

## **SUMMARY**

The Bank of Italy's annual Report to Parliament and the Government describes the Bank's performance of its institutional duties and its administrative activities.

The Bank of Italy conducted monetary policy operations vis-à-vis Italian banks and contributed to determining market interventions within the competent fora of the Eurosystem.

The instability in the money and financial markets that had arisen in the second half of 2007 grew severe in 2008, particularly following the failure of the American investment bank Lehman Brothers in September. Given the sharply deteriorating macroeconomic situation and rapidly subsiding inflationary pressures, in October the Governing Council of the European Central Bank began significantly lowering its policy rates. At the same time the Council revised the operating arrangements of monetary policy in order to increase the Eurosystem's capacity to refinance euro-area banks in euros and in dollars.

Refinancing of the banking system was greatly stepped up in 2008, the number of operations in euros and other currencies increasing from 94 to 194. The Eurosystem carried out 57 refinancing operations in dollars (the term auction facility) last year, with an average participation of 53 counterparties, which were allotted \$2,648 billion. A programme of swaps of dollars and Swiss francs for euros was begun in agreement with the US and Swiss central banks.

To meet the banks' growing liquidity requirements, the range of assets eligible for use as collateral against Eurosystem financing was temporarily extended. The Bank of Italy implemented these measures by updating the eligible assets database for securities listed in Italy and taking the actions required for those assets to be accepted as collateral.

Since 1 January 2007 bank loans have been eligible to serve as collateral for Eurosystem credit. In October 2008 the Bank of Italy lowered the eligibility threshold for these loans from €1 million to €500,000. To strengthen the liquidity support for Italian banks, a new type of operation was launched, collateralized securities lending, whereby the Bank offers Italian counterparties euro-area government securities in exchange for collateral assets with ratings too low for ECB eligibility.

The euro-denominated liquidity created by numerous operations increased to more than €800 billion, on average, between September 2008 and the end of January 2009, from about €460 billion in the first eight months of 2008.

On 19 May 2008, as scheduled, the Italian financial marketplace completed the migration to TARGET2. The old BI-REL gross settlement system was supplanted by the Italian component of TARGET2, designated TARGET2-Banca d'Italia (TARGET2-BI). In 2008 TARGET2 settled a daily average of nearly 370,000 payments for a value of €2,670 billion, up 1 per cent and 10 per cent, respectively, from TARGET turnover in 2007.

Despite the market turmoil, TARGET2 functioned smoothly, proving to be highly robust. The average waiting time to settlement was kept to around 1 minute, as before. The availability of

advanced treasury management functions facilitated the orderly settlement of transactions. The system's opening and closing times remained unchanged. In the last three months of 2008 the system recorded 100 per cent operational availability.

The Bank of Italy proceeded in adapting its retail payments clearing and settlement system, BI-COMP, to Eurosystem standards for the Single Euro Payments Area (SEPA). The transactions handled by BI-COMP in 2008 increased by about 2 per cent both in number and in value. The transactions numbered over 2 billion, for a total value of €3,440 billion, equal to 2.2 times Italian GDP.

On 17 July the Governing Council of the ECB decided for the development of the TARGET2-Securities (T2S) project, designed to give central depositories a shared technical platform for settling securities trades in Europe in central bank money, both in euros and in other European currencies. The creation and operation of T2S were assigned to the central banks of France, Germany, Italy and Spain, so as to exploit synergies and lower costs by using the single shared platform of TARGET2. The activity of support to the Governing Council for strategic decisions and ordinary management of the T2S project was assigned to a new body, the T2S Programme Board, consisting of eight members named by the Governing Council; one is a representative of the Bank of Italy.

The Bank of Italy is one of the producers of euro banknotes and is responsible for the issue of the notes in Italy. It is taking part in the preparations for the creation of the second series of euro banknotes. It contributes to the establishment of common guidelines for note quality and combating counterfeiting. At 31 December 2008 cumulative net issues in Italy amounted to €139.5 billion, 8.6 per cent more than the stock outstanding at the end of 2007.

The Bank of Italy operates the State and provincial treasury service. In 2008 a total of €509 billion in tax and social security contribution revenues was collected, and over 53 million payments ordered by government bodies were effected. Some 56,000 payments or collections outside the euro area were made for the equivalent of €2.5 billion. The Bank's cashier service for public entities handled 29 million operations during the year.

The Bank of Italy places and buys back government securities and executes debt service transactions on behalf of the Ministry for the Economy and Finance; it also cooperates with the Ministry in setting issuance policy. In 2008 government securities with a face value of €489.6 billion were placed, compared with €415.3 billion in 2007; €477 billion of the total involved domestic instruments. The introduction of the new IT procedure ("Nuova Coltit") for placements and buybacks speeded up the execution of transactions and the communication of the results to the market, enhancing the security and the flexibility of operations.

By law, the Bank of Italy is the owner of the official reserves. At the end of 2008 Italy's foreign exchange reserves were worth €31.4 billion, while gold reserves amounted to €49 billion. Investment was conducted in a situation of highly volatile international markets, as the financial crisis intensified. Precautions to safeguard the liquidity and the value of the assets – the prime objective of investment management – were strengthened. With reference to market risk, the management of foreign exchange portfolios was in line with the respective benchmark portfolios, deviations being modest in size and limited in duration.

The euro-denominated financial portfolio comprises the Bank's own investments and those of the staff severance pay and pension provisions. The Bank is also responsible for the investments of the supplementary pension fund for staff hired after 28 April 1993. At 31 December 2008 the value of the financial portfolio was €90.9 billion, about the same as a year earlier; 92 per cent of these assets consisted in bonds (Italian and other euro-area government securities), the rest in equities. The Bank of Italy does not invest in bank shares.

The Bank of Italy performs the duties of supervision and oversight laid down by the law on a diversified set of intermediaries. The Consolidated Law on Banking assigns the Bank to conduct supervision of banks, banking groups, financial companies entered in the special register referred to in Article 107, and electronic money institutions. These powers must be exercised with a view to the sound and prudent management of the institutions supervised, the overall stability, efficiency and competitiveness of the financial system and compliance with the legislative and regulatory provisions concerning credit and finance.

As of 1 January 2008 the Italian Foreign Exchange Office (Ufficio Italiano Cambi, UIC) was merged into the Bank of Italy, which took over the duty of verifying intermediaries' continuing satisfaction of the requirements for entry in the register of financial intermediaries referred to in Article 106 of the Consolidated Law on Banking and that of managing the registers and lists of financial agents, loan brokers, and professional gold dealers.

As regards investment and asset management services, supervisory powers are shared between the Bank of Italy and Consob. The Bank is responsible for overseeing risk containment, capital soundness, and the sound and prudent management of intermediaries, Consob for guaranteeing transparency and correct conduct.

At the end of 2008 the Italian financial system consisted of 799 banks, 113 investment firms, 214 asset management companies and SICAVs, 491 financial companies entered in the register referred to in Article 107 of the Consolidated Law on Banking, 3 electronic money institutions listed in the register referred to in Article 114-bis of the Law, the Bancoposta division of Poste Italiane S.p.A., Cassa Depositi e Prestiti S.p.A., 1,189 financial companies entered in the register referred to in Article 106 of the Law (plus, in the special sections of that register, 19,579 persons not doing business with the general public, 794 loan guarantee consortiums, 489 money changers, and 133 "casse peota" mutual loan funds), 53,650 financial agents, 107,643 loan brokers, and 195 dealers in gold.

Last year and this, the Bank of Italy's international activity intensified, with action in two directions to strengthen the financial system. First, the Bank took part in setting common principles for implementing the measures for stability drafted during the financial crisis. Second, with a view to broader reform of the regulatory framework, it participated in international initiatives to review the breadth and depth of supervisory rules and action, to improve the accounting standards for valuation and the transparency of balance sheet assets, to reinforce international cooperation. Further, efforts were stepped up to develop macroprudential supervision and to strengthen regulations so as to take systemic risks duly into account.

The recommendations of the Financial Stability Board and the G20 call for increasing the endowment and improving the quality of banks' capital, for building up resources beyond the

minimum requirements during cyclical expansions, for limiting the leverage of the financial system. In addition, guidelines for harmonizing the definition of capital at international level need to be set. In line with these indications, in November 2008 the Basel Committee released an Action Plan. The Bank of Italy is an active participant in these proceedings.

The regulatory function is guided by the principles and techniques of better regulation, designed for efficiency, quality and transparency in the drafting process. In terms of substance, regulation is oriented to rules that set principles and capitalize on each intermediary's autonomous ability to find the solution that best fits its own specific characteristics. The Bank seeks to align the incentives for the supervised institutions with the objectives of supervision and to contain the costs for those covered, including by regulatory simplification. Regulatory impact assessment has become an integral part of the regulatory process.

Regulatory activity was intense in 2008 and the early part of 2009. New corporate governance rules were enacted, with which intermediaries must come into compliance by 30 June 2009. The rules include criteria on executive compensation and incentives that were subsequently adopted at international level as well. The rules on transparency in dealings with customers are now being revised: the information provided will be made clearer, the documentation simplified, cost comparison facilitated, customer protection strengthened. A new system for out-of-court settlement of disputes over banking and financial services has been instituted (the "Banking and Financial Arbitrator") to give customers a simple, rapid, inexpensive way of obtaining impartial rulings on their complaints. There was close cooperation with the Government in transposing Community directives into Italian law and in drafting and applying the measures to safeguard financial stability.

From the initial phases of the financial crisis in the summer of 2007 supervisory action was directed to the broadest possible monitoring of sources of risk for the financial system. Liquidity monitoring was made more efficacious by instituting a special weekly report. After the Lehman Brothers failure a new report to check banks' and customers' exposure to large foreign intermediaries was introduced. Capital adequacy analysis and controls were intensified. Ad hoc inspections to assess credit risk and derivatives risk were conducted more frequently. Systemic stress tests were run, regarding both credit risk and liquidity risk. The Bank participated actively in the Financial Stability Committee.

A total of 955 supervisory actions vis-à-vis banks – formal letters of reprimand or meetings with corporate officers – were undertaken in 2008, bearing on 330 banks, or 40 per cent of the entire system. These actions – which followed from the findings of analysis and assessment – mainly concerned the areas most vulnerable to the repercussions of financial turmoil and worsening economic conditions.

As regards supervision of asset management companies, 340 administrative proceedings were undertaken (as against 457 in 2007), of which 243 consisted in the approval of investment fund rules. Corrective measures numbered 46.

As regards investment firms, 137 interventions, including 34 meetings with officers, were carried out at 57 firms. The Bank of Italy also made 60 supervisory interventions at financial companies (other than special purpose vehicles) in the special register. Of these actions, 22 took the form of meetings with corporate officers. As to financial companies in the general register, there were 218 off-site interventions and 5 meetings with officers.

On-site controls were more thorough and frequent. The number of inspections was increased from 175 to 190; 150 bore on banks accounting for 55 per cent of the assets of the entire banking system. A total of 559 inspections were conducted at banks and other intermediaries in the three years 2006-08 and another 102 were begun in the first five months of 2009.

Special procedures were initiated against 3 banks in 2008 and 2 were concluded. In the first months of 2009 five procedures were begun. No compulsory administrative liquidations were ordered in 2008; one was begun early in 2009. As to non-bank intermediaries, two asset management companies were put under special administration, one of them in 2009.

The Bank's Committee for the Examination of Irregularities, a technical body responsible for the final proceedings of the sanction process, examined cases involving 95 intermediaries and more than 240 irregularities, mostly detected in the course of inspections. A total of 58 sanction orders were issued during the year, with fines totaling €9 million imposed on 604 persons.

With the entry into force of Legislative Decree 231/2007 as of 1 January 2008 the task of combating money laundering, formerly assigned to the UIC, was transferred to the Bank of Italy. As supervisory authority the Bank was given powers of regulation, control and sanction vis-à-vis the institutions supervised. The Supervision Area is responsible for issuing measures for compliance with the requirements concerning customer due diligence, record-keeping, organization and controls. An independent Financial Intelligence Unit has been instituted within the Bank as Italy's national agency for collecting and analyzing information on possible money laundering or terrorist financing and notifying the law enforcement authorities. The positioning of the FIU within the Bank of Italy, specifically its collaboration with the Supervision Area, fosters synergy. The Supervision Area and the FIU, each in its own sphere of responsibility, have conducted a demanding plan of verifications to prevent money laundering, covering 191 financial intermediaries.

The Bank of Italy increased its consumer protection activity last year. Controls on intermediaries were reinforced. Regulations were revised. Specific responses were provided to the complaints received from the users of banking and financial services, and examination of the complaints was integrated with regular supervisory activities. The Bank's financial education initiatives proceeded.

The Bank of Italy carries out supervision on the financial markets and oversees the payment system, in cooperation with other Italian and foreign authorities.

The Bank's activity in such international fora as the G10, the OECD and the Eurosystem intensified in 2008. The engagement within those organizations bore chiefly on analysis of the possible repercussions of the financial crisis on the functioning of markets and payment and settlement systems. Studies and analyses were made on the interdependence deriving from the participation of global institutions in many different payment and settlement systems and verification of progress in reducing foreign exchange settlement risk. The risks of correspondent banking were assessed. The "Eurosystem oversight policy framework," to which the Bank of Italy contributed, was released in February 2009. The paper outlines the role of the Eurosystem in overseeing payment systems, the scope of oversight, schemes for cooperation with other authorities, and intervention procedures.

Together with Consob the Bank of Italy took part, at the Ministry for the Economy and Finance, in work to revise the regulatory framework for the wholesale market in government securities. A draft of the new regulation, posted for consultation on the website of the Department of the Treasury, also incorporates the new rules for multilateral trading facilities for government securities, envisaged by the MiFID directive and governed in Italy by the Consolidated Law on Finance, and the transparency requirements for the various trading venues. The regulation will also include the definition of the features of wholesale trading.

The Bank of Italy oversees the wholesale market in government securities and the interbank market in euro deposits with a view to safeguarding their overall efficiency and the orderly course of trading. In 2008 specific attention was paid to the implications of the financial crisis for the trading systems overseen.

The financial crisis had an especially strong impact on business on the interbank deposit market (e-MID). Between 2007 and 2008 turnover contracted by some 40 per cent, falling to a daily average of €13.4 billion. November 2008 saw the inauguration on the e-MID platform of a new bilateral trading procedure called “request for quote”, which allows participants to send bids or offers anonymously to counterparties selected in advance.

The Collateralized Interbank Market started up on 2 February 2009. More than 50 banking groups, including four foreign ones, have become members. Daily volume rose steadily in the first weeks of trading and has stabilized since May when the stock of deposits was about €4 billion.

The Bank of Italy oversees post-trading systems in order to limit systemic risk. In 2008 the turbulence on the money and financial markets did not give rise to instability at the Italian systems.

In 2008 a particular effort was made to analyze the changes in organizational arrangements connected with the merger between the Borsa Italiana group, majority shareholder of the companies overseen by the Bank (MTS, Monte Titoli and Cassa di Compensazione e Garanzia), and the London Stock Exchange Group. Following the centralization of important corporate functions at the London market company, the Bank of Italy has acted to ensure that the companies under its oversight continue to be adequately informed about the outsourced services, through specific intra-group agreements, and able to ensure efficient management of trading and post-trading services and to respond promptly to the authorities’ requests for information. The merger of the Borsa Italiana group into the London Stock Exchange Group required the Bank, together with Consob, to prepare a memorandum of understanding with the UK Financial Services Authority. The drafting of the document is at an advanced stage.

The Bank of Italy’s oversight of retail payment services is being modified by an overhaul of the reference legislative framework, owing above all to the Payments Service Directive (Directive 2007/64/EC) , with which the member states’ laws and regulations must comply by 1 November of this year. The directive reforms the European market for payment services, improving its efficiency in terms of greater protection for service users, better quality of services and heightened competition.

The SEPA project is designed to harmonize operational systems and interbank rules in order to create a Single Euro Payments Area in which electronic payment instruments (payment cards, credit transfers and direct debits) can be used with the same efficiency and security now offered by

the national systems. The Bank of Italy plays an important role in the project, guiding the initiatives of operators and monitoring the ongoing consolidation of technological infrastructures as a consequence of the integration process and with a view to economies of scale and scope.

Since 19 May 2008 Italian financial intermediaries settle large-value interbank payments through the pan-European TARGET2 gross settlement system, which gradually supplanted the earlier version of TARGET starting in November 2007. The Bank of Italy has continued to monitor the operations of participants that have settlement accounts with the Bank by analyzing the quantitative and qualitative information available on the system, paying special attention to the profiles of financial risk. In 2008 stepped-up use was made of the BoF-PSS2 simulation model developed by the Bank of Finland for stress tests of the system's resilience.

In 2008 the Bank of Italy contributed again to cooperative oversight of the Continuous Linked Settlement (CLS) system, a multicurrency settlement system promoted by the G10 central banks to eliminate settlement risk on foreign exchange transactions, and of SWIFT, a company that provides connectivity services at global level to the interbank payments industry.

The Bank of Italy contributes to the preparation of the monetary policy decisions taken by the Governing Council of the ECB with analyses, studies and assessments that serve to support the Governor's participation in the meetings of the Council and the activity of the Bank's representatives in the committees of the ESCB and their working groups. The Economic Research and International Relations Area calculates projections of the macroeconomic trends of the Italian and euro-area economy and prepares analyses of the current evolution of economies. Research and analysis also bears on significant economic policy issues in Italy. The activity includes drafting reports for the public, publicizing research results and producing statistics. Intense relations are conducted with foreign and international agencies and organizations, with a view to contributing to the debate on the major world economic and financial problems and both exploiting and increasing the comparability of data on Italy and the other countries and regions of the world.

In 2008 and the first few months of this year the main research projects focused on the difficulties besetting the money and financial markets and their monetary policy implications, and on the consequences of the crisis for the Italian economy (firms, households and financial intermediaries). Investigations regarded the financial conditions of households and firms, the business outlook of industrial and service firms, the performance of the real-estate market, the trends of the public finances, and the macroeconomic and fiscal effects of budgetary measures.

Abundant attention was dedicated to the situation of credit in Italy, particularly to the impact of the recent financial turmoil on credit supply and demand. Continuous monitoring of high-frequency data on bank lending was begun; specific studies were based on the results of the qualitative surveys of banks and firms. A wide-ranging study analyzed the main determinants of the financial system's procyclicality, meaning the set of mechanisms by which the system amplifies cyclical fluctuations. Studies were made of the effects of the structural changes in markets, of the new rules on banks' capital requirements, of the revision of accounting standards and of the incentives of managers of financial firms.

In the field of simulation and forecasting instruments, work continued on the development of econometric models, with special attention to the interactions between the financial system, bank profits and capital, credit policies, and macroeconomic developments. Mechanisms to estimate the

effects on the economy of quantitative restrictions of credit were incorporated into the quarterly model of the Italian economy.

Three important research projects – on the transformation of the Italian productive system, the liberalization of local public services and the development lags of southern Italy – were completed in 2008 and their findings were discussed in conferences and workshops.

Several projects aimed at enhancing the methodological robustness and information content of the sample surveys conducted by the Bank of Italy as a source of microdata for economic research.

The research conducted by the regional economic research units is coordinated with the activity of the Economic Research and International Relations Area; one project concerned local credit markets.

The Bank publishes two series of research papers. The Working Papers series is reserved to original contributions to the scientific debate and the Occasional Papers series presents studies and documentation on issues concerning the institutional tasks of the Bank of Italy and the Eurosystem.

The Historical Archives and the Library, in agreement with the Ministry for the Cultural Heritage and Cultural Activities, worked to preserve the archival and library resources of the units affected by the reorganization of the Bank.

During 2008 and the first few months of 2009 statistical activity was characterized by the start of an extensive revision of supervisory reports, the approval of several pieces of domestic and European legislation concerning statistics, and an increase in the demand for data due to the financial crisis. These developments were on top of the customary activity of statistical production.

The period saw the start-up of the new prudential supervisory reports for banks, banking groups, financial companies registered under Article 107 of the Consolidated Law on Banking – comprehensively revised following the transposition in Italy of Directives 2006/48/EC and 2006/49/EC on capital requirements (Basel II) – and of the new statistical reports of financial companies registered under Article 107 of the Consolidated Law on Banking, adapted to the IAS/IFRS standards.

New statistical commitments derived from the issue by the European Central Bank of regulations concerning statistics on the assets and liabilities of securitization vehicles, the balance sheet for the monetary financial institutions sector, and statistics on interest rates. The demand for information, connected with the evolution of the financial crisis, coming also from international organizations (including the ECB and the European Commission) and national authorities (the Ministry for the Economy and Finance) induced the Bank both to conduct ad hoc surveys at intermediaries and to create new periodic statistical flows.

To facilitate users' access to statistics, the statistical section of the Bank's website was redesigned and the procedures for the release of information were reorganized. The contents of the Statistical Bulletin and of some of the Supplements to the Statistical Bulletin were revised to expand the information of greatest interest to users.



The Bank takes part in the work of the international community on economic and financial matters, operating in the different fora and at the various levels of international cooperation: the International Monetary Fund, the World Bank and the regional development banks, the Financial Stability Forum (since April 2009, the Financial Stability Board), the various regulatory and supervisory organizations, the competent European institutions (the Economic and Financial Committee of the European Union), the Eurosystem, the OECD, and the informal groups (G7, G10 and G20). The main objectives of international cooperation in this field are to identify and monitor the risks bearing on the performance of the world economy, to safeguard the stability of the global financial system and to combat poverty.

The reorganization of the Bank continued in 2008 and the first few months of 2009, affecting the Head Office, the branch network and the representative offices abroad.

On 1 August 2008 the reorganization of the Banking and Financial Supervision Area became operational, involving a reallocation of responsibilities and tasks at both Head Office and branch level. As part of the rationalization of the branch network, the branches with supervisory functions became fully responsible for reviewing the facts in administrative proceedings and for the overall process of control. In November 2008 the new structure of the IT and Statistics Function was finalized, with priority attached to innovation and the provision of services to internal and external users. In December the new Central Banking, Markets and Payment Systems Functional Area began to operate, centralizing the tasks formerly assigned to two functional areas, one for Central Banking and Markets, the other for Payment Systems and Treasury Services. The implementation phase of the branch network restructuring plan began.

The reorganization of the Bank is being accompanied by a revision of procedures and rationalization of work processes, with the aim of more timely action, better services to users and greater efficiency.

The Bank's employees numbered 7,755 on 31 December 2008; the increase of 355 compared with a year earlier was due to the incorporation of the staff of the Italian Foreign Exchange Office from 1 January (450 workers) and to a decline in terminations of employment.

The gradual implementation of the Bank's reorganization plan is leading to a reallocation of staff between the Head Office and the branch network, within the network and among the sectors of activity to the benefit of those with institutional relevance.

In 2008 IT activity was performed in this context of extensive organizational and functional change. The temporal overlap between the projects for reorganization of the Head Office and branch network, the incorporation of the Italian Foreign Exchange Office and the Bank's assumption of new duties created a continually evolving context that demanded coordinated planning and operational flexibility.

As regards European projects, the start-up of the single shared platform of TARGET2 consolidated the Bank's leading international position in the field of IT infrastructure, applications and systems to support institutional functions. During the year the migration from BI-REL/TARGET to the new single shared platform was completed for the Italian financial marketplace.

In 2009 the Bank's IT function is continuing to participate in the main development programmes within the ESCB. On the domestic front, the main operational commitment concerns the creation of a documentary system to support disputes resolution between financial intermediaries and customers. In addition, new applications services are being planned and the technological structures renewed for the activity of the Financial Intelligence Unit.

The Bank's reorganization also involves an extensive adaptation of the buildings of the Head Office and branch network.

The Internal Audit function drafted a policy document in line with the international best practices, directed to shaping its contribution to the continual improvement of governance, risk management and controls. Auditing, focused on risk analysis, gave priority to the sectors most affected by the restructuring of the Bank. Interventions adopted diversified, flexible and streamlined procedures; new instruments permitted efficient delineation of spheres. An external auditor found Internal Audit to be fully compliant with the relevant international standards.

The Bank of Italy's accounting system, managed by the Accounting Department, encompasses units at the Head Office and in the branches that record the management events within their competence. The working procedures are established as a function of the end-of-day completion of accounting activities so as to satisfy the obligation of providing the ECB with a daily financial statement by 8 a.m. on the following day.

The Bank's Statute assigns accounting control to the Board of Auditors; the annual accounts are audited by external auditors in accordance with Article 27 of the Statute of the ESCB. In drawing up the annual accounts the Bank is required to observe special rules and, where these do not apply, the provisions of civil law. The special rules consist mainly in the harmonized Eurosystem rules approved by the Governing Council of the ECB and published in guidelines. For a complete discussion of the presentation and valuation standards adopted and a description of the results for 2008, see the Bank's Annual Report for 2008 (Chapter 22: Management Report and Annual Accounts).

The annual accounts, drawn up in accordance with the accounting and presentation criteria and the recommendations of the ECB, also affect the calculation of the Bank's tax base for corporate income tax and the regional tax on productive activities. The Bank also discharges its obligations relating to value-added tax and other indirect taxes and is a tax withholding agent. These tax obligations are performed by the Tax Department, which manages relations with the finance authorities, provides internal advisory services, provides technical assistance to general government bodies and international entities and organizations, and conducts studies and research on fiscal matters. The Department also handles tax disputes.

As far as legal questions are concerned, the Bank of Italy has its own team of lawyers, who are listed in the special annex to the professional register. One of their main tasks is to handle disputes under both civil and administrative law. In their advisory capacity, they provide the various departments of the Bank and ad hoc working parties in which they participate with legal opinions concerning both general matters and the adoption of legislative and other acts and measures; they assist the competent departments in identifying violations of administrative regulations, with a view to initiating sanction procedures falling within the Bank's authority, and detecting signs of the commission of crimes, with a view to reporting the matter to the judicial authorities. Legal research focuses on the issues most directly bearing on the Bank's institutional activities. The Legal Services

and Law Studies Department is also engaged in assisting the departments that have overseen the reorganization of the branch network and the departments of the Banking and Financial Supervision Area and the Financial Intelligence Unit for the implementation of the new anti-money-laundering rules both internally and vis-à-vis the banking and financial system.