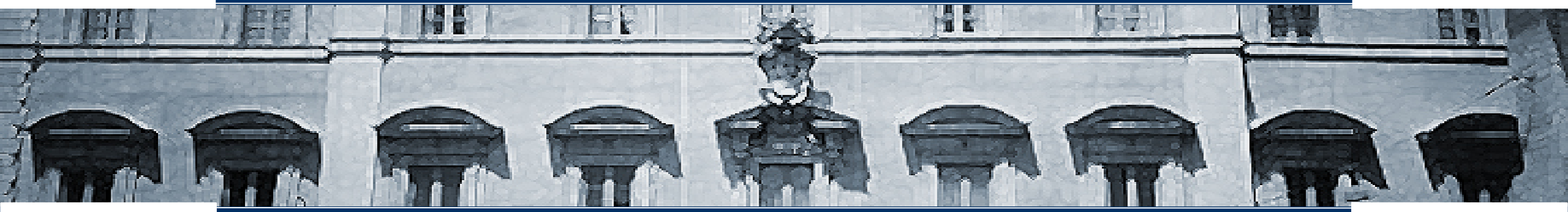
ABI Associazione Bancaria Italiana



Italian mini bonds market: role and opportunities for the banking industry

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FeBAF / VOEB event

"New Financial Instruments: the Experience of Schuldscheindarlehen in Germany and the Comparison with Mini-Bonds in Italy"

14 Giugno 2017

MINI BONDS: what are they?

WHAT ARE THEY?	They are **traditional bonds (**i.e. negotiable instruments issued by a company in exchange for a sum of money, which grant the subscriber/creditor a periodic interest rate (six-monthly/annual) and reimbursement of the capital when the bonds mature)
WHO CAN ISSUE THEM?	They can **be issued by Small and Medium-sized Enterprises (SMEs)**, in the form of a joint-stock company (SPA), share partnership company (SCPA) and limited liability company (SRL). They **cannot be issued by micro enterprises, banks, large issuers and companies listed on the stock exchange**.
ARE THERE LIMITS ON ISSUE?	An amount even twice the shareholders' equity is allowed if it is intended to list the bonds on a Regulated Market (RM) or on a Multilateral Trading Facility (MTF)
WHO SUBSCRIBES THEM?	They can be subscribed only by **institutional investors** (no retail investors)
WHAT IS THE TAX BENEFIT FOR THE ISSUER?	The enterprise can deduct: (A) the interest paid to the subscriber and (B) the issue costs (in the fiscal year when they are incurred)
WHAT IS THE TAX BENEFIT FOR THE SUBSCRIBER?	Institutional investors receive gross interest (without withholding tax) on bonds

CAMBIALI FINANZIARIE: what are they?

WHAT ARE THEY?

They are **negotiable instruments to order** issued in series and with a maturity date not under 1 month and not over 36 months from the issue date.

They are considered to be transferable securities (TUF - Finance Laws Consolidation Act).

They may also be issued in **dematerialised** form (centralised management)

WHO CAN ISSUE THEM?

They can be issued by **joint-stock companies and mutual insurance companies**.

They **cannot be issued by banks and micro enterprises**.

ARE THERE RESTRICTIONS ON ISSUE?

Companies which do not have securities listed on markets (regulated and not) must be supported by a **sponsor** (bank, stock-broking firm, asset management company, SICAV, etc.) which must have a (variable) quota of the securities issued in its portfolio until the maturity date.

NO sponsor for companies other than SMEs. NO sponsor's obligation to held securities if the issue is secured by guarantees for at least 25%.

The issuing companies must have their most recent financial statements certified.

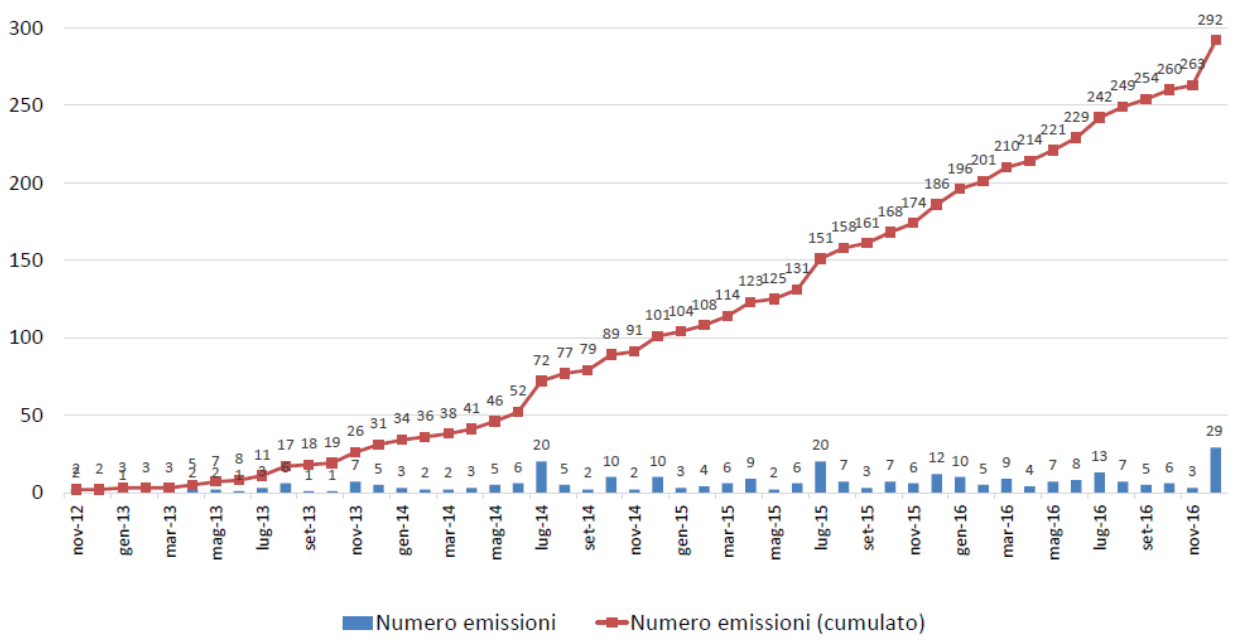
WHO SUBSCRIBES THEM?

They can only be subscribed by **institutional investors** (no retail investors).

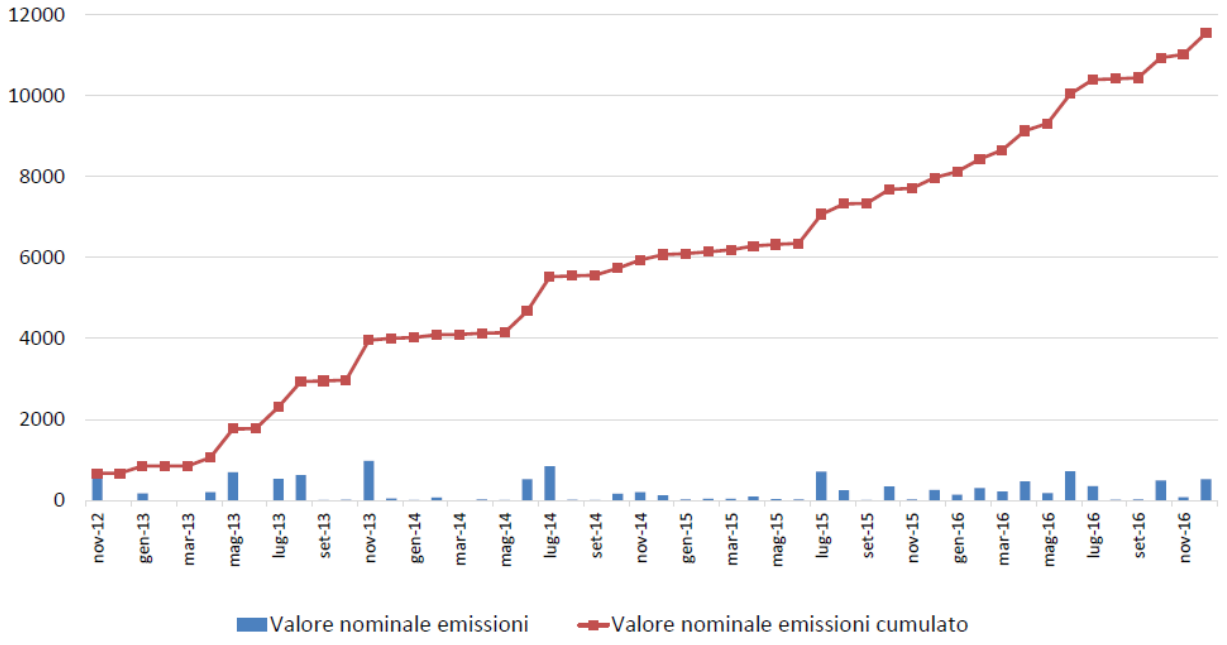
They cannot be subscribed by investors who are direct or indirect shareholders of the issuer.

The development of the Italian mini bonds market

Number of issues



Nominal value of issues



Regular increase of the number and nominal value of the issues since 2013

Source: 2017 Minibond Report – Politecnico di MIlano

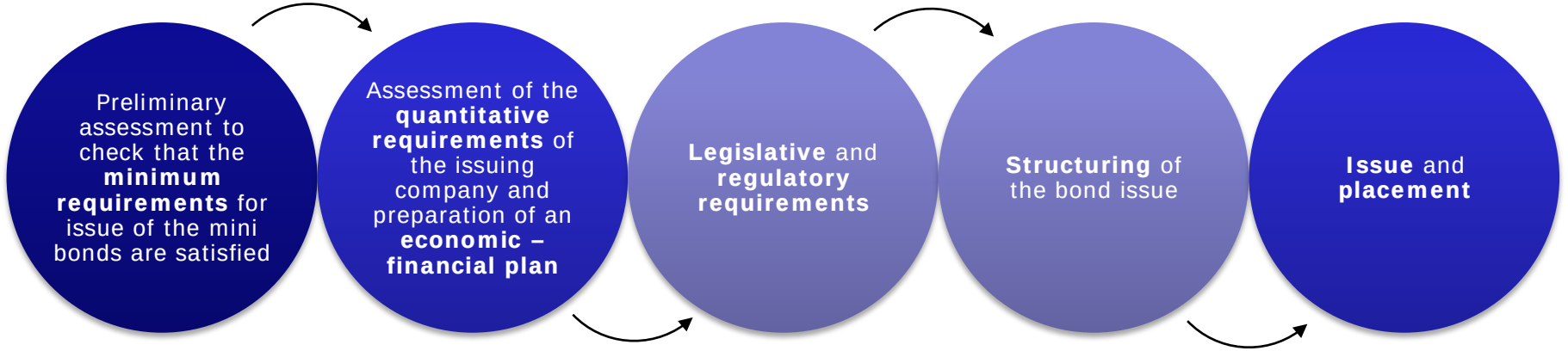
MINI-BONDS vs. BANK LOANS

- It is a **complex and length process** and **more costly** than a bank loan
- Financial and legal **competences** are required and they cannot be handled alone (neither the preliminary evaluation nor the subsequent necessary procedures)
- A **project to be financed** must exist, aimed at development and growth of the enterprise and accompanied by a business plan
- Relationship (indirect) with **various** investors

- **Variable amount** without restrictions on concentration of the risk assumed by the financing bank
- **Variable duration** from extremely short (including under 1 year) to longer (e.g. 20 years)
- **No early repayment of the credit line**
- **No guarantees are provided** by the enterprise or the entrepreneur (guarantees outside the enterprise can be activated in favour of the subscribing investors)
- **«Showcase effect»**, particularly at international level (investment)

IMPROVED MANAGEMENT SKILLS AND TRANSPARENCY IS NEEDED

MINI-BONDS: the issue process



Feasibility analysis of the operation with the Advisor	Analysis of the financial soundness ratios and earning capacity	Analysis of the charter and any necessary changes	Definition of the characteristics of the bond issue	Preparation of the mini bond subscription contract and subsequent signing
	Preparation of an economic - financial plan	Resolution to issue the mini bonds	Preparation of the bond issue regulations	Signing of agreements with a centralised asset management company and with an agent bank
	Preparation of an information memorandum	Creation of the register of bonds / register of the issuer	Presentation by the issuing company to the investors	Placement of the mini bonds

MINI-BOND: a team game

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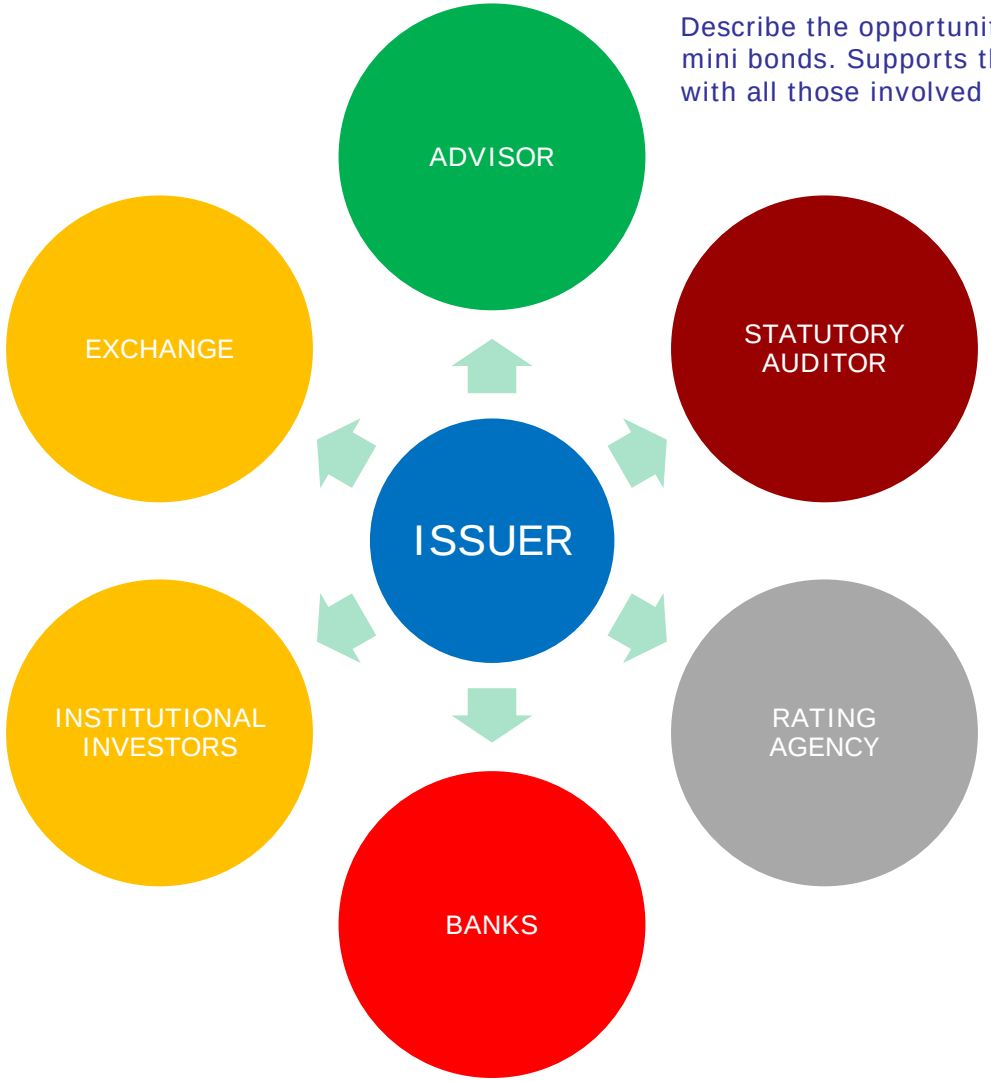


Describe the opportunities and benefits to issue mini bonds. Supports the issuer and coordinates with all those involved in the process.

Certification of the most recent financial statements by a statutory auditor or an auditing firm is mandatory only in case of admission to trading.

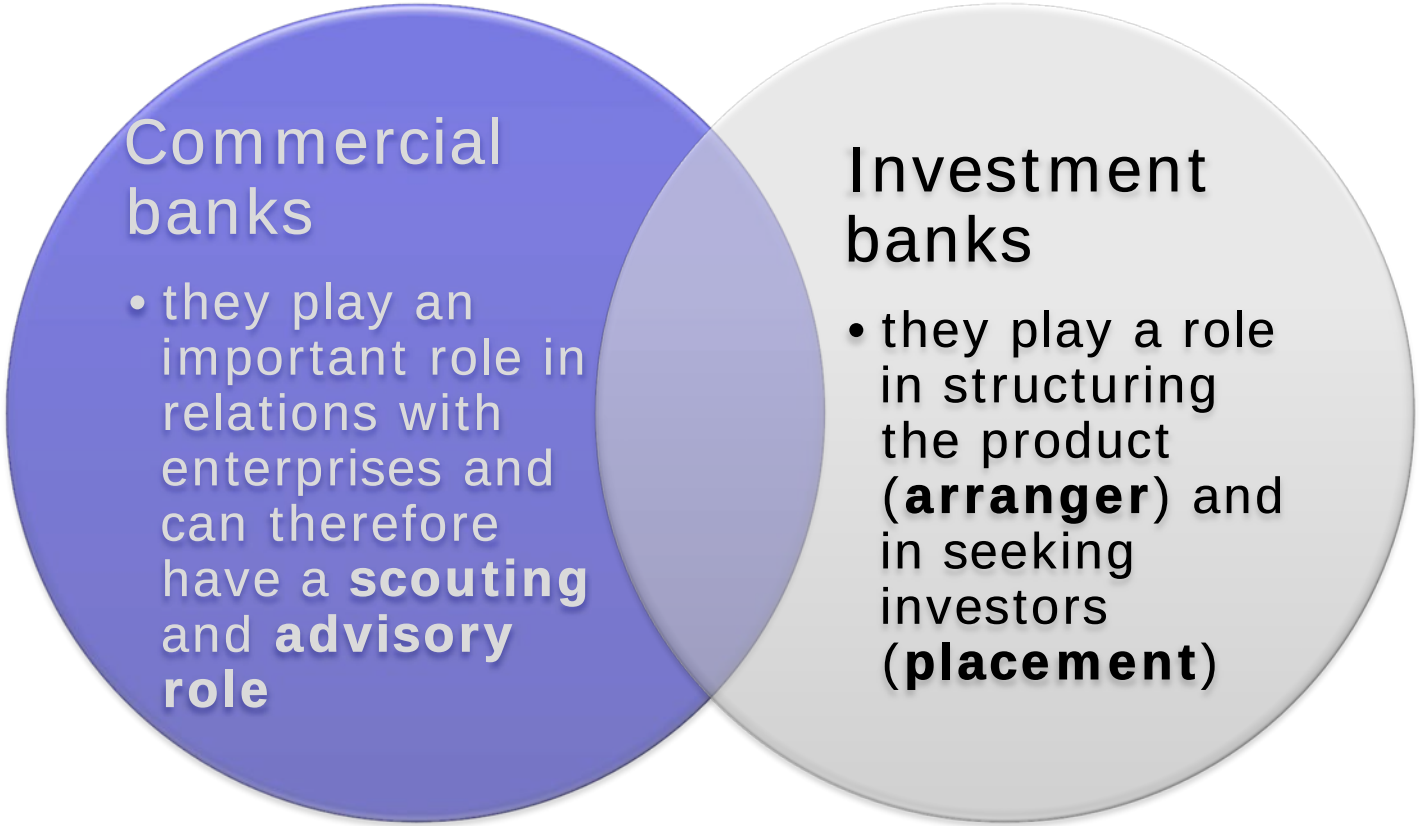
A rating is not a requirement for issue of mini bonds, but it is appreciated by investors

They play a crucial role as they subscribe (directly or underictly) the mini bonds and the success of the issue depends on them

MINI-BONDS: opportunities for banks

Use of the capital market as a funding source for SMEs is a way which must be used alongside traditional funding source and may not simply replace it (particularly for micro and small enterprises).

Banks also play a primary role in mini bond issues:

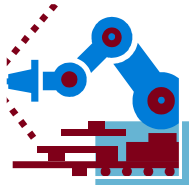


MINI-BONDS: opportunities for banks

Banks may play various **ROLES** in the mini bond issue process

advisor

- check on feasibility of the operation
- support issuer in any subsequent phases



arranger

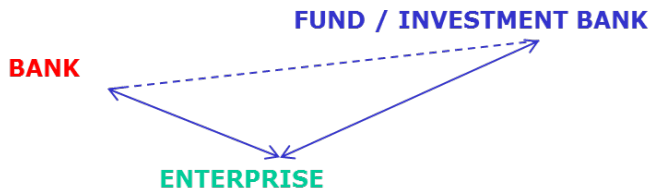
- definition of the characteristics and organisation of the mini bonds
- coordination of the other parties involved
- preparation of information for investors

placement agent

- preparation and performance of the phases of placement of the mini bonds with qualified investors

Changes the bank's role: from *risk taker* to *service provider*

MINI-BONDS: opportunities for banks

BASIC MODEL	The BANK identifies the ENTERPRISES (among customers) issuing mini bonds (scouting) on behalf of another BROKER (investment bank) or a specialised INVESTMENT FUND	
INTERMEDIATE MODEL	The BANK support the ENTERPRISE in the issue of the mini bonds (advisor + arranger) and in their placement on the market	
EVOLVED MODEL	The BANK is the «director» of the operation: it identifies the issuing ENTERPRISES, sponsors an INVESTMENT FUND specialised in mini bonds and seeks INVESTORS