

Committee: Public Relations and Economic Development Sub-Committee	Date: 8 May 2014
Subject: Report of the City of London Pre-Presidency Visit to Italy, Monday 7th	Public
Report of: Director of Economic Development	For Information

Summary

The Lord Mayor, the Chairman of Policy and Resources and the Chair of the International Regulatory Strategy Group (IRSG) visited Rome in advance of Italy taking over the Presidency of the Council of the European Union from 1 July 2014. The policy Chairman also spent a day in Milan.

The team heard from interlocutors about their favourable reactions to the new Prime Minister's ambitious plans for Italy; it was encouraging to hear such optimism surrounding his plans. He has set out a reform agenda focusing on domestic policies and a push for growth including: €10bn of tax cuts targeted on low earners; cuts in regional taxes on businesses; more flexibility in the labour market for new hires over three years; and committed his administration to paying the entire stock of government arrears to businesses of €68bn by the summer.

It was clear that Italy is very supportive of the UK's membership of the EU but that for the foreseeable future it would be focusing on their domestic situation and its reform agenda.

The visit followed an earlier visit by TheCityUK (TCUK) during which colleagues developed the initiative to start a financial services regulatory dialogue between UK-based financial services firms and Italian financial services firms.

Outcomes and actions

The City of London (COL) Brussels Office is working together with the embassy on an event due to take place on 28 May showcasing the COL research report on The Effects of a Financial Transaction Tax on European Households' Savings. This was promoted during the visit and the event is taking shape, the Brussels office is taking this forward with the British Embassy.

An outcome of the TCUK visit was the TCUK led initiative to develop a financial services regulatory dialogue between UK-based financial services firms and Italian financial services firms. This would be similar to that of the Anglo-French dialogue which has already been established. The initiative was discussed further during the COL visit and there was strong interest amongst interlocutors. The COL and TCUK would take this forward initially by holding a planning meeting.

Recommendation

That Members note the content of the report.

Main Report

1. The Lord Mayor, the Chairman of Policy and Resources and the Chair of the IRSG visited Rome on Monday 7 April, the full programme is attached at Annex A. The purpose of the visit was to meet senior political and government figures to discuss the EU financial services policy agenda ahead of Italy taking over the Presidency of the Council of the European Union on 1st July 2014.

The main aims of the visit were to:

- a) To strengthen existing ties with policy-makers and the financial services community and create new relationships, deliver positive messages on the UK's membership of the EU, and stress the importance of the Single Market
- b) To exchange views on key regulatory issues of importance to both the UK and Italy – and influence thinking on issues of particular importance to the UK such as Financial Transaction Tax (FTT) and Banking Union
- c) To explore views among other member states regarding potential European reform, with a focus on the impact of the upcoming European elections and incoming Commission this year

The key message was to express support for the EU, highlight the desire for the UK to remain a part of it and advise that in order to maintain competitiveness in the global economy we needed to adapt and move the focus from regulation to growth.

1. The delegation held four key meetings at which they discussed the priorities for the Presidency, key pieces of financial regulation and how Italy might influence the agenda of the new Commission following the European elections. At each meeting the City Corporation emphasised the desire for the UK to remain a part of the EU and this was very well received. Each interlocutor felt it would be damaging to Europe should the UK leave.
2. On the conclusion of the visit to Rome the Chairman, accompanied by Mike Vercnocke, visited Milan. A report of this visit is at the end of the report.
3. Prior to the visit the LM and the CPR attended a breakfast in London with Prime Minister Renzi and heard from him about his ambitious reform agenda. In Rome the delegation heard generally positive reactions to his programme of constitutional and economic reform. It is clear that people, including those who do not naturally support his political party, are cautiously hopeful that he is the right leader at the right time to make the radical structural changes that Italy needs. His strength appears to be an ability to make quick decisions and implement them. However, some interlocutors suggested that he is weakened by not being an elected member and by a divided parliament he does not have full control over, and that calling an early election before his electoral reforms are passed is unlikely to deliver him a working majority. To ensure support for his reforms he

has had to agree to link them to the reform of the Senate into a consultative body for the regions, with no legislative power, and reform of regional government. There is a danger that linking these together could derail the process or at least slow it down.

4. It will take a significant change in culture in order for the reforms to be accepted and effective.

Presidency of the Council of the European Union

5. We emphasised that the timing of the Italian Presidency presents a unique opportunity for Italy to influence the agenda of the new Commission and to steer it towards institutional reform and economic growth, both of which the City supports strongly. The delegation explained that the City and the vast majority of firms operating in it support the UK's continued membership of the EU but that the EU needs reform to maintain its economic competitiveness in the global economy. The delegation found Italians receptive to this message. Italians see reform of the EU as supporting Italy's own efforts at structural reform.

European Issues

6. With the upcoming European elections and the appointment of the new Commission the Italian Presidency will enjoy less time to reach conclusions on financial dossiers but some critical issues will nevertheless need attention. Italy's Presidency will see major milestones in establishing the **Banking Union**. The European Central Bank's (ECB) Asset Quality Review will conclude in October, the Single Supervisory Mechanism becomes operational in November and the Single Resolution Mechanism will come into effect from January 2015. The Banca D'Italia was confident that the ECB would not find significant capital shortfalls in Italian banks, though there might be some need for additional funds. The Italian banks had already made significant additional provisions for bad debts and were not exposed to the more risky types of business.
7. One possible area of divergence from the UK might be on how to progress the Commission's proposals on **structural reform of the banking sector**. Italy is keen to make progress and would prefer to see a single set of rules applying across the EU with no derogations for existing national reforms. This is a view that was echoed on recent visits to Spain and Portugal.
8. The Italians are keen to deliver a successful Presidency but it was clear that their attention has not yet turned to the details and they are waiting to see how far the Greeks can clear the legislative backlog. Their overarching priority is to deliver on **jobs and growth**. They are looking at how to improve the financing of the economy and for new instruments to complement bank financing with other forms of finance, in particular to support the growth of Small to Medium Enterprises (SMEs).
9. The delegation heard of the Italian's support for the recent communication from the Commission on **Long Term Finance** and learned that they have a working group looking at the communication. The Minister of Finance was supportive of

developing non-bank finance for growth, looking at securitisation in the first instance. The Minister for European Affairs was clear that the growth agenda would be a key focus of their Presidency and he made a point of highlighting SME financing as a priority.

10. The growth agenda was the key driver behind an event at the Senate “Diversity: a Key to Economic Growth”. This event was attended by a diverse audience drawn in by the powerful panel of speakers. The panel raised issues that need to be addressed in order to boost economic growth.
11. During a discussion at the Ministry of Finance we shared the IRSG research paper on the effects of a **Financial Transaction Tax (FTT)** on European households savings. The delegation explained that these effects contradict what the Commission and national governments are trying to achieve regarding the jobs and growth agenda. They were confident that the Italian FTT (similar to a stamp duty) is working well so far and they have seen positive results with increased activity on the Italian Stock Exchange. The delegation heard later that though activity had increased many conclude that it would have increased more without the introduction of the tax. They remain fully in support of the enhanced cooperation FTT proposal and expect the Italian Presidency to make progress on it; although they appreciated that FTT at the European level will be more challenging to achieve.
12. On the **Transatlantic Trade and Investment Partnership** interlocutors were concerned that forcing the inclusion of financial services in the negotiations might jeopardise overall success, and the gains (for Italy) in non-financial sectors is large.

Visit to Milan Tuesday 8 April 2014

13. The Chairman, accompanied by Mike Vercocke, had a one-day visit to Milan organised by the British Consul General Vic Annells.
14. Following a briefing session with the Consul General on UKTI’s work in Italy the Chairman attended a networking lunch with 13 representatives of the Italian financial services sector.
15. Investor lunch
The Chairman outlined the role of the City as the EU wholesale financial centre and gave a brief update on the economic climate in the UK. The following discussion ranged from the outcome of the Scottish referendum to the difficulty of opening bank accounts in the UK. There was concern that the proposed **FTT** would damage the Italian economy and interest in the City’s FTT event planned for May in Rome. There was support for the proposed reforms by the new Prime Minister.
16. Meeting with Borsa Italiana
They confirmed that the Italian FTT (which is in practice a type of stamp duty) had had a negative impact on stock exchange activity. Whilst it was true that with the economic upturn transactions had recently increased, the level was less than they

assessed would have been the case without the tax. It was also proving expensive to collect. The synergies with the London Stock Exchange were considerable and the Borsa's initiative to help Italy's growing companies gain access to long term business support and prepare them for external investment was now being rolled out in London by the LSE.

17. Roundtable "Growth – the contribution of financial markets"

Around 50 representatives from banks, fund managers and insurance companies attended the roundtable. The Chairman started the meeting with an overview of the role of the City and economic developments in the UK. Ivan Jevtovic, Head of Financial Institutions HSBC Italy then outlined how he saw the role of the financial markets developing, in particular the growing importance of capital markets in financing growth. The debate focused on the importance of developing new channels for the **financing of SMEs**, which form the backbone of the Italian economy. A problem was the low level of capital in SMEs which was reflected in low levels of investment. This was due in part to the norm of family ownership. Historically families had tended to take money out of their companies as soon as possible to finance expenditure. Despite fiscal incentives to invest, this was still the norm.

Media

18. The Lord Mayor gave interviews both prior to the visit and on the visit itself and the Chairman has written for CityAm and given an interview to the Economist on his return.

Follow-up

19. This visit followed an earlier visit by TheCityUK during which they developed the initiative to start a financial services regulatory dialogue between UK-based financial services firms and Italian financial services firms. We echoed this message on the visit and it was extremely well received, there was a lot of interest to join the group. To take this forward COL and TCUK representatives will meet to establish an engagement strategy.

Conclusion

20. A very timely visit following the changes in government and a chance to influence their thinking on the priorities for the Italian Presidency. In partnership with TCUK there are already a number of follow-up events planned and a chance to foster the relationships developed on the visit. There are inward visits planned for the Minister of Finance and the Minister for European Affairs.

21. The Lord Mayor and the Chairman were grateful for the close engagement of Her Majesty's Ambassador Christopher Prentice and his team.

Contact:

Kimberley Hall, European Officer, Economic and Development Office
T: 0207 332 3085 Email: Kimberley.hall@cityoflondon.gov.uk

Annex A: PROGRAMME

Monday 7th April – Rome

EVENT
Meeting with <u>Ignazio Visco</u> , Governor of the Central Bank Opportunity to discuss: <ul style="list-style-type: none">• Priorities for the new European Parliament and Commission• Presidency priorities• Initiative for Anglo-Italian Dialogue• Banking Union, structural reform and the Single Market• Financial Transaction Tax• Role of Financial Services in provision of long-term and SME finance
Meeting with <u>Pier Carlo Padoan</u> , Economy and Finance Minister Opportunity to discuss: <ul style="list-style-type: none">• Priorities for the new European Parliament and Commission• Presidency priorities• Reform of the EU• Financial Transaction Tax• Banking Union and structural reform
Meeting with <u>Sandro Gozi</u> , Under Secretary for European Affairs Opportunity to discuss: <ul style="list-style-type: none">• Presidency priorities
Meeting with <u>Giuseppe Vegas</u> , President of CONSOB (regulator) Opportunity to discuss: <ul style="list-style-type: none">• Presidency priorities• FTT• Financing jobs and growth
Lunch Roundtable on Energy and Privatisation
“Diversity for Growth” event with Valeria Fedeli , Deputy Speaker and members of the Senate
<i>Meeting for the Chairman and Rachel Lomax with Lorenzo Codogno, Economy Ministry</i>
TV interview with Sky News Italy
Dinner hosted by the Ambassador at the residence for high level contacts

Tuesday 8th April - Milan

EVENT
Arrive Milan, Briefing meeting at the Consulate

Investors Lunch at restaurant

High level investors from financial services and other sectors.

Meeting with **Fabrizio Plateroti** and **Barbara Lunghi**, Borsa Italiana

Roundtable discussion at Palazzo Cusani

Guests representing industry/financial and banking sector.

Networking Reception (sponsored by HSBC)

Industry Dinner at Palazzo Cusani