

**CESR's Advice on Level 2 Implementing Measures for the Proposed
Prospectus Directive (doc: CESR/03-128, CESR/03-066b)**

Comments by Banca d'Italia

(Rome, June 16, 2003)

I)- On the minimum disclosure requirements for the Bank registration document.

Some sections of the document can be omitted with out any significant loss of disclosure because the information is already available to the public.

Comment: it should be noted that this information is primarily required for retail investors. Thus a streamlined Bank registration document is preferable in order to focus the investors' attention on key information and reduce the risk of misinterpretation.

Specifically we propose to delete section 5 (Business overview) from the BRD.

Comment: the bank's activity is precisely defined by a specific Community Directive (Directive 2000/12/EC), is strictly regulated and subject to preventive authorization; additional information on business activity carried out by banks to be added in the prospectus is of marginal use and can be misleading.

The following sections should be moved from the BRD to the Security Note:

3 - Risk factors

12 - Material contracts.

Comment: to increase the effectiveness of the disclosure, all information relating to factors that can affect the capacity of the issuer to meet its obligations (including the existence of material contracts) should be concentrated in

one specific section and this should be included in the SND, where all other type of risks are highlighted.

In addition, all other information required in the BRD that is already publicly available (annual report, financial statements etc.) should not be repeated in the registration document, but should be disclosed by reference (incorporation by reference).

Comments: such set of information is not of much interest for retail investors; professional investors, who make use of it in their analysis, can find the information where it is currently published.

II) - On the minimum disclosure requirements for the Debt Securities Note.

A) Provide more detailed information on the type of risks that should be included in the “Risk factors” section. In particular it should be prescribed that the debt securities note should always include at least reference to the following type of risks:

- credit risk : that is the risk that the issuer may not be able to fulfill its obligations; this section should include indication if the issuer has been granted an official rating by rating agencies; it should also mention whether a security issued by a bank is, or is not, covered by a deposit guaranty scheme;
- market risks: that is the risk that the value of the security during its life, as well as its return, may be affected by changes in relevant market variables such as interest rates, exchange rates etc.;
- liquidity risk: that is the risk that if the investor wishes to sell the security before expiration he may incur capital losses due to the difficulty of finding a counterpart to the transaction; this risk may be reduced if the security is traded on an organized exchange.

B) Introduce a specific section containing examples of the return on the security issued; this section should include a backward example - with reference to the fact that past performances are no guaranty for future performances - as well as a “worst case scenario”.

Comment: the objective of this information is to familiarize the investor with the mechanics determining the return on the security. This is particularly important in the case of structured debt securities, i.e. those securities that

result from the combination of a straight bond and a derivative component, such as indexed bonds.

C) Provide information on the derivative component of structured debt securities. This section should contain information on the value of the derivative component embedded in the structured security, and the underlying assumptions utilized to calculate such value.

Comment: *When purchasing a structured debt security the investor is in fact acquiring/selling a derivative, in addition to acquiring the underlying bond; the price of such derivative component should be clearly indicated in the documentation.*