMA Regulatory Technical Standards

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		provides that models and parameters adopted by the CCP shall be validated by the competent authorities and subject to an opinion of the college of supervisors in accordance with article 19 of EMIR.	should be verified by the Italian competent authorities (Banca d'Italia and Consob) within 4 months of the submission of the application by the CCP. By May 2014 Banca d'Italia and Consob shall decide whether to grant authorisation. The Sovereign Risk Framework was adopted in March 2012 by CC&G and LCH.Clearnet and will be approved by the competent authorities of the CCPs within the EMIR process of approval of the interoperability link by May 2014. The margin model

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
			adopted by the two CCPs will be validated by the competent authorities within 4 months of the submission of the approval of the link by the Italian and French CCPs. Banca d'Italia and Consob and the French competent authorities shall conduct, within 4 months of the submission of the approval of the link, a risk assessment of the CCP link and shall submit a report to the college.
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.4a)			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.			
b) Assess the reliance on credit ratings in the investment policy of the CCP.			
c) Review private sector margin agreements to ensure compliance with the Principle.			
d) Require changes to private sector margin agreements.			
e) Incentivise compliance with the CRA Principles.			

Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations related to securities issuance.	EU Commission/ Council/Parliament, Italian Parliament	See EU response. Law no. 130 of April 30, 1999 (Law on securitisation of credits), a piece of primary legislation not related to the implementation of an EU Directive, is also relevant. Article 2, paragraph 4 of the Law on securitisation of credits provides that, where the securities issued in the securitisation are offered to retail	Consob is assessing whether the aforesaid reference to external rating has the potential to trigger

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		investors, the transaction shall be subject to the assessment of creditworthiness (i.e. an external rating) by third party operators. The rating requirement is applicable only in the case where the securities are offered to retail investors, to provide them with an additional piece of information so as to allow them to make their own due diligence before the investment on a well-informed basis, on the basis of all information contained in the prospectus[ix].	sole or mechanistic reliance on such credit ratings and should, therefore, be removed or replaced.
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.		See EU response.	See EU response.
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.	Consob and Banca d'Italia	Banca d'Italia regularly assesses the effective observance of obligations provided for in prudential regulation by banks investing in securitization.	Already at present.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
3. Application of the basic principles to particular financial market activities (Principle III)			
3.1 Central counterparties and private sector margin agreements (Principle III.5a)			
a) Review the role of credit rating in disclosures by issuers of securities.			
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).			

Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.			
1. Reducing reliance on CRA ratings in laws and regulations (Principle I)			
a) Remove references to CRA ratings in laws and regulations relating to securities firms.	EU Commission/ Council/ Parliament/ ESMA/Italian Parliament	See EU response. When the review of MiFID (commonly called MiFID II) is adopted, as a next step the implementing EU legislation - including the existing implementing Directive (Directive 2006/73/EC[x]) - will be reviewed to ensure compliance with principles to reduce over-reliance on external credit ratings. The Italian legislation will be amended accordingly.	See EU response. The Italian legislation will be amended accordingly.
b) Develop alternative standards of credit assessment, where necessary, for the purpose of		See also EU response.	See also EU response.

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
replacing references to CRA ratings in laws and regulations relating to securities firms.		The CRA III Regulation - binding in its entirety and directly applicable since 21 June 2013 - provides that investment firms shall make their own credit assessment and shall not solely or mechanistically rely on credit ratings for assessing the creditworthiness of an entity or financial instrument. According to art. 21 of Consolidated law on finance (Legislative Decree no. 58/1998 implementing, inter alia, the relevant provisions of MiFID), investment firms must act with diligence, fairly and transparently in the interests of customers and the integrity of the market. This implies that such intermediaries shall put in place internal procedures in order to make their own risk assessment and encourage investors to perform a due diligence exercise. They shall not solely or mechanistically rely on credit ratings and shall avoid entering into contracts where they solely or mechanistically rely on credit ratings and using them in contracts	Already at present

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		as the only parameter to assess the creditworthiness of investments or to decide whether to invest or divest.	
2. Reducing market reliance on CRA ratings (Principle II)			
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms' own credit assessment processes.	Consob and Banca d'Italia	The CRA III Regulation - binding in its entirety and directly applicable since 21 June 2013 - provides that sectoral competent authorities in charge of supervising investment firms shall, taking into account the nature, scale and complexity of their activities, monitor the adequacy of investment firms' credit risk assessment processes in line with specific sectoral legislation. As mentioned under Principle 1, question b) above, pursuant to art. 21 Legislative Decree no. 58/1998, investment firms are required to act with diligence, fairly and transparently in the interests of customers and the integrity of	Already at present

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		the market. This implies that such intermediaries shall put in place internal procedures in order to make their own risk assessment and encourage investors to perform a due diligence exercise. They shall not solely or mechanistically rely on credit ratings and shall avoid entering into contracts where they solely or mechanistically rely on credit ratings and using them in contracts as the only parameter to assess the creditworthiness of investments or to decide whether to invest or divest. Consob regularly monitors compliance with the requirements provided by Article 21 of Legislative Decree no. 58/1998, in conjunction with those of the CRA III Regulation, through off-site examinations and on-site inspections, with a view to reducing sole and mechanistic reliance on credit ratings, in line with the FSB principles and the relevant provisions of EU and Italian legislation. Consob has the power to impose	

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. "end-2014" or "one year after new international standards agreed")
		administrative sanctions in case of violations committed by investment firms. Consob has also powers of supervisory intervention vis-à-vis investment firms, such as for instance (i) the power to order to put an end to irregular conduct, and (ii) the power to convene meetings of the board directors, board of auditors or managers[xi]. Moreover, Consob can adopt precautionary measures vis-à-vis financial salesmen. In its supervisory controls, Banca d'Italia regularly assesses compliance with the prudential rules and the European framework, included provisions concerning the reduction of overreliance on credit rating agencies.	

[i] Primary law provisions currently into force for the calculation of the capital requirements, directly stemming from the European legislation, do not include any reference to external ratings.

[ii] There is one direct reference to CRA ratings in CESR Guidelines on Money Market Funds, in relation to the eligibility criteria concerning the investments of money market funds. However, it is clearly stated that the management company should make its own due diligence on the quality of instruments and should not place undue weight on the credit rating of the instrument. Moreover, it is noted that Regulation No. 462/2013/EU (CRA III Regulation) requires EBA, EIOPA and ESMA to review and remove, where appropriate, by 31 December 2013, references to credit ratings in their guidelines, recommendations and draft technical standards where such references have the potential to trigger sole or mechanistic reliance on credit ratings. The Joint Consultation Paper on Mechanistic references to credit ratings in the ESAs' guidelines and recommendations - issued by EBA, EIOPA and ESMA on November 7, 2013 - includes a proposal for an amendment to the aforesaid CESR Guidelines on Money Market Funds.

More in general, it is noted that, according to the Italian primary law (art. 2 of Legislative Decree no. 58/98), the Ministry of Economy and Finance, Consob and the Banca d'Italia are required to act consistently with EU law and promote the objective of supervisory and regulatory convergence. Therefore, they are under a legal obligation to take into account of the measures and initiatives that will be adopted by the European Supervisory Authorities aimed at reducing over-reliance on credit ratings and strengthening a common supervisory practice.

[iii] Moreover, the CRA III Regulation requires the European Commission, based on technical advice from ESMA, to submit a report by end 2015 to the European Parliament and to the Council on alternative tools to enable investors to make their own credit risk assessment of issuers and financial instruments. See EU response.

[iv] See, in particular, Article 14 of Directive 2009/65/EC (UCITS Directive), according to which "*Each Member State shall draw up rules of conduct which management companies authorised in that Member State shall observe at all times. Such rules shall implement at least the principles set out in this paragraph. Those principles shall ensure that a management company: (a) acts honestly and fairly in conducting its business activities in the best interests of the UCITS it manages and the integrity of the market; (b) acts with due skill, care and diligence, in the best interests of the UCITS it manages and the integrity of the market; (c) has and employs effectively the resources and procedures that are necessary for the proper performance of its business activities; (d) tries to avoid conflicts of interests and, when they cannot be avoided, ensures that the UCITS it manages are fairly treated; and (e) complies with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of its investors and the integrity of the market.*"

See also the implementing measures set forth in Commission Directive 2010/43/UE, in particular Article 22 (*Duty to act in the best interests of UCITS and their unit-holders*) and Article 23 (*Due diligence requirements*). Article 23 states that "*1. Member States shall require management companies to ensure a high level of diligence in the selection and ongoing monitoring of investments, in the best interests of UCITS and the integrity of the market. 2. Member States shall require management companies to ensure they have adequate knowledge and understanding of the assets in which the UCITS are invested. 3. Member States shall require* *management companies to establish written policies and procedures on due diligence and implement effective arrangements for ensuring that investment decisions on behalf of the UCITS are carried out in compliance with the objectives, investment strategy and risk limits of the UCITS. 4. Member States shall require management companies when implementing their risk management policy, and where it is appropriate after taking into account the nature of a foreseen investment, to formulate forecasts and perform analyses concerning the investment's contribution to the UCITS portfolio composition, liquidity and risk and reward profile before carrying out the investment. The analyses must only be carried out on the basis of reliable and up-to-date information, both in quantitative and qualitative terms. (...).”*

As regards managers of alternative investment funds, see in particular Article 12 (*General Principles*), paragraph 1, of Directive 2011/61/EU and Article 17 (*Duty to act in the best interests of the AIF or the investors in the AIF and the integrity of the market*), Article 18 (*Due diligence*) and Article 19 (*Due diligence when investing in assets of limited liquidity*) of Commission Delegated Regulation (EU) No. 231/2013. Directive 2011/61/EU has not be transposed in Italian legislation yet, whereas Regulation No. 231/2013 is directly applicable in all Member States since July 22, 2013.

[v] See Article 40, paragraph 1, of Legislative Decree no. 58 of February 24, 1998 (available in English on Consob website: http://www.consob.it/mainen/documenti/english/laws/fr_decree58_1998.htm#Article_40), which requires management companies, among other, to act with diligence, correctness and transparency in the interest of the unit-holders and the integrity of the market, to adopt the measures that are necessary to preserve the rights of the unit-holders and to employ adequate resources and procedures to ensure the efficient provision of services. Article 50, paragraph 1, of Legislative Decree no. 58 of February 24, 1998 states that the aforesaid Article 40 applies also to open-end investment companies (SICAVs).

[vi] Other powers of supervisory intervention available to Consob include: (i) the power to suspend the administrative bodies of the firm as a matter of urgency in situations that endanger investors or the market, and to appoint a provisional administrator to take over its management where there is evidence of serious administrative irregularities or serious violations of laws, regulations or by-laws; (ii) the power to propose to the Ministry of Economy and Finance to withdraw authorization to carry on business and order the compulsory administrative liquidation of the firm where administrative irregularities or the violations of laws, regulations or bylaws are exceptionally serious.

[vii] The governance and the organizational structure of the investment process in the Italian occupational pension funds are very different from the ones that usually characterize the investment fund companies. For example, the board of directors of contractual pension funds, which is composed by representative of employers and employees, is responsible for the definition of investment policy and the identification of risk and performance profiles of the fund (to be included in the investment policy statement), but is also mandatorily required by law to select and appoint financial investment managers responsible for the implementation of the investment policy defined by the board. Under the current Italian framework, in fact, the choice of specific instruments in which to invest has to be delegated to professional asset managers. The issue of reliance on CRAs ratings is relevant, in particular, in the investment policy statement and in the mandates that are given to investment managers. However, for certain categories of pension funds direct investment is also possible. As a consequence, Italy's Action Plan slightly departures from the FSB format on this issue as the occupational pension schemes are not included in the Annex IV, but considered in a separate section (Annex IV b)).

[viii] http://www.imf.org/external/pubs/ft/scr/2013/cr13351.pdf

[ix] Pursuant to Article 2 paragraphs 2 and 7 of Law no. 130/1999, the purchaser or the company issuing the securities, if the two are different, must draft a prospectus, which must be delivered to the holders of the securities upon request. The prospectus must be approved by Consob according to Article 94 of Legislative Decree no. 58/1998 (available on Consob's website: http://www.consob.it/mainen/documenti/english/laws/fr_decree58_1998.htm. The prospectus must contain information on the rating assigned to the securities, where available.

[x] Commission Directive 2006/73/EC, implementing MIFID, contains reference to credit ratings in article 18 (Depositing client funds). Pursuant to Article 18 paragraph 1 of Directive 2006/73/EC, "*1. Member States shall require investment firms, on receiving any client funds, promptly to place those funds into one or more accounts opened with any of the following: (...) (d) a qualifying money market fund. (...). 2.For the purposes of point (d) of paragraph 1, and of Article 16(1)(e), a 'qualifying money market fund' means a collective investment undertaking authorised under Directive 85/611/EEC, or which is subject to supervision and, if applicable, authorised by an authority under the national law of a Member State, and which satisfies the following conditions:(a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings; (b) it must, with a view to achieving that primary investment objective, invest exclusively in high quality money market instruments with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of 60 days. It may also achieve this objective by investing on an ancillary basis in deposits with credit institutions; (c) it must provide liquidity through same day or next day settlement. For the purposes of point (b), a money market instrument shall be considered to be of high quality if it has been awarded the highest available credit rating by each competent rating agency which has rated that instrument. An instrument that is not rated by any competent rating agency shall not be considered to be of high quality. For the purposes of the second subparagraph, a rating agency shall be considered to be competent if it issues credit ratings in respect of money market funds regularly and on a professional basis and is an eligible ECAI within the meaning of Article 81(1) of Directive 2006/48/EC.*"

[xi] Other powers of supervisory intervention available to Consob include: (i) the power to suspend the administrative bodies of the firm as a matter of urgency in situations that endanger investors or the market, and to appoint a provisional administrator to take over its management where there is evidence of serious administrative irregularities or serious violations of laws, regulations or by-laws; (ii) the power to propose to the Ministry of Economy and Finance to withdraw authorization to carry on business and order the compulsory administrative liquidation of the firm where administrative irregularities or the violations of laws, regulations or bylaws are exceptionally serious.

Consob Communication no. 0062557 of July 22, 2013

Re: **Communication on the collective portfolio managers' transparency and correctness obligations and the CRA ratings**

Considering the uncertainty situation on financial markets, Consob deems it necessary to issue the current communication (of acknowledgement of conduct obligations already in force) in light of the legal and regulatory framework resulting from the following sources:

- Article 5-bis, paragraph 1, of Regulation (EC) no. 1060/2009 on credit rating agencies, as amended by Regulation (EU) no. 462/2013 of the European Parliament and of the Council of May 21, 2013, entered into force on June 21, 2013, which states that "*The entities referred to in the first subparagraph of Article 4(1) shall make their own credit risk assessment and shall not solely or mechanistically rely on credit ratings for assessing the creditworthiness of an entity or financial instrument.*";

- Article 5-bis, paragraph 2, of the same Regulation, which states that "*Sectoral competent authorities in charge of supervising the entities referred to in the first subparagraph of Article 4(1) shall, taking into account the nature, scale and complexity of their activities, monitor the adequacy of their credit risk assessment processes, assess the use of contractual references to credit ratings and, where appropriate, encourage them to mitigate the impact of such references, with a view to reducing sole and mechanistic reliance on credit ratings, in line with specific sectoral legislation*";

- The complementary measures set forth by Directive 2013/14/UE of the European Parliament and of the Council of May 21, 2013, entered into force on June 21, 2013, amending Article 18 of Directive 2003/41/EC, Article 51 of Directive 2009/65/EC and Article 15 of Directive 2011/61/EU, that are intended to contribute to the reduction of the over-reliance on credit ratings by institutions for occupational retirement provision (IORPs), undertakings for collective investment in transferable securities (UCITS) and alternative investment funds (AIFs) when making their investments;

- Article 40, paragraph 1, of Legislative Decree no. 58 of February 24, 1998, which requires management companies, among other, to act with diligence, correctness and transparency in the interest of the unit-holders and the integrity of the market, to adopt the measures that are necessary to preserve the rights of the unit-holders and to employ adequate resources and procedures to ensure the efficient provision of services;

- Article 50, paragraph 1, of Legislative Decree no. 58 of February 24, 1998, pursuant to which the aforesaid Article 40 applies also to open-end investment companies (SICAVs);

- Article 65 letters a) and c) of Consob Regulation no. 16190 of October 29, 2007, which states that, in providing portfolio management activities, management companies and SICAVs shall act with diligence, correctness and transparency in the interest of the unit-holders and the integrity of the market and have adequate knowledge and understanding of the financial instruments, assets and other values in which the UCITS can be invested and their liquidation conditions, also on the basis of correct, transparent and appropriate valuation systems;

- Article 66, paragraph 1, of Consob Regulation no. 16190 of October 29, 2007, which states that, "*Management companies and SICAVs ensure a high level of diligence in the adoption and* *monitoring of the investment choices made on behalf of the UCITS managed. To this end, for each UCITS managed, management companies and SICAVs: a) acquire reliable and up-to-date information as necessary to prepare forecasts and perform analyses; b) define the consequent general investment strategy; c) before ordering the execution of the transactions, and considering the characteristics of the potential investment, perform a qualitative and quantitative analysis concerning the investment's contribution to the risk and reward profile and the liquidity of the UCITS managed; d) ensure that investment decisions are implemented in compliance with the objectives, investment strategy and risk limits of the UCITS managed*";

- Article 66, paragraph 2, of Consob Regulation no. 16190 of October 29, 2007, which requires management companies and SICAVs to keep records of the portfolio management activities undertaken for each UCITS managed, that document the analyses performed, the strategies decided and the controls carried out.

Therefore, within the limits of the management discretion allowed under the offer documentation and the UCITS' rules or by-laws, the entities authorised to perform collective portfolio management activities must comply with the obligation to act with diligence, correctness and transparency in the interest of the unit-holders and the integrity of the markets also with regard to the use of credit ratings in the investment policies.

On the basis of the foregoing, Consob draws the attention of the managers on their obligation to adopt, in the interest of the investors and the integrity of the market, appropriate measures that limit the sole or mechanistic reliance on credit ratings when adopting their investment and disinvestment decisions.

In compliance with the requirements set forth under the new UE regulation on credit rating agencies (so-called "CRA3") and Directive 2013/14/EU, this general obligation amounts to the duty of the collective portfolio manager to adopt correct, transparent and appropriate internal credit risk assessment processes.

The compliance with the general principle to act always in the best interest of investors and the integrity of the markets implies that, in the exercise of its own management discretion in relation to each UCITS, the collective portfolio manager performs the necessary due diligence activities before ordering the execution of investment or disinvestment transactions related to, or depending from, a certain level of the credit rating or credit rating changes.

In particular, this implies that the manager, within the discretionary choices that form the investment process, must carry out its own assessment of all the different risks related to the investment itself, including the credit risk and the liquidity and market risks.

With reference to the former (credit risk), compliance with the correctness obligation vis-à-vis the investors implies the need to carry out appropriate internal assessment activities so as to avoid to solely or mechanistically rely on the rating from one or more credit rating agencies. Moreover, the need to consider also the liquidity and market risks requires to take account of the liquidity conditions of the investments and of any factor which affects the value and general risk profile of the UCITS portfolio.

As a consequence of the above, also the references to the creditworthiness included in the offer document will have to comply with the aforesaid principles, considering that the above documentation must in any case truly reflect the investment policy adopted by the manager itself.

For each UCITS managed, the collective portfolio manager will have to keep records documenting the aforesaid analyses and assessment activities that form the basis of the investment and disinvestment decisions taken, in compliance with Article 66, paragraph 2, of Regulation no. 16190/2007.

In line with the legal and regulatory provisions mentioned above, including the new EU regulation on credit rating agencies, Consob will monitor compliance with the aforesaid obligations, having regard in particular to the need to reduce the sole and mechanistic reliance on credit ratings, in the interest of investors and the integrity of the market.

The CHAIRMAN
Giuseppe Vegas