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OECD Capital Market Review of Italy 2020

Creating Growth Opportunities for Italian Companies and Savers

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IL CONTESTO DEL PRESENTE LAVORO

Negli ultimi anni, l'Italia ha intrapreso importanti riforme strutturali per migliorare la robustezza finanziaria delle imprese e per rafforzare i mercati dei capitali quali fonte complementare per il finanziamento alle stesse. Tra le misure adottate vi sono i piani individuali di risparmio (PIR), i cosidetti minibond ed il programma ELITE di Borsa Italiana, mirato ad assistere le imprese nell'accesso al capitale e alle reti necessarie per ingrandirsi. Tuttavia, il mercato italiano dei capitali è ancora sottodimensionato rispetto ad altre economie avanzate. Permangono significativi margini per migliorarne ulteriormente l'utilità per le imprese ed i cittadini italiani. Sarà a tal fine necessario promuovere le iniziative intraprese affiché si traducano in risultati tangibili, nonché contrastare gli eventuali ostacoli che persistono.

Il piano della Commissione europea sull'"Unione dei mercati dei capitali" (CMU) aspira a facilitare la connessione tra i risparmi finanziari e gli investimenti nell'economia reale. Inoltre intende migliorare la capacità di tutte le imprese ad accedere a fonti differenziate di finanziamento basate sul mercato, in grado di complementare i tradizionali prestiti bancari.

È in tale contesto che il Governo italiano ha presentato al Servizio per il sostegno alle riforme strutturali (SRSS) della Commissione europea la richiesta di condurre un esame approfondito del mercato dei capitali in Italia; un progetto per il quale l'OCSE è stata designata quale partner esecutivo. L'analisi e le aree di miglioramento che l'OCSE ha identificato offriranno alle autorità italiane la possibilità di cogliere nuove opportunità di riforma ed eliminare gli ostacoli che si frappongono ad un ulteriore sviluppo del mercato dei capitali, nell'ottica di favorire gli investimenti dei risparmi familiari e delle imprese, a sostegno della creazione dei posti di lavoro e di una crescita economica che perduri nel tempo.

Per preparare lo Studio del mercato dei capitali dell'Italia, il Segretariato dell'OCSE ha eseguito un lavoro di ricercaconsiderevole, organizzato riunioni di consultazione e condotto numerose missioni conoscitive in Italia. Il Segretariato ha tratto considerevole beneficio dalle consultazioni tenute con i rappresentanti delle Istituzioni, delle Autorità nazionali competenti, e con un vasto numero di attori del mercato, accademici ed altri esperti del settore. L'Allegato contiene una descrizione dettagliata delle fonti dei dati e della metodologia utilizzata per la raccolta e l'analisi dei dati stessi.

Lo Studio è stato approntato da un team guidato da Mats Isaksson, Capo della divisione della governance e della finanza delle imprese presso la Direzione degli affari finanziari e delle imprese dell'OCSE, composto da Serdar Çelik, Adriana De La Cruz, Alejandra Medina, Tugba Mulazimoglu e Yun Tang. Questo rapporto è stato realizzato grazie all'assistenza finanziaria della Commissione europea, tramite il Servizio per il sostegno alle riforme strutturali.

ABOUT THIS REVIEW

Italy has in recent years undertaken important structural reforms to improve the financial health of the corporate sector and to strengthen capital markets as a complementary source for corporate financing. These include the individual saving plans (PIR), the mini-bond market framework and the ELITE programme of the Borsa Italiana that aims at helping companies to access capital and the networks needed to scale up. However, the Italian capital market is still less developed than many other advanced economies. Consequently, there remains an important potential to further improve the usefulness of capital markets to Italian businesses and citizens. This will require promoting a successful outcome of the recent initiatives as well as addressing any remaining impediments.

The European Commission's Capital Markets Union (CMU) plan has the ambition to better connect financial savings with investments in the real sector. Importantly, it should improve the ability of all businesses to access different sources of market-based financing that can complement traditional bank lending.

Against this background, the Italian government submitted a request to the Structural Reform Support Service (SRSS) of the European Commission to undertake a comprehensive review of capital markets in Italy. The OECD was designated as implementing partner for the project. The analysis and the identified areas for reform in the OECD review may allow Italian authorities to grasp new opportunities and remove impediments to further capital market development, with a view to supporting beneficial household savings, corporate investments, job creation and sustained economic growth.

To prepare the Capital Market Review of Italy, the OECD Secretariat undertook substantive research, organised consultation meetings and conducted several fact-finding missions to Italy. The Secretariat has greatly benefitted from consultations with representatives of relevant Italian authorities, a large number of market participants, academics and other experts. A detailed description of data sources, and the methodology for data collection and analysis are provided in the Annex.

The Review was prepared by a team led by Mats Isaksson, Head of Corporate Governance and Corporate Finance Division within the OECD Directorate for Financial and Enterprise Affairs, composed of Serdar Çelik, Adriana De La Cruz, Alejandra Medina, Tugba Mulazimoglu and Yun Tang. The report was produced with the financial assistance of the European Commission via the Structural Reform Support Service.

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ACRONYMS AND ABBREVIATIONS

ACE	allowance for corporate equity
ADR	American depositary receipt
AIF	alternative investment fund
AIM	Alternative Investment Market
AUM	assets under management
CMU	Capital Markets Union
CONSOB	Commissione Nazionale per le Società e la Borsa (Italian Securities Regulator)
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation and amortisation
ELTIF	European long term investment fund
ETF	exchange-traded fund
EU	European Union
GDP	gross domestic product
HGF	high-growth firm
IMF	International Monetary Fund
IPO	initial public offering
M&A	mergers and acquisitions
MSCI	Morgan Stanley Composite Index
MIV	Market for Investment Vehicles
MTA	Mercato Telematico Azionario (electronic share market)
MTF	multilateral trading facility
OECD	Organisation for Economic Co-operation and Development
OTC	over-the-counter
NPL	non-performing loan
PIR	piani individuali di risparmio (individual savings plan)
R&D	research and development
REIT	real estate investment trust
RM	regulated market
ROE	return on equity
SME	small and medium-sized enterprise
SOE	state-owned enterprise
SPAC	special purpose acquisition company
SPO	secondary public offering (follow-on offering)

SOMMARIO ESECUTIVO

La prosperità futura delle famiglie italiane dipenderà, in misura apprezzabile, dal grado di successo con cui si riuscirà a far confluire i loro risparmi verso investimenti a lungo termine nell'economia reale, in grado di creare ulteriori posti di lavoro ed una crescita sostenibile. Imprenditori, aziende e famiglie dovranno, pertanto, avere l'opportunità di trarre vantaggio dai rapidi sviluppi che interessano oggi il mondo della finanza. Ispirandosi ai punti di forza delle aziende italiane e alle esperienze internazionali, il presente Studio offre raccomandazioni generali per migliorare il quadro istituzionale e normativo, con l'intento di fornire alle imprese un accesso migliore al finanziamento e garantire pari opportunità per i risparmiatori.

I mercati dei capitali rivestono un peso fondamentale per le dinamiche delle economie moderne. Il loro funzionamento incide su alcuni dei più importanti propulsori della crescita economica; essi sono in grado di ricoprire un ruolo essenziale, in particolare, nel finanziare il rinnovamento del panorama industriale nell'era dell'industria 4.0, dove grandi aziende, così come nuovi imprenditori, necessitano di un rapido accesso al capitale di rischio che può aiutarli ad ingrandirsi. Un affidamento eccessivo al credito bancario può, d'altro canto, avere una funzione di vincolo per gli investimenti futuri, orientati verso un orizzonte a lungo termine; investimenti che risultano necessari se il mondo delle imprese italiano intende stare al passo con la concorrenza internazionale.

L'Italia è una delle grandi economie europee con la percentuale maggiore di aziende a forte crescita, caratteristica che apre la strada a numerose opportunità. Il successo di tali imprese non è, tuttavia, stato sufficiente per risollevare l'economia nel suo complesso, principalmente per il numero esiguo di grandi imprese produttive ed il numero rilevante di piccole aziende con produttività contenuta. È nell'ottica di raggiungere un maggiore equilibrio in tal senso che i mercati dei capitali maggiormente sviluppati dovranno fornire sostegno all'Italia, mettendo a disposizione delle imprese i mezzi finanziari per investire ed espandersi su ampia scala.

Nel corso degli ultimi dieci anni, una media inferiore a quattro società l'anno è stata quotata sul mercato regolamentato della Borsa valori italiana e la capitalizzazione di mercato del Paese, in percentuale del PIL, si è attestata notevolmente al di sotto di quella delle controparti europee. Allo stesso tempo, nel 2018, il numero totale di obbligazioni societarie emesse, in Italia e all'estero, da parte di imprese non finanziarie italiane è stato pari a circa il 6% di tutte le emissioni europee, circa la metà della percentuale italiana del PIL europeo. È significativo sottolineare come, rispetto ad altre grandi economie europee, la percentuale di obbligazioni quotate all'estero sia notevolmente elevata: il 90% di tutte le obbligazioni societarie italiane è quotato in una borsa estera. A fine 2017, solo il 7% dei portafogli degli investitori istituzionali italiani era investito in azioni e obbligazioni societarie emesse da aziende italiane, un dato che evidenzia le dimensioni contenute del mercato italiano. Per contro, gli investitori italiani avevano allocato EUR 190 miliardi circa agli investimenti nel capitale di rischio di imprese oltre confine, sia direttamente che indirettamente tramite fondi di investimento esteri: in termini di valore si tratta di una somma rappresentativa di quasi due terzi del totale della capitalizzazione di mercato aggiustata per il flottante di tutte società italiane quotate. Oltre a un flottante limitato, un'altra conseguenza dei mercati dei capitali meno sviluppati è che i titoli italiani rappresentano solo il 3,6% dell'autorevole MSCI Europe Index, dove i titoli francesi rappresentano circa il 18%. Nei mercati di capitali globalizzati di oggi, uno scarso peso negli indici chiave limita automaticamente il flusso di capitale in entrata da parte del crescente bacino di fondi istituzionali indicizzati.

Negli ultimi anni, l'Italia ha intrapreso riforme strutturali significative che hanno contribuito ad una graduale ripresa economica, tuttavia i miglioramenti estesi nel tempo in termini di produttività, competitività e crescita debbono essere sostenuti da ulteriori investimenti nell'economia reale, e gli investimenti presuppongono che le imprese abbiano accesso a capitale a lungo termine. In un'era di accresciuta concorrenza globale, i mercati dei capitali maggiormente sviluppati sono pertanto in grado di contribuire ad un processo virtuoso di investimenti e di crescita, dove le aziende possono adottare quella visione di lungo termine necessaria per mettere in discussione lo status quo e trainare le dinamiche del settore imprenditoriale. L'accesso ad un mercato dei capitali italiano completamente funzionante aiuterà, altresì, le imprese a raggiungere quella dimensione critica spesso necessaria per aumentare la produttività e sostenere la concorrenza estera. In ultima, ma non meno importante analisi, un mercato dei capitali maggiormente sviluppato offrirà ai cittadini migliori opportunità di diversificare il proprio risparmio e partecipare, direttamente o indirettamente, al successo delle imprese italiane.

Raccomandazioni principali

L'ecosistema del mercato dei capitali di un paese è composto da emittenti, investitori, intermediari e da piattaforme finanziarie (marketplace) ed il suo funzionamento è regolato da un ampio quadro di disposizioni giuridiche, normative e istituzionali: dalla formulazione di regole specifiche all'efficienza complessiva del sistema giuridico. Un obbiettivo di intervento prioritario dovrà essere quello di garantire che l'agenda di riforme produca un quadro sufficientemente coerente, inequivocabile e prevedibile da permettere a investitori, aziende e imprenditori di impegnarsi in investimenti a lungo termine. Sebbene le raccomandazioni contenute nel presente rapporto costituiscano un piano di azione, occuparsi separatamente dei diversi elementi del quadro non risulterebbe efficace. Attingendo dalle esperienze internazionali tratte da diversi mercati dei capitali, il rapporto offre raccomandazioni che dovranno essere utilizzate quale base per una politica sui mercati dei capitali in Italia, dove le diverse componenti di tale ecosistema confluiscono tutte verso l'obbiettivo finale che è quello di incoraggiare la fiducia degli investitori, gli investimenti delle imprese, la creazione di posti di lavoro e una crescita economica duratura.

Negli ultimi anni, l'Italia ha intrapreso riforme volte a migliorare l'efficienza della pubblica amministrazione e del sistema giudiziario, tra le quali si annoverano un maggiore ricorso ai meccanismi di risoluzione alternativa delle controversie, come l'Arbitro bancario finanziario (ABF) della Banca d'Italia e l'Arbitro per le controversie finanziarie (ACF) presso la CONSOB, nonché la semplificazione delle procedure di insolvenza. Per raccogliere i frutti di tali successi e rafforzare la fiducia di imprenditori ed investitori nel mercato dei capitali italiano, sarà decisivo ridurre al minimo l'incertezza all'interno della sfera economica, sociale e politica. Nel cammino verso la realizzazione di un quadro amministrativo e giudiziario moderno e in grado di favorire lo sviluppo del mercato dei capitali, è importante tenere presente che investitori e imprese operano oggigiorno con una prospettiva internazionale e che la competitività dell'ecosistema del mercato dei capitali di un paese è giudicata su scala globale. Nel mettere a punto e dare esecuzione a un'agenda di riforme basata sulle raccomandazioni contenute in questo rapporto, sarà pertanto apprezzabile identificare e valutare regolarmente la rilevanza delle esperienze internazionali tratte da diversi mercati dei capitali e, nell'ottica di evitare una frammentazione normativa, sarà importante che tali riforme siano mirate e valutate sulla base del loro risultato economico finale.

Gli incentivi fiscali, come i crediti d'imposta e le agevolazioni fiscali, sono spesso utilizzati per promuovere il ricorso, da parte delle società, al finanziamento derivante dal mercato e incoraggiare la partecipazione degli investitori ai mercati dei capitali. Dati i costi e le possibili asimmetrie in cui gli incentivi finanziari potrebbero incorrere, è importante verificare che ciascuna misura rappresenti uno strumento efficace per raggiungere gli obbiettivi definiti. Negli ultimi anni, l'Italia ha introdotto

numerosi incentivi fiscali, tra cui crediti d'imposta per i costi di ammissione alla quotazione delle PMI, minori oneri fiscali per le emissioni dei mini-bond ed esenzioni dall'imposta sugli utili da capitale (capital gain) per gli investitori nei PIR. Alla luce del loro impatto e degli sviluppi del mercato dei capitali, sia in Italia che all'estero, il Governo potrebbe pensare di valutare l'efficacia di queste iniziative e, nella misura necessaria, renderle mirate verso le esigenze di operatori, investitori ed imprese, in particolare dato lo scarso ricorso al capitale di rischio da parte delle imprese, rispetto alle loro controparti, e le ancora modeste allocazioni verso le partecipazioni azionarie da parte di famiglie e investitori istituzionali italiani. Una valutazione di questo tipo potrebbe, altresì, contemplare la reintroduzione dell'agevolazione aiuto alla crescita economica (ACE), che contribuirebbe a rafforzare la capitalizzazione delle imprese italiane e a ridurre la loro dipendenza dal finanziamento a breve termine. Poiché la copertura da parte degli analisti costituisce un prerequisito importante per la visibilità, per valutazioni migliori e anche per la liquidità per le imprese quotate di minori dimensioni, il Governo potrebbe altresì ipotizzare soluzioni per favorire la copertura di tali imprese da parte degli analisti, per esempio con un sistema di crediti d'imposta simile a quello introdotto per le ammissioni alla quotazione delle PMI. La coerenza e la prevedibilità complessiva di tutte le imposte che influenzano il ricorso ai mercati dei capitali è, tuttavia, almeno tanto importante quanto gli eventuali effetti positivi dei singoli incentivi fiscali, specialmente in virtù del fatto che le iniziative imprenditoriali e gli investimenti per rinnovare il settore delle imprese rappresentano impegni di lungo termine da parte delle aziende e degli investitori. Garantire tale coerenza e prevedibilità dovrà essere il nucleo di qualsiasi riforma fiscale intesa a supportare il ricorso al mercato dei capitali italiano e il suo sviluppo.

Sulla base della valutazione esposta nel presente rapporto, le raccomandazioni che seguono riguardano il quadro istituzionale delle Autorità nazionali competenti, gli investitori nei mercati dei capitali e le condizioni nei mercati dei capitali primari e secondari.

L'accesso al capitale da parte delle imprese e il ruolo delle Autorità nazionali competenti

- *Promuovere le nuove ammissioni alla quotazione sul mercato regolamentato:* le borse valori rivestono un ruolo di rilievo nel mettere in contatto le aziende con esigenza di accedere al finanziamento esterno mediante capitale di rischio e gli investitori disposti a fornire loro tale capitale. I principali mercati regolamentati rappresentano l'elemento centrale dell'ecosistema del mercato dei titoli: il loro funzionamento è fondamentale per la reputazione e i meccanismi del mercato dei capitali nel suo insieme; il loro contributo è altresì decisivo per assistere i mercati dei capitali nel conseguire economie di scala sufficienti, un maggiore livello di liquidità ed una più ampia base di investitori. Il declino nel numero di imprese italiane che operano sul mercato regolamentato MTA di Borsa Italiana sollecita l'adozione di misure adeguate a promuoverne l'utilizzo, mediante le quali rafforzare l'intero ecosistema del mercato dei capitali italiano. Le autorità italiane dovranno valutare l'opportunità di svolgere una consultazione per ricevere suggerimenti dagli attori del mercato e da altri esperti su come migliorare la procedura di offerta pubblica di titoli azionari, sia per le offerte iniziali che per quelle sul mercato secondario. Una consultazione di questo tipo potrebbe comprendere discussioni sulla possibilità di facilitare ulteriormente le procedure di interazione tra autorità di regolamentazione, aziende e professionisti che offrono servizi di consulenza. Si potrebbe, altresì, valutare l'introduzione di nuove pratiche di mercato come quella che consiste nel "sondare il terreno" e che permette di misurare l'interesse degli investitori verso una potenziale offerta, prima di impegnarsi a sostenere le spese legate alla preparazione della domanda di ammissione alla quotazione, nonché alla procedura di approvazione del prospetto. Questa pratica potrebbe ricondursi alla raccomandazione, formulata più avanti, sul miglioramento della tutela del personale CONSOB da responsabilità giuridiche ingiustificate e sulla necessità che venga offerta una risposta tempestiva alle richieste di

informazioni riguardanti le domande di ammissione. Le riforme attuate in questa direzione dovranno anche tenere conto degli incrementi di efficienza in relazione alla procedura e ai requisiti per le offerte, sul mercato secondario, di titoli azionari di società già quotate che, oltre a consolidare i bilanci di singole società, genereranno altresì percentuali più elevate di flottante libero e contribuiranno ad attrarre il crescente bacino di capitale proveniente dagli investitori istituzionali su scala globale. In tale contesto, i responsabili politici potrebbero vagliare l'adozione di misure per stimolare un aumento del flottante libero, autorizzando strutture di diritto di voto più flessibili, in risposta ai timori, tra fondatori e azionisti di lunga data, circa l'efficacia delle decisioni di importanza fondamentale per il futuro andamento della società, senza compromettere le garanzie di tutela dell'azionista di minoranza. Tali misure potrebbero comprendere valutazioni di efficacia tenendo conto anche delle eventuali "unintended consequences" per il flottante libero che potrebbero emergere a causa dei requisiti di maggioranza qualificata per talune decisioni prese dall'assemblea degli azionisti. Si potrebbe contemplare altresì un'opzione di default più flessibile per decidere sull'introduzione di azioni che garantiscono un diritto di voto maggiorato (loyalty share). Per rafforzare ulteriormente la posizione di AIM come piattaforma per le società meno mature con un alto potenziale di crescita e, di conseguenza, motivare esigenze di quotazione specifiche, si potrebbe valutare l'introduzione di misure volte a consentire una transizione più fluida verso il mercato principale per le società che soddisfino determinati criteri di quotazione e rendicontazione. Un'altra considerazione potrebbe essere quella di promuovere la quotazione di imprese pubbliche locali e istituti finanziari sul mercato MTA. Muoversi in tale direzione contribuirebbe ad ingrandire il mercato, capitalizzare e consolidare il settore finanziario e migliorare la trasparenza, la rendicontabilità e l'efficienza operativa delle imprese pubbliche locali e potrebbe altresì accrescere il peso dei titoli italiani negli indici internazionali riconosciuti, spesso usati dagli investitori istituzionali globali. Inoltre, dovrà essere adottato un approccio proattivo per garantire che non vi siano barriere o incertezze normative per le società italiane che intendono avvalersi dei nuovi metodi alternativi di ammissione alla quotazione, come la quotazione diretta e il bookbuilding online.

- *Potenziare il ruolo degli organi di regolamentazione e consolidare il quadro istituzionale per migliori mercati dei capitali:* per facilitare l'accesso al finanziamento da parte delle società, numerosi paesi hanno adottato misure per garantire che il quadro normativo e le procedure amministrative siano modernizzati e adattati agli attuali sviluppi internazionali nei mercati dei capitali. Per portare a termine tale compito, alle Autorità di regolamentazione dei mercati dei capitali dovranno essere garantite l'autorità, l'integrità e le risorse necessarie per ricoprire questo ruolo in modo efficiente, trasparente e responsabile. Nell'ambito dell'impegno assunto dal Paese di valutare l'efficacia del quadro istituzionale e la capacità complessiva delle Autorità nazionali competenti, ivi incluse le funzioni svolte dall'Autorità per la vigilanza dei mercati finanziari (CONSOB), il Governo italiano potrebbe considerare di richiedere a quest'ultima di condurre un'autovalutazione, supportata da un parere indipendente, volta a verificare la capacità e il funzionamento dell'Autorità stessa, ivi inclusa la Commissione e le Divisioni. Per tale verifica potrebbe essere utile avvalersi della *Raccomandazione dell'OCSE sulla politica e la governance in materia di regolamentazione*, *gli Obbiettivi e i principi IOSCO di vigilanza sui valori mobiliari*, i *Principi di governo societario del G20 e dell'OCSE, nonché delle pertinenti esperienze e pratiche di altri organi di regolamentazione di mercati dei capitali avanzati*. In una prospettiva di potenziare la capacità della CONSOB di attrarre, curare la formazione e assicurare la fidelizzazione di personale di elevato calibro, tale studio potrebbe altresì analizzare l'efficienza dell'attuale politica sul periodo di *cooling off* con riferimento alla dirigenza, ivi incluse le opzioni di remunerazione durante tale periodo; le forme di mobilità del personale tra CONSOB e altre parti della pubblica amministrazione, nonché i punti di

debolezza nella tutela del personale in caso di controversie. Un'ulteriore misura positiva per migliorare l'efficienza del sistema giudiziario potrebbe consistere nell'estendere il ricorso alle sezioni giudiziarie specializzate e permettere ai cosidetti Tribunali delle imprese esistenti, o a un nuovo tribunale specializzato, di assumere la competenza in materia di mercati dei capitali. Trattando un elevato numero di casi e con l'attenzione rivolta ai rapidi sviluppi nei mercati dei capitali, tali organi potrebbero contribuire ad ottenere decisioni efficaci in termini di tempistica e di prevedibilità della giurisprudenza.

Opportunità per gli investitori, i risparmiatori e le aziende in crescita

- *Migliorare le condizioni per la partecipazione da parte degli investitori individuali qualificati:* l'accresciuta capacità, dimensione e completezza dei mercati dei capitali privati offre ulteriori opportunità alle imprese, in particolare quelle di medie dimensioni, di accedere al finanziamento esterno tramite capitale di rischio e di debito. Grazie all'introduzione del programma ELITE e al lancio e consolidamento dei mercati ExtraMot Pro e AIM, il settore italiano delle imprese ha aumentato il proprio ricorso al collocamento privato per reperire le proprie risorse finanziarie. Tuttavia, l'attuale incompletezza ed incoerenza del quadro normativo, unita a meccanismi insufficienti per promuovere la partecipazione dei soggetti privati, continua a limitare il mercato del collocamento privato ai grandi investitori istituzionali e priva una platea considerevole di potenziali investitori privati dell'opportunità di investimento diretto in società a rapida crescita. Poiché la base di investitori istituzionali nazionali in Italia è piuttosto ristretta, la mancanza di partecipazione individuale al mercato dei capitali contribuisce, altresì, al problema della scarsa liquidità. I responsabili politici dovranno pertanto valutare l'adozione di misure per fornire certezza normativa in materia di responsabilità degli intermediari finanziari nelle operazioni con investitori individuali "qualificati", sulla base dei principi generali per la condotta degli intermediari autorizzati, contenuti Testo Unico della Finanza (TUF), nonché misure per la capacità dei gestori di attivi di investire in mercati aperti solo a investitori "qualificati", per conto dei rispettivi clienti che non sono investitori "qualificati". Le autorità potrebbero altresì valutare l'attivazione di un'iniziativa pubblico/privata per facilitare il collegamento tra investitori individuali qualificati ed opportunità di investimento.

- *Incoraggiare la partecipazione ai mercati dei capitali italiani da parte degli investitori istituzionali:* negli ultimi decenni, i mercati dei capitali hanno registrato un'accresciuta presenza sia di investitori tradizionali, come fondi pensione e assicurazioni, sia di investitori alternativi, come fondi di private equity e di venture capital. Gran parte delle risorse finanziarie, non solo nei mercati dei capitali privati ma anche nei mercati pubblici, è oggi allocata attraverso investitori istituzionali. In Italia, tuttavia, sia la dimensione degli investitori istituzionali, come i fondi pensione, che la rispettiva allocazione ai mercati azionari e obbligazionari italiani, è esigua rispetto agli altri paesi avanzati. Poiché i fondi pensione possono rivestire un ruolo importante nel rafforzamento dell'ecosistema del mercato dei capitali, il Governo potrebbe prendere in considerazione un'analisi della struttura dell'attuale sistema pensionistico, in modo tale che un'accresciuta partecipazione nel pilastro privato porti vantaggio anche per lo sviluppo di un mercato dei capitali italiano più completo. Per aumentare la visibilità e attrarre investitori internazionali che si affidano spesso a strategie di investimento basate sugli indici, si potrebbero adottare misure in grado di facilitare l'inclusione negli indici di società italiane, aumentando la percentuale di flottante libero nel mercato dei titoli italiano, come accennato con riguardo alla promozione di nuove quotazioni. Si potrebbe tenere conto del nuovo quadro normativo per i fondi ELTIF in Europa, nell'ottica di aumentare i coinvestimenti da parte degli investitori istituzionali e la partecipazione di investitori individuali "qualificati" e non al mercato dei capitali italiano.

Un'ulteriore ipotesi da valutare potrebbe riguardare la creazione di "Fondi di fondi" dedicati, specializzati nel finanziamento alle PMI, e di concentrarsi su alcuni settori o regioni. Per quanto riguarda l'efficacia dei fondi di venture capital, sarà importante garantire le misure istituzionali in atto per salvaguardarne la professionalità, indipendenza operativa e trasparenza nelle decisioni.

Migliorare le condizioni nei mercati primari e secondari

- *Migliore accesso e liquidità nel mercato delle obbligazioni societarie per le imprese non finanziarie:* le obbligazioni societarie sono diventate una fonte importante di finanziamento per le imprese italiane. È rilevante sottolineare come le imprese non finanziarie, non quotate, di dimensioni minori, abbiano ottenuto accesso al mercato del debito grazie allo strumento dei minibond, la cui disciplina è stata introdotta nel 2012. Il ricorso alle obbligazioni societarie da parte delle imprese italiane, in particolare alle obbligazioni tipicamente emesse dalle imprese di maggiori dimensioni è, tuttavia, ancora limitato rispetto alle controparti europee. Ciò rende le imprese italiane maggiormente dipendenti dagli investitori e dai mercati esteri. Per facilitare la procedura di emissione di obbligazioni societarie sottoscritte in Italia, il Governo potrebbe valutare l'istituzione di un comitato consultivo, composto da rappresentanti ed esperti del settore, con la finalità di proporre modifiche giuridiche e normative per accrescere l'efficienza della procedura di emissione sul mercato nazionale, ivi incluso per quanto riguarda tempi e costi delle emissioni obbligazionarie. Occorrerà altresì valutare misure per aumentare la liquidità nel mercato secondario dei minibond, per supportare la sua sostenibilità di lungo termine e il prolungamento delle scadenze obbligazionarie. Tali riforme potrebbero comprendere il rafforzamento della partecipazione di investitori individuali "qualificati" e piani di investimento collettivo sia nel mercato secondario dei minibond che in quello dei minibond cartolarizzati.

- *Completare il quadro normativo per le Special Purpose Acquisition Company (SPAC):* Le Special Purpose Acquisition Company (SPAC) offrono alle imprese la possibilità di essere ammesse alla quotazione attraverso una procedura meno onerosa e più veloce rispetto ad una tradizionale IPO, offrendo agli investitori la possibilità di accedere alle opportunità di investimento nei mercati pubblici, tipicamente disponibili solo nei meno liquidi mercati di private equity. Il loro accresciuto utilizzo in tutto il mondo è stato supportato da miglioramenti continui nella completezza e qualità del quadro normativo in cui operano. Per garantire la sua fattibilità nel lungo periodo e la fiducia nel modello SPAC per favorire le quotazioni, l'Italia, prendendo come base l'attuale sistema normativo, dovrà valutare la messa a punto di un quadro su misura per le SPAC, che contenga sufficienti tutele per gli investitori e minimizzi i conflitti di interesse tra promotori, investitori e società target. Oltre a mettere a disposizione una chiara struttura per il deposito e la gestione dei titoli e dei rendimenti detenuti su un conto vincolato (escrow) dalla SPAC, si potrebbero valutare riforme complementari come l'abolizione o la riduzione del periodo di 60 giorni che il Codice civile concede ai creditori delle società target per opporsi alla fusione. Si potrebbero anche prevedere norme non vincolanti (soft law) complementari, ai sensi delle quali Borsa Italiana potrebbe sviluppare delle linee guida sulle migliori pratiche in consultazione con i partecipanti e gli stakeholders del settore.

EXECUTIVE SUMMARY

The future prosperity of Italian households will to a large extent depend on how successfully their savings can be channelled to long-term investments in the real economy that will create good jobs and sustainable growth. Entrepreneurs, companies and ordinary households must therefore be given the opportunity to benefit from today's rapid developments in the area of finance. Drawing on the strengths of Italian corporations and international experiences, this Review offers policy recommendations to improve the institutional and regulatory framework in a way that will give corporations better access to funding and ensure that savers have equal opportunities.

Capital markets are of critical importance to the dynamics of modern economies. Their functioning affects some of the most important drivers of economic growth. In particular, they can play a critical role in financing the rejuvenation of the industrial landscape in the era of industry 4.0 where large companies, as well as new entrepreneurs, need ready access to equity capital that can help them expand. Too much dependence on bank credit on the other hand can serve as a constraint on future and long-term oriented investments that will be necessary if the Italian business sector is to keep up with international competition.

The opportunities are plenty as Italy is one of the large European economies with the highest proportion of high-growth firms. However, their success has not been enough to lift the economy as a whole. The main reason is a disproportionately low number of large productive companies and a disproportionately large number of small companies with low productivity. More developed capital markets should help Italy to establish a better balance in this respect by providing the financial means for companies to invest and obtain a critical scale.

During the last ten years, on average less than four companies per year became listed on the regulated market of the Italian stock exchange and the Italian market capitalisation as per cent of GDP remains well below that of its European peers. At the same time, the total amount of corporate bonds issued, in Italy and abroad, by Italian non-financial companies was around 6% of all European issuances in 2018, which is about half of Italy's share of European GDP. Importantly, compared to other large European economies, the share of bonds that are listed abroad is considerably higher with 90% of all Italian corporate bonds listed in a foreign market. The limited size of the Italian market is also reflected in the fact that only 7% of the Italian institutional investors' portfolios were invested in corporate shares and bonds issued by Italian firms at the end of 2017. Instead, Italian investors had directly or indirectly through foreign investment funds, allocated around EUR 190 billion to equity investments in foreign firms. In terms of value, this sum represents almost two-thirds of the total free-float market capitalisation of all Italian listed companies. Another consequence of less developed capital markets, including a limited free-float, is that Italian stocks account for only 3.6% of the important MSCI Europe index. This can be compared to French stocks that account for about 18%. In today's globalised capital markets, a low weighting in key indices automatically limits the inflow of capital from the growing pool of indexed institutional funds.

Italy has in recent years undertaken important structural reforms that have contributed to a gradual economic recovery. But sustained improvements in productivity, competitiveness and growth requires further investments in the real economy. And investments require that companies have access to long-term capital. In an era of increased global competition, more developed capital

markets can therefore contribute to a virtuous process of investment and growth where companies can take the long-term view that is necessary in order to challenge status quo and drive business sector dynamics. Access to well-functioning Italian capital markets will also help companies to reach a critical size, which is often necessary in order to increase productivity and take on foreign competition. Last but not least, more developed capital markets will also provide ordinary citizens with better opportunities to diversify their savings and directly and indirectly share in the success of Italian business.

Key recommendations

A country's capital market ecosystem includes issuers, investors, intermediaries and marketplaces. It functions under a broad framework of legal, regulatory and institutional provisions ranging from the design of specific rules to the overall efficiency of the judicial system. An overriding policy objective must therefore be to make sure that the reform agenda results in a framework that is consistent, unambiguous and predictable enough for investors, companies and entrepreneurs to engage in long-term investments. Although the recommendations in this report constitute a plan for action, addressing different elements of the framework in isolation would not be effective. Drawing on international experiences from different capital markets, the report offers recommendations that should be used as a basis for a capital market policy in Italy where the different parts of the capital market ecosystem all fulfil their ultimate purpose to support investor trust, corporate investments, job creation and sustained economic growth.

In recent years, Italy has undertaken reforms to improve the efficiency of public administration and the judicial system. This includes greater use of alternative dispute resolution mechanism, such as the Banking and Financial Ombudsman (ABF) served by the Bank of Italy and the Italian Financial Ombudsman (ACF) at CONSOB; and simplification of the insolvency system. Minimising the uncertainty in the economic, social and political environment will be instrumental in harvesting the benefits of these achievements and reinforcing the trust of both entrepreneurs and investors in the Italian capital market. In the pursuit of a modern administrative and judicial framework that supports capital market development, it is important to keep in mind that today's investors and corporations have an international perspective and that the competitiveness of a country's capital market ecosystem is judged on a global scale. When setting and executing a reform agenda based on the recommendations in this report, it will therefore be important to routinely identify and assess the relevance of international experiences from different capital markets. Importantly, and with a view to avoiding regulatory fragmentation, reforms should be focused and assessed with respect to their ultimate economic outcomes.

Fiscal incentives, such as tax credits and subsidies, are often used to promote companies' use of market-based financing and encourage investors' participation in capital markets. Given the costs and possible asymmetries that financial incentives may incur, it is important to verify for each measure whether it is an effective tool for achieving the defined objectives. In recent years, Italy has introduced several fiscal incentives, including tax credits for SME listing costs, lower tax costs of mini-bond issuances and exemptions from capital gains tax for PIR investors. In light of their impact and of capital market developments both in Italy and abroad, the government may consider evaluating the effectiveness of these initiatives and as necessary make them focused on the needs of operators, investors and companies. Particularly since companies' use of equity is low compared to peers and Italian households and institutions still allocate little to equity investments. Such an evaluation may also include an assessment of re-introducing the Allowance for Corporate Equity (ACE) framework that would help to strengthen the capitalisation of the Italian corporations and reduce their reliance on shorter term financing. Since analyst coverage is an important prerequisite for visibility, better evaluations and also liquidity for smaller companies, the government may also

consider ways to support analyst coverage of smaller listed companies, for example with a tax credit system similar to the one introduced for SME listings. At least as important as any positive effects of individual tax incentives however is the overall consistency and predictability of all the taxes that influence the use of capital markets. Particularly, since entrepreneurial initiatives and investments to rejuvenate the business sector are long-term commitments by both companies and investors. Ensuring such consistency and predictability should be at the heart of any tax reform aiming to support the use and development of Italian capital markets.

Based on the assessment provided in this report, the recommendations below address the institutional framework relating to national competent authorities, investors in capital markets and the conditions in primary and secondary capital markets.

Corporate access to capital and the role of national competent authorities

- *Promoting new listings on the Regulated Market:* Stock exchanges play a significant role in matching companies that need access to external equity financing and investors that are willing to provide them with this capital. The main regulated markets are the principal element of the stock market ecosystem and their functioning is fundamental to the reputation and workings of the capital market as a whole. They are also instrumental in helping capital markets to reach sufficient economies of scale, a higher level of liquidity and a larger investor base. The decline in the number of Italian companies that use the regulated market (MTA) of Borsa Italiana calls for appropriate measures to promote its use and thereby strengthening the entire Italian capital market ecosystem. The Italian authorities should consider undertaking a consultation to collect inputs from market participants and other experts on how to enhance the public equity offering process for initial as well as secondary offerings. This could include discussions on the scope for further facilitating the procedural process for interaction between the regulatory authorities, corporations and professionals that provide advisory services. It could also consider the introduction of new market practices such as "testing the water" that allows gauging investor interest in a potential offering before committing to the expenses that are related to preparing a registration statement and the process for prospectus approval. This may be linked to the recommendation below to improve the protection of CONSOB staff members from undue legal responsibilities and timely responsiveness with respect to inquiries related to applications. Reforms in this respect should also consider efficiency gains with respect to the process and requirements for secondary equity offerings by already-listed companies that, in addition to strengthening the balance sheets of individual companies, also will lead to higher free-float ratios and help attract the growing pool of capital from global institutional investors. In this context, policy makers may consider taking steps to stimulate an increase in the free-float by allowing more flexible structures of voting rights to address concerns among founders and long-term shareholders about the effectiveness of decisions that are of key importance to the future direction of the company, without compromising safeguards for minority shareholder protection. This may include an evaluation of the effectiveness, and possible unintended consequences for the free-float, that may arise from supermajority requirements for certain decisions by the shareholder meeting. It may also include a more flexible default framework for deciding on the introduction of loyalty shares. In order to further strengthen the position of the Alternative Investment Market (AIM) as a marketplace for less mature companies with high growth potential and, hence, motivate special listing requirements, the regulator and the stock exchange may consider introducing measures that allow a seamless transition to the main market for companies that meet certain listing and reporting criteria. Another consideration would be to promote the listing of local state-owned enterprises (SOEs) and financial sector companies on MTA. This would help scale-up the market, help capitalise and

consolidate the financial sector and improve the transparency, accountability and operational efficiency of local state-owned companies. It may also increase the weight of Italian stocks in internationally recognised indices that are often used by global institutional investors. The regulator and the stock exchange should also take a proactive approach to ensure that there are no barriers or regulatory uncertainty for Italian companies that want to use new alternative listing methods, such as direct listing and online book building.

- *Enhancing the role of the regulators and strengthening the institutional framework for better capital markets:* In order to facilitate for companies to access financing, many countries have taken steps to ensure that the regulatory framework and administrative processes are modernised and adapted to current international developments in capital markets. To fulfil this role, capital market regulators should be granted the authority, integrity and resources that are necessary to fulfil this role in an efficient, transparent and accountable manner. As part of a national effort to assess the effectiveness of the institutional framework and overall capacity of national competent authorities, including the functions that are carried out by the Italian Securities Regulator CONSOB, the government may consider requesting CONSOB to conduct a self-assessment supported by independent expert opinion, assessing the capacity and functioning of the authority, including the Commission and the Divisions. The review can usefully take into account the *OECD Recommendation on Regulatory Policy and Governance*, *IOSCO Objectives and Principles of Securities Regulation*, the *G20/OECD Principles of Corporate Governance as well as relevant experiences and practices of other regulators of advanced capital markets*. With a view to enhancing the capacity of CONSOB to attract, develop and retain high quality staff members, the review may also address the efficiency of the current cooling-off period policy with respect to senior management, including options for remuneration during the cooling-off period; forms of staff mobility between CONSOB and other parts of the public administration; and, weaknesses in the protection of staff members during the course of lawsuits. An additional positive step to improve the efficiency of the judicial system would be to extend the use of specialised justice services by allowing the existing Business Courts or a new specialised court to have jurisdiction on matters related to capital markets. Through exposure to a large number of cases and by following rapid developments in capital markets, this could contribute to effective ruling in terms of timing and predictability of jurisprudence.

Opportunities for investors, savers and growth companies

- *Improving the conditions for participation by qualified individual investors:* Increased capacity, scale and completeness of private capital markets provide additional opportunities for corporations, in particular for mid-sized companies, to access external equity and debt financing. With the introduction of ELITE, and the launch and consolidation of ExtraMot Pro and AIM markets, the Italian corporate sector has also increased their use of private placements for fundraising. However, the current incompleteness and inconsistency of the regulatory framework together with insufficient mechanisms to promote the participation of private individuals, still limits the private placement market to large institutional investors and deprives a considerable population of potential private investors of direct investment opportunities in fast-growing companies. Since the domestic institutional investor base is rather limited in Italy, the lack of individual participation in the capital market also contributes to the problem of low liquidity. Policy makers may therefore consider taking steps to provide regulatory certainty regarding the liabilities of financial intermediaries when they deal with qualified individual investors based on the Financial Services Act’s general principles for the conduct of authorised intermediaries and the ability of asset managers to invest in markets that are only open to qualified investors on behalf of their clients that are not qualified

investors. Authorities may also consider establishing a public/private initiative to facilitate the matching of qualified individual investor with investment opportunities.

- *Encouraging participation by institutional investors in Italian capital markets:* In recent decades, capital markets have seen an increased presence of both traditional institutional investors, such as pension funds and insurance companies, and alternative investors, such as private equity and venture capital funds. Today, most of the money not only in the private capital markets, but also in the public markets is allocated through institutional investors. In Italy however, both the size of institutional investors, such as pension funds, as well as their allocation to Italian equity and bond markets are small compared to other advanced countries. Since pension funds can play an important role in strengthening the capital market ecosystem, the government may consider evaluating the current pension system design so that an increased participation in the private pillar also benefit the development of more complete Italian capital markets. In order to increase visibility and attract international investors that often rely on indexed investment strategies, measures could be taken to facilitate index inclusion of Italian companies by increasing the free-float ratio in the Italian stock market as mentioned with respect to the promotion of new listings. The new regulatory framework for ELTIFs in Europe may be considered with a view to increasing co-investments by institutions and the participation of both qualified and non-qualified individual investors in Italian capital markets. An additional consideration would be to create dedicated "Funds of Funds" that are specialised in SME financing and focus on certain industries or regions. With respect to the effectiveness of the venture capital funds that recently have been created at the initiative of the government, it will be important to ensure the institutional measures that are in place to safeguard their professionalism, operational independence and accountability in the exercise of their decisions.

Improving conditions in primary and secondary markets

- *Better access and liquidity in the corporate bond market for non-financial companies:* Corporate bonds have become an increasingly important source of finance for Italian companies. Importantly, smaller unlisted non-financial companies have gained access to the market by using the mini-bond market framework that was created in 2012. However, the use of corporate bonds by Italian companies, particularly underwritten bonds that are typically issued by larger companies, is still limited compared to European peers. They are also more dependent on foreign investors and markets. In order to facilitate the underwritten corporate bond issuance process in Italy, the government may consider establishing an advisory committee including industry representatives and experts with an objective to propose legal and regulatory changes that will increase the efficiency of the issuing process in the domestic market, including with respect to timing of bond issues and the costs. Measures to increase the liquidity in the secondary mini-bond market should also be considered in order to support its long-term sustainability and the lengthening of bond maturities. Such reforms could include the strengthening of the participation of individual qualified investors and collective investment schemes both in the secondary mini-bond market and securitised mini-bonds.

- *Completing the regulatory framework for Special Purpose Acquisition Companies (SPACs):* Special Purpose Acquisition Companies (SPACs) give corporations an opportunity to list through a process that is less burdensome and faster than a traditional IPO. It also gives investors the option to access investment opportunities in public markets that are typically available only in less liquid private equity markets. Their increased use around the world has been supported by successive improvements in the completeness and quality of the

regulatory framework in which they operate. In order to secure its long-term viability and confidence in the SPAC model for listings, and building on the current regulatory framework, Italy should consider developing a state-of-the-art framework for SPACs that contains sufficient safeguards for investors and minimises the conflicts of interests among promoters, investors and target companies. In addition to providing a clear framework for the deposit and management of the securities and proceeds held in escrow by the SPAC, complementary reforms may also include abolishing or shortening the 60 day-period that is granted in the Civil Code to the target companies' creditors to oppose the merger. Complementary soft law, where Borsa Italiana develops best practice guidelines in consultation with the industry participants and relevant stakeholders, may also be considered.

KEY CAPITAL MARKET INDICATORS: ITALY

Overview of Economy

	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP growth (%)	1.6	0.7	-2.9	-1.7	0.2	0.8	1.2	1.8	0.7
Employment growth (%)	-0.8	0.3	-0.3	-1.5	0.4	0.9	1.3	1.2	0.9
Labour productivity growth (%)	2.2	0.5	-0.3	0.9	0.2	0.2	-0.4	0.5	-
Multifactor productivity growth (%)	1.8	0.3	-1.1	0.2	0.2	0.5	-0.3	0.8	-
Gross public debt to GDP (%)	115.5	116.5	123.4	129.0	131.7	131.6	131.3	131.2	132.2
Non-performing loans to total lending (%)	8.9	10.8	13.3	16.7	17.1	17.0	16.2	13.5	9.4

Source: OECD Economic Outlook 105 database 2019/1, OECD Productivity Statistics, Banca d'Italia.

	Banks	Insurance companies	Investment funds	Pension funds
Total assets, as end of 2018 (billion EUR)	3 666	911	221	162

Source: Banca d'Italia, ECB, COVIP.

Non-Financial Corporate Sector

	2010	2011	2012	2013	2014	2015	2016
Number of companies	356 854	343 080	329 046	315 067	309 743	315 658	312 954
Return on equity (%)	4.9	1.9	0.5	1.7	3.6	3.4	5.3
Annual sales growth (%)	5.5	2.7	-3.8	-6.1	0.7	1.4	0.6
Leverage (%)[1]	24.6	24.6	24.7	23.8	22.5	22.1	20.3
Share of loss-making firms (%) [2]	47.4	46.1	46.8	45.4	42.7	38.9	36.5

Source: OECD-ORBIS Corporate Finance dataset (see Annex for details).

Public Equity Market

(as end of 2018)	**# of listed companies**	**Market capitalisation (billion EUR)**
Listed companies (financial and non-financial)	355	542.2
MTA Standard	168	502.3
MTA STAR	74	33.3
AIM Italia	113	6.6

Source: Borsa Italiana.

Public Equity Market

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Financial companies									
Number of IPO	1	1	2	2	4	4	2	3	0
Total proceeds of IPOs (million EUR)	8	15	8	22	2 032	196	8	641	0
Number of SPO	7	8	6	9	13	9	11	11	8
Total proceeds of SPOs (million EUR)	5 970	13 368	10 690	1 413	11 388	5 583	2 093	14 057	1 507
Number of new SPACs		2	0	1	3	3	2	12	8
Capital raised by SPACs (million EUR)		200	0	50	217	286	151	1 875	1 180
Non-financial companies									
Number of IPO	6	5	3	10	21	22	11	19	20
Total proceeds of IPOs (million EUR)	2 991	2 356	210	1 155	885	6 134	1 339	3 331	673
Number of SPO	19	8	14	20	23	33	25	37	32
Total proceeds of SPOs (million EUR)	1 903	1 346	2 061	3 600	2 852	4 994	5 168	2 155	2 121
Listings and delistings in stock market									
New listings in regulated market (MTA)	2	1	1	2	5	8	3	7	4
Delistings in regulated market (MTA)	9	13	11	12	11	14	9	9	11
New listings in unregulated market (AIM)	5	4	3	10	20	16	9	15	16
Delistings in unregulated market (AIM)	0	1	4	6	1	4	10	7	9
Total net listings	(2)	(9)	(11)	(6)	13	6	(7)	6	0

Source: OECD Capital Market Series dataset (see Annex for details), Borsa Italiana, BeBeez Italia, SPACs websites, Thomson Reuters.

Corporate Bond Market

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Financial companies									
Number of issues	101	118	85	78	71	52	48	61	41
Amounts (million EUR)	57 974	79 538	63 854	54 064	52 000	29 429	26 293	36 320	30 209
Non-financial companies									
Number of issues	21	11	25	51	41	30	37	61	30
Amounts (million EUR)	17 865	8 453	26 181	26 245	17 309	15 216	16 692	32 947	16 427
Non-financial mini-bonds									
Number of issues				16	63	71	117	150	171
Amounts (million EUR)				1 004	784	920	2 641	2 524	2 354

Source: OECD Capital Market Series dataset (see Annex for details), Thomson Reuters, Bloomberg, FactSet, Observatory on Mini-Bonds, Politecnico di Milano - School of Management, OECD calculations.

Private Equity Market

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amounts raised (million EUR)	2 176	1 146	791	4 103	1 725	1 988	2 052	3 312	2 935
Amounts invested (million EUR)	2 010	3 234	2 446	3 245	3 034	3 566	6 601	4 022	6 916
Amounts of divestment (million EUR)	784	1 200	1 009	1 395	2 650	2 084	1 554	2 277	1 073

Source: Invest Europe / EDC.

Private Debt Market

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Amounts raised (million EUR)				102	321	390	583	292	-
Amounts invested (million EUR)					153	281	483	612	-

Source: AIFI.

EU benchmarking

Italy's share in EU…	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (%)	**12.5**	**12.4**	**12.0**	**11.8**	**11.5**	**11.1**	**11.3**	**11.2**	**11.1**
IPO proceeds (%)	14.5	16.3	2.6	5.6	6.4	11.0	4.5	11.9	2.4
Non-financial (%)	18.3	24.4	3.9	7.7	2.8	15.8	5.8	13.6	3.1
Financial (%)	0.2	0.3	0.3	0.4	14.7	1.0	0.1	7.2	0.0
Stock market capitalisation (%)	8.0	5.0	5.0	5.0	5.2	6.0	5.5	6.0	-
Non-financial corporate bond issuance (%)	7.3	3.5	7.4	7.8	5.1	5.6	5.0	10.1	5.9
Private equity (%)									
Fundraising (%)	7.6	2.6	2.6	6.5	2.9	3.5	2.4	3.4	3.0
Investment (%)	3.9	5.9	5.5	7.1	6	6	10.5	5.2	8.6
Private debt fundraising (%)				0.7	1.8	1.2	2.3	0.8	-

Source: ECB, OECD Capital Market Series dataset (see Annex for details), Invest Europe / EDC, AIFI, Preqin.

[1] Total financial debt over total assets.

[2] The percentage of Italian firms with negative net income in the total number of firms.

PART I

ASSESSMENT AND RECOMMENDATIONS

1. Introduction

Capital formation is a cornerstone for sustainable economic growth and prosperity. And in this process capital markets play a central role by channelling savings into productive and forward-looking investments. As a complement to traditional bank lending, better access to equity and corporate bond markets facilitates for companies to undertake longer term and more future oriented investments that will lay the foundation for tomorrow's economy. Moreover, capital markets also give an opportunity to the general public, directly or through collective investment vehicles, to share in the wealth creation of the corporate sector.

However, the users and the providers of capital do not operate in a vacuum. Their incentives and efficiency of their interactions depend on a broad framework of regulatory and institutional factors ranging from the design of specific rules to the overall efficiency of the judicial system (BIS, 2019).

Policy makers have the primary responsibility to put in place such a framework that is central to gain and sustain the trust of investors and entrepreneurs in their capital markets. When shaping the framework, policy makers should ensure a high degree of clarity and predictability, minimising uncertainty in the economic, social and political environment. They should also promote integrity through the alignment of public institutions with broader standards of conduct and ensure fairness in both the processes and outcomes of public policy. This will require a high degree of transparency and inclusiveness (OECD, 2017a).

The 2019 *OECD Economic Survey of Italy* emphasises that the numerous and long-standing challenges the country faces require reforms spanning several policy areas and developing a multi-year reform package is a prerequisite to restore confidence in the reforming capacity of the country. While several initiatives undertaken in recent years have started to address some of the challenges, the report estimates that the reform of public administration and the justice system would have the largest impact on GDP growth as they are key to strengthening the rule of law and confidence. A recent set of proposals by a wide range of experts and civil society on public administration reform in Italy also focuses on enhancing transparency and accountability, and suggesting reducing the number of laws and regulations and more extensive use of single codes and manuals, accompanied by more reliance on clear outcomes and targets rather than procedural rules (OECD, 2019a).

In the specific context of the business environment, similar challenges have also been indicated as important factors leading to a fall in business confidence, making investors less willing to provide finance to companies (Confindustria, 2019). This includes costly enforcement of contracts as well as the uncertainty engendered by frequent policy change or ambiguous application of policies (OECD, 2019a). Despite improvements in recent years, with respect to alternative dispute resolution mechanisms and other measures that contributed to a decrease in the demand for judicial services, significant concerns have also been expressed about the overall effectiveness of the judiciary system. For example, Italy ranks among the bottom third performers among OECD countries regarding effective enforcement of civil justice and access to legal and justice services (OECD, 2017b). Related concerns were also raised by representatives from the corporate sector, financial industry and academia during the consultations conducted by the OECD review team throughout this review. The relatively lengthy procedures for corporate bond listings compared to other European markets, burdensome regulatory framework for equity offerings, lack of regulatory clarity with respect to identifying qualified investors, long response periods from relevant government authorities on inquiries related to applications, lack of long-term predictability with respect to tax treatment and uncertainty in political environment were some common concerns.

Fiscal incentives and market-based finance

Italy has introduced several incentives with the explicit objective to promote the use of market-based financing. These include measures to stimulate companies to increase the use of equity in their capital structure, increase the use of corporate bond financing and to list on a stock exchange. There have also been reforms to increase the incentives to invest in venture capital funds and in SMEs.

Like in other countries, there are also more general fiscal measures that can be expected to influence how capital markets function and develop. The Italian tax system (as most tax systems) allows companies to deduct interest payments when computing taxable profits, while dividends are not deductible. This differential treatment of equity and debt, and the resulting differences in their costs, are often seen as disadvantages of equity financing. Another asymmetry in the treatment of different capital market instruments is the fact that investors pay a lower (12.5%) tax on capital gains for government debt instruments compared to 26% for capital gains on corporate instruments, including equity (Branzoli, 2018a).

Despite the many efforts to provide tax incentives to promote the use of capital markets, Italian capital markets are still underdeveloped compared to European peers (European Commission, 2019). Both the total stock market capitalisation to GDP ratio and the total allocations to equity capital are lower. It may therefore be useful to evaluate the efficiency of different tax initiatives and any complementarity between them, taking into account the existing budget constraints. For markets to work well, special tax provisions should be clearly justified. And most importantly, the tax regime should be consistent and predictable over time. The stability of a sound tax regime is a key prerequisite for successfully stimulating both corporations and investors to engage in long-term, future oriented, economic commitments.

A recent initiative in Italy with respect to retail investors and smaller companies is the individual saving accounts (*piani individuali di risparmio* –PIR), introduced in 2017. The PIR is primarily designed as an instrument of industrial policy to facilitate the financing of Italian SMEs by providing households with special incentives to invest in domestic companies. In essence, investors are fully exempted from capital gains tax and inheritance tax if they invest in the PIR products and hold their investments for at least 5 years.

The PIR regulation stipulates that at least 70% of the fund assets must be invested in financial instruments that are issued by companies resident in Italy or by EU companies that are permanently established in Italy. Out of this 70%, at least 30% (21% of the total portfolio value) should be invested in smaller Italian companies that are not included in the main index of the Italian Stock Exchange (OECD, 2017e). Two further requirements to the existing conditions to benefit of PIR tax treatment were added in the 2019 Budget Law (Law 145/2018): (i) at least 3.5% the of PIR total assets shall be invested in units or shares of Venture Capital Funds domiciled in Italy or in the EU or the EEA, and (ii) at least 3.5% the of PIR total assets shall be invested in financial instruments issued by SMEs listed in MTFs. Moreover, the implementing Ministerial Decree of Economic Development sets a maximum cap of EUR 15 million that PIR funds will be allowed to invest in any single company.

From the investor’s point of view, PIR accounts are exempt from the current 12.5% capital gains tax on government securities and the 26% capital gains tax on corporate shares and bonds. Despite a historical preference for less risky financial assets, the introduction of the individual savings plan has encouraged financial firms to start offering PIR products that primarily have

attracted households with an income above the median level. As of December 2018, PIR-compliant funds had EUR 14.4 billion in assets under management compared to EUR 206.4 billion for non-PIR funds (Banca d'Italia, 2019).

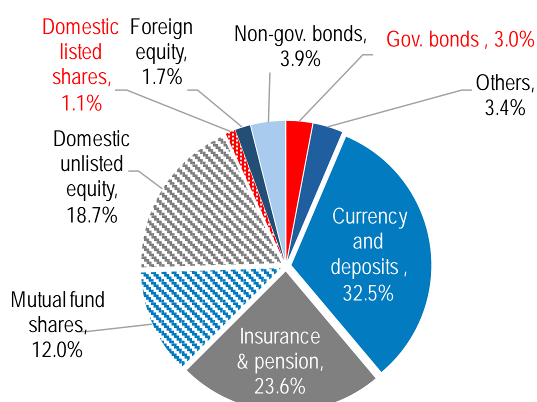
Despite the tax advantages that PIR can bring to investors, PIR compliant products require higher investment skills and more research compared to other more popular strategies (i.e. passive investment strategies). This may ultimately translate into higher fees and lower net returns for investors. According to ADUC (Associazione per I Diritti degli Utenti e Consumatori), annual asset management fees for PIR products can be up to 2% per year. As an example of how fee levels impact the long-term fund value for investors, it is estimated that, under plausible assumptions, an annual management fee of 1% reduces an investor's total assets by 20 per cent over a working life (Barr, 2013).

It is also important to note that equity investments by PIR funds are highly concentrated and carry a relatively high-risk profile. By the end of 2018, PIR funds raised EUR 14.4 billion, of which EUR 4.7 billion were invested in equity (Banca d'Italia, 2019). However, those investments were concentrated in a limited number of stocks as over 50% of the funds were invested in only 24 companies (Banca d'Italia, 2018d). The current investment concentration of PIR-related products in illiquid securities exposes investors to a greater risk of suffering losses due to liquidation of illiquid assets in turbulent times (Banca d'Italia, 2019). Considering the fast growing number of PIR-related instruments, coupled with a limited number of investable instruments and a structural lack of dedicated investors to SMEs, the Italian Budget Law 2019 introduced abovementioned new requirements to limit such risks.

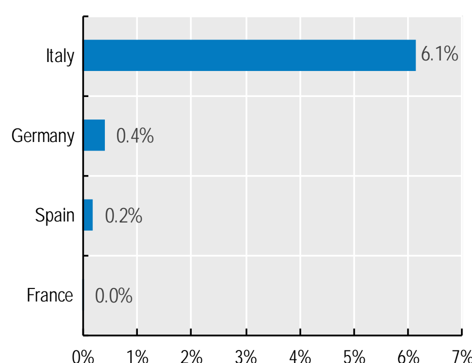
A brief look at how Italian households allocate their financial assets reveals that only 2.8% is invested in public equity. And of this modest amount, 60% is invested in non-Italian companies (Figure 1). Government bonds and corporate bonds represent almost 7% of the total household financial assets. And while direct household investments in government bonds have declined in recent years, they still accounted for almost 45% of their debt security holdings in 2018.

Figure 1. Households' holdings

A. Households' assets (EUR 4.2 trillion as of 2018-Q3)



B. Share of households' holdings of general government debt securities



Source: Banca d'Italia, ECB.

The government has also put in place tax incentives to stimulate the use of capital market financing by companies. For example, the 2018 Budget Law established tax incentives for SMEs to list on the stock market. Italian SMEs that begin the listing process starting from 1 January 2018, either on a regulated market or on a multilateral trading platform in any EU country, can benefit from a tax credit equal to 50% of the advisory cost. The tax credit is conditional on the completion of the

listing process and can be used from the following fiscal year with a maximum of EUR 500 000 per year. This provision has significantly reduced the cost of listing for SMEs.

Another example is the Allowance for Corporate Equity (ACE), which was introduced in 2011 aimed at reducing the asymmetric tax treatment between debt and equity. The ACE regime entitled Italian companies to a special tax deduction when they strengthen the balance sheet by the use of relatively more equity financing. The value of the deduction is calculated as a percentage of a company's net equity increase compared to the 31 December 2010 level. According to Branzoli and Caiumi (2018b) the ACE regime has decreased the fiscal distortion between the cost of equity and debt. In fact, Italian manufacturing companies significantly reduced their leverage as a result of the ACE. The 2019 budget law has abolished the ACE. Reintroducing it could help the continuous efforts to strengthen the capitalisation of Italian firms. (OECD, 2019b; European Commission, 2019).

Several of the Italian policy initiatives with respect to capital markets target market-based financing of smaller companies. These include the mini-bond market framework, the PIR regulation, government-supported venture capital funds and fiscal incentives for SME listing on the stock market. In a parallel development at the EU level, the MiFID II Directive, which entered into force in January 2018, also includes several provisions promoting small companies use of capital markets such as the introduction of the "SME Growth Market". However, it is claimed that the requirement in MiFID II to separate the research cost from trading commissions paid to brokers has significantly reduced asset managers' demand for research, particularly research related to smaller companies (CFA, 2019). As a consequence, there have already been some national initiatives to address this concern. One example is the Spanish stock exchange programme to provide research on smaller companies. The programme was introduced after finding that 60 listed small and mid-sized companies did not have any analyst coverage at all (Stafford and Martin, 2019). Since analyst coverage is an important prerequisite for visibility, better evaluations and also liquidity, such measures may improve both the attractiveness of listing for smaller companies and the attractiveness of smaller growth companies as an investment.

2. Promoting new listings on the Regulated Market

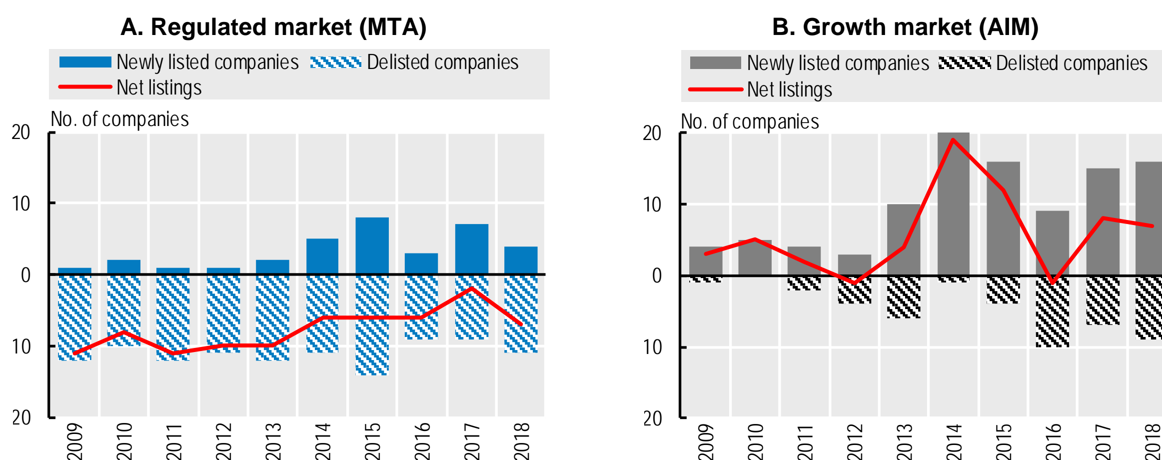
Today, Borsa Italiana is split into two different markets for company listings: the Mercato Telematico Azionario (MTA) and the Alternative Investment Market (AIM Italia, hereafter AIM). The MTA in turn offers two segments: the Standard listing segment and the Star segment, which requires compliance with some additional corporate governance requirements. New listings on AIM are subject to less stringent requirements. For instance, the minimum free float is set to 10% compared to 25% in the Standard segment of MTA. In addition, the regulated market (MTA) requires a minimum of 3 years of audited financial statements whereas AIM requires only 1 year. The continuous listing obligations are also more flexible on AIM than on the two different MTA segments. In particular, related party transactions require special reporting on the MTA segments whereas companies listed on AIM benefit from simplified procedures.

In recent years, there has been a shift in activity from the regulated market of Borsa Italiana to the alternative market. During the period 1995-2004, there were 113 initial public offerings (IPOs) on the regulated market and 45 on the alternative market. Since 2005, the numbers have almost reversed with 133 IPOs on the alternative market and just 76 IPOs on the regulated market. Out of 20 Italian IPOs in 2018, 16 took place on the alternative market. And while the number of listed companies on the alternative market grew from 19 to 113 between 2010 and 2018, the number of listed companies on the regulated market decreased from 272 to 242. In Italy, the listing rate (new

listings over the total number of listed companies) on the regulated market has been, on average, 1.6% during the last 8 years. This is much lower than in the US (3.6%) where widespread concerns about the lack of IPOs already have motivated reform initiatives, including creating a category of public companies called "emerging growth companies" permitting scaled disclosure requirements, "testing the water" practices to gauge investor interest in a potential offering before undertaking the expense of preparing a registration statement and phase-in of certain requirements following an IPO (U.S. Department of the Treasury, 2017; Doidge et al., 2017).

The decreasing number of listed companies on the regulated Italian market is explained by fewer IPOs in combination with a significant number of delistings (Figure 2). AIM, on the other hand, has since its creation in 2009 seen an increase in listed companies due to more IPOs and fewer delistings. Net listing on AIM was positive in 8 out of 10 years since the launch of the market. However, the average IPO size and market capitalisation of AIM companies are quite low compared to the regulated market MTA. Indeed, as of March 2019, MTA's market capitalisation represents 99% of the combined market capitalisation of the two markets.

Figure 2. New listings and delisted companies in Italy, 2012-2018



Source: Borsa Italiana, OECD Capital Market Series dataset, see Annex for details.

The decline in regulated market listings in Europe triggered a discussion about prospectus requirements. It was claimed that the process of developing a prospectus and getting it approved by national securities regulator had been expensive, complex and time-consuming (European Commission, 2015). Against this background, in June 2017 the EU adopted a new prospectus regulation as part of the Capital Markets Union initiative. The changes aimed at, inter alia, making it easier and cheaper for smaller companies to access capital by providing general exemptions. It has also introduced a simplified disclosure regime for secondary issuances. However, the efficiency of the approval process is mainly determined by the national institutional framework and the practices of national market intermediaries and authorities. This is particularly true for equity issuances where the competent authority responsible for approving the prospectus is the member state where the issuer has its office registered as opposed to, for example, debt securities for which the issuer has the right to choose any EU member state to apply for approval.

It is worth noting that the increase in the number of listed companies on AIM in recent years, has not translated into a higher number of companies moving to MTA. As of end 2018, there were 113 listed companies on AIM as opposed to 242 companies on the MTA markets (Borsa Italiana, 2018). And since the creation of AIM in 2012, only nine companies have moved from AIM to the standard

segment on MTA. Since alternative markets aim at providing smaller growth companies with an opportunity to raise capital for long-term investment and expansion, it is important that companies achieve a sustainable growth path also after listing. A natural consequence of such growth would be the “graduation” of the company from the alternative market to the regulated market. Such dynamics would help to position the alternative market as a marketplace for less mature companies with high growth potential and, hence, motivate special listing requirements.

At the end of 2018, however, there were 10 companies with a market capitalisation over EUR 100 million (excluding the SPACs) listed on AIM Italia. This suggests that the less stringent requirements offered by AIM Italia are not seen as an intermediate stage, but rather as a form of listing in its own right with lower free float and disclosure requirements.

One important barrier preventing companies from moving AIM to MTA, which has been pointed out by market participants, is the requirement for companies listed on the alternative market to publish a full prospectus if they want to move to the regulated market (Vismara, 2019). Companies that are listed on another regulated market for at least 18 months are exempt from issuing a prospectus to move to the MTA. However, there is no exemption or adapted requirements for companies that are moving from the alternative market in Italy. Establishing a simplified procedure, including a simplified prospectus, for companies that meet certain listing period and reporting criteria, could probably facilitate for companies to move to the main market from the alternative market without compromising the scope and quality of market information (Assonime, 2018; European Commission, 2018a).

In addition to the relatively low number of listed companies in the Italian regulated market, total market capitalisation is also affected by the low free-float ratios. At 60%, the Italian stock market has the lowest free-float ratio among comparable European countries and well below the European average of 75%. Moreover, only 29% of the companies listed in the Italian regulated market have more than 50% of their shares readily available in the market (free float), compared to 41% in France and 45% in Germany. This is particularly important with respect to attracting passive institutional investors that follow free-float weighted market capitalisation weighted indices to allocate their equity investments (Figure 3).

Companies that are already listed on a stock exchange can also use public equity markets to raise equity capital via a so-called secondary public offering (SPO or follow-on offering). SPOs can be made several years after the IPO in order to, for example, re-capitalise the firm or finance a new investment or an acquisition. It is important to note thatin addition to strengthening the balance sheets of individual companies, SPOs will also lead to higher free-float ratios.

During the last decades, shareholder rights in many OECD countries have been substantially strengthened and there has been a general trend to empower the shareholders meeting in the corporate decision-making process, particularly with respect to approval of related party transactions. Italy is no exception to this trend, where the corporate governance regulatory changes of the last two decades have significantly improved minority shareholders rights (Belcredi and Enriques, 2014; OECD, 2018e). In providing protection to investors, requirements for a supermajority of shareholders for certain important decisions are also commonly used. These developments may have been associated with the relatively lower floating of listing company shares when long-term shareholders – including founding families - with large capital stakes are concerned about losing their future influence over decisions that are of key importance to the future direction of the company. Against this background, loyalty shares were allowed in 2014 providing listed companies with an opportunity to give shareholders double voting rights after holding their

shares for a consecutive period of 2 years. As of September 2019, 51 listed companies in Italy are using loyalty shares. France, for example, grants loyalty voting rights as default, unless it is blocked by a two-thirds majority, whereas in Italy a two-thirds majority is required to introduce them.

Figure 3. Free-float level in selected European markets

Note: The sample contains information for all listed companies in EU regulated markets and exchange regulated MTFs as of end 2018. It excludes all types of funds, trusts and SPACs.
Source: OECD calculations based on data from Thomson Reuters Eikon.

In addition to the discussion about the increase in regulatory and compliance costs related to stock market listing, there has also been a discussion on the one-time costs of going public. An important part of this is the underwriting fees that companies pay to investment banks that manage the securities offering. Potentially as a result of the competitive conditions in the European market, the average (median) equity underwriting fees (around 3%) are lower in Europe than in the US (7%) and Japan (8%) (OECD, 2017c). A neglected aspect, however, is the costs associated with the discounts that investment banks apply to companies' valuations before the public offerings. Evidence suggests that underwriters may under-price IPOs by applying a deliberate discount to valuation estimates (Deloof et al., 2009). Underwriters argue that a discount is required to ensure investors' participation, the stock's upside potential and the oversubscription of the issuance. A way of partially quantifying this discount is through the positive stock returns after the IPO, the so-called IPO underpricing. Studies estimate that, in most cases, the level of IPO underpricing is much higher than the underwriting fees and the average initial return varies from country to country: 22% in Italy; 3-14% in France; 5-15% in the United States; 15-19% in Germany and 11-30% in Australia (Engelen and Van Essen, 2010).

Since large companies tend to use international investment banks as underwriters, which in most cases work in a consortium of multiple underwriters, large discounts may particularly discourage large established companies from joining public markets. Despite the availability, although limited, of market-based financing options with lower underwriting fees, there has been a very limited number of large companies that have listed in Europe over the recent years (OECD, 2017c). An important illustration, with respect to concerns about the costs of listing, is the listing of the Swedish company Spotify, which completed a direct listing without raising any capital. As expressed by the company's CFO (Financial Times, 2018a), by not doing a traditional IPO the company has not only avoided paying excessive underwriting fees but, above all, they avoided a substantial IPO discount.

Capital markets need to reach sufficient economies of scale to operate effectively and serve the capital market ecosystem. Scale will help reduce the asset management costs, increase liquidity in secondary markets and facilitate the financing of the necessary market-infrastructure. An important method that countries have been using to reach scale up stock markets is to promote

listings by companies operating in relatively more regulated markets, such as the ones in the financial sector, and/or listing of state-owned enterprises (SOEs).

OECD's analysis shows that the financial sector has been one of the largest users of public equity markets globally over the last decade (OECD, 2018a). In 2009, during the global financial crisis, the amount of equity raised through secondary public equity offerings (SPOs) reached a record amount of almost USD 1 trillion worldwide, of which more than half was raised by companies in the financial sector. In Italy, there may still be additional scope for the financial sector to participate in the stock market. Out of the 147 banks incorporated as S.p.A., only 22 are listed while a significant portion of the rest belongs to a listed banking group (Banca D'Italia, 2018c). Banking consolidation has been recommended in Italy as a key element to gain operational efficiency (IMF, 2017) and the stock market could serve as a channel to reallocate resources in a consolidation process. For the purpose of both recapitalising banks with market-based equity financing and for scaling up the capital market, the promotion of bank and other financial institutions listings can, therefore be considered as a relevant step on the way to further develop and strengthen Italian capital markets.

SOEs play an important role in the Italian economy and the scope of SOE activities is the third-largest in the EU (OECD, 2019c). By the end of 2016, Italy had 6 576 active SOEs, of which 4 600 were local SOEs accounting for around 400 000 employees. When local governments are the single owner of local SOEs, companies risk being subject of poor management, poor governance and political control/influence (European Commission, 2016). To improve the efficiency of local SOEs, encouraging the largest local SOEs to list on the regulated market could contribute to both increased transparency and operational efficiency.

The *OECD Guidelines on Corporate Governance of State-Owned Enterprises* recommends that SOEs should be accountable to the general public as listed companies to their shareholders by following a high standard of accounting, disclosure, compliance and auditing (OECD, 2015a). By going through the listing process, local SOEs can improve their transparency level and corporate governance in order to meet the listing and disclosure standards. More than half of SOEs in Italy are set up as limited liability companies or joint-stock companies, which indicates that they need to follow company law. However, the Italian legislation has special rules regarding the operation of SOEs that set them apart from private joint-stock companies. Listed SOEs however, do not exhibit any significant deviations compared to private joint-stock companies (European Commission, 2016). Moreover, securities laws are generally stricter for listed companies, and enforcing these laws exposes companies to a stricter requirement for financial reporting, board directors' independence, and protection of minority shareholder rights, among others. In addition, being listed can also provide local SOEs with alternative sources of financing for their growth opportunities, reducing the residual risk for taxpayers, give the companies more flexibility and ultimately lower capital costs. Listed local SOEs could also become a role model for unlisted SOEs and contribute to strengthening accountability and oversight mechanisms for efficiency with the state-owned sector.

Recommendation: Stock exchanges play a significant role in matching companies that need access to external equity financing and investors that are willing to provide them with this capital. The main regulated markets are the principal element of the stock market ecosystem and their functioning is fundamental to the reputation and workings of the capital market as a whole. They are also instrumental in helping capital markets to reach sufficient economies of scale, a higher level of liquidity and a larger investor base. The decline in the number of Italian companies that use the regulated market (MTA) of Borsa Italiana calls for appropriate measures to promote its use

and thereby strengthening the entire Italian capital market ecosystem. The Italian authorities should consider undertaking a consultation to collect inputs from market participants and other experts on how to enhance the public equity offering process for initial as well as secondary offerings. This could include discussions on the scope for further facilitating the procedural process for interaction between the regulatory authorities, corporations and professionals that provide advisory services. It could also consider the introduction of new market practices such as “testing the water” that allows gauging investor interest in a potential offering before committing to the expenses that are related to preparing a registration statement and the process for prospectus approval. This may be linked to the recommendation below to improve the protection of CONSOB staff members from undue legal responsibilities and timely responsiveness with respect to inquiries related to applications. Reforms in this respect should also consider efficiency gains with respect to the process and requirements for secondary equity offerings of already-listed companies that, in addition to strengthening the balance sheets of individual companies, also will lead to higher free-float ratios and help attract the growing pool of capital from global institutional investors. In this context, policy makers may consider taking steps to stimulate an increase in the free float by allowing more flexible structures of voting rights to address concerns among founders and long-term shareholders about the effectiveness of decisions that are of key importance to the future direction of the company, without compromising safeguards for minority shareholder protection. This may include an evaluation of the effectiveness, and possible unintended consequences for the free float, that may arise from supermajority requirements for certain decisions by the shareholder meeting. It may also include a more flexible default framework for deciding on the introduction of loyalty shares. In order to further strengthen the position of AIM as a marketplace for less mature companies with high growth potential and, hence, motivate special listing requirements, the regulator and the stock exchange may consider introducing measures that allow a seamless transition to the main market for companies that meet certain listing and reporting criteria. Another consideration would be to promote the listing of local state-owned enterprises (SOEs) and financial sector companies on MTA. This would help scale-up the market, help capitalise and consolidate the financial sector and improve the transparency, accountability and operational efficiency of local state-owned companies. It may also increase the weight of Italian stocks in internationally recognised indices that are often used by global institutional investors. The regulator and the stock exchange should also take a proactive approach to ensure that there are no barriers or regulatory uncertainty for Italian companies that want to use new alternative listing methods, such as direct listing and online book building.

3. Enhancing the role of the regulators and strengthening the institutional framework for better capital markets

Worldwide, national securities regulators play an increasingly important role in promoting the development of sound capital markets that can serve the needs of the real economy. Also the Italian Securities Regulator (CONSOB) is vested with a mandate to promote market efficiency and development.

CONSOB was established in 1974 as a government administrative body and became fully independent in 1985. The Italian institutional framework for supervision and regulation follows a modified twin peaks model where Banca d’Italia is responsible for prudential supervision and CONSOB for market transparency and conduct supervision. Insurance firms and pension funds are mainly supervised by sectorial authorities (IVASS, whose chair is the Director General of the Bank of Italy and COVIP). CONSOB is governed by a Commission composed of a chair and four commissioners appointed by decree of the President of the Republic on recommendation by the Prime Minister. Their term is seven years not renewable. Once a year, CONSOB reports to the

Ministry of Economy and Finance. It has independent sources of financing mainly derived from levies to market participants.

While Italy has taken important steps to strengthen the regulatory framework to promote market-based financing, it still trails other large European economies in several dimensions of the capital market development. This translates into a more limited menu of financing options for the Italian corporate sector and an overreliance on bank loans. For example, by the end of 2017 the total value of Italian listed shares represents only 37% of GDP, which is significantly less than in Germany (58%) and France (100%) (ECB, 2019). And while Italy represents about 11% of total EU GDP, the share of Italian non-financial companies in the European primary corporate bond market is just around 6% (see Chapter III). Against this background, there is scope for both regulatory authorities and self-regulatory bodies in Italy to enhance their role in facilitating capital market development.

In these efforts, it is important to fully understand the implications for capital formation and capital transmission that have been brought about by international developments in capital markets during the last two decades. Various forms of institutional ownership have increased in importance including cross-border investments, private capital markets are playing a greater role; new investment strategies and investment vehicles, such as index investment and exchange-traded funds (ETFs), have become much more common; and the business models of stock exchanges have been fundamentally transformed as many exchanges have become profit-maximising corporations that are, themselves, listed.

Faced with this new reality, close attention should be given to both regulatory and procedural practices that may impede the regulator's role in promoting deeper and more effective capital markets. For example, the IMF has pointed out that the current arrangements concerning the protection of staff at Banca d'Italia and CONSOB during the course of lawsuits should be strengthened (IMF, 2013). The same report also mentioned that CONSOB's pecuniary penalties are generally low due to limitations in the law and judicial practices. These concerns have been confirmed by representatives from public administration, the corporate sector and the financial industry during the consultations conducted by the OECD review team throughout this project.

Another key factor that will influence the ability of the regulator to take the lead in modernising the regulatory framework is their ability to attract, develop and retain the best talents. Many of the commissioners and senior staff members of securities regulators may have backgrounds in the industry they are regulating and may return to roles in that industry. These staff movements facilitate the transfer of skills and experience between regulators and the private sector, and help to build a shared understanding of the context within which each of them is operating. Therefore, impediments to post-employment staff movement to industry can limit the regulators' ability to attract the necessary talented senior staff, as employment by the regulator would narrow potential future career opportunities (OECD, 2014a). A common practice, among regulators for avoiding potential conflicts of interest in cases where a staff member leaves a regulator and takes up a position in the regulated industry, is mandatory cooling-off periods. In most OECD countries, senior management of the securities regulators is subject to cooling-off periods of 1 to 2 years after leaving the position. Cooling-off periods can contribute to promoting a culture of independence and mark a clear boundary between industry and the regulator. However, they can also create perverse incentives by limiting the positions attractiveness for experienced experts. Many countries have therefore put in place rules that allow compensation during the cooling-off period in order to minimise these perverse incentives (OECD, 2016a). In the Italian case, CONSOB commissioners

and directors are subject to a 2-year cooling-off period that is neither remunerated nor compensated.

With a view to increasing the quality and timeliness of the judicial process, a growing number of OECD countries have created specialised justice services. Such specialisation allows courts to gain the necessary expertise to revise and dispose cases more efficiently. In addition, judicial training can also be more focused. Italy introduced in 2012 (Law no. 27/2012) Specialised Divisions on Business matters, known as Business Courts. However, in contrast to many other countries, these 22 courts do not deal with matters related to the capital market. In France, for example, the Commercial Tribunals deal with commercial disputes between business and/or corporations and also between business and individuals. Interestingly, the judges are not career judges but instead elected traders. In addition, the Court of Appeals in Paris has special jurisdiction with respect to decisions from the Financial Markets Authority among others.

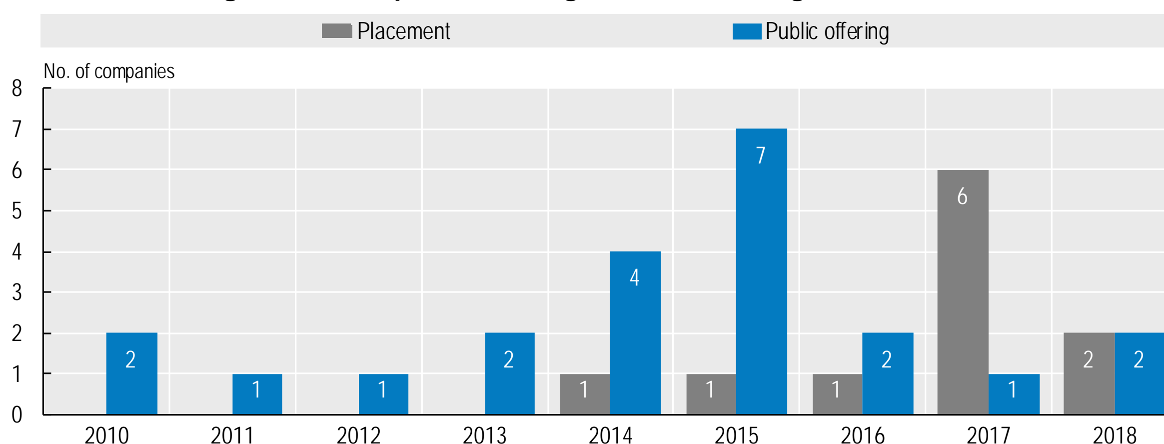
Recommendation: In order to facilitate for companies to access financing many countries have taken steps to ensure that the regulatory framework and administrative processes are modernised and adapted to current international developments in capital markets. To fulfil this role, capital market regulators should be granted the authority, integrity and resources that are necessary to fulfil this role in an efficient, transparent and accountable manner. As part of a national effort to assess the effectiveness of the institutional framework and overall capacity of national competent authorities, including the functions that are carried out by the Italian Securities Regulator CONSOB, the government may consider requesting CONSOB to conduct a self-assessment supported by independent expert opinion, assessing the capacity and functioning of the authority, including the Commission and the Divisions. The review can usefully take into account the *OECD Recommendation on Regulatory Policy and Governance*, *IOSCO Objectives and Principles of Securities Regulation*, the *G20/OECD Principles of Corporate Governance* as well as relevant experiences and practices of other regulators of advanced capital markets. With a view to enhancing the capacity of CONSOB to attract, develop and retain high quality staff members, the review may also address the efficiency of the current cooling-off period policy with respect to senior management, including options for remuneration during the cooling-off period; forms of staff mobility between CONSOB and other parts of the public administration; and, weaknesses in the protection of staff members during the course of lawsuits. An additional positive step to improve the efficiency of the judicial system would be to extend the use of specialised justice services by allowing the existing Business Courts or a new specialised court to have jurisdiction on matters related to capital markets. Through exposure to a large number of cases and by following rapid developments in capital markets, this could contribute to effective ruling in terms of timing and predictability of jurisprudence.

4. Improving the conditions for participation by qualified individual investors

An efficient way for companies to raise funds is via private placements to a selected group of investors. Such private placements have become an increasingly common method for fundraising, not only in private markets, but also within the framework of stock exchanges. According to data provided by the London Stock Exchange, 42 out of 43 non-financial company listings in 2018, were conducted through placements to a selected base of qualified investors. In the United States, following the changes in the regulation required by the JOBS Act, USD 2.3 trillion was raised in debt and equity offerings that benefitted from the accredited (qualified) investor exemptions in the three-year period between 2014-2016 (U.S. Department of the Treasury, 2017).

Private markets have also gained importance in Italy. Two important examples are the Basket Bonds powered by ELITE and the ExtraMOT Pro mini-bond market, which are accessed normally via private placements reserved for qualified investors and do not require the issuer to publish a public prospectus but an admission document. Despite being relatively underdeveloped compared to other European peers, private equity and venture capital investments in Italy amounted to almost EUR 7 billion in 2018 (see Chapter IV). Importantly, direct placements to qualified investors have also become the dominant method for listing not only on the AIM but also on the main regulated market, MTA of Borsa Italiana. During the last two years, 8 out of the 11 IPOs on MTA were placements to qualified investors (Figure 4).

Figure 4. Initial public offerings in the Italian regulated market



Source: OECD analysis based on data from Borsa Italiana, Bloomberg.

Around the world, there is no common definition of a "qualified investor". But institutional capital providers, such as pension funds, insurance companies, sovereign wealth funds, and intermediaries, such as investment banks and asset managers, are generally considered as qualified investors. The main difference among the regulatory approaches is associated with the criteria for classifying private individuals as qualified investors. In Australia, Canada, Singapore and the United States, for example, both income and net worth of individuals are used to define qualified (accredited or sophisticated) investors. In some jurisdictions, these criteria are also accompanied by criteria aiming at identifying the degree of financial sophistication of the individual, such as the professional experience and transaction history (SEC, 2015).

The current European regulatory framework (Regulation EU 2017/1129; Directive 2014/65/EU) establishes that a qualified individual investor can be a person that complies with certain criteria and requests to be treated as a qualified individual investor. At the request of a client, it is banks and investment firms that are vested with the authority of certifying the client's status as a qualified individual investor. In order to be considered as a qualified individual investor, the client has to meet 2 out of the following 3 requirements: 1) the client has carried out at least 10 transactions on the relevant market over the last four quarters; 2) the client's financial portfolio is worth more than EUR 500 000; and 3) the client works or has worked in the financial sector for at least one year in a professional position.

In the United States, the criterion to become a qualified individual investor (accredited investor) is only based on wealth or income. The person has to provide proof of net worth over USD 1 million, alone or together with a spouse, excluding the value of their primary residence and any loans secured by this property. Alternatively, earned income over USD 200 000 (or 300 000 together with

a spouse) in each of the prior two years and reasonable expectations to continue earning that amount. The US SEC is currently undertaking a revision of the qualified individual investor criteria, which was also recommended by the US Treasury in 2017 (U.S. Department of the Treasury, 2017). As part of the review process, the SEC issued a concept release on harmonisation of securities offering exemptions in June 2019, which requests comments whether the limitations on who can invest in certain exempt offerings provide an appropriate level of investor protection or pose an undue obstacle to capital formation or investor access to investment opportunities, including a discussion of the persons and companies that fall within the “accredited investor” definition.

Although the current US criteria are considered to be under-inclusive, it is estimated that 6% of the adult population is eligible to be classified as accredited investor (Berlau, 2018). Since the third criteria in the EU definition – financial sector experience – is relevant only for a very small part of the total population, most individuals who want to qualify as qualified investors in practice need to have a financial portfolio of at least EUR 500 000. This threshold based on financial assets is more restrictive than the overall wealth or income criteria applied in the US and is estimated to cover less than 1% of the Italian adult population.

Another key aspect of the regulatory framework for qualified individual investor is the certification of the investors’ qualified status. Under the current EU regime, it is financial intermediaries that are vested with the responsibility of certifying qualified individual investors at the client’s request. However, the current Italian regulatory framework has proven to create some uncertainty regarding the liabilities of financial intermediaries that follows from this role. Although the Financial Services Act (Consob, 1999a) and the CONSOB regulation do provide different sets of rules for retail and qualified investors, in practice there is still confusion about the protection afforded to these two different types of investors. While intermediaries can waive some of their responsibilities afforded by the conduct of business rules when dealing with qualified individual investor, the Financial Services Act’s general principles for the conduct of authorised intermediaries do not make any such distinction between retail investors and qualified individual investors. This has led to some uncertainty on how to interpret the regulatory framework surrounding the liabilities of intermediaries and hampered the role of qualified investors as capital providers in the Italian economy. For example, in 2009, two rulings in this respect favoured the demands from two qualified individual investors against banks (Allen & Overy, 2011). The courts declared that the banks in dealing with qualified investors breached their obligations of diligence and professional competence as applicable to all investors specified in the Financial Services Act.

Under current circumstances in Italy, financial intermediaries may have neither the incentives nor enough regulatory certainty to identify and certify individuals as qualified investors. There is also some uncertainty regarding the ability of asset managers, including banks, to invest in markets that are only open to qualified investors, such as ExtraMot Pro, on behalf of clients that are not qualified investors.

To further enhance access to private capital for Italian businesses steps could also be taken to facilitate the matching of potential qualified individual investors and corporations. For example, in the United States, the SEC is evaluating how to provide regulatory certainty for *Finders* or platforms that help connect companies with investors. Similar to the Elite Programme, Finders are firms or individuals who, for a fee, connect companies with qualified investors. However, they do not only focus on professional investors but also on qualified individual investors. Enlarging the pool and facilitating the matching of qualified individual investors with companies would bring benefits to the stock market as well as to the mini-bond, AIM Italia, private equity and private debt markets.

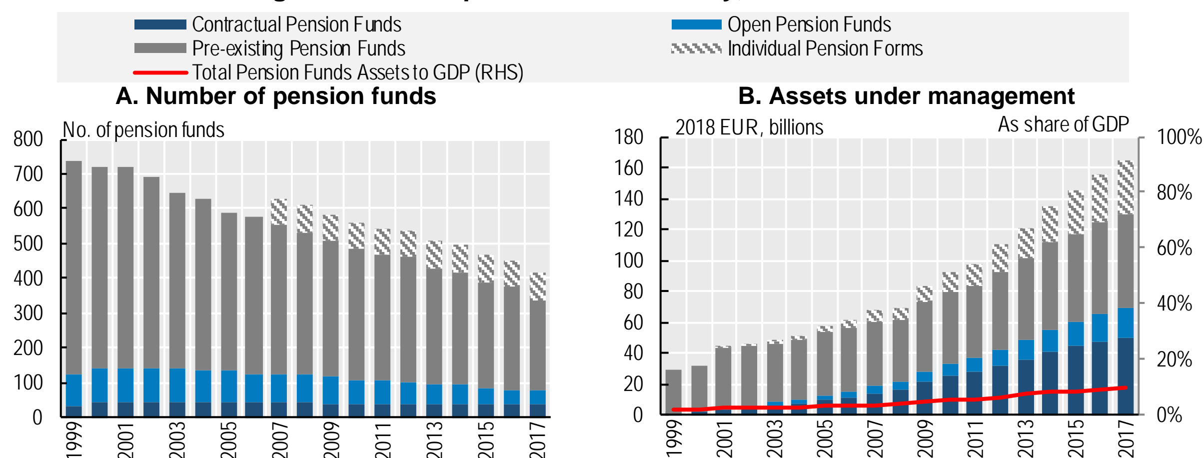
Recommendation: Increased capacity, scale and completeness of private capital markets provides additional opportunities for corporations, in particular for mid-sized companies, to access external equity and debt financing. With the introduction of ELITE, and the launch and consolidation of ExtraMot Pro and AIM markets, the Italian corporate sector has also increased their use of private placements for fundraising. However, the current incompleteness and inconsistency of the regulatory framework together with insufficient mechanisms to promote the participation of private individuals, still limits the private placement market to large institutional investors and deprives a considerable population of potential private investors of direct investment opportunities in fast-growing companies. Since the domestic institutional investor base is rather limited in Italy, the lack of individual participation in the capital market also contributes to the problem of low liquidity. Policy makers may therefore consider taking steps to provide regulatory certainty regarding the liabilities of financial intermediaries when they deal with qualified individual investors based on the Financial Services Act's general principles for the conduct of authorised intermediaries and the ability of asset managers to invest in markets that are only open to qualified investors on behalf of their clients that are not qualified investors. Authorities may also consider establishing a public/private initiative to facilitate the matching of qualified individual investor with investment opportunities.

5. Encouraging participation by institutional investors in Italian capital markets

Between 2013 and the end of 2017, assets under management (AUM) held by institutional investors in Italy grew from 68% of GDP to 88%, reaching almost EUR 1.5 trillion (Banca d'Italia, 2018a). Investment funds accounted for 15.9% of AUM, insurance companies for 34.8% and pension funds for 7.9%. The remaining 41.4% was attributed to individually managed accounts by a portfolio manager for a single client. The inflow during 2017 was around EUR 50 billion, which was slightly higher than in 2016. This increase in 2017 was mostly driven by the recent regulatory developments, encouraging investments in financial instruments issued by Italian companies, in particular the *piani individuali di risparmio* (PIR) (Ministry of Economy and Finance, 2017).

The proportion of households' financial assets managed by institutional investors has been growing in recent years. Still, in 2017, only one-third of Italian households' financial assets were managed by institutional investors compared to 40% in the Euro area and two-thirds in the United Kingdom. The difference is mainly explained by the low share of household financial assets held by pension funds. The assets held by Italian pension funds account for a modest 9.4% of GDP, which is far below the OECD average of 50.7%. In addition, compared to the countries that have a similar auto-enrolment system as Italy, such as the United Kingdom (45%) and New Zealand (68%), the portion of the working population that is covered by funded and private pension plans is quite low at 20% (OECD, 2018b).

Figure 5. Private pension funds in Italy, as of end 2017



Source: COVIP.

In Italy, the funded and private pension plans are relatively small compared to the public pension system. This is mainly due to its voluntary character that results in low participation in the funded and private pension alternatives – Pillar II and Pillar III. At the same time the Pillar I transfer system covers most pensions and amounts annually to 16.3% of the GDP, which is almost twice the OECD average (OECD, 2017d).

In Italy, pension contributions are tax exempt up to EUR 5 165, while investment returns and withdrawals following retirement are taxed (referred as an ETT regime). Half of OECD countries follow a different model where only withdrawals after retirement are taxed, while pension contributions and investment returns are tax exempt (referred to as the EET regime). It has been suggested that EET regimes encourage participation and contributions to retirement savings plans when personal income tax system is progressive (OECD, 2018c).

In addition to the relatively limited overall role that institutional investor play in Italian capital markets, another key feature is their low allocation to equity. Despite the fact that the amount invested in equity almost doubled since 2010, the share of total assets allocated to equity remains low compared to other economies. By the end of 2017, equity investment by institutional investors in Italy amounted to EUR 163 billion, representing a modest 13% of their assets under management. In the United States, Luxembourg and Germany, for example, the allocation to equity was 39%, 32% and 15% respectively (OECD, 2018d). However, the relatively limited allocations by Italian institutional investors may not necessarily reflect the overall attitude among Italian investors to equity. By the end of 2017, Italian investors had actually allocated around EUR 190 billion to foreign equity. Either directly or via the use of foreign investment funds. This is a sum that is equivalent to almost two-thirds of the total free-float market capitalisation of Borsa Italiana (Banca d'Italia, 2018a).

With respect to the asset allocations of institutional investors, an important development in global capital markets over the last decades has been the increased importance of passive investment strategies that track a pre-defined index or use exchange-traded funds (ETFs). Since these indices are used by a large number of institutional investors, the inclusion in an index is of great importance for a company's visibility and for the pricing and liquidity of its shares. The decision to include a company in an index is mainly calculated based on its free-float market capitalisation. Since the free-float of Italian listed companies is relatively low compared to most advanced markets (see Figure 3 above), Italy is receiving a relatively smaller share of passive institutional funds compared

to the size of its stock market and economy. For example, Italian stocks only account for 3.6% of the important MSCI Europe index.

Given the dominance of SMEs in the Italian economy the European Long Term Investment Funds (ELTIFs), can potentially play an important role as a source of finance. ELTIFs are closed-end investment funds that have to invest at least 70% of their capital in listed companies with a market capitalisation of up to EUR 500 million, unlisted companies, debt instruments such as mini-bonds and real assets such as infrastructure. Importantly, under certain conditions, the regulatory framework also allows unqualified retail investors to invest in private markets through ELTIFs. First, a retail investor cannot invest more than 10% of her total portfolio in ELTIFs. Second, although ELTIFs have a pre-defined life span that require investors to lock up their funds for a specific duration, retail investors should under certain conditions be given the right to redeem their money earlier than the end of the life of the fund (Regulation EU 2015/760). With strengthened investor protection and an established regulatory framework, ELTIFs also have the potential to address some of the uncertainties about the regulatory framework for qualified individual investor in Italy and facilitate their participation in private capital markets.

Another relevant instrument that can strengthen the role of institutional investors in the Italian capital markets and facilitate smaller companies' access to financing is dedicated "Funds of Funds". These funds are pooled vehicles that invest in investment funds specialised in SME financing in both the public equity and private capital markets, such as venture capital funds. Given the importance that individual SMEs can grow in size and the large regional disparities with respect to the demographics of corporate sector, initiatives at local level would be more effective as they could be customised on the specificities of the local SMEs and able to solve existing equity gaps. The main benefits of such initiative would be the creation of a catalyst for private sector investment in order to attract international and local pension funds, insurers and sovereign wealth funds in directing funds to high-growth SMEs, helping to develop a listed SME investment ecosystem with a strong base of expertise and skills.

Various private pools of equity providers, such as private equity funds and venture capital funds, have in recent decades emerged as important sources of capital providers. However, as illustrated in Chapter IV, the use of private equity funds as a source of corporate finance is still relatively undeveloped in Italy. Importantly, there is a considerable gap between the amount of private equity capital that is raised by Italian private equity funds and the total amount of private equity investments undertaken in Italy. While Italy represents about 11% of total EU GDP, fund capital raised by Italian private equity funds represents a modest 3% of the total amount of private equity funds raised in Europe in 2018. Private equity investments in Italian companies however, represented 9% of all private equity investments in Europe with an amount of EUR 6.9 billion.

Considering this limited volume of private equity fundraising in Italy, the government has taken the initiative to create *Italia Venture I* to invest in innovative start-ups and SMEs with high growth potential in Italy. Out of its EUR 86.75 million in assets under management as of end 2018, 58% comes from government funds invested through Invitalia Ventures, 25% comes from the European Investment Bank and the remaining 17% comes from private enterprises and foundations. A second fund *Italia Venture II* has also been established with an initial capital of EUR 150 million from the government. This fund aims at supporting the development of companies in the south region, particularly those within the Industry 4.0 project. So far, no private investors have joined *Italia Venture II* and no investments have been made. In addition to Italia Venture I and II, *Italia Venture III* is in the process of being established and will have an initial capital of EUR 200 million

from the government. The objective of the third fund is set to stimulate the growth of large companies.

The structure of the management entity of these funds changed in March 2019 when 70% of *Invitalia Ventures* was sold to *CDP Equity.* CDP Equity is owned by Cassa Depositi e Prestiti Group SpA, which in turn is controlled by the Italian Ministry of Economy and Finance. Invitalia Ventures is in charge of managing the funds and CDP Equity is responsible for the selection, investment and management of the investments by Invitalia Ventures. The governance structure of CDP Equity is composed of 9 members, 6 appointed by CDP Equity, of which 2 have to be independent, and 3 appointed by Invitalia Ventures.

Recommendation: In recent decades, capital markets have seen an increased presence of both traditional institutional investors, such as pension funds and insurance companies and alternative investors, such as private equity and venture capital funds. Today, most of the money not only in the private capital markets, but also in the public markets is allocated through institutional investors. In Italy however, both the size of institutional investors, such as pension funds, as well as their allocation to Italian equity and bond markets are small compared to other advanced countries. Since pension funds can play an important role in strengthening the capital market ecosystem the government may consider evaluating the current pension system design so that an increased participation in the private pillar also benefit the development of more complete Italian capital markets. In order to increase visibility and attract international investors that often rely on indexed investment strategies, measures could be taken to facilitate index inclusion of Italian companies by increasing the free-float ratio in the Italian stock market as mentioned with respect to the promotion of new listings. The new regulatory framework for ELTIFs in Europe may be considered with a view to increasing co-investments by institutions and the participation of both qualified and non-qualified individual investors in Italian capital markets. An additional consideration would be to create dedicated “Funds of Funds” that are specialised in SME financing and focus on certain industries or regions. With respect to the effectiveness of the venture capital funds that recently have been created at the initiative of the government, it will be important to ensure the institutional measures that are in place to safeguard their professionalism, operational independence and accountability in the exercise of their decisions.

6. Better access and liquidity in the corporate bond market for non-financial companies

The most important distinction with respect to corporate bond issuance in the current Italian context is between bonds that are underwritten by an investment bank on the one hand and bonds that are issued within the private placement mini-bond framework.

Underwriters serve an advisory function in preparing the necessary documentation and in pricing the bond. They also serve as an intermediary between the company and its network of prospective investors. On average, between 2004 and 2014, Italian companies raised EUR 88 billion annually through underwritten bond issuances. In 2018, 44 Italian companies, including 26 non-financial ones, issued bonds and raised a total amount of EUR 47 billion. However, while underwritten corporate bonds is an important source of finance for Italian companies, this amount represents only 6% of the total issuances in Europe, which is well below Italy’s share of European GDP.

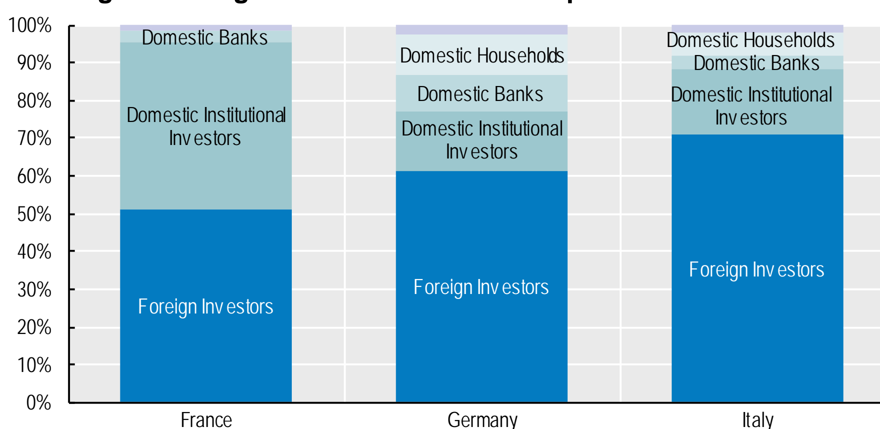
An important feature of Italian corporate bonds is that almost 90% of them are listed abroad. Most of them (80%) are listed on the Luxembourg Stock Exchange and 10% on other foreign exchanges. This sets Italy apart from other large European markets, such as Germany where companies list less than 40% of their corporate bonds outside of the country (see Chapter III). One reason for this could be the difference in cost of listing on the Luxembourg Stock Exchange compared to a listing

in the home country of company.[1] Listing a corporate bond outside Italy does not require CONSOB's approval and in the case of the Luxembourg Stock Exchange, companies only have to request approval from the Luxembourg Securities Market Regulator.

The country comparison in Figure 6 highlights some of the key differences between Italy, Germany and France with respect to the owners of bonds that are issued by large non-financial firms as of mid-2017. Foreign investors are holding more than 70% of the bonds issued by large Italian non-financial firms, while the holdings by foreign investors in France and Germany are 51% and 61%, respectively. By the end of 2018, Italian open-end investment funds invested only about 2% (EUR 5 billion) of their total assets under management (EUR 221 billion) in non-financial debt securities issued by domestic companies (Banca d'Italia, 2019). Similarly, Italian pension funds had by year end 2017 allocated a modest 16.6% (EUR 21.2 billion) of their assets under management (EUR 128 billion) to corporate bonds, including bonds issued by non-Italian companies (COVIP, 2018).

In today's globalised capital markets, the use of non-domestic markets can indeed help companies to obtain financing from a much larger pool of investors. But at the same time, over reliance on foreign markets and investors, can also serve as a significant obstacle, particularly for first time issuers' and smaller companies with low visibility. It may also prevent domestic markets to reach a critical scale that can reduce the asset management costs for domestic investors, increase liquidity in secondary markets and help to finance the necessary market-infrastructure, such as analyst coverage.

Figure 6. Large firms' non-financial corporate bond holders



Source: Banca d'Italia, Accornero et al. 2018.

Underwritten corporate bonds was the dominant form of issuance in Italy until 2012 and mainly used by listed Italian companies. The costs associated with the issuance process, such as rating, underwriting costs, registration fees and legal costs, had largely prevented their use by unlisted smaller companies. In light of this, the Italian Government in 2012 introduced the Development

[1] For example, for a corporate bond raising EUR 600 million on MOT market in Borsa Italiana, the listing fee is EUR 55 000. If the same bond is the first listed instrument of a company on Luxembourg Stock Exchange, the listing fee is only EUR 1 200 and the maintenance fee is EUR 800 per year. In case a prospectus is approved by Luxembourg Stock Exchange, an approval fee of EUR 2 500 will be charge. This number will be lower for subsequent listings. At the same time, the annual fee for listing a corporate bond in Deutsche Borse is EUR 5 000 which is paid as quarterly instalments of EUR 1 250.

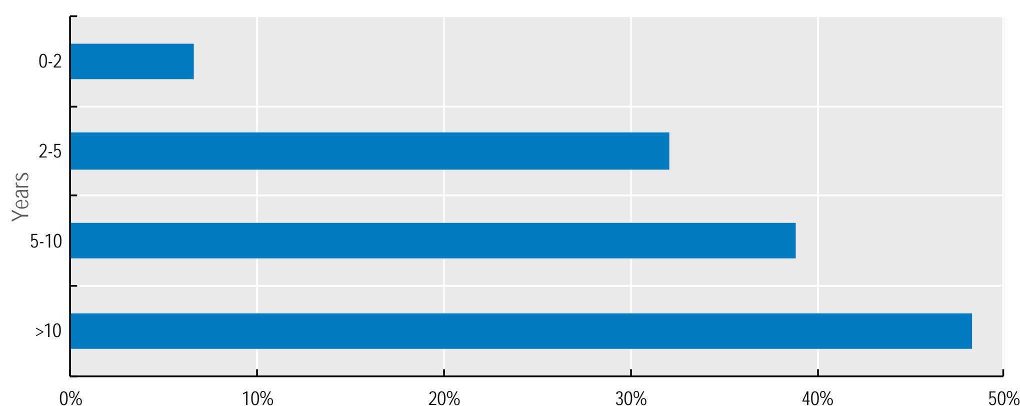
Decree (Law Decree No.83/2012) and its subsequent amendments (Law Decree No. 179/2012; Law Decree No. 145/2013), which created the possibility for unlisted companies to issue corporate bonds through the so-called mini-bond framework.

The mini-bond framework establishes a simplified process where unlisted companies, except micro enterprises[2] and banks, can issue mini-bonds that can be bought only by qualified investors. Companies are allowed to issue a nominal amount that exceeds twice their shareholders' equity if the instrument is intended to list on a regulated market (RM), or on a multilateral trading facility (MTF), or when investors have the right to acquire or subscribe for shares. In addition, companies can deduct the interest paid to bondholders from their taxable income when the mini-bond is traded on a RM or on a MTF and is subscribed by qualified investors who do not hold more than 2% of the issuer's share capital or assets. The costs associated with the bond issue can also be deducted from the company's taxable income. Since the introduction of the new framework, the mini-bond market has shown a steady growth as the number of issuances increased from 16 in 2013 to 171 in 2018. The cumulated proceeds during this period amounted to EUR 10.6 billion, of which 25% was raised in 2018 (see Chapter III).

In the mini-bond market the size of the bond issue is directly correlated with the size of the issuing company. There is also a strong correlation between the size of the bond issue and the maturity of the bond. While large mini-bond issues have an average maturity of 6.8 years, smaller mini-bond issues have an average maturity of 3.8 years. One explanation that has been given for the shorter maturities of smaller bond issues is their lack of liquidity. These shorter repayment requirements for smaller bond issues come on top of the higher borrowing costs that also are associated with lower liquidity.

Bonds that are rated help the investor to assess the credit worthiness of issuers. And in the Italian mini-bond market, a rating increases the maturity of the bond. As shown in Figure 7, the portion of rated (publicly available, unsolicited and undisclosed) mini-bonds increases with maturity. While only 7% of the mini-bonds issued with a maturity between 0-2 years have a rating, almost 40% with a maturity between 5-10 years are rated.

Figure 7. Share of non-financial rated issuances in the mini-bond market by maturity



Source: Bloomberg, FactSet, Observatory on Mini-Bonds, Politecnico di Milano - School of Management, Thomson Reuters.

[2] According to Article 2 number 3 of the EU Recommendation 2003/361/EC: "Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million."

The mini-bond market in Italy is highly fragmented with respect to market of issuance. Out of the 197 mini-bonds issued by Italian companies in 2018, 52 of them were listed on the ExtraMOT PRO market of the Borsa Italiana. While 32 of them were listed on other markets such as Luxembourg, Austria and Ireland, 113 were not listed at all (Politecnico Milano, 2019). Since the liquidity provision for smaller issuances is generally low and market expertise is limited, the effects on market efficiency from market fragmentation would normally be larger for the mini-bond market than the market for underwritten corporate bonds.

As an alternative way of providing debt financing to growth companies, mini-bonds have since the beginning of 2016 also been securitised through special purpose vehicle companies. Although the number of mini-bonds included in the securitisations (33 mini-bonds within 4 securitised instruments with a total value of around 400 million EUR) is quite small compared to the number and size of the mini-bond outstanding stock (Chapter 3.3), vehicles, such as the newly introduced Elite Basket Bonds (EBB), are likely to enhance SME creditworthiness and facilitate for large institutional investors (including the European Investment Bank) to finance the real economy of Italy and Europe through corporate bonds.

Recommendation: Corporate bonds have become an increasingly important source of finance for Italian companies. Importantly, smaller unlisted non-financial companies have gained access to the market by using the mini-bond market framework that was created in 2012. However, the use of corporate bonds by Italian companies, particularly underwritten bonds that are typically issued by larger companies, is still limited compared to European peers. They are also more dependent on foreign investors and markets. In order to facilitate the underwritten corporate bond issuance process in Italy, the government may consider establishing an advisory committee including industry representatives and experts with an objective to propose legal and regulatory changes that will increase the efficiency of the issuing process in the domestic market, including with respect to timing of bond issues and the costs. Measures to increase the liquidity in the secondary mini-bond market should also be considered in order to support its long-term sustainability and the lengthening of bond maturities. Such reforms could include the strengthening of the participation of individual qualified investors and collective investment schemes both in the secondary mini-bond market and securitised mini-bonds.

7. Completing the regulatory framework for Special Purpose Acquisition Companies (SPACs)

A Special Purpose Acquisition Company (SPAC) is a company that raises cash through an IPO without having any operations or physical assets. Its sole purpose and “asset” as a listed shell company is a business plan aiming to find and acquire an existing unlisted company. The acquired company will then automatically become listed through a merger with the SPAC. There is generally a rule or a market practice that limits the maximum time within which the SPAC has to find and merge with a target company, typically 24 months. Once a target company is found, the business combination (merger) is subject to the approval of the investors in the SPAC. If the SPAC has not made an acquisition and completed the business combination within the stipulated maximum time, the SPAC needs to return the funds to its investors.

Participating in a SPAC IPO gives all investors the option to access investment opportunities that typically are available only to sophisticated investors in the private equity markets. Since the shares of the SPAC from day one are traded on an exchange, they are also liquid as opposed to capital that is committed to a private equity fund.

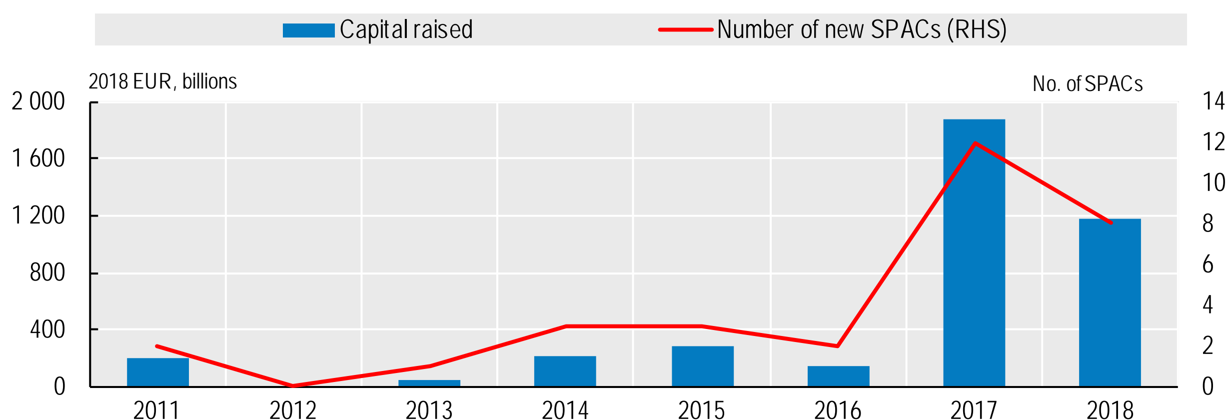
The main reasons for target companies to choose a listing via SPAC are that the process is less burdensome and faster compared to a traditional IPO, since the regulatory procedures and documentation needed to list a SPAC are relatively limited. A SPAC listing also allows the target company to reduce pricing uncertainties of a public listing by negotiating ex-ante all the terms and conditions with the managers of the SPAC. Like private equity firms, the business model of SPACs relies on the reputation and expertise of the management team who also own shares in the SPAC and are remunerated through various combinations of warrants and fees.

While the business models of SPACs, private equity and venture capital firms share certain characteristics, there are also differences with respect to how they choose their target companies, their investment horizons and their exit strategies. The main goal of a SPAC is to find an attractive unlisted company that is willing to be listed on an exchange immediately. Private equity and venture capital funds, on the other hand, typically keep the acquired company private in their portfolios for a number of years before they exit the investment through a listing or, more commonly, through a trade sale. Listing a portfolio company by selling it to a SPAC has also emerged as one of the alternatives for private equity exits.

In the United States, SPACs first appeared in the 1980s and during the 1990s they successively became a common feature of the equity capital markets. After the 2008 financial crisis however, the use of SPACs declined until 2017, when there was a surge both in terms of the number of SPAC listings and the amount of equity that they raised. In 2017 and 2018, there were almost 80 SPACs listings in the United States raising EUR 17.8 (USD 21) billion in total. A similar development was also seen in the United Kingdom, where 15 SPACs listed in 2017 raised a total of EUR 2.5 (USD 2.15) billion (see Chapter II).

In Italy, the first SPACs appeared in 2011 with the establishment of the alternative markets AIM Italia and MIV that allowed the listing of shell companies. As seen in Figure 8, similar to the developments in other markets, there was a surge in SPAC listings in 2017 with 12 new listings raising a total amount of EUR 1.6 billion. However, unlike other markets both the number of new Italian SPACs and the money they raised dropped in 2018. And in the first five months of 2019, there was only one SPAC listing in Italy.

Figure 8. Listings of Special Purpose Acquisition Companies in Italy



Source: OECD Capital Market Series dataset, see Annex for details.

In 2018 the Italian public market also experienced the launch of the first ELITE SPAC in Cloud; an innovative process that streamline the IPO process, offering significant advantages for entrepreneurs and investors alike. Being platform-based, it avoids the necessity to create a SPAC in the first place, making execution faster and simpler.

Not surprisingly, the use of SPACs in the United States, is closely linked to the evolution and quality of the regulatory framework in which they operate. When SPACs first appeared in North America, it was in the form of blank-check companies listed on the penny stock market. At the time, they were not required to show financial history, assets or operating business. In reaction to the fraudulent use of the penny stock market, the US Congress in 1990 enacted the Securities Enforcement Remedies and Penny Stock Reform Act (PSRA) aiming to improve investor protection. Later in 1992, the SEC adopted Rule 419 that defines specific requirements for blank-check companies (SPACs). Rule 419 establishes that the securities issued in connection with a blank check company and the inherent proceeds should be promptly deposited in an escrow or trust account. In addition, the company should disclose its offering terms and submit an amendment requirement, which shall include the financial statements of the company to be acquired as soon as an acquisition becomes probable. These regulatory adjustments were followed by an increase in the number of SPAC IPOs and came to established them as a common feature in US capital markets.

After a short period of low activity in the late 1990s, SPACs re-emerged in the United States after 2003 in a somewhat new form. This new generation of SPACs issues securities through an IPO, which exempts them from Rule 419. However, SPACs comply voluntarily with Rule 419 (SEC Rule 149, 2017) and have self-imposed additional safeguards, including rescission and redemption rights. Before 2008, SPACs were traded on the OTC market and the American Stock Exchange. Since then, they have started to list on NASDAQ and NYSE, which has impelled both of the exchanges to establish additional conditions for SPAC listings.

Studies have compared the regulatory framework for SPACs on both sides of the Atlantic and concluded that the US regulatory framework for SPACs is more complete than the European one (D'Alvia, 2014, Ignatyeva et al., 2013). Despite being required to issue a prospectus or an admission document according to the CONSOB regulation and having a maximum 36 months' period to complete significant investments, the regulatory framework surrounding SPACs in Italy is also incomplete.

A particular issue with respect market confidence in SPACs is how to secure the IPO proceeds. Currently, the stock exchange requires that the proceeds from a SPAC offering should be deposited in a restricted/escrow account ("conto vincolato"), without providing a clear framework for the deposit and management of the securities held by the SPAC and IPO proceeds themselves. Malaysia, for example, sets a minimum size for a SPAC IPO (EUR 31 million) and requires that at least 90% of the inherent proceeds are deposited in an escrow or trust account (Securities Commission Malaysia, 2018). The exchange rules also stipulate how these proceeds may be invested during the time when the SPAC management team is searching for a target company, how to treat the money received from such interim investments and when to distribute it, among several other things

Following the most recent significant increase in the use of SPACs, several initiatives have been launched around the world to promote their use and ensure their long-term viability by developing more solid regulatory frameworks. For example, NYSE changed its SPAC listing requirements in 2017 to include a requirement that the majority of the SPAC's independent directors approve the

business combination and to allow SPACs to follow proxy rules to solicit shareholder approval and redemptions related to business combinations. This was followed by proposals from both NYSE and Nasdaq to change their listing requirements aiming at reducing the liquidity requirements (minimum number of shareholders) for SPACs (Anthony, 2018).

Another important issue with respect to a SPAC's operations is the process for completing the business combination, which is mainly subject to the general business combination rules in company law as well as some specific requirements for shareholder approval. In the current Italian regulatory framework, the creditors of the target company are allowed to oppose the merger during a period of 60 days from the registration day of the merger (Civil Code, Article 2503). However, similar to traditional IPOs, timing is often of key importance for a SPAC to successfully complete the business combination and listing of the target company. And for that purpose, a 60 day vetting period that comes on top of all the other procedural requirements, may create undue uncertainty that makes optimal timing of the transaction difficult in a dynamic capital market environment.

Recommendation: Special Purpose Acquisition Companies (SPACs) give corporations an opportunity to list through a process that is less burdensome and faster than a traditional IPO. It also gives investors the option to access investment opportunities in public markets that are typically available only in less liquid private equity markets. Their increased use around the world has been supported by successive improvements in the completeness and quality of the regulatory framework in which they operate. In order to secure its long-term viability and confidence in the SPAC model for listings, and building on the current regulatory framework, Italy should consider developing a state-of-the-art framework for SPACs that contains sufficient safeguards for investors and minimises the conflicts of interests among promoters, investors and target companies. In addition to providing a clear framework for the deposit and management of the securities and proceeds held in escrow by the SPAC, complementary reforms may also include abolishing or shortening the 60 day-period that is granted in the Civil Code to the target companies' creditors to oppose the merger. Complementary soft law, where Borsa Italiana develops best practice guidelines in consultation with the industry participants and relevant stakeholders, may also be considered.

PART II

CORPORATE SECTOR AND THE CAPITAL MARKET LANDSCAPE IN ITALY

CHAPTER I. THE ITALIAN CORPORATE SECTOR

In a market economy, the business sector typically accounts for the bulk of the production of goods and services, and employs most of the workforce. Business corporations are also the main source of investment in fixed capital as well as research and development (R&D). And to finance their activities and investments, corporations need capital. Depending on the needs of the company, this capital may come in different forms, for example with respect to maturity structure, the conditions for obtaining it and the rights that are granted to the capital providers. One of the key economic functions of capital markets is to make sure that the right kind of capital is provided in the right amount to the right companies.

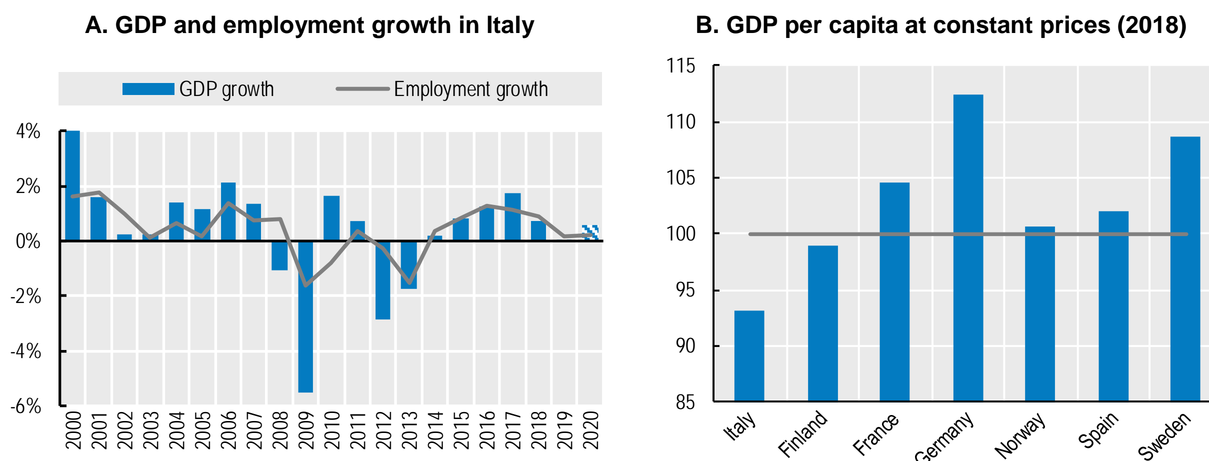
In order to understand the specific financing needs of corporations and any impediments to obtaining that financing it is therefore essential to first understand the characteristics of the business sector. Based on firm-level data and using several indicators, this chapter provides an overview of firm financing structure, demographics and size distribution in the Italian corporate sector. It also provides comparable analyses of firm performance and their viability. Its main focus is on structural issues within the corporate sector.

1.1. Overview of the Italian economy

The Italian economy has been deeply affected by the global financial crisis and the subsequent sovereign debt crisis in Europe and experienced its worst recession since 1960s. Thanks to structural reforms and accommodative monetary conditions, the Italian economy has been on a recovery path since 2014, with real GDP growth of 1.8% in 2017 and 0.7% in 2018 (Figure 9, Panel A). However, growth rates are still below those of most European countries and the economy is projected to stagnate in 2019 and expand by 0.6% in 2020. Over the last 15 years, average GDP growth was close to zero in Italy, while other European countries like Germany and France experienced average annual growth rates of 1.3% and 1.1%. In 2018, ten years after the financial crisis, Italy’s real GDP per capita has not yet reached pre-crises levels and was around 7% lower than in 2007 (Figure 9, Panel B).

Conditions in the labour market have improved, with headcount employment growing by 1.2% in 2017, reaching pre-crisis levels (Figure 9, Panel A). However, employment growth declined in 2018 (0.9%) and is projected to be 0.2% by the end of 2020. Long-term and youth unemployment stay among the highest in the EU (European Commission, 2018b).

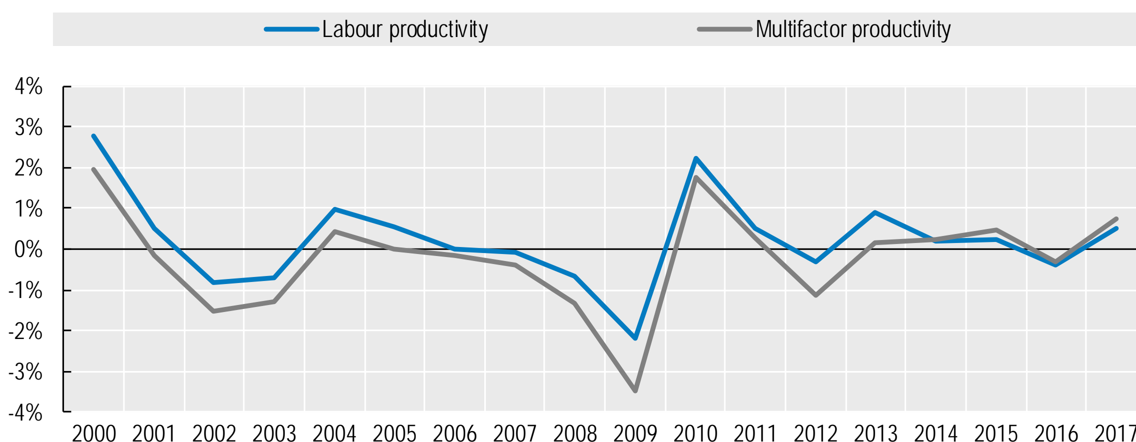
Figure 9. GDP and employment growth in Italy and per capita GDP in selected European countries



Note: GDP and employment values for 2019 and 2020 are estimates.
Source: OECD Economic Outlook 105 database 2019/1, OECD National Accounts.

The slow economic growth recovery in Italy is rooted in weak business sector productivity. Figure 10 shows that over the last two decades, both labour and multifactor productivity growth have been sluggish. After the sharp fall in 2008/2009 and a brief drop in 2012, multifactor productivity growth returned to a positive trend, but with both productivity measures generally fluctuating around zero. These weak productivity dynamics have been seen as a drag on economic growth hampering Italy's competitiveness. Moreover, most recent jobs have been created in industries with lower labour productivity, as the top three sectors that account for almost 40% of new employment all have labour productivity below average (OECD, 2019d).

Figure 10. Italian Labour and multifactor productivity, annual growth rates

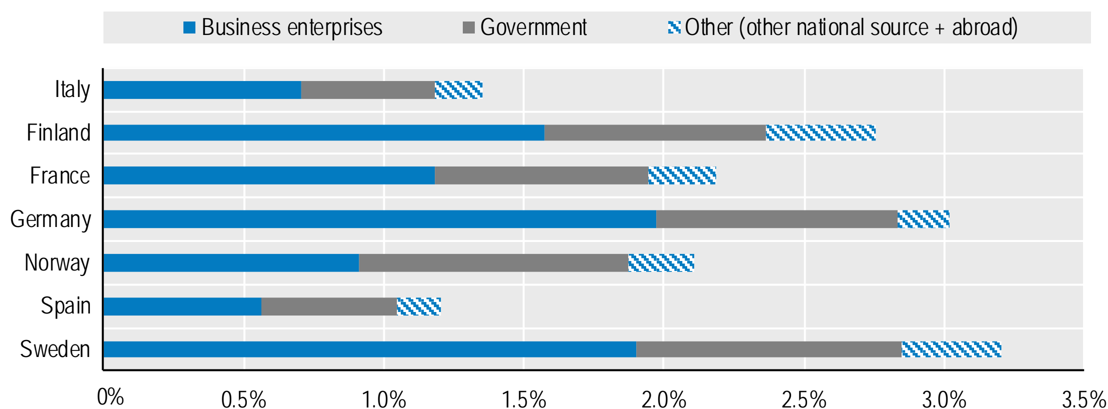


Source: OECD Productivity Statistics.

Many explanations have been offered for Italy's low productivity growth, including a misallocation of resources across firms, low innovation, scant use of information and communications technologies, poor corporate governance, public administration inefficiency and tax evasion (OECD, 2017e; OECD, 2017f). The amount of research and development (R&D) is generally seen as a strong indicator of an economy's innovation capacity, which in turn contributes to productivity growth. Figure 11 provides an overview of gross expenditures on R&D in Italy and some European countries by source of financing. It shows that gross expenditure on R&D in Italy is 1.4% of GDP,

which is relatively low compared to 3.3% in Sweden or 3% in Germany. Moreover, about two-thirds of total R&D expenditure comes from the business sector in these economies, while the Italian business sector only contributed to around 50% in 2016.

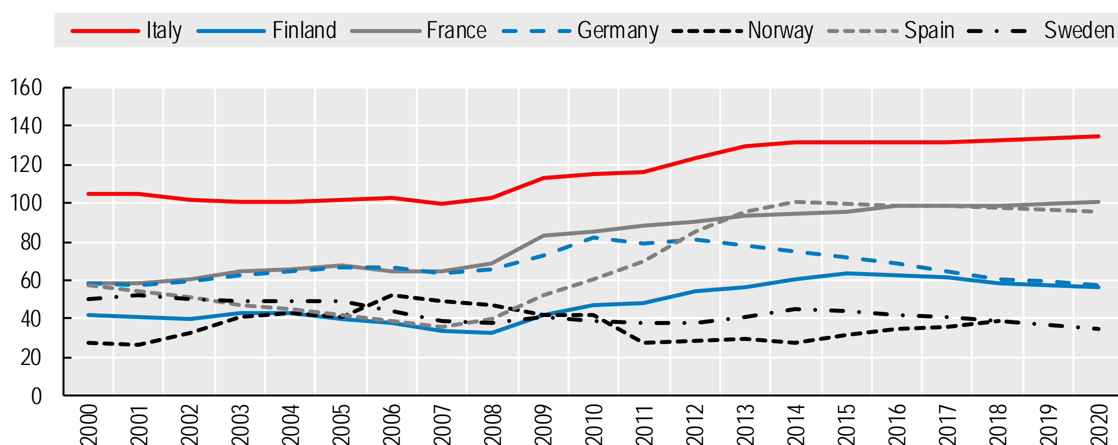
Figure 11. R&D expenditure by source of financing in selected European countries, as a percentage of GDP (2016 or latest year available)



Source: OECD Main Science and Technology Indicators Database.

Another key challenge for Italy is the high public debt level. Between 2007 and 2018, public debt to GDP went up 32 percentage points, reaching 132% by the end of 2018 (Figure 12). At the same time, debt to GDP ratios in other large European economies were significantly lower at 61% in Germany, 99% in France and 97% in Spain. Moreover, as of 2018 Italy was the only country among G7 countries with a positive interest-rate growth differential (OECD, 2019d). This means that, unlike other G7 countries, interest rate paid to 10-year Italian government bond exceeds the economic growth rate, which has been one of the main reasons that led to increasing debt to GDP ratio in Italy. For the period 2019-2020, debt to GDP ratio is forecasted to stabilise around 135% in Italy.

Figure 12. Gross public debt in selected European countries, as a percentage of GDP

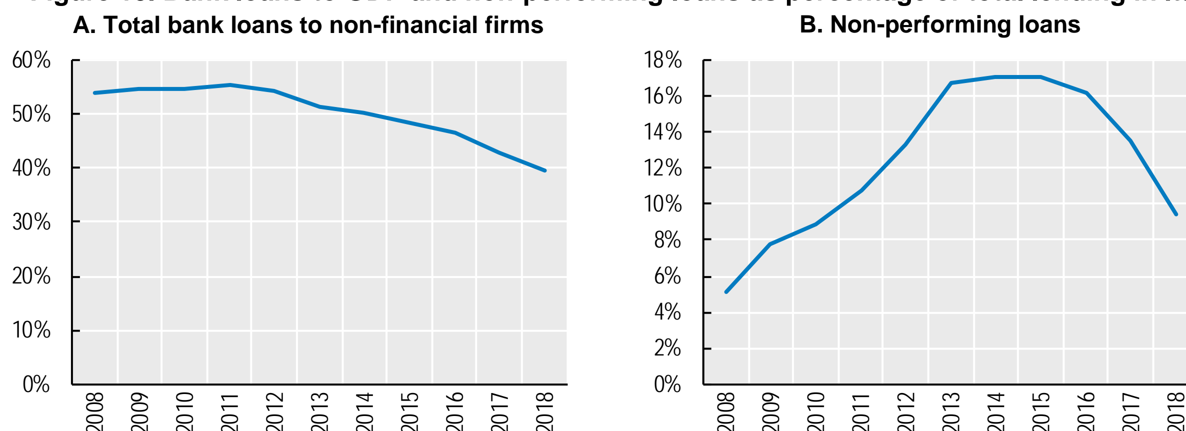


Note: Values for 2019 and 2020 are estimates.
Source: OECD Economic Outlook 105 database 2019/1.

Business sector debt levels are also high in Italy. Panel A of Figure 13 shows that bank loans to non-financial firms amounted to almost 40% of GDP at the end of 2018. Even though the ratio has decreased over the last few years, it remains relatively high and is still 1.5 times higher than, for example, in Germany.

In addition to high dependence on bank credit, there are also concerns about the rising misallocation of credit in the Italian economy. The ratio of non-performing loans (NPL) to total lending increased steadily until 2013 (Figure 13, Panel B). And although the stock of non-performing loans in the banking system has declined from its peak, thanks to the policies put in place (OECD, 2018), it is still high compared to other EU economies. This does not only decrease the resilience of banks, it also hampers the efficient re-allocation of capital in the economy and the ability of the banking sector to support investment growth. Growing out of the NPL overhang has the potential to raise economic growth and lift productivity in the economy (Mohadess et al., 2017). As shown in Section 1.7 of this chapter, the share of non-viable (so-called zombie firms) has increased from 2.6% in 2005 to a peak of 6.3% in 2014. Since then, the share of zombie companies has been slowly decreasing and reached 4.4% in 2016. The large amount of resources sunk into these firms has supported the survival of low-productivity firms at the expense of investments in more productive ones.

Figure 13. Bank loans to GDP and non-performing loans as percentage of total lending in Italy



Source: Banca d'Italia, ECB, Eurostat.

Italy has implemented key structural reforms in recent years that have improved the financial health of the corporate sector and contributed to a gradual economic recovery. However, the Italian economy still lags behind other large European economies and reviving growth requires, among other things, improving business environment to boost corporate investments. A well-functioning capital market can contribute to closing the productivity gap by providing businesses with the capital they need to challenge the status quo. In particular, Italy can lift its productivity by improving the allocation of capital and access to long-term, market-based financing. This is particularly important for growth-oriented companies, which are critical in contributing to innovation, productivity and net job creation and offer a window of opportunity to boost economic growth and development.

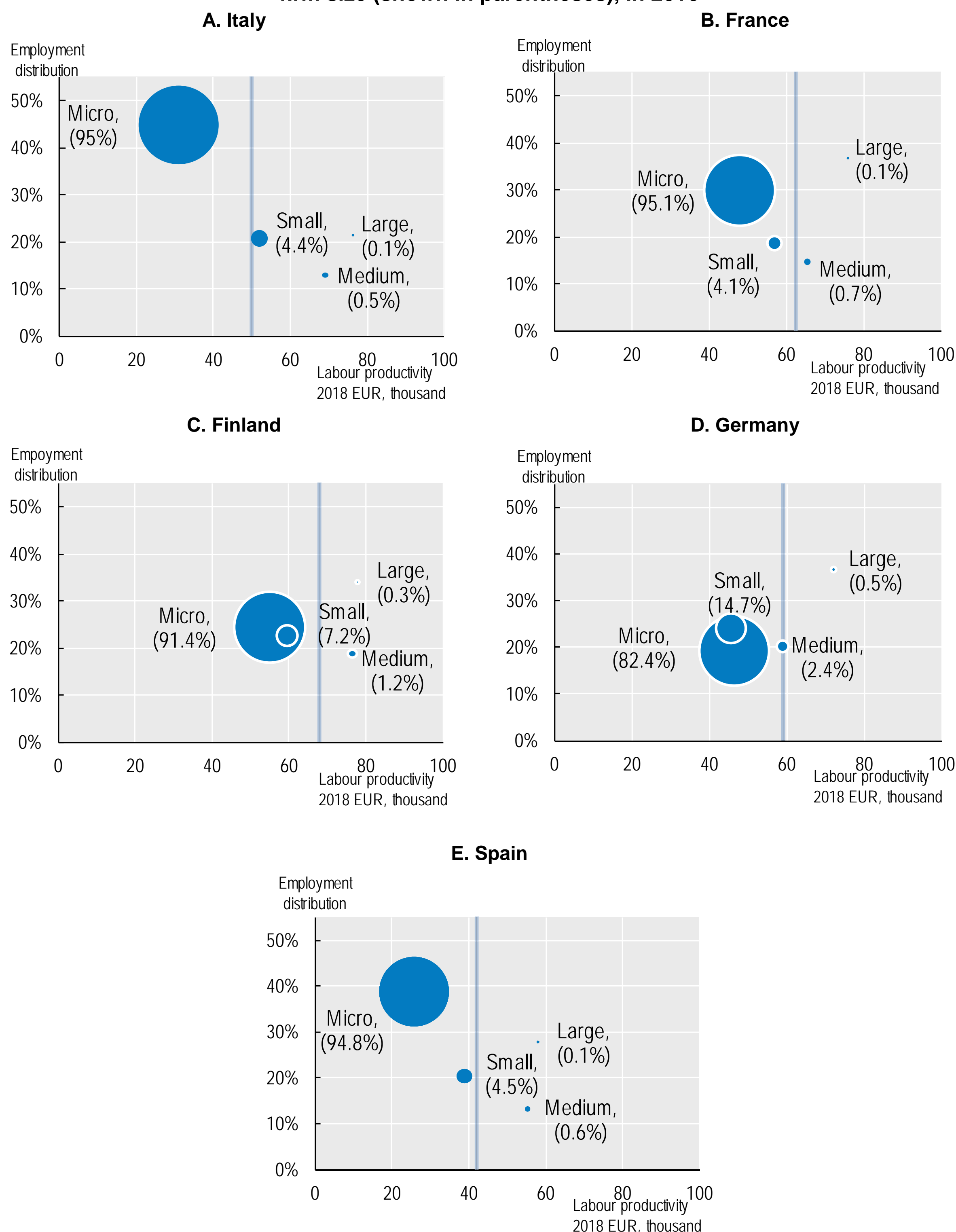
1.2. Business demographics

Small and medium-sized enterprises (SMEs) account for over 95% of the number of firms in the OECD area. Italy is no exception in this regard. However, there are wide differences among countries with respect to the role of SMEs in total employment and productivity levels as well as the distribution of SMEs among different sub-groups. Figure 14 classifies all companies in five EU countries into four groups based on the number of employees: micro (1 to 9 employees); small (10 to 49 employees); medium (50 to 249 employees); and large (over 249 employees).

The figure shows that in Italy, 95% of all non-financial firms in 2016 were micro firms, while small and medium-sized enterprises accounted for 4.6% and 0.5%, respectively. Only about 0.1% of the firms had more than 250 employees. While the proportion of micro-firms ranked at the very top-end, Italy has the lowest share of medium-sized firms (0.5%) among the five European countries shown in the figure, well below Finland (1.2%) or Germany (2.5%).

A noticeable feature of Italy is the high share of employment in micro-firms. In countries like France, Finland or Germany large firms account for the largest share of employment (ranging between 34% and 37%) among different size categories. In Italy, the situation is the opposite, with micro-firms employing 45% of the business sector workforce. It is also clear from the figure that while micro-firms in general have the lowest level of labour productivity, it is particularly low in Italian micro-firms at EUR 31 thousand (in 2018 real terms) per person employed. Together with Spain, this is the lowest level among the five countries. Large Italian firms, however, had a labour productivity of EUR 76 thousand per person employed, which is well in line with the productivity of large firms in France, Finland and Germany. However, only 21% of the Italian workforce is employed in these large firms, while they employ around 40% of the workforce in Germany and France. The large share of employment in small firms with low productivity compared to employment in large firms with high productivity in Italy depresses productivity levels of the overall economy as seen by the blue vertical line in the figure. Hence, a shift in employment patterns towards larger companies seems to be one important means to address the Italian productivity challenge.

Figure 14. Labour productivity, share of workforce and share of the total number of companies by firm size (shown in parentheses), in 2016



Note: The blue vertical line presents the overall labour productivity. Labour productivity is defined as value added at factor costs divided by the number of persons employed, presented in thousands of euros per person employed.
Source: Eurostat.

Using the same classification of company groups based on the number of employees, Table 1 provides a breakdown of the number of Italian companies by industries. The table shows that most companies are found in the wholesale and retail trade industry accounting for 25% of all companies. It also shows that this is the industry where micro-firms are active (25.5 %) and where almost 20% of the small firms are active. Other important sectors for micro-firms are professional, scientific, and technical activities that accounted for the second largest share of the micro-enterprise population and construction with nearly 12% of all micro-firms being active in this industry. Importantly, manufacturing had a distinct distribution among small, medium, and large firms as each group accounted for more than 3 out of 10 firms within each size category.

Table 1. Breakdown of Italian companies by industries in 2016, as a percentage of total number of companies

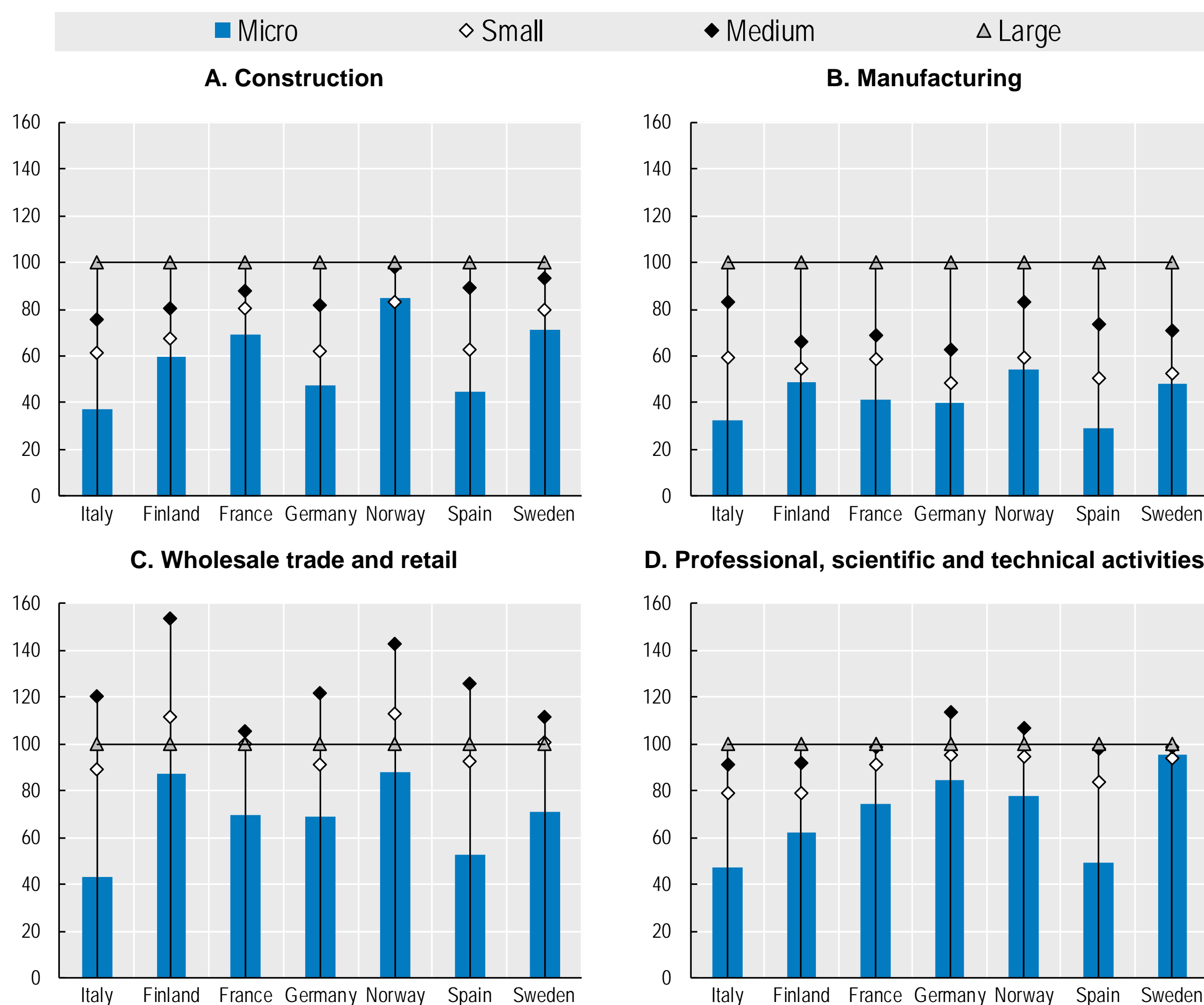
	Micro	Small	Medium	Large	Total
Accommodation and food service activities	7.2%	11.3%	3.7%	3.1%	**7.4%**
Administrative and support service activities	3.2%	5.0%	9.0%	12.1%	**3.3%**
Arts, entertainment and recreation	1.6%	1.1%	0.8%	0.7%	**1.6%**
Construction	11.7%	9.9%	4.8%	2.1%	**11.6%**
Education	0.7%	1.0%	0.8%	0.2%	**0.7%**
Electricity, gas, steam and air conditioning supply	0.3%	0.2%	0.5%	1.1%	**0.3%**
Financial and insurance activities	2.3%	1.0%	2.0%	4.9%	**2.2%**
Human health and social work activities	6.8%	2.8%	7.0%	7.7%	**6.6%**
Information and communication	2.3%	3.0%	4.0%	4.6%	**2.3%**
Manufacturing	7.6%	32.1%	38.3%	32.6%	**8.8%**
Mining and quarrying	0.0%	0.2%	0.2%	0.1%	**0.0%**
Other service activities	4.9%	1.8%	1.4%	0.8%	**4.7%**
Professional, scientific and technical activities	17.4%	4.1%	3.7%	3.6%	**16.7%**
Real estate activities	5.8%	0.4%	0.1%	0.1%	**5.6%**
Transportation and storage	2.6%	6.0%	9.1%	9.5%	**2.8%**
Water supply sewerage, waste management and remediation activities	0.2%	1.0%	2.2%	3.4%	**0.2%**
Wholesale and retail trade repair of motor vehicles and motorcycles	25.5%	19.1%	12.3%	13.3%	**25.2%**

Source: Italian National Institute of Statistics (ISTAT).

Figure 15 presents labour productivity by firm size among some European countries for selected industries. Differences in productivity across size classes are particularly high in the manufacturing, and wholesale trade and retail industries. While the productivity gap between micro and large firms is the largest in Italy and Spain across industries, it is the lowest between mid-sized and large firms in the manufacturing industry in Italy. In fact, with a labour productivity of EUR 75 thousand per person employed (not shown in Figure 15), manufacturing mid-sized firms in Italy ranked at the upper end of the spectrum of European mid-sized peers. Although this highlights a significant strength of the Italian mid-sized firms, they represent a very low share in the overall business sector. In other words, even though the productivity of mid-sized firms is relatively high, their number is too low to push up the economy-wide productivity level. This might be partly driven by the capital-intensive manufacturing process, creating barriers to entry or grow.

Productivity gaps between micro, small, mid-sized and large firms are less pronounced in the service industry, reflecting, for example, competitive advantages in niche markets. In the wholesale and retail trade industry, mid-sized and, to some extent, smaller firms outperform large firms among selected European economies. To a lesser extent, this also applies to professional, scientific and technical activities.

Figure 15. Relative labour productivity by firm size for selected industries (Large firms=100, 2016)



Source: OECD Structural Business Statistics.

1.3. Firm-level analysis and company category classifications

In order to analyse the business dynamics in Italy and selected peer countries, the following sections in this chapter of the report build on firm-level data obtained via ORBIS database. The analysis includes only non-financial companies and companies with more than 10 employees. The purpose of choosing a size threshold of 10 employees is twofold: First, data coverage typically increases with firm size which means that the coverage of smaller firms is less reliable and hampers international comparability. Second, the focus of this report is on market-based financing and micro-firms are, in general, unlikely to tap capital markets.

The OECD-ORBIS Corporate Finance dataset includes financial and ownership information of non-financial companies between 2005 and 2016. To assess the representativeness of the data against the official statistics, Table 2 compares the coverage of the OECD-ORBIS Corporate Finance dataset and the Eurostat business statistics universe. While there are not wide difference in terms of the distribution of firms among different size groups, the OECD-ORBIS dataset generally has better coverage compared to the Eurostat universe.

Table 2. Comparison of the OECD-ORBIS Corporate Finance dataset and the Eurostat universe (2016)

	Small		Medium		Large	
	Share in total	Number of companies	Share in total	Number of companies	Share in total	Number of companies
Italy – Eurostat	88.2%	170 290	10.1%	19 518	1.7%	3 249
Italy – Orbis	90.0%	285 729	8.4%	26 683	1.6%	5 086
France – Eurostat	84.0%	125 240	13.2%	19 657	2.8%	4 199
France – Orbis	89.8%	232 139	8.0%	20 635	2.2%	5 613
Germany - Eurostat	83.8%	373 276	13.6%	60 505	2.6%	11 762
Germany – Orbis	76.3%	155 773	19.6%	39 953	4.1%	8 343
Spain – Eurostat	87.3%	125 846	10.5%	15 072	2.2%	3 185
Spain – Orbis	88.0%	151 612	9.6%	16 602	2.4%	4 083
Sweden – Eurostat	83.0%	31 833	14.3%	5 489	2.7%	1 025
Sweden – Orbis	83.6%	35 874	13.2%	5 668	3.2%	1 378

Source: OECD-ORBIS Corporate Finance dataset, Eurostat, see Annex for details.

Company categories in Italy

One potential weakness in analysing the investment and financing structure of the business sector in an economy is treating the whole non-financial corporate sector as one entity without taking into account differences with respect to key characteristics, such as size, listing status, and industry. From a capital market perspective it may also be important to know if a company is part of a larger company group. The following company categorisation has been developed and used throughout Chapter I in order to better grasp specific features of the Italian and some other European economies' corporate sectors. As illustrated in Table 3, non-financial companies are divided into four categories:

▪ Category 1: Listed companies

This category includes, on average, about 216 non-financial listed corporations per year with median assets of around EUR 341 million. Listing status may have a strong impact on a corporation's financing conditions. Being listed on a stock exchange requires the implementation of certain transparency and disclosure standards as well as other corporate governance practices. This implies that the corporation has already passed a certain threshold in terms of its formal and institutional structure, which makes investors willing to provide funds and facilitates access to a wide range of financing options. The OECD Report to G20 (OECD, 2015b), for example, finds a positive link between a company's listing status and the issuance of corporate bonds. Hence, listed corporations do not only access to public equity markets, but they may also benefit from attractive conditions with respect to bank financing, private equity as well as public and private debt markets. As shown in Figure 16, listed companies in 2016 accounted for 10% of employment of the total economy and generated 16% of aggregated sales.[3]

[3] The category classification is based on different financial reports available for companies (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available.

- **Category 2: Large unlisted companies**

This category includes on average about 2 925 large non-financial corporations with assets larger than EUR 87 (USD 100) million in 2018 real terms. Their median asset size was EUR 159 million on average. In contrast to publicly listed companies, less information is available for large unlisted companies which reduces available financing options or may result in financing conditions on less favourable terms. However, the companies in this category can generally be classified as professionally managed formal companies. In 2016, the share of large unlisted companies in total sales and employment was around 41% and 29% respectively.

- **Category 3: Small and mid-sized companies part of a group**

This category includes all small and mid-sized enterprises controlled by a listed (Category 1) or a large unlisted corporation (Category 2). SMEs based in Italy but controlled by a non-Italian company or by an Italian financial company are also included this category. Category 3 contains on average 16 523 companies per year with median assets of EUR 5 million. Since the financial results of *SMEs part of a group* are consolidated into a parent company, unconsolidated accounts are used in the analysis to identify their own structure. In general, the information available for SMEs is relatively limited, but being part of a group can help subsidiaries to access financing at better conditions compared to independent SMEs. One theoretical explanation for the existence of economic groups is that they provide a financing advantage in setting up new firms when the pledgeability of cash flows to outside financiers is limited (Almeida and Wolfenzon, 2006). By creating an internal capital market, an economic group can also improve the available financing options for group companies.

- **Category 4: Independent small and mid-sized companies**

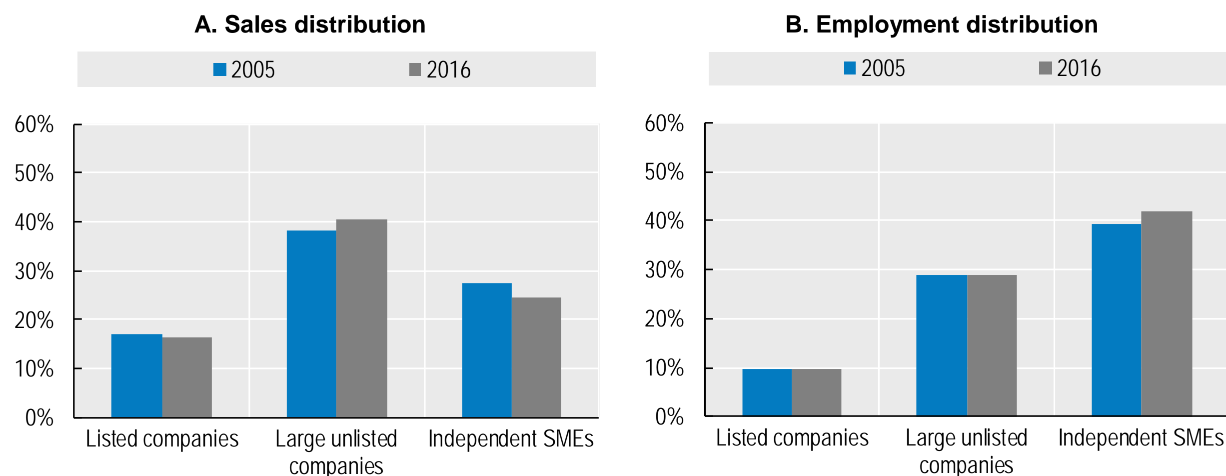
The last category includes all SMEs identified to be controlled by individuals and those with no ownership information available. For this group, only unconsolidated accounts are reported. The group of *Independent SMEs* is the largest in terms of number of companies (around 254 000 companies per year), but the smallest in terms of size (median assets around EUR 533 000). The information available is limited and unlike *SMEs part of a group, Independent SMEs* do not benefit from financing advantages related to a group structure. In 2016, they employed more than any other company group with 42% of the workforce being employed in this sector. However, they accounted for only 25% of the total sales.

Table 3. Company categories of the Italian non-financial business sector

	Category 1: Listed companies		Category 2: Large unlisted companies		Category 3: SMEs part of a group		Category 4: Independent SMEs	
Year	Number of companies	Median Assets (Thousands EUR)	Number of companies	Median Assets (Thousands EUR)	Number of companies	Median Assets (Thousands EUR)	Number of companies	Median Assets (Thousands EUR)
2005	192	414 984	2 554	165 609	11 676	7 371	167 015	1 002
2006	209	423 675	2 789	162 163	12 423	7 193	169 220	1 081
2007	231	387 563	2 903	159 624	17 405	4 164	290 891	344
2008	225	369 936	3 102	159 012	18 610	3 946	295 792	375
2009	217	343 463	3 021	158 179	18 625	3 804	288 913	386
2010	213	340 047	3 148	154 979	19 743	3 754	287 775	395
2011	211	352 374	3 113	154 252	19 184	4 215	275 134	445
2012	207	337 447	2 954	156 036	17 844	4 502	263 934	478
2013	210	310 763	2 767	158 477	15 968	4 842	253 682	485
2014	220	294 148	2 879	159 111	16 133	5 260	250 023	488
2015	228	256 682	2 930	159 957	15 705	5 610	256 245	474
2016	227	268 580	2 934	162 353	14 954	6 213	254 946	446

Note: SMEs controlled by a parent with assets under EUR 87 (USD 100) million are not taken into account for the group analysis - however, they are included when studying the economy as a whole.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 16. Sales and employment distribution by company categories in Italy

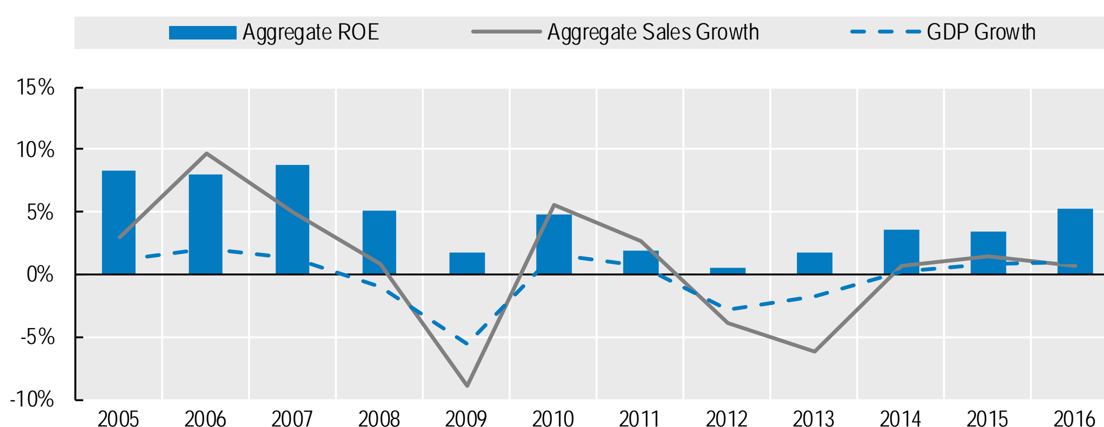


Note: For each category, sales and employment numbers are presented as share of economy totals. Calculations for the total economy take into account the group structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. The figure does not show the category *SMEs part of a group* as these companies are accounted for in the financial statements of their parent company. The categories in this figure are subsamples of the economy constructed for characterisation and comparison purposes and do not consider parent companies with less than EUR 87 (USD 100) million assets. As a result, they do not add up to 100%.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.4. The persistent weakness in overall company performance

The Italian business sector has been hit hard by the global financial crisis and the subsequent sovereign debt crisis in Europe. The aggregate sales of the corporate sector dropped by more than 8% in 2009, when the economy experienced the largest fall in GDP since 1960s. After a two-year weak recovery period, aggregate sales growth turned negative again between 2012 and 2014. As demonstrated in Figure 17, aggregate return on equity (ROE – net income over total shareholders' equity) has also fallen significantly since the global financial crisis. While the average ROE was 8% between 2005 and 2007, it was less than 4% between 2011 and 2015, before increasing to 5.3% in 2016.

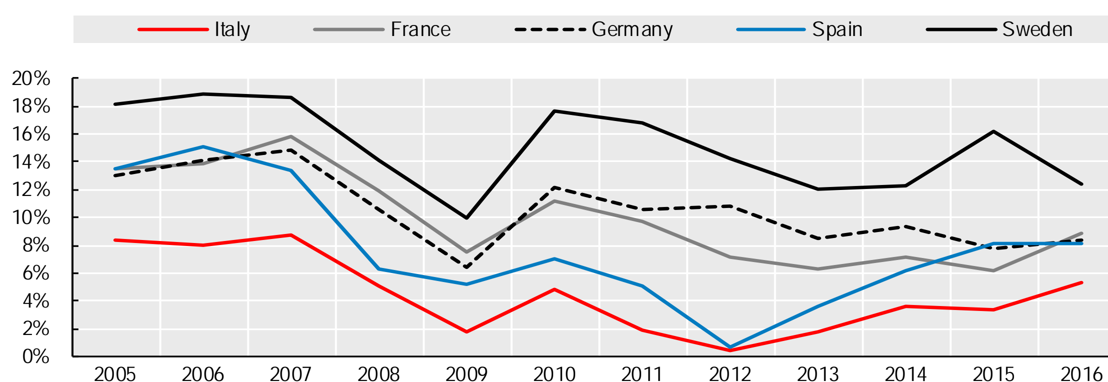
Figure 17. Sales growth, performance and GDP growth in Italy



Source: OECD-ORBIS Corporate Finance dataset and OECD Economic Outlook database, see Annex for details.

Figure 18 shows that other European economies have also seen substantial declines in the ROEs of the business sector. None of the countries shown in the figure has returned to its pre-crisis ROE level. However, the figure also shows that there is a persistent gap with respect to return levels between the Italian business sector and those of other European countries. For example, ROE for Italy was 5 to 7 percentage points below the ROEs for France, Germany and Spain in 2006 and 2007. In 2016, the gap between Italy and these three economies was again at 3-5 percentage points. This persistent gap in performance, is in part, responsible for the balance sheet imbalances in the Italian business sector.

Figure 18. Rate of return on equity in Italy and selected European economies

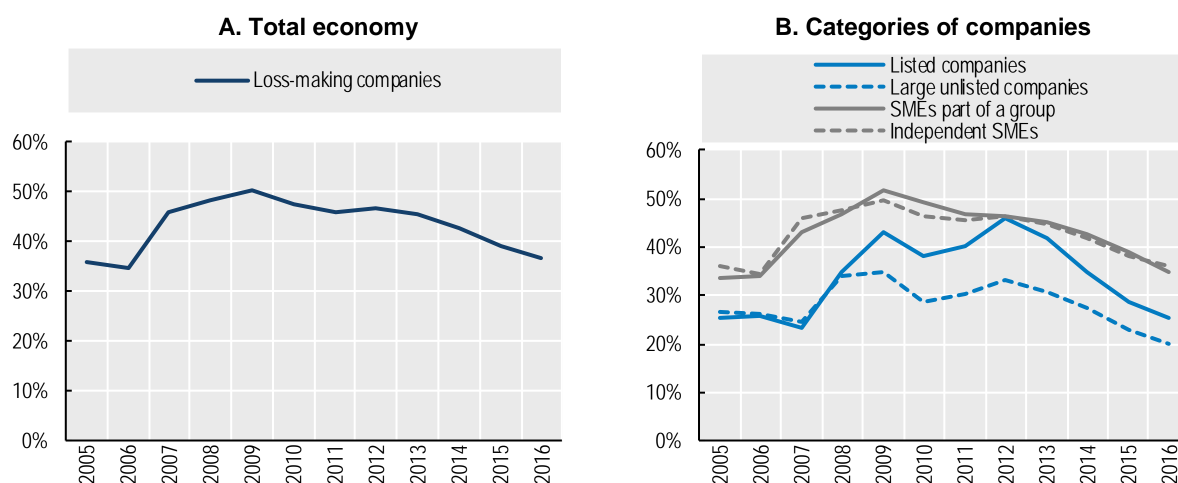


Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

One driving force behind this persistent gap has been the high share of loss-making companies (negative net income) in the Italian business sector. Panel A of Figure 19 shows the percentage of Italian firms with negative net income in the total number of firms for the period between 2005 and 2016. In 2009, their share reached the highest level, with more than half of the firms reporting losses. Following several years of gradual recovery, this ratio fell to 37% in 2016.

Panel B of Figure 19 shows the share of loss-making companies in the four company categories. Both groups of SMEs exhibit a consistently higher ratio of companies reporting losses compared to the large companies. SMEs are generally more fragile to overcome strong slowdowns in demand compared to large firms during crisis periods. In 2009, the ratio within the SME categories reached a stunning 52% compared to 35% for the category of large unlisted companies. It is important to note that the share of loss-making firms has been quite similar between SMEs related to a group and independent SMEs. On this basis, the high degree of employment in the Italian SMEs may decrease the overall resilience and increase the economy's vulnerability with respect to temporary economic swings.

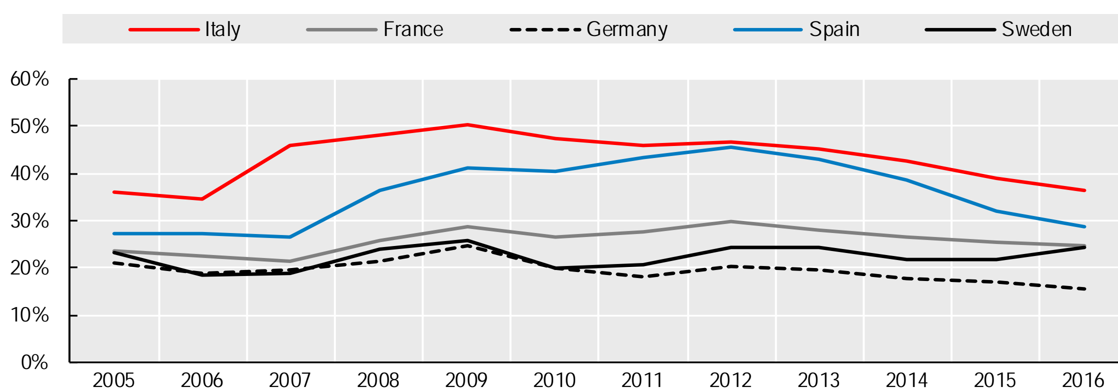
Figure 19. The share of loss-making companies in the Italian business sector



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Unlike Italy, other major European economies have not seen a surge in the share of companies reporting losses in the post-crisis period (Figure 20). The exception is Spain, where the trend has been very similar to the Italian business sector, though at a lower level. Taken together with the overall decline in ROEs in Europe shown above, the divergence corporate profitability between Italy and other European economies have continued during the post-crisis period. Even a higher number of companies made losses since 2007 in Italy, which dragged down the overall performance of the Italian business sector. At the same time, the decline in the ROEs for France, Germany and Spain was not driven by a jump in the number of loss-making companies, but by an overall decline in the returns instead.

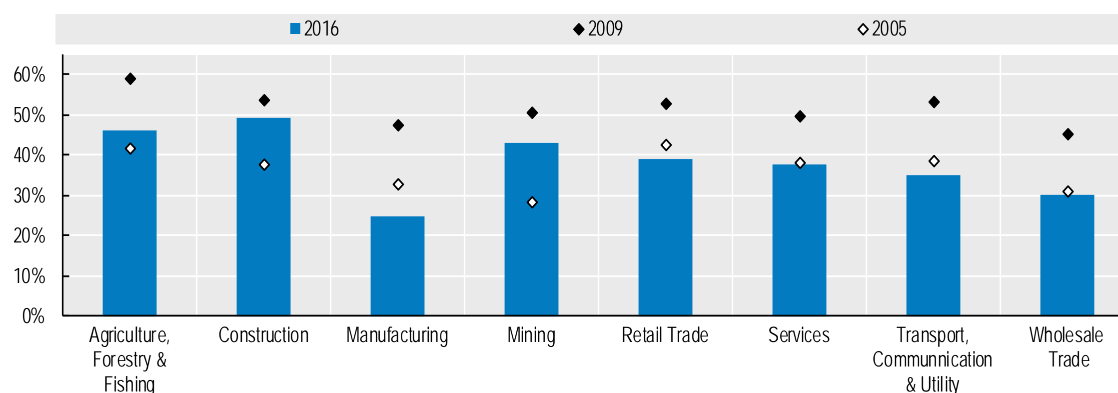
Figure 20. Share of loss-making companies in Italy and selected European economies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Given the severity of the recession, it is not surprising to see that all industries shown in Figure 21 saw sharp increases in the share of companies reporting losses in 2009 compared to 2005. Again, the ratio fell significantly for all industries from 2009 to 2016. However, three industries, namely mining, agriculture and construction, had more loss-making companies in 2016 than in 2005. At the same time, the biggest sector in terms of total sales, manufacturing, had less loss-making companies in 2016 even compared to ten years ago. This may be primarily due to the export-driven nature of the industry, which generates a significant portion of the total export revenues.

Figure 21. Share of Italian companies with negative net income (loss) by industries



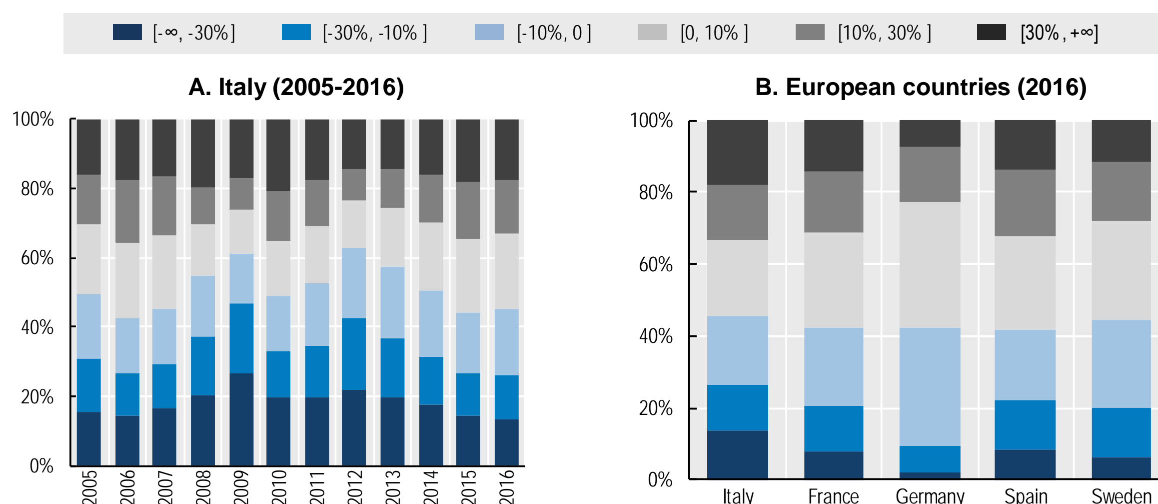
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.5. Firm growth dynamics and high-growth companies

One way to look at firm growth dynamics in an economy is to analyse the distribution of companies among different growth clusters. Panel A of Figure 22 shows the growth distribution of Italian firms among six clusters based on annualised sales growth. In 2006 and 2007, more than half of the companies in the economy reported positive sales growth. In the two worst years in terms of aggregate sales growth following the crisis, 2009 and 2012, almost 60% of the firms experienced negative sales growth. This proportion decreased gradually to 45% in 2016. One important observation from the figure is that the dispersion in sales growth distribution is high in Italy. While on average 30% of the companies reported exceedingly high positive annual sales growth (over 10%), 34% of the companies reported on average exceedingly high negative sales growth.

In a cross-country comparison, the pattern of distribution of sales growth among different growth clusters in Italy is more evident. As shown in Panel B, Germany, Sweden and France have a significantly lower spread between high growth and low growth companies compared to Italy. Germany has the highest share of companies with sales growing in real terms between -10% and 10%. In other words, Germany actually has the lowest share of firms growing over 10% a year, but also the lowest share of firms with sales growing less than -10% a year. The case of the German business sector is exceptional, since the economy is mainly constituted of large and relatively mature companies that are more stable (OECD, 2017g). Sweden also has a relatively low share of firms growing exceedingly fast or slow, with a majority of the firms having very stable but moderate sales growth. Growth in the Italian business sector, however, is driven by a small population of high-growth firms and hampered by a relatively large number of firms with high negative growth.

Figure 22. Sales growth distribution for Italian and selected European economies

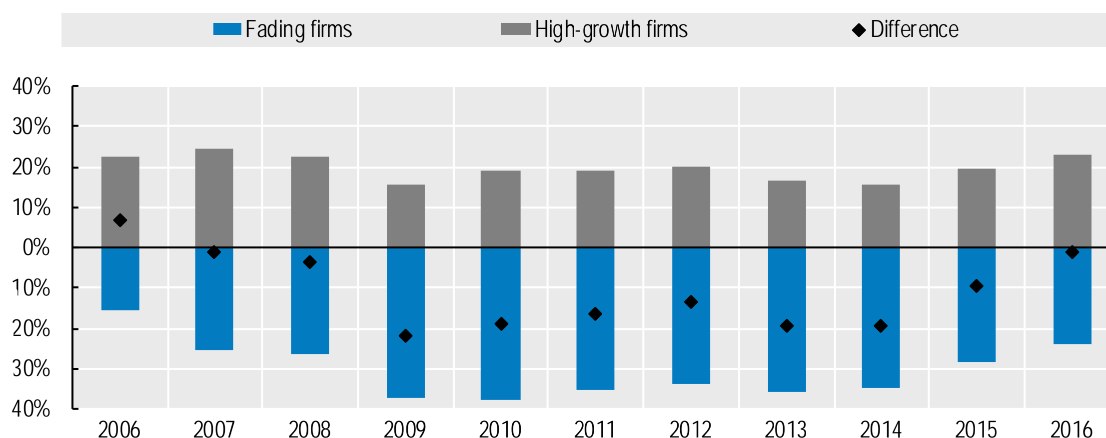


Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Focusing on companies with high and low growth, Figure 23 defines two groups of companies: high-growth and fading firms. High-growth firms (HGFs) are defined as those companies reporting three-year annualised sales growth over 10 per cent. Measuring growth over a 3-year period allows identifying companies with continuing growth rates and excluding temporary changes. Similarly, fading firms are defined as companies with 3-year annualised sales growth below minus 10 per cent.

Figure 23 shows the share of HGFs and fading firms for Italy with the dots refers to the difference between the two groups. The share of HGFs in the total number of firms was, on average, 23% during the 2006-2008 period. Since 2009, the average share of HGFs has dropped by 3 percentage points to 19%. This drop was mainly driven by three years: 2009, 2013 and 2014. In other years, the ratio was quite close to the pre-crisis period average and indeed the ratio was very close to the 2007 record level in 2016. At the same time, the share of fading firms has significantly increased from 22% of all firms before 2009 to 33% since then. In particular, in 2009 and 2010 their share reached almost 40% of all firms in the Italian business sector.

Figure 23. Share of high-growth and fading firms in Italy

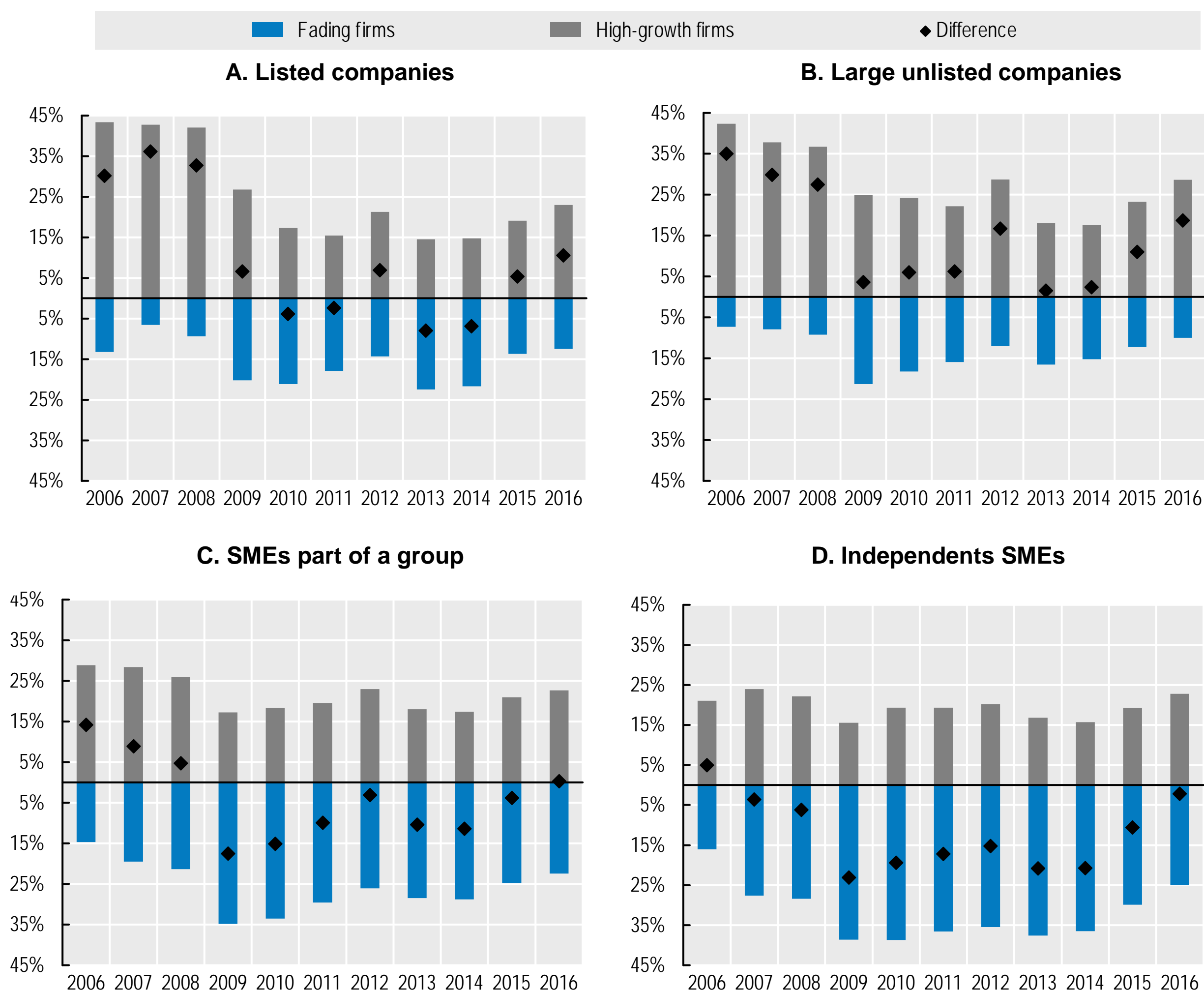


Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 24 shows the share of HGFs and fading firms by categories of companies in the Italian business sector. In 2006, the share of HGFs was 43%, 42% and 29% for listed, unlisted large and SMEs part of a group companies, respectively. Although their share had started to decline for large unlisted companies group, more than one third of companies in this group showed high growth in 2007 and 2008. Post-crisis averages for these three categories were between 19% and 23%. The share of HGFs was the lowest for the independent SMEs category for the 2006-2008 period, at around 22%. Since 2009, the two SMEs categories have shown a similar trend with respect to HGFs. The main difference between the two groups has been the higher share of fading firms for independent SMEs. The share of low performing fading firms was on average 7 percentage points higher for independent SMEs since 2009.

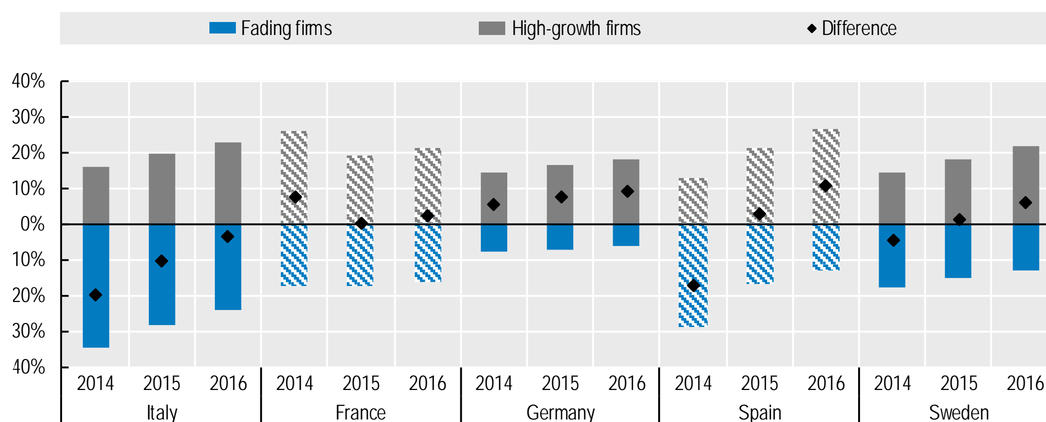
The country comparison in Figure 25 highlights some of the key differences between Italy and other European economies. Germany, for example, has a modest share of HGFs, but, at the same time, a small share of fading firms. Italy, however, while having a modestly higher share of HGFs compared to Germany and Sweden, has a significantly higher share of fading firms. The difference between the shares of HGFs and fading firms were never positive in Italy between 2014 and 2016.

Figure 24. Share of Italian high-growth and fading firms, by category of companies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

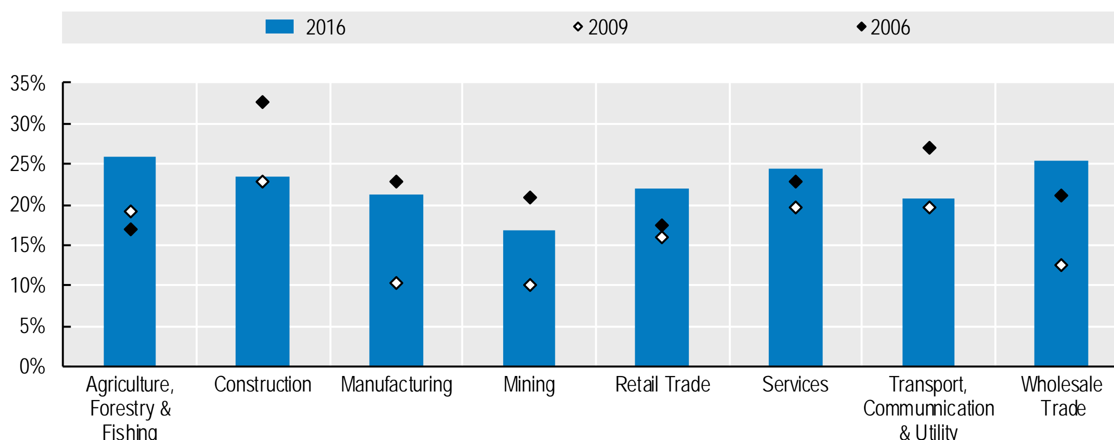
Figure 25. Share of high-growth and fading firms in Italy and selected European economies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 26 compares industries in Italy in terms of the share of HGFs in each industry. While having the highest share of HGFs in 2006, the construction industry has a lower ratio of HGFs in 2016 compared to 2009. The manufacturing, transport, communications and mining industry, as large company dominant industries, had the lowest ratios in 2016.

Figure 26. Share of high-growth firms by industries in Italy



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

A comparative analysis between HGFs firms and other firms is shown in Table 4. HGFs are identified based on their 3-year annualized sales growth in 2016 and then tracked back for three years to observe how their characteristics evolved over time. Non-HGFs are identified using a similar method but requiring them to have a 3-year annualized sales growth below 10%. Overall, almost 20% of all companies are classified as HGFs and the rest as non-HGFs. There are some distinct differences between the two groups in terms of their financing structure, performance and sales growth during the 3 years preceding the year when they are identified to be HGFs. Table 4 compares the trends in several dimensions for both groups of firms.

First, firms that experienced high sales growth also experienced a simultaneous growth in their assets. HGFs' assets grew by almost 40% over the three-year period. Second, HGFs supported their rapid growth with a significant increase in equity capital with a 41% increase over the 3-year period. Third, despite an increase in the total stock of debt, as a result of stronger asset growth the overall debt, in particular short-term debt, as a percentage of total assets declined. This is also in line with the overall deleveraging trend in the business sector. For non-HGFs, long-term and short-term debt ratios have also declined.

Fourth, profits, which are measured using net income after taxes, have more than doubled for HGFs. At the same time, profits for non-HGFs increase much slower, resulted in a disappointing ROE of 4.7%. Also, possibly driven by a boost in profit, HGFs have seen a 1.9 percentage points increase in cash holdings compared to only 0.7% for non-HGFs. Overall, the comparison shown in Table 4 suggests that growth in the business sector has been largely driven by HGFs and there is a need for financing to support that growth.

Table 4. Key financial indicators for high growths firms and non-high growth firms in Italy

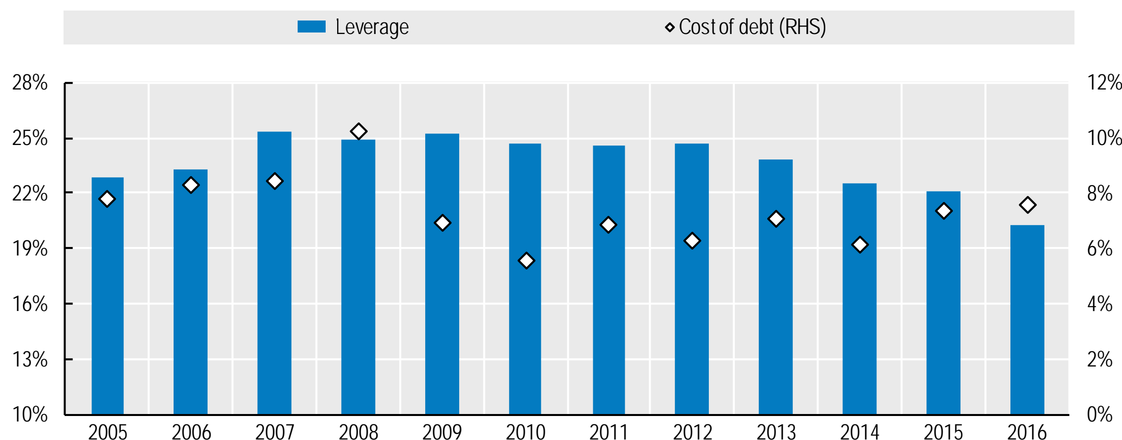
	High-growth firms					Non-high-growth firms				
	2013	2014	2015	2016	3-year change	2013	2014	2015	2016	3-year change
Total assets (EUR B)	312	360	405	436	39.9%	1 563	1 569	1 840	1 787	-4.7%
Debt (EUR B)	57	65	72	74	29.4%	392	375	439	400	-15.4%
Equity (EUR B)	91	104	117	128	40.7%	483	495	598	599	3.9%
Sales (EUR B)	260	333	397	455	75.4%	1 290	1 229	1 413	1 317	-14.9%
Profits (EUR B)	3	7	9	13	267.1%	18	19	18	28	32.5%
Short-term debt	9.2%	9.0%	8.3%	7.7%	-1.5 points	9.3%	8.5%	8.5%	7.5%	-1.8 points
Long-term debt	9.2%	9.2%	9.4%	9.4%	0.2 points	15.8%	15.4%	15.4%	14.9%	-1.0 points
Operating margin	3.6%	4.3%	4.8%	5.0%	1.4 points	4.8%	4.7%	4.6%	5.3%	0.6 points
Current liabilities	49.1%	49.5%	49.2%	48.6%	-0.4 points	40.4%	39.9%	38.6%	38.1%	-2.2 points
Return-on-equity	3.8%	6.6%	8.0%	10.0%	6.2 points	3.7%	3.9%	2.9%	4.7%	1.0 points
Cost of debt	6.0%	6.1%	5.6%	5.4%	-0.7 points	7.5%	6.2%	7.9%	8.3%	0.9 points
Cash Ratio	6.0%	6.6%	7.3%	7.9%	1.9 points	6.5%	7.1%	7.0%	7.1%	0.6 points

Note: All ratios are calculated using aggregate numbers. The 3-year change for ratios is expressed as the difference between $ratio_{t=0} - ratio_{t=-3}$. Short-term debt is defined as short-term financial liabilities including the portion of long-term debt due within one year as share of total assets. Long-term debt is defined as loans and financial obligations lasting over one year as share of total assets.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.6. Corporate financing and capitalisation

Figure 27 shows the leverage ratio (total financial debt over total assets) and the cost of debt. The cost of debt is estimated as interests paid over total financial debt. Leverage in the corporate sector jumped in 2007 reaching 24%. In the aftermath of the financial crisis, however, there has been a steady decrease in total bank lending to the non-financial corporate sector in Italy (Figure 13). Since non-bank debt financing has not been large enough to replace bank lending, the aggregate leverage level for the Italian business sector has also been declining. Part of the decline in corporate leverage is explained by injections of equity between 2011 and 2016 (Banca d'Italia, 2018d). The cost of debt, in line with the global trend in declining interest rates, has also stayed low since 2009 compared to the previous period.

Figure 27. Leverage and cost of debt for Italian non-financial companies

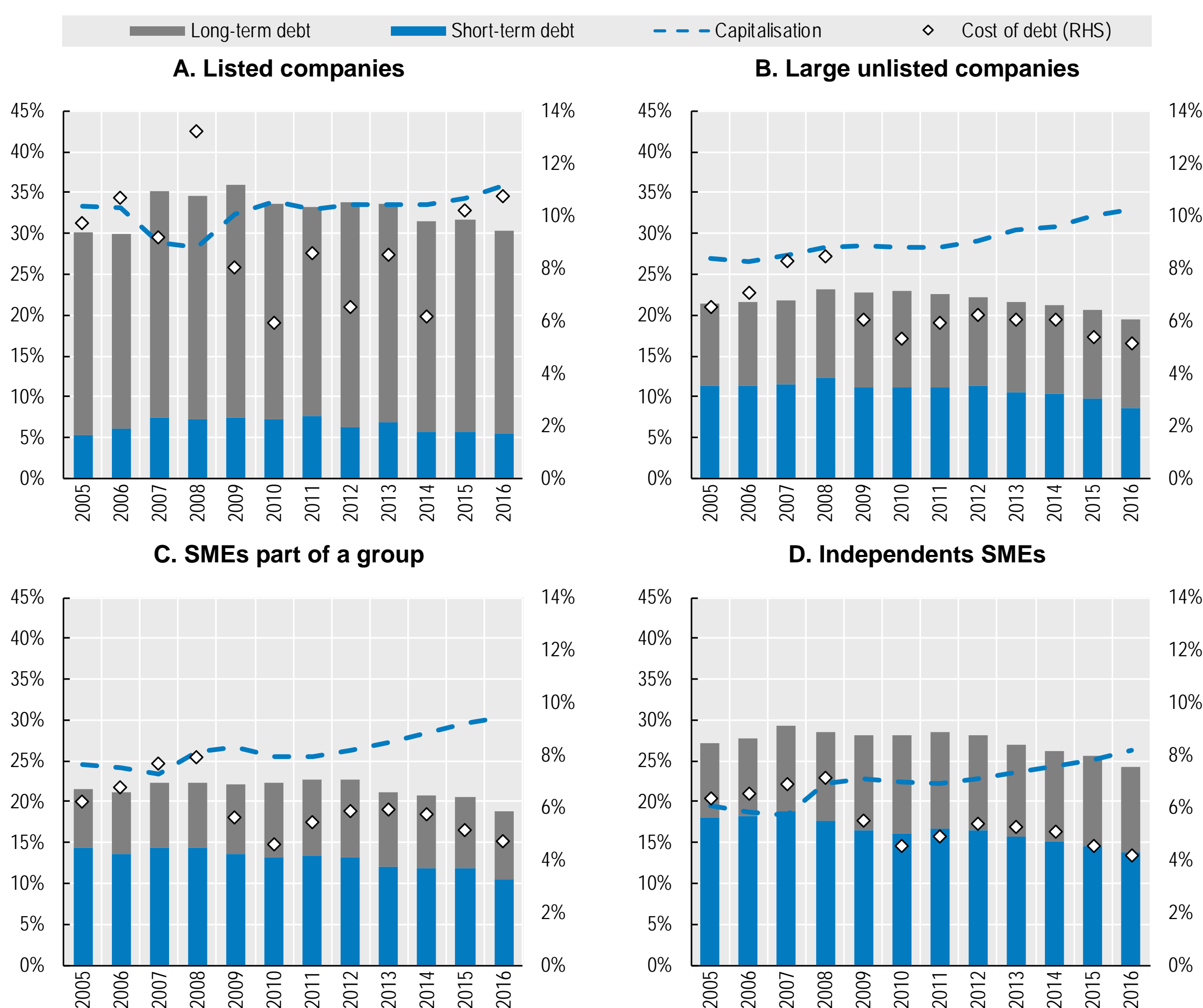


Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Two of the factors that may influence a company's access to different sources of finance are its listing status and their affiliation to a company group. Following the company categories established in Section 1.3, Figure 28 illustrates leverage levels, capitalisation and cost of debt for the four different categories of companies. The figure is based on companies holding financial debt. Almost all categorised as large corporations reported financial debt in every year shown in the figure, whereas the reporting was around 50% for SMEs.

Capitalisation level is calculated as total shareholders' equity in relation to total assets. The figure shows how the capitalisation level of listed companies fell sharply under the impact of the global financial crisis in 2007 and 2008, mainly due to poor performance. The decline was 5 percentage points, from 34% in 2005 to 29% in 2008. Since then, the level has returned to the pre-crisis period and is higher than those of the other three categories of companies. Large unlisted companies did not experience the 2007-2008 dip in capitalisation level that characterised listed companies and have also shown a steady increase since 2008.

Figure 28. Debt, capitalisation and cost of debt for different categories of Italian companies



Note: Capitalisation level is defined as: Shareholders' funds as a share of total assets. Debt levels are also presented as a share of total assets. Calculations include only companies that reported financial debt.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

There are also differences in the quantity, maturity and cost of debt between the listed and unlisted large companies. Leverage for listed companies was on average 33% compared to 22% for unlisted companies. In addition, listed companies also had more than twice the proportion of long-term debt and a higher cost of debt compared to large unlisted companies. The higher cost may be a result of their higher outstanding volume of debt and the higher share of more expensive long-term financing. Overall, listed companies have higher equity capital levels and use more long-term debt financing.

Panel C and D of Figure 28 compare the two categories of SMEs; those that are independent and those that belong to a company group. One important observation from the figure is that SMEs that are part of a group have lower leverage and are better capitalised compared to independent SMEs. Independent SMEs also have almost 5 percentage points higher short-term debt compared to SMEs that are related to a group. It seems that being part of an economic group enables SMEs to fund themselves with more equity and longer term debt.

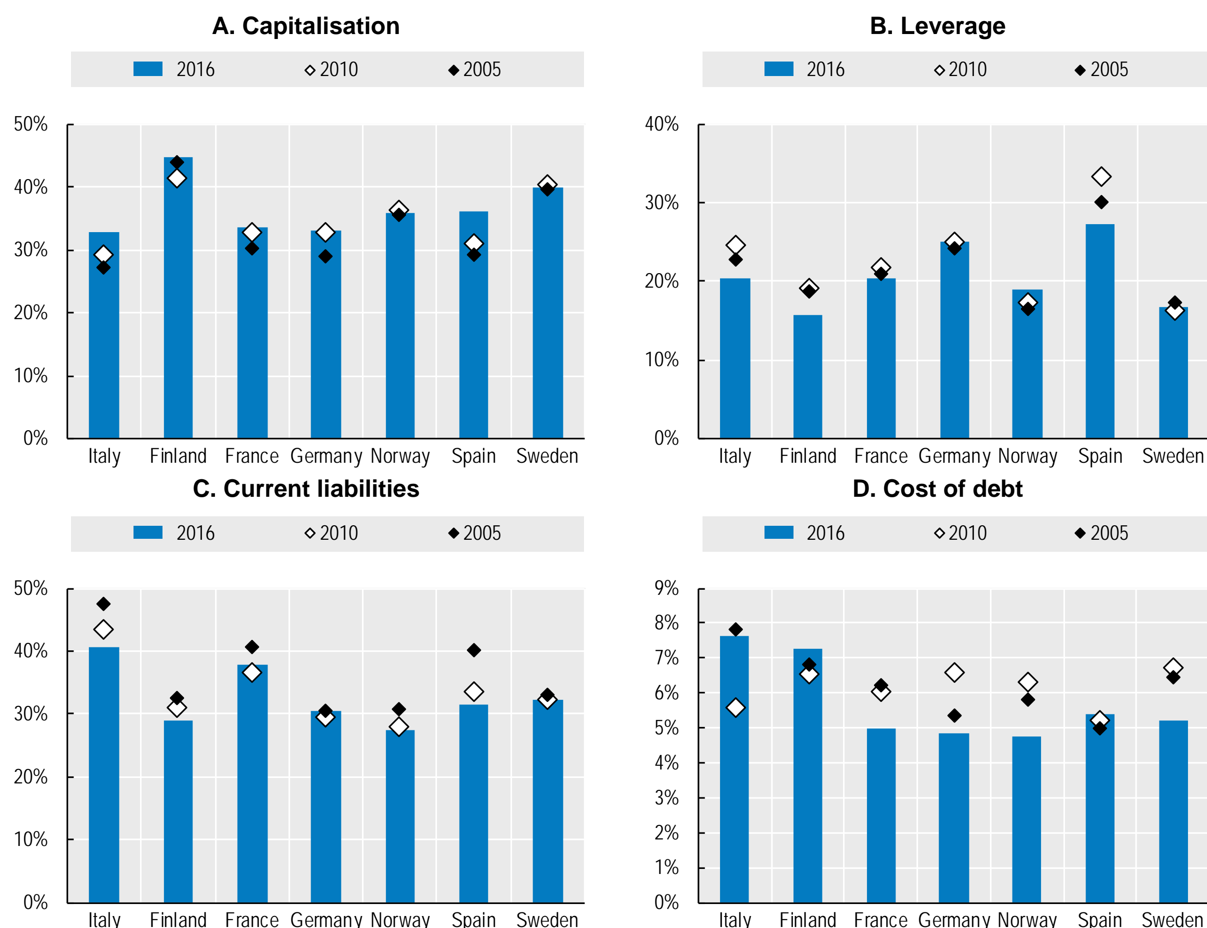
It is worth noting that independent SMEs also have, on average, about 1/2 percentage point lower cost of debt compared to SMEs that are part of a group. A higher share of, in general more expensive, long-term debt may explain the observed higher cost of debt for SMEs part of a group. An alternative explanation may be that financing transactions within company groups can be motivated by other reasons, such as tax planning.

Both in 2005 and 2016, aggregate indebtedness levels in the Italian business sector were close to the European country averages shown in Figure 29. However, with respect to the financing structure and capitalisation the Italian business sector differs from other European economies in several ways. For example with respect to the level of capitalisation, the maturity of debt and the use of alternative sources of finance, like trade credits. Panel A shows the large differences in equity capital levels for Italian corporations compared to some other European economies. In all three years, the capitalisation level of corporate sector was the lowest in Italy. The low level of capitalisation combined with the deterioration in profitability during the crisis exacerbated the debt repayment problem and has increased the gap between Italy and other euro-area countries (De Socio and Finaldi, 2016). In addition, lending is heterogeneous in Italy where lending has been growing only for safer firms in manufacturing and services, but decreasing sharply than in the past for riskier companies (Banca d'Italia, 2018a).

Moreover, the Italian business sector still has the highest dependence on short-term financing, which includes short-term debt, trade credit and other current liabilities. The dependence on short-term financing may prevent corporations from long-term planning and investments. It also makes companies vulnerable to changes in credit conditions, in particular when the changes are sudden and large.

The aggregate cost of debt financing has fallen to low levels in European markets since the financial crisis. Panel D in Figure 29 shows that, particularly in France, Germany, Norway and Sweden the cost of debt has decreased since 2010 and was in 2016 lower than the pre-crisis averages (2005). Also Italy shows a slight decrease since 2005 but it still considerably higher than Germany, France and Norway. It is important to note that cumulated interests on past due debt are also included in interests paid, which may have been higher for Italy as a result of high levels of past due loans.

Figure 29. Capitalisation, debt levels and cost of debt, cross-country comparison



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

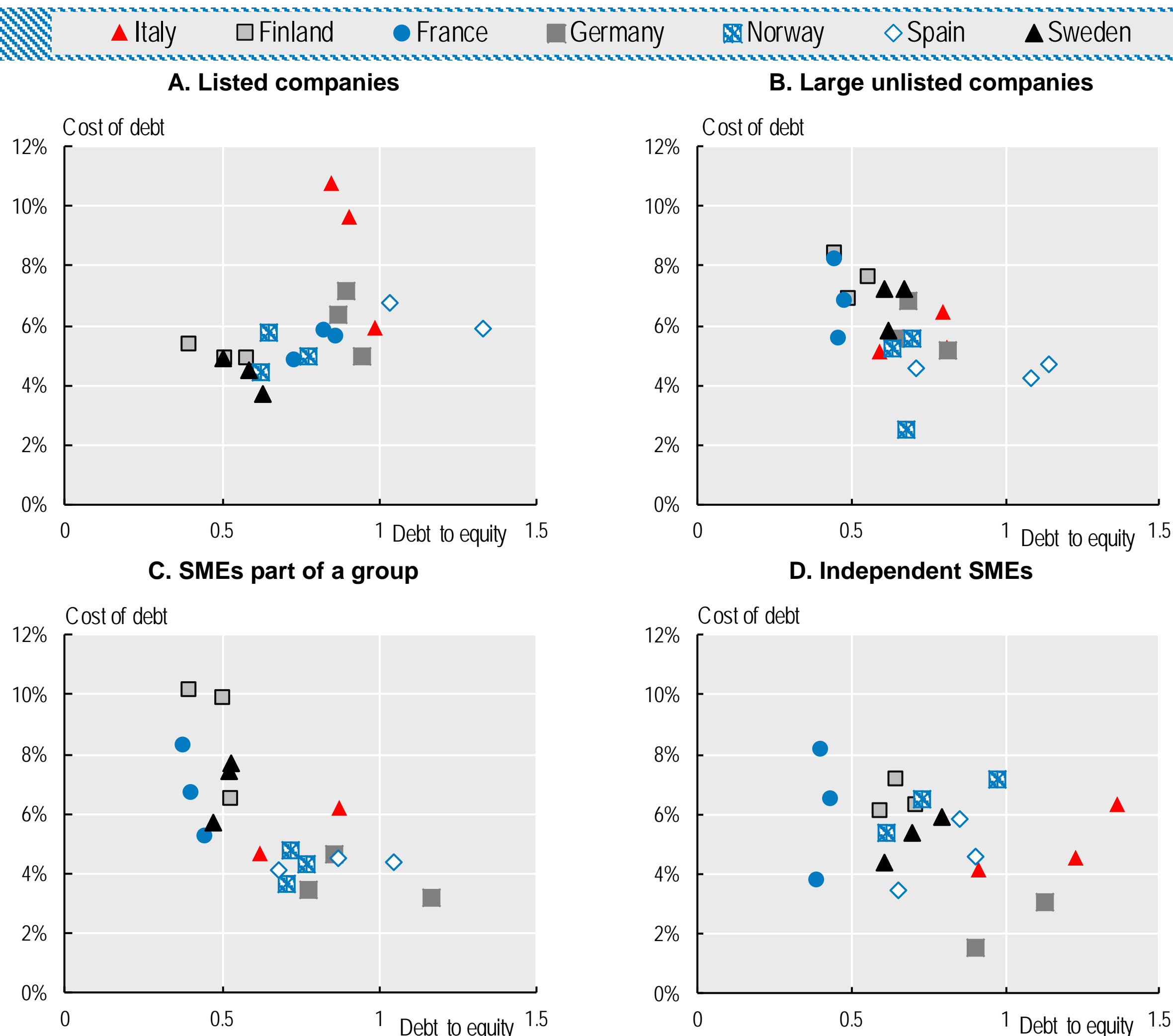
Figure 30 shows the cost of debt and debt to equity ratios for the four categories of companies in Italy and some European countries in 2005, 2009 and 2016. As seen in Panel A, Italian listed corporations have relatively high leverage and high cost of debt compared to its European peers. Large unlisted companies have slightly higher average leverage level and similar cost of debt compared to other European. This may seem counterintuitive, but it can be explained by the fact that large unlisted companies have the lowest level of more expensive long-term debt (not shown in the figure).

SMEs in Italy (Panels C and D) have, in general, a relatively low cost of debt and high debt-to-equity ratios, in particular for independent SMEs. Nevertheless, half of that debt is short-term due within one year. For example, SMEs that are part of a group in Sweden have lower leverage levels compared to the same category of companies in Italy. However, the share of long-term debt in the Swedish companies is almost two times higher. As long-term debt is more expensive and Italian SMEs have a substantially lower share of long-term debt, it is not surprising that the cost of debt is lower for this category of companies in Italy.

Overall, unlisted Italian corporations (large unlisted companies and SMEs) show a significant gap with respect to the use of long-term market-based financing compared to those in other European economies. On the one hand, the capitalisation levels are significantly low relative to other

economies. On the other hand, most of their debt financing has a maturity of less than one year and their levels of current liabilities are the highest compared to other countries.

Figure 30. Leverage and cost of debt, comparison by category of companies (2005, 2009, 2016)



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

1.7. "Zombie companies" and capital misallocation

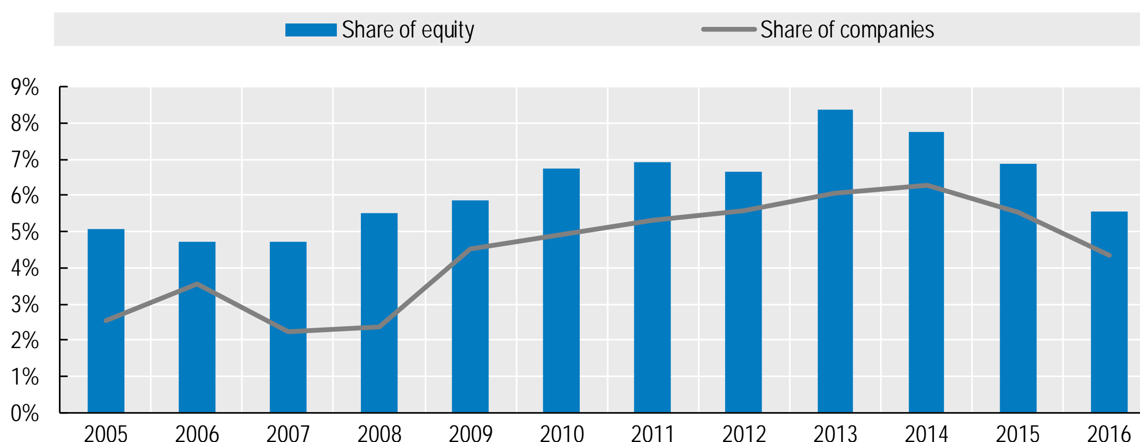
The observed productivity slowdown over the past decade in many OECD economies has triggered a discussion about its underlying causes and potential consequences for future economic growth. Underperforming firms – that in a competitive market would have exited the market – remain alive, causing an increasing resource misallocation in the economy. The so-called non-viable zombie firms are defined as mature companies that are consistently incapable of covering their interest

payments (Adalet McGowan et al., 2017a) [4]. It is argued that the presence of such firms in the economy not only prevents new entrants, but also deprives their most promising industry peers of finance.

Italy, in particular, has seen an increase in the share of non-performing loans and a rising share of zombie companies in the past years. In addition to this poor performance of bank loans' portfolios, the loose monetary policy introduced following the European sovereign debt crisis has squeezed the profit margins and depressed earnings in the banking sector. Furthermore, a low rate environment increases the incentives of banks to expect that easy money will lead to recovery and improved prospects for their clients (White, 2012). As a result, banks have been reluctant to end corporate credit relationships that would increase their loss recognition. Banks' forbearance has resulted in a significant amount of capital allocated to non-profitable companies and an increasing share of zombie firms in the economy (Adalet McGowan et al., 2017b).

With the deleveraging process in Italy since the crisis, the share of zombie firms in the economy is decreasing since 2013 and the equity capital sunk in these companies in 2016 represents 5.5% of the total equity in the corporate sector. As illustrated in Figure 31, both the share of zombie companies and the equity capital sunk in these companies declined around three percentage points from 2013 to 2016.

Figure 31. Zombie companies and equity capital allocation in Italy

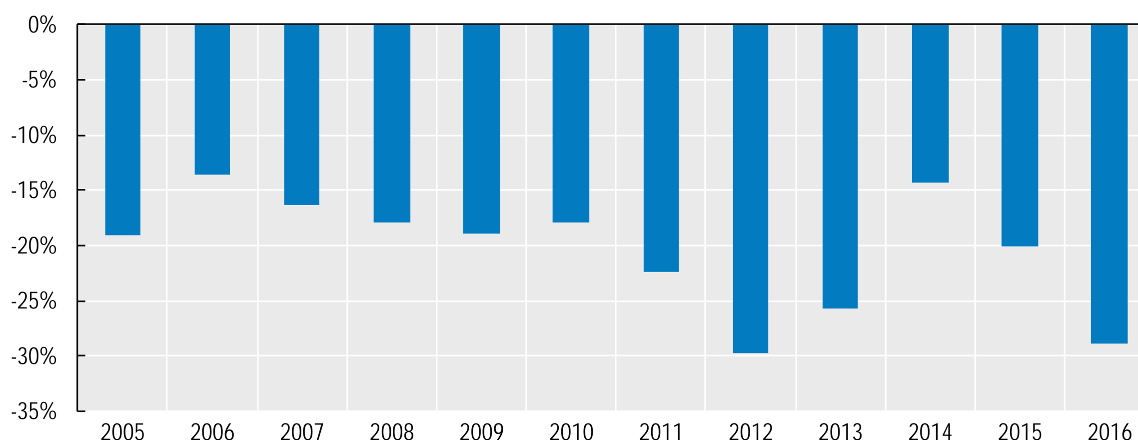


Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Importantly, zombie companies' performance has not improved significantly in recent years. Figure 32 shows that their return on equity (ROE) has always been negative. While there was a substantial improvement in 2014, their return on equity in 2015 and 2016 had worsened, especially when compared to the pre-2011 period. The performance of the zombie companies as a group have deteriorated even more during 2016, depriving these companies to cover their interests' payments.

[4] Zombie companies' definition here follows Adalet McGowan et al. (2017a). Zombie companies are defined as firms older than 10 years that during 3 consecutive years are not able to cover their interest payments with their operating income. The age restriction is imposed to differentiate between real zombie firms and young innovative firms.

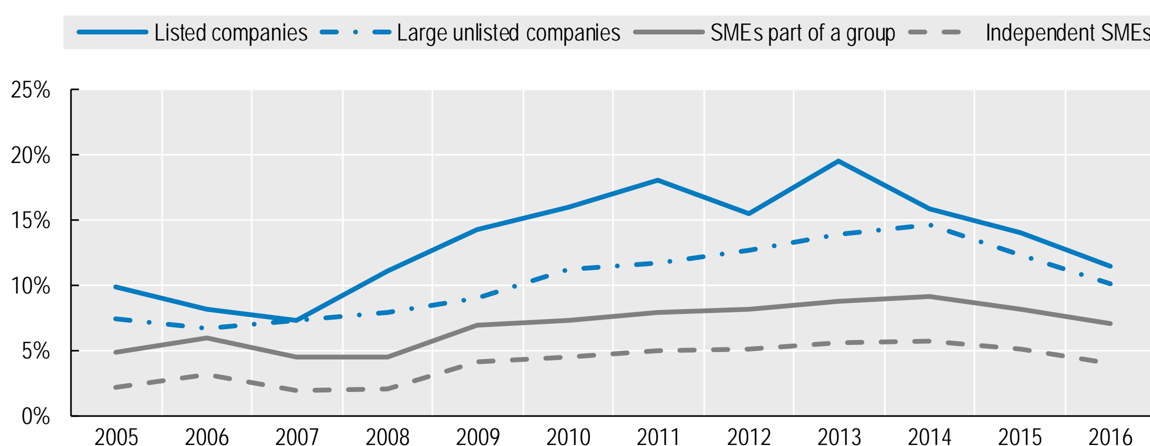
Figure 32. Return on equity of zombie companies



Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Figure 33 plots the share of zombie companies for the four categories of companies defined in Section 1.3 and Figure 34 shows the share of the equity capital associated with these companies. The analysis reveals important differences between the four different categories of zombie companies. First, the listed companies' category shows the highest share of zombies but a low share of equity capital that is sunk into them (2.0% on average). This suggests that the listed zombie companies are small within the category. Second, the share of capital sunk within the large unlisted segment is the highest among the four categories with 8% of the total capital of the group in 2016. This is not negligible since they acounted in 2016 for 55% of the total equity capital sunk in zombie companies in the economy (red line in Figure 34). These are large companies with many subisidiaries under their control, but are uncapable of covering their interest payments.

Figure 33. Share of zombie companies within different categories of companies Italy (2005-2016)



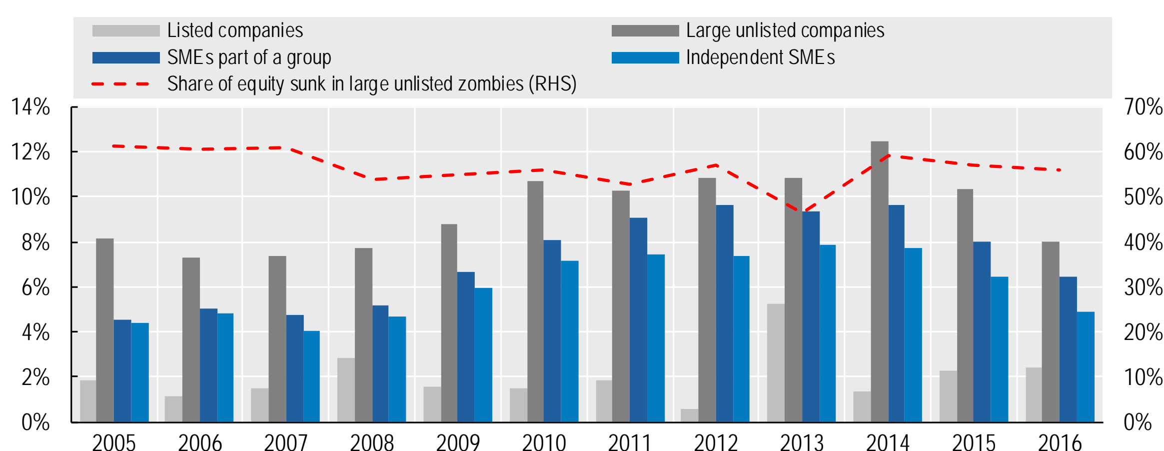
Note: The share of zombie companies in the figure is calculated as the number of zombie companies identified every year over the total number of companies in that group.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

Third, the two categories of SMEs show a significantly lower share of zombie corporations compared to the large companies' groups. SMEs that are part of a group have an average of 7.2% of zombie companies and a similar share of equity capital sunk in these firms. SMEs that are part of a group and failing to cover their interest payments were on the rise since the crisis until 2014

where almost 1 in every 10 companies was a zombie company. Fourth, the share of zombie companies among independent SMEs (4.1% on average) and the capital associated to these firms (6.1% on average) have been consistently lower compared to SMEs part of a group. A higher share of zombie companies among SMEs related to a group may be an indication that banks' forbearance is more likely to happen when companies have a large parent backing them up. If this is the case, banks' decision does not seem irrational since having an ultimate large parent in this context may serve as an implicit guarantee.

The analysis in this report suggests that many zombie firms might not be "real" zombies since they may have a healthy non-zombie parent. The analysis also suggests that the concept of zombie companies is not necessarily a small company phenomenon since a significant share of zombie companies are also listed companies and large unlisted companies.

Figure 34. Share of capital sunk in zombie companies in Italy (2005-2016)



Note: The bars show the share of capital sunk in zombie companies within each group and the red line shows the share of capital sunk in large unlisted zombie companies as share of the total capital associated to zombie corporations in the economy.
Source: OECD-ORBIS Corporate Finance dataset, see Annex for details.

A recent paper published by the Bank of Italy uses a different approach to identify zombie companies (Rodano and Sette, 2019). Instead of using a gross measure of operating profitability (EBIT), they use a net of capital amortisation and depreciation measure of operating profitability (EBITDA) arguing that using EBIT penalises companies that have heavily invested in previous years and amortised that investment quickly. Their methodology reaches lower estimates for the share of capital trapped into zombie companies and the share of zombie companies in the Italian economy. The study also points out that the impact of zombie companies on healthy firms in the economy largely depends on the selected methodology to identify zombie firms.

CHAPTER II. THE ITALIAN PUBLIC EQUITY MARKET

High levels of leverage can significantly constrain a company's investment capacity and growth. In particular, highly leveraged firms are more vulnerable to macroeconomic shocks and more susceptible to tightened credit conditions. High debt levels can affect corporate investment and growth in different ways, for example through increased debt service during deleveraging periods and declining capacity to obtain new loans due to balance sheet deterioration. Rollover risk also significantly increases in crisis periods, especially for firms with a large portion of short-term loans (Kalemli-Ozcan et al., 2018).

Leverage and capitalisation levels are two sides of the same coin. And as a consequence, well capitalised companies, in other words companies with low leverage levels, are more resilient to macroeconomic shocks and tightened credit conditions. In addition to the buffer that equity capital provides during difficult times, it is in "normal times" also well-suited to support forward-looking long-term investments that include research, development and innovation with uncertain outcomes. It is also suitable for investments in intangible assets with no well-defined collateral, which is often required as a condition for traditional loans.

There are two main sources of equity capital: direct injections from shareholders and the company's own earnings. One way shareholders can provide equity capital is to buy shares in a public equity offering. When a company is first introduced and listed on a stock exchange, the process is called initial public offering (IPO). When an already publicly listed company again turns to the equity market to raise additional capital, this process is called secondary public offering (SPO or follow-on offering). Given the developments in the capital markets over the last decades, these offering methods do not necessarily mean a public offer with a prospectus. They can also be conducted through a private placement where shares are only issued to current owners or a selected group of institutional investors without a prospectus.

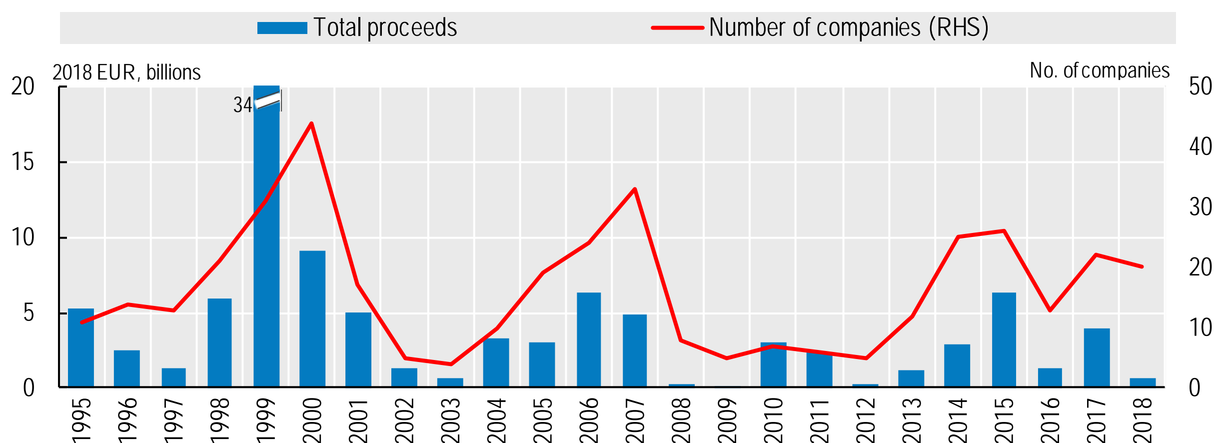
This chapter of the report provides an overview of how and to what extent Italian companies have used public equity markets through IPOs and SPOs as a source of equity finance during the last two decades. It also discusses developments with respect to growth companies and the newly established Special Purpose Acquisition Companies (SPACs). It provides a summary of the corporate ownership structure, including the level of institutional ownership, the degree of ownership concentration, and control in individual companies for Italy and selected other European countries. The chapter ends with a discussion on the role of intermediaries in the Italian primary public equity market. The discussion is based on the *OECD Capital Market Series dataset* described in the Annex.

2.1. Trends in initial public offerings

Figure 35 shows the annual number of Italian companies that have listed between 1995 and 2018 together with the total amount of equity capital they raised. It shows that Italian IPO activity reached its highest levels in 1999 and 2000, with a total of 75 companies raising EUR 43 billion. Ever since, the amount of equity raised by Italian companies has been on average EUR 2.6 billion per year. The distribution over time, however, is somewhat uneven and the two periods - 2006-2007 and 2014-2015 – accounted for the bulk of total amount raised since the early 2000s with more than 50 listings and an average of EUR 10 billion in proceeds in each period. The 2008/2009 global

financial crisis and the 2012 European sovereign crisis periods saw very weak IPO activity. In 2017, there were 22 IPOs, raising a total amount of EUR 3.9 billion. Yet, 2018 saw the lowest levels of activity since 2012 with less than EUR 1 billion in total proceeds.

Figure 35. Initial public offerings (IPOs) by Italian companies

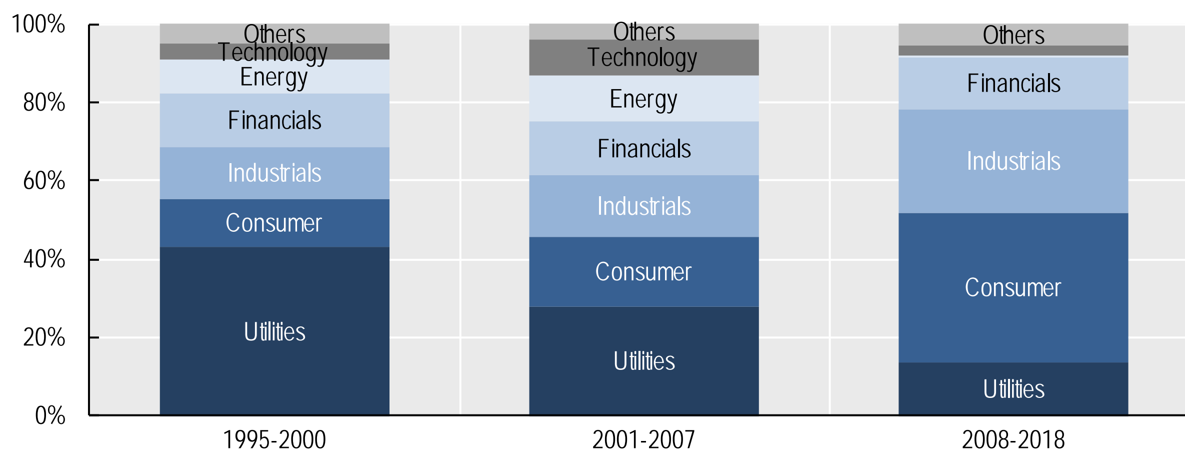


Note: This figure excludes Special Purpose Acquisition Companies (SPACs) which are treated separately in section 2.2 of this chapter.
Source: OECD Capital Market Series dataset, see Annex for details.

Figure 36 displays the sectoral distribution of IPO proceeds during three distinct periods. It shows that the share of the Italian financial sector have not dominated the IPO activity and remained constant over the three periods, with 14% of the total IPO proceeds. Instead, it is utilities and the consumer goods and services sectors that have dominated the scene.

It is also worth noting that only 3% of all equity capital raised through Italian IPOs between 2008 and 2018 went to high technology firms, which includes the technology, the healthcare pharmaceuticals and biotechnology. These are the sectors that typically are associated with a high degree of innovation, research and development.

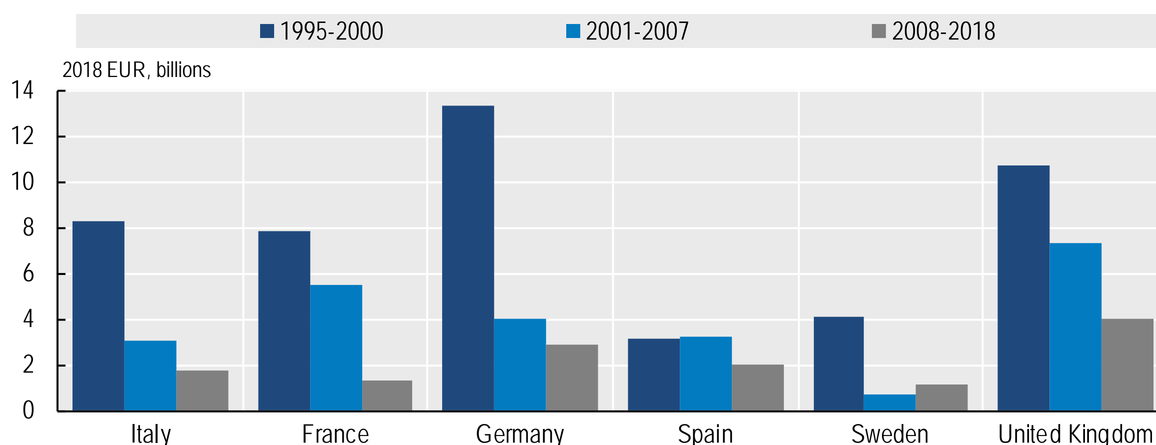
Figure 36. Breakdown of all Italian IPOs by industry, proceeds



Source: OECD Capital Market Series dataset, see Annex for details.

There has been a downward trend in non-financial company IPOs in the United States and advanced European economies over the last two decades. This has been coupled with an increase in the total amount of equity capital raised by Asian non-financial companies after the 2008 financial crisis, which has changed the global distribution of IPO proceeds towards Asian economies (OECD, 2017h). As seen in Figure 37, none of the six European countries shown were exception to this trend. In Italy, the average annual proceeds from IPOs by non-financial companies dropped from EUR 8 billion between 1995 and 2000 to EUR 1.8 billion during the 2008-2018 period. France and Germany have seen the largest relative declines. During the period 2008-2018, total proceeds from IPOs were just 20% of what they were in the period 1995-2000.

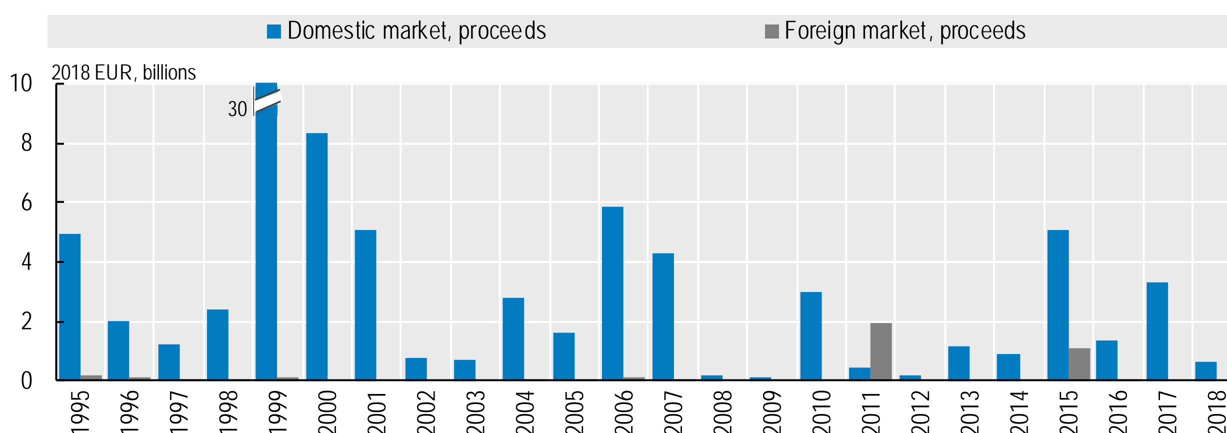
Figure 37. IPOs by non-financial companies from Italy and selected European countries



Source: OECD Capital Market Series dataset, see Annex for details.

The previous figures provided in this part illustrate the use of public equity financing based on the nationality of the company. Figure 38 instead, focuses on the nationality of the markets where Italian companies raise equity through an IPO. Overall, 4% of the total non-financial company IPO proceeds between 1995 and 2018 were raised on foreign markets and 24 Italian non-financial companies were listed on foreign exchanges. In 2011, the company Prada raised EUR 1.8 billion in Hong Kong, which made it the biggest IPO of an Italian company on a stock exchange other than Borsa Italiana. Another major IPO took place in 2015 with a total amount of EUR 885 million raised in the United States.

Figure 38. IPOs by non-financial Italian companies in domestic and foreign markets



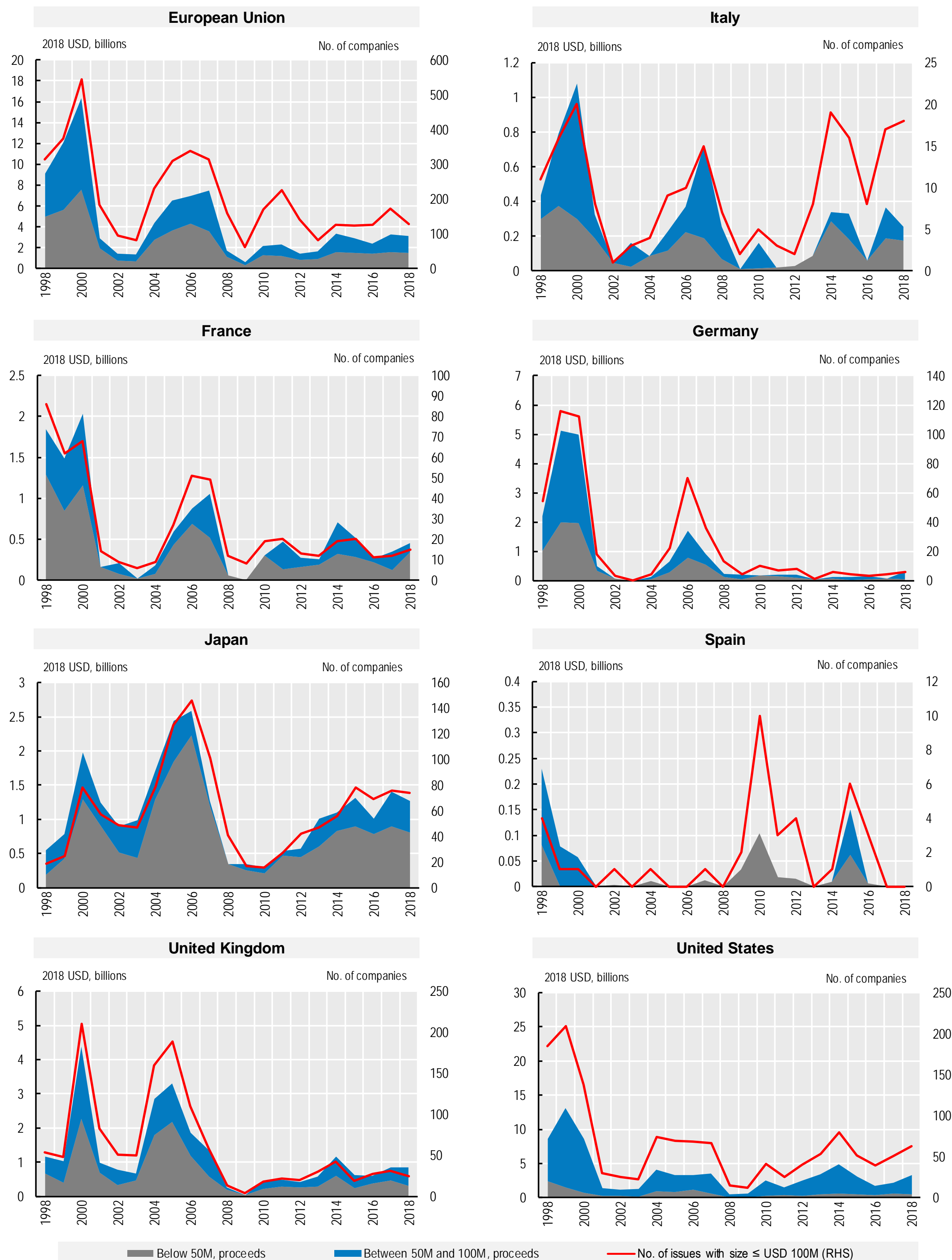
Source: OECD Capital Market Series dataset, see Annex for details.

As discussed above, the long-term and patient character of equity capital allows companies to finance their forward-looking investments with uncertain outcomes in tangible as well as intangible assets. This may be particularly important for growth companies that in order to challenge older established companies need to invest in research, human resources and innovation. However, the average annual number of growth companies that made an IPO and the share of growth company proceeds from all non-financial company IPO proceeds have declined globally since 2000.

Figure 39 provides a comparison between IPOs made by non-financial growth companies in Italy, some other European countries, the United States and Japan. In the European Union area, there has been in the last 20 years a decline in the number of non-financial IPOs smaller than EUR 87 (USD 100) million. During the period 1997-2000 there were on average 362 such small IPOs. This fell to 221 during the period 2001-2007 and further to 138 during the period 2008-2018. In addition, the annual average proceeds of European non-financial growth companies in the first period was 2.6 times and 5.3 times higher than in the second and third periods, respectively.

This European trend has also been observed in the United States. In Italy, however, at least in terms of number of companies, growth company IPOs rebounded in the last five years. There were almost 80 non-financial growth company IPOs raising EUR 1 150 (USD 1 400) million. During the same period, the amount growth companies raised in Italy was one fifth of what they raised in Japan and 9% in the United States.

Figure 39. IPOs by non-financial growth companies



Source: OECD Capital Market Series dataset, see Annex for details.

2.2. The listing of Special Purpose Acquisition Companies

In 2010, Italy introduced an alternative way of listing by the use of a Special Purpose Acquisition Company (SPAC). A SPAC is a company that raises cash through an IPO without having any operations or physical assets. Its sole purpose and "asset" as a listed shell company is rather a business plan aiming to find and acquire an existing unlisted company. The acquired company will then automatically become listed through a merger with the SPAC. There is generally a rule or a market practice that limits the maximum time within which the SPAC has to find and merge with a target company, typically 24 months. Once a target company is found, the business combination (merger) is subject to the approval of the investors. If the business combination is not completed within the agreed maximum time, the SPAC needs to return the funds to the investors.

Participating in a SPAC IPO gives all investors the option to access investment opportunities that typically are open only to sophisticated investors in the private equity markets. Since the shares of the SPAC from day one are traded on an exchange, they are also liquid as opposed to capital that is committed to a private equity fund.

The main reasons for companies to choose a listing via SPAC are that the process is less burdensome and faster compared to a traditional IPO, since the regulatory procedures and documentation needed to list a SPAC are relatively limited. A SPAC listing also allows companies to reduce pricing uncertainties of a public listing by negotiating ex-ante all the terms and conditions with the managers of the SPAC. Like private equity firms, the business model of SPACs relies on the reputation and expertise of the founding managers who also own shares in the SPAC and are remunerated through various combinations of warrants and fees.

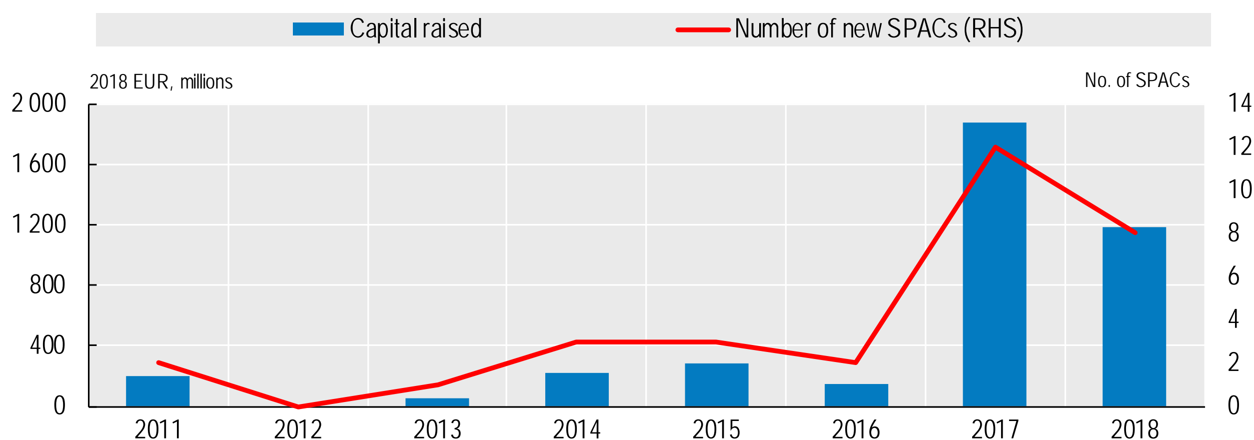
While the business models of SPACs and private equity firms have commonalities, there are also differences with respect to how they choose their target companies, their investment horizons and their exit strategies. The main goal of a SPAC is to find an attractive unlisted company that is willing to be listed on an exchange immediately. Private equity funds, on the other hand, typically keep the acquired company private in their portfolios for a number of years before they exit the investment. Listing the portfolio company through a traditional IPO is only one of the alternatives for private equity exit. Others include selling it to another private equity fund or to strategic investors and to write-off in case of a failure.

In the United States, SPACs first appeared in the 1980s and during the 1990s they successively became a common feature of the equity capital markets. After the 2008 financial crisis however, the use of SPACs declined until 2017, which saw a surge both in terms of the number of SPAC listings and the amount of equity that they raised. In 2017 and 2018, there were almost 80 SPACs listings in the United States raising EUR 17.8 (USD 21) billion in total. A similar development was also seen in the United Kingdom, where 15 SPACs listed in 2017 raising a total of EUR 2.5 (USD 2.15) billion.

As illustrated in Figure 40, the first Italian SPACs were listed on the alternative markets of the Borsa Italiana in 2011. An important condition for making SPAC listings possible was the establishment of alternative markets, such AIM Italia and the market for investment vehicles (MIV) that allowed the listing of shell companies. Between 2011 and 2016 a total of 11 SPACs were listed: 3 on MIV, 7 on AIM and 1 was set up as a private company. All 11 companies have completed a merger. As a result, 11 previously unlisted companies became listed; five on MTA (one of the regulated segments of Borsa Italiana) and six on AIM Italia (see Table 5).

Similar to the developments in the United States and the United Kingdom, there was a surge in SPAC listings in 2017 in Italy as well. A total of 10 new shell-companies were listed and two closed funds were set up to promote SPACs. However, unlike other markets both the number of new SPACs and the money they raised dropped in 2018. And in the first five months of 2019, there was only one SPAC listing in Italy.

Figure 40. Special Purpose Acquisition Companies in Italy



Source: BeBeez Italia, SPACs websites, Thomson Reuters.

In 2018 the Italian public market also experienced the launch of the first ELITE SPAC in Cloud; an innovative process that streamline the IPO process, offering significant advantages for entrepreneurs and investors alike. Being platform-based, it avoids the necessity to create a SPAC in the first place, making execution faster and simpler.

It has been suggested that the recent increase in growth company IPOs and the listings of SPACs have been stimulated by the introduction of the individual saving plan (PIR -“Piani Individuali di Risparmio”) reform in 2016. As part of the reform, the Italian Government established a tax incentive to encourage savers to finance small and mid-sized Italian companies (Panetta, 2018). Retail investors resident in Italy can invest EUR 30 000 a year up to EUR 150 000 over a five-year period in PIR investment products exempt from the 26% income tax if they hold their investments for five years. The PIR products can be created by mutual funds, life insurance companies or security deposit accounts. These products have to invest at least 70% of the assets in financial instruments issued by companies established in Italy or foreign companies from the European Union or European Economic Area permanently established in Italy. In addition, at least 21% of the assets have to be invested in Italian companies not included in the main equity index (FTSE MIB). It has been claimed that this new regime had created a demand for smaller and mid-sized listed companies. In 2017, PIR-related products raised EUR 10.9 billion, whereas in 2018 the amount raised dropped to EUR 4 billion (Assogestioni 2018, 2019). According to Intermonte SIM, the stock of PIR-related AUM is projected to reach EUR 55 billion by 2021 (Politecnico Milano, 2018). As mentioned, however, the Italian budget law in 2019 revised the PIR framework introducing the PIR 2.0, which contain investment limits that constitute a barrier to the creation of PIR-eligible funds, in consideration of the limited number of investable instruments and a structural lack of dedicated investors to SMEs (including listed ones).

Table 5. Special Purpose Acquisition Companies in Italy

#	Name	Listing date	SPAC listing	Capital raised (in EUR M)	Target acquisition	Listing after acquisition
1	Italy 1 Investments	January-11	MIV	150.0	IVS spa	MTA
2	Made in Italy 1	June-11	AIM	50.0	Sesa spa	MTA
3	Industrial Stars of Italy	July-13	AIM	50.0	Lu-Ve spa	MTA
4	IPO Challenger	May-14	Private	52.0	Italian Wine Brands spa	AIM
5	GreenItaly 1	December-14	AIM	35.0	Zephyro spa (ex Prima Vera)	AIM
6	Space	December-14	MIV	130.0	Fila spa	MTA
7	Space 2	July-15	MIV	155.2	Avio spa	MTA
8	Capital for Progress 1	September-15	AIM	51.0	GPI	AIM
9	Glenalta Food	November-15	AIM	80.0	Gruppo Orsero (Orsero)	AIM
10	Industrial Stars of Italy 2	May-16	AIM	50.5	SIT group	AIM
11	Innova Italy 1	October-16	AIM	100.0	Fine Foods	AIM
12	IPO Club	January-17	Closed-end fund	120.0		
13	Crescita	March-17	AIM	130.0	Cellular Italia (Announced)	
14	Space 3	April-17	MIV	152.9	Aquafil	MTA
15	Ipo Challenger 1	June-17	Private	20.0	PharmaNutra	AIM
16	Glenalta	July-17	AIM	100.0	Grupo CFT	AIM
17	Sprint Italy	July-17	AIM	150.0		
18	Capital for Progress 2	August-17	AIM	65.0	ABK Group Industrie Ceramiche (Announced)	
19	EPS	August-17	AIM	150.0	ICF Group (May 2018)	AIM
20	Industrial Stars of Italy 3	October-17	AIM	150.0		
21	Spactiv	October-17	AIM	90.0		
22	IdeaMi	December-17	AIM	250.0	Gruppo Agrati (Announced)	
23	Space 4	December-17	MIV	497.5	Guala Closures	MTA
24	ALP.I	January-18	AIM	100.0		
25	VEI 1	February-18	AIM	100.0		
26	Life Care Capital	March-18	AIM	140.0		
27	VALU (Gabelli value for Italy)	April-18	AIM	110.0		
28	Spaxs	January-18	AIM	600.0		
29	Archimede	May-18	AIM	47.0	Net Insurance	AIM
30	TheSpac	July-18	AIM	60.0		
31	Spac-in-Cloud	November-18	AIM	22.5	Digital Value	AIM

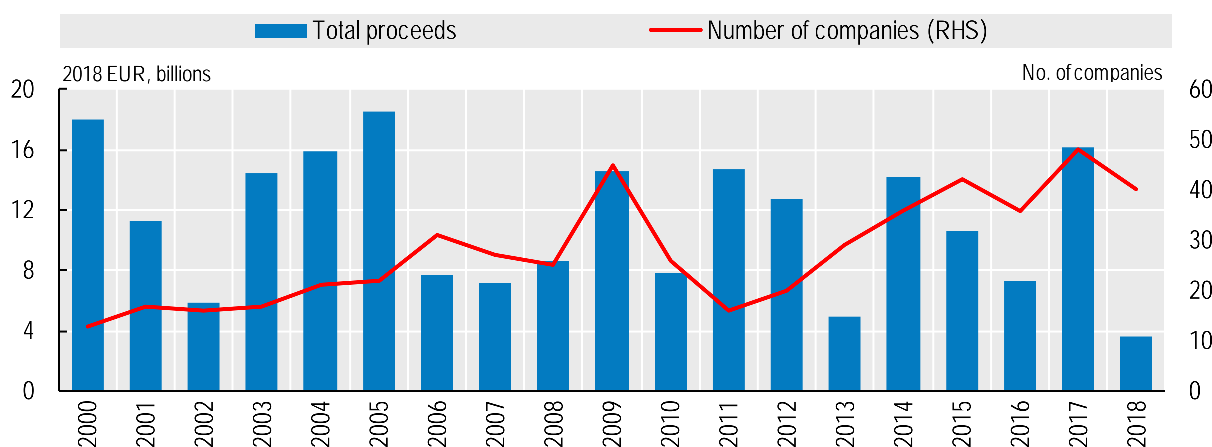
Source: BeBeez Italia, SPACs websites, Thomson Reuters.

2.3. Trends in secondary public offerings

As explained above, companies that are already listed on a stock exchange can also use public equity markets to raise equity capital via a so-called secondary public offering (SPO or follow-on offering). SPOs can be made several years after the IPO in order to, for example, re-capitalise the firm or finance a new investment or an acquisition. It is important to note, again, that in today's capital markets an SPO does not necessarily means a shares offering to the public with a prospectus. Rather, it is often conducted through a private placement where shares are only issued to current owners or a selected group of institutional investors, without a prospectus.

Figure 41 shows the number of Italian companies that made secondary offerings and the total amount of equity raised over the period 2000-2018. Since 2000, Italian companies have raised four times as much money through SPOs as they have raised through IPOs. It is worth noting that in the wake of the 2008 financial crisis, a record number of Italian listed companies in 2009 turned to the public equity market to raise a total EUR 14.6 (USD 21) billion through secondary offerings.

Figure 41. Secondary public offerings (SPOs) by Italian companies

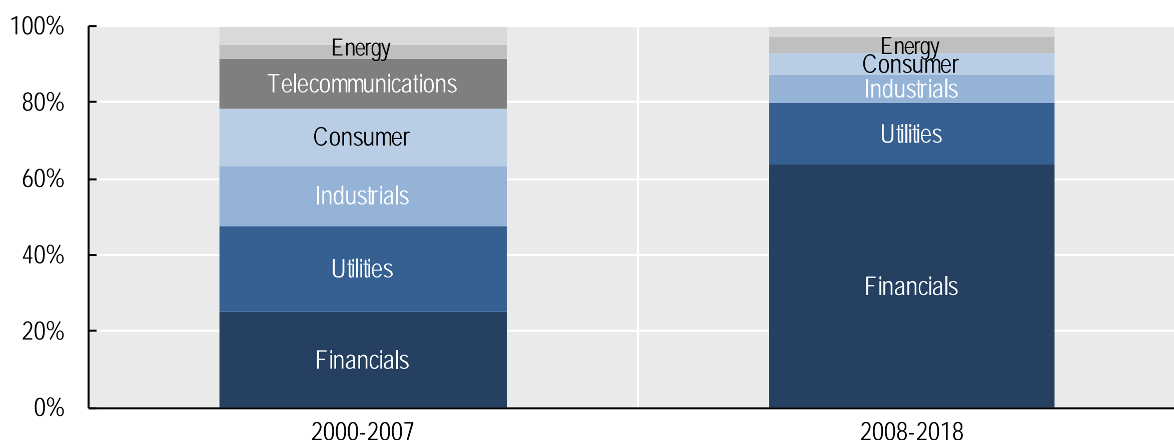


Source: OECD Capital Market Series dataset, see Annex for details.

With respect to the use of SPOs by different business sectors, the financial sector represented around 25% of all Italian SPO proceeds between 2000 and 2007. This was close to the financial sector's portion of SPO proceeds worldwide. However, since the 2008 financial crisis, the financial sector has absorbed 64% of all money that has been raised through SPOs in Italy (Figure 42). This is significantly more than the global increase in financial sector SPOs during the post-crisis era. Worldwide, between 2008 and 2018, the financial sector captured only about 33% of all SPO proceeds. The dominant role played by the financial sector in the SPO market reflects the considerable efforts that have been made in Italy since the global financial crisis to re-capitalise the banking sector.

The only non-financial sector that maintained a material market share with respect to SPOs since 2008 was utilities, whose share dropped from 23% to 16%. Despite losing half of its share, the industrials was the third-largest sector.

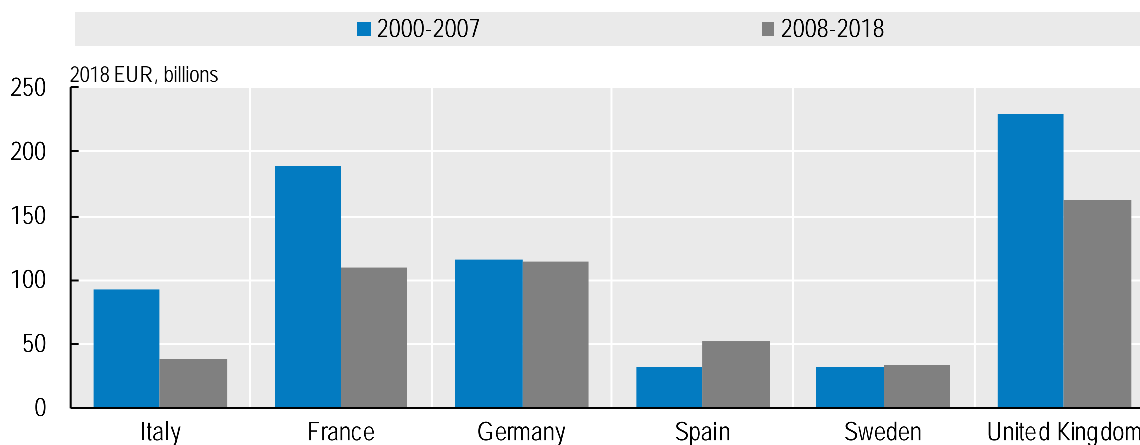
Figure 42. Breakdown of all SPOs by Italian companies by industry, proceeds



Source: OECD Capital Market Series dataset, see Annex for details.

The declining share of the non-financial sector in the global SPO proceeds in the post-crisis era does not mean that the absolute amount of equity raised by them has also declined. Indeed, the annual average amount of equity raised by non-financial companies through SPOs increased by almost 40% in this period compared to the 2000-2007 period and reached EUR 336 (USD 431) billion. As shown in Figure 43, the picture in Europe was somewhat different. While some European countries such as Germany, Spain, and Sweden followed the global trend, this has not been the case for France, the United Kingdom, and Italy. The decline was most severe for the Italian non-financial sector as the absolute amount they raised, in real terms, more than halved. This may be explained by a crowding out effect from the surge of financial sector SPOs in the post-crisis era.

Figure 43. SPOs by non-financial companies from Italy and selected European countries



Source: OECD Capital Market Series dataset, see Annex for details.

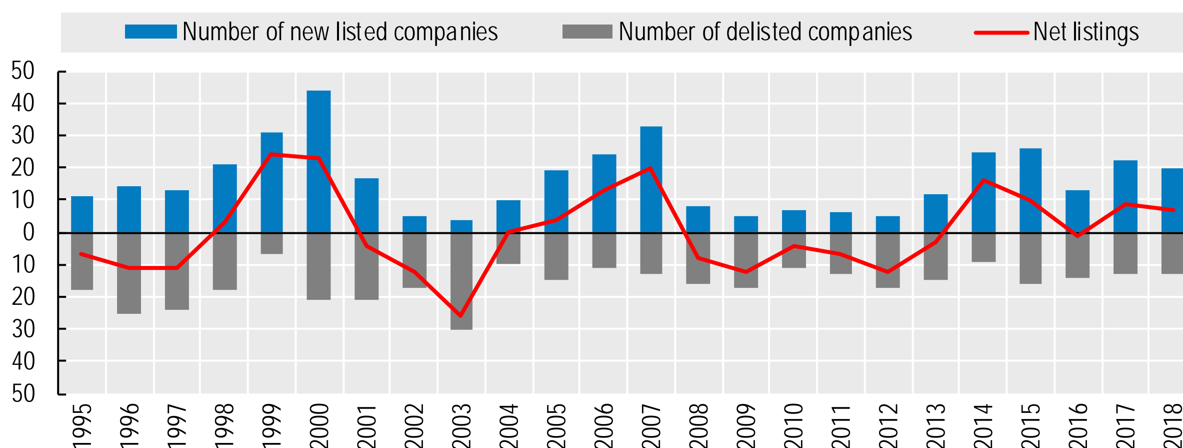
2.4. Delistings by Italian companies

There can be several reasons why a company delists from a stock exchange, including voluntary delistings, mergers, acquisitions, bankruptcy, and failure in meeting the listing criteria. In some cases, a company can delist from one stock exchange but remain listed on one or several other exchanges or alternative trading venues.

As discussed above, there has been a decline in the number of IPOs in the OECD economies since 2000. And as the number of delistings has been higher than new listings, the net effect has been a decline in the number of listed companies from almost 30 000 companies in 2000 to about 22 000 companies today. This development has been particularly prominent in the United States, where the number of companies listed on the stock market declined by 50% from almost 8 000 to 4 000. In Europe also many stock markets, including France and Germany, have lost an important number of listed companies.

Figure 44 shows listings and delistings in the Italian stock market. In total, since 1995, there were 395 new listings and 394 delistings. As a result, the total number of companies in all markets of the Italian stock exchange has increased by only one company. As illustrated by the red line, there were only ten years over a 24-year period when net listings were positive. Importantly, four of those ten years were in the last five years.

Figure 44. Listed and delisted Italian companies, 1995-2018



Source: OECD Capital Market Series dataset, Borsa Italiana, see Annex for details.

2.5. Investors and ownership structure in the Italian public equity market

In the first four sections of this chapter, the use of public equity markets by Italian companies has been analysed, including their use of initial and secondary offerings, the industry distribution of companies, the use by growth companies of public equity markets, and the extent to which companies have chosen to delist from the stock market. In order to provide a complete picture of Italian public equity market, it is also important to understand the investor landscape and the ownership structure at the company level.

Table 6 shows the distribution of share ownership among different categories of owners in Italy and selected countries based on their share in the total market capitalisation of each market. Among the four categories illustrated in the table, institutional investors were the largest category of owners in all markets except People's Republic of China (China), where the public sector was

the largest owner. In both the United States and the United Kingdom, institutional owners are, by far, the largest category of owners holding on 71% and 61% of the total capital, respectively. In Canada, 47% of the equity capital was also in the hands of institutional investors. They hold between one fourth and one third of the capital in the European markets, with Sweden ranking top at 38%. In Italy, institutional investors hold, on average, lower stakes in listed companies compared to the global average (41%), but at similar levels with many European peers.

Table 6. Average ownership weighted by total market capitalisation, by different categories of investors for selected countries, as of end 2018

	Private corporations	Public sector	Strategic individuals	Institutional investors	Other free-float
Italy	**13.5%**	**12.0%**	**11.0%**	**26.9%**	**36.6%**
Finland	6.7%	12.9%	6.6%	32.1%	41.7%
France	16.1%	7.8%	12.6%	27.5%	36.1%
Germany	18.4%	5.9%	8.0%	28.3%	39.3%
Norway	8.4%	33.9%	8.1%	23.1%	26.6%
Spain	10.2%	6.3%	13.6%	26.5%	43.4%
Sweden	12.9%	6.3%	10.8%	38.3%	31.7%
Canada*	6.7%	3.7%	2.5%	46.7%	40.5%
China*	10.9%	38.8%	12.7%	8.8%	28.7%
Japan*	22.8%	4.8%	4.2%	27.2%	41.0%
United Kingdom*	5.0%	6.8%	2.6%	61.0%	24.6%
United States*	3.0%	3.1%	4.2%	70.9%	18.9%

Notes: * For Canada, China, Japan, the United Kingdom and the United States at least 85% of the total market is included. In most jurisdictions there is no requirement to disclose shareholdings below a certain size. There may also be different disclosure requirements for different categories of shareholders, in particular for institutional investors. These undisclosed holdings are categorised in the table as “others, inc retail”, of which some most certainly are held by institutional investors. Therefore, the numbers for institutional ownership presented in the table should be considered as the minimum numbers.
Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

The second largest category of owners in Italy is the “strategic individuals”, which typically includes physical persons owning more than 5% of the capital. This type of direct ownership, together with private corporations’ ownership, is more prevalent in European markets compared to the countries with a common law legal tradition, such as the United States and the United Kingdom. Public sector ownership in the Italian listed companies sector is also important, albeit not as much as in China and Norway.

Table 7, together with Table 6 above, reveals a key feature of the ownership of listed corporates in Europe. In order to examine the ownership structure of large and small listed corporations respectively, the table below shows the average portion of the capital held by different categories of owners in each market in the companies above and below the median size in terms of market capitalisation. The data shows that in all markets, the average share of institutional ownership in large listed companies was significantly higher than their ownership in smaller companies. This is also true for the public sector ownership in most markets. In Italy, for example, 19% of all shares in large listed companies were held by institutional investors as of end 2018, while the same ratio for smaller listed companies was below 10%. However, private corporations’ average share of ownership in small companies was only 3.4 percentage points lower than their holdings in the

larger companies. Public sector ownership in Italy was almost exclusively concentrated in the large listed companies.

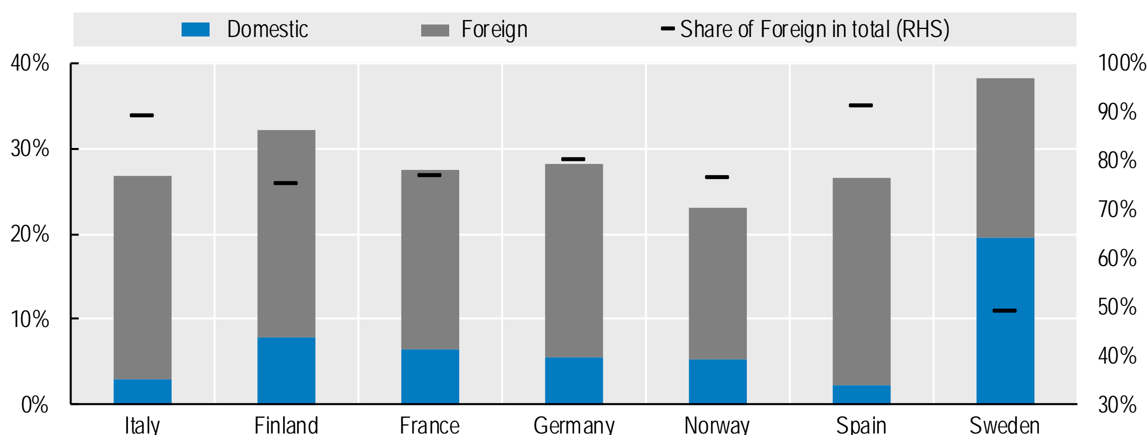
Table 7. Average ownership by investor categories in small and large companies in selected European economies, as of end 2018

	Private corporations		Public sector		Strategic individuals		Institutional investors		Other free-float	
	Above Median	**Below Median**	**Above Median**	**Below Median**	**Above Median**	**Below Median**	**Above Median**	**Below Median**	**Above Median**	**Below Median**
Italy	**24.8%**	**21.5%**	**6.4%**	**0.2%**	**20.3%**	**21.2%**	**19.1%**	**7.8%**	**29.3%**	**49.3%**
Finland	9.8%	9.8%	7.2%	0.6%	16.2%	25.4%	33.8%	19.2%	32.9%	45.0%
France	27.1%	18.3%	5.1%	1.6%	18.3%	18.8%	22.2%	11.6%	27.4%	49.8%
Germany	22.8%	16.4%	3.5%	2.1%	17.6%	17.5%	25.0%	10.1%	31.0%	54.0%
Norway	16.5%	9.4%	6.9%	1.4%	18.7%	19.1%	25.1%	12.8%	32.8%	57.3%
Spain	21.3%	16.9%	4.4%	0.5%	16.4%	20.5%	26.7%	11.2%	31.2%	50.9%
Sweden	11.5%	11.7%	5.2%	1.9%	18.7%	18.3%	35.3%	12.7%	29.2%	55.4%

Notes: Small (large) companies refer to those firms with market capitalisation below (above) the median market capitalisation in each market.
Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

It is commonly claimed that investors prefer to invest more heavily in their home country equity markets – a phenomenon known as home bias in equity markets. This may be particularly true for individual shareholders, who usually have too small investments to warrant the cost of investing abroad and monitoring their investments. With respect to institutional investors, however, the home bias should be less of an issue as they have the capacity and scale to invest in foreign markets. In European markets shown in Figure 45, institutional investors hold on average around 30% of the capital, with the exception of Sweden. Sweden also differs from other countries with respect to the share of foreign institutional investors in the domestic market. While in Sweden almost half of all institutional ownership is attributed to foreign institutions, this ratio is from 75% to 91% in other countries. Put differently, for example, only 11% of all institutional ownership was held by domestic institutions in Italy as of end 2018.

Figure 45. Domestic and foreign institutional ownership in Italy and selected European countries, as of end 2018



Note: Ownership values represent capital market weighted averages.
Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

Another important use of ownership information is related to the design of corporate governance regulation. In particular with respect to related party transactions and takeovers, which both are closely linked to the degree of concentration and control by individual shareholders at the company level. Table 8 shows the average holdings of the largest shareholders in the listed corporate sector in each of the European markets. Italian companies display the most concentrated ownership with the largest, three largest and five largest shareholders holding an average of 38%, 50%, and 54% of the capital, respectively. However, the differences between the concentration level of the Italian listed corporate sector and those of France, Germany, and Spain are insignificant.

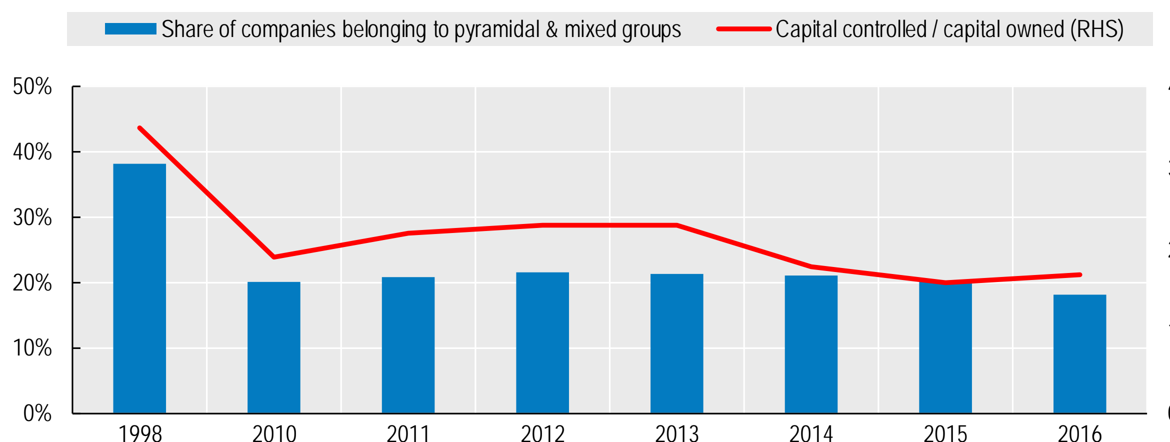
Table 8. Ownership concentration at company level in Italy and selected European countries, as of end 2018, (capital share)

	Largest 1	Largest 3	Largest 5	Largest 20	Largest 50
Italy	**38%**	**50%**	**54%**	**60%**	**61%**
Finland	19%	32%	39%	55%	61%
France	36%	49%	53%	59%	61%
Germany	34%	46%	50%	56%	58%
Norway	25%	38%	44%	56%	58%
Spain	31%	42%	47%	57%	59%
Sweden	21%	35%	42%	55%	58%

Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

Moreover, in the last 20 years, significant changes have occurred in the use of control enhancing mechanisms in the Italian listed companies (Figure 46). In 2016, 18.2% of the listed companies in the regulated market (MTA) of Borsa Italiana were part of a pyramidal or a mixed group compared to almost 40% in 1998. In addition, the use of non-voting shares has also followed the same declining trend (Consob, 2019).

Figure 46. Control enhancing mechanisms in Italian listed companies



Note: Data on Italian listed companies with ordinary shares listed on Borsa Italiana - MTA Stock Exchange. The units of capital controlled are on the basis of voting rights in ordinary shareholders' meetings and the units of capital owned on the basis of cash flow rights pertaining to the controlling shareholder.
Source: Consob (2018) Report on corporate governance of Italian companies: Statistics and analysis.

2.6. Borsa Italiana

The marketplace for public equity financing is the stock market, where the stock exchange as the main actor plays a significant role in matching companies that need access to external equity financing and investors that are willing to supply capital into those companies. Over the last decades, the stock exchange industry has experienced important structural changes. While most stock exchanges in advanced capital markets were established as membership organisations or government institutions, today most of them have been transformed into privately owned for-profit corporations and have their shares listed and traded on their exchanges (OECD, 2016b).

Table 9. Key dates and developments for Borsa Italiana

1998	Privatisation of the exchange into a joint-stock company: Borsa Italiana Spa
1999	Creation of the "Nuovo Mercato" alternative market, dedicated to high growth technology oriented firms
2001	Creation of the STAR segment and segmentation within the MTA market
2003	Creation of the "Mercato Expandi" alternative market, dedicated to SMEs
2005	Merge of the "Nuovo Mercato" and MTA
2007	**Merger of Borsa Italiana Spa and London Stock Exchange Group (LSEG)** Creation of the "Mercato Alternativo del Capitale" (MAC) alternative market, dedicated to SMEs
2009	Merger of "Mercato Expandi" and MTA Launch of AIM Italia market
2012	Merger of MAC and AIM markets

Source: Borsa Italiana website.

The Italian stock market has not been exempt from this transformation process. Since 1990, there have been several key developments with respect to the structure of the secondary equity market in Italy. First, ten stock exchanges existed until 1996 were closed to unify the trading at national level. In 1999, the exchange was transformed into a joint-stock company and privatised. That same year, a new market for high-technology companies, the Nuovo Mercato, was launched. A major

development since then was the merger of Borsa Italiana with the London Stock Exchange Group in 2007.

Today, Borsa Italiana is split into three different equity markets: Mercato Telematico Azionario (MTA), and Alternative Investment Market (AIM Italia) where companies are listed; and Market for Investment Vehicles (MIV) and the Partnership Equity Markets where financial vehicles are listed. As of end 2018, there were 242 listed companies on MTA and 113 on AIM Italia. The MTA market is split into two segments, the Standard listing segment and the Star segment, which requires the adoption of some additional corporate governance standards and is only open to companies that have less than EUR 1 billion market capitalisation. The eligibility criteria and key continuous obligations for the segments of the MTA market and AIM Italia are presented in Table 10.

Table 10. Eligibility criteria and key continuous obligations for different markets of Borsa Italiana

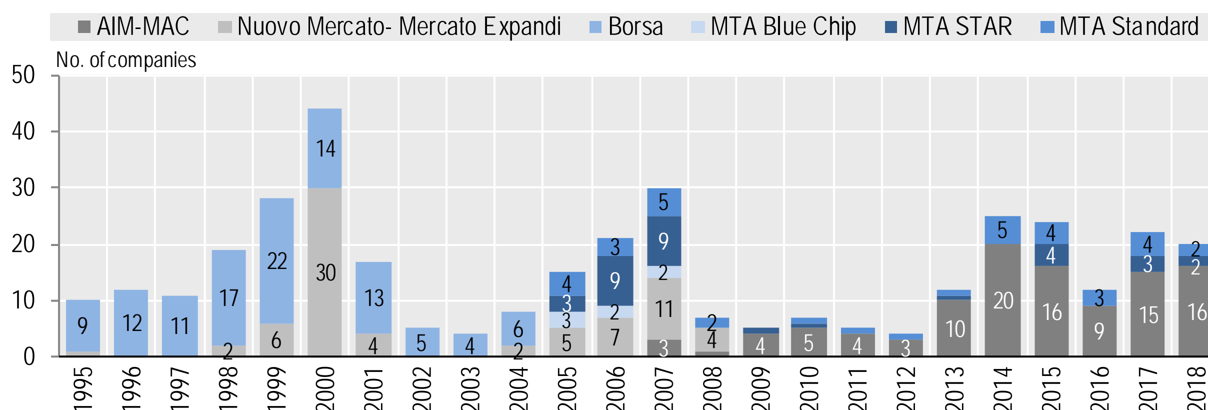
	MTA		AIM Italia
ELIGIBILITY CRITERIA	**STANDARD**	**STAR**	
Free float	25%	35%	10%
Audited fin. statements	3	3	1 (if existing)
GAAP	International	International	Italian and international
Investors	Institutional / Retail	Institutional / Retail	Mainly Institutional
Other documents	Prospectus / MIS / Business Plan / QMAT	Prospectus / MIS / Business Plan / QMAT	Admission document
Market capitalisation (€)	Min EUR 40M	Min EUR 40M – Max EUR 1B	No formal requirement
BOD (no. independent directors)	Recommended (CG Code)	Mandatory (Rules)	No formal requirement
Internal audit committee	Recommended (CG Code)	Mandatory	No formal requirement
Remuneration committee	Recommended (CG Code)	Mandatory	No formal requirement
Incentives to the top management	Recommended (CG Code)	Mandatory (performance-related remuneration)	No formal requirement
Investor Relator	Recommended	Mandatory	No formal
Website	Mandatory	Mandatory	Mandatory
Main advisor	Sponsor/Global	Sponsor/Global Coordinator	Nomad
KEY CONTINUOUS OBLIGATIONS			
Corporate Governance	Comply or explain	Partly mandatory	Optional
Specialist	Optional (liquidity provider)	Mandatory (liquidity provider	Mandatory (liquidity
Disclosure	Price sensitive information	Price sensitive information	Price sensitive
Related parties	Procedures and reporting	Procedures and reporting	Simplified
Quarterly data	I-III quarterly report within	I-III quarterly report within 45	-
Half year data	Within 60 days from half	Within 60 days from half year	Within 3 months
Annual report	Within 120 days from year	If within 90 days from year	Within 6 months
Number of listed companies, Dec 2018	168 companies	74 companies	113 companies

Source: Borsa Italiana website.

Throughout the last two decades, there have also been significant changes in the market structure within the Borsa Italiana itself. One way to look at these changes is to follow the creation of new market segments and the number of new listings in these market segments. Figure 47 shows the total number of IPOs in each market of the Borsa Italiana since 1995. The regulated markets, in general traditional stock markets, are shown in blue and the SME Growth markets are shown in grey. From 2004 onwards, there has been a marked shift in IPO activity from regulated to SME Growth markets. Over the period 1995-2004, 113 IPOs were conducted on the regulated markets

of the Borsa Italiana and 45 on the SME Growth markets. Since 2005, however, 76 IPOs took place on regulated markets, whereas 133 IPOs went to the SME Growth markets. Particularly in the last five years, when the IPO activity was relatively strong in Italy, more than 70% of all listings took place on the AIM.

Figure 47. Distribution of IPOs among the different markets of Borsa Italiana



Source: OECD Capital Market Series dataset, see Annex for details.

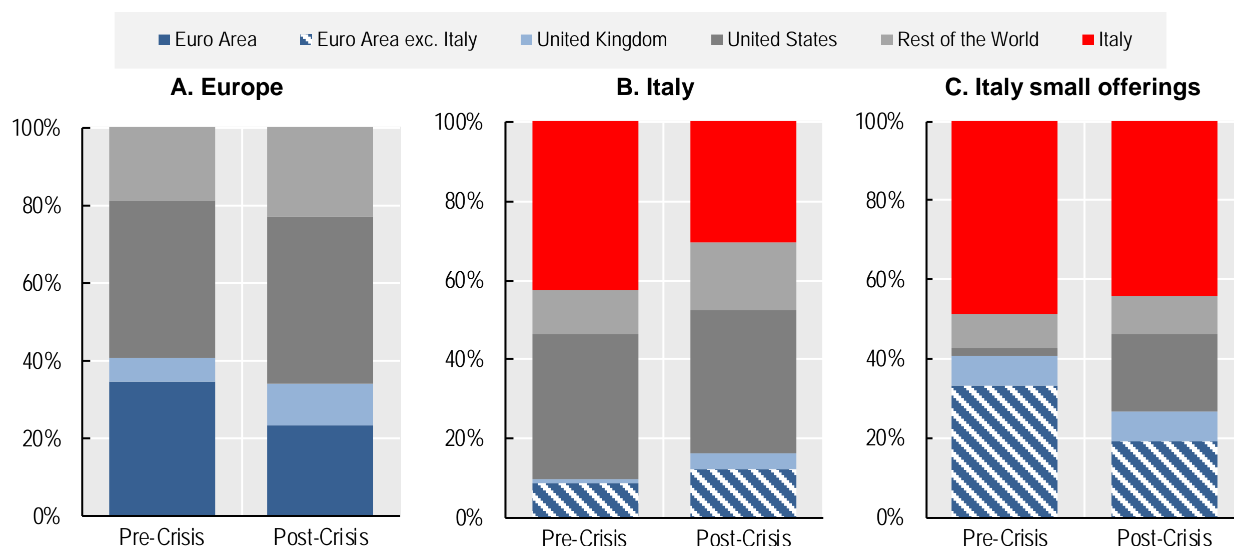
2.7. Intermediaries in the Italian primary equity market

The key intermediation function in the primary equity markets is served by underwriters, who support the issuance of a company's shares to the public. The underwriting services are mainly provided by investment banks and consist of origination, distribution, risk bearing, and certification. Underwriter investment banks also advise the IPO firm on the timing and pricing of the offering, and help the firm to prepare the required documentation including public prospectus.

Figure 48 shows the share of the top 100 investment banks in the equity markets with respect to the total underwriting volume for both IPO and SPO transactions in Europe and Italy, before and after the 2008-2009 crisis. A striking development shown in the figure is that the Euro Area banks substantially decreased their share in the European primary public equity markets in the post-crisis period. At the same time, banks from the United States and the United Kingdom increased their market share by three and five percentage points, respectively. Panel B of the figure shows a similar development in Italy, where the share of domestic investment banks in public equity transactions declined by 12 percentage points. However, the share of banks from the United States almost remained the same at around 37%. Interestingly, the share of banks from other Euro Area countries was modest in both periods.

Panel C of Figure 48 focuses on small offerings in Italy that were below EUR 87 (USD 100) million in real terms. It is not surprising to see that domestic banks play a bigger role in small company offerings compared to their role in the whole market. Despite a slight decline in the second period, more than half of the small public equity transactions have been underwritten by Italian banks since 2000. The big shift has been from non-Italian Euro Area banks to US banks, which increased their market share by 18 percentage points.

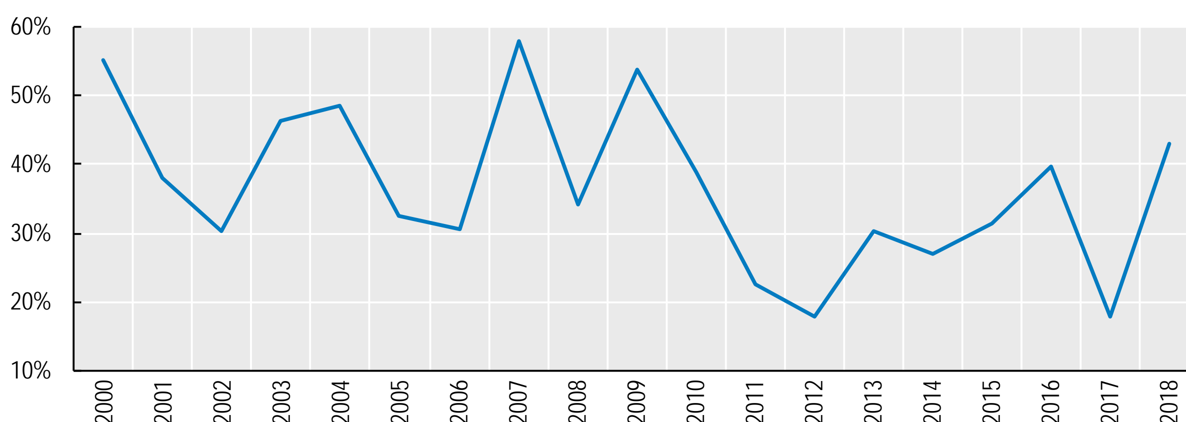
Figure 48. IPO market share distribution of largest 100 banks in the European and Italian market



Note: For the panel “Italy small offering”, only equity deals of less than EUR 87 (USD 100) millions are considered.
Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

Figure 49 presents the share of Italian banks in the domestic equity market underwriting activity since 2000. The downward trend with respect to Italian banks’ market share is more visible on a yearly basis compared to the figure above at the aggregate level. Since 2011, their market share started to decline and was at the lowest level in 2017. However, in 2018, the share of Italian banks in the domestic underwriting activity reached the highest levels since 2009, attaining 43% of the domestic equity underwriting activity.

Figure 49. Share of Italian banks in the domestic equity market underwriting activity



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

CHAPTER III. THE ITALIAN CORPORATE BOND MARKET

Corporate debt comes in many different forms with respect to their use and conditions, such as maturity, interest and requirements for collateral. Ordinary bank loans, for example, are often used as short-term working capital, while corporate bonds typically have a longer maturity and can be issued for a defined project. In addition to the long-term maturity structure, the absence or relatively low level of collateral requirements gives corporate bond financing a special role as a source of financing compared to other loans.

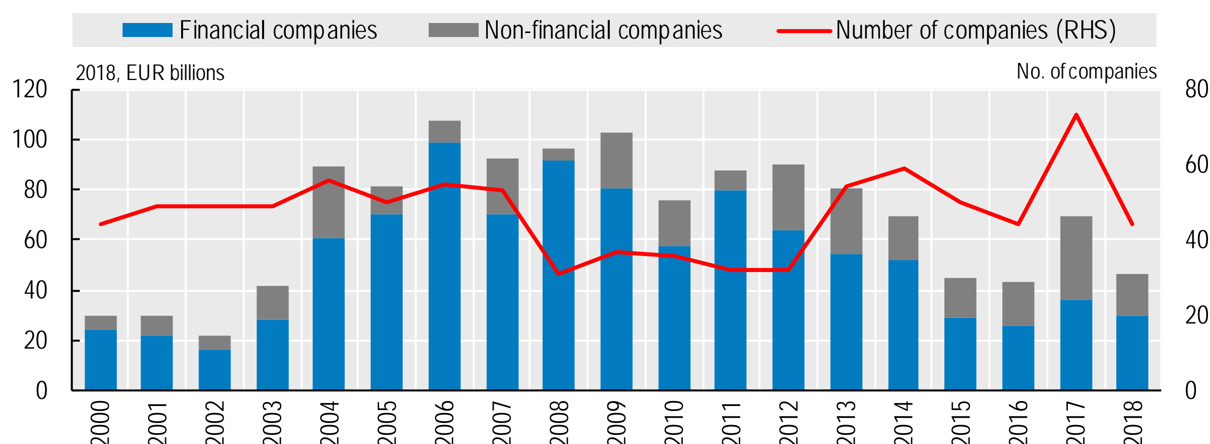
Corporate bonds can be issued to the general public or to a select group of investors through private placements. Private placements are typically used for smaller bond offerings. They require less burdensome reporting and registration procedures; and do not require mandatory credit rating. However, in some advanced markets privately placed corporate bonds are often rated and issued to a large number of qualified investors.

The first section of this chapter focuses on public and private issues that are underwritten by an investment bank. Underwriters play an advisory role in helping the company to prepare the necessary documentation and pricing the bond issue. They also serve as an intermediary between the company and its network of prospective investors. These underwritten bonds account for a great share of all corporate bonds in terms of total proceeds and are reported in commercial databases, the financial press, and various studies. The second section takes a closer look at the mini-bond market in Italy based on a new dataset of all Italian mini-bonds issued since 2013. The chapter ends with a short overview of underwriting activity in the Italian corporate bond market.

3.1. Trends in corporate bond issuance

Starting from 2004, corporate bonds have become an increasingly important source of finance for both financial and non-financial Italian companies. Figure 50 shows that the annual amount of funds raised through corporate bond issuance was, on average, EUR 88 billion between 2004 and 2014. This was almost three times the pre-2004 period average. After a sharp increase in 2017, the total amount of issuances in 2018 decreased to EUR 47 billion, almost the average amount of 2015 and 2016. This decrease was mainly driven by the non-financial companies, whose total issuance amount almost halved in 2018 compared to the previous year. A similar trend is observed in the number of companies that issued corporate bonds. In particular, the number of non-financial issuers declined more than 40% in 2018. In total, 44 Italian companies, including 26 non-financial companies, issued a bond in 2018.

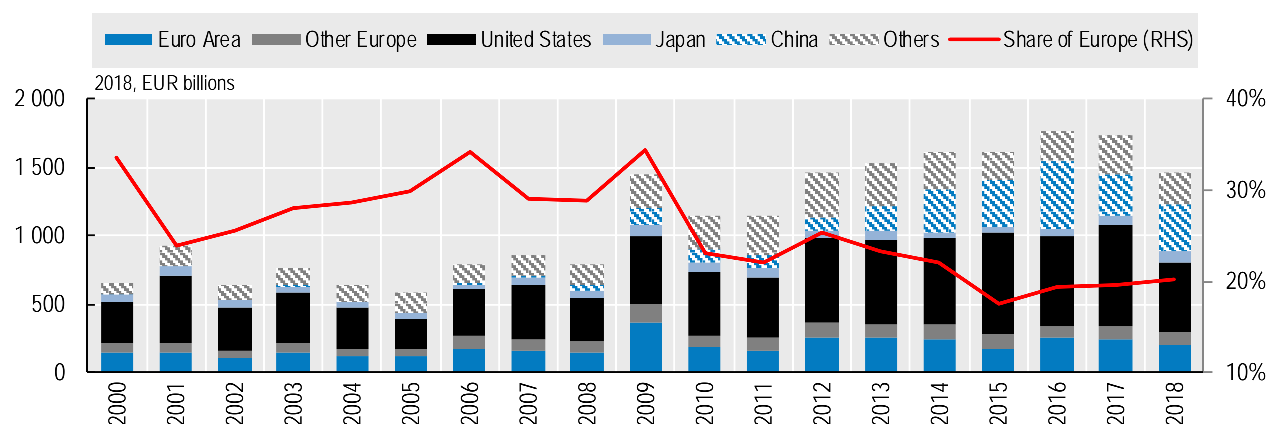
Figure 50. Corporate bond issuance by Italian companies



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

A dramatic change in non-financial companies' use of corporate bond market took place in 2009 at global level. Following a significant reduction in bank lending to non-financial companies in the aftermath of the global financial crisis, more companies turned to the bond market to raise funds. Non-financial companies raised on average EUR 737 (USD 871) billion annually up to 2008 worldwide. This increased to EUR 1.5 (USD 1.7) trillion in 2009 and to EUR 1.7 (USD 2) trillion in 2017. Although the amount decreased to EUR 1.5 (USD 1.7) in 2018, as shown in Figure 51, the trend has been upward in all regions. In Europe, the annual average amount was EUR 213 (USD 252) billion between 2000 and 2008, and increased to EUR 336 (USD 397) billion after 2009. However, since the increase in some other markets, particularly China, has been higher compared to Europe, the share of European companies in global corporate bond proceeds dropped from 29% in 2008 to 20% in 2018.

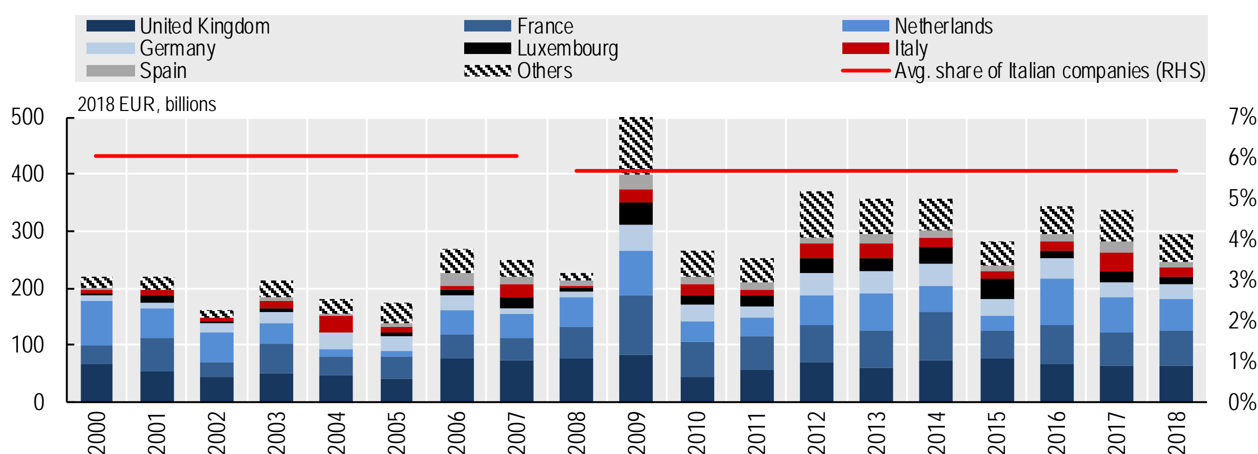
Figure 51. Global corporate bond issuance by non-financial companies



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

Companies from the United Kingdom, France and the Netherlands have traditionally been the largest users of corporate bond markets, raising on average 60% of all proceeds in Europe. They are followed by companies from Germany (9%) and Luxembourg (6%). The share of Italian non-financial companies in Europe remained almost stable with almost 6% in the pre and post crisis periods.

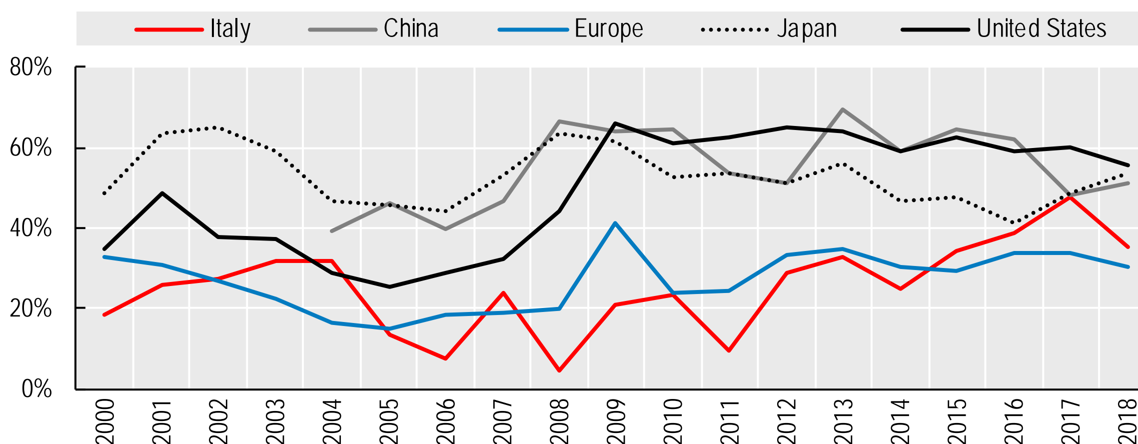
Figure 52. Corporate bond issuance by non-financial European companies



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

As shown in Figure 53, one notable difference between the corporate bond markets in Europe and those in the United States and Japan is the dominance of financial sector companies. This difference is particularly marked since the financial crisis when non-financial companies have accounted for about 60% of all corporate bonds issues in the US but only around 30% in Europe. In Italy, the ratio of non-financial company proceeds to total proceeds has for most of the period been below the European average. Mainly due to the decline in overall financial company proceeds, the portion of non-financial companies has increased until 2017. However, in 2018 as a result of the decrease in non-financial company issuances (Figure 50), the ratio declined to 35%.

Figure 53. Share of non-financial companies in total bond issuance volume

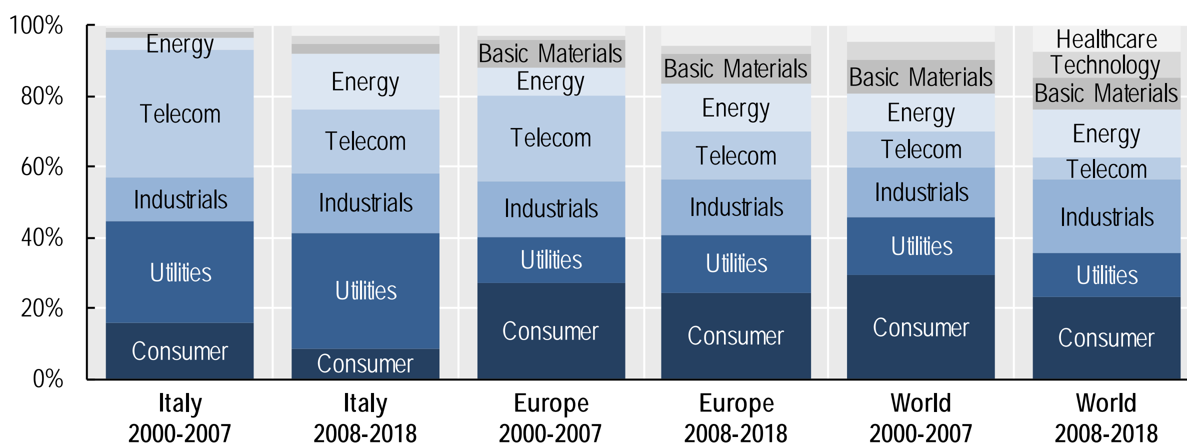


Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

Globally, the increase in non-financial company bond issuance has been coupled with a decline in the industry concentration of companies that issue bonds. For example, the share of the top two industries declined by 14 percentage points in Italy between the pre and post-2008 periods. The decline was 13 percentage points for Europe and 11 percentage points for global issuance. While the relative importance of the energy sector has increased substantially, the utilities and telecom sectors remained the two largest issuers in Italy in both periods. Another important feature of the Italian corporate bond market is that the share of companies in high technology industries, which

includes technology, healthcare, pharmaceuticals, and biotechnology, has been very low. Despite an increase from 2% to 5% in the post-2008 period, their share remained below the 8% European average and the 15% global average.

Figure 54. Industry distribution of non-financial corporate bond issuance



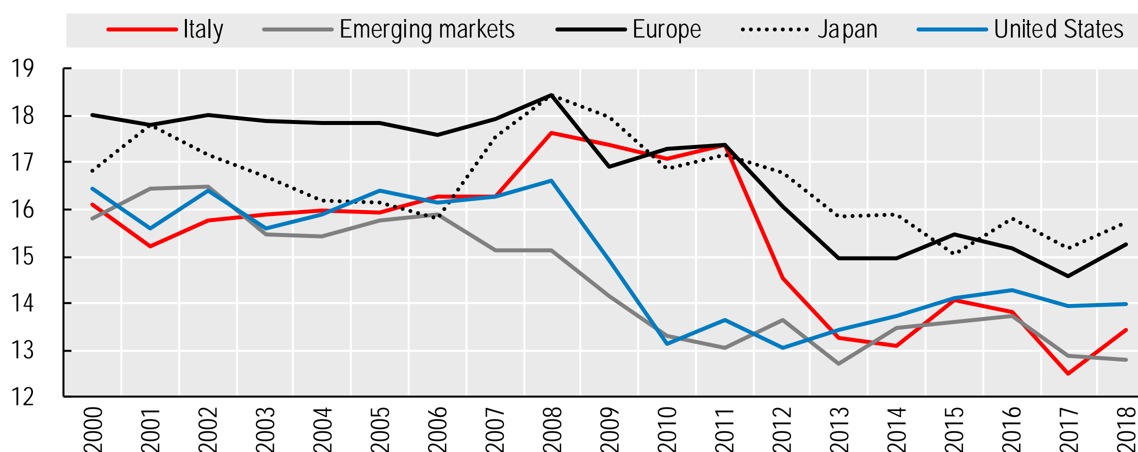
Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

3.2. Corporate bond rating quality and average maturities

The availability and the level of credit rating have a significant impact on both the cost and amount of corporate bond issued (Tang, 2009; Pattani et al. 2011). Figure 55 displays the OECD corporate bond rating quality index for Italy, and some other countries and regions, since 2000. The index is constructed by assigning the value 1 to the lowest credit quality rating and 21 to the highest credit quality rating. The annual average rating quality has declined in all geographical areas since 2009. The decline for the United States is 2.6 points and for Europe 3.2 points. Italy has seen the largest decline with more than 5 points, from 17.6 in 2008 to 12.5 in 2017. Yet, for 2018, with the contribution of the improvement in the credit quality of financial companies, the index increased to 13.4. In other words, on average, bonds issued by Italian companies were given a AA- rating in 2008, while they were given a BBB+ rating in 2018, which is just above the investment grade threshold. It should also be noted that the index for Italy was slightly above the emerging market average in 2018.

One additional observation from the figure is that the decline in overall corporate bond rating quality in the United States, Japan and emerging markets started immediately after the global financial crisis, while the decline in Italy and Europe was associated with the sovereign debt crisis of 2011 in Europe.

Figure 55. Corporate bond rating index

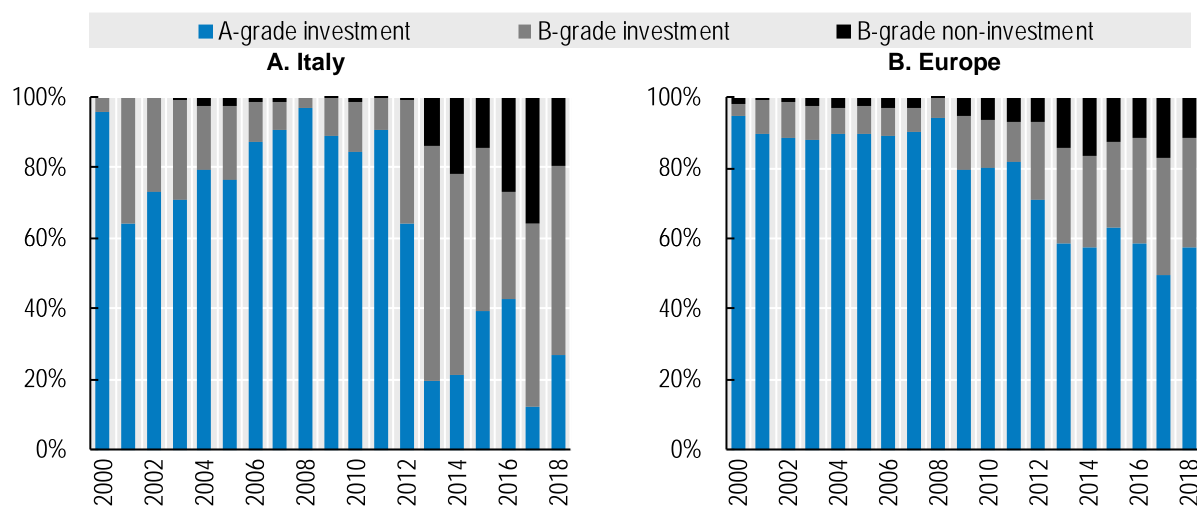


Notes: There are eleven non-investment grade categories: five from C, C to CCC+; and six from B, B- to BB+. There are ten investment grade categories: three from B, BBB- to BBB+; and seven from A, A- to AAA. This index is weighted as one for C, two for CC and rising to twenty one for AAA. A fall in the index indicates declining quality. Index is based on value weighted annual averages

Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

The deterioration in Italy and Europe is not only a result of more non-investment grade (so-called high yield) corporate bonds issuance. It is also explained by the decline in the rating of bonds issued within the investment grade category. Figure 56 illustrates the distribution of corporate bond issuance among rating categories as a percentage of total volume since 2000. Both in Italy and Europe there has been a significant increase in non-investment grade bonds. From representing only 1% of the total value of corporate bonds in Italy in 2007, non-investment grade bonds amounted to 36% of all money raised by the use of corporate bonds in 2017. The increase for Europe during the same period was from 3% to 17%. In 2018, on the other hand, the share of non-investment grade bonds in Italy and Europe decreased to 19% and 11%, respectively. While the share of A-grade investment bonds in Italy was only 26%, almost 60% of the issuance volume in Europe in 2018 was A-grade investment bonds.

Figure 56. Distribution of corporate bond issuance among rating categories, as a percentage of total



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

The average maturities for corporate bonds issued by non-financial companies vary widely among different countries and regions. Table 11 reveals that the average maturity for bonds issued by non-financial companies in Italy was higher than the European average in 2018, but lower than Japan and the US. Even though the amount and the number of issuances for non-financial companies for Italy in 2018 declined compared to 2017, there has been an increase in the credit quality of the issuances (Figure 55). At the same time, the average maturity of issuances increased from 7.7 years in 2017 to 10.3 years in 2018.

It should be noted, however, that the average maturity of commercial bank loans to non-financial companies is estimated to be 4.2 years for developed economies and 2.8 years for emerging economies, which is still shorter than the maturities for corporate bonds shown in Table 11 (Group of Thirty, 2013).

Table 11. Average maturities for corporate bonds by non-financial companies, years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Italy	12.7	14.8	11.1	11.0	8.4	8.6	8.2	7.7	10.1	10.3	8.6	8.7	7.7	10.3
Emerging markets	8.2	7.6	8.1	6.9	6.2	5.9	6.1	6.9	5.4	4.2	3.8	3.9	4.2	3.9
EU	8.3	10.8	10.9	8.2	8.1	8.6	8.1	8.9	8.3	8.6	9.6	9.4	9.2	8.8
Japan	7.2	8.0	7.6	7.8	7.5	7.3	6.9	6.3	6.9	7.9	8.8	11.1	9.6	10.7
United States	11.7	11.7	12.7	10.8	10.0	11.0	11.5	11.7	11.8	12.2	12.6	13.3	12.4	13.1

Note: Average maturities are expressed in number of years and represent simple averages.
Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

3.3. Private placement markets and the Italian "Mini-bond" market

While no uniform definition exists, private placements are generally defined as debt sales to a selected group of investors, without the formality of a wider auction and without the obligation to issue a prospectus. Target investors are mainly institutional investors that are able to assess the

borrower's creditworthiness. The transaction usually takes the format of a bond or a loan and involves the participation of one or more financial intermediaries acting as arranger, but not as underwriter of the debt.

Compared to public debt offers, private placements are characterised by lower issuing costs, since they are less subject to transparency obligations. The negotiation with only a handful of investors also allows a greater flexibility when it comes to establishing the bond covenants and adjusting the terms of the bond to the company's needs. However, privately placed bonds are usually associated with low levels of liquidity.

Major private placement markets

Finding its roots in the Anglo-American market, private placement markets as a funding pool have also become increasingly relevant in continental Europe. The German Schuldschein market reached an issue volume of EUR 25 billion and the French Euro-PP market grew to EUR 4.5 billion in 2016. Volumes on the US private placement market are considerably higher at EUR 47 billion in 2016 (European Commission, 2017).

Table 12. Major private placement markets in 2016

		US-PP market	German Schuldschein market	Euro-PP market
Type		Bond	Loan	Bond or loan
Typical years to maturity		9-15	3-5	6-8
Deal size	Mean EUR M	242	214	66
	Median EUR M	181	122	36
No. Issuances		~200	~120	68
Issuance volume	EUR B	47	25	4.5
No. of issuer		183	109	57
Issuers' revenues	< EUR 150M	24%	14%	41%
	EUR 150M-1B	27%	41%	44%
	EUR 1-5B	36%	32%	6%
	> EUR 5B	13%	14%	9%
Issuer listing status	Listed	33%	37%	27%
	Unlisted	67%	63%	73%
Investor landscape		Mainly institutional investors	Commercial, state-owned and saving banks; institutional investors are less important	Institutional investors like insurance companies and pension funds

Source: European Commission (2017)

A comparison of the markets' main characteristics reveals significant differences in terms of types of instruments, maturity, target company size, and investor landscape. The US private placement market is the largest and most established one. Compared to European private placements, US deals typically have longer maturities and are also larger in size. Around 63% of the issuers generate revenues between EUR 150 million and EUR 5 billion. This is similar to the size distribution of the issuers in the German Schuldschein market, but considerably larger than in the French Euro-PP market, in which 41% of the issuers generate revenues below EUR 150 million. While insurance companies (80%) dominate the investor landscape in the French private

placement market, commercial, state-owned and saving banks are the most important investors (absorbing around 90% of all placements) in the German Schuldschein market.

German Schuldschein transactions take the format of a loan and, hence, are not listed on an exchange. Launched in 2012, the Euro-PP market allows private placements to take the form of bonds or loans, which can be either listed or unlisted. Overall, the comparison suggests that these markets mainly cater the demand of medium- to large-sized firms, enabling them to diversify their financing sources.

The Italian “Mini-bond” market

In Italy, the government has taken important steps to support alternative funding instruments, in particular targeting small and mid-sized firms. In 2012, legal changes were introduced facilitating the access to bond financing for unlisted Italian SMEs (Legislative Decree No. 83/2012). By removing size restrictions set forth by Italian law and reducing the tax cost of bond issuances, the decree aims at reducing obstacles hampering the development of an Italian debt market for unlisted SMEs. The legal changes led to the introduction of so-called “mini-bonds”, which can be issued by companies with more than 10 employees and an annual turnover and/or assets in excess of EUR 2 million. Micro-enterprises and banks are not allowed to issue mini-bonds.

The Italian Civil Code requires that the maximum total amount of corporate bond issuance of a company should not exceed twice the company’s equity capital (share capital and reserves). Since the 2012 changes, this limit does not apply to bonds that are traded on a regulated market or a multilateral trading facility (MTF). However, mini-bonds can only be held by professional investors (institutional investors or qualified individual investors). In response to this new regulatory framework, Borsa Italiana introduced the ExtraMOT PRO segment in 2013, dedicated to the listing of bonds whose trading is only permitted to professional investors.

There is no common agreed definition to identify mini-bonds. Epic, an investment company in Italy, for example, provides regular data on mini-bond market activity based on a list of bonds that are traded on the Borsa Italiana. However, there are also mini-bonds that are listed on other European markets or not listed at all. An observatory established under the Milan Politecnico School of Management also publishes, annually, a list of mini-bonds based on their own definition, which excludes bonds that are above Euro 500 million in size and listed on a regulated market.

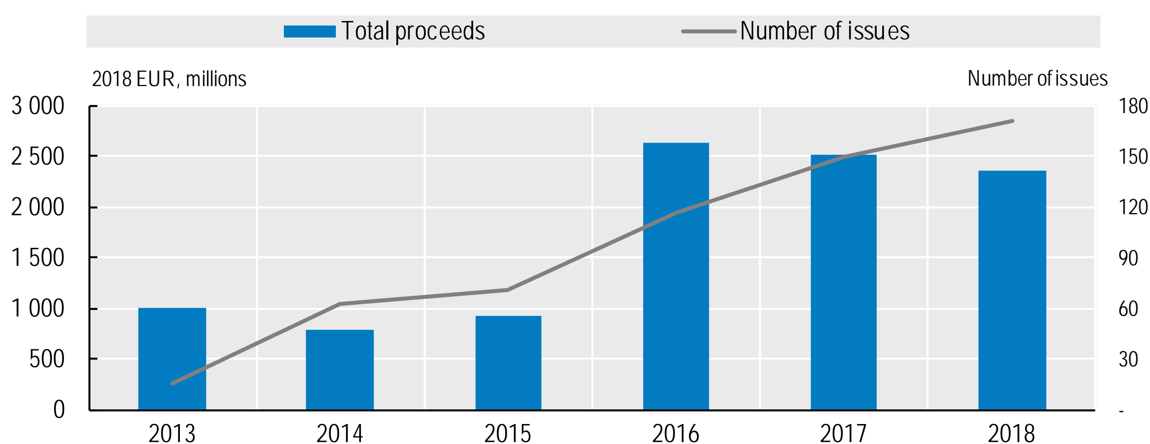
Considering the broad definitions applied to identify mini-bonds, there is also a discussion about whether the Italian mini-bond market can be classified as a private placement market. On the one hand, it carries some common features of the private placement markets, since the bonds are targeted to professional investors only and subject to limited transparency requirements. On the other hand, most of the bonds are admitted to trading on a MTF and some of them issue information sheets publicly. Anecdotal evidence also suggests that at least some mini-bonds involve a negotiation between the issuer and the investors on the terms of the issuance. These deviations from the common features of private placement markets are also often seen in other markets. For example, an important portion of the bonds issued in the French Private Placement market are also listed on regulated markets or MTFs that require a certain level of public disclosure.

To grasp the overall trend in the Italian mini-bond market and the main characteristics of issues and issuers, a dataset has been developed based on the information provided by the Observatory on Mini-Bonds, Politecnico di Milano - School of Management, covering the period between 2013 and 2018. Prior to any exclusion, the dataset covers 746 bonds that are traded on Borsa Italiana, on MTFs, or not traded at all. In order to focus on what can be considered as private placements and to avoid double counting, bonds that were underwritten by investment banks were excluded

(65 bonds). After also excluding bonds issued by the financial sector (91 bonds), and one bond without issuance amount, the final dataset covers 589 non-financial mini-bonds.

Since its inception in 2012, the mini-bond market in Italy has shown a steady growth. As seen in Figure 57, the annual number of issuances increased from 16 in 2013 to 171 in 2018. The cumulated proceeds in the same period were EUR 10.2 billion, of which 25% on average was raised over each year in 2016-2018 period. As a comparison, the total proceeds raised in the public corporate bond market by non-financial companies were EUR 125 billion during the same period. In the first year of the mini-bond market, the average size of an issue was EUR 63 million, which was almost the same as the average issue size in the French Euro-PP market, one third of US, and half of German private placement markets. In the following four years, the average issue size dropped significantly to EUR 16 million, coupled with the increase in the number of new bond issuances. In 2018, the average size of mini-bond issuances was EUR 14 (USD 16) million.

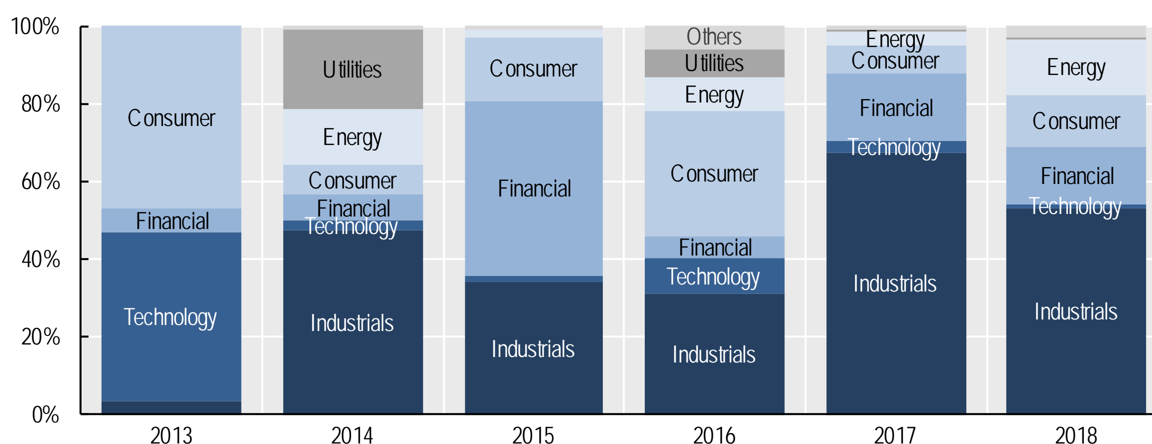
Figure 57. Mini-bonds issued by Italian non-financial companies



Source: Bloomberg, FactSet, Observatory on Mini-Bonds, Politecnico di Milano - School of Management, Thomson Reuters, OECD calculations.

The industry distribution of mini-bonds reveals a different picture compared to the underwritten bonds issued by Italian non-financial companies. Figure 58 shows that industrials dominated the market in terms of issuance volume and received 44% of all funds raised over the five year period 2013-2018. In the public bond market, the three largest sectors were the utilities, telecom and energy, of which only the energy and utilities sector was notably present in the mini-bond market. The share of the technology sector was also high in the mini-bond market in 2013, but has significantly declined in recent years. This has also been the case in the underwritten bond market, where the technology sector accounts for a very small share of the total issuance volume. Together with the small average issuance size, the dominance of the industrials sector indicates that the Italian mini-bond market has been increasingly used by mid-sized manufacturing companies.

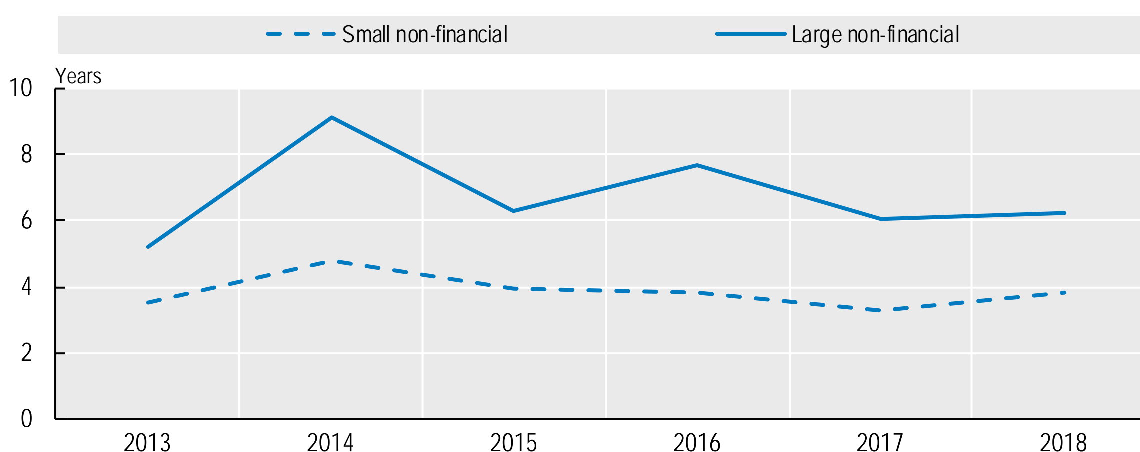
Figure 58. Industry distribution of mini-bonds, proceeds



Source: Bloomberg, FactSet, Observatory on Mini-Bonds, Politecnico di Milano - School of Management, Thomson Reuters, OECD calculations.

The difference in average maturity for large and small Italian mini-bond issuances by non-financial companies has increased over time (Figure 59). In 2013, the average maturity for large issuances was almost one and a half years longer than the average maturity for small issuances. In 2018, however, the difference widened to 2.5 years, with an average maturity for small issuances of just 3.8 years. This was also significantly below the average for all non-financial corporate bonds for the same year (10.3 years).

Figure 59. Average maturities for mini-bonds, large versus small issuance



Note: Large (small) issues are defined as issuances above (below) the median size.
Source: Bloomberg, FactSet, Observatory on Mini-Bonds, Politecnico di Milano - School of Management, Thomson Reuters, OECD calculations.

As an alternative way of providing debt financing to growth companies, mini-bonds have since the beginning of 2016 also been securitised through special purpose vehicle companies. These transactions help to create a pool of diversified portfolio of companies available for institutional investors such as the European Investment Bank and the Italian Cassa Depositi e Prestiti, which usually do not target SMEs due to the small size of businesses. Since the initiation of the mini-bond market, there have been four securitisations raising almost 400 million EUR: (i) Viveracqua

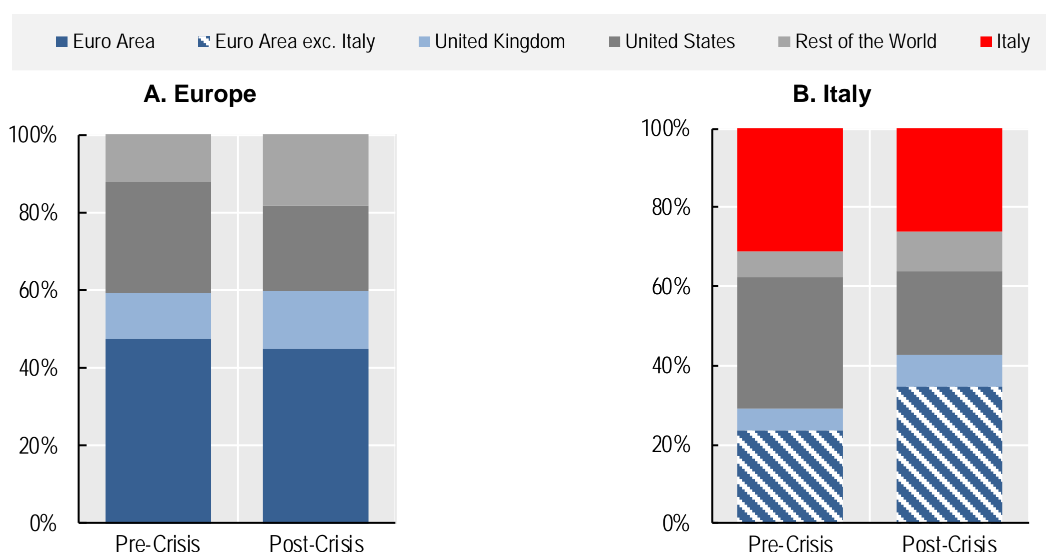
Hydrobond 1 in 2014 (securitisation of 8 mini-bonds issued by companies managing the integrated water service in Veneto, raised € 150 million); (ii) Viveracqua Hydrobond 2 in 2016 (a second tranche of the previous deal, involving 5 companies, raised € 77 million); (iii) Elite Basket Bond in 2017 (securitisation of 10 mini-bonds issued by companies joining the ELITE programme by Borsa Italiana, raised € 122 million) (iv) Export Basket Bond in 2019 (securitisation of 10 mini-bonds issued by companies joining the ELITE programme by Borsa Italiana, raised 50 million).

3.4. Intermediaries in the Italian corporate bond market

In the corporate bond market, companies typically pay an investment bank that will underwrite and manage the offering of the bond to the public or to a selected group of professional investors. Underwriters mainly assume responsibilities with respect to helping issuers in preparing the necessary documentation for the issuance, structuring it with respect to potential investor demands and pricing the issuance. The reputation of the underwriter is often seen as an implicit certification of the quality of the bond, which may be of particular importance for smaller companies that are less known to investors (OECD, 2015b).

Figure 60 shows the share of the top 100 investment banks in the corporate bond markets with respect to the total underwriting volume in Europe and Italy before and after 2008. The share of banks headquartered in the Euro Area was quite stable between the two periods. At the same time, banks from the United Kingdom increased their market share by 3 percentage points and banks from the United States decreased their market share by almost 7 percentage points. Unlike the developments in the Euro Area as a whole, Panel B of the figure shows that in Italy the share of domestic investment banks in corporate bond transactions declined by 5 percentage points. At the same time, the share of banks from the Euro Area excluding Italy increased by 11 percentage points, while the Italian market share of banks from the United States declined by the 13 percentage points.

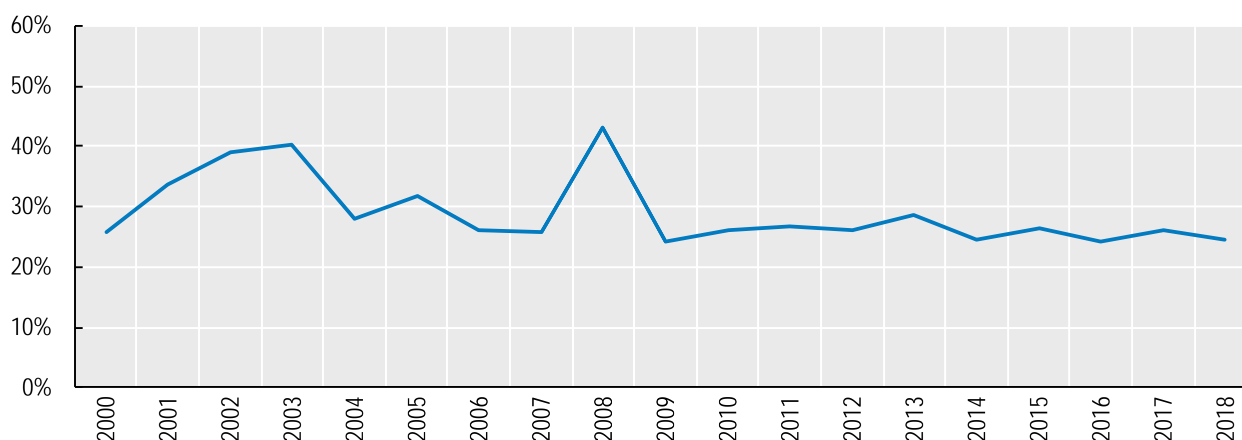
Figure 60. Market share in corporate bond underwriting of top 100 banks in the European and Italian market



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

Figure 61 presents the share of Italian banks in the domestic corporate bond market underwriting activity since 2000. While the use of corporate bond market by Italian companies has increased considerably since 2004, the corporate bond market share of Italian banks has remained quite stable at around 26%.

Figure 61. Share of Italian banks in the domestic corporate bond market underwriting activity



Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

CHAPTER IV. THE ITALIAN PRIVATE EQUITY MARKET

In recent decades, capital markets have seen an increased presence of traditional institutional investors, such as pension funds and insurance companies. But there is also a growing presence of various private pools of equity providers, such as private equity funds, venture capital funds, and private placement vehicles. Since these private pools of capital represent a variety of business models and investment strategies, there is no single definition that distinguishes them from the more traditional institutional investors. Moreover, labels like private equity funds, venture capital funds, and private placement vehicles are not themselves well defined, and distinctions between different private pools of capital with respect to their legal structure, business model, and investment strategies are often floating. Some private equity funds, for example, invest in unlisted companies, while others include listed companies in their portfolios. Some operate as unlisted limited liability companies, while others are publicly listed companies.

This variety of business models and the lack of clear definitions regarding different types of private pools of capital make it difficult to collect comparable and reliable data. Most datasets, including the ones that are used in this report, rely on how the firms choose to label themselves. As a consequence, venture capital funds are, in this report, classified as a subcategory of private equity funds.

This chapter starts with a broad overview of private equity activity in Italy in comparison to European country aggregates. It is followed by a presentation of more detailed data with respect to the three main stages that are typically associated with private equity fund investments, namely fundraising, investment and divestment. The issues addressed in the analysis include the sources of private equity funding, industry distribution of private equity investments and the most common private equity exit strategies.

4.1. Overview of the private equity activity in Italy

There are three main stages of private equity investments. The first stage is referred to as *fundraising* where a private equity firm raises funds from institutional investors, banks, wealthy individuals, and others. Funds will be closed to new investors after having raised the target amount of capital. Funds raised are recorded normally in the country of the private equity firm. The second stage is *investment* where a private equity firm uses the raised funds to invest in a company. These transactions are recorded according to the location of the investee company. As described above, private equity funds have a definite investment horizon, which means that they need to exit all their investments in a given time, usually less than 10 years, and liquidate the fund. There are different exit strategies, including buyback by managers or owners, sale in public offerings, repayment of preference shares/loans, sale to another private equity firm or financial institutions, and write-off. The exit operation constitutes the third stage and called as *divestment,* which is recorded at investment cost.

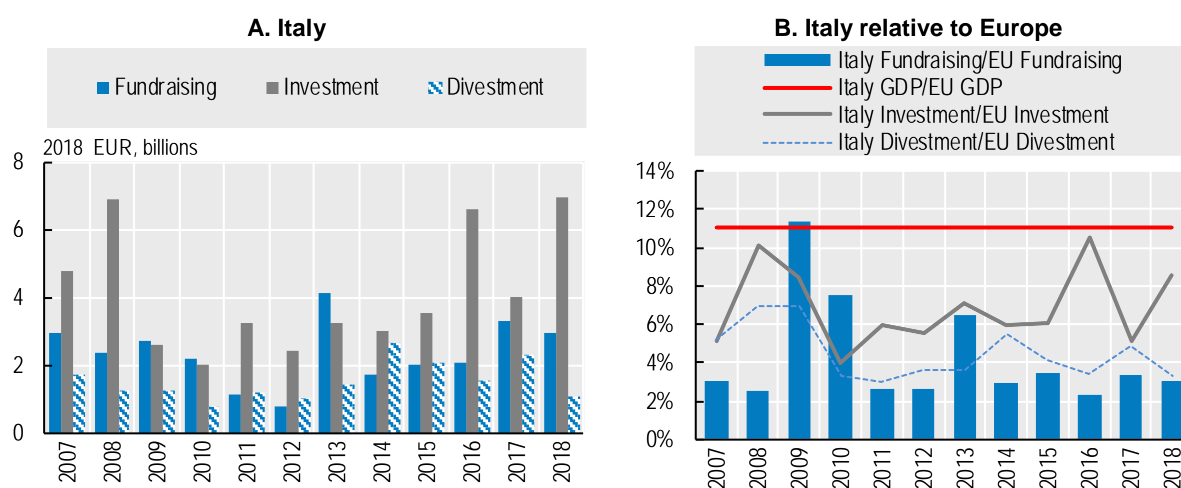
In Italy, the use of private equity funds as a source of corporate finance is still relatively undeveloped. Figure 62 shows the amount of private equity capital raised, the total amount of private equity investments and total divestment in Italy since 2007. These numbers are compared with EU aggregate numbers. Panel A shows the gap between the amount of private equity capital that is raised in Italy and the total amount of investments undertaken by Italian private equity funds.

During the last five years, domestic capital from domestic sources was on average EUR 2.4 (USD 2.8) billion, while total investments by Italian private equity firms were almost two times at EUR 4.8 (USD 5.7) billion. Considering that almost all funds raised by Italian private equity firms during the last five years were invested in domestic companies, the fundraising gap may become an even greater constraint on investment in Italian firms in the future.

To provide a comparative picture, Panel B shows private equity activity in Italy relative to Europe. While Italy represents about 11.1% of total EU GDP, capital raised by Italian private equity funds represents a modest 3.0% of the total amount of private equity funds raised in Europe during the last five years. Private equity investments in Italian companies, however, amounted to 7.2% of the total private equity investments in Europe.

The relatively low share of Italian private equity activity in Europe and the gap between private equity capital raised in Italy on the one hand, and the total amount of private equity investments in Italy on the other hand, point towards a potential to further develop the Italian private equity market. As discussed in the following sections, private equity investments in some other large economies in Europe have been either less reliant on foreign funds or received significantly higher investment from abroad.

Figure 62. Private equity activity in Italy



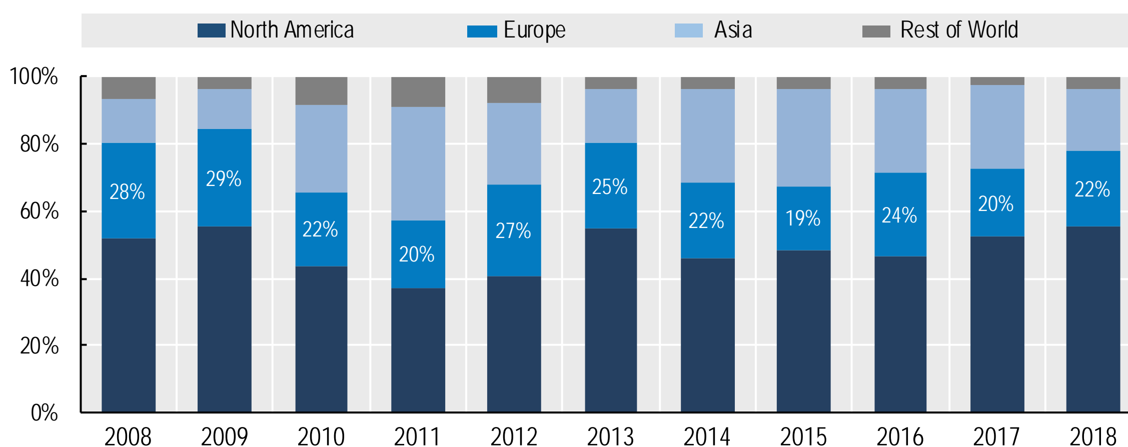
Source: Invest Europe / EDC.

4.2. Private equity investors and fundraising trends

The amount of assets under management by private equity funds does not necessarily represent the amount of capital that they have invested in companies. During the fundraising period, private equity firms obtain capital commitments from their investors. The actual money, however, is typically received only when an investment is being made. Indeed, out of EUR 2.9 (USD 3.4) trillion in assets held by private equity funds in 2018, more than one third was in the form of uninvested capital, committed by investors but not invested yet by the fund (Preqin, 2019a). During the 2004-2008 period, preceding the crisis, private equity raised globally on average EUR 275 billion. In 2009, the amount raised almost halved and further dropped in 2010 to EUR 150 billion. However, since the financial crisis, private equity fundraising has been on a rising trend both in terms of capital raised and the number of private equity funds. Between 2010 and 2018, the average annual amount raised increased to EUR 314 billion and to 1 409 funds a year. In 2018, private equity funds

attracted EUR 366 billion, a 28% drop compared to the record level of EUR 511 billion raised in 2017. As seen in Figure 63, North America is still the most developed region for private equity fundraising activities. North America-focused private equity funds account for almost half of the capital raised throughout the last decade. Asia has grown its share from 13% of the funds raised in 2008 to 19% in 2018. Europe, on the contrast, has experienced a decline in the share of funds raised, from a peak of 29% in 2009 to 22% in 2018. In other words, Europe has not benefit from the large growth experienced in funds raised worldwide. In aggregate, Europe raised less funds in 2018 compared to 2008.

Figure 63. Regional private equity fundraising



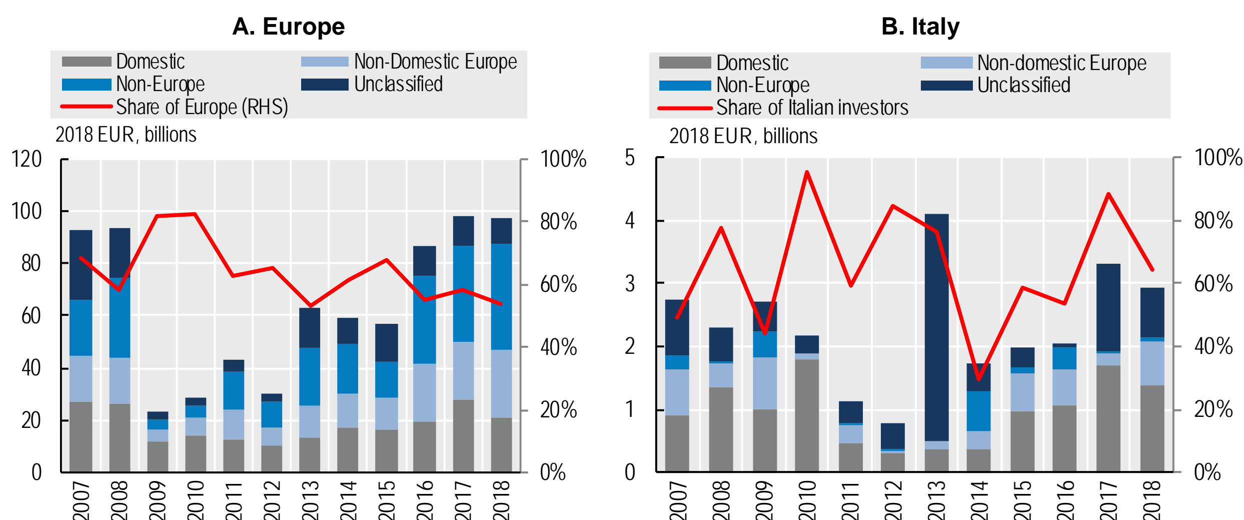
Source: Preqin (2019)

In Europe, assets held by European private equity funds grew quite dramatically up to the global financial crisis, as a result of strong fundraising activity. As seen from Figure 64, fundraising by private equity firms has successively increased since the dramatic drop in 2009, but remain below the peak levels in 2007 and 2008. In 2017, funds raised in Europe exceeded EUR 90 billion for the first time since 2009. In line with global PE fundraising trends, funds raised in Europe during 2018 also experienced a – less pronounced – decline.

The funds raised by European and Italian private equity firms can also be split by the origin of the investors that provide the capital. As seen in Figure 64, "Domestic" refers to capital committed by local investors and "Non-domestic Europe" refers to capital committed by investors from other European countries. There is also a category called "Unclassified", where the origin of the capital providers is not known because their nationality was not disclosed by the private equity firm. Excluding the unclassified category, Panel A shows that between 60% and 70% of all funds committed in 2007 and 2008 came from European capital providers. This increased to almost 90% in the two following years, but has, since then, fallen back to slightly under the pre-crisis levels.

At the aggregate level, around 60% of the total funds raised in Europe came from regional sources in both the pre- and post-global financial crisis periods. Italy has also exhibited, on average, a similar level of capital provided by regional investors, despite the fact that the regional origin of the funds raised fluctuates from year to year. In Italy, the share of funds raised from domestic investors reached 95% in 2010 and was as low as 30% in 2014. In the last two years, funds raised grew to EUR 3.3 billion in 2017 and slightly dropped to EUR 2.9 billion in 2018, of which almost 80% came from Italian investors.

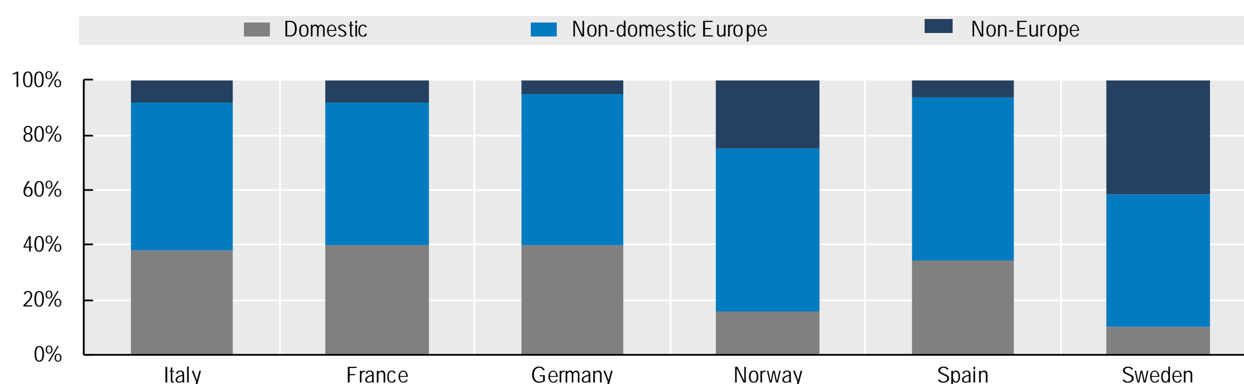
Figure 64. Private equity fundraising in Italy and Europe



Source: Invest Europe / EDC.

Figure 65 shows the fundraising activity in Italy and selected European countries during the last five years based on the nationality of the investors that commit the capital. One caveat to the figure is that the unclassified category, which was significant in Italy during this period, has been excluded. While private equity firms in Italy, France, Germany, and Spain all receive around 60% of the funds from non-domestic investors, there are some significant differences with respect to non-European investors. In Spain and Germany, less than 5% of the committed capital came from non-European investors, while they provided around 10% of the committed capital in Italy. In Norway and Sweden, two relatively smaller markets, the share of non-domestic investors both from Europe and other regions was the highest. In particular, Sweden attracts almost half of the funds raised from non-European countries.

Figure 65. Private equity fundraising in Italy and selected European countries by origin of the investors (2014-2018)

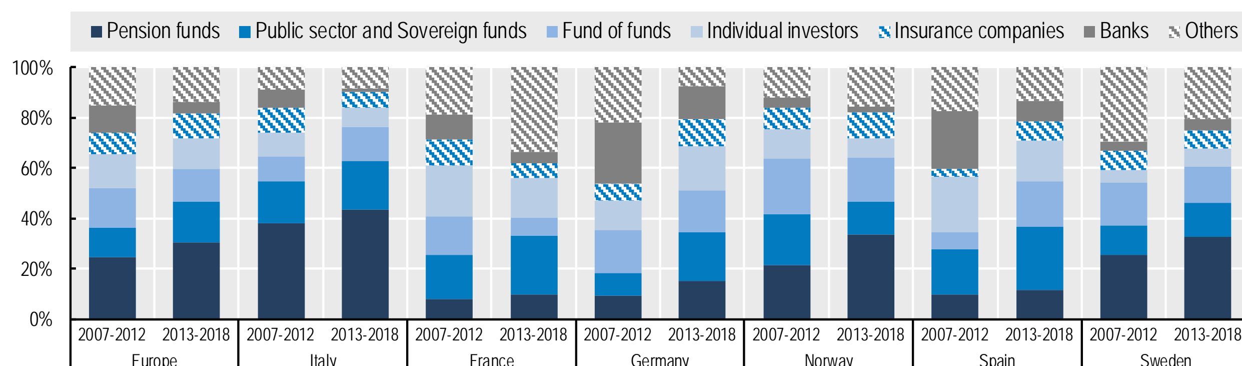


Source: Invest Europe / EDC.

Figure 66 presents the capital contributions from different categories of investors in private equity firms in Italy, in selected European countries, and at the European aggregate level since 2007 during two periods. The figure shows that pension funds accounted for the largest share of committed capital in Europe during both periods and increased from 24.6% during 2007-2012 to 30.3% during 2013-2018. During the 2013-2018 period, they were followed by funds of funds and

individual investors. In Italy, more than 40% of the total funds raised by Italian private equity firms were attributed to pension funds, the highest share among European countries. Funds of funds together with the public sector and sovereign were also important investors in Italy accounting for 11.7% and 17.5%, respectively. In France, Germany, and Spain the participation of pension funds in the private equity markets has been low compared to the European averages, as only around 10% of the funds were provided by pension funds. Interestingly, the share of individual investors was around 20% in France and Germany.

Figure 66. Private equity fundraising by type of capital providers in Italy and selected European countries



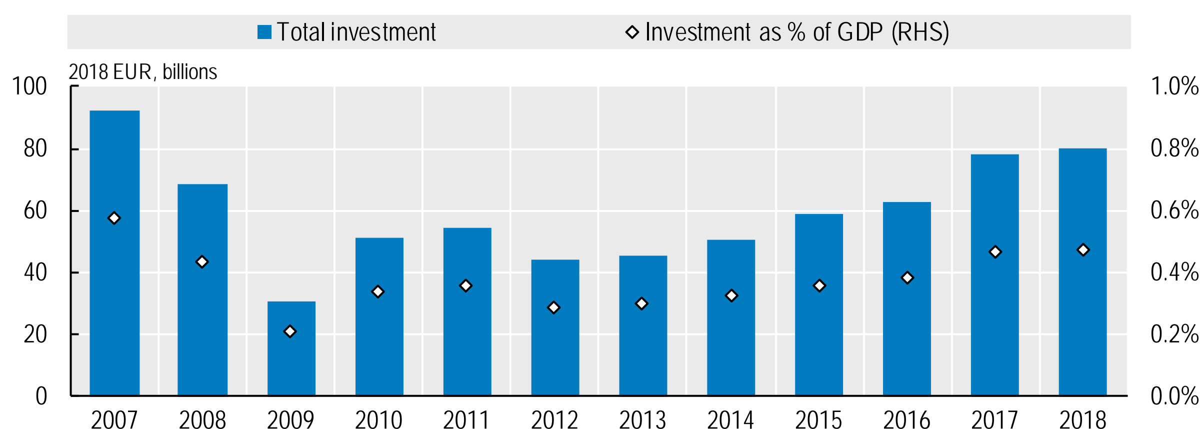
Source: Invest Europe / EDC.

4.3. Investments by private equity funds

Globally, assets under management by private equity funds are estimated to be almost EUR 2.9 (USD 3.4) trillion as of June 2018. As explained above, more than one third of this amount was in the form of uninvested capital – uncalled commitments by the investors in the funds (Preqin 2019a). This means that the remaining EUR 1.9 (USD 2.3) trillion can be considered as the total investments by private equity funds globally. However, this sum also includes investments in other asset classes, such as funds of funds. Taking this into account, a rough estimate indicates that their investments in companies amounted to around EUR 1.4 (USD 1.6) trillion. To put this number into perspective, it is less than 2% of the total market capitalisation of the global stock markets today and around 5% of the total assets under management by pension funds.

Figure 67 shows the total amount of private equity investments in Europe in absolute terms and as a percentage of GDP. Despite six consecutive years of increase since 2012, the amount is still well below the pre-crisis levels. After a sharp drop to EUR 30 billion in 2009, the total annual investments fluctuated around EUR 50 billion between 2010 and 2016. As a percentage of GDP, total private equity investments in Europe were 0.44% in 2017, which was close to half of the value in United States value (Preqin, 2019a).

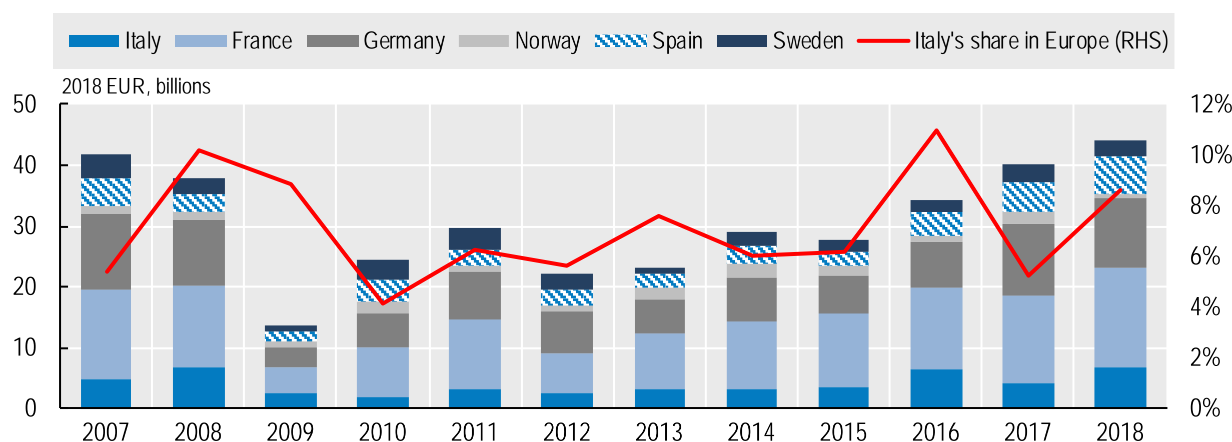
Figure 67. Private equity investments in Europe



Source: Invest Europe / EDC.

Figure 68 compares the private equity investment trends in Italy and selected European countries. In Italy, the total private equity investments reached EUR 6.9 billion in 2008, before dropping to EUR 2.6 billion in 2009, where it on average remained until 2015. Driven by a few large transactions, the total investment volume almost doubled to EUR 6.6 billion in 2016 before returning to around EUR 4.0 billion in 2017. Then it increased again to EUR 6.9 billion in 2018. The number of companies that received those investments is not shown in the figure, but remained relatively stable between 2007 and 2018, ranging between 211 and 291 companies during the period. Figure 68 also shows private equity investments in Italian companies compared to total private equity investments in Europe. Apart from 2008, 2009, 2016 and 2018, Italian investments ranged between 4% and 7% of all European investments. The peak year was 2016, 11.0%, which is close to the Italian economy's share in Europe's GDP. But over the last decade, private equity investments in Italy have only been half of Italy's share of European GDP.

Figure 68. Private equity investments in Italy and selected European countries, 2007-2018

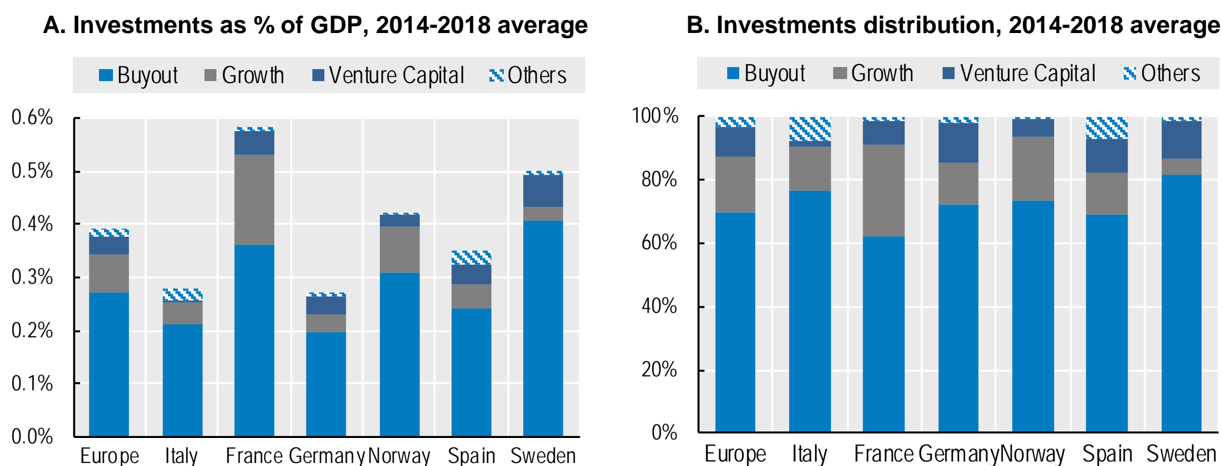


Source: Invest Europe / EDC.

Taken together with Figure 68 above, Figure 69 provides a comparable picture of private equity investments in Europe. During the last 5 years, Italy had the lowest private equity investments to GDP ratio. For example France, whose GDP is 29% higher than the GDP of Italy, has, on average, seen three times higher investment in domestic companies by private equity firms compared to Italy (Figure 68). As a result, its investment to GDP ratio has always been significantly higher than Italy (Figure 69, Panel A). Germany has also seen strong absolute volumes in terms of private equity investments, but since its economy is larger, total investments as a percentage of GDP were relatively modest compared to France.

Panel B of Figure 69 shows the relative importance of different types of private equity investments. Buyouts – the dominant type globally – represent more than two-thirds of the total investments in all countries and at the aggregate European level. By using extensive leverage, funds specialized in buyouts acquire large or controlling shares of companies in order to restructure them and improve their performance. Growth investments, where funds typically acquire small non-controlling stakes in companies that need capital to expand their business, ranked second after the buyout deals. The third type of investment shown in the figure is the venture capital, which provides financing to companies that are in early stages of development, including start-ups. While investment by venture capital funds has usually been a large element of the private equity industry in Sweden, France, and Norway, it has been almost absent in Italy.

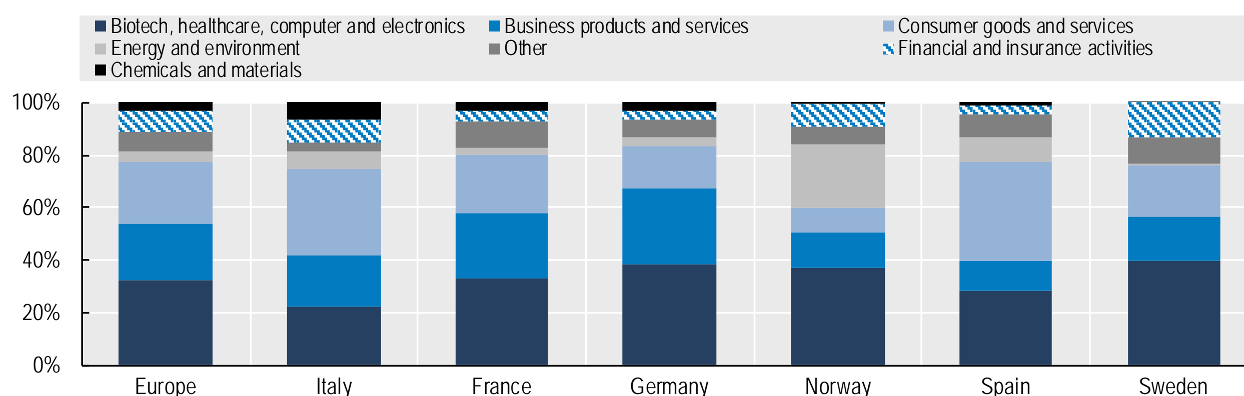
Figure 69. Private equity investments in Italy and selected European countries



Source: Invest Europe / EDC.

With respect to the industry distribution, two industries – namely consumer goods and services; and business products and services – account for more than 45% of the total private equity investments in Europe (Figure 70). This is also the case in all individual countries with the exception of Norway, where the energy sector accounts for one-fourth of the total investment. Technology companies, including communications, computers and biotechnology, accounted for 31.6% of all private equity investments in Europe without large differences among countries. The exceptions were Germany, with 37.8%, Italy where technology companies received only 20% of all private equity investments. One other observation from the figure is that Italy and Sweden were the two countries with the highest share of investments going to the financial sector, with around 11% of total investment.

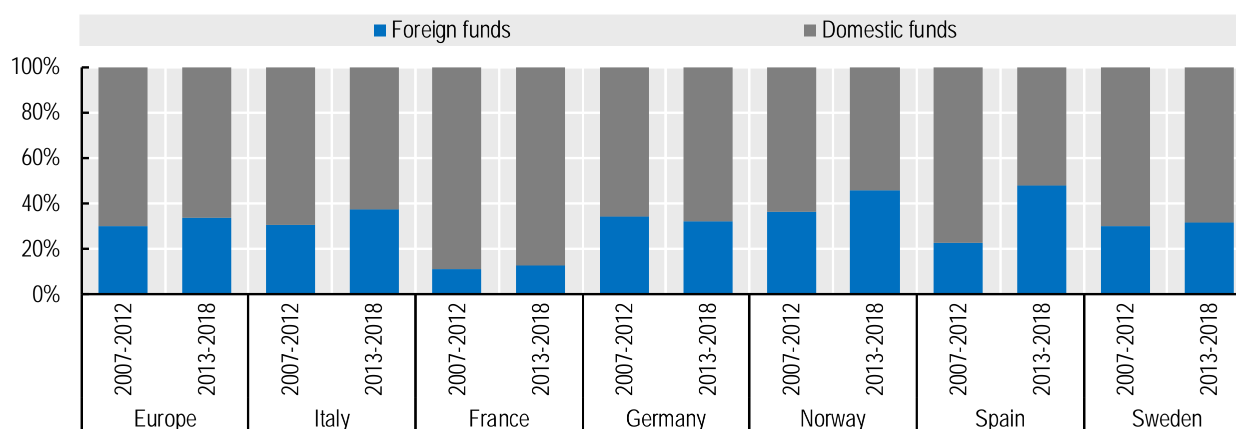
Figure 70. Private equity investments by industry, 2014-2018



Note: Others category includes Agriculture, Construction, Real estate, Transportation and others.
Source: Invest Europe / EDC.

Overall, European companies received most of their private equity financing from domestic private equity firms (Figure 71). In fact, on average 70% of private equity investments in Europe and across individual countries have been provided by domestic funds. In France – the second largest European market in terms of the number of private equity firms – local funds have provided 90% of the total investment. Spain has also seen a surge of investment from the foreign funds in recent years, accounting for almost half of total investment during the second period.

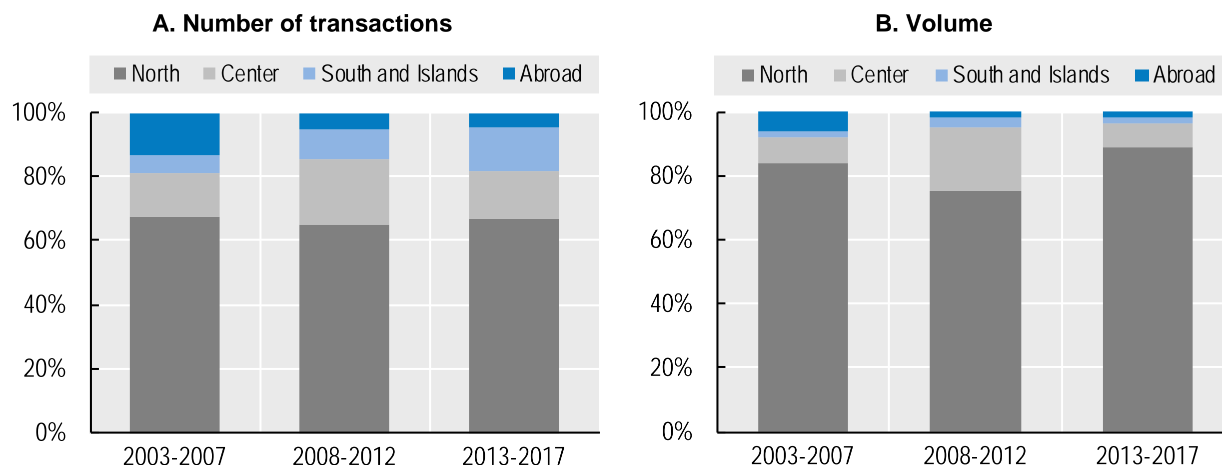
Figure 71. Private equity investment by domestic and foreign funds, 2007-2018



Source: Invest Europe / EDC

In Italy, local private equity firms invest mostly in Italian companies and their investments are geographically highly concentrated. As shown in Figure 72, around 98% of annual investment flows has gone into domestic companies and the share of investment abroad dropped after the crisis. This observed home bias in Italy is high compared to other European countries. In addition, private equity investment has been highly concentrated in the northern region of the country, both in terms of number of transactions and volumes. This is very similar to the mini-bond market, for example, addressed in Chapter III. At the same time, the southern part of the country along with the islands has received only 2% to 3% of the total private equity funding.

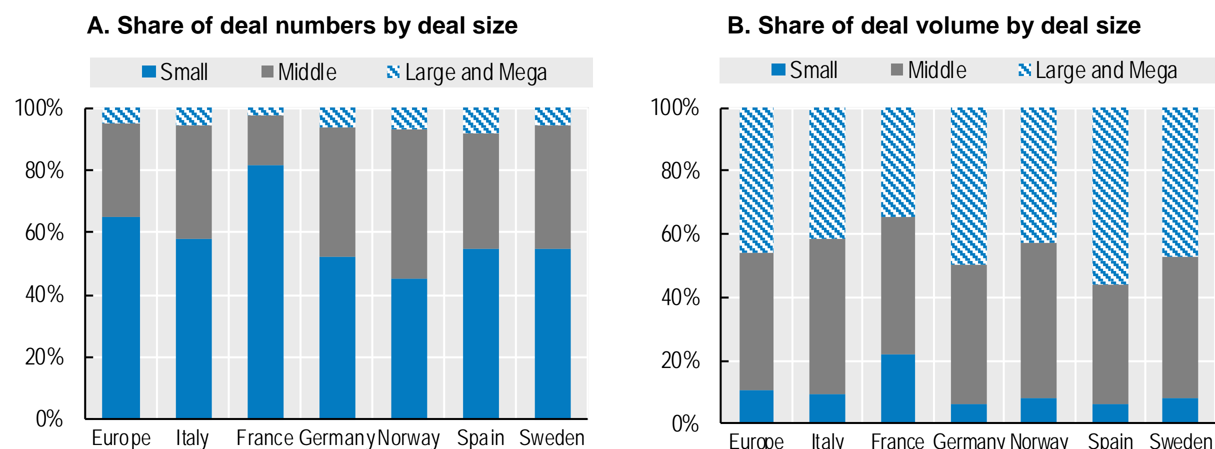
Figure 72. Geographical distribution of private equity investments



Source: AIFI.

As discussed above, "buyout funds" is by far the largest category of private equity funds both in Europe and Italy. Figure 73 shows the size distribution of deals (investments) undertaken by these buyout funds. The deals are classified according to three categories: "*large and mega deals*" that are above EUR 150 million, "*mid-sized deals*" that are between EUR 15 and 150 million; and "*small-sized deals*" which are under EUR 15 million. In Europe as a whole, large deals account for less than 5% of the number of investments, but more than 40% of the total investment value. Mid-sized deals represent around 30% of the number of deals and 45% of the total value. While small-sized deals unsurprisingly represent the lions' share in terms of the number of deals (66%), the money invested is just 10% of the total value of European buyout deals. France stands out both in terms of number and volume of small deals. More than 80% of the buyout deals were concentrated in small transactions and their share in total volume was twice the Europe average.

Figure 73. Deal size distribution for buyout funds



Source: Invest Europe / EDC.

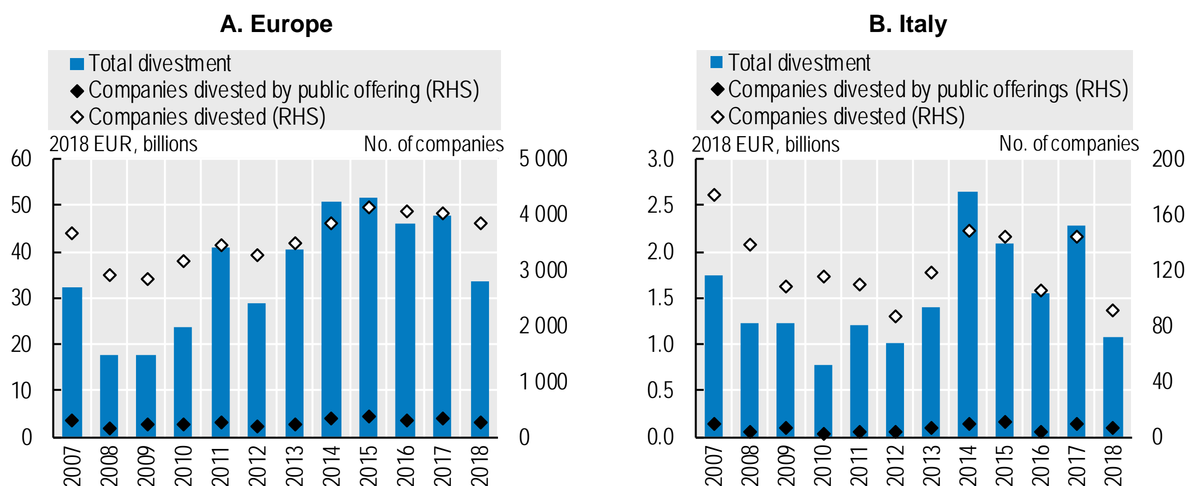
4.4. Divestments and exit strategies

Private equity funds do not have a short-term investment horizon, but a limited one. Their business model typically includes divesting their portfolio companies in five to six years after their initial investment and liquidating the whole fund in ten years after fundraising is closed. Divestment activity is usually timed to take advantage of any positive stock market trends, as the return on investment depends on the exit values of investee companies. And as shown in Figure 74, divestment activity in Italy decreased significantly during the years following the 2008 financial crisis and the total amounts fluctuate around EUR 1 billion for the period 2008-2013. In the year 2014, the divestment activity has reached a peak in Italy as a total of EUR 2.7 billion assets has been divested, followed a decrease in the last few years.

In Europe, after reaching a peak of EUR 52 billion in 2015, the total divestment has averaged EUR 43 billion during the last three years. One reason behind the slowdown in recent years has been the increase in the average period funds hold on to an investment. Before the 2008 financial crisis, globally, the median holding period for investee companies was less than four years, but in recent years it has increased to over 5 years (Preqin 2018). Italy recorded the lowest level of divestment in 2010 and afterwards it followed a divestment activity that is fairly similar to the aggregate European development.

One form of exit strategy that is often associated with private equity firms is a listing of the investee company on a stock exchange. As illustrated in Figure 74, however, exit through a public offering has, in recent years, represented less than 10% of all European divestments. The portion of Italian exits using the public stock market has been equally low.

Figure 74. Total divestment volume and private equity backed IPOs in Europe and Italy

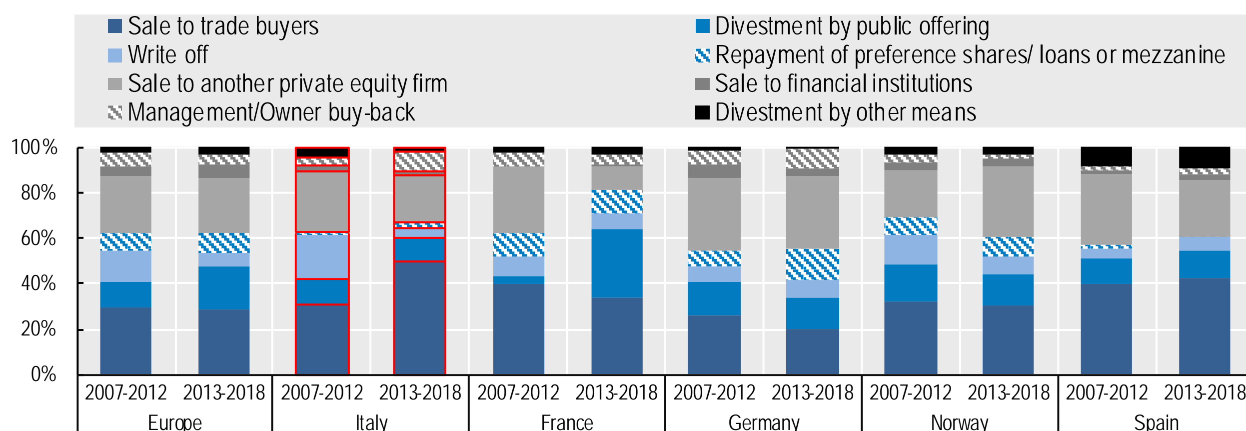


Source: Invest Europe / EDC.

Instead, the most common divestment strategy in Europe has been sales to another private equity firm or to trade buyers. Figure 75 shows that sales to trade buyers, which refers to sales of all shares held in a company to a trade buyer that is often a company operating in the same industry as the portfolio company, accounted for 29% of the total value divested since 2007. Sales to another private equity firm represented 25% of the total amount divestments. Possibly due to the improving economic situation, write-offs have substantially declined in most European markets including Italy. With the exception of Germany and Norway, the value of divestment through public offerings improved during the second period, which was also coupled with an increasing number

of companies listed on the stock markets as private equity exits. In Italy, public offering exits went from representing 9% of the divestment value during the first period to 21% of the value during the second period. The increase in SPACs transactions may partly explain the increase in the value being disinvested via public offerings as private equity portfolio companies represent an attractive target for a business combination with a SPAC.

Figure 75. Distribution of divestment volumes by exit forms



Source: Invest Europe / EDC.

CHAPTER V. THE ITALIAN PRIVATE DEBT MARKET

In the wake of the 2008 financial crisis, direct lending by private debt funds has increased in importance as a source of corporate finance. With interest rates at historic lows and banks constrained by the tightened regulatory capital requirements, private debt funds have become attractive both for investors that are searching for yield and companies that seek alternatives to bank lending. Compared to corporate bonds, private debt is typically not traded in any organised market and is consequently considered an illiquid asset class. Compared to traditional bank lending, it has a relatively longer maturity.

The availability of data on private markets is limited. Most transactions involve a small number of participants, who usually do not publicly disclose information on their investment activities and portfolios. Moreover, an important portion of private debt investment is provided by funds whose main activity is private equity. In some markets, private debt transactions also involve corporate bonds, which makes it difficult to distinguish the pure private borrowing part from bonds that are issued either to the market or as private placements. With these caveats in mind, a conservative estimate of developments with respect to direct private lending can still be obtained by tracking loans that are provided by private capital funds.

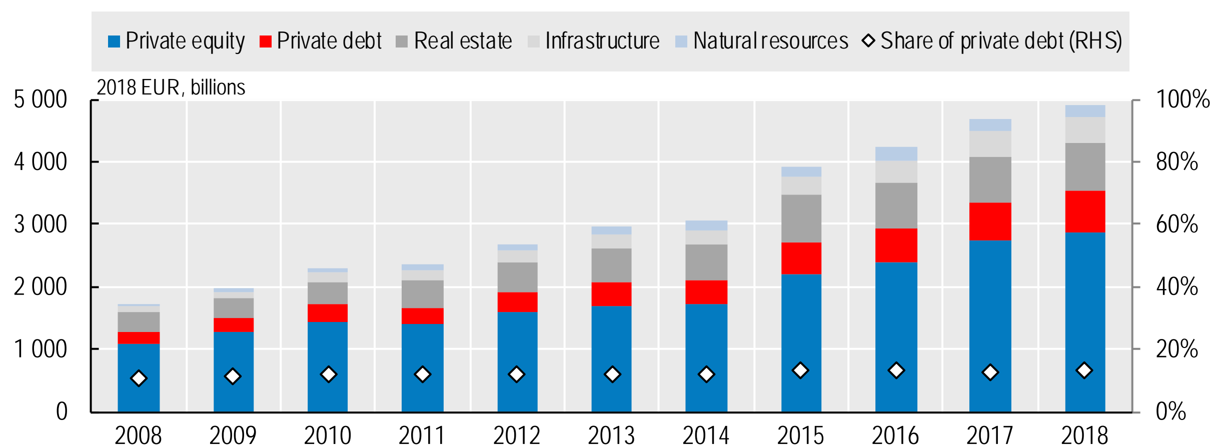
The first section of this chapter focuses on the evolution of the private debt fund industry during the last decade. The second section discusses developments in the Italian private debt market.

5.1. Global trends in private debt markets and direct lending

One way to analyse trends in private debt markets is to look at the asset allocation of private capital funds, irrespective of whether or not the fund is classified as a private debt fund. Figure 76 shows that assets under management by private capital funds have increased from EUR 1.7 trillion in 2008 to EUR 4.9 trillion as of mid-2018. Out of these EUR 4.9 trillion, 13% (EUR 650 billion) was in the form of private debt. At the overall private capital market level, private debt allocation is still considerably smaller than that of private equity. However, during the last ten years private debt placements have increased faster than both private equity and real estate. This means that its relative share as an asset class has also slightly increased compared to private equity and real estate.

Within the private debt category, there is a broad array of different types of investments. This includes direct lending, distressed debt, and mezzanine financing, which are the most common forms globally. *Direct lending* is a form of non-bank corporate lending, often targeting small and mid-sized companies that have difficulties in obtaining traditional bank financing. Nonetheless, it is not restricted to SME lending and covers a broad range of activities, with different loan sizes and levels of seniority in the capital structure. *Distressed debt* investments focus on purchasing existing discounted positions of companies either in or close to bankruptcy. It carries a high-risk and high-return investment profile. *Mezzanine financing* is a hybrid of equity and debt funding, which is structured as debt – typically not secured by assets – or as preferred stock and is only senior to equity capital. Returns are in the form of interest (periodic cash payments or not in cash but added to the principle balance). Returns can also be in the form of equity granted by the conversion of warrants or features in the case of default. Mezzanine financing is mainly used in relation to a private equity injection, providing financing for a leverage buyout transaction.

Figure 76. Assets under management by private capital funds by asset class

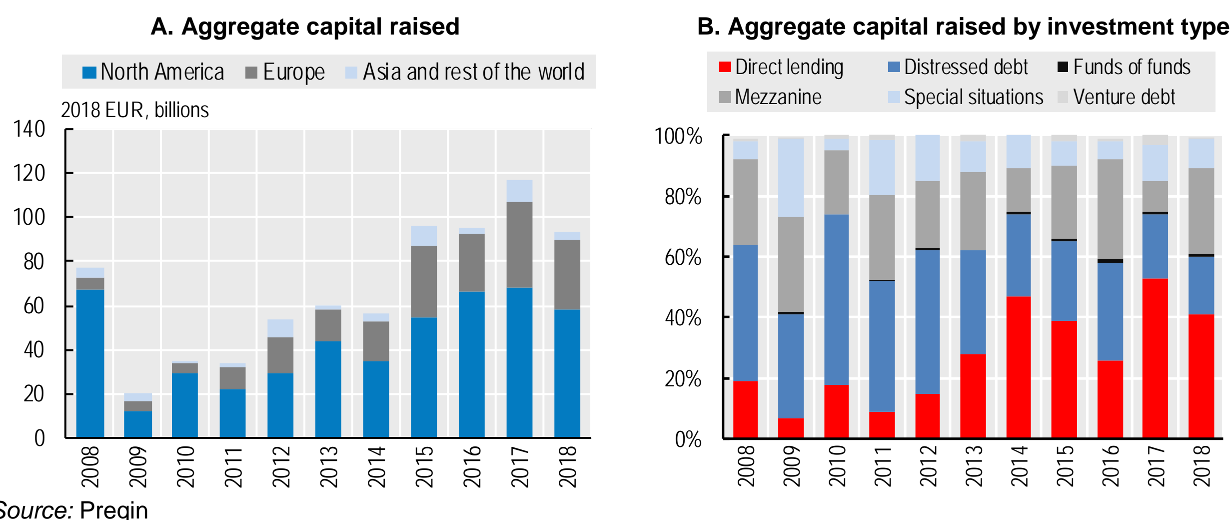


Source: Preqin

In terms of fundraising, private capital funds raised a record EUR 116 billion in 2017 for private debt allocations, followed by a slight drop to EUR 93 billion in 2018 (Figure 77, Panel A). Nearly two-thirds of this amount was raised by North American funds, 33% by European and about 4% by funds from Asia and the rest of the world. Since 2008, there have been no substantial changes with respect to the relative importance of different regions. However, there has been a shift among different forms of investments across regions (Figure 77, Panel B). While, for a long time, private debt markets were mainly dominated by mezzanine and distressed debt financing, recently the trend has been towards direct lending. For the last five years, fundraising for direct lending accounted, on average, for 41% of the total funds raised. Especially in 2017, direct lending funds raised EUR 62 billion and represented 53% of the total funding raised. Overall, direct lending has been the largest investment form in terms of amount raised and also the fastest growing one over the last few years.

Despite the growth in private debt fundraising in recent years, the capital providers mainly considered it as part of their private equity allocations. For example, according to a study by Preqin (2018), 57% of capital providers made their investments in private debt funds indirectly through their allocations to private equity funds. In fact, only 14% of capital providers have a direct allocation to private debt funds.

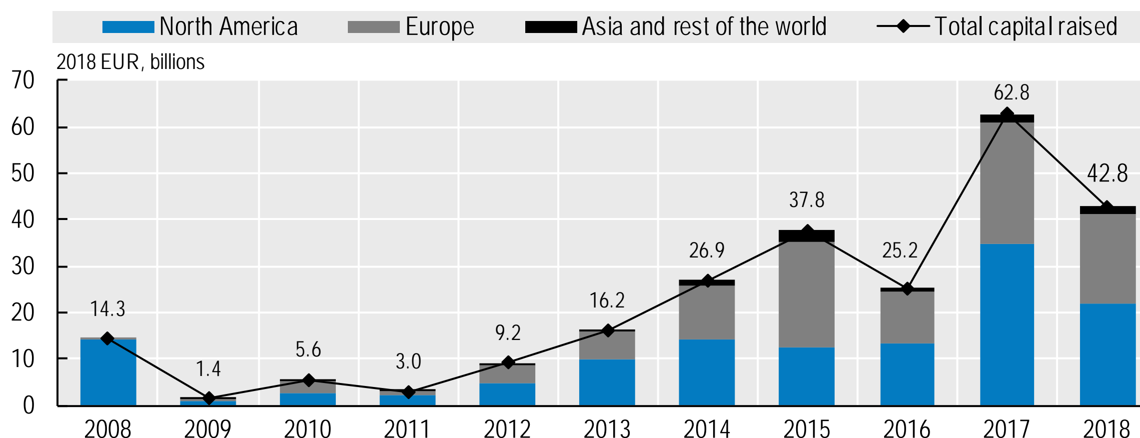
Figure 77. Private debt fundraising trends, aggregate and by type of lending



Source: Preqin

Although the relative importance of different regions with respect to total private debt fundraising has not changed significantly, the picture is somewhat different when considering only direct lending. As seen in Figure 78, total funds raised for direct lending to European companies surpassed the funds targeting direct lending in North American in 2015 and have remained relatively high. In 2018, fundraising dedicated to European markets was EUR 19 billion, accounting for 44% of total funds raised.

Figure 78. Annual aggregate capital raised by direct lending funds



Source: Preqin

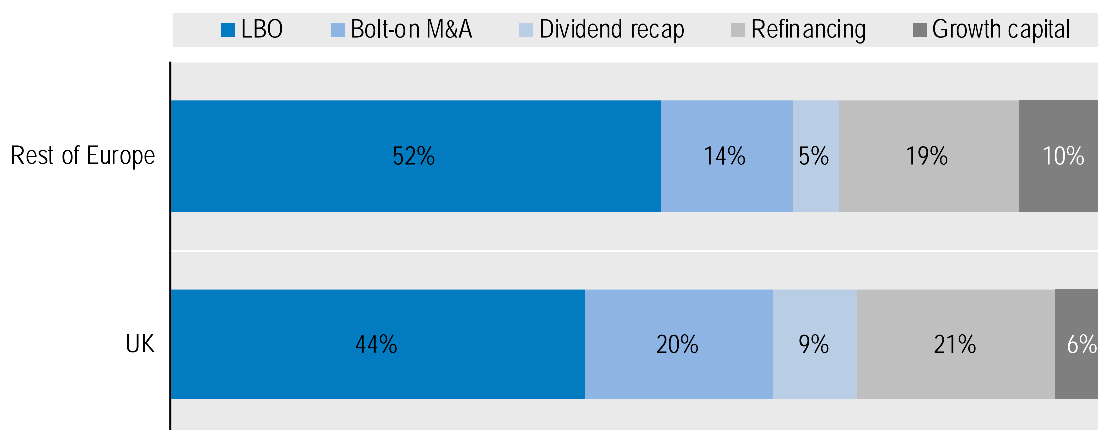
This is in stark contrast to ten years ago, when the European direct-lending market was almost non-existent. Since then, changes in market conditions and the regulatory framework for banks have created opportunities for funds and institutional investors to expand their activities in the private corporate loan market. As a result, direct-lending by private capital funds has emerged as a rapidly growing asset class and stepped into a territory traditionally dominated by banks. Despite similarities, anecdotal evidence suggests that lending by private debt funds differs significantly from that by banks. In cases where banks are hesitant to provide the funding, private debt funds step in to fill the gap. For example, when bank credit (for the purpose of buying back shares held by a private-equity firm) was denied to an Italian ferry company, it turned to a direct-lending fund.

Also, a British sandwich company raised capital from a private debt fund, knowing that banks would deny the loan request given its existing leverage structure (Economist, 2015, 2018).

In general, lending by private debt funds covers a broad spectrum of activities, ranging from loans to small and mid-sized companies firms to loans in large denominations, with debt provided at different levels of seniority in the capital structure. This is partly linked to the fact that private debt funds are not subject to regulatory capital requirements and, thus, can serve companies with higher leverage. They may also offer greater flexibility, for example, in terms of covenants, mandatory prepayments and a higher speed of execution. A shorter credit decision process is a key advantage for (growth) companies wishing to expand their operations quickly or staying competitive in an M&A process. In addition, the shortening of financial intermediation from lender to the company may reduce the transaction costs. These advantages, however, often come with higher interest rates.

Private equity transactions do not only make use of mezzanine financing. Also, the growth of direct private lending has been closely linked to private equity transactions. Figure 79 presents the purposes of the direct lending transactions in the United Kingdom and the rest of Europe. It reveals that the majority of loans are related to leveraged buyout transactions and bolt-on mergers and acquisitions (acquisitions by private equity investee companies), followed by dividend recapitalisations, refinancing and growth capital. As a result, almost two-thirds of all private lending in the United Kingdom and Europe were linked to a private equity transaction in 2017.

Figure 79. Direct lending transactions purposes in the UK and the rest of Europe (2017)



Note: The distribution refers to transactions completed over the last 12 months.
Source: Deloitte Alternative Lender Deal Tracker Spring 2018.

5.2. Private debt in Italy

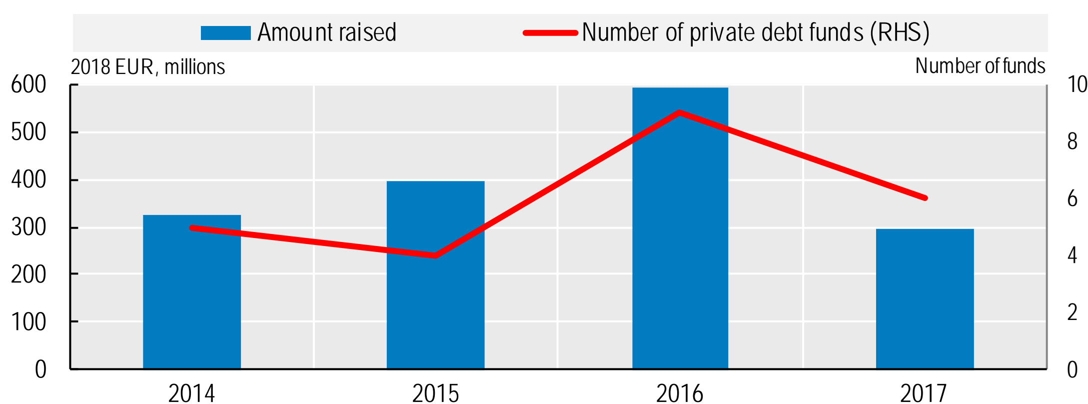
In Italy, corporate lending by banks has been deeply affected by the global financial crisis and the subsequent sovereign debt crisis. Bank loans to the non-financial corporate sector dropped by 10 percentage points from 55% of GDP to 39% between 2011 and 2018 (see Chapter I). Several measures have been introduced to help reduce the effects of this credit tightening, including the introduction of the mini-bond market addressed in Chapter III and the development of private debt market.

With respect to the private debt market, one important step has been the 2014 changes in the Italian securitisation law that allowed alternative lending activities (Law Decree No.91/2014). However, the new regulation was not fully clear on the conditions for foreign investors to lend to

Italian companies. This was clarified in the 2016, in the Law Decree No.18/2016, which regulates the conditions under which both Italian and European alternative investment funds (AIFs) are allowed to lend directly to Italian companies. Besides lending to companies directly, funds are also allowed to acquire existing loans, including non-performing ones (BeBeez, 2016). In December 2016, the Bank of Italy issued implementing rules specifying conditions under which authorised EU AIFs may directly lend to Italian companies. While facilitating direct lending by AIFs, the provision of private debt is subject to certain restrictions. For example, transactions to a single client are restricted to 10% of the fund's total assets and leverage ratios of funds marketed to retail investors are not allowed to exceed 130% and for funds marketed to professional investors the maximum leverage ratio is 150%.

According to a survey that Aifi, the Italian Association of Private Equity, Venture Capital and Private Debt, carried out together with Deloitte, there were 24 private capital funds targeting the Italian debt market between 2014 and 2017 – either by fundraising, investing or both. Between 2014 and 2017, they raised on average EUR 396 million for private debt market allocations. Figure 80 reveals that 2016 saw the highest amount with EUR 580 million. Interestingly, in 2016, for example, the majority of the capital provided came from banks (27%), institutional funds of funds (24%), insurance companies (22%), and individual investors and family offices (12%). It is also important to note that much of the fundraising by institutional funds of funds can be attributed to the decision of Fondo Italiano di Investimento (FII), the investment arm of the Italian Government, to establish a private debt fund of funds. The fund's objective is to invest in private debt funds with investment strategies dedicated to the development of Italian SMEs. With respect to the number of funds, there were between 4 to 9 funds active in a given year.

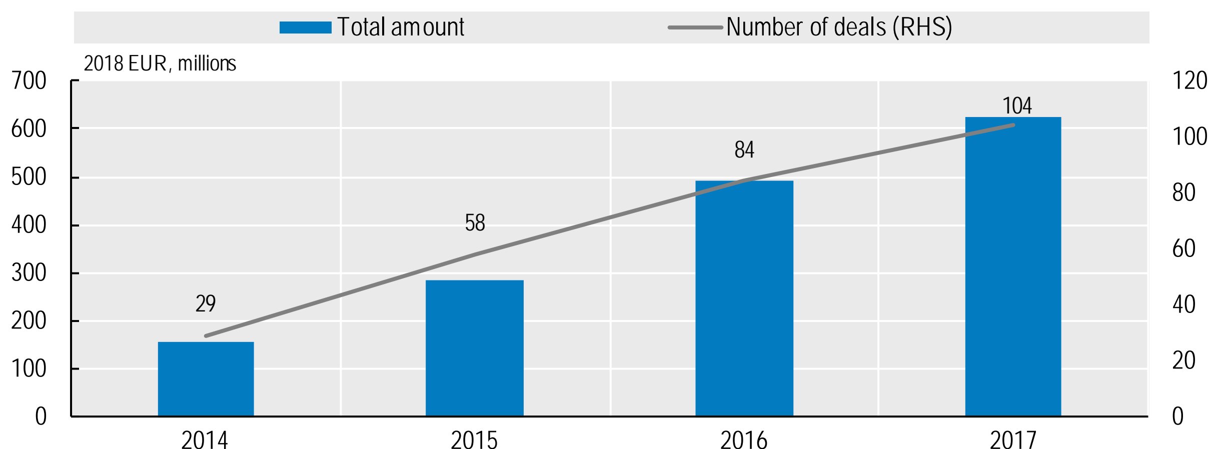
Figure 80. Private debt fundraising in Italy



Source: Aifi

In terms of actual lending, a total of EUR 1.5 billion of private debt was provided to Italian companies by private capital funds over the last four years (Figure 81). In 2017 alone, about EUR 622 million were lent in a total of 104 transactions. This represents an annual compound growth rate of 50% over the period. In terms of size, the average loan amounted to EUR 9.3 million in 2017, with the majority of loans (60%) being less than EUR 5 million. In terms of the origin of the funds, two-thirds were Italian, while the rest was foreign in 2017.

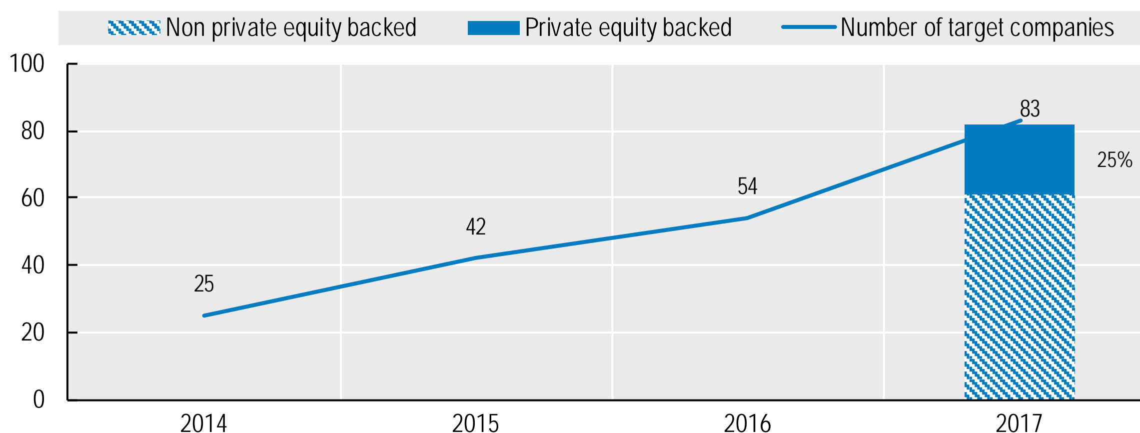
Figure 81. Total private debt investments in Italy and number of deals



Source: Aifi

Parallel to the growing number and value of private loans, the number of unique companies to receive these loans has also shown a strong increase (Figure 82). Starting with 25 borrowers in 2014, the number of companies receiving private debt financing grew to 83 in 2017, of which 25% were private equity backed. It is important to note that the data in this figure are not fully comparable with the data provided in Figure 79 above on direct lending purposes in Europe. One interpretation is that at least 25% of the companies that received a private loan in Italy last year were also the subject of a private equity investment. Since private equity firms use extensive leverage in their transactions, they have also been affected by credit tightening of the banking sector since the financial crisis. It seems that private debt has emerged as one of the alternative sources of finance for private equity firms in a period of declining bank loans.

Figure 82. Number of target companies and percentage of private equity backed targets in Italy



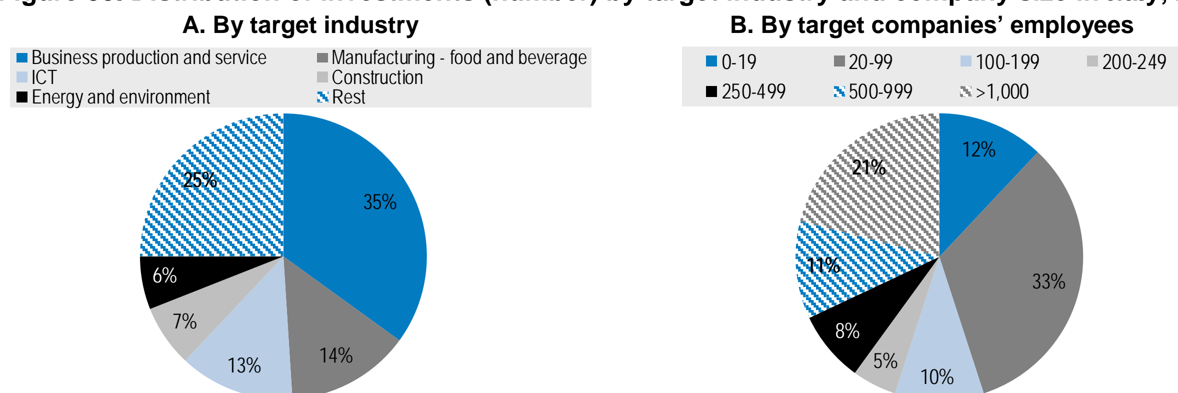
Source: Aifi

Figure 83 shows the distribution of private loans by industry and company size. In terms of target industry (Panel A), the business production and service sector accounted for the largest portion of received loans (35%), followed by the food and beverage (14%) and the communications, computer and electronics (ICT) sector (13%). In terms of company size (Panel B), in 60% of the cases private debt funds invested in SMEs (companies with less than 250 employees), and in 40% of the cases loans were given to large companies (companies with more than 249 employees). Interestingly, the distribution of deals by company size is skewed both to the upper and lower end

of the scale. Within the large company sector, most loans were provided to companies with more than 1000 employees, while within the SME category, 75% of the loans went to companies with less than 100 employees.

The distinction between public corporate bonds, private placements and private lending transactions is not always clear cut. In particular, in economies with specialised bond markets for smaller companies, many transactions in private markets may fall into the definition of private placements of bonds. In Chapter III, the evolution of the mini-bond market in Italy was discussed, including the difficulties to find common characteristics of bonds that were reported as mini-bonds.

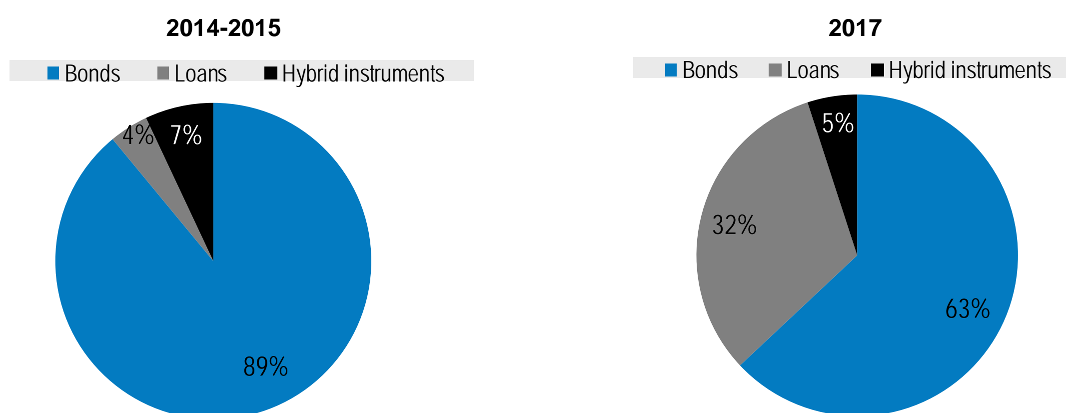
Figure 83. Distribution of investments (number) by target industry and company size in Italy, 2017



Source: Aifi

Figure 84 reveals that the private debt and corporate bond markets in Italy are two complementary pillars of the Italian non-bank lending market. In 2014 and 2015, almost 90% of all loans classified as private debt by AIFI were in the form of corporate bond financing. This dropped to 63% in 2017. Importantly, while between 2014 and 2015 the share of direct lending was only 4%, it increased to 32% in 2017. This indicates that a larger share of the Italian private debt market is in the form of plain-vanilla direct lending compared to corporate bonds.

Figure 84. Distribution of transactions by type of instrument in Italy



Source: Aifi

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ANNEX – METHODOLOGY FOR DATA COLLECTION AND CLASSIFICATION

A. Non-financial corporation data

The information presented in Part II, Chapter I is mainly based on the OECD-ORBIS Corporate Finance dataset. The extract of information presented in Chapter I includes financial statement and ownership information of non-financial companies between 2005 and 2016.

Company categories construction

Chapter I shows the following four non-financial firm categories: Category 1 "*Listed companies*", Category 2 "*Large unlisted companies*", Category 3 "*Small and mid-sized companies part of a group*", and Category 4 "*Independent small and mid-sized companies*". The construction of the company categories is based on the ownership, industry, legal information and financial information tables.

The procedure starts by identifying all listed and unlisted companies with assets over EUR 87 (USD 100) million in the entire ORBIS universe. Non-financial listed companies are classified immediately as Category 1 and large unlisted non-financial companies as Category 2. For these groups, the consolidated financial statements are used if available.

The following step identifies the countries of interest and uses their ownership-country-year tables. ORBIS provides many records of owners at different points in time from different sources. Two criteria are used to clean the ownership information and to be left out with only one record for each firm-year observation: the largest owner is kept and the latest information is prioritized. The largest owner can be either the global ultimate owner at 50%, the global ultimate owner at 25%, or the largest direct owner with over 25% holdings. Once the sample has a unique firm-year record, owners are classified as corporations or natural persons.

Using the ownership records generated in the previous step, the routine starts by identifying the subsidiaries of the listed and large unlisted companies. Three types of companies are identified: 1) domestic subsidiaries with a local parent, 2) domestic subsidiaries with a foreign parent, and 3) companies controlled by a person. Some companies classified as subsidiaries in this step were already identified as large unlisted companies at the beginning. In these cases, the subsidiary is already consolidated and the company is not used to avoid duplications. The domestic subsidiaries with a local parent in Category 1 or 2 and with foreign parents Category 1 or 2 are classified as Category 3. Please note that this category includes the non-financial domestic subsidiaries of financial domestic parent and foreign parents as these parents are excluded as they do not meet the industry requirement or because they are not incorporated in the domestic market under analysis. The companies where the largest owner is a person (over 25% ownership) are classified as Category 4.

Economy wide calculations take into account the ownership structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. Thus, economy wide calculations include companies from Category 1, Category 2, Category 4, companies without ownership information, and companies from Category 3 that had a foreign parent or a financial domestic parent.

Financial information cleaning

The company category classification described in the previous section also incorporates different types of financial reporting (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and

large unlisted non-financial company categories, consolidated accounts are considered, if available. For the remaining categories, unconsolidated financial statements are used.
The raw financial dataset contains several firm-year observations when a company has multiple consolidation codes or it reports for different purposes. To construct a panel with a unique firm-year observation, the following steps are followed:

1. Financial companies are excluded.
2. The fiscal year will correspond to the previous calendar year of the closing date whenever the closing date of the financial statement is before June 30th.
3. Financial statements covering a 12-month period are used, preferably.
4. When multiple observations within the same year exist, the accounts with closing dates closer to year-end are preferred to accounts with older closing dates.
5. Published annual reports are preferred to local registry filings. Local Registry filings are preferred to unknown filing types.
6. Accounts using IFRS are preferred to those using GAAP, GAAP are preferred to those using unknown accounting practices.
7. For companies with multiple consolidation codes, the following criteria applies: companies that present consolidated financial statements, C1 is preferred when both C1 and C2 exist; for companies presenting unconsolidated statements the observation from annual reports are preferred over others.
8. Financial information is adjusted by annual CPI changes and information is reported in 2018 constant million EUR.
9. Companies with at least one observation showing negative assets or negative fixed assets are dropped from the sample.
10. Companies with equal or less than 10 employees are also dropped from the sample.
11. Financial statement information is winsorized at 1% for both tails within companies' categories.

Industry classification

The OECD-ORBIS Corporate Finance uses the SIC industry classification.

Standard Industrial Classification (SIC)
Agriculture, Forestry and Fishing
Mining
Construction
Manufacturing
Transportation, Communications, Electric, Gas and Sanitary service
Wholesale Trade
Retail Trade
Finance, Insurance and Real Estate
Services
Public Administration

B. Public equity data

The dataset is based on transaction and/or firm-level data gathered from several financial databases, such as Thomson Reuters Eikon, Thomson Reuters Datastream, FactSet and Bloomberg.

Considerable resources have been committed to ensure the consistency and quality of the dataset. Different data sources are checked against each other and, whenever necessary, the information is also controlled against original sources, including regulator, stock exchange and company websites and financial statements.

Country coverage and classification

The dataset includes information about all initial public offerings (IPOs) and secondary public offerings (SPOs or follow-on offerings) by financial and non-financial companies for 6 European economies and, in addition, it includes, for comparison purposes, Japan, the United States and the European Union. The 6 European economies currently account for 5 249 IPOs and 15 676 SPOs for the period from January 1995 to December 2018.

All public equity listings following an IPO, including the first time listings in an exchange other than the primary exchange, are classified as a SPO. If a company is listed in more than one exchange within 180 days that transactions are consolidated under one IPO.

The country breakdown is carried out based on the domicile country of the issuer. In the dataset, the country of issue classification is also made based on the stock exchange location of the issuer.

It is possible that a company becomes listed in more than one country when going public. The financial databases record a dual listing as multiple transactions for each country where the company is listed. However, there is also a significant number of cases where dual listings are reported as one transaction only based on the primary market of the listing. For this reason, the country breakdown based on the stock exchange is currently carried out based on the primary market of the issuer. Going forward, the objective is to allocate proceeds from an IPO to respective markets where the issuance is listed at the same time.

Currency conversion and inflation adjustment

The IPO and SPO data, and related financial statement data, such as total assets before offering, are collected on a deal basis via commercial database in current USD values. The information is aggregated at the annual frequency and, in some tables, presented at the year-industry level. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.

Industry classification

Initial public offering and secondary offerings statistics are presented in this report using Thomson Reuters Business Classification (TRBC). The economic sectors used in the analysis are the followings:

Thomson Reuters Economic Sector
Basic Materials
Cyclical Consumer Goods / Services
Energy
Financials
Healthcare
Industrials
Non-Cyclical Consumer Goods / Services
Technology
Telecommunications Services
Utilities

Exclusion criteria

With the aim of excluding IPOs and SPOs by trusts, funds and special purpose acquisition companies the following industry categories are excluded:

- Financial companies that conduct trust, fiduciary and custody activities
- Asset management companies such as health and welfare funds, pension funds and their third-party administration, as well as other financial vehicles
- Companies that are open-end investment funds
- Companies that are other financial vehicles
- Companies that are grant-making foundations
- Asset management companies that deal with trusts, estates and agency accounts
- Special Purpose Acquisition Companies (SPACs)
- Closed-end funds
- Listings on an over-the-counter (OTC) market
- Security types classified as “units” and “trust”
- Real Estate Investment Trusts
- Transactions with missing or zero proceeds

C. Investment banking data

The investment banking data uses as the main source of information the Thomson Reuters League Tables. Each table offers information about the top 100 investment banks in the selected region, their ranking in the table, total gross proceeds allocated to that bank, the market share for each bank and the number of deals in which the bank was involved during the selected period of time. For this report, the information is collected for the following six regions/markets of activity: Euro Area, Euro Area excluding Italy, United Kingdom, United States, Rest of the World and Italy.

Inclusion criteria

The information is collected for Bonds (including High Yield, Investment Grades, and Emerging Markets) and Equity (including Initial Public Offerings and Secondary Public Offerings). Information is retrieved on an annual basis from 2000 to 2018. Each table provides information for the top 100 investment banks involved in underwriting each of the above mentioned securities. The allocation method chosen is equal to each bookrunner, which means that if there is a EUR 1 billion loan and 2 bookrunners on the deal they will get EUR 500 million each.

Identification of the banks’ country and region

A full list containing each unique bank in the sample is created to identify its country of origin. The list of unique bank names contains 6 459 banks worldwide. Their nation of origin is assigned based on the location of the headquarters. Sources of information such as FactSet, Thomson Reuters, Bloomberg and banks websites/annual reports are used to identify banks’ origin nation.

D. Ownership data

The main source of information is FactSet Ownership database. This dataset covers companies with a market capitalisation of more than USD 50 million and accounts for all positions equal to or larger than 0.1% of the issued shares. Data are collected as of end of 2018 in current USD, thus no currency nor inflation adjustment is needed.

To complement the data with additional market information, Thomson Reuters is also used. For each of the following 7 economies (Italy, Finland, France, Germany, Norway, Spain and Sweden), the information presented in Chapter II corresponds to all listed companies in those markets. For the reference markets used

(Canada, China, Japan, United Kingdom and United States), the ownership information presented in Chapter II refers to the 100 largest companies by market capitalisation as of the end of 2018.

In a second step, the information for the reported owners as of the end of 2018 is collected for each company. Some companies can have up to 5 000 records in the list of owners. Each record contains the name of the institution, the percentage of outstanding shares owned, the investor type classification, the origin country of the investor, the ultimate parent name, among others. Each owner record is re-classified into the following investor classes: Corporate, Government, Individual, Institutional and Others. When the ultimate parent was recognised to be a Government, the investor record is, by default, classified as Government. For example, public pension funds that are regulated under public sector law are classified as government, and sovereign wealth funds are also included in that same category (OECD, 2015b).

E. Corporate bond data

Primary corporate bond market data are based on original OECD calculations using data obtained from Thomson Reuters Eikon that provides international deal-level data on new issues of corporate bonds, which are underwritten by an investment bank. The database provides a detailed set of information for each corporate bond issue, including the identity, nationality and sector of the issuer; the type, interest rate structure, maturity date and rating category of the bond, the amount of and use of proceeds obtained from the issue.

The initial dataset covers observations in the period from 1 January 2000 to 31 December 2018. From this initial set, convertible bonds, deals that were registered but not consummated, preferred shares, sukuk bonds, bonds with an original maturity less than 1 year or an issue size less than USD 1 million are excluded. This industry classification is carried out based on Thomson Reuters Business Classification (TRBC). The final dataset after all exclusions covers 83 842 bond issues by non-financials from 114 countries. When tranches under the same bond package is counted as a single issue, this figure reduces to 66 477.

Given that a significant portion of bonds are issued internationally, it is not possible to assign such issues to a certain country of issue. For this reason, the country breakdown is carried out based on the domicile country of the issuer. The advanced/emerging market classification is based on IMF country classification. Issuance amounts initially collected in USD were adjusted by US Consumer Price Index (CPI) and finally converted to 2018 EUR using the average exchange rate EUR/USD for 2018.

Rating data

Thomson Reuters Eikon provides rating information from three leading rating agencies: S&P, Fitch and Moody's. For each bond that has rating information in the dataset, a value of 1 to the lowest credit quality rating (C) and 21 to the highest credit quality rating (AAA for S&P and Fitch and Aaa for Moody's) is assigned. There are eleven noninvestment grade categories: five from C (C to CCC+); and six from B (B- to BB+). There are ten investment grade categories: three from B (BBB- to BBB+); and seven from A (A- to AAA).

If for a given issue, ratings from multiple rating agencies are available, their average is taken. Some issues in the dataset, on the other hand, do not have rating information available. For such issues, the average rating of all bonds issued by the same issuer in the same year (t) is assigned. If the issuer has no rated bonds in year t, year t-1 and year t-2 are also considered, respectively. This procedure increases the number of rated bonds in the dataset and hence improves the representativeness of rating-based analyses.

As a result of this procedure, our rating analyses covering the 2000-2018 period are based on 38 818 bond issues from 101 countries and those covering the 1980- 2018 period are based on 60 712 bond issues from 105 countries. When differentiating between investment and non-investment grade bonds, the final rating is rounded to the closest integer and issues with a rounded rating less than or equal to 11 are classified as non-investment grade.

F. Private Equity data

The main source of information for the private equity data is Invest Europe. The information provided by Europe is made up of firms managing investment vehicles or pools of capital (Funds) and primarily investing equity capital in enterprises not quoted on a stock market. Firms are included in the analysis as long as at least one of the funds they manage qualifies to the inclusion conditions; however, only the activity of the qualifying funds is taken into consideration.

The countries included when referring to Europe statistics are: Austria, Baltic countries (Estonia, Latvia, Lithuania), Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Other CEE (Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia, Slovakia), Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, United Kingdom.

The fundraising activities are classified according to the country that corresponds to the location of the advisory team of the fund. The amount reported under investments includes equity, quasi-equity, mezzanine, unsecured debt and secured debt. Secured debts amounts within all investments packages are removed, unless the debt originates from private equity funds. Investment activities are recorded according to the location of the portfolio company. Divestment amounts are recorded at cost (i.e. the total amount divested is equal to the total amount invested previously). Private equity statistics are collected in current Euros. Amounts are then adjusted by using Euro CPI to express them in constant 2018 EUR.

The categories of private equity entities that are excluded from the Invest Europe Universe are: Fund of Funds, Hedge Funds, Real Estate, Project Financing/ Infrastructure, Secondary Funds, Distress Debt, Venture Credit, Participative Loans, Incubators, Accelerators, Business Angels and Holding companies.

G. Private Debt data

The main source of information for the private debt data in Italy is the Italian Private Equity, Venture Capital and Private Debt Association (AIFI). Private debt statistics are collected in current Euros. Amounts are then adjusted by using Euro CPI to express them in constant 2018 EUR. The main source for information on international private debt data is Preqin.

www.oecd.org/corporate/capital-markets

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