



FOREIGN BANKS AND FINANCIAL INTERMEDIARIES IN ITALY

SUPPORT GIVEN TO THE
ITALIAN ECONOMY IN 2019

October 2020
In collaboration with

CONSILIA
business management

Highlights

32% Domestic public debt owned by non-residents (end-2019)

78 Number of foreign banks operating in Italy (end-2019)

16% Foreign banks' market share for credit (end-June 2020)

73% Syndicated loans (market share held by foreign bookrunners, 2019)

100% Securitization (ABS and MBS, market share held by foreign bookrunners, 2019)

56% Financial guarantees to support exports and internationalization of Italian companies (market share held by foreign intermediaries, 2019)

27% Independent raising in Italian market of private equity and venture capital (market share held by foreign intermediaries, 2019)

51% Share of capital collected in Italian private debt market coming from abroad (1H-2020)

11% Share of foreign funds among all investors in Italian Minibond market (2019)

34%	Share of incoming cross-border over total turnover of Italian M&A market (2019)
91%	Debt capital markets (market share held by foreign bookrunners, 2019)
97%	Equity capital markets (market share held by foreign bookrunners, 2019)
77%	Share of foreign institutional investors over total number of institutional investors in Italian Stock Exchange, Star Segment (2019)
18%	Share of foreign players in MTA trading (2019)
743	Assets under management by foreign banks and intermediaries (€ billion, end-2019)
27%	Share of foreign banks and intermediaries in Italian leasing market (value of contracts, 2019)
17%	Share of foreign banks and intermediaries in Italian factoring market (annual turnover, 2019)
46%	Share of foreign banks and intermediaries in Italian consumer credit market (cumulative flows, 2019)

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Introduction

It gives me great pleasure to hereby present the 10th AIBE Annual Report on the operating modes and the activities of foreign banks in Italy to our foreign bank members and the financial community.

The latest consultation of the AIBE Panel, carried out in early May 2020, involving a panel of international financial institutions, investment funds and multinational companies, analyzed the impact of the COVID pandemic on investment flows into and out of Italy. About 40% of the responses pointed out the expectations for a moderate outflow of capital pending a reopening of activities during 2020.

This instability phase, caused by the COVID pandemic, was very severe for the Italian economy. However, the foreign banks still continue to play an important contribution to families, businesses and the Government in supporting investing and financing needs.

The public role in the economy is important, in order to give a strategic direction, with decisive measures to stimulate and increase the industrial production and the value created in services, enabling companies to create added value and jobs opportunities. We have a unique opportunity to complete some strategic reforms (bureaucracy, justice and taxation) in some well-known fields that are the major weaknesses of our economy and the main obstacles to foreign investors.

It is also necessary to build a common “playing field” in the international finance, with clear and effective measures, for example in the process of seeking capital, that goes through the creation of the Capital Market Union.

In the long term, the financial markets are the unique and sustainable answer to the crisis. Foreign banks and intermediaries may play a leading role, helping to build some European “excellences”, able to compete worldwide with the US and Chinese giants. International flows of capital are not only an important driver for the development and the financing of industrial activities, but also a crucial contribution to financial innovation, technology and firms’ management and governance.

Guido Rosa
AIBE President

CHAPTER I

The internationalization of Italy's economic and productive system

As stated in the ECB Financial Stability Review released in May 2020, since February 2020 the coronavirus (COVID-19) pandemic has had an enormous and severe impact on social and economic life across the Euro Area and all over the world. Moreover, the pandemic has caused one of the largest and sharpest economic contractions in recent history.

Economic and financial policymakers have had to face increasing volatility in financial markets and borrowing costs, and a worsening of firms' liquidity conditions. The response has been a number of actions to dampen the impact on short-term economic activity and to ensure that the financial system withstands the shock while continuing to provide support to the real economy.

According to the latest ECB Economic Bulletin (5/2020, published at the end of July), containment policies have been eased across the world, yet the global recovery remains uncertain and incomplete. Although the recovery is proceeding in some countries (e.g. China), the outlook remains very uncertain and bleak in the United States, United Kingdom and Japan.

Consumer confidence has been recovering slowly and showing differing paths in Asian and European countries, but remains below pre-pandemic levels.

World trade remained very weak in April, and data for Q2-2020 showed an exceptional decline. The most recent data have continued to signal

weaknesses in trade.

The Italian economy is no exception. According to the latest Istat "Monthly Report", released in July, while the international context is characterised by a desynchronization of contagion diffusion among economies, which is hampering world trade recovery, in Q2-2020 Italian GDP decreased by 12.4% compared with the previous quarter and by 17.3% YoY. Output plummeted to an all-time low in April, during the most severe phase of lockdown, and recovered in May and in June. The recovery of the Italian economy is expected to continue over the coming months. In July business confidence continued to improve in almost all sectors.

The second half of the current year is expected to show a moderate recovery, but its extent will depend greatly on pandemic trends. According to the majority of financial and economic analysts a stronger recovery will not take place before the beginning of 2021.

According to the 2020 edition of the A.T. Kearney Foreign Direct Investment Confidence Index, a survey covering 25 countries around the world, investor sentiments at the beginning of the COVID-19 pandemic highlight the urgent need for strategic foresight capabilities within an international economic and financial context, where external shocks, risks and complexities are more and more relevant. The survey shows that Italy ranked in the "top ten", occupying ninth spot

(8th in 2019). Oxford Economics noted that Italian GDP grew 0.3% in 2019, a very weak figure compared to European peers. Estimates for 2020 are quite volatile, according to different sources, but around -9%, as the COVID-19 pandemic is going to have a significant impact on Italy's fragile economic condition. The deep recession as a consequence of the pandemic also affected some of Italy's strongest sectors, e.g. manufacturing and tourism.

If we exclude negative effects related to the pandemic, international investors showed an increased confidence towards Italy: improved political stability, solutions to a number of issues that had previously caused some friction with EU partners and some progress in infrastructure development have contributed to this quite positive result.

However, as highlighted in other reports, some concerns still remain: the level of public debt and spending, the debt to GDP ratio, which is expected to exceed 155% in 2020, bureaucracy and low productivity, not to mention risks and recession exacerbated by the COVID-19 shock.

The international comparison, according to different sources, shows that Italy's economic and financial system has a number of strengths (e.g. competitive industries such as manufacturing, fashion and tourism) but, at the same time, some long-lasting weaknesses.

According to the 2020 A.T. Kearney Foreign Direct Investment Confidence Index, Italy has suffered greatly from the impact of Coronavirus, also as a consequence of its fragile economic situation. The nationwide quarantine experienced last spring affected some of Italy's strongest sectors and resulted in a deep recession.

Foreign Direct Investments (FDI) fell during the first six months of 2019, compared to the same period in 2018, dropping in line with other economies.

UNCTAD's data, updated to the end of 2019, show that Italy's FDI inward flows fell from \$32.9 to \$26.6 billion between 2018 and 2019, making up

1.3% of local GDP and 1.7% of total FDI inflows in the world. As shown in Fig. 1, recent trend is not so clear: two sharp falls were observed immediately after the 2007-08 financial crisis and the sovereign risk crisis (2011). Stability has been greater in recent years.

If we compare FDI stock to GDP (Fig. 2), Italy remains in the bottom positions in an international comparison: at the end of 2019 this ratio was about 22%, while the average in EU-28 countries (data include United Kingdom) was more than double (60%).

According to the World Economic Forum's "Global Competitiveness Report 2019", covering 141 economies and measuring national competitiveness (defined as the set of institutions, policies and factors that determine the level of productivity), Italy was ranked 30th in the World and 17th in Europe, with a slight improvement compared to 2018 (1 place higher in the ranking). According to this report, Italy's performance last year was driven mainly by small improvements in the financial system (e.g. the fall in non-performing loans, increased SME access to funding) and more widespread ICT adoption. Moreover, innovation capability and health standards confirmed Italy's competitive advantage. At the same time, however, some well-known bottlenecks remain: the high public debt/GDP ratio, rigidity and precariousness in the labour market, as well as the tax burden on labour.

According to ISTAT (Italian National Institute of Statistics), at the end of 2017 14,994 foreign affiliates were based in Italy. Compared with the previous year, the number of multinational enterprises (MNEs) operating in Italy rose by 2.6%, especially in the Services sector (10,749, +2.9%).

In 2017 the expansion of foreign multinationals in Italy continued, making a positive contribution to the growth of Italy's industrial system. They employ almost 1.4 million people, of which about 900,000 in Services, with an increase of 4% compared to 2016. Total turnover grew to \$572 billion (+6%),

while value added increased from \$113 to \$119 billion. As reported by ISTAT, MNEs contribute to the main national economic aggregates of industry and services: they account for about 8% of all employees, 18.5% of turnover, 15.3% of value added and 17.5% of investments. The contribution to foreign trade is particularly relevant: MNEs have a share of 28% of exports and 47.7% of imports. All data show a higher growth rate for MNEs operating in the Services sector.

The average size of multinational companies (91.1 employees) is higher than

that of local firms (3.8 employees): the difference is relevant for both industry and services.

The “top ten” countries of origin of foreign MNEs account for about 90% of employees and more than 80% of both turnover and value added. The United States remains in top position in the ranking, with 2,314 companies and over 284,000 employees, making up about 20% of both total turnover and value added generated by MNEs. Germany, France, United Kingdom and Switzerland also made relevant contributions.

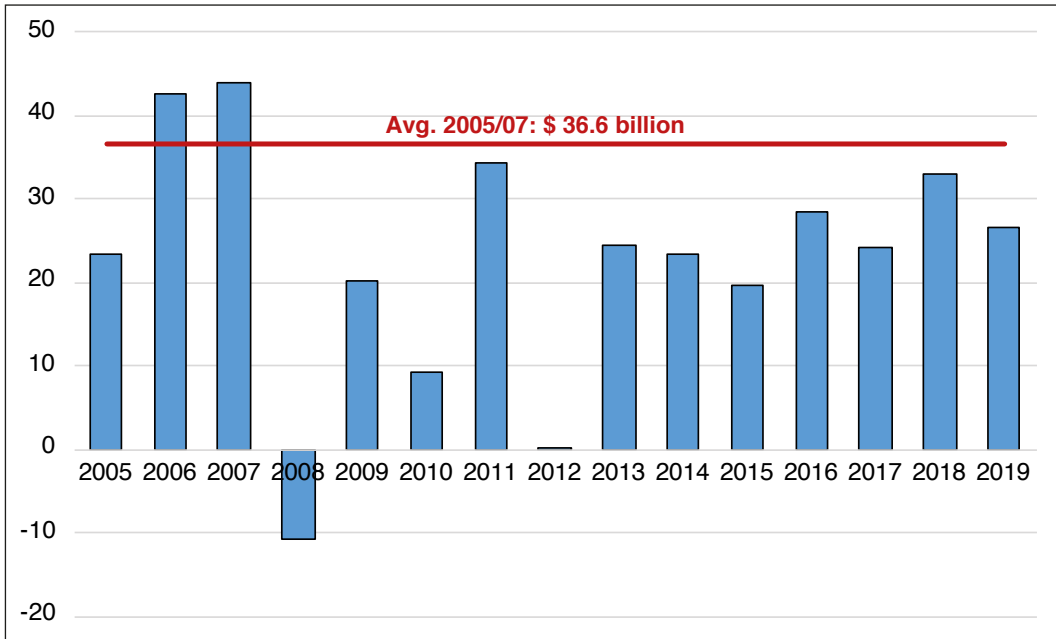


Fig. 1 Italy's annual FDI inflow (\$ billion) –
Source: elaboration of OECD data

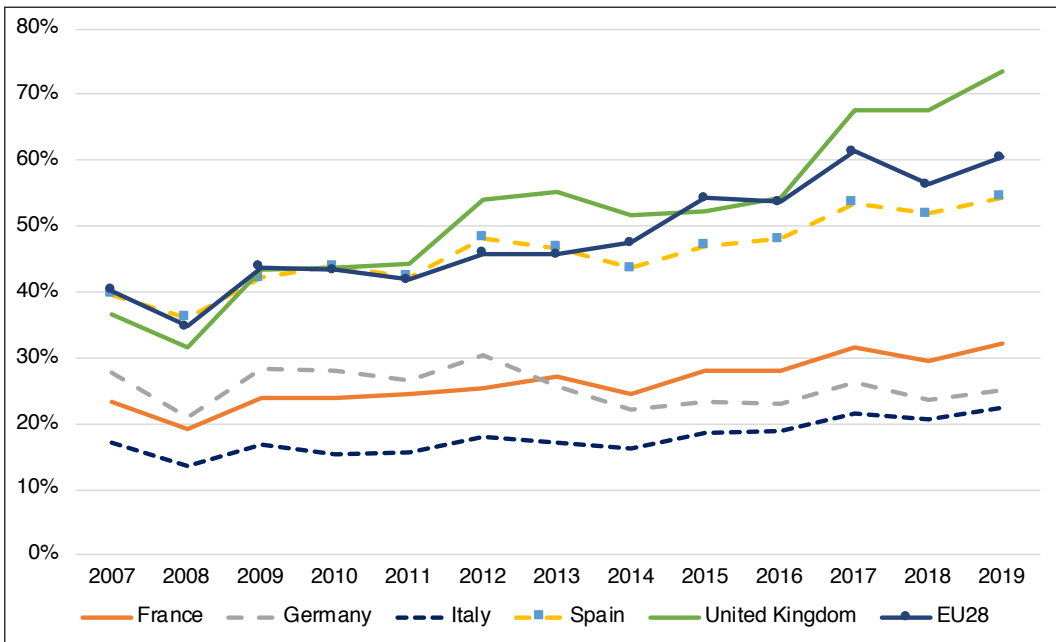


Fig. 2 Inward FDI stock (% of GDP, year-end data) –
Source: elaboration of OECD data

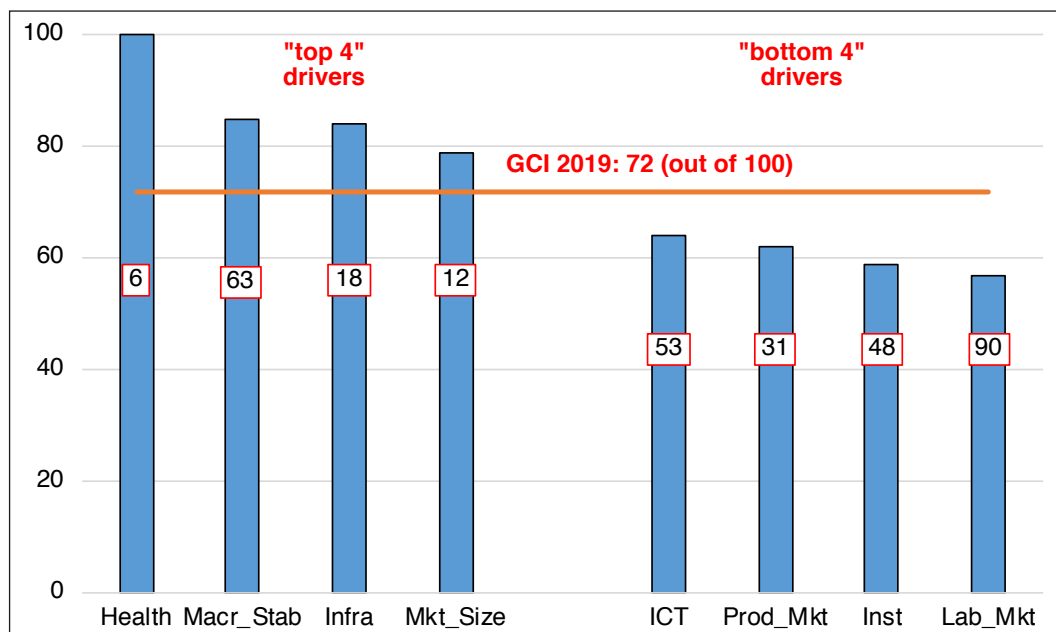


Fig. 3 Italy's Global Competitiveness Index (main individual scores, 1=min to 100=max) – Source: elaboration of data from the World Economic Forum Global Competitiveness Report 2019

Note Macr_Stab = Macroeconomic Stability; Infra = Infrastructure; Mkt_Size = Market size; ICT = ICT adoption; Prod_Mkt = Product Market; Inst = Institutions; Lab_Mkt = Labour Market Efficiency. In labels with red border: per each item, the Italy's position in the world ranking (out of 141 countries).

	2010		2015		2017	
	Value	%	Value	%	Value	%
Number of foreign-controlled firms	13,741	100	14,007	100	14,994	100
Industry	3,716	27.0	4,032	28.8	4,245	28.3
Services	10,025	73.0	9,975	71.2	10,749	71.7
of which: financial and insurance activities	541	3.9	562	4.0	689	4.6
Number of employees	1,184,539	100	1,257,209	100	1,828,677	100
Industry	448,733	37.9	450,023	35.8	463,204	25.3
Services	735,806	62.1	807,186	64.2	1,365,473	74.7
of which: financial and insurance activities	65,490	5.5	64,145	5.1	67,749	3.7
Turnover	468,046	100	529,574	100	572,364	100
Industry	193,688	41.4	223,325	42.2	230,158	40.2
Services	274,358	58.6	306,249	57.8	342,206	59.8
Value added	93,482	100	104,093	100	118,881	100
Industry	40,465	43.3	43,596	41.9	46,955	39.5
Services	53,017	56.7	60,497	58.1	71,926	60.5

Tab. 1 Main data relating to foreign-controlled enterprises operating in Italy (year-end data) – Source: elaboration of ISTAT data

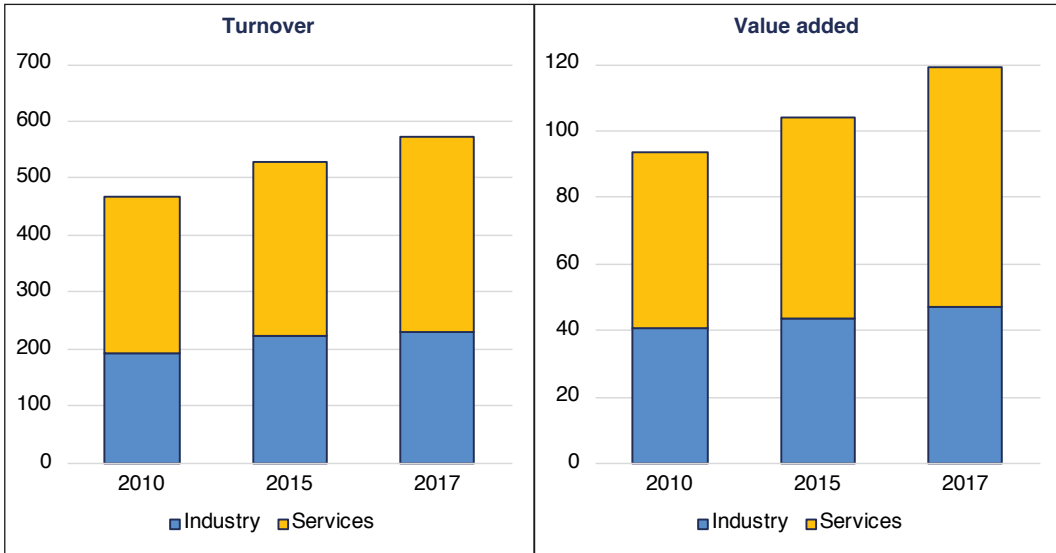


Fig. 4 Turnover and Value added of MNEs in Italy (€ billion) –
Source: elaboration of Istat data

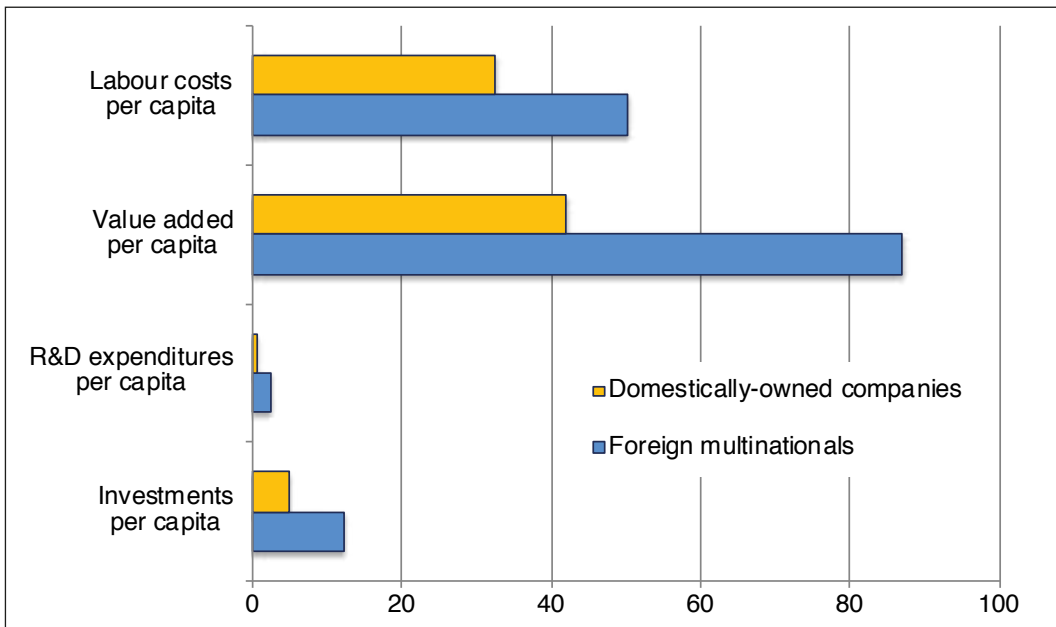


Fig. 5 Domestically-owned firms and foreign multinational firms in Italy: comparison of performance data (amounts in € thousands, 2017) –
Source: elaboration of ISTAT data

CHAPTER 2

Italian public debt and external debt

At the end of 2019, according to the Bank of Italy's Statistical Database (BDS), Italy's gross public debt stood at € 2,410 billion, an increase of 1.2% compared to the end of 2018. The portion of debt represented by Italian Government securities made up about 83% of gross debt (about 1 percentage point less than 2018 year-end data). The amount of gross debt held by non-resident investors was about € 760 billion (+€ 78 billion), making up 31.5% of total gross debt: the annual change shows an increase of about 2.5 percentage points. The amount of public securities held by foreign investors grew from € 630 to € 710 billion (+12.7%), close to the annual peak, reached in November 2019 (€ 717 billion).

Fig. 6 gives data for the first half of the current year, showing a very different trend, mainly due to net sales from abroad as a consequence of the pandemic and the higher volatility that characterized financial markets last spring. According to BDS data, in the first half of 2020 the stock invested in Italian public securities held by non-resident investors fell to € 688 billion (-3%), concentrated in February and March: the share of securities held by non-residents fell from 35.3% to 32.4%: the end-period share is similar to the end of 2018, and the minimum value recorded in the last decade.

As reported in Bank of Italy's Annual Report for 2019, the COVID-19 pandemic has strongly and

negatively affected conditions in Italian financial markets, after the improvements recorded in 2019. The outbreak of the pandemic had a serious impact on the economy and on public finance: tensions reached a peak in mid-March, associated with a negative spiral in volatility and a liquidity shortfall. Moreover, expectations of an increase in government bond issues translated into higher sovereign risk premiums. The increase in spreads, common to most euro-area countries, was more pronounced for Italian securities.

Thanks to the measures taken by the ECB, these tensions subsequently subsided: the BTP/bund spread went down after the peaks reached in March. Market conditions remained fragile, with strong price fluctuations closely related to the evolution of the pandemic and its impact on economic and financial activities. After the net purchases recorded in January and February, in March foreign sales of Italian portfolio securities amounted to € 63.8 billion, associated with worsening financial turmoil. Divestments almost stopped in April.

Banks for International Settlements (BIS) collects statistics on international banking, based on a sample of 25 reporting countries. In 2019 Italian external debt rose by 4%, from \$657 to \$683 billion, mainly due to a positive change in the official sector's debt positions (+8%) and claims due by banks (+5.6%). The highest portion of this

external debt was reported by European banks, for about \$591 billion: an increase of about 5 percentage points over the last year, \$18.5 billion in value.

Analysing countries of origin of claimants, it was seen that France, Spain and Germany confirmed their role as the main holders of Italian external public debt (Tab. 2). According to BIS data, the “top 3” countries held about \$153 billion of debt, or two-thirds of the total (69% at the end of 2018). Japan and the United States are the leading non-European investors: the total stock held by these countries (approx. \$48.2 billion), represents a market share of 21% of total external public debt.

With regard to these data, in the last 3 years Italian external public debt grew by about \$45

billion: Spain, France and the United States show the most positive changes in the period, with total net investments of about \$33 billion.

On the other hand, with reference to external private debt, BIS data are broken down into the banking and non-banking sectors. The entire banking sector’s debt positions, amounting to about \$70.8 billion, have remained stable over the last 3 years, while the non-bank private sector consolidated its growth (+2% in 2019 and a compounded growth rate of +23% between 2016 and 2019).

European banks play a leading role in both the bank sector’s and non-bank private sector’s exposure, accounting for more than 80% of total claims.

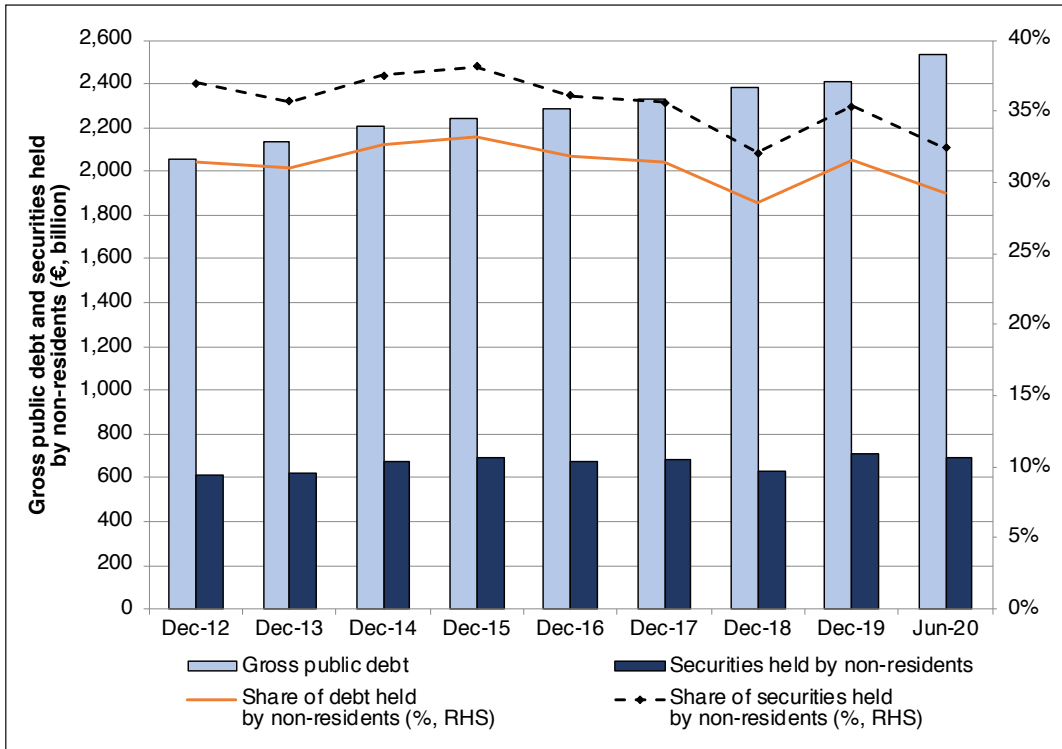


Fig. 6 Recent Italian public debt trends and shares held by non-residents (amounts in € billion, % on the right-hand scale, RHS) –
 Source: elaboration of Bank of Italy data, Statistical Database (BDS)

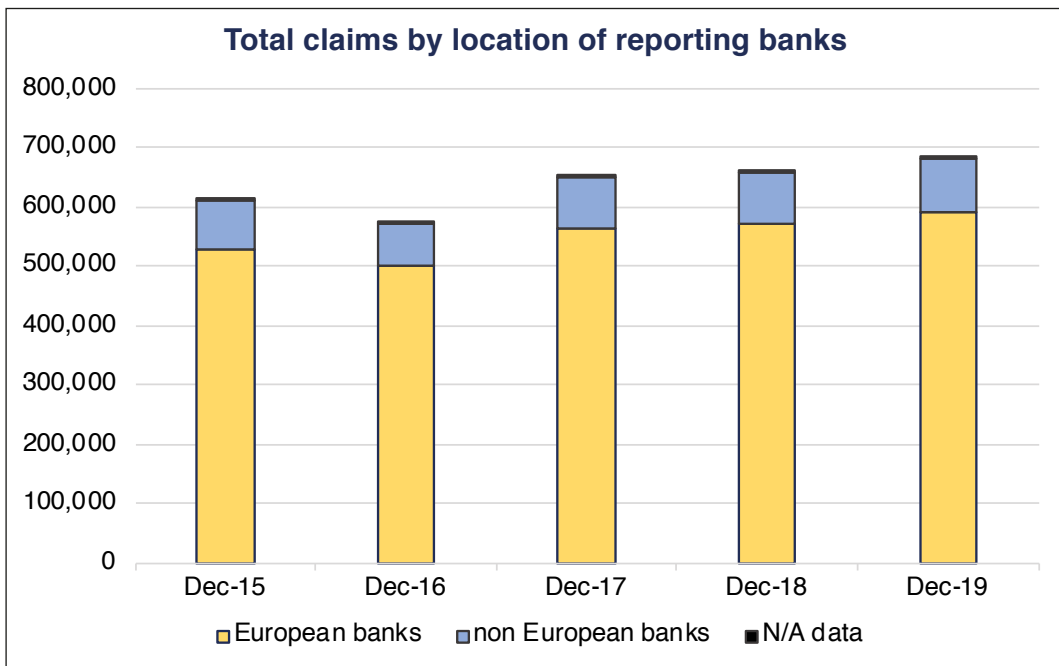
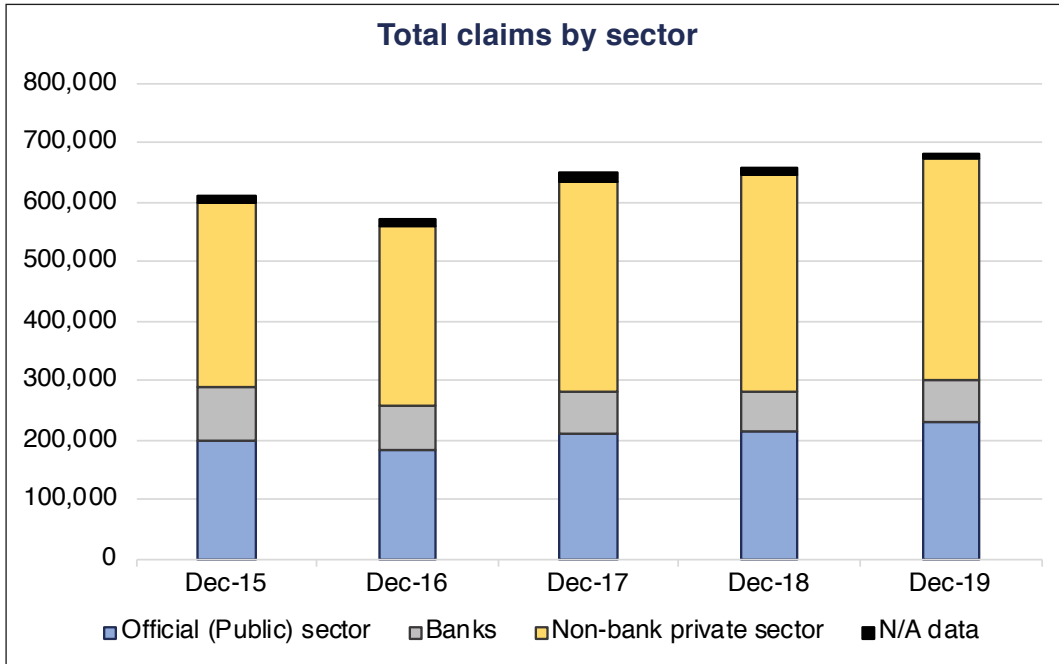


Fig. 7 Public and private debt to foreign countries (\$ million, year-end data) –
Source: elaboration of BIS, Consolidated Banking Statistics

Countries	Dec-16		Dec-17		Dec-18		Dec-19	
	Value	%	Value	%	Value	%	Value	%
France	56,259	30.3	63,008	29.6	63,119	29.7	65,590	28.4
Spain	36,538	19.7	44,949	21.1	45,886	21.6	51,179	22.2
Germany	34,063	18.4	38,866	18.3	37,545	17.7	36,349	15.7
Japan	21,013	11.3	21,262	10.0	21,523	10.1	26,447	11.5
United States	12,498	6.7	20,258	9.5	17,538	8.3	21,749	9.4
Switzerland	5,851	3.2	5,426	2.6	5,358	2.5	4,117	1.8
United Kingdom	-496	-0.3	-123	-0.1	5,198	2.4	4,247	1.8
Belgium	7,326	3.9	5,762	2.7	3,380	1.6	4,675	2.0
Greece	131	0.1	766	0.4	2,153	1.0	2,849	1.2
Austria	1,891	1.0	1,284	0.6	1,567	0.7	1,384	0.6
Other countries	10,427	5.6	11,115	5.2	9,305	4.4	12,268	5.3
Total	185,501	100	212,572	100	212,572	100	230,854	100

Tab. 2 Total amount of external public debt by holder (\$ million, outstanding debt, year-end data) –
Source: elaboration of BIS, Consolidated Banking Statistics

External private debt	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
European banks	68,787	55,833	49,833	50,516	57,715
Non-European banks	15,559	14,084	15,185	13,667	11,081
N/A data	3,262	3,552	2,504	2,873	1,986
Total banking sector	87,608	73,469	67,522	67,055	70,782
European banks	265,385	257,361	299,190	311,411	318,925
Non-European banks	25,632	22,185	29,978	27,961	29,573
N/A data	20,154	21,824	26,661	25,466	22,201
Total non-bank private sector	311,170	301,370	355,830	364,837	370,699

Tab. 3 Composition of external private debt (banking sector and non-bank private sector debt, \$ million, year-end data) –
Source: elaboration of BIS data, Consolidated Banking Statistics

CHAPTER 3

Some structural data on foreign banks in Italy

3.1 Trends for foreign banks and branches

According to the Bank of Italy's Statistical Database, at the end of 2019 78 branches of foreign banks were operating in Italy.

The summary in Tab. 4 shows that the total number of banks operating in Italy and the total number of branches has fallen significantly over the last decade.

In particular, the total number of banks went down from 788 to 485 (-38%). The trend was similar for branches, which fell in number to 24,311 (-29%). The number of foreign banks has remained stable in

recent years, while the number of physical branches fell from 303 in 2009 to 134 in 2019 (-56%).

As a consequence of these changes, as at December 2019 non-resident banks made up 16.1% of the total (Fig. 8) and about 0.6% in terms of the total number of branches.

According to the Bank of Italy's Statistical Database (BDS), as at the end of 2019 62 out of the 78 foreign banks were located in Lombardy, all of them in the Metropolitan City of Milan, with a total of 67 branches, almost 50% of all foreign banks' branches located in Italy.

Banks and branch networks in Italy						
Year	Banks operating in Italy		Foreign banks			
	Number of banks	Number of branches	Number of banks	Number of branches	% on number of banks	% on number of branches
2009	788	34,036	82	303	10.4	0.9
2010	760	33,663	75	296	9.9	0.9
2011	740	33,607	78	318	10.5	0.9
2012	706	32,881	78	325	11.0	1.0
2013	684	31,761	80	260	11.7	0.8
2014	664	30,740	80	252	12.0	0.8
2015	643	30,258	81	254	12.6	0.8
2016	604	29,027	83	171	13.7	0.6
2017	538	27,374	79	165	14.7	0.6
2018	505	25,404	79	159	15.6	0.6
2019	485	24,311	78	134	16.1	0.6

Tab. 4 The branch networks of domestic and foreign banks in Italy (2009/19, end-of-year data) – Source: elaboration of Bank of Italy data, Statistical Database (BDS)

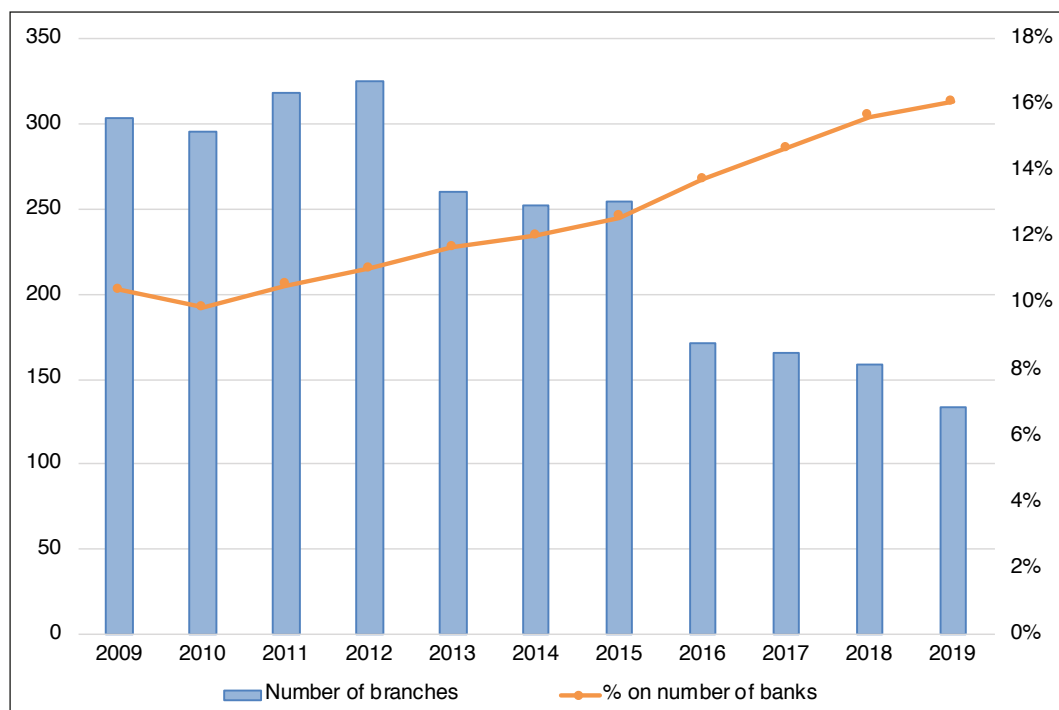


Fig. 8 Number of foreign bank branches in Italy (2009/19, end-of-year data) – Source: elaboration of Bank of Italy data, Statistical Database (BDS)

3.2 Some structural data on foreign banks in Italy in 2019 and in the first half of 2020¹

As of June 30th, 2020, foreign banks branches numbered 81, of which 74 EU-based branches and 7 third-country branches, in line with the average for the last 5 years. There were 13 Italian subsidiaries. Foreign banks' headquarters are mainly located in Northern Italy (89% of branches and 77% of subsidiaries), especially in Milan. With reference to the geographical origin of the parent company, we observe a prevalence of EU-based branches from France (30% of the total), followed by Germany (22%), Luxembourg (13%) and the United Kingdom (8%). Other EU countries have a far lower incidence. The changes compared to 2018 partly reflect the ongoing process of relocation of British branches in preparation for "Brexit" (20% at the end of 2017). The parent companies of third-country branches are mainly located in the US and Japan, while the vast majority of subsidiaries belong to French banking groups (77%).

At the end of the first half of 2020, total assets of foreign banks made up 12.9% of the total for the Italian banking system, a slight decrease compared to the end of 2018 (13.2%), due to the decline in the share held by branches (from 6.6% to 6.1%), which more than offset the rise in the share of subsidiaries (from 6.6% to 6.8%). Both branches and subsidiaries showed significant differences in terms of total assets, ranging from € 50 billion to € 0.6 million for branches and from € 100 billion to € 50 million for subsidiaries, and the number of employees, ranging from 981 to 2 for branches and from 11,752 to 3 for subsidiaries.

The branch network shrank by 17% compared to the end of 2018, due to the run-off process of one branch with a large number of agencies (from 26 in 2018 to 1 in 2020). Around 80% of branches have headquarters only; the subsidiaries' network remains quite stable, with around 70% of agencies held by the two biggest companies.

During 2019 and the first half of 2020 the market

share of foreign banks in terms of loans to customers rose slightly (to 15.6% from 15.2% at the end of 2018, see chart in Fig. 9), thanks to the upward trend recorded by Italian subsidiaries, which grant the majority of loans issued by foreign banks in Italy (about 63%). The sectoral composition did not show any significant variations: households and non-financial corporations remained the predominant clients of foreign banks (with a market share of 22.6% and 14.9% respectively as at end-June 2020). The credit quality of foreign banks was in line with Italian banks (bad loans 3.7%). As for branches, the proportion of bad loans was less than 2% of total loans, due to the type of customers, mainly large corporations with good credit ratings. The improvement compared to the end of 2018 (almost 4%) is due to the allocation of bad loans realized by some branches. In addition, the credit portfolio of subsidiaries improved compared to the end of 2018, with bad loans making up less than 5% of the total (6.5%, as at end-December 2018), due to re-allocation by some of the main operators.

In the same period securities held by foreign banks in Italy continued to decline compared with the total for the Italian banking system (down to 2.7% compared to 3.2% at the end of 2018). The portfolio composition remained quite stable, with a prevalence of Italian government bonds, making up 74% of the total foreign banks' portfolio at end-June 2020 (see chart in Fig. 10).

The customer deposits market share was stable (10.7% at end-June 2020, mainly held by foreign subsidiaries, 6.9%, see chart in Fig. 11). Interbank deposits fell to 25.2% at end-June 2020 compared to 27.6% at the end of 2018, mainly held by branches (16.6%, as represented in Fig. 12), due to the decline of both subsidiaries and branches and the increase in the total amount of interbank deposits. At the end of the first half of 2020 the share of securities issued by foreign banks in Italy increased (4.3%), thanks to the surge in issues by subsidiaries, against an overall drop observed in the Italian banking system.

¹ The paragraph has been written by Emanuela Atripaldi and Enrica Accomando, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices. The views expressed are those of the Authors, and do not necessarily reflect those of the Bank of Italy.

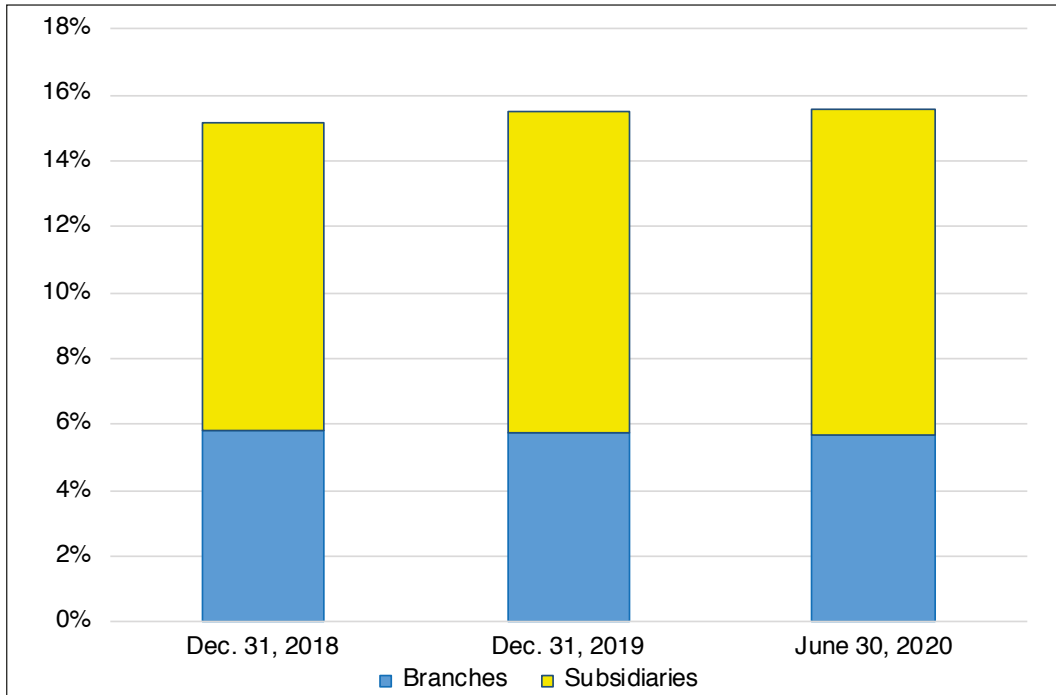


Fig. 9 Foreign banks' market share for credit (value in %) –
Source: Bank of Italy, Supervisory Statistics

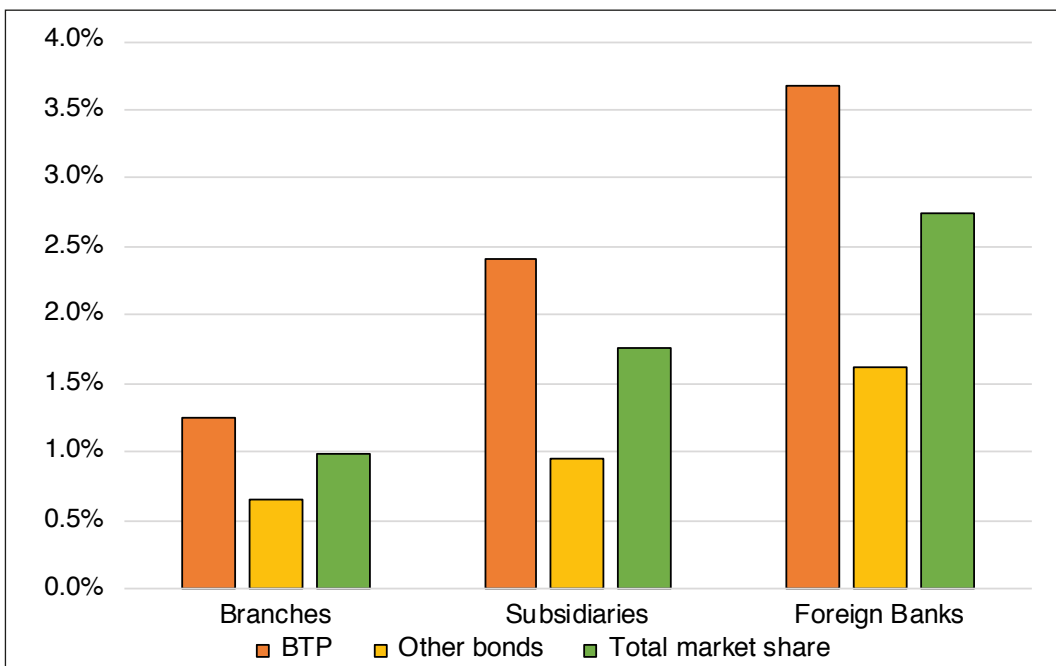


Fig. 10 Foreign banks' market share for securities at end-June 2020 (value in %) –
Source: Bank of Italy, Supervisory Statistics

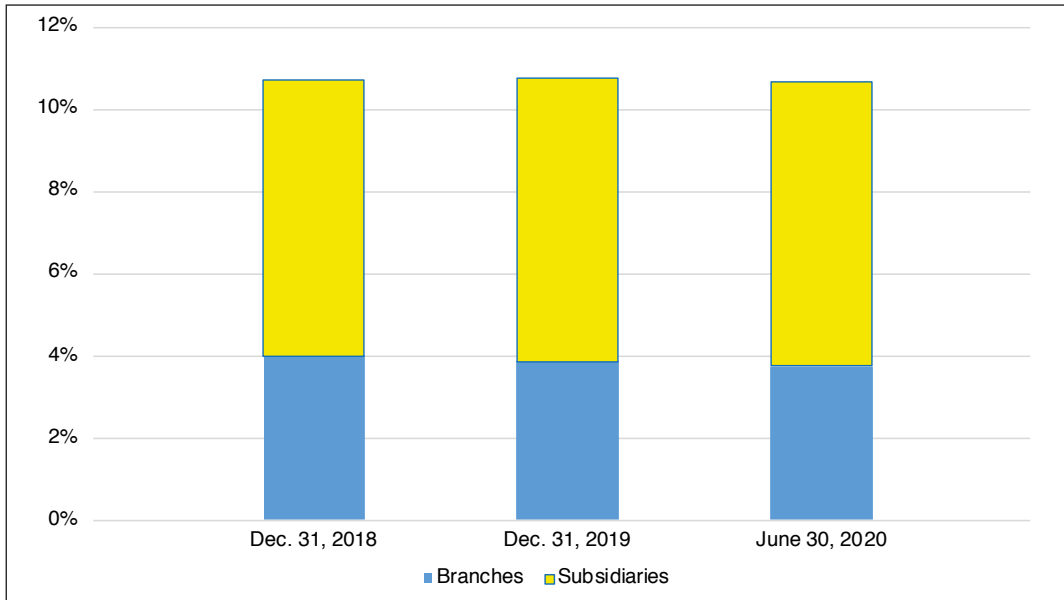


Fig. 11 Foreign banks' market share for deposits from customers (value in %) –
Source: Bank of Italy, Supervisory Statistics

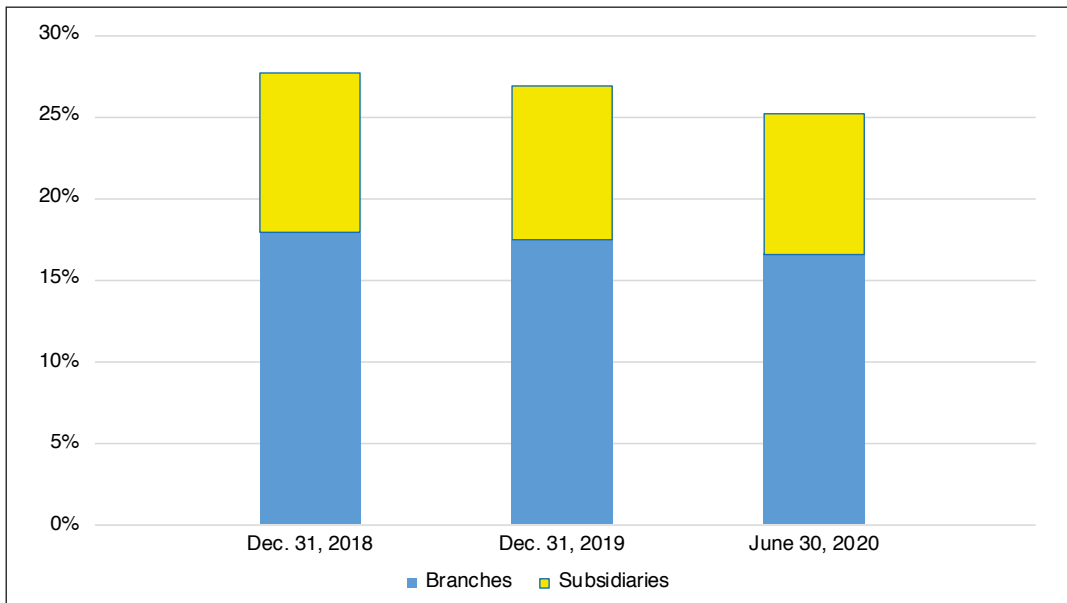
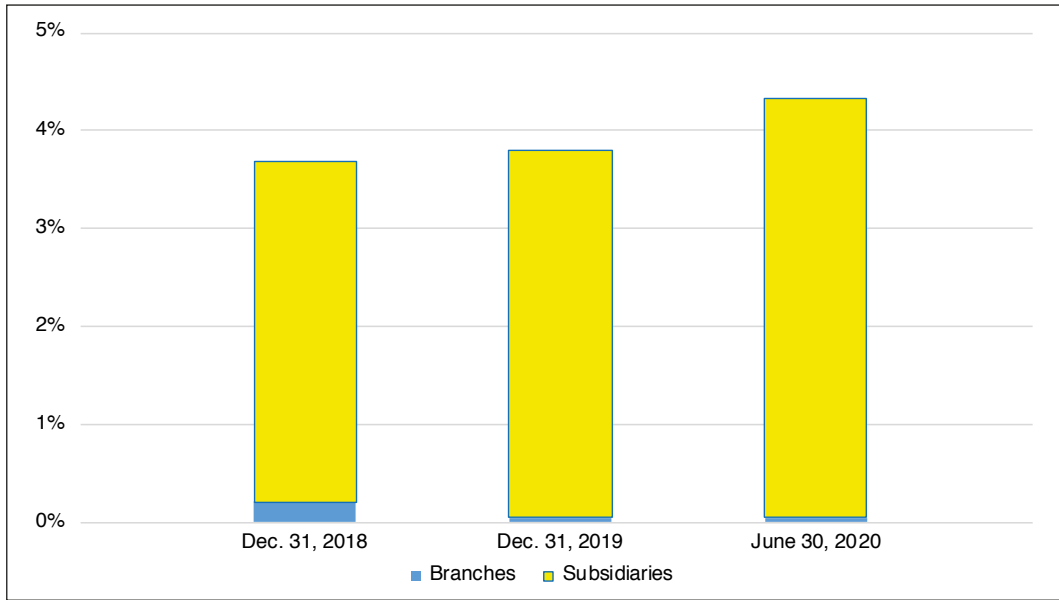


Fig. 12 Foreign banks' market share for deposits from banks (value in %) –
Source: Bank of Italy, Supervisory Statistics



*Fig. 13 Foreign banks' market share for securities in issue (value in %) –
Source: Bank of Italy, Supervisory Statistics*

CHAPTER 4

Corporate and Investment Banking

This chapter summarizes the main data regarding the role played by foreign banks in supporting Italian companies in making decisions about the composition of firms' capital structure, funding decisions and advisory services in Mergers and Acquisitions' deals.

The majority of AIBE member banks operate in this sector, with portfolios of different activities and financial services available for corporations.

4.1 Structured finance

4.1.1 Syndicated loans

In 2019, the Italian syndicated loans market decreased by about € 27 billion, from € 66.9 to € 40 billion (Fig. 14). Foreign bookrunners held a market share of about 73%, confirming a very relevant position, acting alone as bookrunners (11.5%) or in international pools of lenders with Italian banks (61.9%). Over the past decade the average size of the market share held by foreign bookrunners is 65%. Last year's issuances were split into 350 tranches (+20 YoY). The average tranche size was about € 114 million. If issuances were assisted by a foreign bookrunner, the average size was higher, more than double.

An international pool of bookrunners assisted 7.1% of tranches by number and 61.9% by value.

Foreign bookrunners mainly supported Italian firms operating in the Auto&Truck, Machinery and

Energy sectors (Fig. 15). € 14.6 billion of last year's issuances were concentrated in these three sectors, making up 54% of the total deal value linked to foreign bookrunners, and almost 36% of the entire market size. Market share remained stable compared with the previous year.

Syndicated loans are mainly medium/long term issuances. In 2019 Italian issuances had an average original maturity of about 6.5 years, down slightly (by about 4 months) compared to the previous year. Data are comparable with past figures. It is worth noting that maturities are quite diversified, and not strictly related to the tranche's size. Almost 60% of all deals (by value) had an original maturity from 3 to 5 years, making up only 30% of the number of issuances. Foreign bookrunners held a market share of 81%. Their presence is higher in long-term issuances and a bit lower in short-term ones, but always relevant.

The majority of issuances had a high credit standing ("Investment Grade", 65% of the total). The market share held by foreign bookrunners was 63%, while it was a bit higher for "Leveraged" issuances.

Data referring to the first half of 2020, updated to June, show a partial recovery in the market size: by the end of June 2020, Dealogic recorded 113 tranches of syndicated loans issued by Italian companies, amounting to about € 24.3 billion as total deal value. We can surmise that even if the

number of operations decreased, their average size increased. During the pandemic only the biggest corporations were likely to have launched these operations to support long-term funding and future investments. The average size of tranches assisted by

foreign bookrunners was about € 615 million (close to € 1 billion with regard to the 4 tranches assisted only by foreign bookrunners). The market share held by non-domestic players was 76%, with an increase of 3 percentage points compared to the end of 2019.

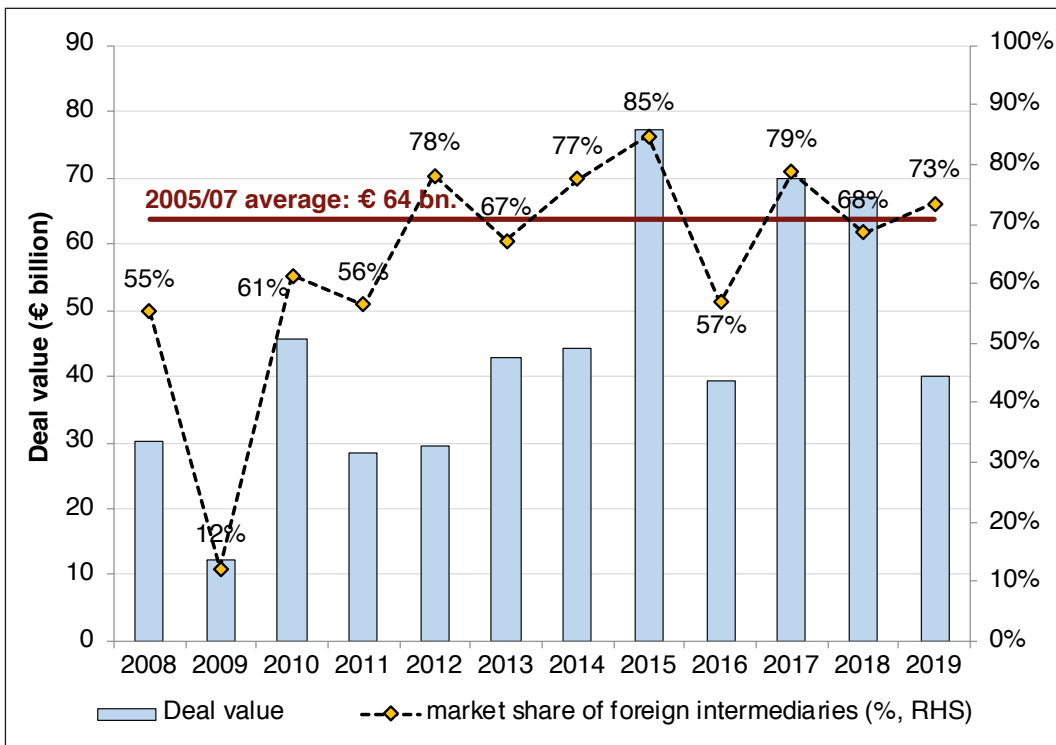


Fig. 14 Annual deal value of syndicated loans and share of foreign intermediaries (2008/19, € billion and %) –

Source: elaboration of data from Dealogic database

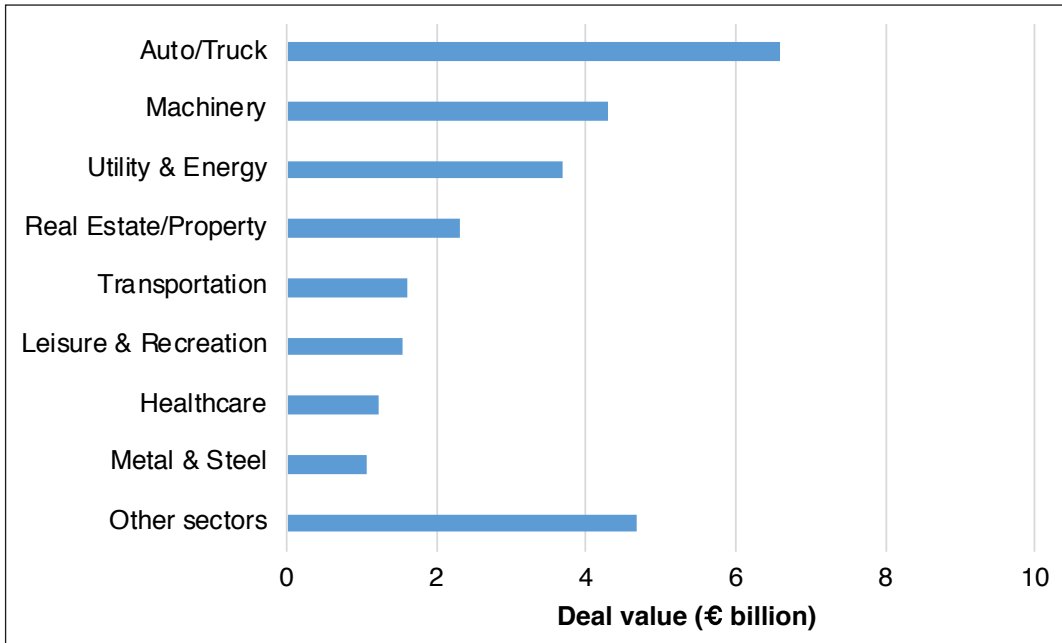


Fig. 15 Deal value of syndicated loans and market share of foreign bookrunners by industrial sectors (2019, first 8 sectors, data in € billion) –
 Source: elaboration of data from Dealogic database

4.1.2 Securitization

This section deals with the Italian securitization market, i.e. transactions involving Italian issuers in Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) deals.

As previous reports have highlighted, in recent years the Italian securitization market has been extremely volatile, in terms of both the number of deals and market size. This market suffered a severe slump immediately after the financial crisis, from 2008 to 2013. As the chart below shows, in the last 3 years there has been a partial recovery, and 2019 followed this trend, even if total deals remained far below pre-financial crisis levels.

In 2019 ABSs and MBSs issued in the Italian market amounted to € 7.8 billion, of which € 7 billion for ABSs. All issuances but one were assisted by at least one

foreign bookrunner: as a consequence, foreign players confirmed a market share of 100% in terms of deal value. The average size of operations remained quite limited (€ 145 million for ABSs and € 94 million for MBSs, with a sharp decrease compared to the previous year).

In the first half of 2020 Dealogic data recorded only 1 deal (MBS issuance), divided into three tranches, whose issuance has been assisted by a foreign bookrunner.

The volatility and uncertainty characterizing recent months have probably stopped some deals. While expectations are for a partial recovery in the second half of the year, figures for 2020 as a whole are likely to show a significant decrease in securitization deals, due to major firms' difficulties in facing up to the recession and exiting the pandemic.

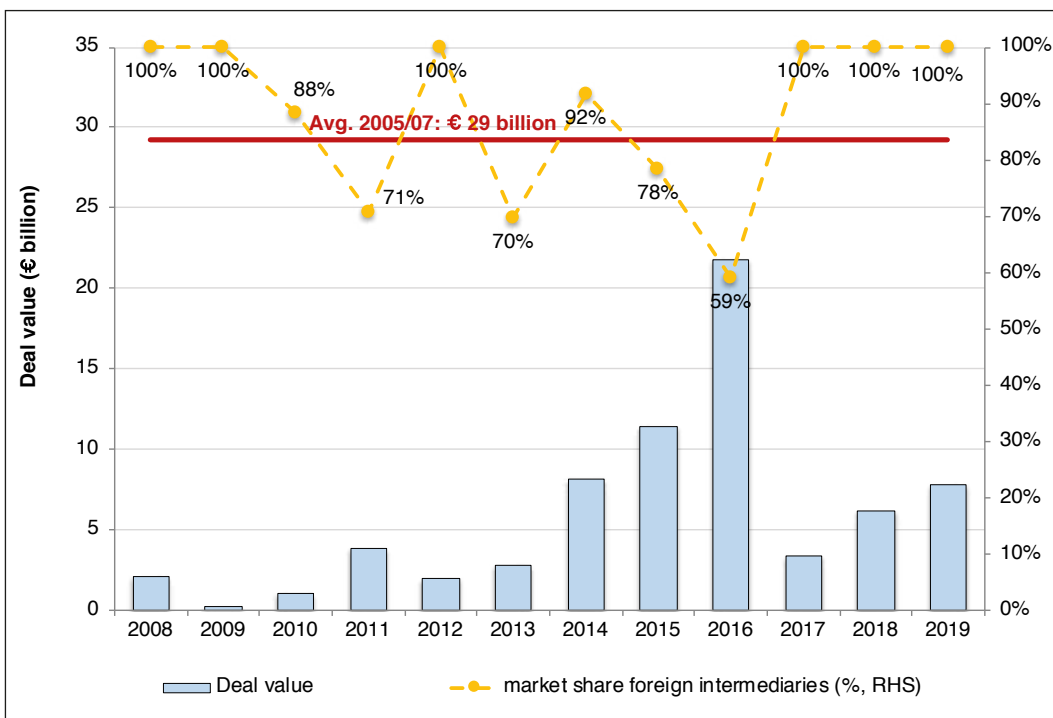


Fig. 16 Annual deal value of ABS and MBS deals and share of foreign intermediaries (€ billion and %, 2008/19) –

Source: elaboration of data from Dealogic database

4.2 Export Finance: financial guarantees to support the growth of Italian companies abroad

This section summarizes the role of foreign players (banking groups, financial institutions and Export Credit Agencies) in supporting Italian companies interested in competing and expanding internationally. Data in the report were provided by SACE, an institution 100%-owned by Cassa di Risparmio di Padova e Rovigo (CRP), which offers export credit services, credit insurance, protection of foreign investments, financial guarantees, bonding and factoring.

According to SACE data, in 2019 the financial resources deployed to support the exports and internationalization of Italian companies insured through banks, finance companies and ECAs fell from € 18.8 billion to € 11.0 billion² (-41.5% YoY). At June 30th, 2020 the amount stood at € 4.2 billion.

As shown in Tab. 5, in 2019 SACE's activities in support of exports – we refer to guarantees on loans extended to foreign buyers of Italian goods and services, as well as insurance protecting against the risk of default or performance – accounted for 74% of total resources (76% at end-June 2020), steady, at least in relative terms, compared to the previous year.

In absolute terms, in 2019 guarantees for exports dropped significantly compared to the previous year.

In particular, the financial guarantees for exports fell from € 13.4 to € 8.1 billion (€ 3.2 billion at end

of June 2020). This annual drop (of 39%) was mainly due to a fall in loan guarantees granted by Italian operators (-56% YoY).

Support for internationalization, in which SACE plays an active role, accounted for 26% of the total (24% at end of June 2020) or € 2.8 billion in value, about half of the 2019 figure (€ 5.3 billion).

This drop was due to the fall in guarantees on loans granted by both Italian (-40% YoY) and foreign players (-56% YoY).

Fig. 17 shows that although volumes have recorded a significant drop in the last year, the role of foreign players remained very significant in 2019.

If we analyze the whole market, it is worth noting that about 56% of total financial guarantees assisting loans were granted by foreign players (€ 6 billion).

The main foreign operators come from France (28% of total financial guarantees assisting loans), United Kingdom (7%), Spain (6%), Germany (4%) and Netherlands (2%).

Fig. 18 shows that financial guarantees for export credit granted by foreign players made up about 64% of the total guaranteed for export credit and about 47% of total resources set aside by SACE.

With reference to support for internationalization, guarantees granted to foreign operators made up about 34% of the total guaranteed for internationalization, or 9% of total resources set aside by SACE.

² Note that the total of reported guarantees is less than total resources mobilized by the SACE group, as some products offered do not involve banks.

	2017		2018		2019		1H-2020	
	Value	%	Value	%	Value	%	Value	%
Italian players	10,137	70.8	6,710	49.9	2,925	36.0	1,476	46.0
Foreign players	4,174	29.2	6,725	50.1	5,210	64.0	1,733	54.0
Total Export (a)	14,311	100	13,435	100	8,134	100	3,209	100
Italian players	1,133	45.8	3,100	58.2	1,869	65.7	847	85.4
Foreign players	1,338	54.2	2,230	41.8	974	34.3	144	14.6
Total Internationalization (b)	2,471	100	5,330	100	2,844	100	991	100

Total value (a+b)	2017		2018		2019		1H 2020	
	Value	%	Value	%	Value	%	Value	%
Italian players	11,270	67.2	9,810	52.3	4,794	43.7	2,323	55.3
Foreign players	5,512	32.8	8,955	47.7	6,184	56.3	1,877	44.7
Total (a+b)	16,782	100	18,765	100	10,978	100	4,201	100

Tab. 5 Financial guarantees to support the foreign growth of Italian companies: annual deal value of guarantees by type of instrument and market share held by Italian and foreign players (2017/1H 2020, € billion and %) –

Source: elaboration of SACE data

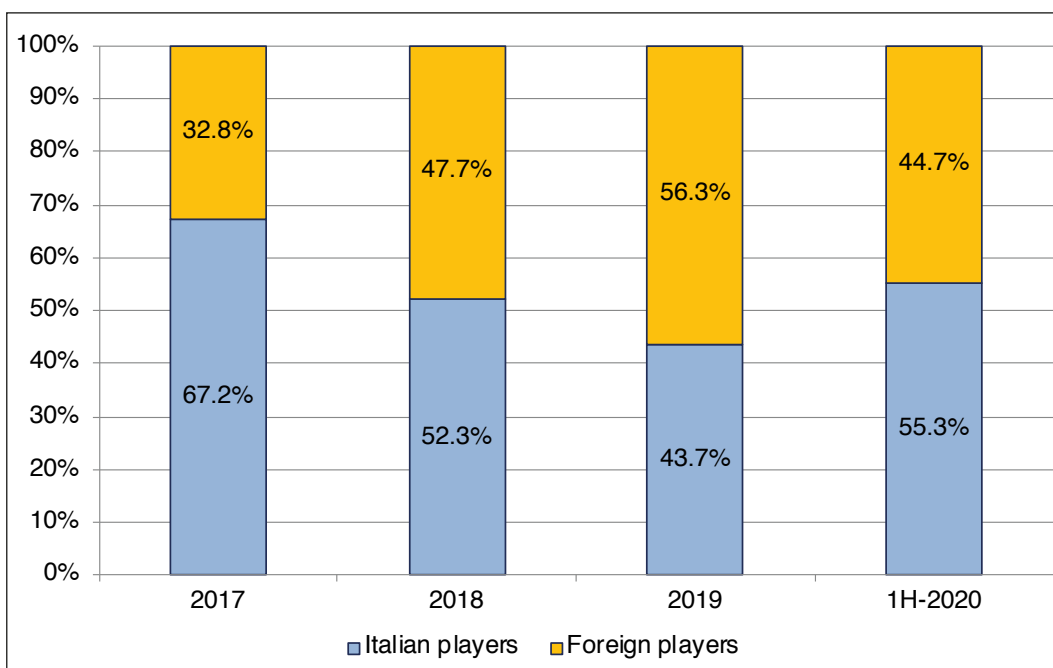


Fig. 17 The composition of financial guarantees supporting the growth of Italian companies abroad: market share held by Italian and foreign players (2017/1H 2020, %) –

Source: elaboration of SACE data

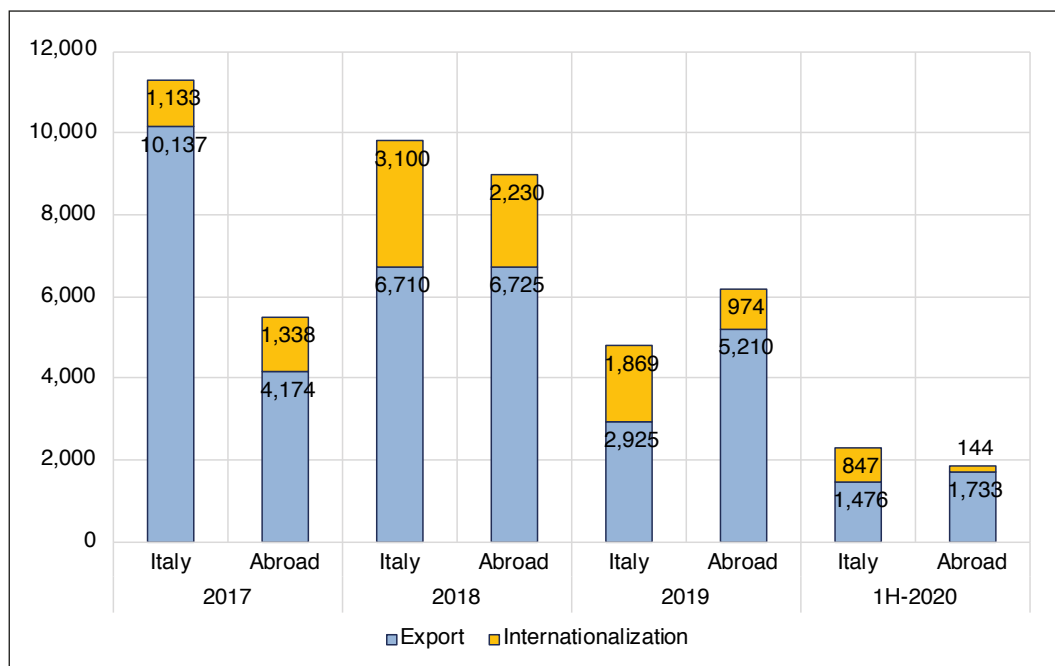


Fig. 18 The value of financial guarantees to support the growth of Italian companies abroad: geographical origin of secured loans (2017/1H 2020, € billion) – Source: elaboration of SACE data

4.3 Private equity and venture capital

This section highlights the principal data regarding recent trends in the Italian private equity and venture capital market.

According to the AIFI (Italian Private Equity and Venture Capital Association), in 2019 370 deals were completed (359 in 2018), distributed over 272 companies (266 in 2018), for a total value of about € 7.2 billion.

Compared to the previous year, when volumes were the highest ever recorded in the Italian market (€ 9.7 billion), mainly due to some “mega deals” arranged by some international players, there was a drop in amounts invested in 2019 (-26% YoY), although the figure was still the third highest recorded for our market. The number of investments, however, grew by 3% (359 in 2018).

Excluding infrastructure from our analysis, which

in 2018 saw some significant transactions, absent in 2019, amounts invested were the same as the previous year (€ 6.7 billion). International players accounted for about 56% of the market (66% in 2018) in terms of amounts invested in 2019 (€ 4.0 billion). The gap compared to national players (€ 2.1 billion) is narrowing. International operators with no office in Italy invested a little over € 2.2 billion, spread over 64 deals (€ 2.7 billion over 49 deals the previous year).

Private Italian operators made the highest number of investments: 258 (+21 YoY), covering 70% of the market (+11% basis points), followed by international players.

Compared to the previous year, funding decreased from € 3.2 billion to € 1.6 billion.

In 2019 independent funding represented about 98% of total funds raised (Tab. 6). Funds raised by the parent company grew to € 25 million (€ 215 million in

2018). If we also consider pan-European funds based in Italy, the amount of capital raised would amount to € 3.4 billion (€ 7.4 billion in 2018).

With reference to the geographical origin of total funds raised (Tab. 7), it should be noted that the domestic component, with a value of € 818 million, accounted for 73% of the total, while the weight of the foreign component was 27% (€ 298 million).

Over the 2005/19 period, new funds raised by

the banking sector was the leading component (€ 4.7 billion, 19.0% of the total), followed closely by “funds of funds” sources (€ 4.5 billion, 18.0%). However, it is worth noting that the weight of foreign banks was negligible in the post-crisis period. In the same time horizon (2009/19), with regard to foreign operators, funds of funds and pension funds played a leading role (30% of new funds raised from abroad over the mentioned period, Tab. 8).

Sources of funds	2014		2015		2016	
	Value	%	Value	%	Value	%
Independent funding	1,348	64.9	2,487	72.0	1,313	37.6
Funds raised by parent company	129	6.2	346	10.0	401	11.5
Capital gain	-	-	-	-	-	-
Total raised funds (a)	1,477	71.1	2,833	82.0	1,714	49.1
Pan-European funds based in Italy (b)	600	28.9	621	18.0	1,774	50.9
Total (a+b)	2,077	100	3,454	100	3,488	100

Sources of funds	2017		2018		2019	
	Value	%	Value	%	Value	%
Independent funding	6,230	84.9	3,415	46.2	1,566	45.6
Funds raised by parent company	33	0.4	215	2.9	25	0.7
Capital gain	-	-	-	-	-	-
Total raised funds (a)	6,263	85.4	3,630	49.1	1,591	46.4
Pan-European funds based in Italy (b)	1,075	14.6	3,763	50.9	1,840	53.6
Total (a+b)	7,338	100	7,393	100	3,431	100

Tab. 6 Italian private equity and venture capital markets: fund raising trends (2014/19, € million and %) –

Source: elaboration of AIFI data

Independent raising	2014		2015		2016	
	Value	%	Value	%	Value	%
From abroad	917	68.0	1,194	48.0	482	36.7
From Italy	431	32.0	1,293	52.0	831	63.3
Total	1,348	100	2,487	100	1,313	100

Independent raising	2017		2018		2019 (*)	
	Value	%	Value	%	Value	%
From abroad	201	27.6	702	36.0	298	26.7
From Italy	527	72.4	1,249	64.0	818	73.3
Total	728	100	1,951	100	1,116	100

Tab. 7 Italian private equity and venture capital markets: geographical origin of raised funds (independent funds, 2014/19, € million and %) –

Source: elaboration of AIFI data

Note (*) Data are based on 71% of the private sector market collection, that for which data are available (amounting to € 1,116 million).

Sources of new funds raised on the market	2005/08				2009/19				
	Italy	Abroad	Total	%	Italy	Abroad	#N/A	Total	%
Banks	1,115	317	1,432	22.3	2,844	274	105	3,223	17.8
Funds of funds	60	1,510	1,570	24.4	1,067	1,837		2,904	16.0
Pension funds	224	259	483	7.5	2,498	706		3,204	17.7
Insurance companies	268	173	441	6.9	1,254	365		1,619	8.9
Private equity companies	N/A	N/A	N/A	-	194	83		277	1.5
Asset Manager	N/A	N/A	N/A	-	242	926	20	1,188	6.5
Other sources			2,508	39.0	3,770	1,200	763	5,733	31.6
Total			6,434	100				18,148	100

Tab. 8 Italian private equity and venture capital market: composition and geographical origin of new funds raised on the market (2005/19, € million) –

Source: elaboration of AIFI data

4.4 Mergers and Acquisitions

According to data released by KPMG Corporate Finance, in line with global business trends, the Italian M&A market underwent a downsizing in terms of values, from around € 94 billion in 2018 to just over € 52 billion in 2019. With regard to volumes, however, M&A activity in Italy continued to grow, with an all-time record of 1,085 completed transactions.

In line with the downturn in the overall value of Italian M&A activities and the rise in volumes, the average deal value fell from € 95 billion in 2018 to € 48 million.

In 2019 cross-border M&A deals set a new record in terms of volumes, with 514 completed transactions, up 6% on the previous year, corresponding to 47% of the total, in line with the market's overall performance. In terms of the number of deals, incoming deals reached a new peak (317 deals, 30% of the total). In terms of value, foreign investments amounted to € 18 billion, accounting for about 34% of the whole M&A market, with an increase of about 14 percentage points compared with the previous year.

The “top ten” deals completed in 2019 recorded a total value € 23.9 billion, representing 46% of the whole Italian M&A market of last year. Among these operations, 3 deals were incoming cross-border transactions, with a total value of € 7.6 billion.

Thanks to the Dealogic database we were also able to analyze the role of foreign intermediaries as advisors in supporting M&A deals. According to Dealogic, in 2019 the Italian M&A market recorded 975 deals worth about € 52.6 billion, very close to KPMG figures. The value of operations announced in 2018 and completed in 2019 was about € 18.3 billion. The details on advisors' role are available for about one third of transactions, and the analysis summarized on the page below was based on this sample.

As shown in Tab. 9, there was a remarkable presence of foreign advisors: at least one foreign advisor was involved in about 81% of deals (in terms

of value). This percentage takes into account both the role of all-foreign advisors, as well as the role of pools of Italian and foreign advisors. If we exclude the role of Italian intermediaries, we estimate that foreign advisors were involved in 40% of deals (in terms of market value).

Oil & Gas, Auto/Truck and Healthcare are the leading sectors in terms of the presence of foreign target advisors (€ 17 billion, 46% of the total deal value relating to foreign target advisors). The results are similar if we review the activity of foreign purchaser advisors.

A special focus on “top ten” deals – based on Dealogic data – highlights that foreign advisors were involved in all “top ten” deals (data not available for two transactions out of 10), in 3 cases jointly with Italian advisors.

KPMG's analysts have found it difficult to assess the extent of the pandemic's impact on the domestic and international M&A markets. In the first quarter of 2020 the global M&A market shrank by 36% in value, compared to Q1-2019. With regard to Italy, in Q1-2020 the M&A market appears to have evaded the most negative consequences of the pandemic. 2020 started off with the completion of a number of deals already announced in 2019. However, in March 50 bids were closed, and many were postponed or cancelled.

Partial data updated to the end of June 2020 show that in Q2 only 381 deals were concluded, with a fall of about 24% compared to the same period of the previous year. Analysts expect a further fall in the second half of the year. According to Dealogic data, updated to the end of June, the total deal value of operations announced and closed in 1H-2020 was only € 8.1 billion: in the first half of the year the market was driven by operations announced in 2019 and closed in the last few months (€ 18.3 billion). Foreign advisors, even in these difficult times, still continued to support M&A deals: foreign target advisors were involved in about 80% of deals completed in 2020. The percentage falls to 70% if we consider the role of foreign acquiror advisors.

Geographical origin of target advisor parent	Geographical origin of acquiror advisor parent								Total	
	abroad		Italy and abroad		Italy		N/A data			
	Value	%	Value	%	Value	%	Value	%	Value	%
abroad	21.2	40.3	4.3	8.1	0.6	1.2	4.7	8.9	30.8	58.5
Italy and abroad	6.0	11.4		-	0.2	0.3	0.1	0.2	6.2	11.9
Italy	0.6	1.2		-		-	0.6	1.1	1.2	2.3
N/A data	4.2	7.9	1.0	1.9	0.5	1.0	8.7	16.4	14.4	27.3
Total	32.0	60.8	5.3	10.0	1.3	2.5	14.0	26.6	52.6	100

Tab. 9 Value of M&A deals by geographical origin of advisors (2019, € billion) –
Source: elaboration of Dealogic database

CHAPTER 5

Advisory and operations on capital markets

This chapter covers the analysis of the positioning of foreign intermediaries in providing financial services to support Italian firms in accessing international financial markets. In particular, the topics covered refer to their advisory role as bookrunners in debt and equity securities issuances and retail trading.

5.1 Debt capital market

According to Dealogic data, in 2019 the market size of debt issuances by Italian firms amounted to about € 140 billion (€ 83.4 billion in 2018), the sum total of 279 tranches (171 in 2018). Compared to the end of 2018, we can observe a huge recovery (+69%). As a consequence of this growth, the market size rose above the average for the pre-financial crisis period for the second time in the last decade. The role of foreign bookrunners grew further: in 2019 the issuances that were assisted by at least one foreign intermediary amounted to 91% of the total market in terms of deal value. The relevance of their positioning can be clearly seen in Fig. 19.

If we consider tranches with a value of at least € 1 billion (“mega deals” came in the form of 34 issuances, with a total value of € 72.7 billion, almost double that of the previous year), we can report that foreign bookrunners were involved in 31 out of 34 operations, for a total value of about € 63.7 billion, making up 88% of all “mega deals”

and 45% of the whole market. In this case the main role was played by international pools of bookrunners, involving both domestic banks and foreign intermediaries.

The “top 5” deals had a combined total value of € 34.7 billion, or 25% of the whole market. Within this sub-sample, there were 5 public finance issuances, i.e. bonds issued by Italian Central Government. The role of foreign bookrunners was important, assisting in 4 out of 5 of these issuances, with a total deal value of € 28 billion, or 81% of the total “top 5” deal value and 20% of the whole market.

Focusing our attention on the whole market, we highlight the fact that the average tranche size was about € 504 million, slightly down on the 2018 figure. The average tranche size was higher when issuances were assisted by international pools of bookrunners (€ 663 billion). Moreover, in these cases, the number of bookrunners involved was normally higher.

Looking at issuers’ industrial sectors, Finance, Government, and Utility & Energy were the leading sectors: issuers from these 3 sectors raised € 117.4 billion in 2018, 83% of the total market value. If we analyze the role of non-resident bookrunners, the distribution for leading sectors is similar. Foreign intermediaries mainly assisted Italian companies operating in the financial (€ 55.2 billion), Government (€ 37.6), and Utility

& Energy (€ 12.6) sectors. These 3 main sectors accounted for about 82% of issuances assisted by foreign bookrunners.

It is also interesting to observe that in a number of sectors (including Healthcare, Insurance and Oil & Gas) all issuances were assisted by international pools of bookrunners, in which the involvement (and number) of foreign players was much more significant than their Italian counterparts.

The distribution of the geographical origin of bookrunners by tranche value (Tab. 10) is quite similar to past analyses: the presence of foreign bookrunners was significant in all classes by tranche value. In particular, as Tab. 10 shows, they had a market share higher than 50% for all classes, if we

exclude issuances having a face value below € 10 million. The analysis in terms of deal type (Tab. 11) confirms the positioning of foreign bookrunners in all types of issuances: for both public and private issuances they held a relevant market share. The main results of past analyses were confirmed.

Data referring to 1H-2020 suggest that the market has continued to grow: 106 tranches were issued for a total value of about € 105 billion. The pandemic has suddenly modified firms' funding needs: funding decisions to collect funds to cover expansion and strategic investments have probably been replaced by credit demand to deal with liquidity shortfalls and economic imbalances relating to the recession.

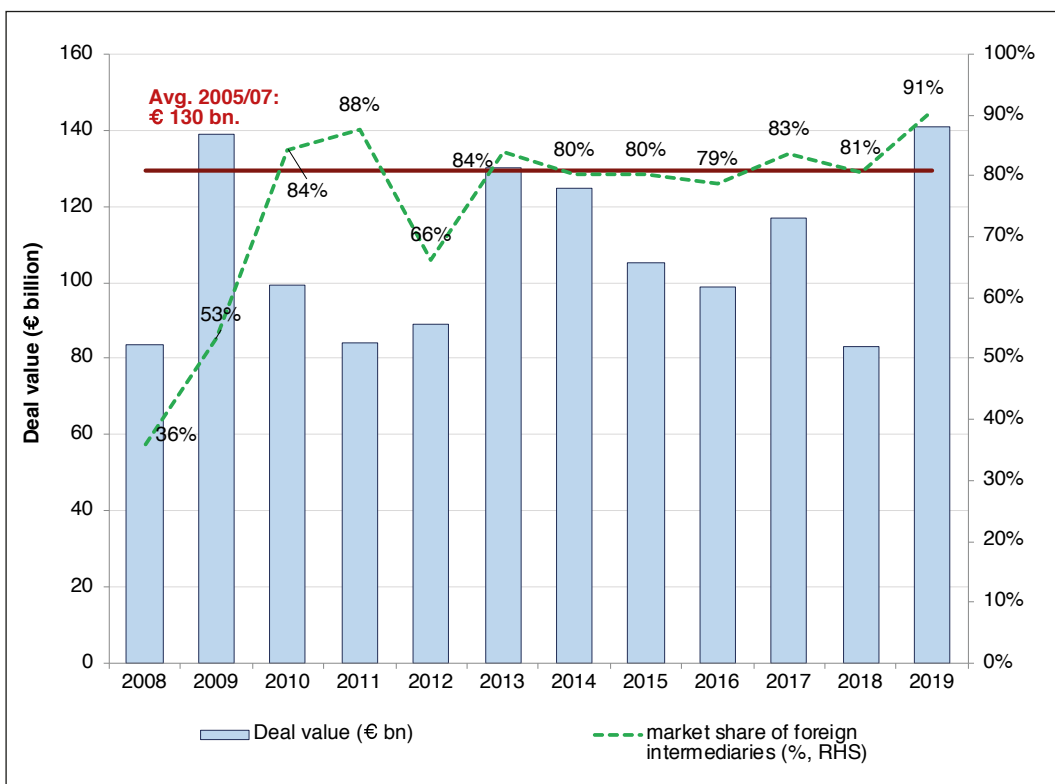


Fig. 19 DCM issuances by Italian borrowers: total annual deal value (2008/19, € billion) and market share of foreign bookrunners (% , RHS) –

Source: elaboration of Dealogic data

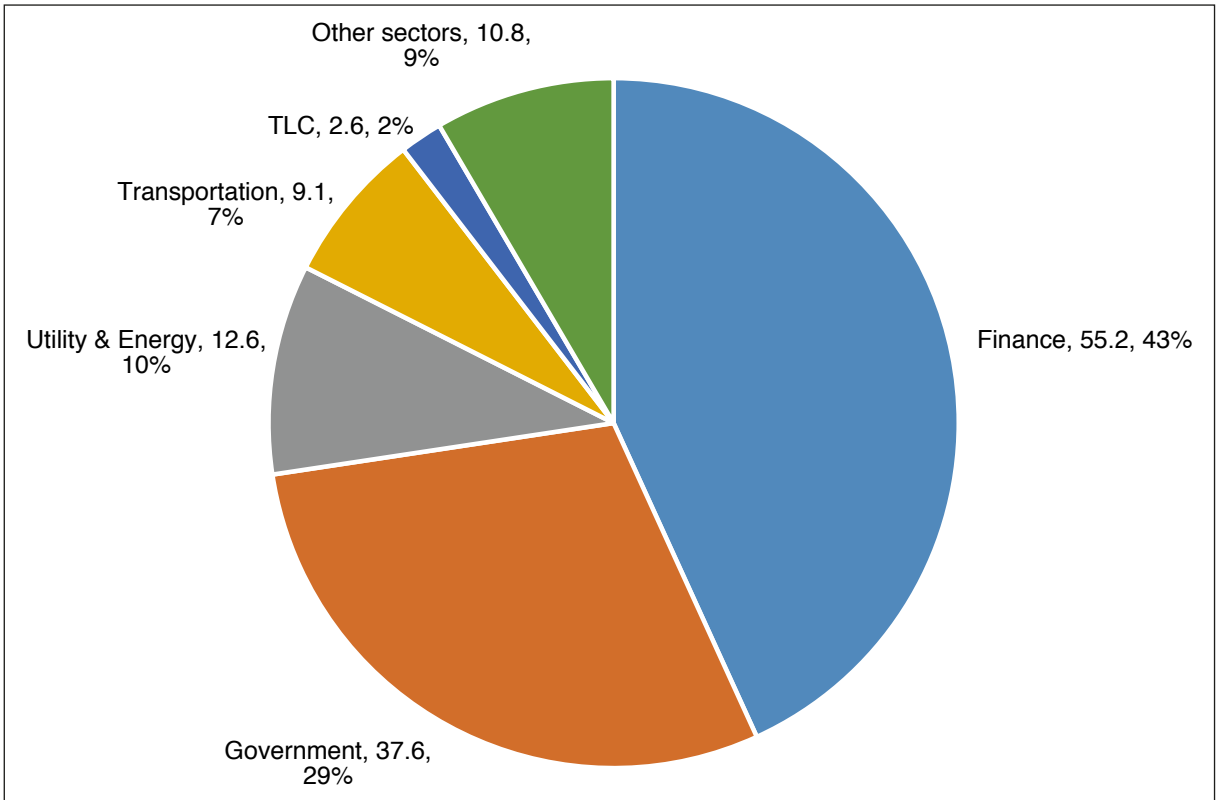


Fig. 20 DCM issuances by Italian borrowers' industrial sectors assisted by foreign bookrunners (2019, € billion and %) – Source: elaboration of Dealogic data

Class of tranche value	Foreign bookrunners	
	Deal value	Market share (%)
Up to € 10 million	37.1	24.1%
€ 10-100 million	25,736.0	95.4%
€ 100-500 million	2,050.9	67.7%
€ 500 million-1 billion	34,956.0	93.9%
€ 1-5 billion	40,926.8	95.8%
More than € 5 billion	24,000.0	78.0%
Total	127,706.9	90.7%

Tab. 10 DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by size (2019, € million) – Source: elaboration of Dealogic database

Note market share (%) is by class of tranche value

Deal type	Foreign bookrunners	
	Deal value	Market share (%)
Corporate Bond-Investment-Grade	50,557.6	95.0%
Sovereign, Local Authority	37,577.3	83.3%
Covered Bond	13,089.0	92.7%
Corporate Bond-High Yield	12,820.4	95.0%
Asset-Backed Security	6,964.7	99.9%
Non-US Agency	3,730.3	94.9%
Medium-Term Note	2,114.2	66.8%
Mortgage-Backed Security	853.4	100%
Total	127,706.9	90.7%

Tab. 11 DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by deal type (2019, € million) – Source: elaboration of Dealogic database

Note market share (%) is by deal type

5.2 Equity capital market

This section summarizes the role of foreign bookrunners in supporting Italian companies in equity issuances (e.g. IPOs, rights offers, accelerated bookbuild and convertible bond issuances).

According to Dealogic data, in 2019 the size of the Italian equity capital market was about € 7.1 billion, a significant hike compared to 2018 (Fig. 21). As the graph reveals, in recent years the annual market size has been quite volatile. After the very significant downsizings in 2016 and 2018, last year marked an upturn in listings and deals relating to equity capital. Last year's growth can be appreciated in terms of both deal value (+€ 2.1 billion and +42% YoY) and number of operations, rising from 51 to 55. The average size of deals also increased.

The participation of foreign intermediaries, acting as bookrunners, remained very significant. Foreign bookrunners participated in 33 out of 55 operations (24 out of 33 as solely non-resident bookrunners, and 9 in international pools that include domestic intermediaries), 60% of the total. Moreover, they participated in operations having a value of about € 6.9 billion, or 97% of the total.

The average deal size was close to € 130 million, with huge differences if we compare operations assisted by international or foreign pools of bookrunners (average size of € 209 million) with deals that involved only Italian bookrunners: these operations (22) accounted for 40% of the total in number, but only 3% in volume, with an average size of about € 11 million.

The biggest deals were assisted by international pools of bookrunners: foreign bookrunners were involved in all the "top ten" deals. The bigger the operation, the higher the number of bookrunners involved: "top ten" deals involved an average of 3.6 players, while the average for the whole market is 1.7 bookrunners.

If we move on to analyze the distribution of

foreign bookrunners by issuers' economic and industrial sectors, we can observe that Finance was again the leading sector: with regard to this sector, total issuances assisted by foreign bookrunners amounted to € 3.1 billion, making up almost 45% of total deals. Computer & Electronics was also relevant, with € 2 billion of deals, making up 30% of all operations of non-domestic intermediaries. In all sectors the market share held by foreign bookrunners was very significant, and in some sectors close to or even 100% (e.g. Transportation, Food & Beverage, Consumer Products, and TLC).

With regard to the deal type, in the Dealogic database 35 IPOs were recorded (worth € 2.5 billion), of which 17 were assisted by at least one foreign bookrunner (€ 2.4 billion). The other relevant deal type was follow-on (second) offering: non-resident bookrunners assisted 16 out of 20 such operations concluded in 2019, holding a market share of about 97% (€ 4.5 billion out of € 4.6 issued).

Also worthy of note is that in the period January/June 2020 the Dealogic database recorded 19 operations on Italian ECMs, for a total deal value of about € 4.2 billion. Compared to 2019, the average size of operations increased (€ 223 million), while non-domestic bookrunners remained very much present, being involved in 15 out of 19 operations, with a market share of about 97%. A significant portion of their operations was performed through a transnational pool of bookrunners, including domestic banks.

The presence of foreign institutional investors was very significant in the AIM Italia market and the STAR segment of the Italian Stock Exchange.

According to IR Top's analysis, in 2019 AIM Italia companies had 109 institutional investors, of which 84 foreign companies (77%). Investments totalled approximately € 570 million, of which the share of foreign investors was about € 265 million (46%).

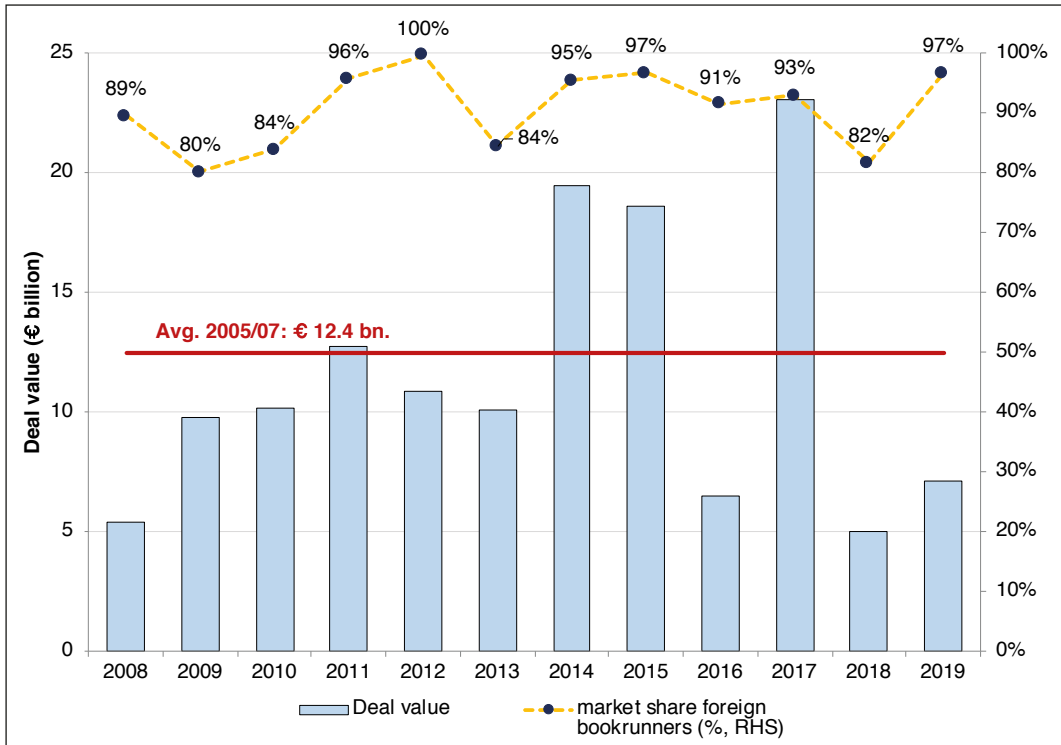


Fig. 21 Equity Capital Markets: distribution of deal value (Italian issuers, 2008/19, € billion) and market share of foreign bookrunners (% , RHS) –
 Source: elaboration of Dealogic data

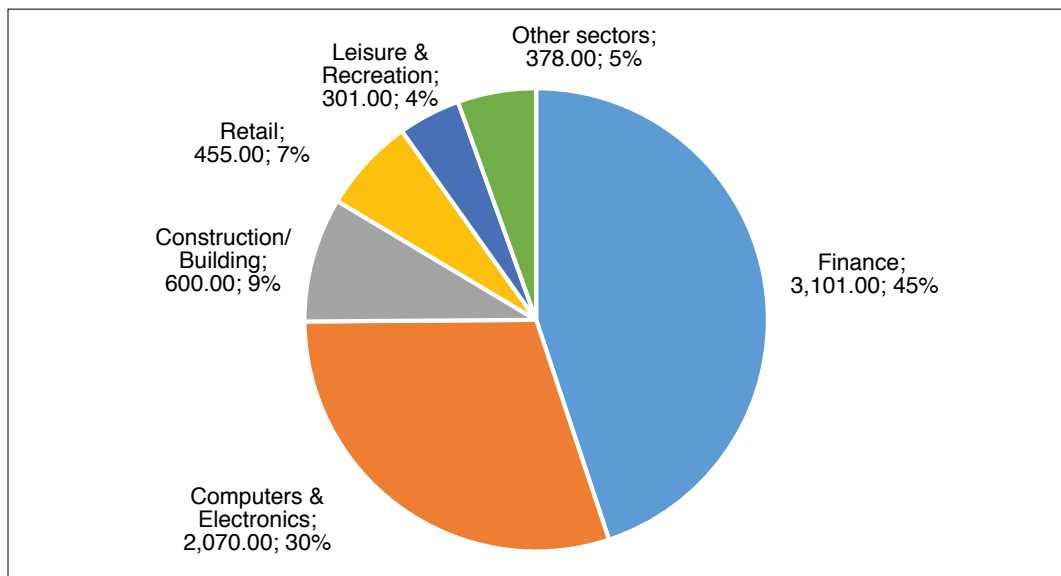


Fig. 22 ECM issuances by Italian issuers' industrial sectors assisted by foreign bookrunners (2019, top 5 sectors, € billion and %) –
 Source: elaboration of Dealogic data

5.3 Trading on Cash Markets (MTA)

According to ASSOSIM, the Italian Association of Financial Intermediaries that represents the majority of players operating in the Italian financial market, the market share of foreign intermediaries is quite significant, at least in certain segments.

Within MTA, the main Italian Stock Exchange market for equity securities, ASSOSIM's members in 2019 accounted for 44% of total market volumes, while foreign members held about 18% of the total (Fig. 23). They accounted for about 41% of value referred to the sample of ASSOSIM's members.

In 2019, within MTA, 5 out of 26 players were based abroad. Furthermore, 5 out of the 10 "most active" players were foreign intermediaries, and 2 were the most active in the market. Results were very similar at end-June 2020: 5 out of the 10 "most active" players were foreign based. The two most active players had a total market share of 12%, or about 29% of value referred to the sample

of ASSOSIM's members and accounted for 70% of total activity performed by foreign players.

In other market segments of the Italian Stock Exchange (e.g. DomesticMOT, EuroMOT, ETFplus and ExtraMOT) market shares and numbers of foreign players were lower. In 2019 and as of end-June 2020, within the DomesticMOT market the share of foreign intermediaries was about 4% of total volumes (2.1% in the previous year). In 2019 in the EuroMOT market the share of foreign players was less than 1% (rising to 2.8% at the end of June 2020).

In 2019 and as of end-June 2020, within the ETFplus market, the share of foreign players was close to 7%.

Within the SeDEX segment the market share of foreign players (3 out of 23) in 2019 was close to 7% of total volumes (8% as of end-June 2020). The main foreign financial intermediary is the fifth most active in this segment.

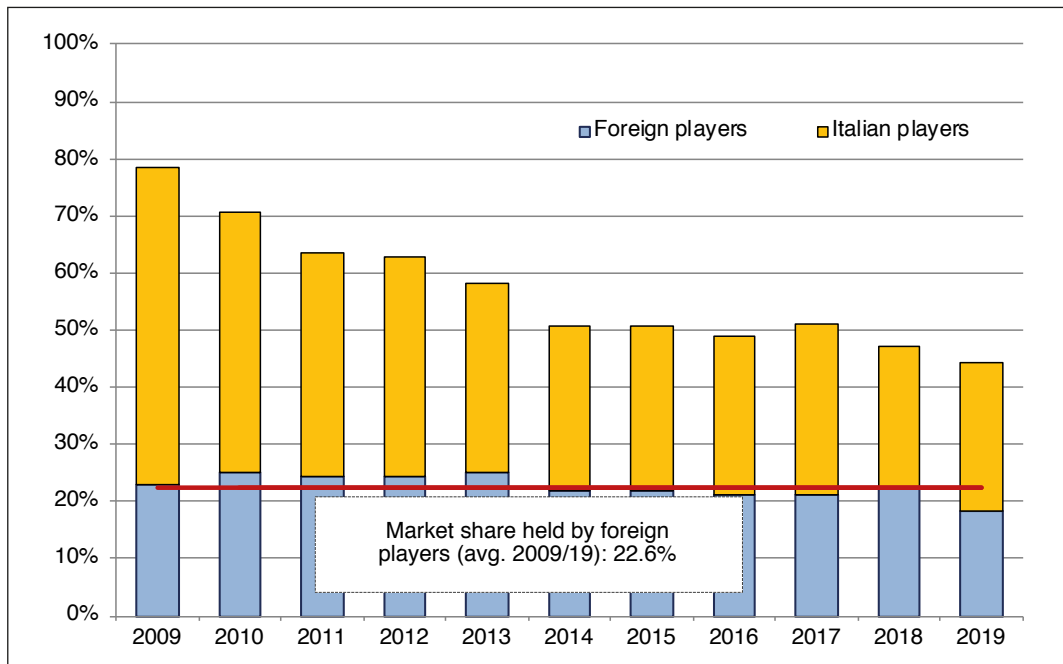


Fig. 23 Recent trends in market share held by ASSOSIM's members (2009/19, % of volumes traded on MTA segment) –

Source: elaboration of ASSOSIM statistics.

CHAPTER 6

Asset Management

In this chapter the role of foreign players within the Italian Asset Management industry will be analyzed. In particular, we will refer to both collective and portfolio management and pension funds. Data released by Assogestioni and available on the Italian Fund Hub (IFH) website are representative of the entire Italian Asset Management Industry.

According to Assogestioni, at the end of 2019 the market value of Assets Under Management (AUM) rose from € 2,017 billion to € 2,307 billion (+14% YoY). At the end of 2019 the AUM stock relative to foreign groups was about € 743.04 billion, corresponding to 32.2% of the market (32.9% end of 2018, Tab. 12).

With regard to collective management (Fig. 24), recent growth is mainly due to the increase in open-end funds (from € 460 billion at the end of 2010 to € 1,072 billion at the end of 2019); the increase in closed-end funds, on the other hand, was more modest, going from € 41 billion in 2010 to € 64 billion in 2019.

Over the same period AUM held by foreign companies increased significantly (+269%), rising from about € 122 billion to € 514 billion in 2019.

The market shares held by foreign companies increased from 24.3% at the end of 2010 to 45.3%

at the end of 2019.

With reference to portfolio management, it is worth pointing out that AUM increased by about € 666 billion from 2010 to 2019; the market share held by foreign players rose slightly (19.5%, against 18.4%).

As shown in Fig. 25, in the last five years the growth of insurance products has been most significant (+24%), followed by pension plan asset management (+19%) and retail asset management (7%). Other investment products have risen by about 64%.

Based on 2019 data, foreign intermediaries accounted for about 21.7% of all assets managed by the “top 10” players. This percentage goes up to 25.8% if we consider the “top 15” intermediaries and 29.8% if we consider the “top 20” (Fig. 26).

Within the pension funds industry, the market share of foreign intermediaries fell slightly, from 61.7% in 2018 to 57.7% in 2019 (Fig. 27). The stock held by foreign operators was in any case significantly up compared with the figure at the end of 2010. The large increase observed in past years is due to two factors: the growth of foreign contractual pension funds, and the weak growth of Italian open pension funds and Italian contractual pension funds.

	Dec-2013		Dec-2014		Dec-2015		Dec-2016	
	AUM	%	AUM	%	AUM	%	AUM	%
Collective management	599.110	100	731.158	100	898.807	100	949.545	100
Foreign groups	175.975	29.4	220.127	30.1	310.510	34.5	326.849	34.4
Italian groups	423.135	70.6	511.031	69.9	588.297	65.5	622.696	65.6
Portfolio management	730.943	100	857.290	100	935.299	100	993.431	100
Foreign groups	102.788	14.1	119.572	13.9	137.208	14.7	139.957	14.1
Italian groups	628.155	85.9	737.719	86.1	798.091	85.3	853.474	85.9
Total	1,330.053	100	1,588.448	100	1,834.105	100	1,942.976	100
Foreign groups	278.763	21.0	339.698	21.4	447.717	24.4	466.806	24.0
Italian groups	1,051.290	79.0	1,248.750	78.6	1,386.388	75.6	1,476.170	76.0

	Dec-2017		Dec-2018		Dec-2019		△ 2019	
	AUM	%	AUM	%	AUM	%	AUM	△%
Collective management	1,062.323	100	1,013.510	100	1,135.790	100	122.280	12%
Foreign groups	476.480	44.9	449.928	44.4	514.497	45.3	64.569	14%
Italian groups	585.843	55.1	563.582	55.6	621.293	54.7	57.711	10%
Portfolio management	1,026.827	100	1,003.563	100	1,170.987	100	167.424	17%
Foreign groups	217.827	21.2	213.521	21.3	228.544	19.5	15.023	7%
Italian groups	809.000	78.8	790.042	78.7	942.443	80.5	152.402	19%
Total	2,089.150	100	2,017.072	100	2,306.777	100	38.372	2%
Foreign groups	694.307	33.2	663.449	32.9	743.041	32.2	79.592	12%
Italian groups	1,394.843	66.8	1,353.623	67.1	1,563.736	67.8	-41.220	-3%

Tab. 12 *Collective and portfolio asset management: AUM trends and market shares held by Italian and foreign asset management companies (2013/19, € million and %) – Source: elaboration of data from Assogestioni-IFH database*

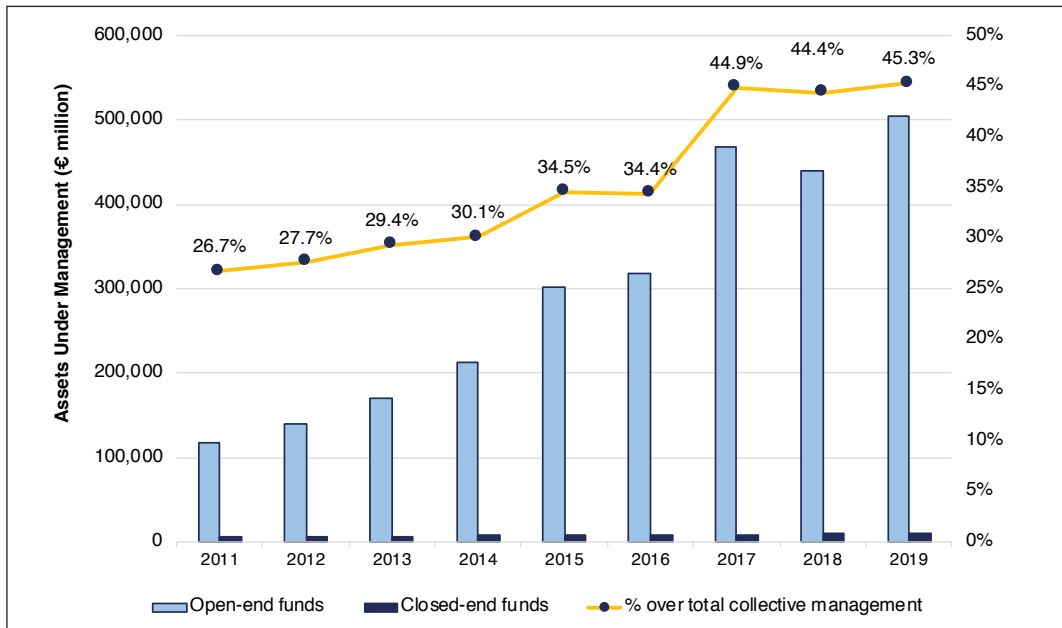


Fig. 24 Collective management: AUM stock and market shares held by foreign asset management companies (2011/19, € million and %) –
Source: elaboration of data from Assogestioni-IFH database

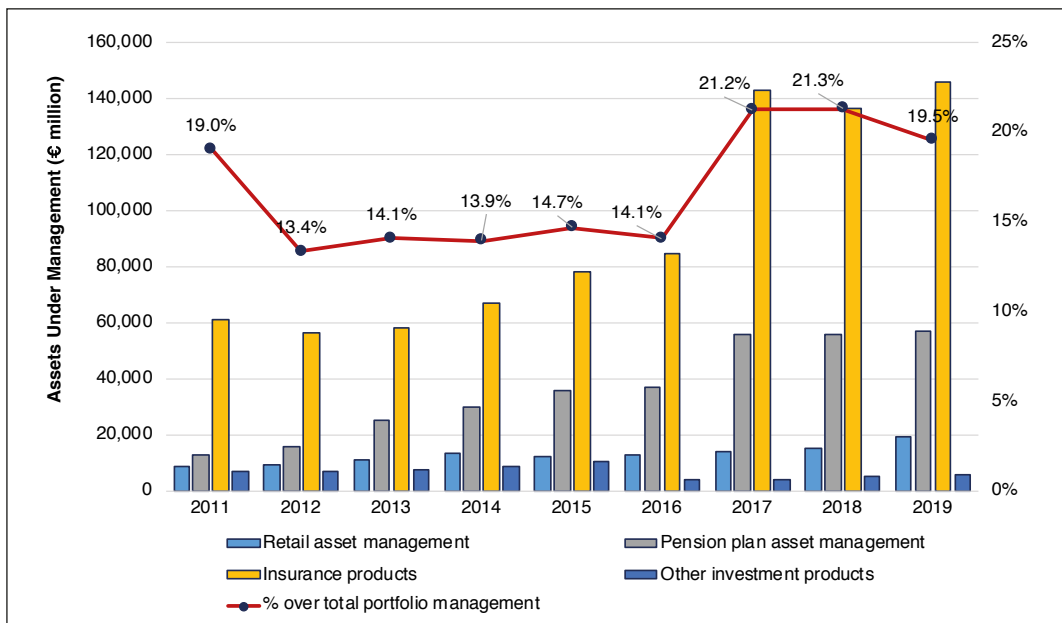


Fig. 25 Portfolio management: AUM stock and market shares held by foreign asset management companies (2011/19, € million and %) –
Source: elaboration of data from Assogestioni-IFH database

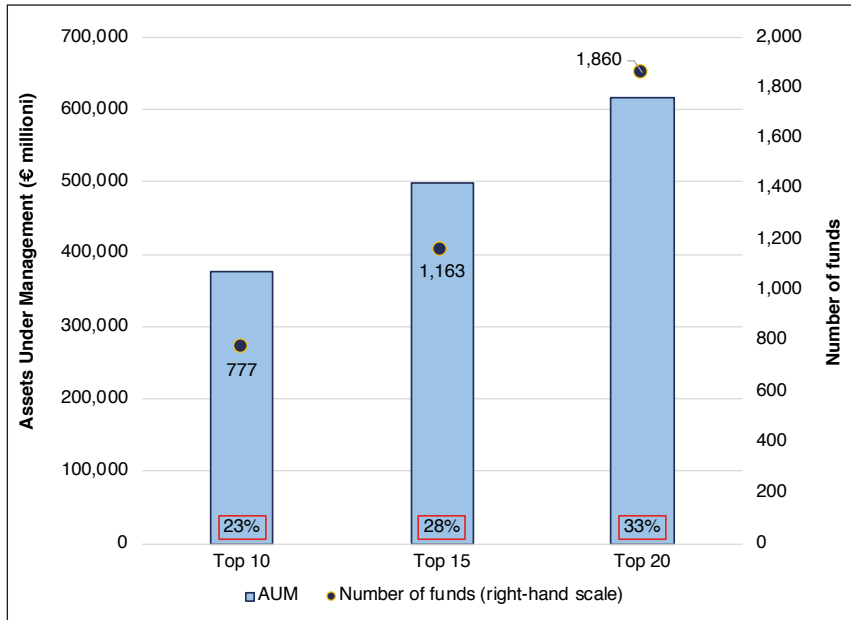


Fig. 26 AUM stock and market shares held by foreign asset management companies in the “top 10”, “top 15” and “top 20” rankings (2019, € million and %) –
Source: elaboration of data from Assogestioni-IFH database

Note red bordered figures indicate the market share held by foreign intermediaries in terms of AUM, out of the total of Top 10, Top 15 and Top 20 groups respectively

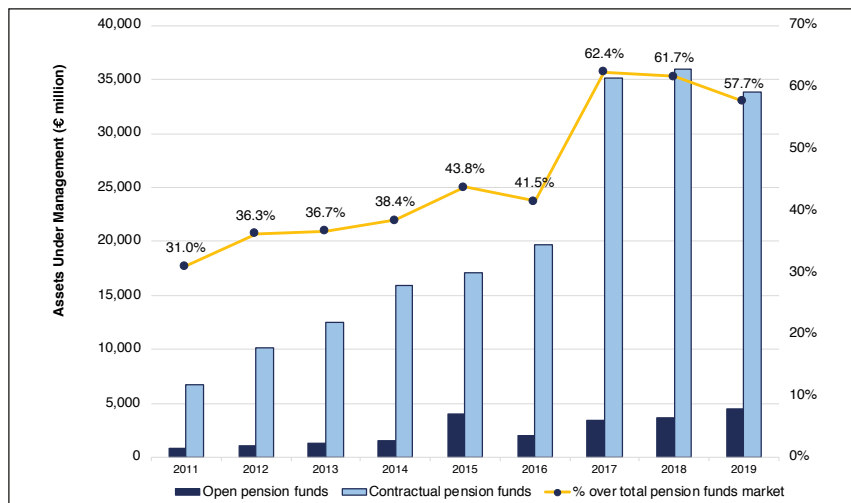


Fig. 27 Pension funds market: AUM stock and market shares held by foreign asset management companies (2011/19, € million and %) –
Source: elaboration of data from Assogestioni-IFH database

CHAPTER 7

Specialized credit

In 2019, according to Assilea data, the Italian leasing market recorded a negative growth rate of -6%. The total value of deals fell from € 29.8 to € 27.9 billion (Tab. 13). This reduction was largely due to “other companies” that – according to the Assilea classification – includes both Italian and foreign intermediaries.

Based on league tables released by Assilea for 2019, 3 foreign players were in the “top ten most active” players. They accounted for leasing contracts worth about € 5.5 billion (42.4% of the “top ten” amount, around one-fifth of the total market value).

Outstanding credit fell from € 81.3 billion to € 80.2 billion, 22.0% of which was due to foreign leasing companies. The majority of these intermediaries belong to banking groups.

The Italian factoring market, as stated by Assifact, has witnessed quite significant growth over the last year: total annual turnover rose from € 240.0 to € 255.5 billion (+6.4% YoY). The market

share held by foreign intermediaries remained stable (16.7%). In a general context characterized by market growth, annual turnover for foreign players rose slightly, from € 40.3 billion to € 42.6 billion (Fig. 28).

Outstanding credit fell from € 67.7 billion to € 66.3 billion (-2% YoY). Foreign intermediaries registered a fall of about € 1.0 billion, while their market share fell from 16.8% to 15.7% (Fig. 29).

The Italian consumer credit market grew over the two years (2018 and 2019). According to the Assofin, Crif and Prometeia Retail Credit Observatory, financial flows rose by about € 6.1 billion on an annual basis, reaching a value of € 76.9 billion in 2019.

The market share held by foreign players remained quite stable last year, reaching 45% (Fig. 30). Despite the market share remaining constant, the value of consumer credit granted by foreign players rose to about € 35.1 billion (+ € 2.95 billion YoY).

	2012		2013		2014		2015	
	Value	%	Value	%	Value	%	Value	%
Italian intermediaries	10.2	61.0	10.0	60.6	8.5	54.9	8.3	48.7
Foreign intermediaries	6.5	39.0	6.5	39.4	7.0	45.1	7.9	46.4
<i>of which: foreign banks</i>	5.2	31.2	5.1	30.8	5.5	35.7	6.2	36.0
N/A data							0.8	4.9
Total	16.7	100	16.5	100	15.5	100	17.1	100

	2016		2017		2018		2019	
	Value	%	Value	%	Value	%	Value	%
Italian intermediaries	9.8	47.3	10.7	40.2	10.8	36.2	10.4	37.2
Foreign intermediaries	7.3	35.3	6.6	24.7	7.6	25.5	7.6	27.2
<i>of which: foreign banks</i>	6.7	32.3	6.1	22.8	6.9	23.2	6.9	24.7
N/A data	3.6	17.4	9.3	35.1	11.4	38.3	9.9	35.6
Total	20.7	100	26.6	100	29.8	100	27.9	100

Tab. 13 Italian leasing market: distribution of the value of leasing contracts by geographical origin of intermediaries (2012/19, € billion and %) –
Source: elaboration of Assifact data

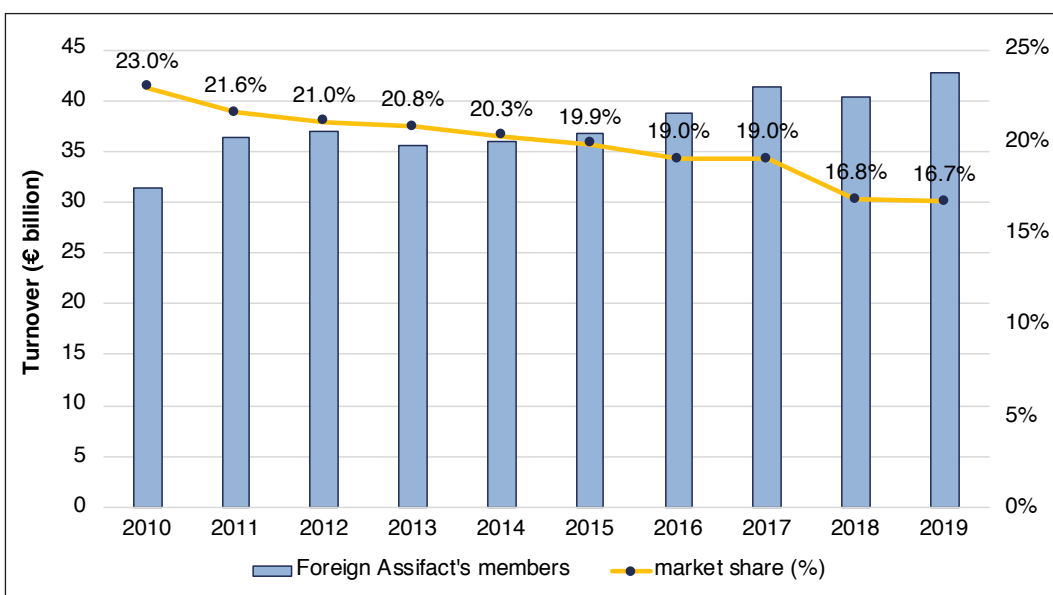


Fig. 28 Italian factoring market: distribution of the turnover and market share of foreign players (2010/19, € billion and %) –
Source: elaboration of Assifact data

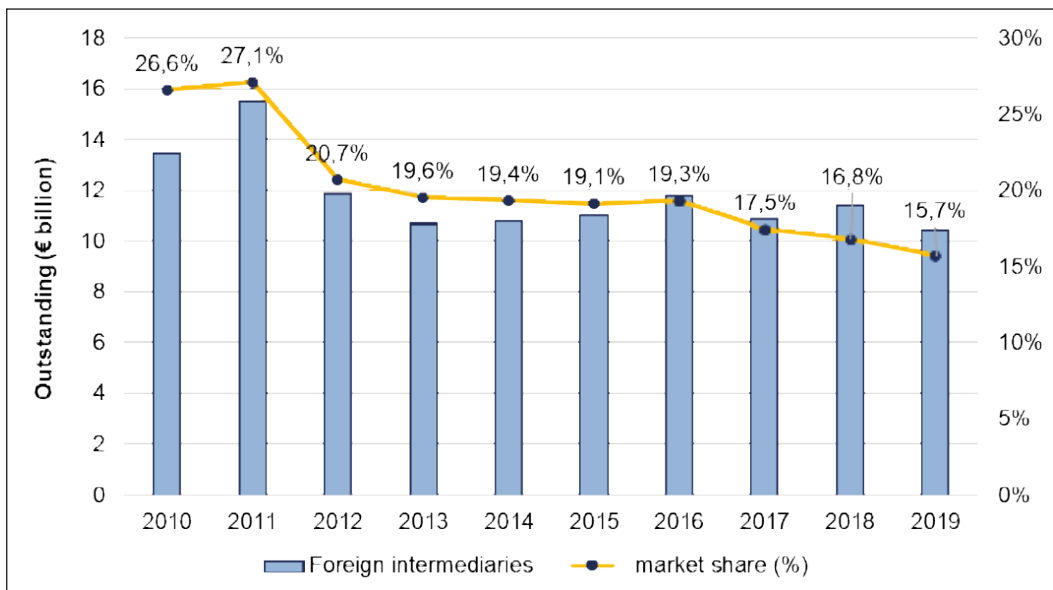


Fig. 29 Italian factoring market: distribution of outstanding credit and market share of foreign players (2010/19, € billion and %) –
Source: elaboration of Assifact data

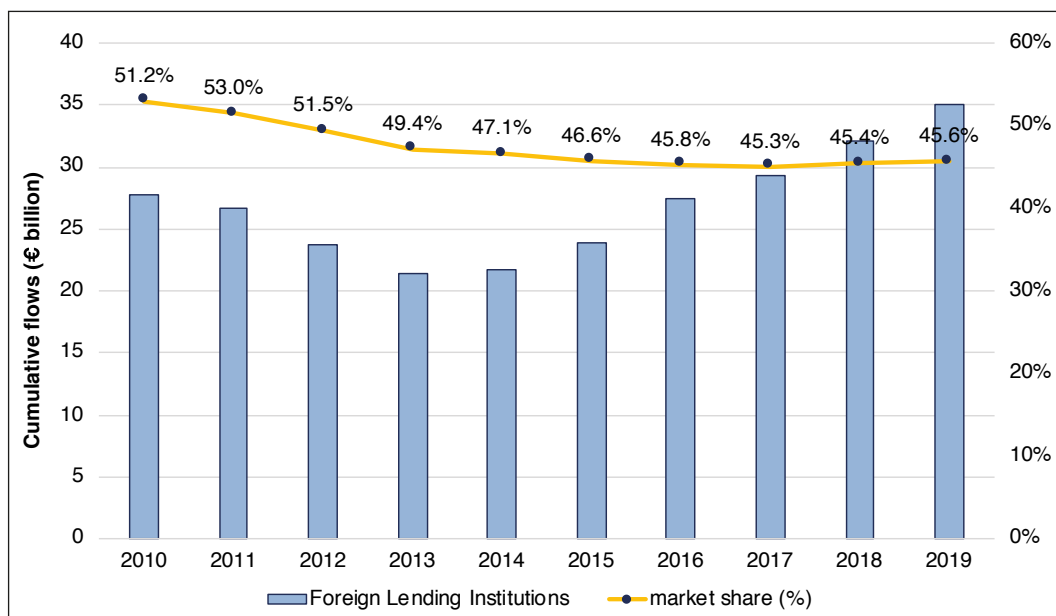


Fig. 30 Italian consumer credit market: distribution of cumulative flows and market share of foreign players (2010/19, € billion and %) –
Source: elaboration of Assofin-Crif-Prometeia's survey

Note Foreign Lending Institutions are players having prevalent foreign ownership. In the case of mixed-ownership companies, cumulative flows are attributed "pro rata" according to the shares of ownership

CHAPTER 8

Foreign banks in Europe: a sample analysis

This chapter offers a brief overview of the role played by foreign banks in a sample of European countries, facilitating a comparison between Italy and European competitors in terms of the presence of and market shares held by non-resident operators in the main business lines.

Based on the latest AIBE Report, we have compared Italy to France, Germany, Spain and the United Kingdom, focusing on two main areas. Firstly, we analyzed the share of non-resident investors in public debt (paragraph 8.1); secondly, we summarized relevant data about the role of foreign-based bookrunners in supporting firms' financing needs, i.e. issuances in the syndicated loans markets and the debt and equity capital markets (paragraph 8.2).

8.1 The role of non-resident investors in public debt

Figures were elaborated from International Monetary Fund data, summarized in its periodic report "*Fiscal Monitor*", which contains a number of relevant statistics comparing economic and financial indicators referring to public finance.

In 2019 all selected countries showed an increase in the share of general government debt held by non-resident investors, especially in Spain (reaching a peak in the 4y-time series) and France. Italian data showed an increase in the ratio of about 4 percentage points. While it remained in bottom position among these selected countries, it should be observed that the growth in 2019 interrupted a 3y-fall.

The impact of the pandemic is expected to modify these allocations, since the higher volatility in spring 2020 and the rise in sovereign risk, as a consequence of recession, have already forced some foreign operators to divest a portion of their exposure towards countries more strongly impacted by Covid-19. As reported in Chapter 2, Italy suffered this negative scenario in the first quarter of 2020.

At the same time, when Brexit becomes reality, it will be interesting to track the evolution of the ratio referring to the market share of non-resident investors in public debt for the United Kingdom, in a market scenario dominated by severe recession and the concrete risk of a new lockdown.

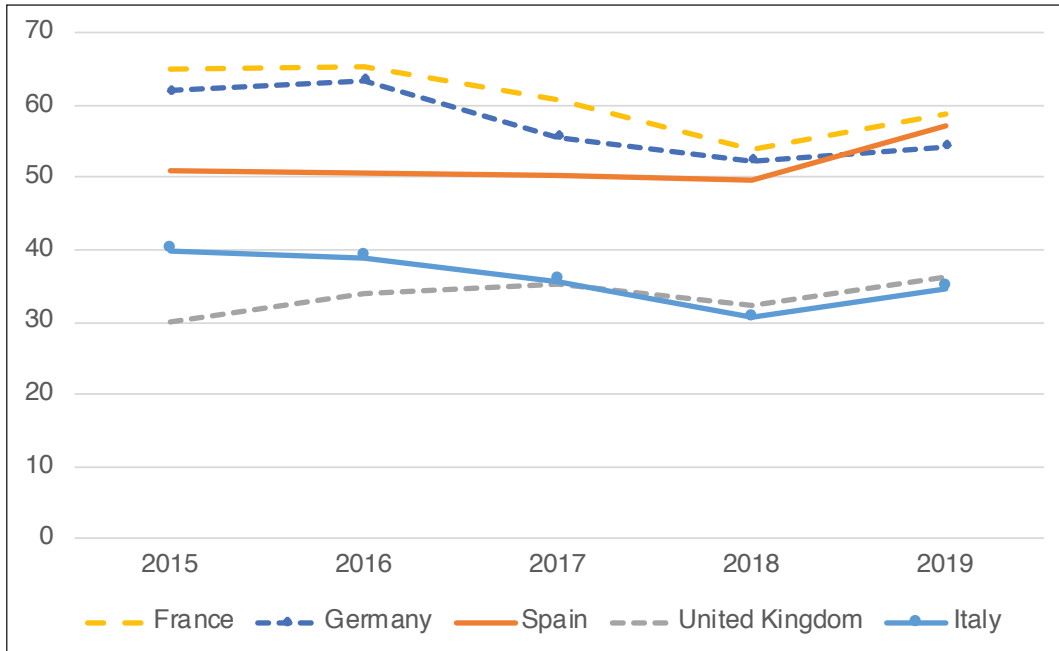


Fig. 31 Non-resident holdings of general government debt (end-of-year % of total) –
 Source: elaboration of IFM Fiscal Monitor

8.2 The role of foreign banks in debt and capital markets

In order to estimate the market share of foreign bookrunners in the four selected countries (other than Italy, already analyzed in Chapters 4 and 5), we focused on the issuances of syndicated loans, as well as on debt and capital markets.

Fig. 32 contains a summary of the main results.

First of all, we focused on syndicated loans. Market sizes vary quite significantly among the sample: United Kingdom is the biggest market, even though its syndicated loans' market underwent a sharp fall in size in 2019, from € 195 billion to € 160 billion. France and Germany have a similar size (€ 146 billion): the French market remained stable, while the German market shrank by about 11% (-€ 17 billion). There were declines too for Italy and Spain in the past year. Regardless of the relative market size, the market share held by foreign bookrunners (all-foreign bookrunners and international pools of lenders, where non-resident intermediaries are, on average, the most active players) remained high, 72% on average.

The average tranche size remained stable, except for Italy, where it fell sharply (see Chapter 4). Italy's domestic market is characterized by a high number of small deals and a very small number of "mega deals".

The size of debt capital markets varies considerably among the five countries included

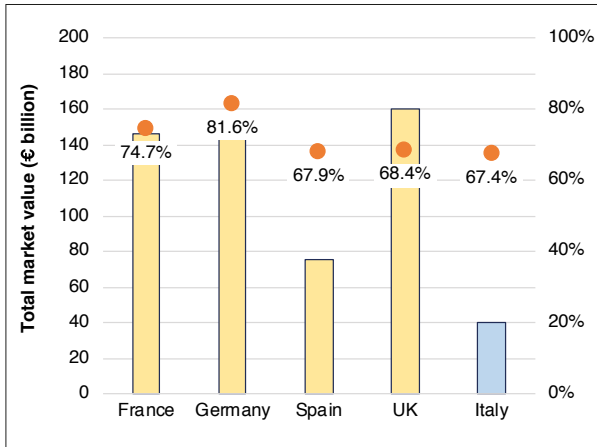
in our sample: Spain is the smallest market (€ 99 billion, + € 12.4 billion and +14% YoY), while United Kingdom is by far the biggest (€ 709 billion, albeit down on the previous year). Italy posted the highest annual growth rate.

In all markets foreign bookrunners hold a significant market share: the most relevant portion of the market is held by international pools of intermediaries (average 64.6%), while all-foreign bookrunners are more present in the United Kingdom (46.8%) and Germany (35.9%). The Italian market had the highest average tranche size, while Germany and France had a higher percentage of "small deals".

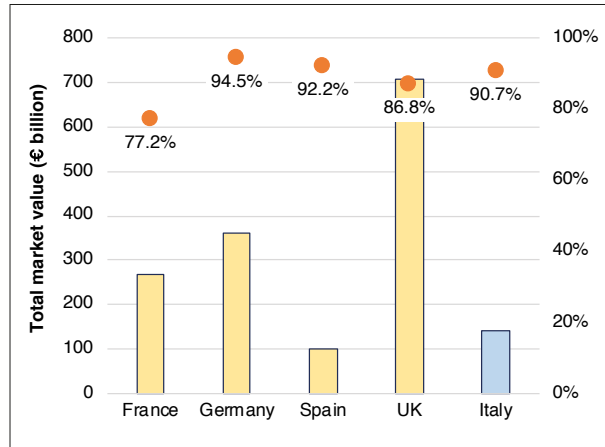
In 2019 the equity capital markets analyzed showed quite different trends: on the one hand, France, Italy and Spain saw a recovery in equity transactions, and the total amount of closed deals increased, on average, by a few billion euros in each of these three countries; on the other, the two largest markets – United Kingdom and Germany – saw a sharp drop in size and in the number of closed deals. The average size of operations was larger in Spain (€ 297 million) and France (€ 233 million).

The presence of foreign intermediaries was relevant in all markets. The market share held by all-foreign bookrunners was 36% on average (Italy 15%), while the portion held by international pools of bookrunners was higher, 55% on average (Italy 82%).

(a) Syndicated loans



(b) Debt capital markets



(c) Equity capital markets

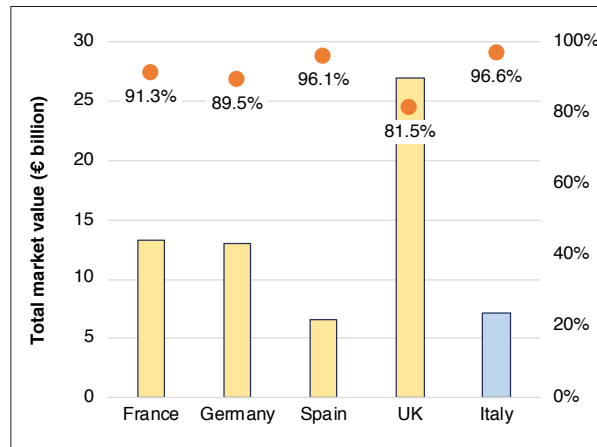


Fig. 32 Annual deal value and market share of foreign intermediaries (2019, € billion and %) – Source: elaboration of Dealogic database

CHAPTER 9

Foreign-controlled firms in Italy: a focus on their capital structure

This chapter summarizes the main results of a sample analysis dedicated to a sample of foreign-controlled firms operating in Italy, in order to examine the composition of their capital structure and the role of foreign banks and other financial intermediaries in supporting their funding needs.

9.1 Structure and profitability of foreign-controlled firms

Structural aspects regarding multinational enterprises were mentioned in Chapter 1, based on ISTAT's annual survey on foreign-controlled firms operating in Italy. That survey has two major drawbacks however: firstly, results refer to the situation at least 2 years ago; secondly, no information is provided with regards their capital structure. To bridge this information gap, we used the annual report released by Mediobanca, called "Dati cumulativi di 2,120 società italiane" regarding the financial statements of a sample of Italian firms, mainly large and medium-sized, operating in industrial and tertiary sectors. The time horizon analyzed covers the period between 2010 and 2019. Almost all Italian companies with over 500 employees and about one fifth of medium-sized manufacturing companies were included.

Our attention focuses on the financial statements released by the sub-sample of foreign-controlled firms (FCFs)³, as recorded at the end of 2019. This grouping is made up of 574 companies, representing 57% of all foreign-controlled firms in Italy with over 250 employees, representing 34.1% of the total sample of 2,120 firms analyzed by Mediobanca. At the end of 2019 FCFs accounted for approximately 34% of overall turnover generated by the reference sample (37% in 2010).

The largest contribution to turnover was made by the Tertiary sector (49.3%); this is attributable to the progressive takeover, from 2013 to 2019, of control of telecommunications and organized distribution companies by foreign ownership. With reference to the Manufacturing sector, the share of turnover generated by foreign-controlled companies was approximately 34%.

A smaller contribution was made, in terms of turnover, in the Oil and Energy sectors, where the share of turnover generated by foreign-controlled companies was 27% and 15% respectively. In these sectors there is a prevalence of Italian public companies.

Mediobanca statistical data based on the

³ Control refers to the leading shareholder, regardless of the nationality of any intermediate holding companies. For companies controlled by private equity funds, the prevailing nationality of the fund was assumed. In the case of Italian and foreign joint control, the companies were considered to be under Italian control.

sample of 2,120 companies show that FCFs constantly achieve higher levels of marginality and profitability, expressed in terms of gross operating margin, compared to Italian firms, even if the gap has been narrowing over time.

FCFs show a confidence in the Italian economy, which has regained some of its attractiveness: since 2014 multinational enterprises have raised net local investments (+44%), with a slight dip in the upward trend in 2018. Last year's data show a sharp recovery (+26%). The evolution of the pandemic and economic recession will probably hamper further long-term investments and expansions in forthcoming months.

If we move on to firms' capital structure, it can be seen that the 574 FCFs recorded, at the end of 2019, total outstanding financial debt of about € 98 billion (+9% YoY): 28% of this financial debt has a short-term maturity, 6 percentage points less than nationally controlled firms. After the peak reached at the end of 2013, the weight of short-term financial debt in FCFs' capital structure has fallen constantly, while the debt composition for Italian firms has remained much more stable.

With reference to medium and long-term debt, it is worth noting that about 40% of FCFs' debt consists of loans to subsidiaries/affiliates, while bond loans account for about 24%, other loans about 20% and long-term bank debt the remaining 17%. Bonds (39%) and banking debt (32%) are much more relevant for the capital structure of nationally controlled companies, which show a more rigid composition and express a higher dependence on the more "traditional" banking channel.

FCFs also show a higher level of capitalization: Mediobanca used the financial indicator given by the ratio Net Financial Position/Net Equity. From 2010 to 2019 FCFs have seen this ratio drop, from 87% to 69%, still well above the figure for nationally controlled firms (42.7% at the end of 2019).

9.2 The Italian private debt market and Minibond market

According to AIFI data, € 195 million was collected in the Italian private debt market in the first half of 2020, up 10% compared to € 178 million in the first half of 2019.

With reference to geographical origin, in the first half of the year the foreign component was 51%. In terms of invested capital, in the first half of the year 16 operators invested € 423 million, about 21% less than in the first half of 2019.

There were 138 subscriptions (+34%) spread over 96 targets (+22%). Excluding lending platforms, 44% of the amount was invested by foreign entities, which carried out 9% of the number of transactions.

It is also interesting to discover the weight of foreign institutional investors in the Italian Minibond market, with debt securities (bonds and commercial papers) issued by non-financial companies for an amount below € 50 million. The Italian minibond industry saw the light of day in 2012, benefiting from new regulations that increased opportunities for SMEs to access the debt capital markets to fund their businesses.

According to the "Osservatorio Minibond" of the Politecnico di Milano School of Management, at the end of 2019 rule changes made it easier, also for SMEs, to exploit this alternative source of capital.

Over the time horizon 2012/2019, the database tracked 801 issuances by 536 companies (314 of which are SMEs according to the EU definition), while the total capital raised on the market was € 5.5 billion. In 2019 the database recorded 207 issues for a total amount of capital raised of € 1.18 billion.

374 Minibonds out of 801 issuances (47%) are listed, mainly on the Italian ExtraMOT PRO: 72 out of 374 and 19 out of 207 issuances launched in 2019 are listed on foreign exchanges, such as

Austria, Luxembourg and Ireland. These markets are considered to be interesting targets, especially when investors are foreign funds.

Among all investors in Italian Minibonds, foreign funds had an 11% market share at the end of 2019, down sharply on the previous year (25%). According to the “Osservatorio” report, there were two major reasons for this fall: the rise in domestic offer, and the worsening of Italian economic conditions, characterized – even before the pandemic – by stagnation and poorer economic performance compared with other countries.

9.3 The response of foreign-controlled companies to the economic crisis generated by the Covid-19 health emergency

Last May, at the beginning of the post-lockdown phase, ISTAT launched a special survey entitled “Situazione e prospettive delle imprese nell'emergenza sanitaria COVID-19” (Situation and prospects for businesses in the COVID-19 emergency), to evaluate weaknesses and the negative impact of the pandemic on Italian companies.

The short-term effects of the Covid-19 emergency on all surveyed Italian companies are presented below, followed by the effects on foreign-controlled companies and relative responses.

The survey covered companies with at least 3 employees (about one million), i.e. 23% of Italian companies, accounting for about 90% of national value added and employing about 90% of all employees.

Output data make for very interesting reading: 71.5% of companies suffered a fall in turnover compared to 2019, and for about 40% of firms the drop was higher than 50%; 14.6% of companies saw revenues dry up completely. Turnover rose for only 5.0% of companies.

The impact of the crisis on companies was

extraordinary in terms of intensity and rapidity, causing a serious threat to firms' very survival: 38.8% of Italian enterprises stressed economic and organizational factors that put their survival at risk during the year. The risk of business closure was higher among micro and small enterprises, but was also significant for medium and large companies.

The breakdown of responses – using traditional Istat classifications (companies not belonging to groups; companies in domestic groups under national control; companies in multinational groups under national control; companies in foreign-controlled groups) – showed, on the one hand, significant signs of resilience, conveyed through adaptive strategies, and on the other serious risks to operational stability in important segments of the production system.

For large companies (those with at least 250 employees), the risks to operational stability and sustainability of business activity were more widespread among companies not belonging to groups (28.7%), followed by those belonging to Italian domestic groups (26.5%) and Italian multinational groups (17.5%).

In this scenario, large foreign-controlled companies appear to be much less exposed to this type of risk, even though they gave the risk of closing offices as more probable and immediate than other types of companies.

In terms of liquidity, large foreign-controlled companies were less vulnerable than large Italian companies: a shortage of liquidity was reported by one foreign-controlled company out of six, compared to significantly higher rates for other large companies, especially those belonging to domestic groups.

On the other hand, large foreign-controlled companies predicted a drop in domestic demand in the short term to a greater extent than that of other types of companies.

Data relating to the basic response strategies of large companies show a clear polarization among companies.

Large foreign-controlled companies foresee the implementation of “expansion strategies” (45.8%, compared to 42.3% of multinationals with national control, 38.3% of domestic groups, and 30.6% of large independent companies).

On the other hand, one third of foreign-controlled companies anticipate a shrinking of business (36%, lower only than that of companies in Italian multinational groups).

Two out of three large foreign-controlled companies foresee intense reorganization activities, while just over one in ten report growth opportunities linked specifically to the health emergency.

In sectoral terms, a clear difference emerges between

the industrial sector (excluding construction), in which a high percentage of large foreign-controlled companies foresee a contraction of activity, and the services sector, in which more positive signals are emerging, compared with those reported by other types of companies.

Finally, it is interesting to note that extending the scope of analysis to companies with 20 or more employees makes no substantial difference to the above picture. Among these companies, foreign-controlled firms appear much less vulnerable than other types of firms in terms of short-term operational risks and shortage of liquidity, but significantly exposed to risks relating to a drop in domestic demand. Looking at response strategies, these companies confirmed a high propensity for organizational change and, in general, expansive strategies.

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The paragraph 3.2 has been written by Enrica Accomando and Emanuela Atripaldi, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices.

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