AIBE
Associazione Italiana Banche Estere

FOREIGN BANKS AND FINANCIAL INTERMEDIARIES IN ITALY

THE SUPPORT TO ITALIAN ECONOMY IN 2018

June 2019
In collaboration with

CONSILIA
business management

Highlights

79	Number of foreign banks operating in Italy (end-2018)
29%	Domestic public debt owned by non-residents (end-2018)
68%	Syndicated loans (market share held by foreign bookrunners, 2018)
100%	Securitization (ABS and MBS, market share held by foreign bookrunners, 2018)
51%	Italian project finance market (market share held by foreign intermediaries, 2018)
48%	Financial guarantees to support exports and internationalization of Italian companies (market share held by foreign intermediaries, 2018)
36%	Independent raising in Italian market of private equity and venture capital (market share held by foreign intermediaries, 2018)
20%	Share of incoming cross-border over total turnover of Italian M&A market (2018)

81%	Debt capital markets (market share held by foreign bookrunners, 2018)
82%	Equity capital markets (market share held by foreign bookrunners, 2018)
84%	Share of foreign institutional investors over total number of institutional investors in Italian Stock Exchange, Star Segment (2018)
22%	Share of foreign players in MTA trading (2018)
663	Assets under management by foreign banks and intermediaries (€ billion, end-2018)
26%	Share of foreign banks and intermediaries in Italian leasing market (value of contracts, 2018)
17%	Share of foreign banks and intermediaries in Italian factoring market (annual turnover, 2018)
45%	Share of foreign banks and intermediaries in Italian consumer credit market (cumulative flows, 2018)

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Introduction

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

Since the first edition issued right in the midst of the financial crisis and immediately before the sovereign debt crisis, our Report has featured a collection of original data gathered from several sources and data providers in order to measure the penetration of foreign banks within the Italian economic and financial system.

Economic systems and financial markets continue to be affected by some risk of uncertainty both at the national and at the international level, and that may adversely affect Italy's commitment to improving system performance.

Nevertheless, Italy remains an important target for international financial operators. In the first few months of 2019, following last year's decline, net foreign purchases of Italian public securities were reported. The downsizing of debt and capital markets has not been accompanied by any corresponding decrease in the presence of foreign banks, which continue to play a leading role.

In this edition we have introduced two special areas of focus, the first of which regards export finance. Thanks to some very valuable data gathered by the SACE, we analyzed the support of foreign intermediaries in terms of internationalization strategies of Italian firms. The second regards Brexit, in order to briefly assess the implications and future expectations in a "Brexit scenario". We believe this could be a unique opportunity, not only for the financial hub of Milan but for the whole Italian economy, if all of the institutions involved were to cooperate with a view to developing synergies and activities to attract new businesses emerging in the "post Brexit scenario" and to attract greater numbers of businesses that are currently located in other financial centres to relocate to Milan.

Once again this year I'm thankful to leading members of the Banking Supervision and Foreign Banks Division, Milan offices, of the Bank of Italy who prepared a brief note regarding the main structural data on the presence mode and the role of foreign banks in Italy.

Guido Rosa
AIBE President

Chapter I

The internationalization of the Italian economic and productive system

The last Istat Monthly Report on the Italian economy, released in May 2019, shows that in May, the consumer confidence increased driven by the economic and current component. In the same period, the improvement in business confidence was broad based. The leading indicator continued to decrease although at a decelerating pace with respect to the previous periods, suggesting that Italian economy will continue to stay on a moderating path.

The economic situation shows some mixed signals.

In Q1-2019 GDP increased by 0.1% to the previous quarter driven by final consumption expenditure, gross fixed capital formation and net exports; over the same period, seasonally-adjusted data, compared to the three months earlier, increased for exports (+0.5%) and dropped for imports (-3.4%). Labour market, after the substantial increase recorded in March, in April showed a quite unchanged situation. In May, the inflation decelerated to 0.9% on annual basis, while the gap with the euro area persisted broad based to all the components but the energy.

If we move to an international comparison, first of all we can capture the trend in Foreign Direct Investment.

In 2017, the FDI inflow towards Italy amounted to about $ 17 billion, with a decrease of about $ 5 billion on annual basis, representing 1.2% of the total worldwide and 5.6% of the total referred to EU-28 (Italy was ranked in 6th position). In terms of stock, even if in 2017 we had a jump to $ 413 billion (+19% on annual basis), Italy is ranked 8th among EU-28 countries, with an important gap compared to main European competitors.

If we compare FDI stock over GDP (Fig. 2), Italy still continues to remain in bottom positions in an international comparison: at the end of 2017, this ratio was about 21%, while the average in EU-28 countries is more than double (53%). Moreover, if we measure FDI flow over GDP we have a similar situation, even if we exclude some "outliers" countries (Cyprus, Malta, and Luxembourg).

International rankings show an evaluation of Italian competitiveness and attractiveness quite various.

According to the 2019 A.T. Kearney Foreign Direct Investment Confidence Index, a survey covering 25 countries around the world, Italy jumped from 10th to 8th position, the country highest score since 2002 (when it was 6th). Investors appear unperturbed by recent economic weakness, mainly high debt load, while Italy's political environment is evaluated less volatile than it was a year ago. Even if European Commission is continuously monitoring Italian public finances, it seems that our country's appeal to foreign investors is remained high, mainly thanks to some industrial sectors (i.e., luxury Italian brands in fashion and vehicle manufacturing).

On the other hand, investors are less optimistic about the economic prospects in several major European markets, including most notably UK, Italy, France, and Spain. Italy, in particular, is ranked 23th – out of 25 countries – in the "net economic optimism" indicator, measured by the difference between more optimistic evaluations and more pessimistic ones in terms of country's 3-year economic outlook compared to the last year's survey.

According to the highly renowned world Economic Forum's "The Global Competitiveness Report 2018", which covers 140 economies and measures national competitiveness (defined as the set of institutions, policies and factors that determine the level of productivity), Italy is ranked 31th in the World and 17th in Europe, with a slight improvement compared to 2017.

Yet Italy remains the advanced economy that is growing the least.

Among Italy's strengths, the GCI highlights excellent health conditions, large market size, a top-tier innovation capability, and good infrastructure. On the other hand, the improvement of Italy's competitiveness depends primarily on the modernization of its financial system and public-sector administration.

At the end of 2016, there were 14,616 foreign affiliates based in Italy. With regards to the previous year, the number of multinational enterprises (MNEs) operating in Italy rose by 4.3%, especially in Services.

These enterprises employed 1.3 million people (+4.5% on annual basis), generated a turnover of € 539 billion and a value added of about € 113 billion. The relevance of these enterprises (as a percentage of total business resident in Italy) can be appreciated if we note that they account for about 7.9% of people employed, 18.3% of turnover and 15.1% of value added. The share of R&D expenditures remained very high and equal to about 25.5%.

From end-2015 to end-2016 the number of employees increased by more than 56,000 units.

Foreign affiliates confirm to have a better performance when compared with the domestically controlled firms in terms of profitability and productivity (Fig. 5). Investments and value added per capita almost doubled, while R&D expenditures by MNEs were more than 4 times higher than for domestically-owned companies.

A similar gap can be observed with reference to profitability, measured by value added per capita. Even though the unit labour cost is higher for MNEs when compared to local firms, ISTAT's data suggests that their profitability is better than that of domestically-owned companies. Indeed, for 2016, the ratio of unit value added to unit labour cost was about 172% for foreign MNEs, and only 127% for Italian firms.

While the USA is the most represented country (2,429 MNEs, more than 286,000 employees, and 21% of total revenues), the European Union is the leading area in terms of origin of foreign investments. 7 of the EU-28 countries are included in the "top ten" ranking by country of origin. They account for about 7,500 MNEs (51% of the total) and about 671,000 employees (51% of the total). In terms of sales, the weight of these 7 European countries is 48% of the total.

The average size of MNES is much higher than that of domestically-owned companies (90 employees versus 4); the differences are significant in both Industry and Services.

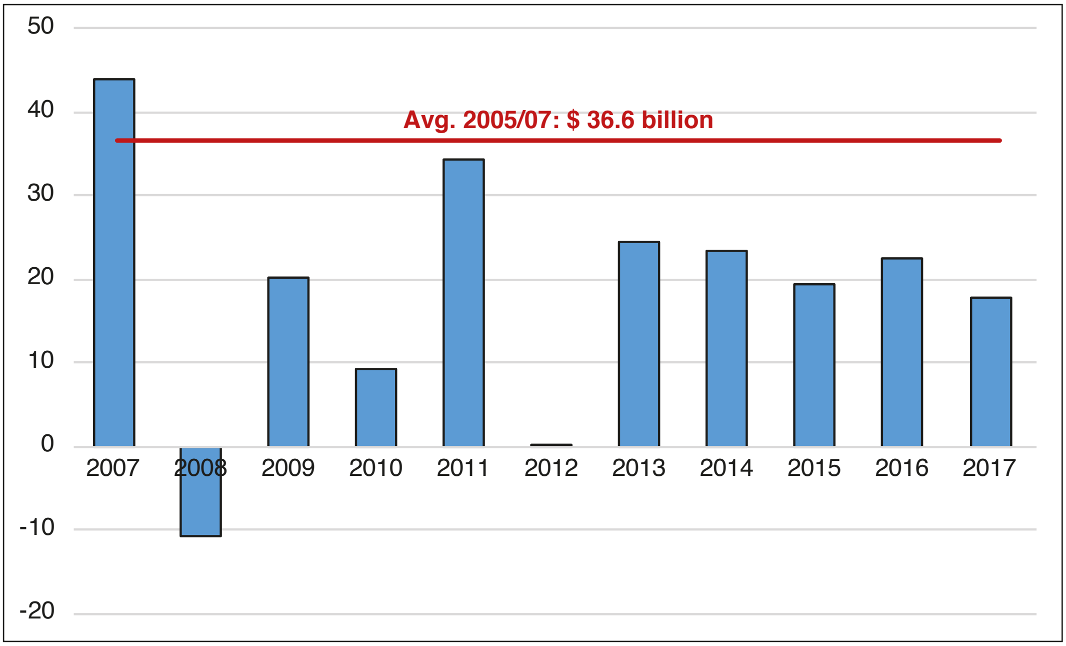


Fig. 1 *Italy's annual FDI inflow ($ billion) – Source: Own elaboration of OECD data*

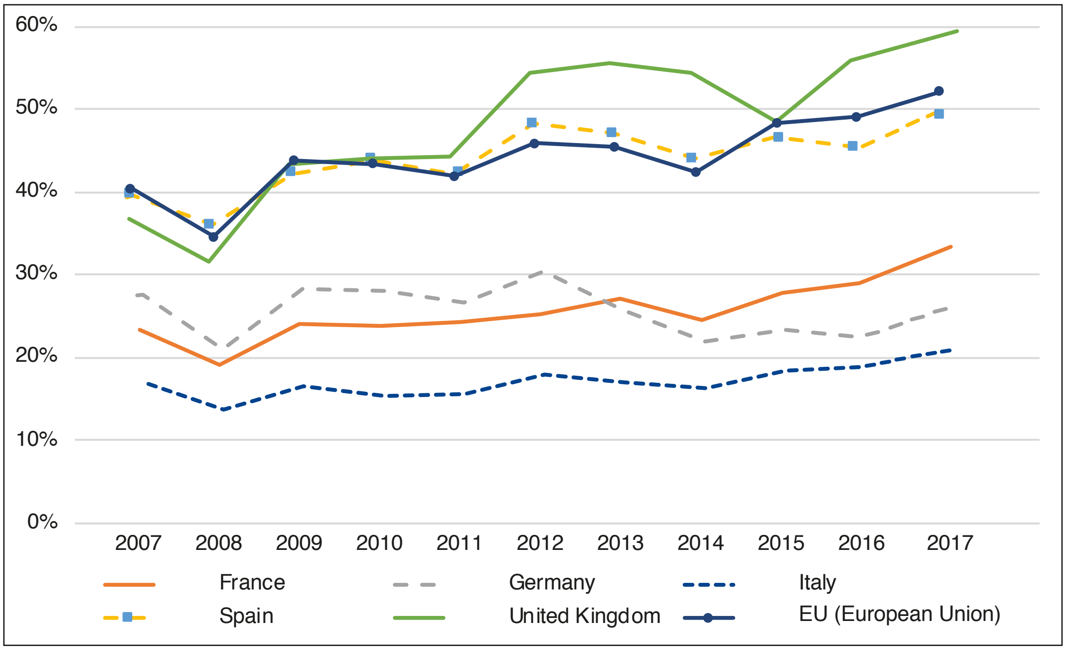


Fig. 2 *Inward FDI stock (% of GDP, year-end data) – Source: Own elaboration of OECD data*

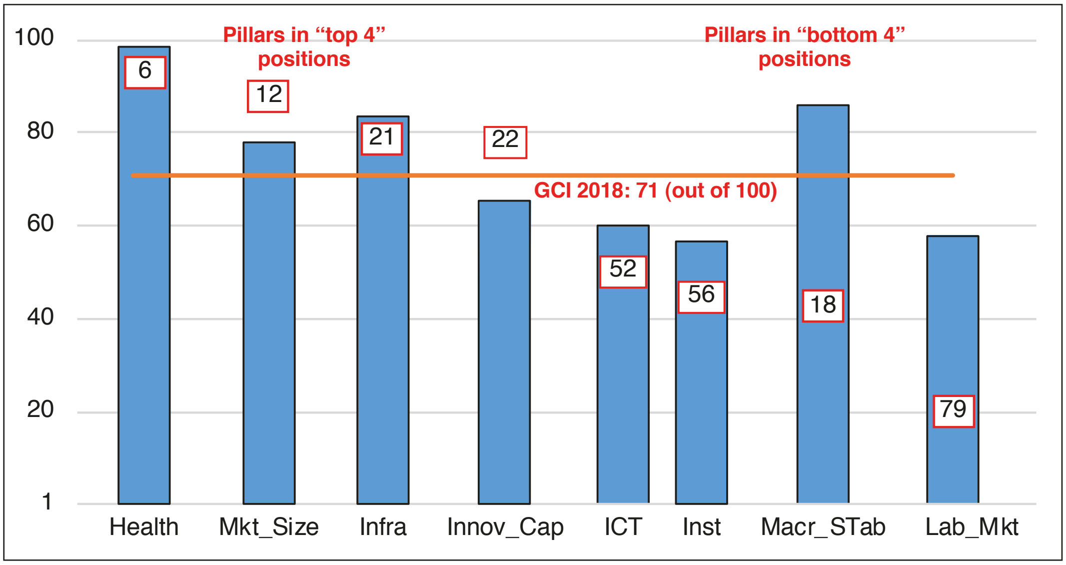


Fig. 3 *Italy's Global Competitiveness Index (main individual scores, 1=min to 100=max) – Source: Own elaboration of the World Economic Forum, The Global Competitiveness Report 2018*

Note *Infra = Infrastructure; Mkt_Size = Market size; Infra = Infrastructure; Innov_Cap = Innovation capability; Inst = Institutions; Macr_Stab = Macroeconomic Stability; Lab_Mkt = Labour Market Efficiency. In labels with red border: per each item, the Italy's position in the world ranking (out of 140 countries).*

	2010		2015		2016	
	Number	**%**	**Number**	**%**	**Number**	**%**
Number of foreign-controlled firms	**13,741**	**100**	**14,007**	**100**	**14,616**	**100**
Industry	3,716	27.0	4,032	28.8	4,166	28.5
Services	10,025	73.0	9,975	71.2	10,450	71.5
of which: financial and insurance activities	*541*	*3.9*	*562*	*4.0*	*589*	*4.0*
Number of employees	**1,184,539**	**100**	**1,257,209**	**100**	**1,313,525**	**100**
Industry	448,733	37.9	450,023	35.8	462,564	35.2
Services	735,806	62.1	807,186	64.2	850,961	64.8
of which: financial and insurance activities	*65,490*	*5.5*	*64,145*	*5.1*	*63,680*	*4.8*
Turnover	**468,046**	**100**	**529,574**	**100**	**539,216**	**100**
Industry	193,688	41.4	223,325	42.2	220,184	40.8
Services	65,358	58.6	306,249	57.8	319,032	59.2
Value added	**93,482**	**100**	**104,093**	**100**	**113,190**	**100**
Industry	40,465	43.3	43,596	41.9	45,537	40.2
Services	53,017	56.7	60,497	58.1	67,653	59.8

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

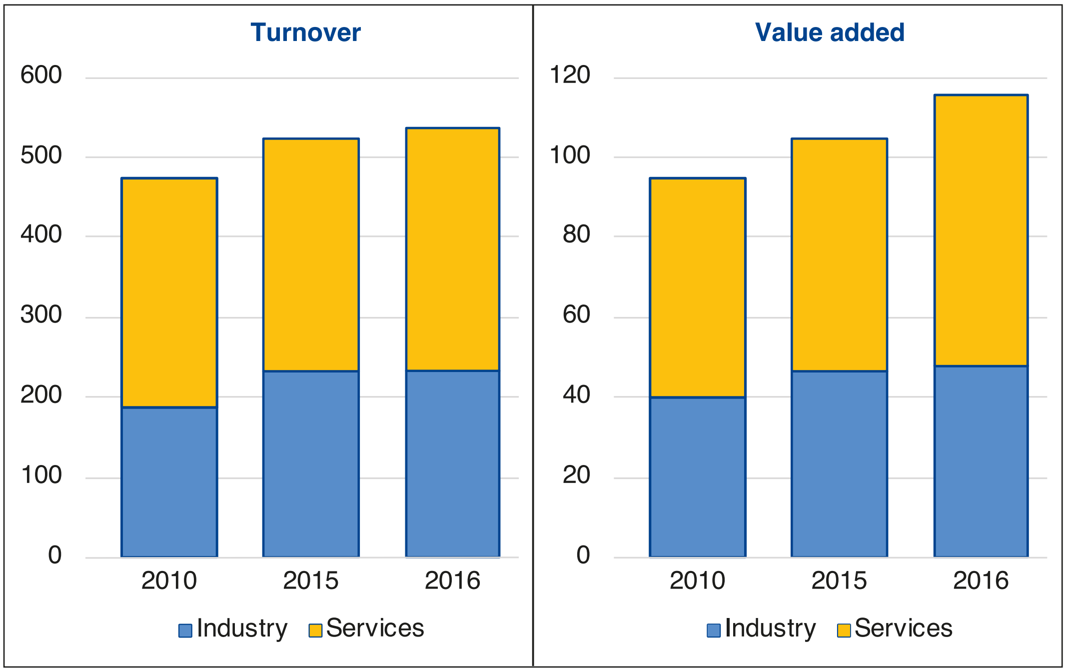


Fig. 4 *Turnover and Value added of MNEs in Italy (€ billion) –*
Source: Own elaboration of Istat data

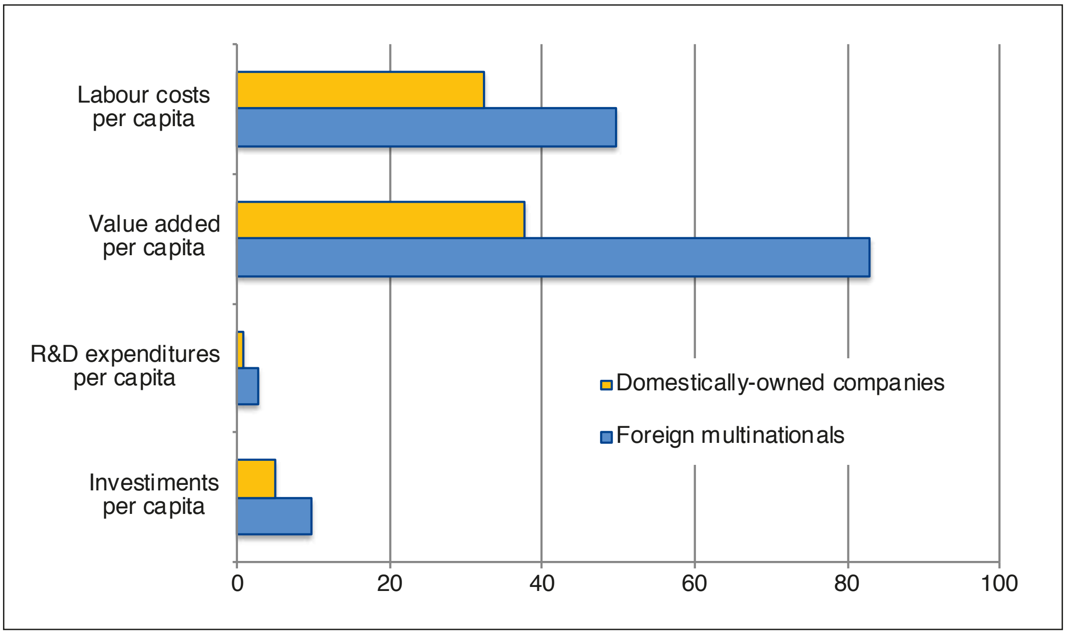


Fig. 5 *Domestically-owned firms and foreign multinational firms in Italy: comparison of performance data (amounts in € thousands, 2016) –*
Source: Own elaboration of ISTAT data

Chapter 2

Italian public debt and sovereign risk

At the end of 2018, according to Bank of Italy's Statistical Database (BDS), the Italian gross public debt was equal to € 2,322 billion, with a growth of 2.3% compared to end-2017. The portion of debt represented by Italian Government securities is about 85% of the total debt (similar to the previous year); the amount of gross debt held by non-resident investors was € 682 billion, i.e. 29% of the total. The annual change was –6.9%. A similar change characterized the amount of public securities held by foreign investors: during last year the stock went down from € 681 to € 630 billion, with a negative change of about € 51 billion (–7.5%).

Fig. 6 highlights the recent trends in the main variables related to public debt and composition and shares held by non-residents. As represented in Fig. 6, the negative trend related to the portion of public debt and Government securities held by non-resident investors is quite evident since 2015: in the last three years the share of debt held by non-residents went down from 34.1% to 29.4%, while the stock held by foreign investors in public securities decreased by about 6 percentage points, from 38.1% to 32.1%. The net amount of securities divested was about € 65 billion.

With regards to Italy's financial account, the Bank of Italy points out that in 2018 foreign investors made net sales of Italian financial securities for a value of about € 75.8 billion, of which € 51 – as mentioned – related to public securities. According to Bank of Italy Annual Report on 2018, in last year foreign investors have reduced stock invested in Italian securities, in particular between May and August, as a consequence of some episodes of instability on Italian financial market. They have also reduced their exposures to bonds issued by Italian private issuers (for € 16.9 billion), especially in the banking sector.

In the first part of 2019, from January to March, financial tensions have diminished due to the agreement reached between Italy and the European Commission on public finance budgeting, the easing of monetary conditions in the Euro Area, as well as the improvement of global financial market conditions. In particular, according to the most recent data available in the BDS, at the end of February the stock of public securities held by non-residents was about € 645.5 billion, with a net increase of about € 15.6 billion compared to end-December data.

In March, net investments in Italian securities from abroad amounted to € 3.2 billion, of which € 1.2 billion referred to public debt securities (Bank of Italy, Balance of Payments and International Investment Position – March 2019, 21st May).

Following the European elections and the political uncertainties, international analysts are quite careful about next months' trend: the last month showed an upward trend in the BTP/bund spread (285 basis points at the end of May) and the volatility is expected to increase in the short-term.

As remarked by Ignazio Visco, Bank of Italy's Governor, the "country risk" is strictly related to economic growth and, in particular, Italy has to counter the risk of a further widening of the gap between the cost of the debt and the GDP growth rate. Careful budgetary control and solid prospects of higher economic growth rates can restore the confidence in the Government securities and bring yields close to those of other Euro Area countries (Bank of Italy's Annual Report for 2018, Governor's Concluding Remarks, Rome, 2019, 31st May).

Banks for International Settlements (BIS) collects statistics on international banking, based on a sample of 25 reporting countries. In 2018, Italian external debt showed a slight increase, from $ 650 to $ 657 billion (+1% YoY): the growth is mainly due to the increase of claims due by non-bank private sector. As represented in Fig. 7, the highest share of the external debt is held by European banks, representing 87% of the total: this debt increased by almost $ 11 billion (+1.9% YoY).

France, Spain and Germany are the main holders of external public debt (Tab. 3): these countries hold about $ 147 billion of Italian external public debt, representing 69% of the total. Japan and the USA are the leading non-European investors, with a market share of about 10% and 8% respectively.

In past 3 years the most significant change has been in Spain's position, with an increase of claims related to Italian external debt from $ 31.3 to $ 45.9 billion.

With regards to external private debt, the European banks confirm to have the largest market share. They hold about 75% of total banking sector external debt and about 85% of total non-bank private sector external debt. The 3y-trends are quite different. From 2015 to 2018, total banking sector external debt decreased by about $ 20.5 billion, of which $ 18.3 referred to European banks; on the contrary, foreign claims by the non-bank private sector went up from $ 311 to 365 billion: the highest increase was related to European banks (+ $ 46 billion over the period 2015/18 and + $ 12.2 billion in the last year).

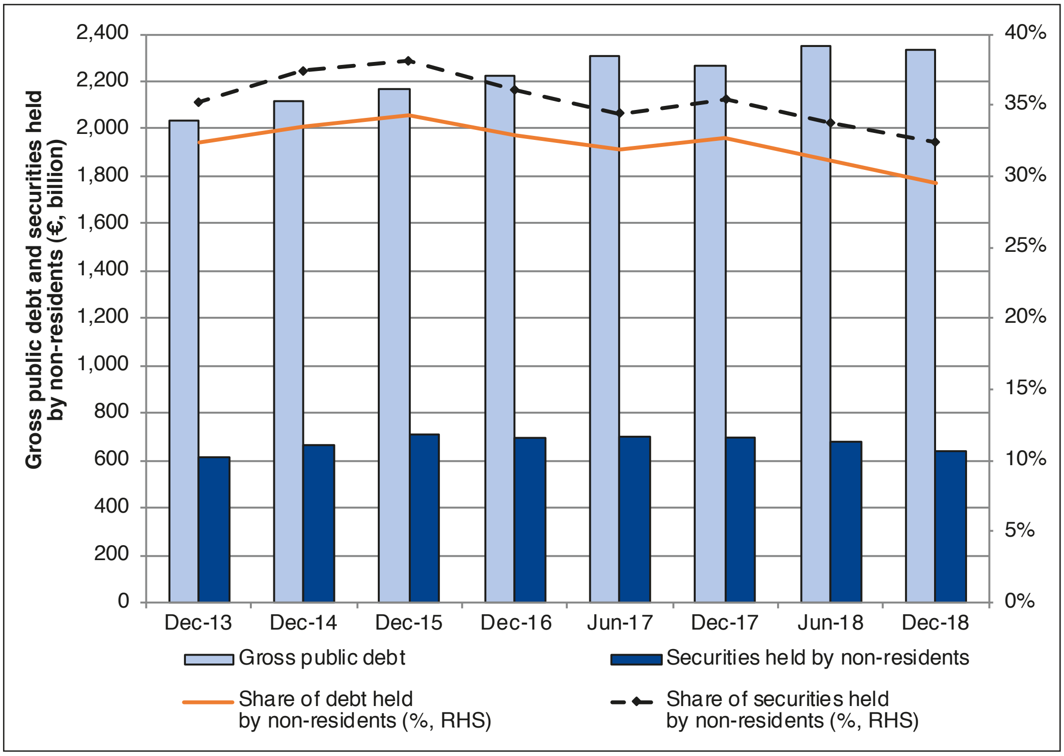
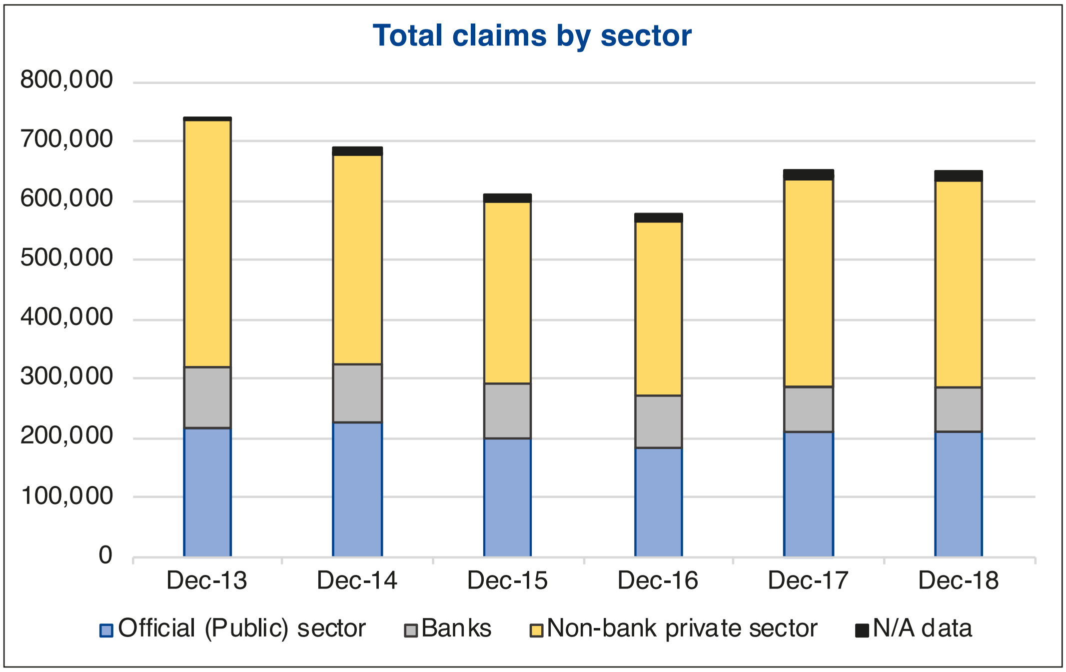


Fig. 6 *Recent trend of Italian public debt and shares held by non-residents (amounts in € billion, % on the right-hand scale, RHS) –*
Source: Own elaboration of Bank of Italy, Statistical Database (BDS)



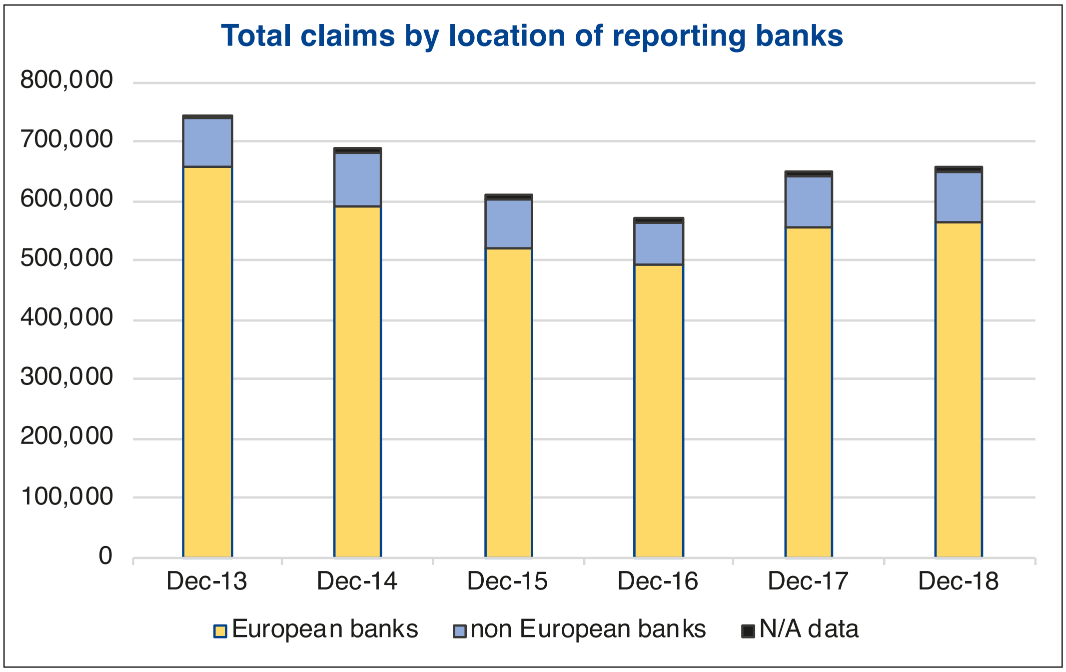


Fig. 7 Public and private debt to foreign countries ($ million, year-end data) – Source: Own elaboration of BIS, Consolidated Banking Statistics

Countries	Dec-15		Dec-16		Dec-17		Dec-18	
	Value	%	Value	%	Value	%	Value	%
France	57,665	28.7	56,259	30.3	63,008	29.6	63,119	29.5
Spain	31,340	15.6	36,358	19.7	44,949	21.1	45,886	21.5
Germany	36,555	18.2	34,063	18.4	38,866	18.3	37,545	17.6
Japan	22,089	11.0	21,013	11.3	21,262	10.0	21,523	10.1
United States	16,239	8.1	12,498	6.7	20,258	9.5	17,538	8.2
Switzerland	7,244	3.6	5,851	3.2	5,426	2.6	5,358	2.5
United Kingdom	4,225	2.1	-496	-0.3	-123	-0.1	5,198	2.4
Belgium	7,094	3.5	7,326	3.9	5,762	2.7	3,380	1.6
Greece	109	0.1	131	0.1	766	0.4	2,153	1.0
Austria	2,354	1.2	1,891	1.0	1,284	0.6	1,567	0.7
Other countries	15,751	7.8	10,427	5.6	11,115	5.2	10,484	4.9
Total	**200,667**	**100**	**185,501**	**100**	**212,572**	**100**	**213,752**	**100**

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

External private debt	Dec-15	Dec-16	Dec-17	Dec-18
European banks	68,787	55,833	49,833	50,516
Non-European banks	15,559	14,084	15,285	13,667
N/A data	3,262	3,552	2,504	2,873
Total banking sector	**87,608**	**73,469**	**67,522**	**67,055**
European banks	265,385	257,361	299,190	311,411
Non-European banks	25,632	22,185	29,978	27,961
N/A data	20,154	21,824	26,661	25,466
Total non-bank private sector	**311,170**	**301,370**	**355,830**	**364,837**

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

Chapter 3

Some structural data on foreign banks in Italy

3.1 The trend in foreign banks and branches

According to the Bank of Italy's Statistical Database, at the end of 2018 in Italy there were 100 banks included in 58 banking groups, 327 banks not included in banking groups and 79 branches of foreign banks, one of which is included in banking groups. Compared to the previous year, the balance of foreign banks is unchanged. In 2018 we had a net inflow of one German bank and a net outflow of one Japanese bank. Other changes relate to bank name changes as a result of merger & acquisition deals within international groups. In particular, these changes involved a Swiss bank, a US institution and a primary Japanese banking and financial group.

As summarized in Tab. 4, the total number of banks operating in Italy and the total number of branches decreased significantly in the last decade. In particular, the total number of banks went down from 799 to 505 (–37%). A similar trend regards the number of branches, which decreased to 25,404 units (–26%). The number of foreign banks remained almost stable in recent years, while the number of branches (physical branches) has decreased significantly since 2013.

As a consequence of these changes, as at December 2018 non-resident banks represent 15.6% of the total (Fig. 8) and account for about 0.6% in terms of total number of branches.

According to the Bank of Italy's Statistical Database (BDS), as at the end of 2018, 63 out of 79 foreign banks were located in Lombardy, all of them in the Metropolitan City of Milan, with a total of 70 branches, almost the 40% of the total foreign banks' branches located in Italy.

Year	Banks and branch networks in Italy					
	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
2008	799	34,139	82	225	10.3	0.7
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

Tab. 4 *The branch networks of domestic and foreign banks in Italy (2008/18, end-year data) – Source: Own elaboration of Bank of Italy, Statistical Database (BDS)*

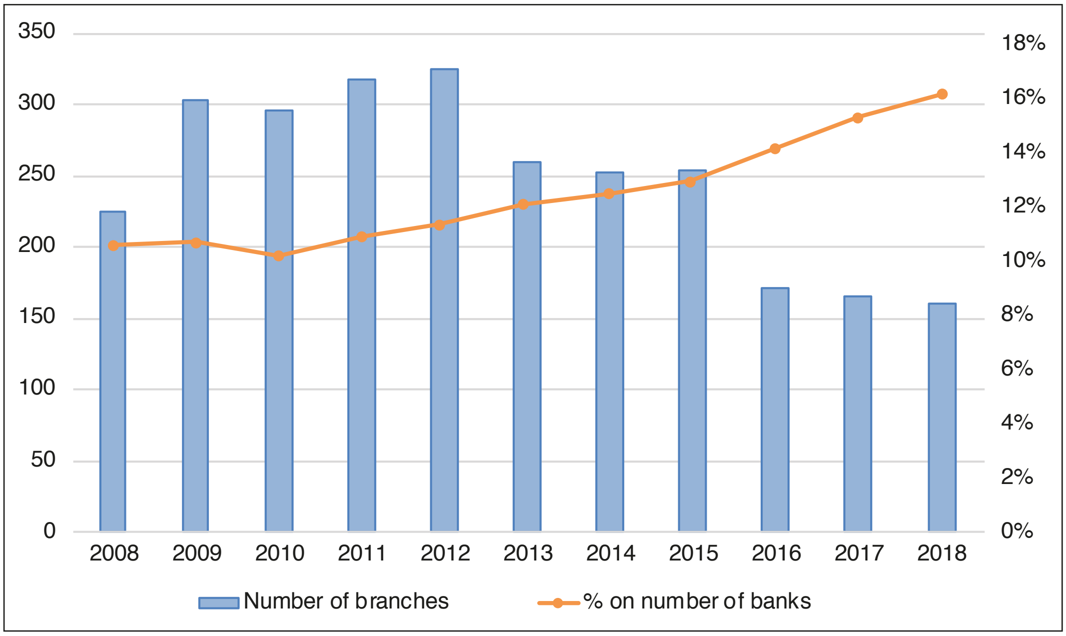


Fig. 8 *Recent trend in the number of foreign bank branches in Italy (2008/18, end-year data) – Source: Own elaboration of Bank of Italy, Statistical Database (BDS)*

3.2 The analysis of EU foreign banks operating in Italy[1]

At the end of 2018, the number of EU foreign branches was 74, compared to the corresponding period of 2017 and to the average over the last 5 years (they were 73 at the end of 2014). At the same date, loans to customers increased by about 2% YoY, as well the number of employees (2.7%), while the decline in the branch network continued (–3.2%).

Foreign banks branches are mainly located in Northern Italy (79% of the branches); in particular 59% of the branches are located in the North West, especially in Milan and its province; Central Italian regions are runners-up (17%), while the remainder are located in the South of Italy and the Islands (4%).

The average amount of total assets is equal to € 3.2 million; about 67% has less than 50 employees, while the average of number of branch networks is decreasing and equal to 2.1.

As regards operational specialization, foreign branches are mainly active in corporate and investment banking; leasing, both to retail customers and in the form of vendor finance, wealth management and retail, as well as custodial activity, follow. Only one branch is involved in money transfer activities.

Net loans to customers amount to approximately 37% of the branches' assets; they are "good quality" loans, with the proportion of non-performing loans amounting to around 4% of the total loans due to the type of customers, namely mainly large corporations with a excellent credit ratings. It is also worth noting that loans to retail customers account for about one third of the total, while corporations have a weight of about a quarter. The remaining are loans to factoring companies, mutual funds, leasing companies, producer families and consumer credit, as well as other operators involved in the functioning of financial markets.

The slight increase in loans recorded in 2018 is mainly attributable to loans to mutual funds, producer families and consumer credit. Exposure to operators involved in the functioning of financial markets continues to decline (–65%), while the exposure towards other economic sectors were substantially stable, with the exception of those relating to private holding companies (–17%). Mortgages represent around 24% of total loans.

With regard to the securities' portfolio, after the downturn recorded in 2017, in 2018 the total amount once again increased (+24.5%) due to the reprise in Government securities, against the decline in the other components of the portfolio.

With reference to the geographical origin of the parent company (see Fig. 11), we observe a prevalence of foreign branches from France (26% of the total), followed by Germany (20%), the United Kingdom (16%) and Luxembourg (12%). The other EU countries have a far lower incidence. The changes compared to 2017 partly reflect an initial relocation of British branches in Germany in preparation for "Brexit" (they were 20% at the end of 2017).

Fig. 12 shows the details of branches belonging to groups of non-European origin, which represent 43% of the total. They are mainly US, Swiss and Asian group subsidiaries.

In several cases, the presence of an EU subsidiary is additional or alternative to the "Freedom to Provide Services" by the parent company or by another European group. Fig. 13 summarizes the geographical origin of the banks operating in Italy under the FPS regime.

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1 The paragraph has been written by Gabriella Guccione, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices. The views expressed are those of the Author and do not necessarily reflect those of Bank of Italy.

2 The comparison was reported on a "like-for-like basis" and referred to active banks at the end of 2018.

3 It is important to note that, as a rule, the operations of the EU branches in Italy are not fully accounted for in our country and, therefore, the Supervisory Reports are also not an entirely exhaustive representation of their business activities as a whole.

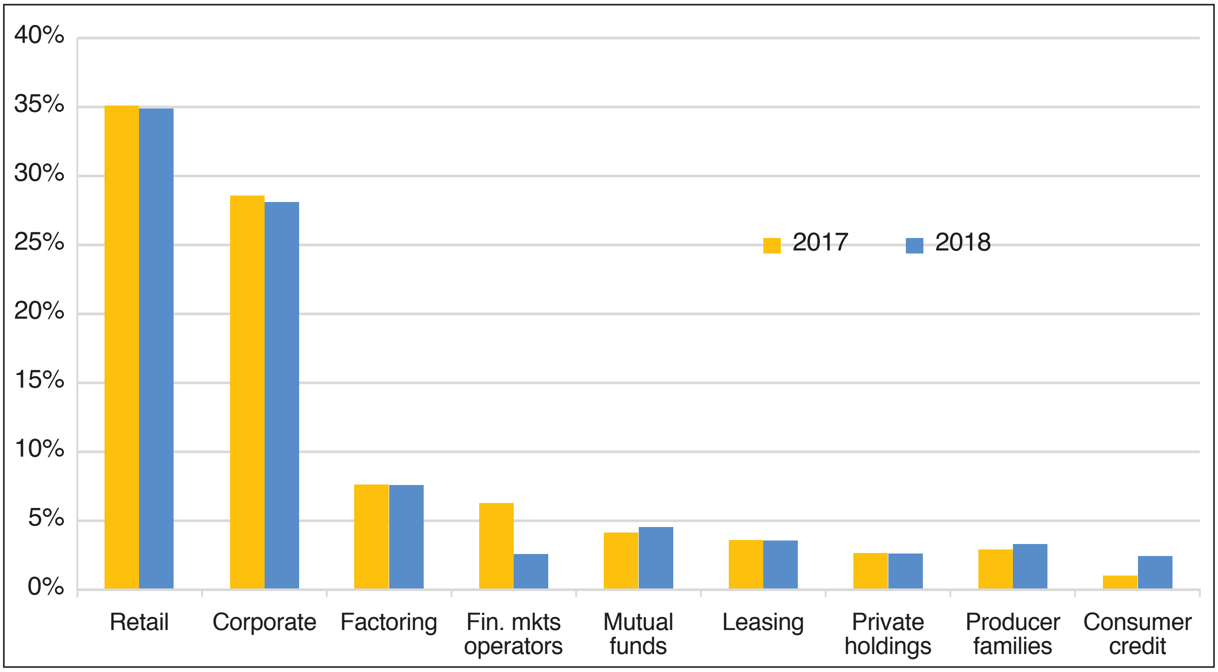

Fig. 9 *Loans distribution by economic sector (2018, %) –*
Source: Source: Authors' elaboration on Supervisory Reports

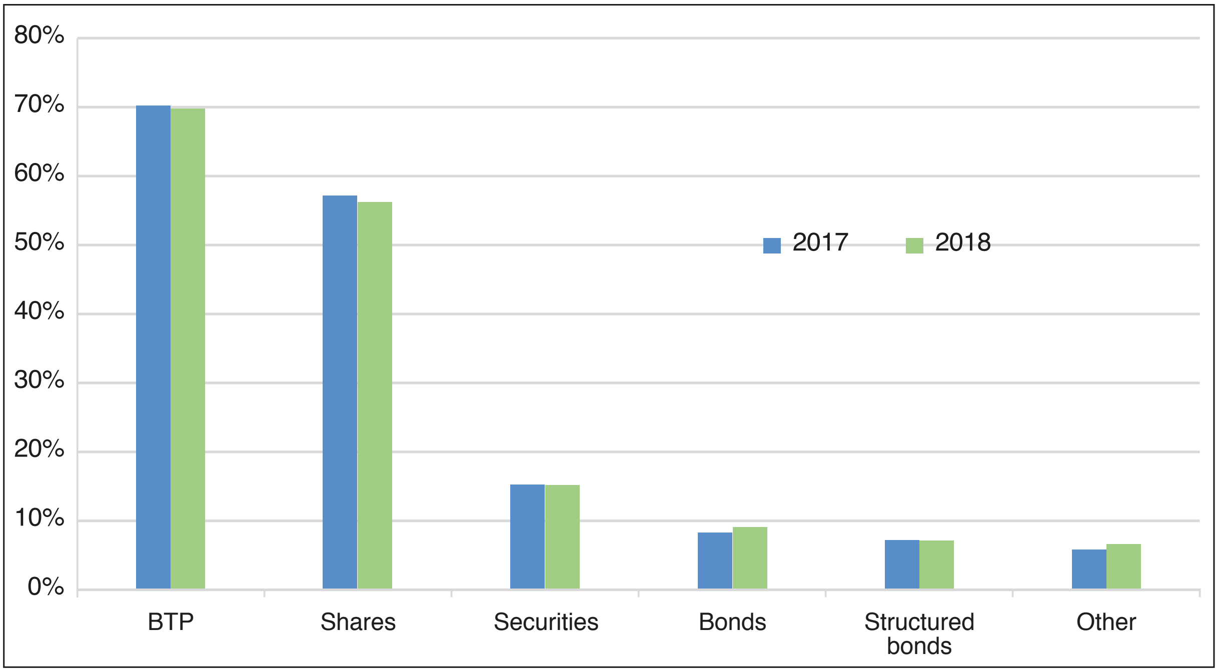

Fig. 10 *Breakdown of securities in portfolio (2018, %) –*
Source: Authors' elaboration on Supervisory Reports

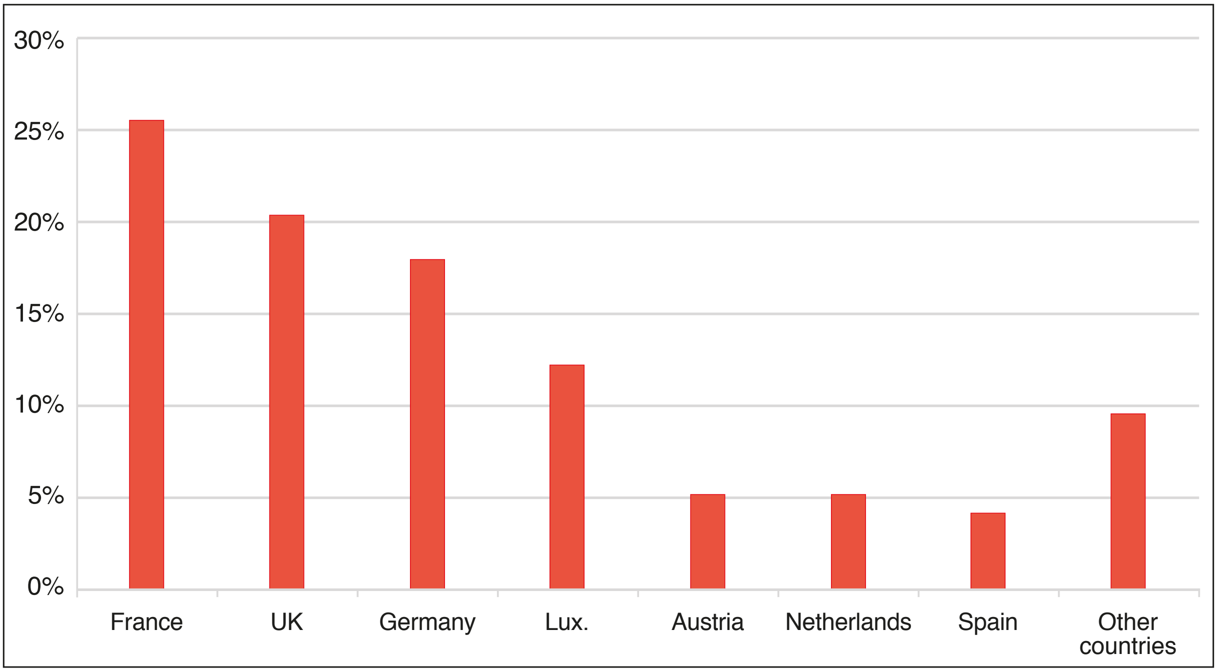

Fig. 11 *Foreign banks by headquarters/home country (2018) – Source: Authors' elaboration on Supervisory Reports*

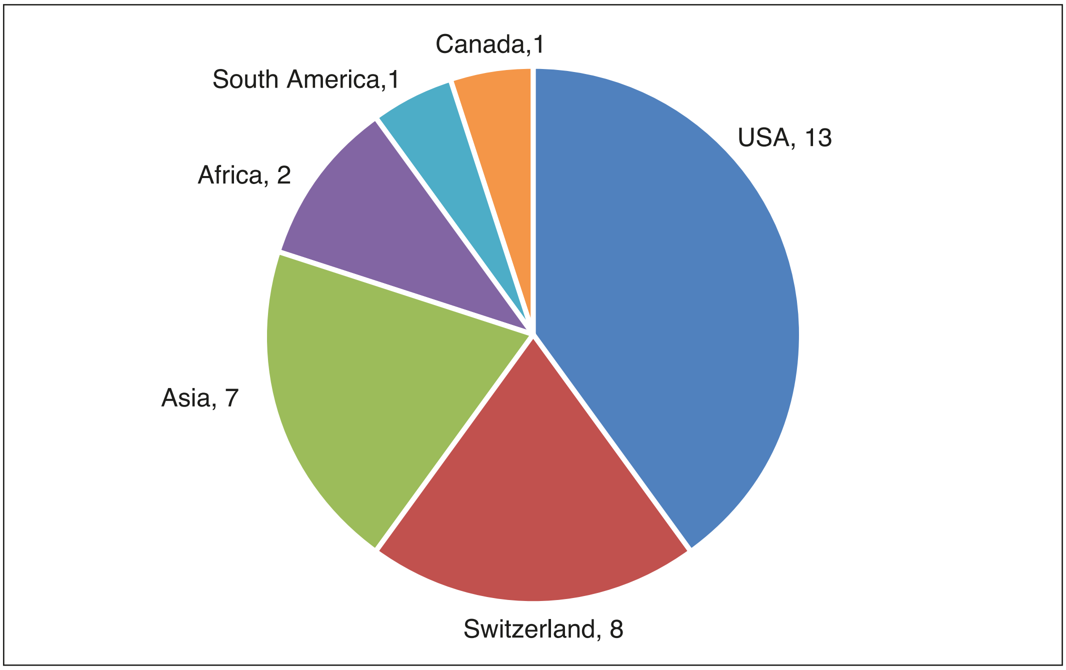

Fig. 12 *Number of foreign banks part of non-EU banking groups (2018) – Source: Authors' elaboration on Supervisory Reports*

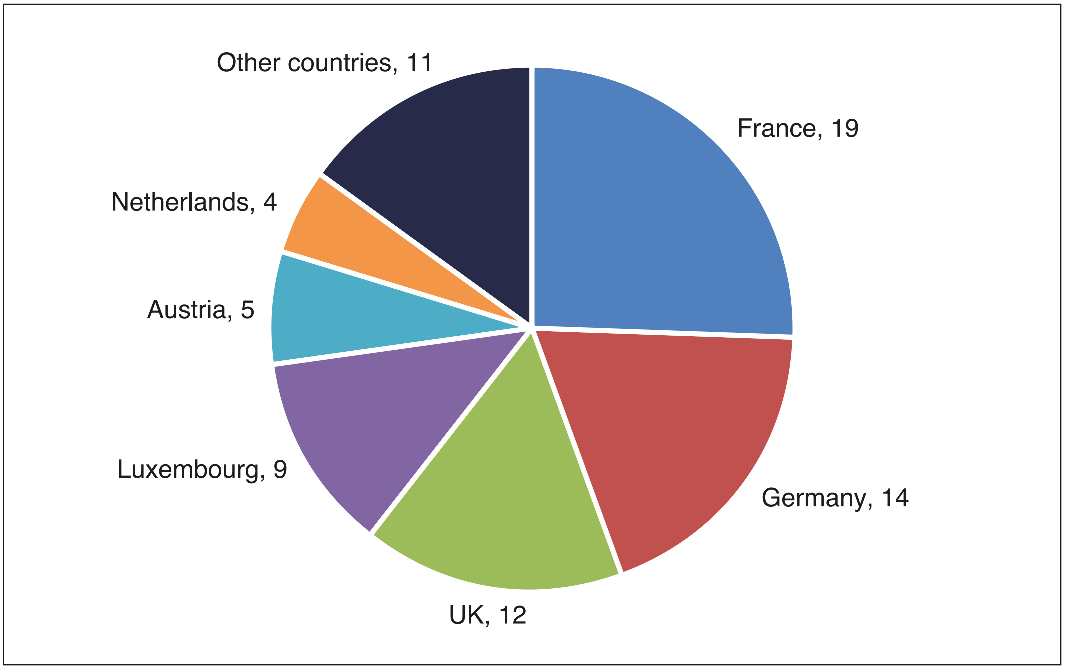

Fig. 13 Geographical distribution of foreign banks with FPS (2018, number of branches) – Sources: Authors' elaboration on Supervisory Reports

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.

Foreign banks hold a very significant market share, because of the quality of financial services provided and the long-lasting experience in the Corporate and Investment Banking sector.

4.1 Structured finance

4.1.1 Syndicated loans

In 2018, the Italian syndicated loans market decreased by about € 2.8 billion (–4% YoY), from € 69.7 to € 66.9 billion (Fig. 14). For the third time in the last decade the market size returned to pre-crisis' level. Foreign bookrunners hold a market share of about 68%, 11 percentage points less than previous year, as solely bookrunners (6%) or in international pools of lenders with Italian banks (62%). Over the past decade, the average size of the market share held by foreign bookrunners was 64%. 2018's issuances were split into 330 tranches (+13 YoY), relating to 154 deals. The average tranche size was about € 203 million, down on the previous year (€ 220 million).

As expected, the biggest tranches are assisted by pools with local and foreign bookrunners: on average, these tranches (€ 41.8 billion) amount to about € 418 million each. Solely foreign bookrunners were involved in about € 4 billion of issuances, with an average size of € 182 million, almost double that of tranches assisted only by Italian intermediaries.

Foreign bookrunners mainly supported Italian firms operating in TLC, Transportation and Auto/Truck (Fig. 15). These three leading sectors concentrate € 23 billion of 2018's issuances, representing 50% of the total deal value linked to foreign bookrunners, and almost 35% of the entire market size. If we extend the analysis to the top 7 sectors (TLC, Transportation, Auto/Truck, Healthcare, Metal & Steel, Aerospace and Insurance), the related concentration index goes up to 75%, equal to about 51% of the entire market size. In all of these 7 sectors, foreign players hold the majority of deal value issued per sector. In particular, in the Auto/Truck and Aerospace sectors the number of tranches issued was equal to 7, all of which assisted by at least one foreign bookrunner.

In terms of original maturity period, the average tranches' maturity is about 6 years and 10 months (about 7 months higher than 2017), within a range from 6 months to 18 years. Maturities are very widespread and not correlated with tranche size. About the 50% of the whole market size

(€ 32.9 billion) is composed of tranches with original maturity from 3 to 5 years; only 2% of issuances is short-term debt (maturity up to one year), while issuances with maturity higher than 10 years only make up 5% of the total.

Foreign bookrunners operate in all maturities' classes. They assisted issuances for about € 24.2 billion relating to tranches with an original maturity period from 3 to 5 years (53% of the total market value assisted by foreign intermediaries), and € 10.6 billion (23%) with a 5-10 year maturity period.

The majority of issuances are rated as "Investment Grade" (65% of total deal value). Solely foreign bookrunners mainly assisted "Investment Grade" issuances (87%), while if we consider international pools of lenders (Italian bookrunners and foreign intermediaries) their market share in "Investment Grade" issuances decreased to 52%. 88% of issuances rated "Leveraged Grade" involved at least one foreign intermediary.

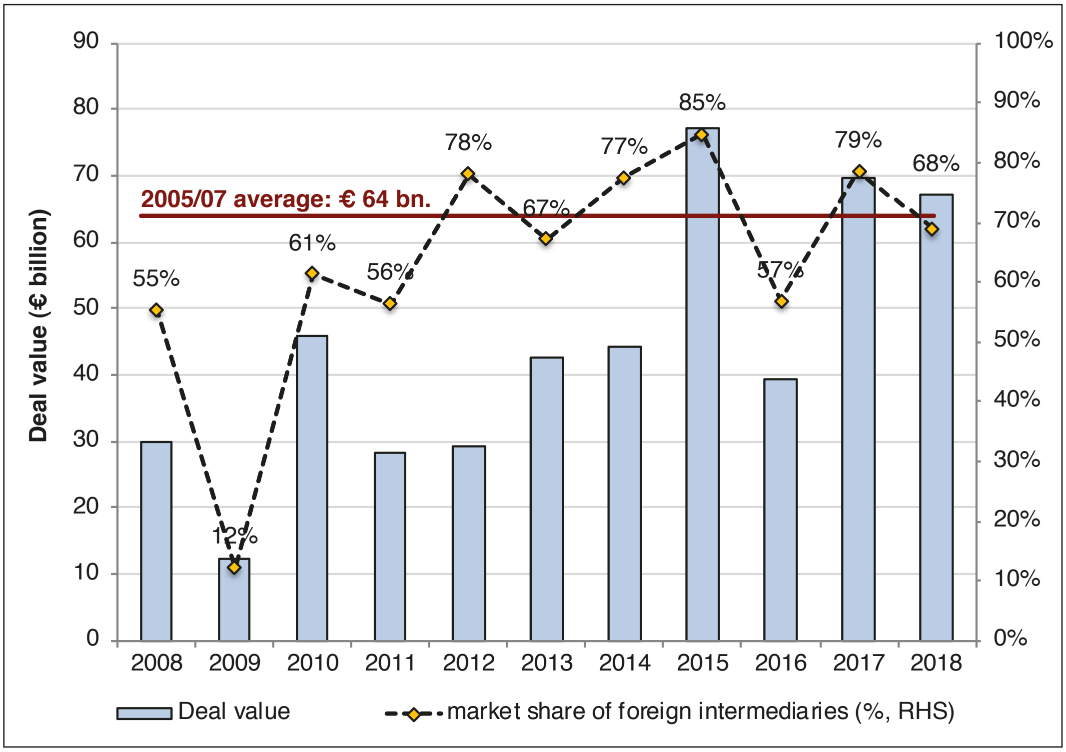

Fig. 14 Annual deal value of syndicated loans and share of foreign intermediaries (2008/18, € billion and %) –
Source: Own elaboration of Dealogic database

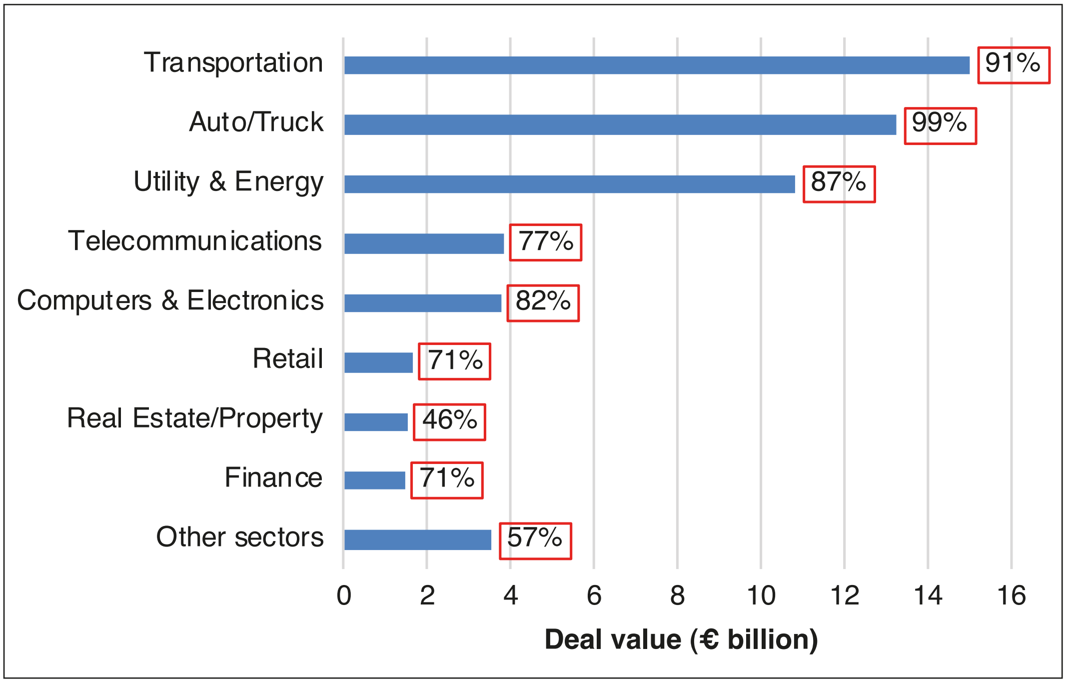

Fig. 15 *Deal value of syndicated loans and market share of foreign bookrunners by industrial sectors (2018, first 7 sectors, data in € billion and %) – Source: Own elaboration of Dealogic database*

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 confirmed in previous reports, in recent years the Italian securitization market showed extreme volatility, both in terms of number of deals and market size. This market suffered a severe slump immediately after the financial crisis from 2008 to 2013. Since 2014, market size has increased, with the exception of 2017. According to Dealogic, last year showed a relevant reprise in total market value, which reached the total amount of € 6.1 billion, of which € 5.4 billion related to ABS deals and € 574 million to MBS deals. However, the operations still remained few in number, showing a high concentration in a limited number of deals and tranches. In particular, we had 8 ABS deals divided into 30 tranches, and 2 MBS deals divided in 12 tranches.

The average size of deals is about € 614 million, while the average face value of tranches is close to € 146 million. Both values are slightly lower than the respective 2017 figures. The average size of ABS tranches is almost three times higher than the average size of MBS tranches.

All ABS and MBS issuances have long-term original maturities, from a minimum of 10 years to a maximum of 42 years.

With regards to last issuances, in 2018 the market share held by foreign bookrunners remained very high. In particular, solely foreign bookrunners assisted in issuances amounting to around € 2.1 billion (34% of the market size), while international pools including both foreign and Italian bookrunners assisted in issuances for about € 4 billion, making up the remainder of the market with a market share of 66%.

As a consequence, it means that all deals and all issuances involved at least one foreign bookrunner.

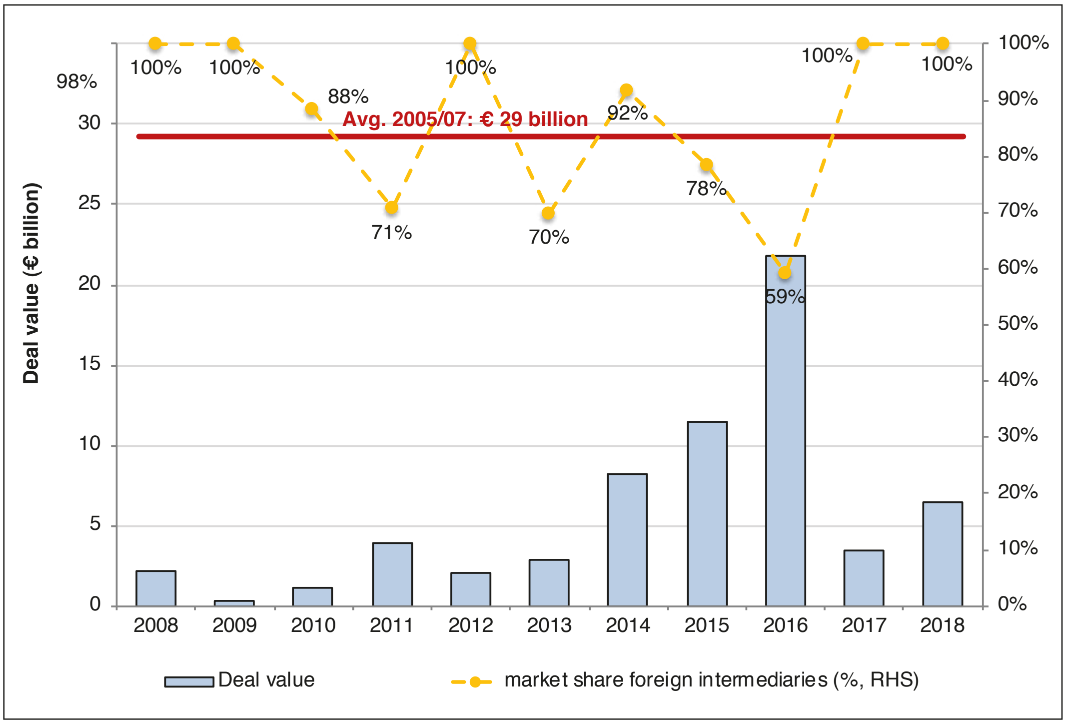

Fig. 16 Annual deal value of ABS and MBS deals and share of foreign intermediaries (€ billion and %, 2008/18) –
Source: Own elaboration of Dealogic database

4.1.3 Project Finance

This section deals with the Italian project finance market.

Once again this year, we collected data using the public source of Thomson Reuters PFI data and their league tables; however, it should be noted that that sometimes "normal" lending is also classified as "project finance". As a result, this may have led to an over-estimation of the Italian project finance market.

According to these elaborations, in 2018, 44 deals (as compared to 31 in 2017) were completed on the Italian market by Italian companies, divided into 166 tranches, almost double compared to the previous year. The total deal value amounted to about € 12 billion, with an increase of about € 8.9 billion on annual basis, reaching a new record high (Fig. 17), mainly thanks to some "mega deals", such as the Open Fibre broadband deal (€ 3.2 billion) and the TAP gas pipeline scheme (€ 2 billion).

This growth also had a positive impact both on the average tranche size, which increased sharply from € 36.9 million to € 72.2 million, and the average deal value, which more than doubled from € 100 million to € 272.4 million.

The data confirmed the importance of the contribution of foreign players: the market share held by foreign banks was equal to 47% by volume and 51% by value, stable and constant when compared to the previous year. In the past three years their market share was, on average, equivalent to almost half of the total deal value. France, Spain and the Netherlands are the leading countries in terms of geographical origin of foreign players, representing about 94% of total value relating to foreign operators.

In addition, last year's statistics once again confirmed that the average tranche size of operations assisted by foreign banks is much higher than operations involving domestic players: the gap is equal to € 12.4 million.

In the league tables ranked by tranche size, in the "top ten" ranking we may highlight the presence of 5 foreign players (as compared to 6 in 2017), which includes 4 French banks and one German intermediary. They hold a market share equal to 30% of the total market value (49% in 2017), and about 40% of the total deal value relative to the top 10 intermediaries (54% in 2017). Moreover, these top 5 foreign players concentrate about the 58% of the tranche value assisted by non-residents banks.

Despite last year's growth, the Italian project finance market is still characterized by structural limits linked not only to the macroeconomic scenario, but also to domestic regulation. As a result, we may also observe a limited market-sector diversification.

As shown in Fig. 18, the majority of loans were granted to companies operating in the Energy and TLC sectors. These two leading sectors represent about 74% of the total activity of foreign banks (€ 4.6 out of € 6.1 billion). On the contrary, in the Infrastructure sector the market share of domestic banks is higher than that of non-resident intermediaries.

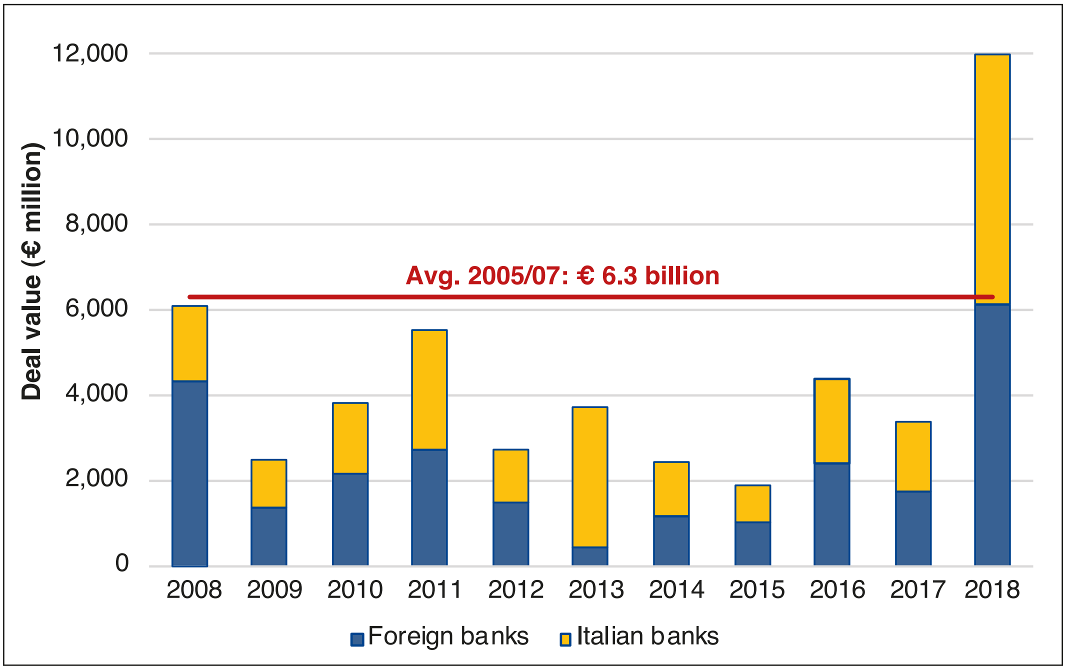

Fig. 17 *Project finance in Italy: market share held by Italian and foreign intermediaries (by deal value, € million, 2008/18) –*
Source: Own elaboration of Thomson Reuters-PFI data

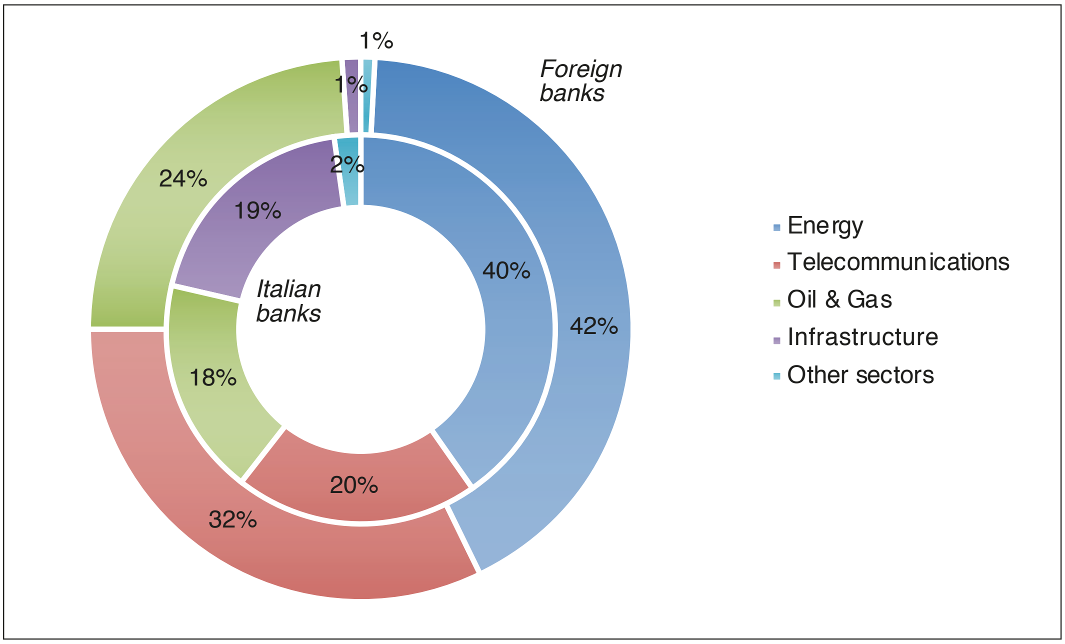

Fig. 18 *Project finance in Italy: loans breakdown by borrower's sector and by financial intermediaries' geographical origin (tranches issued in 2018, %) –*
Source: Own elaboration of Thomson Reuters-PFI data

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 for the report was provided by SACE, an institution 100%-owned by Cassa Depositi e Prestiti (CDP), which offers export credit services, credit insurance, protection of foreign investments, financial guarantees, bonding, and factoring services. With € 72 billion in transactions insured in 198 countries, it supports the competitiveness of companies in Italy and abroad, ensuring more stable cash flows and transforming the default risk of companies into development opportunities.

According to the SACE data, in 2018 the financial resources employed to support the exports and the internationalization of Italian companies insured through banks, financial and ECA's increased from € 16.8 billion to € 18.8 billion[1] (+ 11.8% YoY). This was achieved thanks to the contribution of all the companies belonging to the Hub, as well as to the role of CDP, with the primary aim of maximising support to Italy's economy while, at the same, ensuring economic ongoing sustainability.

As shown in Tab. 5, in 2018 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 72% of the total resources (85% in 2017). In particular, the financial guarantees for exports dropped from € 14.3 billion to € 13.4 billion (end-2018). This annual drop (of 6.1%) is due to the presence of a big deal registered in 2017, with loan guarantee granted by Italian operators.

Support for internationalization, in which SACE plays an active role, accounted for 28% (15% in 2017) or € 5.3 billion in value, more than double that of 2017 (€ 2.5 billion). This growth is due to the increase of guarantees on loans granted both by Italian and foreign players. As shown in Fig. 19, in 2018 the role of foreign players is very significant.

If we analyze the market as a whole, it's worth noting that about 48% of total financial guarantees assisting loans were granted by foreign players (€ 9 billion, +62% YoY). The main foreign operators are from France (25% of total financial guarantees assisting loans), the United Kingdom (8%), Netherlands (6%), Spain (4%) and Germany (2%).

In particular, as shown in Fig. 20 the financial guarantees on export credit granted by foreign players increased from € 4.2 billion to € 6.7 billion (+61% YoY) and represented about 50% of the total guaranteed on export credit and about 36% of the total resources taken to book by the SACE.

With reference to the support for internationalization, the guarantees granted to foreign operators increased from € 1.3 billion to € 2.2 billion (+67% YoY) and represented about 42% of the total guaranteed for internationalization, or 12% of the total resources taken to book by SACE.

[1] Please note that the total of reported guarantees is less than the total of the resources mobilized by the SACE group, as some products offered do not include the involvement of banks. Total resources mobilized by SACE in 2017 and 2018 amounted to € 17.8 billion and € 19.4 billion respectively. If we consider the total relating to the SACE group, the values climb to € 25.4 billion and € 28.6 billion respectively.

Export	2017		2018	
	Value	%	Value	%
Italian players	10,137	70.8	6,710	49.9
Foreign players	4,174	29.2	6,725	50.1
Total Export (a)	**14,311**	**100**	**13,435**	**100**
Italian players	1,133	45.8	3,100	58.2
Foreign players	1,338	54.2	2,230	41.8
Total Internationalization (b)	**2,471**	**100**	**5,330**	**100**

Total value (a+b)	2017		2018	
	Value	%	Value	%
Italian players	11,270	67.2	9,810	52.3
Foreign players	5,512	32.8	8,955	47.7
Total (a+b)	**16,782**	**100**	**18,765**	**100**

Tab. 5 *Financial guarantees to support the foreign growth of Italian companies: annual value of the guarantees by type of instrument and market share held by Italian and foreign players (2017/18, € billion and %) –*
Source: Own elaboration of SACE data

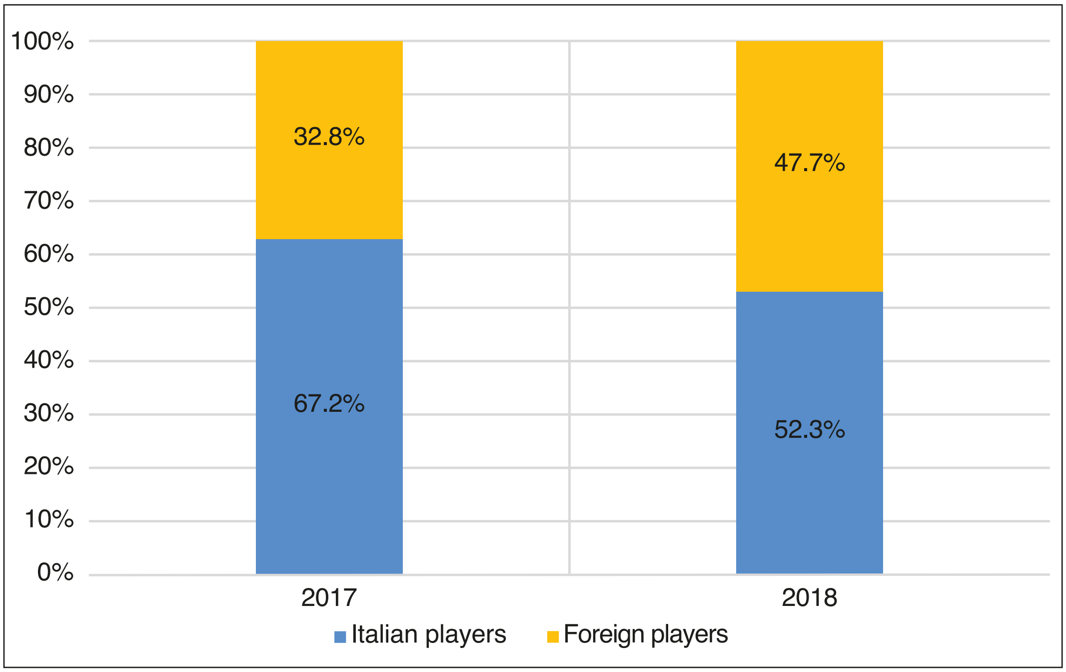

Fig. 19 *The composition of financial guarantees supporting the growth of Italian companies abroad: market share held by Italian and foreign players (2017/18, %) –*
Source: Own elaboration of SACE data

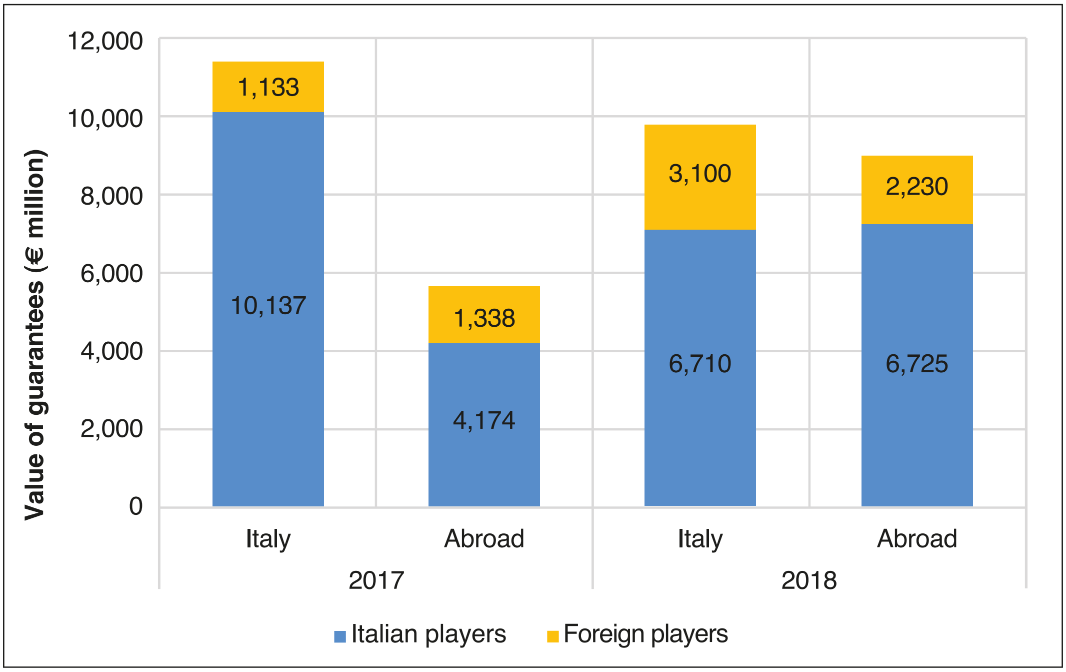

Fig. 20 The value of financial guarantees to support the growth of Italian companies abroad: geographical origin of secured loans (2017/18, € billion) – Source: Own elaboration of SACE data

4.3 Private equity and venture capital

According to the AIFI, the Italian Private Equity and Venture Capital Association, in 2018 the size of the Italian alternative funding market amounted to about € 9.8 billion; 359 deals were completed (+48 YoY), involving more than 260 companies.

It is worth mentioning that this is the highest value ever recorded in the Italian market, mainly due to a number of "mega deals" that also involved international players. Compared to the previous year, the amount invested almost doubled from € 4.9 to € 9.8 billion, while in terms of the number of investments, the annual growth rate was equal to 15%.

International players held a market share of about 65% of the market, i.e. 2 percentage points higher than in 2017 (63% in 2017): the amount invested, equal to € 6.4 billion, was almost double that for national players. International operators based outside of Italy invested just over € 2.7 billion, spread over 49 deals.

In terms of the number of investments, private Italian operators have made the largest number of investments: 213 (+87 YoY), equal to 59% of the market whereas the number of investments by international players increased from 64 to 99, equivalent to 28% of market share.

Tab. 6 summarises funding sources. Compared to the previous year, funding decreased from € 6.2 billion to € 3.2 billion (–42%). However, in recent years, the value reached in 2017 was strongly influenced by the activity of certain institutional funds that closed a number of significant deals during the year. Funds raised by parent company have grown to € 215 million (€ 33 million in 2017), but they still continue to represent a very small portion of the total sources of funds. On the other hand, it is worth pointing out the growing role of pan-European funds based in Italy, whose fund raising has more than tripled on an annual basis, reaching a new record high, exactly ten years after the previous peak (€ 3 billion in 2008).

Independent fund raising went up from € 728 million to € 1.9 billion, with an increase for both local and foreign composition (Tab. 7). The weight of independent fund raising from abroad increased from 28% to 36%. The data reveals fairly substantial annual volatility.

Over the 2005/18 period, new fund raising by banks was the leading component (€ 4.6 billion, or 20% of the total). The relative proportion of funds raised has remained very similar (€ 4.3 billion, 19%). However, it is worth noting that the proportion of foreign banks has been very low in the post-crisis period. In this period (from 2009 to 2018), foreign operators, funds of funds and pension funds played a leading role (47% of new funds raised from abroad and 15% of the total amount of new funds raised on the market).

Source of funds	2013		2014		2015	
	Value	%	Value	%	Value	%
Indipendent funding	623	13.1	1,348	64.9	2,487	72.0
Funds raised by parent company	3,423	72.2	129	6.2	346	10.0
Capital gain	1	0.0	-	-	-	-
Total raised funds (a)	**4,047**	**85.4**	**1,477**	**71.1**	**2,833**	**82.0**
Pan-European funds based in Italy (b)	693	14.6	600	28.9	621	18.0
Total (a+b)	**4,740**	**100**	**2,077**	**100**	**3,454**	**100**

Source of funds	2016		2017		2018	
	Value	%	Value	%	Value	%
Indipendent funding	1,313	37.6	6,230	84.9	3,415	46.2
Funds raised by parent company	401	11.5	33	0.4	215	2.9
Capital gain	-	-	-	-	-	-
Total raised funds (a)	**1,714**	**49.1**	**6,263**	**85.4**	**3,630**	**49.1**
Pan-European funds based in Italy (b)	1,774	50.9	1,075	14.6	3,763	50.9
Total (a+b)	**3,488**	**100**	**7,338**	**100**	**7,393**	**100**

Tab. 6 Italian market of private equity and venture capital: fund raising trend (2013/18, € million and %) –
Source: Own elaboration of AIFI data

Indipendent raising	2013		2014		2015	
	Value	%	Value	%	Value	%
From abroad	162	26.0	917	68.0	1,194	48.0
From Italy	461	74.0	431	32.0	1,293	52.0
Total	**623**	**100**	**1,348**	**100**	**2,487**	**100**

Indipendent raising	2016		2017		2018 (*)	
	Value	%	Value	%	Value	%
From abroad	482	36.7	201	27.6	702	36.0
From Italy	831	63.3	527	72.4	1,249	64.0
Total	**1,313**	**100**	**728**	**100**	**1,951**	**100**

Tab. 7 *Italian market of private equity and venture capital: the geographical origin of raised funds (independent funds, 2013/18, € million and %) –*
Source: Own elaboration of AIFI data

Note (*) *Data are based on 83% of the private sector market collection, that for which the value is available (and amounting to € 1,951 million).*

Sources of new funds raised on the market	2005/08				2009/18			
	Italy	Abroad	Total	%	Italy	Abroad	Total	%
Banks	1,115	317	1,432	22.3	2,844	274	3,119	18.8
Funds of funds	60	1,510	1,570	24.4	863	1,837	2,701	16.3
Pension funds	224	259	483	7.5	2,169	665	2,835	17.1
Insurance companies	268	173	441	6.9	1,174	340	1,513	9.1
Private equity companies	N/A	N/A	N/A	-	194	83	277	1.7
Asset Manager	N/A	N/A	N/A	-	242	926	1,168	7.0
Other sources			2,508	39.0	3,769	1,200	4,969	30.0
Total			**6,434**	**100**			**16,582**	**100**

Tab. 8 *Italian private equity and venture capital market: the composition and the geographical origin of new funds raised on the market (2005/18, € million) –*
Source: Own elaboration of AIFI data

4.4 Mergers and Acquisitions

According to data released by KPMG Corporate Finance, in 2018 the Italian M&A market showed a very relevant increase, both in terms of value and number of transactions. In particular, the deal values grew from € 41 to € 91 billion, while the number of deals increased by about 8% from 817 to 882.

The market value was at its highest level in the 10 years since 2007 (€ 148 billion), the very initial stage of the financial crisis. The comparison between 2017 and 2018 highlights that the average deal size increased from € 50 million to € 103 million: this result is largely influenced by two biggest deals, namely the Luxottica-Essilor merger (whose deal value is about € 25 billion) and Abertis-Atlantia merger (€ 16.5 billion), which account for about 46% of the total market size. If we exclude these two deals, the average transaction size decreased to € 56 million, very similar to 2017 data.

The number of foreign M&A operations in Italy amounted to 276, +10 compared to 2017, with a deal value of € 18.4 billion, representing one-third of the total by number and about 20% by value. Moreover, among the "top 10" deals closed in 2018 we see 3 inbound cross-border operations with a total deal value of € 7.8 billion, about 42% of total value of foreign M&A operations and 9% of the total market value.

KPMG also reports data regarding the contribution of private funds to M&A deals. In 2018, they closed 110 operations (+23 compared 2017), for a total value of about € 12 billion. 50 out of 110 deals have been closed by foreign intermediaries. Among most significant operations, it is worth mentioning CVC Capital Partners-Recordati, Global Infrastructure Partners- NTV, and Ardian-SIAS.

According to Bureau Van Dijk's estimates on the Italian M&A market, France, the United States, and the United Kingdom are the main competitors by acquirant company country of origin. While French companies lead the pack in terms of value, UK bidders lead the pack in terms of number of deals.

Moreover, we use data from a third source to in order to assess the contribution of foreign players to the Italian M&A market. As in previous reports, we have analysed the Dealogic database data involving Italian companies in order to evaluate the role of foreign advisors, both for target and bidder companies.

As regards 2018, the Dealogic database reflected 808 M&A deals involving Italian companies, for a value of around € 130 billion; it's worth pointing out that deal values are only available for about 310 transactions. Differences between Dealogic and KPMG's estimates are probably due to the gap between announcement date and completion date. Actually, if we consider Dealogic's data, we discover that the value of operations announced in 2017 and closed in 2018 (61) amounts to about € 38 billion. If we exclude these deals, the total market value as reflected in Dealogic database is very similar to KPMG's estimates.

However, in the interests of consistency with AIBE's past reports, we focused our analysis on all operations closed in the last year, regardless of the announcement date.

As represented in Tab. 9, the presence of foreign advisors was remarkable: actually, at least one foreign advisor has been involved in about 92% of deals (in terms of value). This percentage takes into account both the role of solely 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 have been involved in 28% of deals (in terms of market value).

Transportation, Retail and TLC are the leading sectors in terms of presence of foreign target advisors (€ 74.3 billion, i.e. 66% of the total deal value relating to foreign target advisors); the results are similar if we review the activity of foreign purchaser advisors.

In terms of deal type, there does not appear to be any particular specialization in terms of foreign advisors' activities. In fact, foreign target advisors have been mainly involved in deals involving the acquisition of majority interest (€ 52.3 billion, equal to about 46% of total deal value relative to foreign target advisors) and outright purchase (€ 22.2 billion, 20%). Percentages are similar if we consider foreign purchaser advisors' involvement.

A special focus on "top ten" deals – based on Dealogic data – highlights that their total value (€ 80.1 billion) is about 62% of the entire market. Foreign financial advisors have been involved in all "top ten" deals, of which in 4 cases jointly with Italian advisors, as target advisors (Tab. 10). We note a similar percentage if we analyse the role of foreign financial advisors in supporting bidders.

Geogrphical origin of target advisors parent	Geogrphical origin of target advisors parent									
	abroad		Italy and abroad		Italy		N/A data		Total	
	Value	%	Value	%	Value	%	Value	%	Value	%
abroad	36.9	28.4	30.5	23.5	1.7	1.3	4.8	3.7	73.9	56.9
Italy and abroad	28.7	22.1	7.8	6.0	2.4	1.9	0.6	0.5	39.5	30.4
Italy	1.6	1.3		-	0.2	0.2	1.9	1.5	3.8	2.9
N/A data	3.6	2.8	0.3	0.2	0.6	0.5	8.2	6.3	12.7	9.8
Total	**70.9**	**54.5**	**38.6**	**29.7**	**4.9**	**3.8**	**15.6**	**12.0**	**130.0**	**100**

Tab. 9 Value of M&A deals by geographical origin of advisors (2018, € billion) – Source: Own elaboration of Dealogic database

Role and geogrphical origin of advisors	Target advisors			Acquiror advisors		
	Number of deals	Value	%	Number of deals	Value	%
Foreign advisors	6	47.5	59.3	5	46.0	57.4
Italian and foreign advisors	4	32.6	40.7	4	31.7	39.5
Italian advisors	0		-	1	2.4	3.0
Total	**10**	**80.1**	**100**	**10**	**80.1**	**100**

Tab. 10 The distribution of "top ten" M&A deals based on advisors' geographical origin (2018, € billion) – Source: Own 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 that access international financial markets. In particular, the topics covered refer to the advisories as bookrunners in debt and equity securities issuances and retail trading.

5.1 Debt capital market

According to Dealogic data, in 2018 the market size of debt issuances by Italian firms was about € 83.4 billion, as a sum of 171 tranches. Compared to the 2017 end of year data, we observe a decrease in value of about € 33.7 billion (–29%), as well as in the number of tranches issued (–29).

Despite the market's downsizing, the market share held by foreign bookrunners remained remarkable: in 2018 they assisted, as solely bookrunners, in issuances for about € 12.8 billion (15% of the total market size), while they participated jointly with Italian banks for about € 54.3 billion of issuances, representing the 65% of the market. In the last 6 years the market share held by foreign bookrunners remained stable at around 81%.

If we consider tranches with a value of at least € 1 billion (16 issuances, with a total value of € 37.8 billion), we are able to report that foreign bookrunners were involved in 13 out of 16 operations, for a total value of about € 27.8 billion, representing 74% of the total. Also in this case the main role has been played by international pools of bookrunners, involving both domestic banks and foreign intermediaries.

The "Top 5" deals have a combined total value of € 27.2 billion, representing 33% of the whole market. Within this sub-sample, there were 4 public issuances, i.e. bonds issued by Italian Central Government, and one bond issued by a private company operating in the Utility & Energy sector. The role of foreign bookrunners is important: they assisted in 3 out of 5 issuances, with a total deal value of € 15.7 billion, representing 58% of the total "top 5" deal value.

Focusing our attention to the whole market, we highlight the fact that the average tranche size is about € 488 million, down on the previous yearly average; as expected the average tranche size is higher when issuance are assisted by international pools of bookrunners (€ 639 billion). Moreover, in these cases, normally, the number of bookrunners involved is higher.

If we look through issuers' industrial sectors, Finance, Government, and Utility & Energy are the leading sectors: issuers from these 3 sectors raised € 66.2 billion in 2017 (79% of the total market value). If we analyze the role of non-resident bookrunners, the leading sectors' distribution is similar. Actually, foreign intermediaries have mainly assisted Italian companies operating in the financial (€ 27.9 billion), Government (€ 14.4), and Utility

& Energy (€ 16.1) sectors. These 3 main sectors concentrate about 78% of issuances assisted by foreign bookrunners.

It is also interesting to observe that in a number of sectors (among others Leisure & Recreation, Healthcare, Auto/Truck, Consumer Products, Metal & Steel, and Insurance) all issuances have been assisted by international pools of bookrunners, in which the number and the involvement of foreign players was much more significant than the Italian ones.

The presence of foreign bookrunners was significant in all classes by tranche value; in particular, as represented in Tab. 11, they had a market share in excess of 80% in medium sized issuances; moreover, the only issuance with a value over € 5 billion was assisted by an international pool of bookrunners.

With regards to deal type (Tab. 12), we can highlight the fact that the positioning of foreign bookrunners is particularly significant in ABS issuances (market share by deal type equal to 100%), corporate bonds and covered bonds. We observe no significant changes compared to the 2017 analyses.

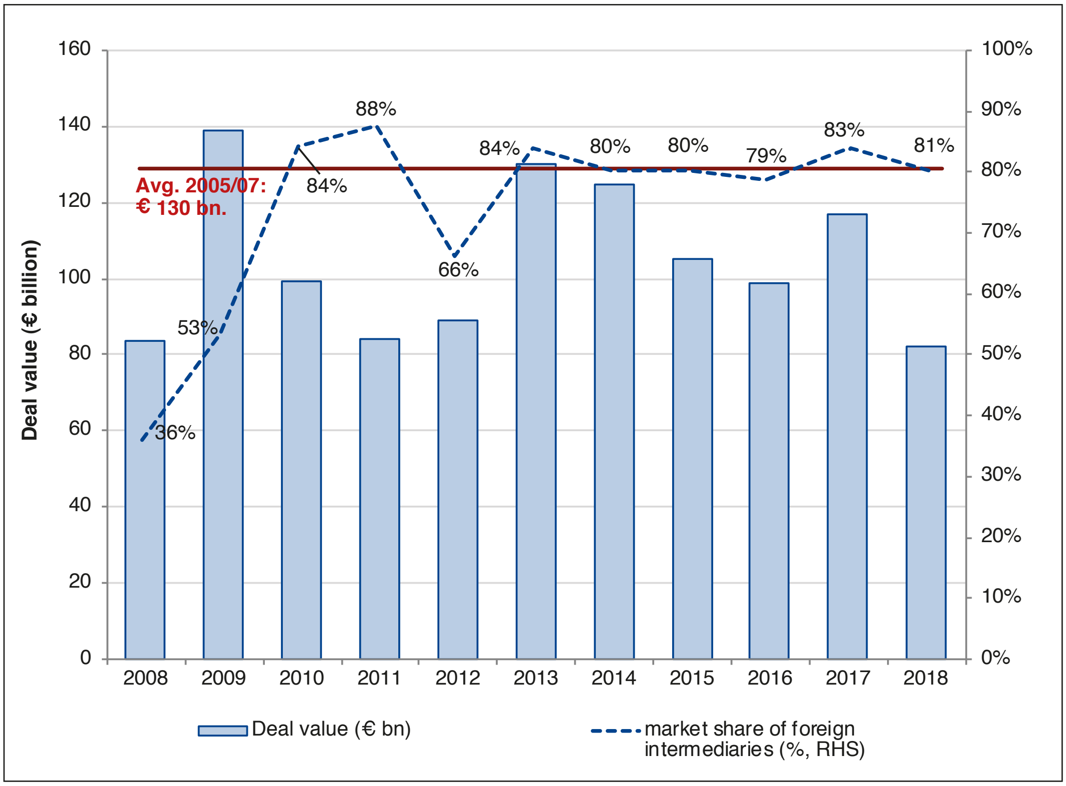

Fig. 21 DCM issuances by Italian borrowers: total annual deal value (2008/18, € billion) and market share of foreign bookrunners (%, RHS) –
Source: Own elaboration of Dealogic data

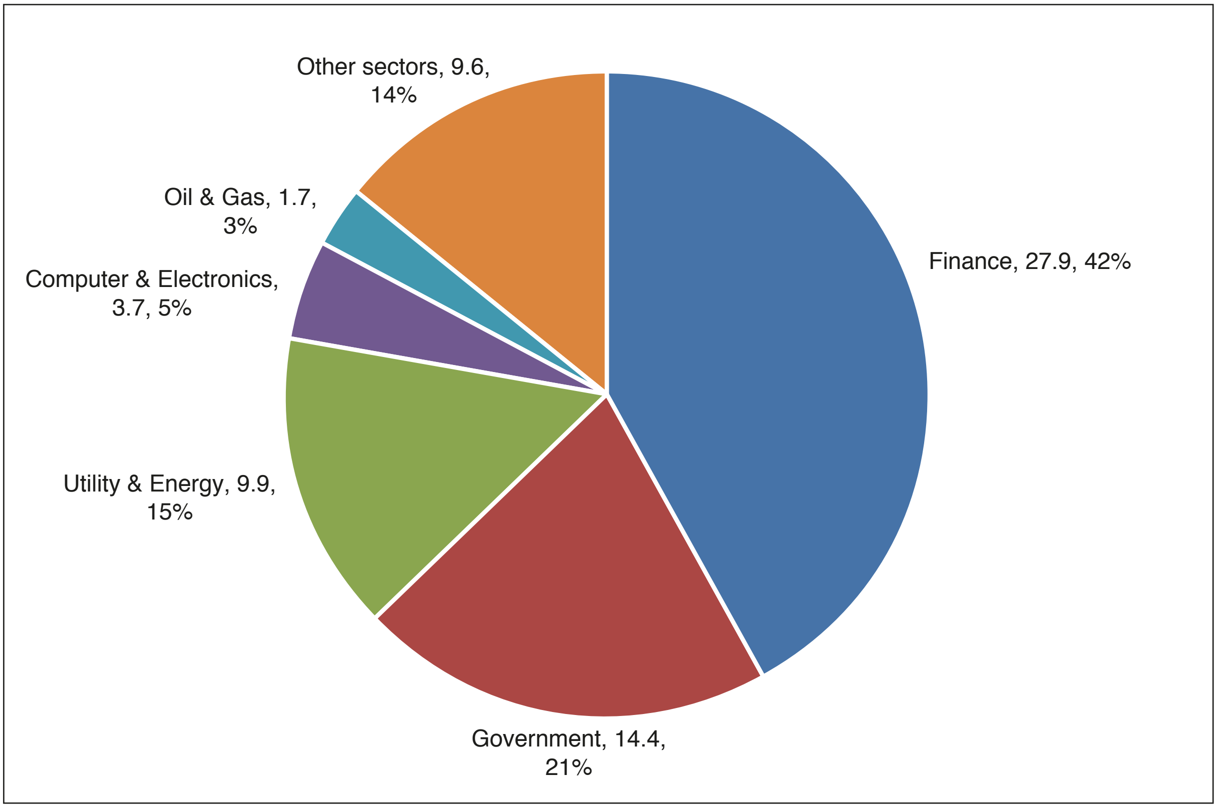

Fig. 22 DCM issuances by Italian borrowers' industrial sectors assisted by foreign bookrunners (2018, € billion and %) –
Source: Own elaboration of Dealogic data

Class of Tranche value	Foreign bookrunners	
	Deal value	Market share (%)
Up to € 10 million	17.1	26.5%
€ 10-100 million	1,723.1	86.3%
€ 100-500 million	17,628.2	83.1%
€ 500 million-1 billion	21,963.8	86.8%
€ 1-5 billion	16,837.9	65.2%
More than € 5 billion	9,000.0	100.0%
Total	**67,170.1**	**80.6%**

Tab. 11 *DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by size (2018, € million) – Source: Own 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	26,262.0	93.4%
Sovereign, Local Authority	14,364.1	55.5%
Corporate Bond-High Yield	12,595.2	97.7%
Asset-Backed Security	5,396.0	100.0%
Covered Bond	5,340.0	91.2%
Othe deal types	3,212.8	61.2%
Total	**67,170.1**	**80.6%**

Tab. 12 *ECM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by deal type (2018, € million) – Source: Own 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 2018 the size of Italian equity capital market was about € 5 billion, with a significant downsizing compared to 2017 (Fig. 23). As shown in the graph, in recent years the annual market size was quite volatile: 2018, however, represented the lowest annual figures of the last 10 years. The downsizing is also evident in the number of deals, which decreased from 76 to 51.

Despite the last year's trend, the contribution of foreign intermediaries has remained significant. Foreign bookrunners participated in 21 out of 51 operations (41% of the total), for a total value of € 4 billion, representing 82% of the total. They assisted – as solely bookrunners – in 9 deals (€ 1 billion), while 12 deals were assisted by international pools of intermediaries that included Italian banks.

The average deal size is about € 98 million (in 2017 it was three times higher), with a huge gap between "domestic" deals and operations assisted by foreign intermediaries: deals that involved only Italian banks have an average size of about € 31 million, while deals assisted by solely foreign bookrunners have an average value of € 111 million. Biggest deals were assisted by international pools of bookrunners (average value of € 258 million). The bigger the operation, the higher the number of involved bookrunners: international pools were arranged on average among 3.6 banks (median equal to 3; range 2 to 10), while other operations involved on average 1.3 bookrunners (median equal to 1, range 1 to 4).

"Top 5" deals recorded a value of about € 2.4 billion, so representing about 48% of the whole market; the percentage increases to 66% if we consider "top 10" deals (€ 3.3 billion): all biggest deals have seen the participation of at least one foreign bookrunner.

Fig. 24 highlights issuers' leading sectors and foreign bookrunners' participation. Finance is the most significant: foreign intermediaries assisted in about € 1.8 billion of issuances, representing 43% of the total market value relating to non-domestic operators. The Metal & Auto/Truck sector is runner-up (12%); in some sectors (i.e., Leisure & Recreation, Healthcare, and Oil & Gas) the foreign bookrunners' sector market share amounts to 100%.

Secondary equity offerings and IPOs are the leading "deal type", for a total value of € 4.8 billion. The participation of foreign bookrunners is very high (€ 3.9 billion); the market share of non-resident players is very significant in every deal type.

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

According to IR Top's estimations, in 2018 foreign operators increased the value of investments in AIM Italia by about 21%. In past year the foreign investors' market share went up from 43% to 52%. The significant presence of international investors in STAR segment is once again confirmed in 2018: 84% of the capital relating to institutional investors is held by foreign investors. Europe (40%), North America (29%) and United Kingdom (15%) are the leading geographical areas of origin of foreign institutional investors.

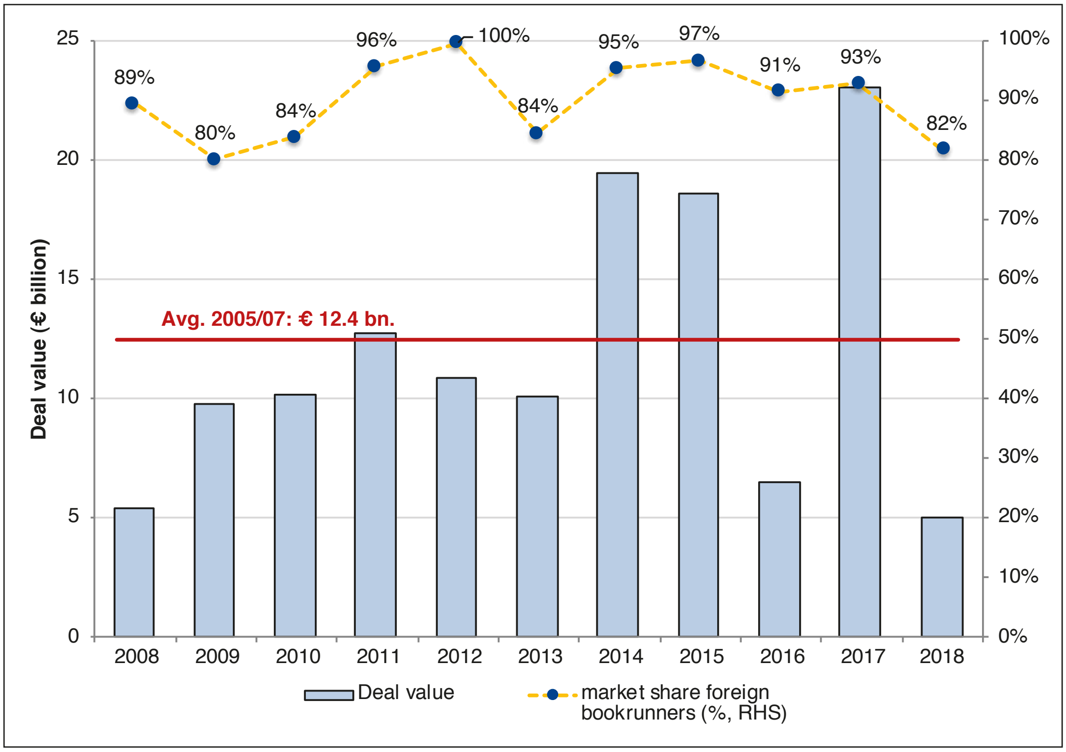

Fig. 23 *Equity Capital Markets: distribution of deal value (Italian issuers, 2008/18, € billion) and market share of foreign bookrunners (%, RHS) –*
Source: Own elaboration of Dealogic data

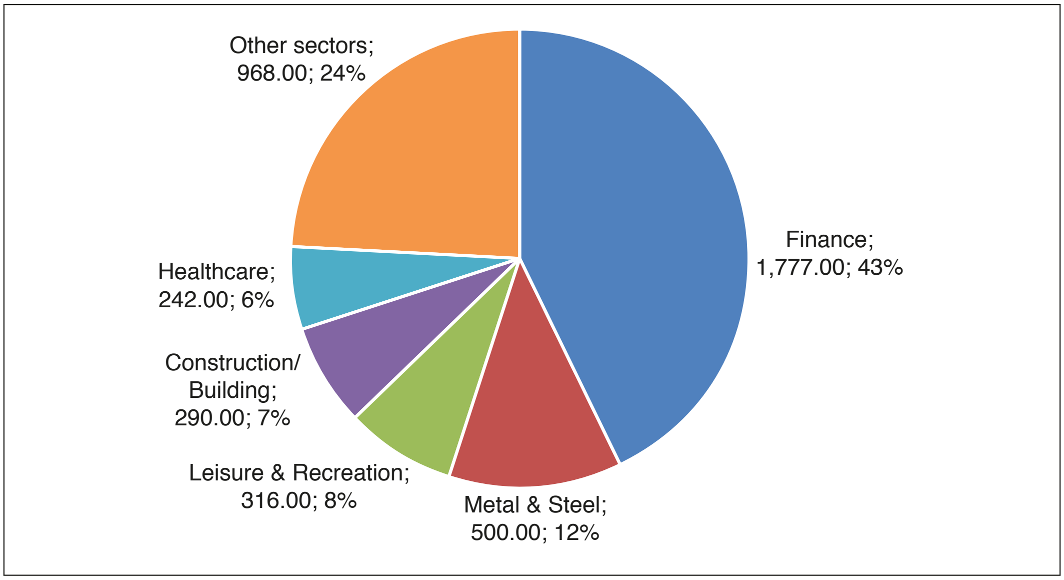

Fig. 24 *ECM issuances by Italian issuers' industrial sectors assisted by foreign bookrunners (2018, € billion and %) –*
Source: Own elaboration of Dealogic data

5.3 Trading on Cash Markets (MTA)

According to ASSOSIM, the Italian Association of financial intermediaries representing the majority of players operating on the Italian financial market, the market share held by foreign intermediaries is quite significant, at least in certain segments.

ASSOSIM's members in 2018 accounted for 47% of the total volumes of the MTA, the main Italian Stock Exchange market for equity securities. Foreign members accounted for about 22% of the total volumes (Fig. 25), representing about the 47% of total values relating to ASSOSIM's members, almost one percentage point higher than in 2017.

In the past decade however, the market share held by foreign intermediaries has remained virtually unchanged at around 23%.

Within the MTA, 6 out of 23 players are based abroad. 5 of the 10 "most active" players are foreign intermediaries, as are the 2 most active ones overall. The latter two hold a total market share of 13%, or some 28% of value relating to ASSOSIM's members. If we focus on total activity relating to foreign players, they represent 59% of the total.

In other market segments of the Italian Stock Exchange, (e.g., DomesticMOT, EuroMOT, ETFplus and ExtraMOT) the market shares of foreign players are lower, as are their numbers. In 2018, within the DomesticMOT market, the share of foreign intermediaries (4 out of 28) amounted to around 2.1% of total volumes while, in the EuroMOT market, the share of foreign players was less than 1%. In ETFplus market share of foreign players (6 out of 26) was close to 7%, and 3 of them are among the "top 10 most active" intermediaries. Within the SeDEX segment, the market share of foreign players (3 out of 23) in 2018 was close to 7% of total volumes. The main foreign financial intermediary is also the sixth most active one.

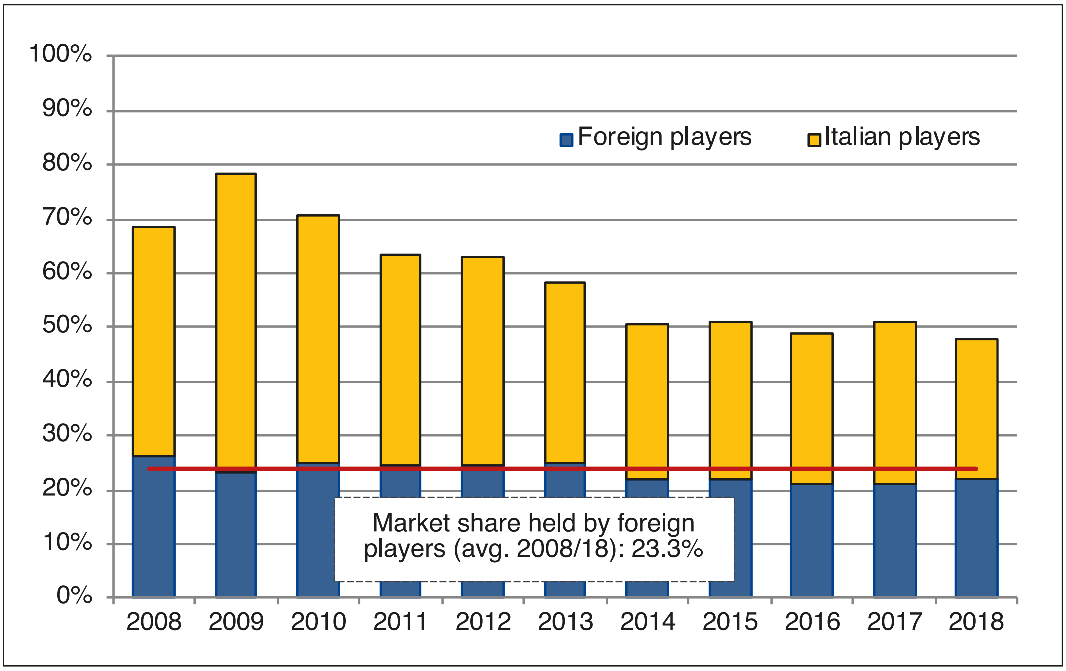

Fig. 25 Recent trend in market share held by ASSOSIM's members (2008/18, % of volumes traded on MTA segment) –
Source: Own elaboration of ASSOSIM statistics

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 both to collective and portfolio management and pension funds. Information and 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 2018, the market value of Assets Under Management (AUM) decreased slightly from € 2,089 billion to € 2,017 billion (–3.5% YoY). This is the first decline recorded by the market in recent years.

As at the end of 2018, the AUM stock relative to foreign groups amounted to around € 663.4 billion, or 32.9% of the market (33.2% end-2017, Tab. 13).

With regard to collective management (Fig. 26), the recent growth is mainly due to the increase in open-end funds (from € 460 billion as at end-2010 to € 955 billion as at end-2018); closed-end funds, on the other hand, remained substantially stable, going from € 41 billion in 2010 to € 58 billion in 2018. Over the same period, the value of AUM held by foreign companies has increased significantly (+269%), up from around € 122 billion to € 450 billion in 2018.

The combined market shares held by foreign companies almost doubled, from 24.3% at the end-2010 to 44.4% at the end-2018.

If we analyze portfolio management, it is worth pointing out that AUM increased by about 498 billion from 2010 to 2018; over the same period the market share held by foreign players has increased by about 3 percentage points, from 18.4% to 21.3%.

As shown in Fig. 27, in the past five years the growth of retail asset management in funds has been significant (+38.6%), followed by pension plan asset management (+25.2%) and insurance products (19.7%), while retail securities asset management has remained substantially stable and other investment products have decreased by about 1.6%.

Based on the 2018 data, foreign intermediaries accounted for about 23% of all assets managed by the "top 10" players. This percentage goes up to 28% if we consider the "top 15" intermediaries and reaches almost 33% if we consider the "top 20" (Fig. 28).

Within the pension funds industry, the market share of foreign intermediaries decreased slightly, from 62.4% in 2017 to 61.7% in 2018. The stake held by foreign operators is however significantly up when compared with the figure as at end-2010 (Fig. 29). The strong increase observed in the past years is due to two main factors: the growth of foreign contractual pension funds, and the weak growth of Italian open pension funds and Italian contractual pension funds.

	Dec-2012		Dec-2013		Dec-2014		Dec-2015	
	AUM	%	AUM	%	AUM	%	AUM	%
Collective management	**524.905**	**100**	**599.110**	**100**	**731.158**	**100**	**898.808**	**100**
Foreign groups	145.235	27.7	175.975	29.4	220.127	30.1	310.510	34.5
Italian groups	379.670	72.3	423.135	70.6	511.031	69.9	588.297	65.5
Portfolio management	**669.610**	**100.0**	**730.943**	**100.0**	**857.290**	**100.0**	**935.298**	**100.0**
Foreign groups	89,401	13.4	102.788	14.1	119.572	13.9	137.208	14.7
Italian groups	580.209	86.6	628.155	85.9	737.719	86.1	798.091	85.3
Total	**1,194,514**	**100**	**1,330,052**	**100**	**1,588,447**	**100**	**1,834,106**	**100**
Foreign groups	234.636	19.6	278.763	21	339.698	21.4	447.717	24.4
Italian groups	959.878	80.4	1,051,290	79	1,248,750	78.6	1,386,388	75.6

	Dec-2016		Dec-2017		Dec-2018		Δ 2018	
	AUM	%	AUM	%	AUM	%	AUM	Δ%
Collective management	**949.545**	**100**	**1,062,323**	**100**	**1,013,510**	**100**	**-48.813**	**-4.6%**
Foreign groups	326.849	34.4	476.480	44.9	449.928	44.4	-26.552	-5.6%
Italian groups	622.696	65.6	585.843	55.1	563.582	55.6	-22.261	-3.8%
Portfolio management	**993.431**	**100**	**1,026,827**	**100**	**1,003,563**	**100**	**-23.264**	**-2.3%**
Foreign groups	139.957	14.1	217.827	21.2	213.521	21.3	-4.306	-2.0%
Italian groups	853.474	85.9	809.000	78.8	790.042	78.7	-18.958	-2.3%
Total	**1,942,976**	**100**	**2,089,150**	**100**	**2,017,073**	**100**	**-72.077**	**-3.5%**
Foreign groups	466.806	24	694.307	33.2	663.449	32.9	-30.858	-4.4%
Italian groups	1,476,170	76	1,394,843	66.8	1,353,623	67.1	-41.220	-3.0%

Tab. 13 Collective and portfolio asset management: AUM trend and market shares held by Italian and foreign asset management companies (2012/18, € million and %) – Source: Own elaboration of Assogestioni-IFH database.

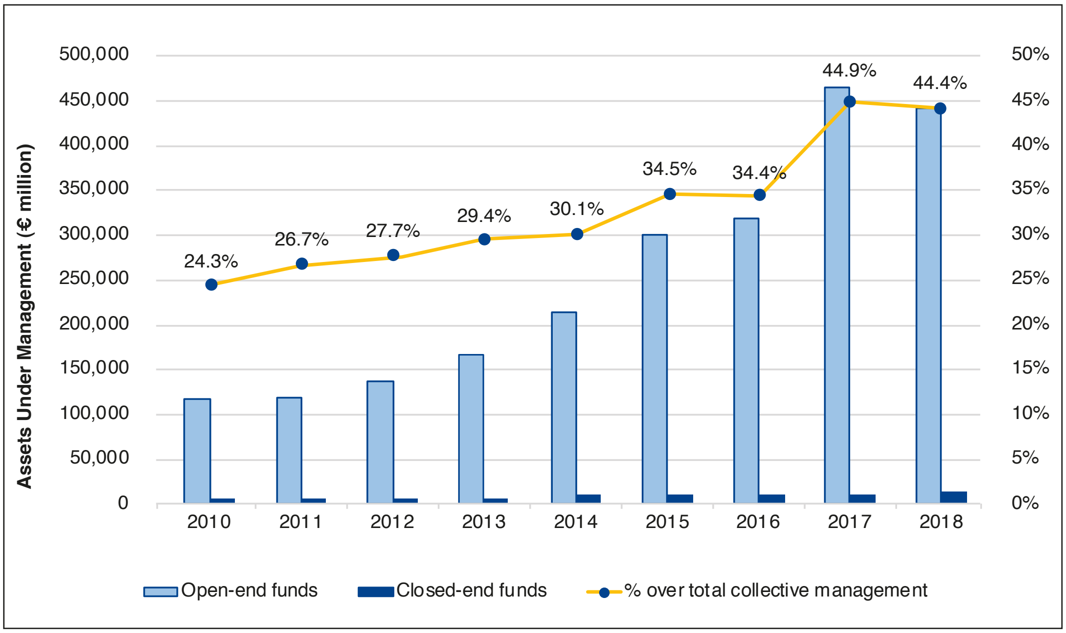

Fig. 26 *Collective management: AUM stock and market shares held by foreign asset management companies (2010/18, end-year data, € million and %) –*
Source: Own elaboration of Assogestioni-IFH database

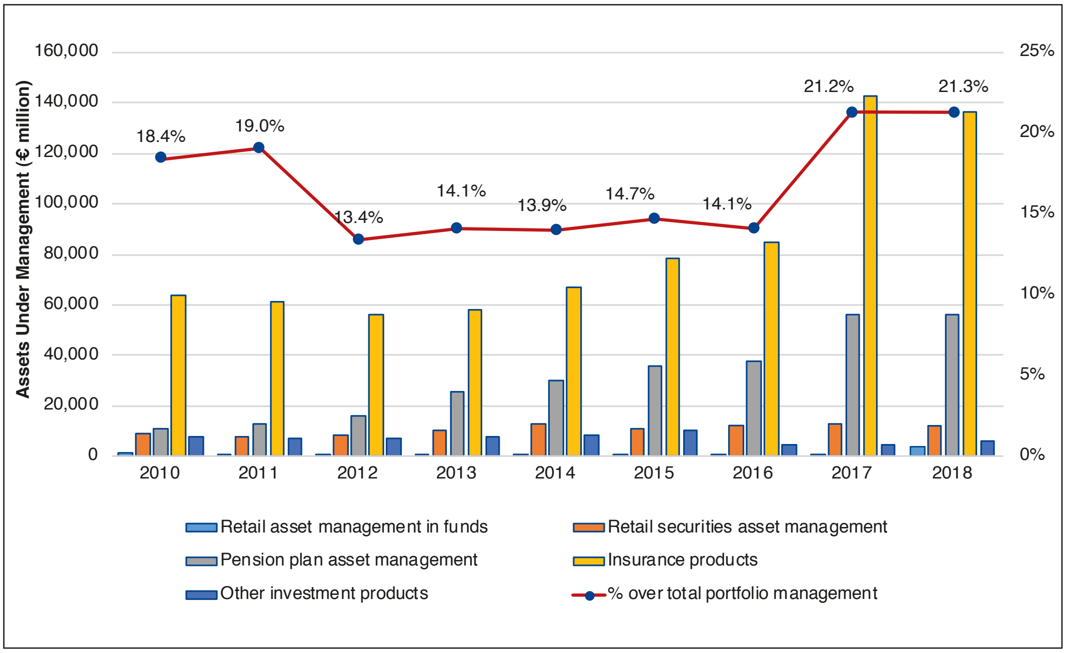

Fig. 27 *Portfolio management: AUM stock and market shares held by foreign asset management companies (2010/18, end-year data, € million and %) –*
Source: Own elaboration of Assogestioni-IFH database

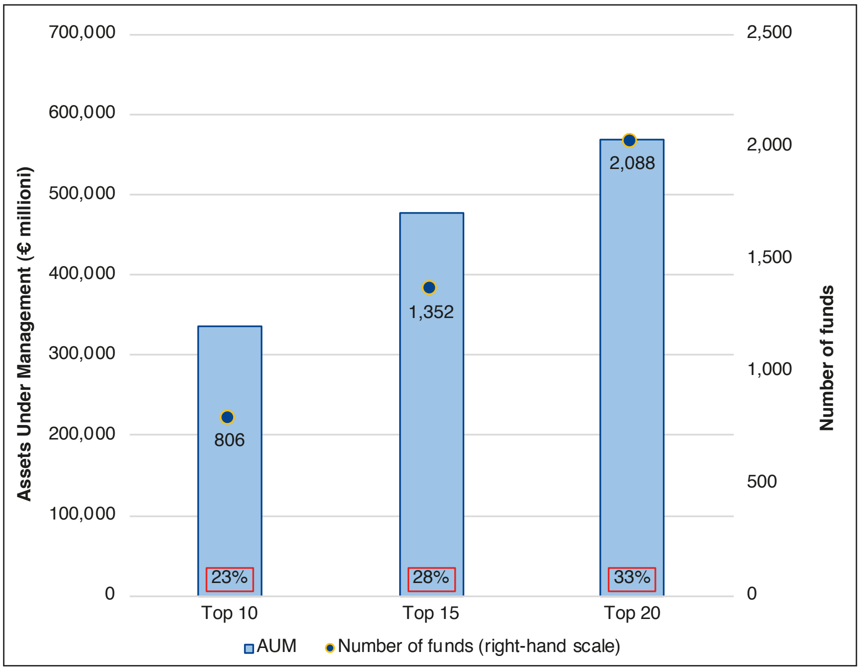

Fig. 28 *AUM stock and market shares held by foreign asset management companies in the "top ten", "top 15" and "top 20" rankings (2018, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

Note *red bordered labels indicate the market share held by foreign intermediaries in terms of AUM*

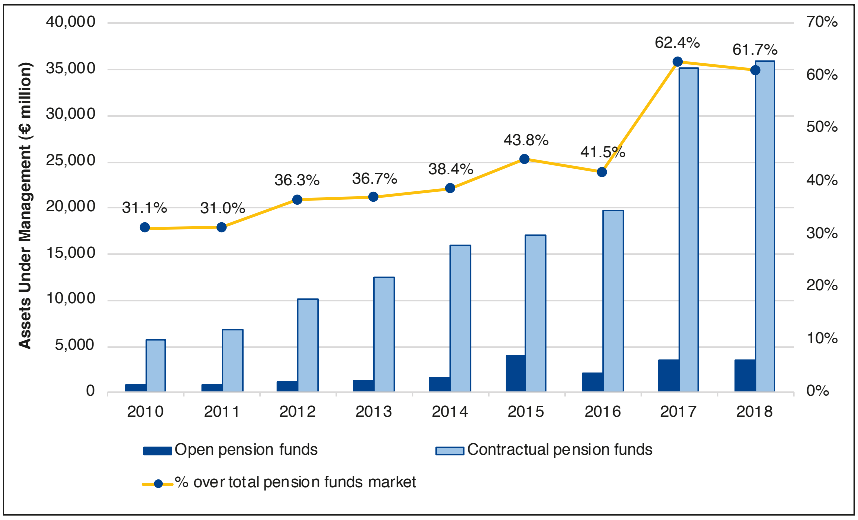

Fig. 29 *Pension funds market: AUM stock and market shares held by foreign asset management companies (2010/18, end-year data, € million and %) – Source: Own elaboration of Assogestioni-IFH database*

Chapter 7

Specialized credit

In 2018, according to Assilea data, the Italian leasing market showed a growth rate of 12%. Total deal value increased from € 26.6 to € 29.8 billion (Tab. 14). This growth was largely due to the role of "other companies", that – according to Assilea's classification – includes both Italian and foreign intermediaries.

On the basis of league tables released by Assilea for 2018, 3 foreign players are included in the "top ten most active" ones. They accounted for leasing contracts for a total value of about € 5.6 billion (41.8% of "top ten" amount and around one-fifth of the total market value).

Outstanding debt decreased from € 83.9 billion to 81.3, 21.5% of which was due to foreign leasing companies. The majority of these intermediaries belong to banking groups.

On the basis of data released by Assifact, the Italian factoring market also showed fairly significant expansion in the past year: total annual turnover rose from € 221.6 to € 240.0 billion (+8.3% YoY). The market share held by foreign intermediaries decreased from 19% to 17%. In fact, despite a generalized growth of the market, the annual turnover relating to foreign players decreased from € 41.3 to € 40.3 billion (–2% YoY, Fig. 30).

Outstanding credit increased from € 51.5 to € 56.3 billion (+9% YoY): foreign intermediaries registered an increase of about 0.5%, while their market share came down from 17.5% to 16.8% (Fig. 31).

The Italian consumer credit market increased both in 2017 and 2018. According to Assofin's data, the increase in financial flows amounted to about € 5.3 billion on annual basis, reaching a value of € 70.8 billion in 2018.

The market share held by foreign players remained quite stable last year at 45% (Fig. 32). However, despite the market share remained constant, the value of consumer credit granted by foreign players rose to about € 32.1 billion (+ € 2.9 billion YoY).

	2011		2012		2013		2014	
	Value	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Italian intermediaries	17.1	69.3	10.2	61.0	10	60.6	8.5	54.9
Foreign intermediaries	7.6	30.7	6.5	39.0	6.5	39.4	7	45.1
of which: foreign banks	*6.1*	*24.7*	*5.2*	*31.2*	*5.1*	*30.8*	*5.5*	*35.7*
Total	**24.6**	**100**	**16.7**	**100**	**16.5**	**100**	**15.5**	**100**

	2015		2016		2017		2018	
	Value	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Italian intermediaries	8.3	48.7	9.8	47.3	10.7	40.2	10.8	36.2
Foreign intermediaries	7.9	46.4	7.3	35.3	6.6	24.7	7.6	25.5
of which: foreign banks	*6.2*	*36*	*6.7*	*32.3*	*6.1*	*22.8*	*6.9*	*23.2*
N/A data	0.8	4.9	3.6	17.4	9.3	35.1	11.4	38.3
Total	**17.1**	**100**	**20.7**	**100**	**26.6**	**100**	**29.8**	**100**

Tab. 14 Italian leasing market: distribution of the value of leasing contracts by geographical origin of intermediaries (2011/18, € billion and %) – Source: Own elaboration of Assilea data

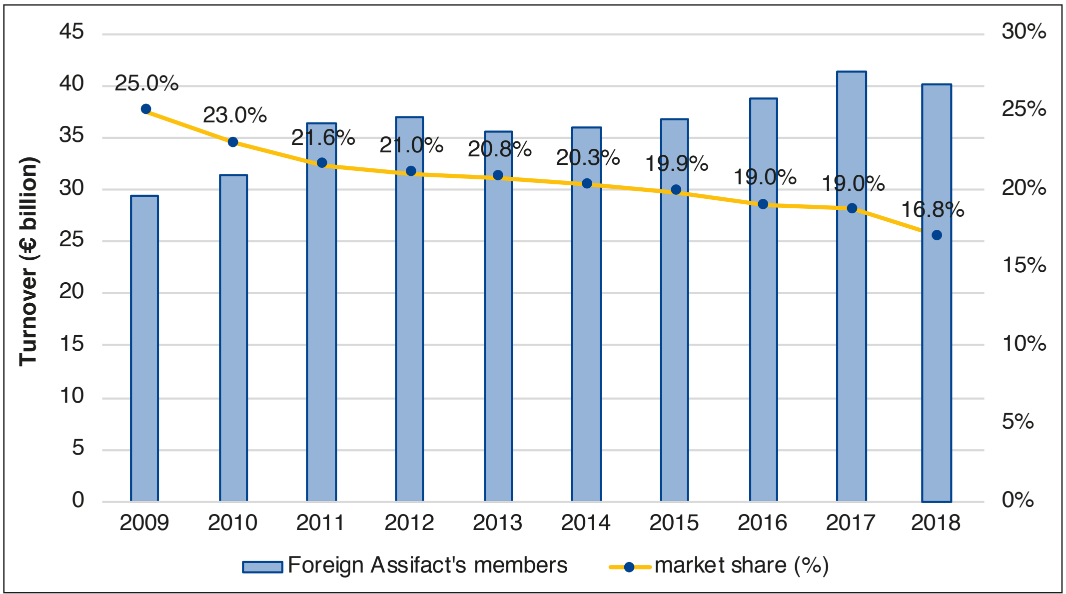

Fig. 30 Italian factoring market: distribution of the turnover and market share of foreign players (2009/18, € billion and %) – Source: Own elaboration of Assifact data

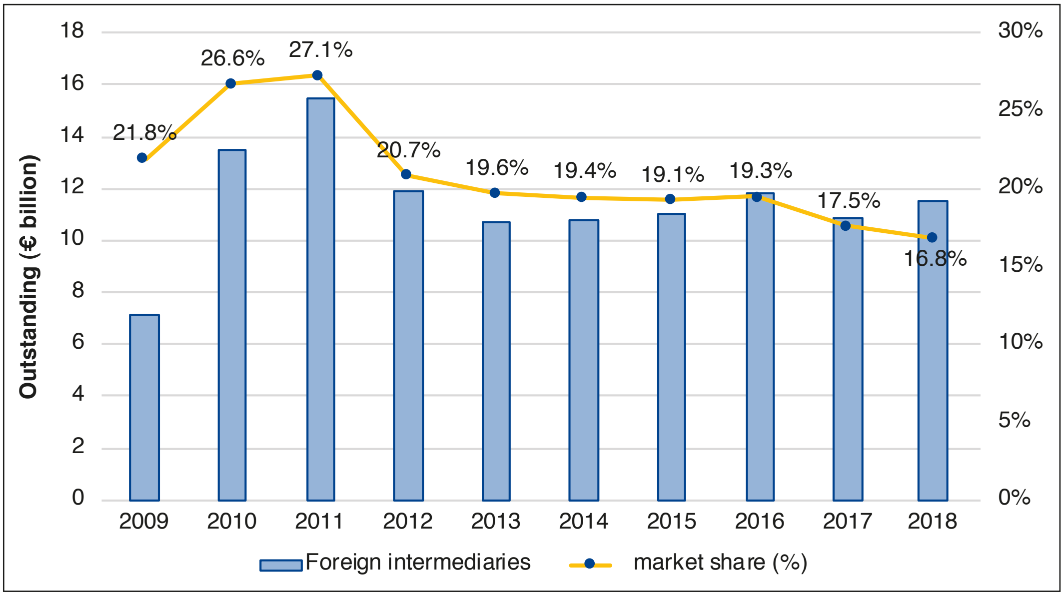

Fig. 31 *Italian factoring market: distribution of outstanding credit and market share of foreign players (2009/18, € billion and %) –*
Source: Own elaboration of Assifact data

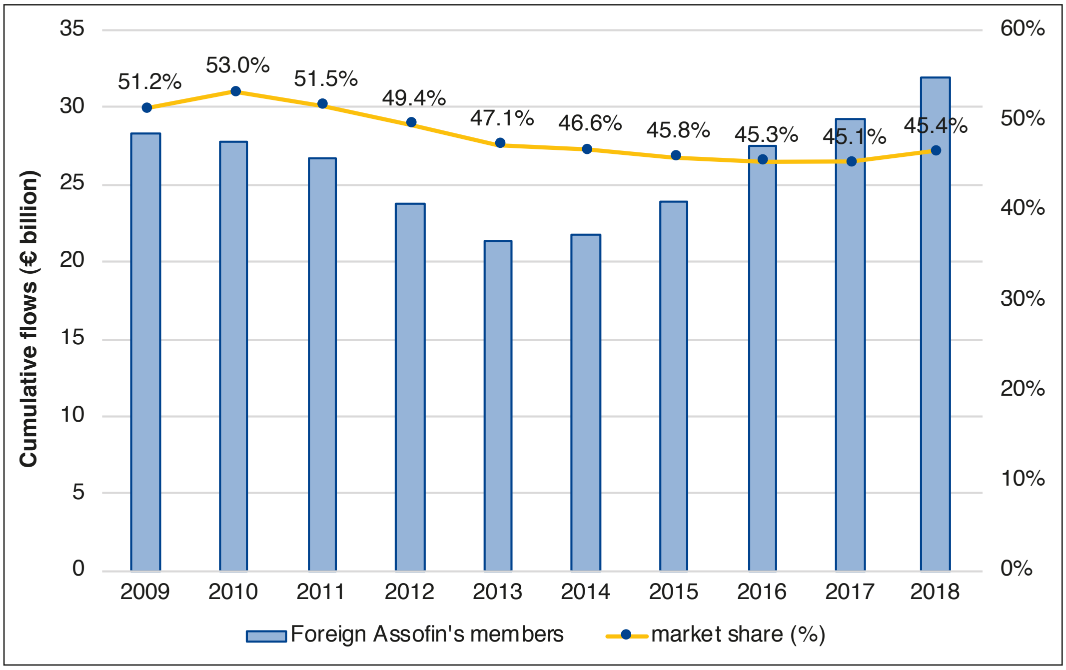

Fig. 32 *Italian consumer credit market: distribution of cumulative flows and market share of f oreign players (2009/18, € billion and %) –*
Source: Own elaboration of data available in Assofin-Crif-Prometeia's survey

Chapter 8

Foreign banks in Europe: a sample analysis

This chapter contains a brief summary of the main role of foreign banks in a sample of some selected European countries, with the purpose of facilitating a comparison between Italy and some European peers in terms of the presence mode of and the market shares held by non-resident operators in main business lines.

Based on the last AIBE Report, we compared Italy to France, Germany, Spain and the United Kingdom, and we focused on two main areas. First of all, we analyzed the share of non-resident investors in public debt (par. 8.1); the next paragraph contains a brief summary of 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

First of all, we collected some data related to non-resident holdings of general Government debt, including marketable and non-marketable debt. Data is released by the International Monetary Fund in its periodic report "Fiscal Monitor".

The 4y-trend represent in Fig. 33 highlights a decrease in foreign exposure in France, Germany and Italy, where the negative change is equivalent to about 10 percentage points from end-2015 to end-2018.

Spain shows the most stable exposure: in fact, during the period in question the market share of public debt held by non-resident investors remained close to 50%, in-line with the peak reached just before the sovereign risk crisis.

The United Kingdom which – amongst the five selected countries – together with Italy has the lowest percentage of public debt held abroad, shows fairly low volatility: from 2015 to 2017 the share increased from 30 to 35.2%, while in the past year a negative change of about 3 percentage points was recorded. It will be rather interesting to assess possible changes in this market share after Brexit.

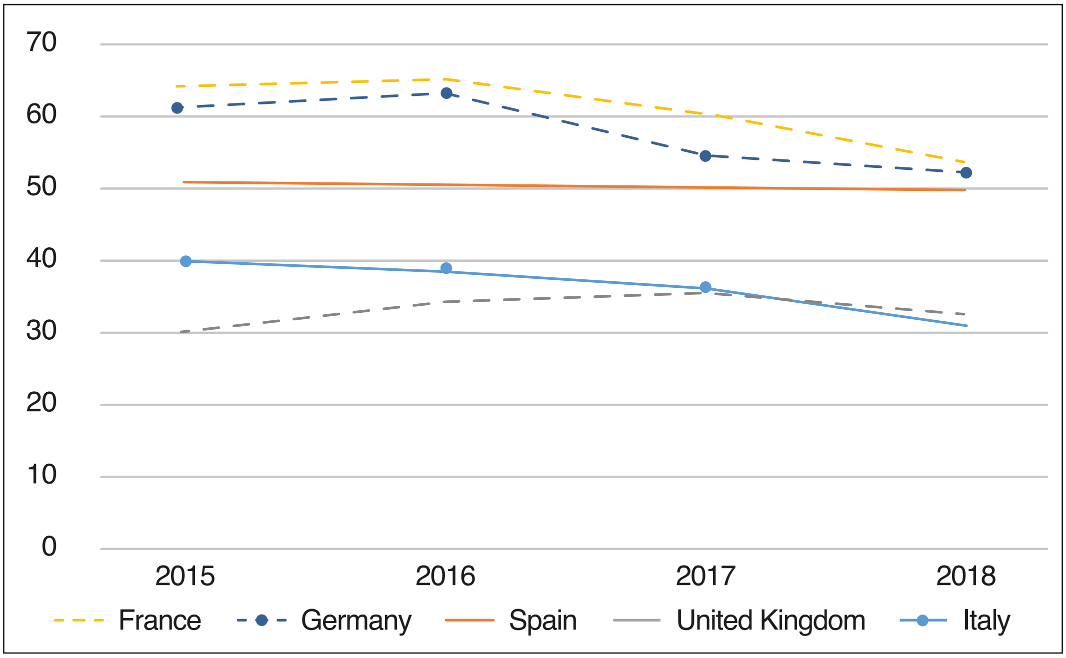

Fig. 33 Non-resident holdings of general government debt (end-year % of total) – Source: Own elaboration of IFM Fiscal Monitor

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), we analyzed – as already explained in the previous Chapters 4 and 5 – the issuances of syndicated loans, as well debt and capital markets.

Fig. 34 contains a summary of main results.

First of all, we focused on syndicated loans. Market sizes vary quite significantly. The United Kingdom is confirmed as the number one (€ 195 billion), notwithstanding a –4% drop compared to 2017 values, while France and Germany increased by about 33% and 20% respectively.

The role of foreign players in all markets is very significant. If we sum up the respective market shares of foreign bookrunners and international pools of lenders (where non-residents intermediaries are, on average, the most active players), in each country in the sample we see a total market share in excess of 60%. In the United Kingdom the market share of solely foreign bookrunners is about 17%, in France and Germany it is close to 15% whereas, on the other hand, Spain has the highest market share as regards international pools of lenders (78%).

Moreover, we may observe that international pools have assisted in the largest issuances, in terms of tranche value. Spain is the exception here in that solely foreign bookrunners only assisted in the issuance of 9 tranches (2% in number), accounting for about 12% of the total market value.

With regards to debt capital markets, in 2018 we can highlight two opposite situations. While on the one hand the French, German and British debt capital markets remained almost stable compared to 2017, on the other Spain and Italy reported a huge decrease (Spain –47% and in Italy –29%) in value.

Nevertheless, the financial markets remained quite attractive for foreign investors. Indeed, if we consider the role of solely foreign bookrunners, the average market share within our sample group amounts to around 23% (Germany 41%). This percentage increase to 62% if we consider market shares held by international pools of bookrunners, where the largest investment banks with worldwide operations play a leading role (Spain 78%),

Equity capital markets downsized in all selected countries, but with widely varying negative changes YoY (United Kingdom –15%, Italy –78% in value; United Kingdom –17%, France –41% in terms of closed deals). Results may reflect financial market instability, as well as the existence of some specific “country” risks (i.e., “Brexit scenario” in the UK or political and economic instability in Italy).

British and German equity markets are about 5 to 6 times bigger than Italian one; Moreover, Germany is characterized by the highest average deal value, about 3 times larger than the Italian transactions.

The presence of foreign bookrunners is very significant in all selected countries. The average market share held by solely foreign bookrunners is about 36% (Spain 69%), while the share held by international pools is close to 50% (Germany 69%, Italy 62%). Also in this case, we can see that the deal value of operations assisted by international players is higher than values closed only with the participation of domestic operators.

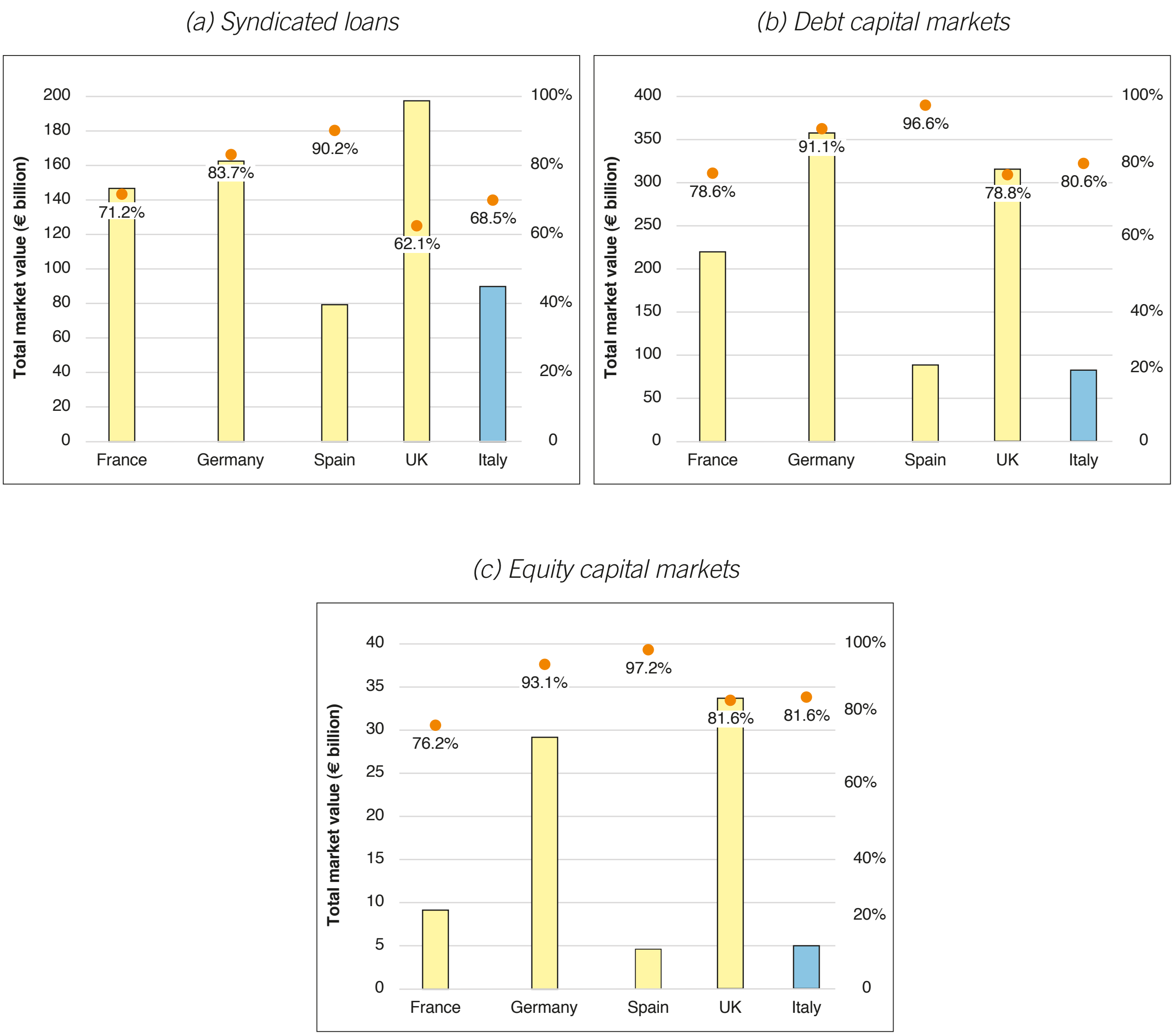

Fig. 34 Annual deal value and market share of foreign intermediaries (2018, € billion and %) – Source: Own elaboration of Dealogic database

Chapter 9

Which implications for foreign banks in a "Brexit scenario"?

Brexit is an abbreviation for "British exit", referring to the UK's decision in the June 23rd, 2016 referendum to leave the European Union (EU). The vote's result defied expectations and roiled global markets. Former Prime Minister David Cameron, who had called the referendum and campaigned for Britain to remain in the EU, announced his resignation the following day.

On June 19th, 2017, about a year after the referendum for Brexit, negotiations began for the UK's exit from the European Union and no final agreement has been reached in the interim. In particular, the deal Theresa May negotiated with the EU has been rejected by the House of Commons rejected on three separate occasions.

Therefore, May, who replaced Cameron as leader of the Conservative party and Prime Minister, also announced her voluntarily resignation on June 7th, 2019.

Britain has to ratify a withdrawal agreement with the EU before leaving if it wants to avoid a chaotic "no-deal" exit. As we know, the new Brexit deadline is October 31st, 2019.

The withdrawal of the United Kingdom from the European Union raises significant uncertainties of a political, legal and economic nature. The Economist calls Brexit "a tragic separation", while the Financial Times talks about "the most complicated divorce in the world".

In particular, the most significant consequences of Brexit are expected to be in the financial services industry. The analysts tried to understand how relations between the UK and the EU would evolve. The key issue regarding Brexit is linked to the fact that banks and financial services companies operating in the United Kingdom could lose their "passport" rights to operate throughout the European Union's single market.

This passport allows financial companies (banks, insurance companies, and investment funds) based in one of the EU's countries to offer services in other EU's country members on the basis of a notification procedure, without needing to request authorization to operate in each country.

In terms of the United Kingdom's exit from the European Union, financial companies, both English and international, based in London will lose their so-called "financial passport", namely the possibility of providing services in other European countries thanks to the authorization obtained in the United Kingdom.

For some London-based banks, the loss of this benefit will entail the need to consider a change of venue or, alternatively, the duplication of certain functions.

According to the Bank of England, 75,000 financial sector jobs are at risk in the UK alone for reasons directly related to Brexit.

On the other hand, the European Union may, in the near future, have to face the risk of a less efficient financial market, with a greater fragmentation of capital, a lower amount of liquidity and a greater risk.

In order to remain eligible for the passporting system, bankers and international institutions have recently started making their own plans to relocate their operations. In particular, the transfer of activities and staff from London to one or more European countries is being planned.

The main strategies already implemented and/or being implemented by the most important financial institutions resident in the United Kingdom are identified below. The following contents are the result of the analysis and synthesis of interviews conducted at some of the main international banks that are AIBE members, as well as from the collection and examination of public information available on the subject.

1. Uncertainty about future agreements between the United Kingdom and the European Union prompted the banks to formulate relocation plans also in the case of a "Hard Brexit" and "No Deal".
2. There will not be a single large hub established to take The City's" place, but the activities will be relocated to various countries.
3. With reference to the transfer plans, we may highlight that:
    a. London will remain an important and strategic hub for more than half of the banks interviewed;
    b. The parent companies have decided to transfer the books to the newly established legal entity and/or to group companies located in other European countries other than the UK;
    c. The main destinations chosen are Frankfurt (selected by 3 out of 7 interviewed banks), Dublin (2), Paris (1) and Brussels (1).

As regards the transfer of activities and personnel, the respondents declared that they have identified more than one financial centre with the aim of replacing "The City"; in particular, the main relocation destinations are from London to Dublin, Frankfurt, Paris, Madrid and Milan.

As regards Italy, our analysis forecasts that about 60 to 75 employees are expected to be transferred from London to Milan. These transfers will contribute not only to the enrichment of our human capital, but also to the development of our economy.

According to the specialized press, following the exit of Great Britain from the EU, European Government Bond activities will also move away from London and to Milan.

Although to a lesser extent than in other European cities, we expect that Milan could also benefit from the transfers induced by Brexit in the financial sector. The Milan offices of various important financial institutions are ready to welcome people and human resources currently allocated in the United Kingdom. This is a positive result, even if the magnitude is probably smaller than what the Milan financial centre could have achieved if it had acted promptly and immediately, putting together all the possible forces and creating team synergies between all the institutions involved.

Nevertheless, Italy can still make a concerted effort to promote some activities in the upcoming months in order to intercept new businesses emerging in a "post Brexit scenario". In particular, our financial institutions could attract the interest of the parent companies in moving a greater number of businesses to Milan (e.g., investment banking, wealth management services, etc.) that are currently located in smaller, less important centres.

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The paragraph 3.2 has been written by Gabriella Guccione, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices.

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