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RESILIENT AND MODERN BANKS TO FINANCE GROWTH

The reform of the banking sector



Ministero
dell'Economia
e delle Finanze

RESILIENT AND MODERN BANKS TO FINANCE GROWTH

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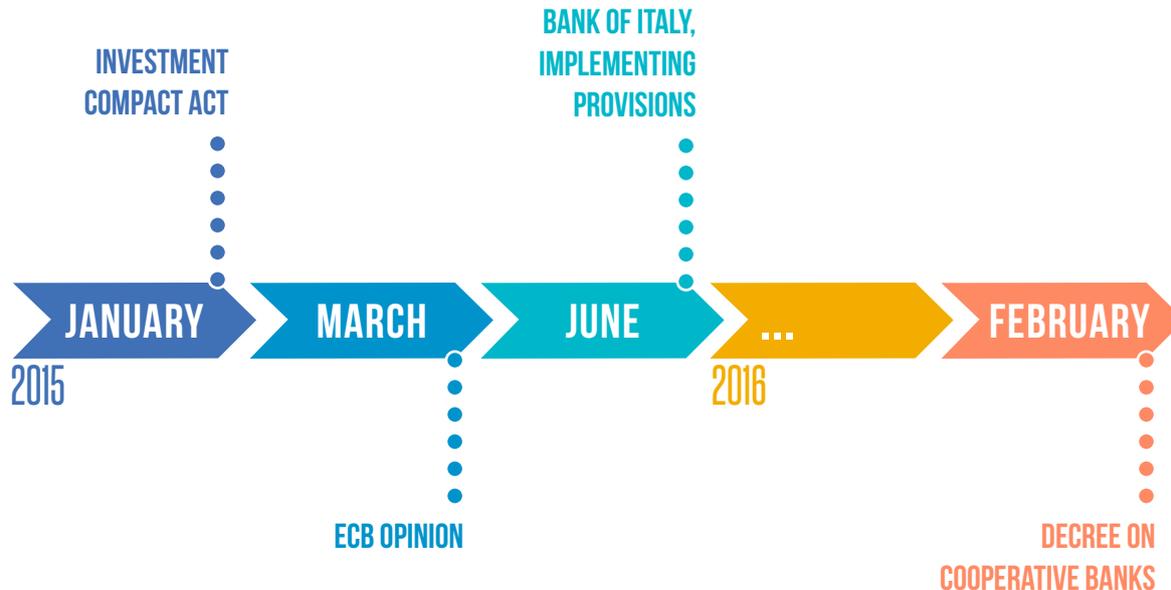
INTRODUCTION

Italy's banking sector has long been characterized by various types of intermediaries, but these intermediaries are not organised according to differentiated objectives and means.

The government has implemented a reform of the system, in order to make the roles more uniform with respect to size and to facilitate the write-off or transfer/sale of non-performing loans (NPLs). The ultimate objective is to increase credit flows to businesses and households.

REFORM OF COOPERATIVE BANKS

On February 2016 the Government has approved the reform of smaller cooperative banks ("BCCs") to consolidate and bolster the Italian banking system. This includes the creation of a joint-stock parent company, with expected control stake detained by BCCs and minimum capital requirement of 1 bn €. Single banks can join through a "cohesion" pact, which defines powers of the parent company over the contracting bank. This conglomerate could potentially become Italy's third largest group.



REFORM OF BANKING FOUNDATIONS

The reform is aimed at giving greater emphasis to the community-based initiatives of the foundations.

The reform process has been guided by the Treasury and led to the signing of a memorandum of understanding with the Italian Associations of Banking Foundations.

ASSET PORTFOLIO
DIVERSIFICATION

MORE TRANSPARENT
GOVERNANCE

NO DEBT ISSUANCE
EXCEPT FOR LIQUIDITY;
LIMITED USE OF DERIVATIVES

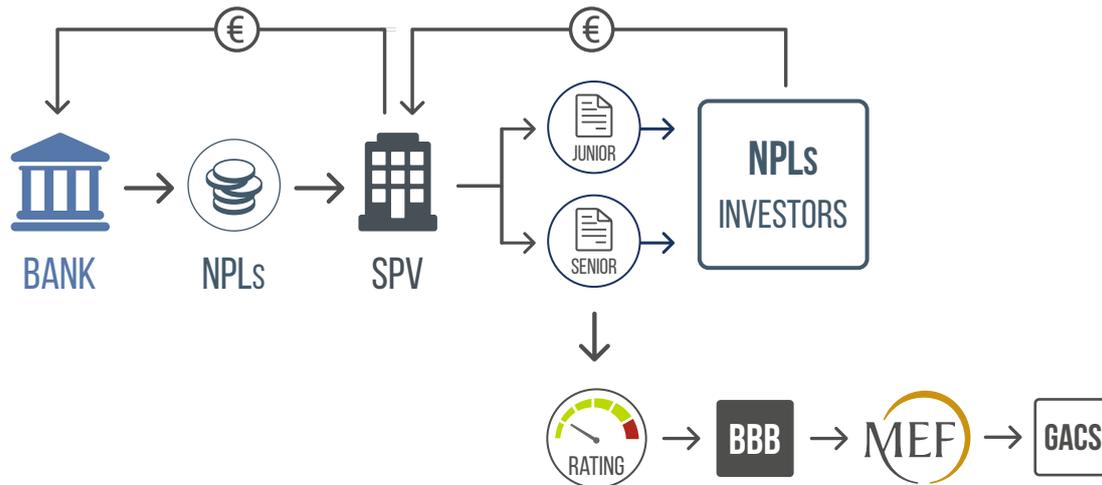
33% LIMIT ON EQUITY
INVESTMENT IN A
SINGLE BANKING INSTITUTION

“GACS” GUARANTEE ON NPLs ABS

On February 2016 the Government has introduced a guarantee for senior tranches of securitized non-performing loans, in order to facilitate the dismissal of NPLs. The final aim is to restore and increase lending to the real economy.

The guarantee will be issued upon request of banks, which in turn have to pay a regular commission to the Treasury. Price of the guarantee will reflect the market price in order to ensure the state aid-free nature of the scheme.

The State will guarantee only senior tranches of the Asset Backed Securities which have received a rating equal to or higher than Investment Grade by a rating agency qualified to the ECB (i.e. the main credit rating agencies). Guarantee is effective after that half of the junior tranches have been sold. The riskiest tranches (i.e. junior and mezzanine) shall not be repaid until the senior tranches guaranteed by the State have been fully repaid.



NEW RULES TO ENHANCE NPLs VALUE

Key restructuring measures to reduce lead-time for asset foreclosure.

PRE-BANKRUPTCY PROCEDURES ("CONCORDATO PREVENTIVO")

COMPETING PLANS AND COMPETITIVE BIDS ARE
NOW PERMITTED

TRANSFER/SALE PROCEDURES

FASTER AND EASIER TRANSFER/SALE
PROCEDURES TO ENSURE A HIGHER
REALIZABLE VALUE

NEW DEBT RESTRUCTURING AGREEMENT

ONLY 75% OF FINANCIAL CREDITORS ARE
NEEDED TO CONCLUDE AN AGREEMENT,
IF ACCOUNTING FOR HALF OF TOTAL
INDEBTEDNESS

PROCEEDINGS

ACCESS TO INTERIM FINANCING HAS BEEN MADE
EASIER

NEW RULES TO STREAMLINE CREDIT ENFORCEMENTS

The Italian Government approved further amendments to Italian insolvency law and to the Italian Code of Civil Procedure, to improve the efficiency of insolvency proceedings and to streamline credit enforcements.

PEGNO NON POSSESSORIO: THE DEBTOR IS NOW ABLE TO GRANT A PLEDGE OVER A MOVABLE ASSET USED FOR THE CONDUCT OF ITS BUSINESS (FOR EXAMPLE, MACHINERY) WITHOUT LOSING POSSESSION OF THE ASSET. THE “PEGNO NON POSSESSORIO” NEEDS TO BE REGISTERED WITH A NEW “ONLINE REGISTER” MANAGED BY THE REVENUE AGENCY

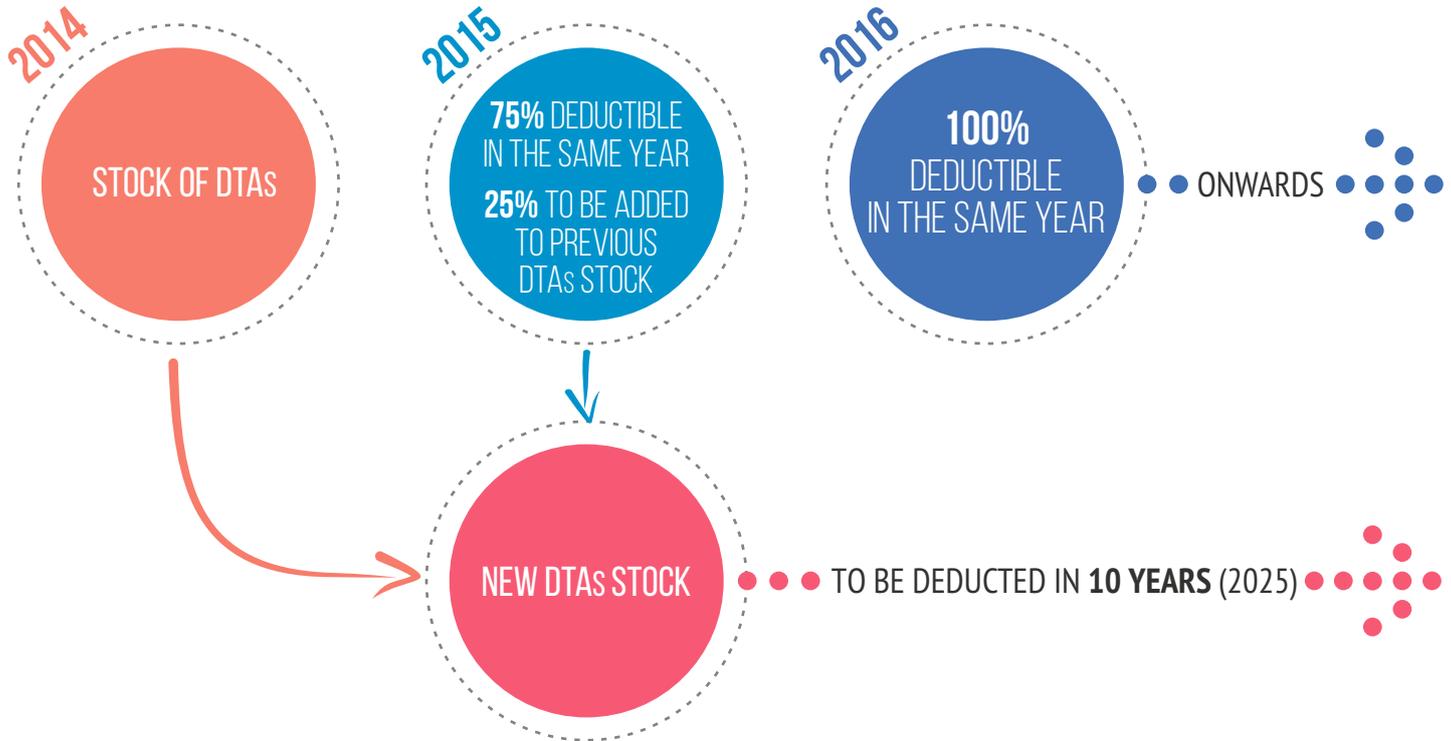
PATTO MARCIANO: FINANCIAL INSTITUTIONS AND BUSINESSES CAN ENTER INTO A FACILITY AGREEMENT SECURED BY REAL ESTATE ASSETS; THE PARTIES MAY AGREE THAT THE TRANSFER OF THE ASSET WILL BECOME EFFECTIVE UPON DEFAULT BY THE BORROWER

PROCEDURAL TERM TO OPPOSE THE VALIDITY OF ENFORCEMENT ACTS HAVE BEEN REDUCED; PARTIAL EFFECTIVENESS OF AN INJUNCTION ORDER IS NOW ADMITTED; IN THE CONTEXT OF A JUDICIAL AUCTION THE PURCHASER IS ALLOWED TO OBTAIN THE ASSIGNMENT OF THE RELEVANT ASSET TO A THIRD PARTY NAMED BY THE SAME PURCHASER

BANKRUPTCY AND INSOLVENCY PROCEDURES HAVE BEEN DIGITALIZED; THEY HAVE TO BE LISTED INTO A DIGITAL REGISTER MANAGED BY THE MINISTRY OF JUSTICE

NEW PROVISIONS FOR TAX DEDUCTIBILITY OF LOAN LOSSES

The period for deductibility has been reduced from 5 years to 1 year. The deduction of the different portions of deferred tax assets (DTAs) will be offset in bank balance sheets. The government has come up with a trade-off between tax revenue flows and bank tax payments.



THE ATLANTE FUND

The Atlante Fund, privately managed, is expected to have a minimum size of € 6 bn at inception and a maturity up to five years, extendable by up to three one-year periods. The fund will invest in both bank capital increases required by the regulator and various tranches of SPVs created to unburden the balance sheets of Italian banks of the stock of NPLs.

Atlante is structured as a closed-end fund reserved to institutional investors, which include banks, foundations, insurance companies. It is managed by Quaestio Capital Management.

**MORE CREDIT
FROM MORE
EFFICIENT
BANKS**

Banks will continue to have a central role in funding businesses. The reform has therefore been focused on increasing the banking sector's efficiency, making the means and goals more consistent.

The new provisions applicable to the management of NPLs and the deferred tax assets (DTAs) ratios will help in rebuilding a healthy financial market environment, and therefore, in ensuring greater flows of credit to the economy.



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