



ASSOCIATION FOR  
FINANCIAL  
PROFESSIONALS

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# CASH AND TREASURY MANAGEMENT COUNTRY REPORT

# ITALY

# Executive Summary

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## Banking

The Italian central bank is the Banca d'Italia. As Italy is a participant in the eurozone, some central bank functions are shared with the other members of the European System of Central Banks (ESCB). Bank supervision is performed by the Banca d'Italia.

Italy applies central bank reporting requirements. A representative sample of around 7,000 companies are required to submit periodic reports directly to the Banca d'Italia. These resident companies must report all transactions with non-residents.

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Italy. Residents are also permitted to hold fully convertible domestic currency (EUR) bank accounts outside Italy. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Italy.

Italy has a large number of credit institutions (641), most of which are small, Italian-owned banks, such as the 359 mutual savings and 31 cooperative banks. There is a significant foreign banking presence in Italy, with 84 branches of foreign banks and 23 subsidiaries of foreign banks.

## Payments

The two main payment systems used in Italy are the pan-European TARGET2 RTGS system and a multilateral net settlement system, BI-COMP.

The most important cashless payment instruments in Italy are payment cards in terms of volume and credit transfers in terms of value. Card payments have increased steadily, especially in the retail sector. The increased use of electronic and internet banking has led to a growth in the use of electronic payments. However, checks still remain a fairly popular form of payment.

## Liquidity Management

Italian-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Cash concentration techniques are the most commonly used by Italian companies to manage company and group liquidity and are offered by all the leading Italian banks. Of the available techniques, zero-balancing is the most popular.

Notional pooling is not usually practiced in Italy. This is primarily because banks are not allowed to offset debit and credit balances for regulatory purposes. Fiscal regulations also make notional cash pools difficult to establish.

## Trade Finance

Italy applies the European Union (EU) customs code and all its associated regulations and commercial policies. All trade is free from tariffs between Italy and its fellow European Economic Area (EEA) member states.

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# PNC's International Services

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*PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.*

## International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

## Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

## PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

## Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

## Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a

point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.

- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

## Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

## Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

## Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.<sup>1</sup>

## Economic Updates

Receive regular Economic Updates from our senior economist by going to [pnc.com/economicreports](http://pnc.com/economicreports).

(1) Information compiled from Freedom of Information Act resources.

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# Financial Environment

## Country Information

### Geographical Information

<b>Capital</b>	Rome
<b>Area</b>	301,340 km <sup>2</sup>
<b>Population</b>	61.86 million
<b>Official language</b>	Italian
<b>Political leaders</b>	Head of state — President Sergio Mattarella (since February 3, 2015) Head of government — Prime Minister Matteo Renzi (since February 22, 2014)

### Business Information

<b>Currency (+ SWIFT code)</b>	Euro (EUR) Italy joined the eurozone on January 1, 1999. Its former currency, the Italian lira (SWIFT code ITL), was converted to the euro at EUR 1 = ITL 1,936.27.
<b>Business/Banking hours</b>	08:00–13:00 and 15:00–18:00 / 08:30–13:30 and 15:00–16:30 (Mon–Fri)
<b>Bank holidays</b>	2016 — November 1, December 8, 25, 26 2017 — January 1, 6, April 17, 25, May 1, June 2, 29, August 15, November 1, December 8, 25, 26 2018 — January 1, 6, April 2, 25, May 1, June 2, 29, August 15, November 1, December 8, 25, 26
<b>International dialing code</b>	+ 39

Source: [www.goodbusinessday.com](http://www.goodbusinessday.com)

## Country Credit Rating

FitchRatings last rated Italy on July 22, 2016 for issuer default as:

Term	Local currency rating	Foreign currency rating
Short	–	F2
Long	BBB +	BBB +
Long-term rating outlook	Stable	

Source: [www.fitchratings.com](http://www.fitchratings.com), August 2016.

## Economic Statistics

<b>Economics Table</b>		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>GDP per capita</b>	<b>(USD)</b>	35,147	37,513	34,737	35,752	35,867
<b>GDP</b>	<b>(EUR billion)</b>	1,606	1,639	1,615	1,610	1,616
<b>GDP</b>	<b>(USD billion)</b>	2,127	2,278	2,075	2,137	2,144
<b>GDP volume growth*</b>	<b>(%)</b>	+ 1.7	+ 0.7	- 2.3	- 1.9	- 0.6
<b>BoP (goods, services &amp; income) as % GDP</b>		- 2.2	- 1.9	+ 0.8	+ 2.0	+ 2.8
<b>Consumer inflation*</b>	<b>(%)</b>	+ 1.5	+ 2.7	+ 3.0	+ 1.2	+ 0.2
<b>Population</b>	<b>(million)</b>	60.51	60.73	59.74	59.77	59.79
<b>Unemployment</b>	<b>(%)</b>	8.4	8.4	10.6	12.1	12.7
<b>Interest rate (local currency MMR)**+</b>	<b>(%)</b>	3.66	4.21	4.88	4.80	4.54
<b>Exchange rate‡</b>	<b>(EUR per USD)†</b>	0.7550	0.7194	0.7783	0.7532	0.7537

  

		<b>2015</b>			<b>2016</b>	
		<b>Q3</b>	<b>Q4</b>	<b>Year</b>	<b>Q1</b>	<b>Q2</b>
<b>GDP per capita</b>	<b>(USD)</b>	-	-	30,307	-	-
<b>GDP</b>	<b>(EUR billion)</b>	-	-	1,634	-	-
<b>GDP</b>	<b>(USD billion)</b>	-	-	1,812	-	-
<b>GDP volume growth*</b>	<b>(%)</b>	+ 0.8	+ 1.1	+ 0.5	+ 1.0	NA
<b>BoP (goods, services &amp; income) as % GDP</b>		-	-	+ 3.1	-	-
<b>Consumer inflation*</b>	<b>(%)</b>	+ 0.2	+ 0.2	∅	- 0.1	- 0.4
<b>Population</b>	<b>(million)</b>	-	-	59.80	-	-
<b>Unemployment</b>	<b>(%)</b>	10.6	11.9	11.9	12.1	NA
<b>Interest rate (local currency MMR)**+</b>	<b>(%)</b>	3.64	3.51	3.77	3.45	NA
<b>Exchange rate‡</b>	<b>(EUR per USD)†</b>	0.8995	0.9136	0.9017	0.9077	0.8855

\*Year on year. \*\*Lending rate to corporations for stocks up to one year. †Period average. ‡Market rate.

Sources: *International Financial Statistics*, IMF, August 2016 and 2015 Yearbook.

**Sectoral Contribution as a % of GDP**

Agriculture - 2.2%

Industry - 23.6%

Services - 74.2% (2015 estimate)

**Major Export Markets**

Germany (12.3%), France (10.3%), USA (8.7%), UK (5.4%), Spain (4.8%), Switzerland (4.7%)

**Major Import Sources**

Germany (15.4%), France (8.7%), China (7.7%), Netherlands (5.6%), Spain (5.0%), Belgium (4.7%)

# Political and Economic Background

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## Economics

### Interest Rate Management Policy

As a participant in the eurozone, Italy's interest rate is set through the mechanism of the European System of Central Banks (ESCB). Its main objective is to maintain price stability, defined by the European Central Bank as keeping inflation below but close to 2% in the short- to medium term. Interest rates are set at monthly meetings of the ECB's Governing Council.

### Foreign Exchange Rate Management Policy

The Eurosystem's exchange rate policy is determined by meetings of ECOFIN, a meeting of the finance ministers in all the member states of the European Union (EU). Outside formal agreements, the ECB is also permitted to intervene unilaterally or in concert with other central banks to manage the euro exchange rate relative to other currencies. However, no exchange rate activity is permitted to conflict with the main objective, to preserve price stability.

### Major Economic Issues

Italy has the world's seventh largest and the eurozone's third largest economy. Italy's main economic issue continues to be the need to improve conditions for economic growth. The impact of the wider global financial crisis on liquidity and, subsequently, on the overall economy helped push Italy into recession. Annual growth of 1.7% was recorded in 2010 as Italy's economy slowly recovered, but this fell to 0.7% in 2011 and the economy contracted by 2.3%, 1.9% and 0.6% in 2012, 2013 and 2014. Growth of 0.5% was recorded in 2015. Unemployment stood at a record high of 12.7% in 2014 but had fallen to 11.9% by 2015.

The north-south economic divide within Italy continues to increase. Generally, the agricultural south is less wealthy than the industrially advanced north and suffers from higher unemployment (in some areas, it is as high as 40%). Italy's poverty rate is 11.5%; thus Italy has highest number of people living below the poverty in Europe (about seven million). Political instability has been a key reason for slow progress on much needed economic reforms such as with pensions and the labor market.

Italy's commitment to the euro has necessitated strict fiscal policy to try to rein in government spending under the terms of the Stability and Growth Pact. While Italy succeeded in bringing the deficit under target in 2008 (2.7% of GDP), the budget deficit increased to 5.3% of GDP in 2009, due in part to weaker revenues and a larger budget, before gradually falling to 2.9% in 2013; a 3.0% budget deficit was recorded in 2014.

Italy was placed under IMF surveillance on November 4, 2011. In December 2011, Mario Monti's technocratic government announced an austerity package worth EUR 33 billion over three years.

The austerity package included measures to combat tax evasion, the re-introduction of property tax, an increase in excise duty, pension cuts, increases in the minimum retirement age, and cuts in subsidies to local authorities. In July 2012, the government then announced another EUR 26 billion in spending cuts over three years, including a 20% reduction in top public sector officials and cuts to healthcare (such as the closure of thousands of hospital beds).

An extensive package of liberalizing and structural reforms to Italy's service sector was approved by the government in January 2012 with the objective of liberalizing Italy's labor market and increasing competition to help boost the economy.

In June 2013, the Enrico Letta-led grand coalition government announced its intention to spend EUR 1.5 billion in an attempt to boost youth employment. This included the introduction of tax breaks for companies that hire people aged 18-29, support for training and school-leaver schemes, and aid for young Italians with temporary work contracts. The government also announced it was delaying the planned 1% increase in VAT so as to increase investor confidence in the government's ability to repay its debts.

On November 23, 2013, the Italian government was instructed to tighten its budget for 2014 in order to meet the EU's rules on debt and deficits. Meanwhile, Italy's public debt reached a new record high of EUR 2.192 trillion in September 2015, ending the year at EUR 2.1699 trillion. Italy has the world's third largest public debt after the United States and Japan.

On October 15, 2014, Prime Minister Matteo Renzi announced plans to reduce government spending in 2015 and to cut taxes by EUR 18 billion for businesses and lower-income citizens (thus breaching the EU's deficit rules) in order to boost economic growth and job creation.

On February 23, 2015, Italy and Switzerland signed a deal on tax evasion, enabling Italy to recoup around EUR 90 billion annually in lost revenue from Italians with undeclared assets in Swiss bank accounts. A partial tax amnesty is offered to those Italians with undeclared assets in Swiss bank accounts, who have until September 30, 2015, to declare their bank accounts via a "voluntary disclosure procedure." In return, their fines will be more lenient and criminal charges will, in most cases, be dropped.

## Politics

### Government Structure

Political power is divided between the government and the two houses of the Parlamento Italiano in Italy under the terms of the Italian constitution.

The national government is based in Rome.

There are 20 regional state governments, within which there are also provincial and commune governments. The regions of Sicily and Sardinia, as well as three extreme northern regions, have a larger degree of autonomy with elected regional governments. The remaining 15 regions are headed by a commissioner responsible for implementing central government policy.

The president is the head of state, but exercises limited powers.

### *Executive*

Executive authority is exercised by the prime minister and his cabinet, the Council of Ministers. The prime minister forms a government with the support of the Parlamento Italiano (see Legislature, below), though is officially appointed by the president.

The current administration is a grand coalition, headed by Prime Minister Matteo Renzi, between the center-left Democratic Party, the New Center Right (NCD), and the centrist Civic Choice, and Union of the Centre.

The president is elected by an electoral college, comprised of both houses of parliament and 58 regional representatives, every seven years. The next presidential election is scheduled to take place in January 2022.

### *Legislature*

At national level, the parliament has two houses.

The 630-member lower house, the Camera dei Deputati, is directly elected for a maximum five-year term. Since electoral reform in 2005, the coalition that earns the most votes wins 54% of the seats in the Camera.

The upper house is the Senato della Repubblica. There are currently 321 members, 315 of whom are elected by regional proportional representation. Members serve five-year terms. The winning coalition in each region gains 55% of the seats in the Senato for that region. The president may also appoint a number of life senators; there are currently six.

The next legislative elections must be held by February 2018.

### *International memberships*

Italy is a member of the EU (and was a founder member of the European Economic Community). It is also a member of the Council of Europe, the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the G-7, the North Atlantic Treaty Organization (NATO) and the World Trade Organization (WTO).

### *Major Political Issues*

The economic and cultural divide in Italy remains an important domestic political issue. Northern Italy is industrially developed and dominated by private enterprise, while the south is more rural and welfare-dependent, and suffers from unemployment levels at around 13%. The divide has led to populist political tactics and the fracturing of the main political parties, as well as the emergence of small regional parties. This has often created weak governing coalitions made up of several different political parties. Coalition in-fighting has tended to contribute to a lack of progress on addressing the issues that contribute to the north-south divide.

Parliamentary elections were held on February 24-25, 2013. The center-left Democratic Party, campaigning on budgetary discipline and pledged to boost growth and employment, emerged

as the largest party in both houses but did not attain a majority in the Senate. Enrico Letta of the center-left Democratic Party was installed as the head of a grand coalition, sworn in April 2013. Mr Letta ruled out a planned increase in VAT, and planned to reform the electoral system to create more clear-cut results, reduce the number of MPs, and cut the salaries of MPs who receive a second income for their parliamentary duties, and has pledged to cut employers' welfare contributions, improve welfare benefits, and increase a guarantee fund for SMEs.

Already chief of the Democratic Party since December 2013, Matteo Renzi replaced Enrico Letta as prime minister in February 2014 after an internal Democratic Party vote. Mr Renzi, as the new prime minister, has prioritized tackling unemployment and boosting economic growth. He also pledged to begin constitutional reform, downgrade the Senate, make changes to employment law, streamline public administration, and push through a new electoral law, as well as overhauling Italy's taxation system. A reduction in income tax (a EUR 80 monthly tax break) for those on lower wages was announced in April 2014, as were cuts in public spending worth EUR 4.5 billion. Cuts in healthcare spending worth up to EUR 1 billion have been approved.

Renzi succeeded in acquiring parliamentary approval for a new electoral law for the Chamber of Deputies, where if no party wins over 40% of the vote, then there is a run-off between the top two and the winner is awarded a parliamentary majority of 340 seats. The electoral law received final parliamentary approval from the Chamber of Deputies on May 4, 2015.

Renzi has also succeeded in passing a downgrade of the Senate, effectively removing many of its powers. This reform of the country's constitution is still required to be approved by referendum, scheduled for this Fall.

In July 2012, Italy ratified the Fiscal Compact on closer EU fiscal union, which initially entered into force within the eurozone on January 1, 2013. Parliament also approved the European Stability Mechanism, a permanent EUR 500 billion eurozone bail-out fund, which was inaugurated on October 8, 2012 to replace the temporary European Financial Stability Facility (EFSF). Since July 1, 2013, the EFSF has been prohibited from engaging in new financing programmes or entering into new loan facility agreements.

Preparations for a new financial transactions tax between 11 eurozone members, including Italy, have are underway. Ten countries agreed on December 8, 2015, on the "core principles" of the financial transaction tax; the current aim is to begin its implementation in the second quarter of 2017.

On August 24, 2016 an earthquake measuring 6.2 magnitude on the Richter Scale struck central Italy, killing at least 292 people.

# Taxation

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## Resident/Non-resident

A company is resident for tax purposes if its legal seat, place of effective management or main business activity is in Italy for the greater part of the fiscal period (at least 183 days).

A foreign company that holds a controlling participation in an Italian company is deemed to have its place of effective management in Italy and, therefore, to be resident in Italy for corporate tax purposes if the foreign company is controlled by an Italian resident or managed by Italian residents representing the majority of its board of directors.

## Tax Authorities

Ministry of Finance

Tax Income Agency (Agenzia delle entrate).

## Tax Year/Filing

The tax year corresponds to the company's financial year. If a financial year is not so determined, or is longer than two years, then the tax year corresponds to the calendar year.

A company must file the annual corporate income tax returns - corporate tax (IRES) and regional tax on productive activities (IRAP) electronically within nine months of following the end of the financial year.

Two advance payments of corporate income tax must be made throughout the year. The first installment is 40% of the amount of corporate income tax paid in the previous year, and the second is 60% of the previous year's tax. A company whose financial year does not correspond to the calendar year must make advance payments by the 16th day of the sixth month and by the end of the 11th month after the end of the financial year.

Tax consolidation is available to domestic groups, i.e. an Italian parent company and its resident subsidiaries that are under its direct or indirect control. Each subsidiary in the group is free to choose whether or not to consolidate. The control requirement is met when the parent company holds more than 50% of the share capital of another company and is entitled to more than 50% of the profits of that company.

Domestic consolidation also may be adopted if the controlling entity or a subsidiary (with an Italian branch) is a non-resident company, but only if that company is resident in a country that has concluded a tax treaty with Italy and carries on business activities through a permanent establishment (PE) in Italy, and the participations are allocated to the Italian PE.

Under domestic consolidation, a single taxable income is calculated for all consolidated companies. Once an election for consolidation is made, it may not be revoked for three years

unless the subsidiary ceases to be controlled by the parent company. Domestic tax consolidation is not available to companies benefiting from a reduction of the corporate tax.

If certain requirements are met, a worldwide tax consolidation regime is available, under which all foreign controlled companies must be included in the tax group (i.e. the 'all in-all out' principle).

Tax consolidation is not available for IRAP purposes.

## Corporate Taxation

Resident companies are taxed on worldwide income; non-resident companies are taxed on Italian-source income only.

The corporate tax (IRES) rate is 27.5% on residents' worldwide income and non-residents' Italian-sourced income.

Italy's stability law for 2016 provides for a reduction of the corporate income tax rate from 27.5% to 24% as from January 1, 2017. For banks and other financial institutions, the tax rate will remain 27.5%.

A regional tax on productive activities (IRAP) is levied on the net value of the production derived in each Italian region by resident companies. The rate is generally 3.9%. (Each region may apply an additional increment of up to 1%.) IRAP is calculated on the net added value of production as defined by the relevant tax rules (but basically derived from statutory accounts). Net added value of production comprises the value of production minus some costs of production. In particular, the following are not relevant in determining the taxable base for IRAP purposes:

- employment costs (excluding social contributions);
- extraordinary revenue and expenses; and
- financial revenue and expenses.

For banks and other financial institutions/companies (including holding companies), the ordinary IRAP rate is 4.65%, and for insurance companies, the rate is 5.9%.

If the taxpayer has interest expense, 10% of the annual IRAP paid is deductible from the IRES taxable base. IRAP paid in connection with non-deductible employment expenses also is deductible from the IRES taxable base.

As the IRAP taxable base is different from the IRES taxable base, for many companies the actual rate tends to be higher.

IRAP applies to entrepreneurs, professionals and artists. As a general rule, the taxable base is equal to the "value of the production," to be computed on the basis of the profit and loss account. Different rules apply for commercial and manufacturing enterprises and for banking and financial institutions. It is levied by the region where the business is established. In the case of several establishments, the tax would be apportioned between the various regions. For commercial and manufacturing enterprises, the taxable base is the difference between the value of the

production in the tax year (i.e. gross proceeds plus the increase in inventory plus work in progress) and the costs of production (i.e. the costs of raw and other materials, the costs of services, the depreciation of tangible and intangible assets, the decrease in inventory of raw and other materials, provisions for risks, and miscellaneous costs).

'Non-operating' entities are subject to a 38% corporate tax rate.

There is no alternative minimum tax, but a presumptive taxable income applies to non-operating companies under certain conditions.

Incentives are available in the form of capital grants, "easy-term" loans or tax credits. Some incentives are granted automatically if specified requirements are met; others require the completion of evaluation procedures. Certain incentives must be negotiated.

Starting from 2015 (i.e. from the 2015 fiscal year, the calendar year taxpayers), Italian companies and Italian branches of foreign companies may apply for a new, optional patent (intellectual property (IP)) box regime, provided certain conditions are satisfied. The regime provides an exemption (for both IRES and IRAP purposes) for a percentage of the revenue deriving from the licensing or direct exploitation of qualifying IP, and an election into the regime is irrevocable for five years. The exemption amounted to 30% for 2015, and is 40% for 2016 and 50% in subsequent years.

Losses may be carried forward and offset against corporate taxable income. As from 2011, tax losses are no longer subject to a five-year expiration period, even for losses incurred in previous years. However, 20% of a year's taxable income cannot be offset against tax losses carried forward and will be subject to corporate tax. Losses incurred by a company during the first three taxable periods may be carried forward and used in full to offset corporate taxable income, but only if they relate to a new business activity (e.g. the losses may not have been incurred in the course of a merger or business contribution). The carryback of losses is not permitted.

### Advance Tax Ruling Availability

Advance rulings relating to transfer pricing may be obtained from the tax authorities.

Such rulings also may apply to dividends and royalties. A ruling may be requested from the authorities to avoid application of the controlled foreign companies regime and the non-operating company regimes or anti-abuse provisions or to obtain the correct interpretation of an unclear tax provision.

### Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income	Branch Remittances
Resident companies	0%/26%	None	None	None	NA
Non-resident companies	12.5%/26%	1.375%/26%	22.5%	30%	None

Interest payments between resident companies are not generally subject to withholding tax. A withholding tax of 26% is levied on short, medium and long-term deposits held by residents in banks.

Interest on loans to non-residents bears withholding tax at a rate of 26%.

Interest derived from a direct/indirect investment in government bonds and similar securities is subject to withholding tax at a rate of 12.5% (domestic exemptions apply). Under Italy's implementation of the EU interest and royalties directive, qualifying interest payments are exempt from withholding tax.

There is no withholding tax on interest payments from resident to non-resident companies related to a current account, provided that a double tax treaty is in place and the non-resident company is not resident in a tax haven. Careful structuring will be required for cash pooling arrangements to be considered eligible for such treatment.

Deposits and accounts held by non-residents are excluded from taxation in Italy.

For dividend payments to non-residents, the withholding tax on dividends is equal to 1.375% on dividends paid to eligible entities that are EU resident and 26% on dividends paid to non-EU-resident entities. These rates may be reduced by tax treaties. A zero-rate withholding tax can be applied under the EU Parent-Subsidiary Directive.

Royalties paid to non-residents are liable to withholding tax at a rate of 30%. The taxable income is equal to 75% of the royalties' value. Therefore, the effective tax rate is 22.5%.

For interest and royalty payments between EU-resident group companies, no withholding tax is applicable, provided certain conditions are met.

## Transfer Pricing

The business income of a resident enterprise arising from transactions with non-residents that directly or indirectly control the resident company, are under the control of the resident company or are controlled by the same entity that controls the resident company is assessed on the basis of the arm's length value of the goods transferred, services rendered or services received.

OECD guidelines generally are followed to determine the arm's length price and both the traditional methods (comparable uncontrolled price, cost-plus and resale price methods) and profit-based methods (such as the transactional net margin method) are used and may be acceptable based on the specific circumstances.

Transfer pricing documentation is not mandatory (but see under 'Disclosure requirements,' below), but a taxpayer can obtain protection against penalties in the event of a transfer pricing adjustment by maintaining appropriate documentation and disclosing the existence of that documentation in the annual income tax return.

## Anti-abuse Provisions

Other specific anti-abuse provisions may apply. These primarily target tax havens (e.g. costs incurred with blacklist entities are deductible only if specific conditions are satisfied), losses and interest expense carryforward in the case of extraordinary transactions (e.g. mergers and demergers), withholding tax exemptions under EU directives and the assessment of Italian tax residence for foreign entities.

Taxpayers also are subject to a broad anti-abuse provision aimed at recapturing undue tax benefits from specific transactions lacking a business purpose.

The 'abuse of law' doctrine, emphasizing the importance of a business purpose in any transaction where tax savings are generated, also may apply.

## Disclosure Requirements

A country-by-country reporting obligation has been introduced requiring certain multinational entities to submit an annual report showing the amount of their revenue, gross profit, taxes paid and accrued and other indicators of actual economic activity.

## Thin Capitalization

Italy does not have thin capitalization rules per se, but net interest expense is deductible only up to an amount equal to 30% of EBITDA (plus financial leasing installments). Both excess interest and EBITDA may be carried forward indefinitely to increase the deduction of interest expenses in a subsequent year.

Companies included in a consolidated group may offset the non-deductible excess amount against 30% EBITDA not used by other entities in the group. A virtual tax consolidation of a foreign company is permitted for the sole purpose of the 30% EBITDA computation.

In addition, a deduction is permitted from corporate tax of a notional yield of the annual equity increases (with certain exclusions and deductions) for calendar year taxpayers. The notional yield will be 4.5% for the 2015 fiscal year, 4.75% for the 2016 fiscal year and will be determined annually as from the 2017 fiscal year. The deduction is available each year, provided the equity increase is not diminished.

Provided that Italy obtains the EU Commission's authorisation, an increase equal to 40% of the equity could temporarily apply for listed companies with shares traded on an EU stock market.

## Stamp Duty

Stamp duty is levied on legal and banking transactions at varying rates.

See also 'Financial transactions/banking services tax'.

## Tax Treaties/Tax Information Exchange Agreements (TIEAs)

Italy has concluded more than 100 tax treaties. Different rates of withholding tax can apply on interest, dividends and royalties, depending on the terms of the agreement with the particular country.

Italy has exchange of information relationships with 116 jurisdictions through 105 double tax treaties and 11 TIEAs ([www.eoi-tax.org](http://www.eoi-tax.org), January 2016).

On January 27, 2016, (name of country)Italy, as part of the OECD/G20 Base Erosion and Profit Shift (BEPS) initiative, signed a multilateral co-operation agreement with 30 other countries ("the MCAA"). Under this multilateral agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises (MNE).

With Country-by-Country reporting tax administrations of jurisdictions where a company operates will have aggregate information annually relating to the global allocation of income and taxes paid, together with other indicators of the location of economic activity within the MNE group. It will also cover information about which entities do business in a particular jurisdiction and the business activities each entity engages in. The information will be collected by the country of residence of the MNE group, and will then be exchanged through exchange of information supported by such agreements as the MCAA. First exchanges under the MCAA will start in 2017-2018 on 2016 information.

Other signatory countries are:-

- Australia, Austria, Belgium, Chile, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Japan, Liechtenstein, Luxembourg, Malaysia, Mexico, Netherlands, Nigeria, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland and United Kingdom.

## VAT/TVA (including Financial Services)

VAT is levied on almost all goods and services and on imports.

The standard rate is 22%, with lower rates of 4%, 5% (applicable from January 1, 2016) and 10% applied to many goods and services.

VAT exemptions apply to financial services, medical services, gaming and gambling, export sales and the contribution of assets to a company (e.g. purchases of capital goods). Importers pay VAT on invoice plus duty, at rates equal to those borne by locally made products.

The financial law for 2015 introduced a safeguard clause which provides that, under certain conditions, the standard 22% rate and the reduced 10% rate will be increased as follows: 24% and 12% in 2016; 25% and 13% in 2017; and in 2018, the standard rate will be 25.5% with no change to the reduced rate. Exports and intra-Community supplies are zero rated.

A taxpayer carrying out taxable supplies in Italy is required to register for VAT purposes.

## Capital Gains Tax

Capital gains generally are treated as ordinary income and taxed at the 27.5% corporate income tax rate. Capital gains derived from the sale of participations, however, are 95% exempt from taxation if the following requirements are met:

- The participation has been held continuously at least for a period that may range between 12 and 13 months; and
- The participation is classified as a financial fixed asset in the first financial statement closed after the participation was acquired; and
- The company in which the participation is held is not resident in a country on the black list of tax havens annexed to Italy's CFC legislation; and
- The company in which the participation is held carries out a business activity (this requirement will not be met if assets are represented primarily by real property not used in the business activity).

The last two conditions must have been satisfied continuously over the last three years (or less if the company's life is shorter).

## Financial Transactions/Banking Services Tax

A 'Tobin tax' applies in the form of a stamp duty on transfers of shares and other financial instruments issued by Italian companies (including derivative instruments, if one of the parties to the transaction is Italian tax-resident). The tax rate for 2014 is 0.20% of the transaction value, reduced to 0.10% where the sale takes place on a listed market (a flat tax is applied on the value of derivative instruments).

## Cash Pooling

Cash-pooling arrangements are neither defined nor governed by Italian civil and tax legislation.

Where the interest payments under cash-pooling arrangements are on balances which qualify as a 'current account' (i.e. cash deposits different from a loan), these payments should be exempt from withholding tax under domestic provisions.

Following clarifications issued by the Italian Ministry of Finance, it is likely that 'notional' cash pooling could be considered to have more similarities to a loan agreement than to a current account agreement for tax purposes. In this case, the 20% (or lower conventional rate) withholding tax would apply.

## Real Property Taxes

The municipal authorities levy tax on the possession of immovable property at various rates, depending on the municipality.

The transfer of real property situated in Italy is subject to transfer tax (registration, mortgage and cadastral tax) and/or VAT, with the rate depending on the property transferred, the status of the transferor and other factors.

## **Payroll and Social Security Taxes**

There is no payroll tax payable by employers.

Employers need to withhold tax (in relation to personal income tax) and social security charges on salaries paid to employees.

Taxes are due by the 16th of the subsequent month in which the salaries are paid. Employers are liable for social security contributions at varying rates of around 40% depending on the type and size of the business and the rank of the employee. These contributions are deductible for tax purposes.

Tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2016 (see [www.deloitte.com](http://www.deloitte.com)).

# Cash Management

## Banking System

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### Banking Regulation

#### Banking Supervision

##### *Central bank*

The Italian central bank is the Banca d'Italia. It was established in 1893 and is based in Rome. Its authority currently derives from the Consolidated Law on Banking and the Banca d'Italia Statute.

Within Italy, it is the banker to the federal government and to other banks. It issues currency (under the authority of the European Central Bank - ECB), manages Italy's monetary reserves and supports Italian government economic policy. It also oversees the operation of the country's payment systems and supervises the banking sector.

As Italy is a participant in the eurozone, some central bank functions, notably the responsibility for setting and implementing monetary policy, are shared with the other members of the European System of Central Banks (ESCB). Within the ESCB, the main objective is to maintain price stability.

##### *Other banking supervision bodies*

Since November 4, 2014, the ECB has been granted a supervisory role to monitor the financial stability of banks within the eurozone via the Single Supervisory Mechanism (SSM), in accordance with the EU's SSM Regulation No 1024/2013 conferring specific tasks on the ECB with regard to the prudential supervision of credit institutions. The ECB has final supervisory authority while member states' national supervisors now provide a supporting role. The ECB directly supervises 129 "most significant" banks. Crisis resolution for all banks in countries adhering to the SSM is managed by the Single Resolution Mechanism.

The ECB possesses the authority to conduct supervisory reviews, on-site inspections and investigations; grant/withdraw banking licences; assess bank acquisitions; ensure compliance with EU prudential rules; and, if required, to set higher capital requirements to counter financial risks.

Bank supervision within Italy is performed by its national competent authority, the Banca d'Italia.

The Italian Securities and Exchange Commission (CONSOB) regulates the securities sector.

#### Central Bank Reporting

##### *General*

Italy applies central bank reporting requirements. These have been managed by the Banca d'Italia since January 1, 2008, when it absorbed the Italian Statistical Office (Ufficio Italiano dei Cambi - UIC). Central bank reporting requirements follow the rules set out in the 1988 Exchange Reform

Law, the Legislative Decree 195/2008 and the Ruling of the Banca d'Italia of December 16, 2009.

#### *What transactions - listed*

Resident companies report their transactions with non-residents to the Banca d'Italia on a periodic basis (monthly, quarterly or annually subject to the report and company profile). Monthly and quarterly data must be reported within 30 days of the end of the reference period. Annual data must be reported within six months of the end of the reference year.

#### *Whom responsible*

A representative sample of around 7,000 resident companies are required to submit periodic reports directly to the Banca d'Italia.

#### *Additional reporting for liquidity management schemes*

There are no additional reporting regulations.

### Exchange Controls

#### *Exchange structure*

Italy is a full participant in the eurozone currency union. Italy's former currency, the Italian lira (ITL), was converted to the euro on January 1, 1999 at the conversion rate of EUR 1 = ITL 1,936.27. The euro has a free floating exchange rate.

#### *Exchange tax*

There is no exchange tax.

#### *Exchange subsidy*

There is no exchange subsidy.

#### *Forward foreign exchange market*

There are no restrictions on forward foreign exchange transactions.

#### *Capital flows*

There are no restrictions on capital transactions, except in specific areas of foreign investment.

Foreign investors are not permitted to acquire the following: a majority participation or a controlling interest in the media; a majority interest in Italian flag vessels and airlines (with the exception of investors from within the EU) or a controlling interest in ship-owning companies.

#### *Loans, interest and repayments*

There are no controls on the provision of loans by commercial banks or the payment of interest.

#### *Royalties and other fees*

There are no restrictions.

#### *Profit remittance*

There are no restrictions on the remittance of profits into or out of Italy.

## Bank Account Rules

Resident entities are permitted to hold fully convertible domestic (EUR) and foreign currency bank accounts domestically and outside Italy.

Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Italy. Non-residents are also permitted to hold domestic currency accounts outside of Italy.

To open a bank account, a company must supply a list of authorized signatories and a copy of its registration documents along with the appropriate account opening documentation and proof of identity for the person who is to operate the account.

## Anti-money Laundering and Counter-terrorist Financing

- Italy has enacted anti-money laundering legislation, including legislation implementing the first three EU anti-money laundering directives and counter-terrorist financing legislation (Law No. 197 of 1991, which has since been amended extensively; Decrees No. 141, 142 and 143 of 2006, Decree No. 231 of 2007 as amended, and Decree No. 78 of 2010 as amended). The Bank of Italy and the FIU have also issued related Instructions and guidance notes.
- A Financial Action Task Force (FATF) member, Italy observes most of the FATF+49 standards. Italy is also a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) with observer jurisdiction status.
- Italy has established a financial intelligence unit (FIU), housed within the Bank of Italy, which is a member of The Egmont Group.
- Account opening procedures require formal identification of the account holder and beneficial owners.
- Anonymous accounts are prohibited, as are bearer passbooks with a balance exceeding EUR 2,500.
- Financial institutions are required to adopt a risk-based approach to on-going CDD.
- Relationships with shell-banks are prohibited.
- Financial institutions in the broadest sense (with the exceptions of credit reference services) are required to record and report to the FIU suspicious transactions plus all occasional transactions above EUR 15,000 or several transactions aggregating to EUR 15,000.
- Financial institutions are required to maintain a centralized electronic AML database for all transactions (including wire transfers) over EUR 15,000 and to submit this data monthly to the FIU.
- All cross-border transactions involving suspicious, non-declared or falsely declared currency and other bearer instruments must be reported.
- All credit card or e-payment transactions of EUR 3,000 must be reported to the Agenzia delle Entrate.

- Individuals entering or exiting the EU must declare currency of EUR 10,000 or more to the customs authorities.
- Financial institutions must file all account information with the central archive. These records must be kept for a minimum of ten years.

Data as at January 2016.

## Banking Sector Structure

### Major Domestic Banks

Bank	Total assets (USD million) December 31, 2015
UniCredit	934,340
Intesa Sanpaolo	734,603
Banca Monte dei Paschi di Siena	183,529
Banca IMI	167,272
Banco Popolare	130,861
UBI Banca	127,268
Banca Nazionale del Lavoro	84,151
Mediobanca	78,699*

\* As at June 30, 2015.

Source: [www.accuity.com](http://www.accuity.com)

### Overall Trend

Italy has a large number of credit institutions (641), most of which are small, Italian-owned banks, such as the 359 mutual savings and 31 cooperative banks. There is a significant foreign banking presence in Italy, with 84 branches of foreign banks and 23 subsidiaries of foreign banks.

There are two main domestic banks, UniCredit and Intesa Sanpaolo, providing the full range of banking services to corporate clients. Together the country's five largest banks account for approximately 40% of the banking sector's total assets. In addition, most of the major international cash management banks operate in Italy and also provide banking services to corporate clients.

There has been some significant merger activity among the larger domestic banks as a result of banking reforms in the 1990s. The reforms included privatization and the abolition of specialization in operations, which has led to the disappearance of over 300 banks. Consolidation has continued throughout the last decade. The most significant changes include the formation of Intesa Sanpaolo from the January 2007 merger of Banca Intesa and Sanpaolo IMI and the merger of Capitalia into UniCredit Group, creating Europe's then largest bank by market capitalization. The Banca d'Italia now permits acquisition of domestic banks by foreign banks, as a result of pressure from the EU and the international banks.

The government responded to the effects of the global financial crisis on the Italian banking sector by introducing new measures on October 8, 2008, enabling the government to acquire direct stakes in struggling banks and to underwrite banks' recapitalization. In addition, the government created a EUR 12 billion bank aid scheme to provide funding for Italy's leading banks. UniCredit, Intesa Sanpaolo, Banca Popolare, Banca Monte dei Paschi di Siena, and Banca Popolare di Milano all requested financial aid.

In March 2015, Italy's parliament converted into law new governance rules for the country's largest mutual savings banks. The ten largest of Italy's mutual savings banks are being transformed into joint-stock companies over an 18-month period and the previous system where shareholders were each permitted a single vote regardless of their stake has now been abandoned. Potential mergers are therefore less likely to be rejected.

In March 2016, Banco Popolare and Banca Popolare di Milano agreed to merge and create Italy's third largest bank in terms of assets after UniCredit and Intesa Sanpaolo. The merger is awaiting shareholder approval.

Italy's long recession has left around EUR 360 billion in non-performing bad debts. In April 2016, a group of banks and financial institutions agreed to create the Atlante fund to bail out troubled credit institutions and help stabilize the banking sector whose shares fell by almost a third in the first quarter of 2016. On May 1, Atlante bailed out Banca Popolare di Vicenza and will now restructure the bank with the aim of selling it. In the longer term, the Atlante fund is expected to purchase some of the sector's bad debts.

In July 2016, the IMF asserted that, although Italy had begun to recover from a prolonged recession, the high number of bad loans and slow judicial procedures were negatively affecting bank balance sheets. The IMF has thus urged a reform of the financial sector.

# Payment Systems

## Overview

The two main payment systems used in Italy are the pan-European TARGET2 RTGS system and a multilateral net settlement system, BI-COMP.

High-value and urgent EUR payments are processed via the pan-European TARGET2 RTGS system, which replaced BI-REL, Italy's former RTGS system, on May 19, 2008. TARGET2's Single Shared Platform (SSP) is operated by the Banca d'Italia along with Germany's Bundesbank and the Banque de France.

BI-COMP is the national retail payment system. It is divided into two subsystems: Rete Dettaglio and Recapiti Locali. Operated by both the SIA Group (a company owned by the Banca d'Italia and a consortium of domestic banks) and the Italian Co-operative Banks' Central Institute (ICBPI Group), Rete Dettaglio processes non-urgent domestic electronic payments and low-value checks and bankers drafts. Recapiti Locali, operated by the Banca d'Italia, processes checks greater than EUR 3,000 and bankers' drafts greater than EUR 12,500. Paper-based items below these amounts are truncated for processing through Rete Dettaglio.

Equens S.p.A. (created as Equens Italia in November 2008 by the Dutch-German company Equens SE and the ICBPI Group) acts as a domestic clearing house (Centro Applicativo). It processes Rete Dettaglio payments for the ICBPI Group as well as CartaSi credit card payments. Equens S.p.A. was renamed and became a wholly-owned subsidiary of Equens SE on January 1, 2011. However, the ICBPI Group now has a 20% shareholding in Equens SE as a whole. Equens and Wordline (formerly Atos Wordline) are expected to merge by Fall 2016 to form the 'Equens Worldline Company', which will become the largest pan-European payment processor. Equens also plans to introduce a pan-European instant payment service in 2016.

Some leading Italian banks have migrated to the pan-European ACH, STEP2, to process their domestic retail payments.

The European Clearing Cooperative (ECC), registered on June 23, 2015, is a new European payment platform founded by six European ACHs including Italy's ICBPI. The ECC is expected to commence operations in the second half of 2016 and will facilitate optimized central ACH interoperability, via a multi-cycle model with final settlement at TARGET2. The six ACHs together with ACHs operated by Banca d'Italia (e.g. BI-COMP), Deutsche Bundesbank and Oesterreichische Nationalbank will together process cross-ACH transactions.

EBA Clearing and SIA (which already serves as a technical operator for STEP2) have agreed to develop and implement a pan-European real-time infrastructure for instant EUR payments by the fourth quarter of 2017. The service will align with the ISO 20022 global messaging standards for instant payments.

**High-value**

<b>Name of system</b>	TARGET2 Italy's national component is TARGET2-Banca d'Italia or TARGET2-BI. The Banca d'Italia's Home Account Module (HAM) operates as a domestic RTGS system.
<b>Settlement type</b>	Real-time gross settlement
<b>Settlement cycle</b>	Transactions are settled in real time with immediate finality.
<b>Links to other systems</b>	The TARGET2 system links payment systems in all 24 participating EU member states.
<b>Payments processed</b>	High-value and urgent electronic payments, both domestic and cross-border. The HAM is for domestic payments only. Settlement of net positions from BI-COMP.
<b>Currency of payments processed</b>	EUR
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	07:00 to 18:00 CET, Monday to Friday
<b>System holidays</b>	TARGET2 is closed on weekends plus January 1, Good Friday, Easter Monday, Labor Day (May 1) and December 25 and 26.
<b>Cut-off times</b>	Customer payments = 17:00 CET Interbank payments = 18:00 CET
<b>Participants</b>	At the end of 2015, there were 100 direct participants and 56 indirect participants in TARGET2-BI; 92 direct participants in the HAM.
<b>Access to system</b>	Banks connect via SWIFTNet FIN Y-Copy service. Payments are submitted using SWIFT standard message types.
<b>Future developments</b>	NA

## Low-value

<b>Name of system</b>	Banca d'Italia Compensazione (BI-COMP) Rete Dettaglio
<b>Settlement type</b>	Multilateral net settlement
<b>Settlement cycle</b>	<p>Payments are usually settled in a minimum of two days, though this can vary depending on the bank and payment instrument.</p> <p>The "National Clearing" procedure determines a final multilateral balance for each participant by summing the balances of the Rete Dettaglio and Recapiti Locali subsystems.</p> <p>Net settlement of SEPA credit transfers (SCTs) takes place via TARGET2 at 07:15, 12:00 and 16:30 CET, Monday to Friday. The net settlement of legacy payment instruments and SEPA direct debits (SDDs) only takes place at 12:00 CET.</p>
<b>Links to other systems</b>	STEP2, in which the Banca d'Italia is a participant.
<b>Payments processed</b>	<p>Low-value and non-urgent electronic credit transfers, electronic bank receipts (RIBAs), direct debits, and ATM and POS payments. It also processes truncated, low-value checks and bankers' drafts.</p> <p>BI-COMP has been upgraded to be SEPA-compliant.</p>
<b>Currency of payments processed</b>	EUR
<b>Value and other limits to processing</b>	The maximum threshold for domestic electronic credit transfers is EUR 500,000. Rete Dettaglio processes checks below EUR 3,000 and bankers' drafts below EUR 12,500, which are truncated.
<b>Operating hours</b>	There are no official operating hours.
<b>System holidays</b>	Closed on all TARGET2 holidays.
<b>Cut-off times</b>	Cut-off times vary depending on the bank and are usually concurrent with the bank's operating hours.
<b>Participants</b>	Rete Dettaglio had 74 direct participants at the end of 2015.
<b>Access to system</b>	Via the system's four Centri Applicativi (clearing houses). Payments are submitted in the national interbank network (RNI) format.
<b>Future developments</b>	NA

<b>Name of system</b>	Banca d'Italia Compensazione (BI-COMP) Recapiti Locali
<b>Settlement type</b>	Multilateral net settlement
<b>Settlement cycle</b>	<p>Payments are usually cleared in two days at the clearing houses in Milan and Rome.</p> <p>Payment instructions are submitted to the clearing houses overnight until 09:30 CET. The physical exchange of checks and drafts takes place between 09:30 and 12:00 CET.</p> <p>The "National Clearing" procedure determines a final multilateral balance for each participant by summing the balances of the Rete Dettaglio and Recapiti Locali subsystems.</p> <p>The net balances are settled in TARGET2 at 12:00 CET, Monday to Friday.</p>
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Non-truncated, high-value checks and bankers' drafts
<b>Currency of payments processed</b>	EUR
<b>Value and other limits to processing</b>	Recapiti Locali processes physical checks above EUR 3,000 and bankers' drafts above EUR 12,500.
<b>Operating hours</b>	There are no official operating hours.
<b>System holidays</b>	Closed on all TARGET2 holidays.
<b>Cut-off times</b>	Cut-off times vary depending on the bank and are usually concurrent with the bank's operating hours.
<b>Participants</b>	Recapiti Locali had 37 direct participants at the end of 2015.
<b>Access to system</b>	Physical delivery to the clearing houses in Milan and Rome for processing. Payment information is forwarded by means of the RNI or floppy disk.
<b>Future developments</b>	NA

## Payment and Collection Instruments

### Overview and Trends

The most important cashless payment instruments in Italy are payment cards in terms of volume and credit transfers in terms of value. Card payments have increased steadily, especially in the retail sector. The increased use of electronic and internet banking has led to a growth in the use of electronic payments. However, checks still remain a fairly popular form of payment.

Since January 1, 2008, all debit cards issued by banks in Italy have been SEPA (Single Euro Payments Area)-compliant. The country's banks have offered pan-European SEPA credit transfers (SCT) for EUR-denominated payments since January 28, 2008. SEPA direct debits (SDD) have been available since November 2, 2009. SEPA migration in Italy was finalized for EUR-denominated payments on February 1, 2014 for SCTs and SDDs.

In January 2016, a Revised Directive on Payment Services (PSD2) entered into force. The overall objective of the PSD2 is to increase the competition on the European Union payment market, facilitate innovative payment services and ensure that payment services are safe and offer complete consumer protection. The directive is to be incorporated into the EU members' national laws and regulations by January 2018.

### Statistics of Instrument Usage and Value

	Transactions (million)		% change 2014/2013	Traffic (value) (EUR billion)		% change 2014/2013
	2013	2014		2013	2014	
<b>Checks</b>	252.41	231.51	- 8.3	582.12	533.31	- 8.4
<b>Debit cards</b>	1,225.77	1,390.06	13.4	78.79	88.37	12.2
<b>Credit cards</b>	587.45	643.96	9.6	50.85	53.91	6.0
<b>Credit transfers</b>	1,261.07	1,347.21	6.8	8,033.85	7,290.09	- 9.3
<b>Direct debits</b>	624.34	608.08	- 2.6	356.66	316.88	- 11.2
<b>Card-based e-money</b>	243.98	291.38	19.4	11.75	13.49	14.8
<b>Other payment instruments</b>	292.11	280.51	- 4.0	649.99	617.53	- 5.0
<b>Total</b>	<b>4,487.12</b>	<b>4,792.76</b>	<b>6.8</b>	<b>9,764.00</b>	<b>8,913.57</b>	<b>- 8.7</b>

Source: ECB Payment Statistics, October 2015.

### Paper-based

#### Checks

The use of checks has been in decline in favor of electronic payment instruments, which take less

time for funds to be credited. However, checks remain popular with SMEs and are more frequently used in the south.

All checks above EUR 3,000 and banker's drafts above EUR 12,500 are processed by BI-COMP Recapiti Locali, as are foreign currency checks and checks drawn on foreign banks. Checks and bankers' drafts below these amounts are truncated into electronic items before being cleared through BI-COMP Rete Dettaglio.

### Bills of Exchange

Known locally as *cambiale* or *paghere commerciale*, bills of exchange are only usually used for foreign trade in Italy, and their use is declining in favor of electric forms of payment.

### Credit Transfers

There are two types of low-value legacy paper-based credit transfer still in operation:

- Mediante Avviso (MAV) is a pre-printed, paper-based giro issued by the creditor's bank.
- Bollettino Bancario (Freccia) is a pre-printed, paper-based giro issued by the creditor.

The MAV and Bollettino Bancario have been placed out of the scope of SEPA migration and will remain in use until further notice.

Paper-based credit transfers (giros) remain more popular than their electronic alternative in Italy (See Electronic, Credit Transfer, Low-value). The postal equivalent of the giro is the most popular payment method. Giros are most commonly used in retail transactions.

They are cleared through BI-COMP Rete Dettaglio.

## Electronic

### Credit Transfer

Credit transfers are widely used in Italy and are the leading cashless payment instrument in terms of value. They are used by companies to pay suppliers and salary payments, and are often used for tax and benefit payments.

Domestic and cross-border electronic credit transfers in EUR can be made using the Europe-wide SEPA-compliant XML-based credit transfer format.

### High-value

The Bonifici di Importo Rilevante (BIR), high-value legacy domestic credit transfers above EUR 500,000, were discontinued on February 1, 2014.

High-value and urgent EUR-denominated, domestic and cross-border SEPA credit transfers can be settled via TARGET2. All payments settled through TARGET2 are done so in real time and with immediate finality.

High-value and urgent cross-border electronic payments can also be processed via the Euro Banking Association's EURO1 clearing system for end-of-day value. Thirteen banks in Italy participate in EURO1.

Cross-border transfers in EUR and other currencies can also be processed by bilateral correspondent banking arrangements. The majority of these are processed via SWIFT.

EBA Clearing and SIA (which already serves as a technical operator for STEP2) have agreed to develop and implement a pan-European real-time infrastructure for instant EUR payments by Q4 2017. The service will align with the ISO 20022 global messaging standards for instant payments.

Equens also plans to introduce a pan-European instant payment service in 2016.

### *Low-value*

Bonifici di Importo non Rilevante, low-value legacy domestic electronic credit transfers below EUR 500,000, were discontinued on February 1, 2014.

Non-urgent and low-value domestic SEPA credit transfers are processed through BI-COMP Rete Dettaglio. Most payments are settled within two days.

Low-value cross-border transfers in EUR can be processed via the EBA's STEP1 or STEP2 systems and through banks' traditional correspondent banking relationships or networks.

Participants in BI-COMP can bilaterally clear SCTs with participants in Austria's Clearing Service International (CS.I) retail payments system, and both SCTs and SDDs with the Netherlands' Equens Clearing and Settlement System.

It is expected that participants in BI-COMP will be able to clear cross-ACH SCTs and SDDs with Equens, Greece's DIAS, Spain's Iberpay, Poland's ELIXIR, Romania's SENT, Germany's EMZ and Austria's CS.I by late 2016 via the European Clearing Cooperative (ECC) payment platform. Final settlement will take place via TARGET2.

### *Direct Debits*

Direct debits are used for regular, low-value payments, such as insurance premiums or utility bills.

Italy's domestic legacy preauthorized direct debit (Rapporti Interbancari Diretti - RID) ceased as a form of payment from February 1, 2016.

The legacy non-preauthorized direct debit (Ricevuta Bancaria - RIBA) permits a beneficiary's bank to seek payment from the debtor's bank. In most cases, an electronic message is sent by the creditor's bank to the debtor's bank between one week and 20 days before an agreed due date for the payment. The debtor's bank will then notify the debtor. If payment is not made within three days, the debtor's bank will advise the creditor. Banks and their clients can transmit additional data through a RIBA, but it must be removed before the RIBA is submitted for clearing. The RIBA direct debit is outside the scope of SEPA migration and will remain in use until further notice.

Direct debits are processed through BI-COMP Rete Dettaglio and settled within two days of the due date.

SEPA Direct Debit (SDD) CORE and B2B services have been available since November 2, 2009, enabling cross-border EUR-denominated direct debits to be made. The EBA has been processing SDD payments in STEP2 since the launch of the SDD schemes on that date. Banks have been obliged to accept and process CORE SDDs since November 1, 2010.

### Payment Cards

The use of payment cards continues to increase in Italy, especially among retail consumers, and corporate cards are available through some banks. At the end of 2015, there were approximately 51.3 million debit cards and 13.9 million credit cards in circulation in Italy.

Bancomat/PagoBancomat is Italy's national domestic debit card scheme. Visa V Pay debit cards are also issued by approximately five banks in Italy. Domestic debit card payments are cleared by BI-COMP Rete Dettaglio after being processed by the Bancomat (ATM) and PagoBancomat (POS) networks.

Domestic CartaSi debit and credit cards are issued in conjunction with Visa and MasterCard. CartaSi card payments are cleared by Equens S.p.A.. Some banks, including UniCredit and Intesa Sanpaolo, process their credit card payments in-house. Other credit card payments are cleared by the international card issuing companies.

As of January 1, 2011, all payment cards in circulation should now be SEPA-compliant EMV chip cards.

### ATM/POS

ATMs and POS terminals are increasingly common in Italy. All ATMs and POS terminals in Italy should now be EMV chip-compliant. At the end of 2015, there were 41,061 ATMs and approximately 2.0 million POS terminals nationwide. Most ATMs belong to the Bancomat network, while the majority of POS terminals in Italy belong to the PagoBancomat network.

### Electronic Wallet

There were approximately 25.5 million multi-purpose prepaid cards in circulation at the end of 2015. At present, over 15 million electronic wallet cards are Postepay cards, i.e. Visa/MasterCard prepaid cards issued by Poste Italiane.

Internet-based electronic money schemes are also increasing in number.

# Liquidity Management

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## Short-term Borrowing

### Overdrafts

Both resident and non-resident entities can arrange bank overdrafts.

Fees and charges are negotiable. Banks usually charge a quarterly fee based on the maximum outstanding during the period.

Banks charge their own prime rate for overdrafts. Banks also provide one to two day accounts (*conti a scadenza*).

### Bank Lines of Credit / Loans

Resident and non-resident entities can arrange short-term bank loans (*anticipazioni, anticipi* or *sconti*) of up to six months. These advances can be rolled over at maturity. *Confidi* (local/cooperative funding institutions) mainly provide loans against finished goods, which are commonly backed or guaranteed by local authorities.

Fees and charges are negotiable.

Banks will usually charge interest 50 to 125 basis points less than banks' prime rates and deduct it at the beginning of the advance. Acceptable collateral includes securities, debtors and goods.

### Trade Bills – Discounted

Discounting of commercial bills (*cambiali tratte*) and bills of exchange (*pagheri commerciali*) is available as a form of short-term financing used by companies in Italy.

### Factoring

Factoring is available in Italy, including services both with and without recourse.

### Commercial Paper

Since the introduction of the euro, the market has become more liquid. Funding is available for maturities ranging from three months to one year. Commercial paper is subject to Italian withholding tax.

Any unlisted companies must have at least 50% of their issue guaranteed by a financial institution. The company must also have been profitable for the previous three years.

### Bankers' Acceptances

Bankers' acceptances (*accettazioni*) are available from all major banks and either held or traded by a bank depending on market and the bank's own condition. Funding is usually arranged for up to 90 days.

### Supplier Credit

Supplier credit is available to companies either by paying within the agreed credit terms or just by paying late. However, suppliers are beginning to charge interest for late payments.

### Intercompany Borrowing, including Lagging Payments

Italian groups are permitted to establish intercompany loans; however, they are subject to strict scrutiny from the tax authority. Listed companies are also scrutinized by the securities regulator, Consob.

## Short-term Investments

### Interest Payable on Bank Account Surplus Balances

Interest-bearing checking (current) accounts are available to both resident and non-resident entities.

### Demand Deposits

Interest-bearing sight/demand deposit accounts are available to both resident and non-resident entities.

### Time Deposits

Time deposits are popular short-term investment instruments in Italy. Banks offer them for terms from overnight to one year.

### Certificates of Deposit

Certificates of deposit (CDs) are not commonly used as investment instruments by Italian companies because CDs with a maturity greater than 18 months cannot be cashed before the first 18 months. CDs pay a fixed or floating interest rate, depending on the issuing bank, in maturities ranging from between three months and five years, in major currencies such as EUR, USD, GBP and CHF. A secondary market does not exist.

### Treasury (Government) Bills

Treasury bills (T-bills) are a popular short-term investment instrument for companies. T-bills (*Buoni ordinari del Tesoro - BOTs*) are issued by the Ministry of Finance's Department of the Treasury usually in maturities of three, six and 12 months. BOTs can be purchased easily through financial intermediaries and also online. There is an active secondary market.

Regional, provincial and municipal authorities issue bonds (*buoni obbligazionari regionali/provinciali/comunali*).

### Commercial Paper

Commercial paper is not commonly used as an investment instrument by Italian companies, though many leading Italian companies offer it outside Italy. The most popular type in Italy is the

*cambiale finanziaria* in maturities ranging between three months and one year, with a minimum value of EUR 50,000.

Italian companies can invest in Eurocommercial Paper (ECP). Issuers usually have a published credit rating and issue ECP for maturities under a year in a variety of currencies.

### Money Market Funds

Money market funds have become increasingly available to Italian companies over the last ten years. There is a minimum investment value of EUR 25,000.

### Repurchase Agreements

Repurchase agreements (repos, also known as *pronti contro termine* – PCTs) have become more popular as a short-term investment instrument in Italy in recent years. Approximately three-fifths of repos have a spot-value date. The rest have maturities of one week, one month or three months.

### Bankers' Acceptances

Bankers' acceptances are not a popular short-term investment instrument with companies in Italy. Where available, they usually have maturities of between three and 12 months.

## Liquidity Management Techniques

### Cash Concentration

Cash concentration is the most common practice used by Italian companies to manage company and group liquidity and is offered by all leading Italian banks. Zero-balancing is the most commonly used technique. Some banks also now provide domestic multibank liquidity management services. Different legal entities and both resident and non-resident bank accounts can participate in a cash concentration structure located in Italy.

Although offered by several Italian banks, cross-border structures are rarely located within Italy. Resident companies can however participate in cash concentration structures located elsewhere. Residents may sweep balances to non-resident accounts either daily or weekly.

### Notional Pooling

Notional pooling is not generally practiced in Italy. This is primarily because banks are not allowed to offset debit and credit balances for regulatory purposes. Fiscal regulations also make notional cash pools impractical.

Cross-border notional cash pooling structures do not tend to be located in Italy.

# Trade Finance

## General Rules for Importing/Exporting

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A member of the EU, Italy follows the EU customs code and all associated regulations and commercial policies apply.

All trade with other countries in the EEA (European Economic Area) is free from tariffs and other controls.

The EU has also agreed trade agreements with a number of countries as well as with other regional trade blocs

Three free zones are currently operating in Italy (in Gioia Tauro, Trieste, and Venice).

# Imports

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## Documentation Required

Imports originating outside the EU will normally need to be accompanied by a commercial invoice, a customs declaration and a bill of lading. A certificate of origin may also be required.

Imports originating inside the EU do not require formal supporting documentation, although a commercial invoice should normally be supplied.

## Import Licenses

Textiles from North Korea and Belarus and wood from Russia require import licenses with quotas. Steel products originally from Kazakhstan also require licenses with quotas.

## Import Taxes/Tariffs

As a member of the EU, Italy applies the common customs code to all imports originating from outside the EU. In general terms, the EU customs code applies higher levels of tariffs on agricultural imports.

## Financing Requirements

There are no particular financing requirements for imports.

## Risk Mitigation

Italy does not operate a national risk mitigation program for importers.

## Prohibited Imports

Italy prohibits imports in line with EU regulations and UN Security Council resolutions. Imports are prohibited in order to protect national security, to preserve wildlife, and for safety and moral reasons.

# Exports

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## Documentation Required

Exports to countries outside the EU will normally need to be accompanied by a commercial invoice, a customs declaration and a bill of lading. A certificate of origin may also be required.

Exports to countries within the EU do not require formal supporting documentation, although a commercial invoice should normally be supplied.

## Export Licenses

Any items subject to international controls require export licenses.

Ministerial authorization is required for exporting dual-use items.

## Export Taxes/Tariffs

Italy does not levy taxes or tariffs on exports.

## Proceeds

There are no restrictions on the use of export proceeds.

## Financing Requirements

There are no particular financing requirements for exports.

## Risk Mitigation

Export financing is available from commercial banks.

The state-owned Gruppo SACE (Servizi Assicurativi del Commercio Estero) provides state-supported credit insurance for exports in Italy.

Private export credit insurance is also available from several commercial entities.

## Prohibited Exports

Italy prohibits exports in line with EU regulations and UN Security Council resolutions.

# Information Technology

## Electronic Banking

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Italian companies commonly use electronic banking services. Bank-independent CBI (Customer to Business Interaction) Consortium electronic banking standards have been developed by the Italian Bankers' Association (ABI) and are used by over 1 million companies in Italy. A range of electronic banking services are available, from daily transaction and balance reporting, to domestic and international transaction initiation.

Although internet banking has gradually been adopted by Italian companies, it is more common in the retail banking sector.

CBI Consortium offers end-to-end security, electronic exchange of invoices, invoice financing, SEPA credit transfers (SCTs) and direct debits (SDDs), and structured statements (for domestic and cross-border operations). CBI Consortium's online platform is mandatory for banks in Italy, with the aim of providing better banking services for corporate clients.

SIA has established the SIA EasyCity digital platform, enabling businesses and citizens in Italy to connect to public sector bodies. SIA EasyCity provides the public sector with a series of integrated services, from electronic invoicing to digital payments, and informs the public sector bodies of their debit and credit situation in real-time.

# External Financing

## Long-term Funding

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### Bank Lines of Credit / Loans

Medium and long-term financing is available in the form of term loans, stand-by lines of credit and revolving lines of credit. Companies automatically roll over advances in order to avoid the 0.25% tax on any borrowing over 18 months, thus classifying the loan as a short-term loan. Alternatively, banks provide evergreen facilities.

Domestic currency-denominated bank loans are usually arranged at a floating rate at a margin to Euribor (euro interbank offered rate), although some have fixed interest rates. The precise margin is dependent on general market conditions, the creditworthiness of the borrower and the nature of any guarantees and other credit enhancements in place. Multi-currency loans are available.

Commercial mortgages can be arranged for a minimum term of five years, usually for a maximum of 80% of a property's value (although more can be arranged if additional guarantees or security are provided).

### Leasing

Leasing is a popular form of longer-term finance for Italian companies. It is used to finance a range of underlying assets, whose nature determines the term of the lease contract. Leases must be for at least half the normal depreciation term for the class of asset. Typically, leases are available for terms of two to five years, and must be at least two years for a vehicle.

Leases can be set with fixed or floating rates of interest. They may give the lessee the option to purchase the underlying asset at the end of the lease term. Leases can also be arranged as an operating lease (where maintenance costs are covered by the leasing company).

### Bonds

A range of bonds are available, usually in either EUR or USD, including convertible bonds, paying fixed and floating interest.

Listed companies can issue bonds without limits to the amount issued. In most cases, unlisted companies may only issue bonds to the general public up to a maximum of twice their net worth. These limits do not apply to issues to institutional investors or if the issue is secured by real estate.

Certificates of investments are issued by smaller companies for terms of 12 to 36 months.

Securitized assets serve as collateral for certificates of investment, or they are supported by a bank guarantee. The issuer must have reported profits for the three years prior to the issue.

## Private Placement

The private placement of bonds is uncommon due to the lack of transparent financial information and formal credit ratings.

## Asset Securitization / Structured Finance

Securities can be issued supported by a range of assets. All forms of companies, including banks, have issued asset-backed securities, although they have been especially popular with public sector companies and the Italian government.

## Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The EU's structural funds are available to finance infrastructural development. However, with the growth in size of the EU, the funds available for such investment have to be distributed to more countries. Funds are also available through the European Investment Bank and the European Investment Fund.

Regional and local governments have adopted most of the responsibility for financing infrastructure projects. Private finance is encouraged. However, providers of private finance to support public sector projects can be dissuaded by the associated bureaucratic processes.

# Useful Contacts

## National Treasurers' Association

Italian Association of Corporate Treasurers — [www.aiti.it](http://www.aiti.it)

## National Investment Promotion Agency

National Agency for Inward Investment Promotion and Enterprise Development (Invitalia) — [www.invitalia.it](http://www.invitalia.it)

Italian Trade Promotion Agency — [www.italtrade.com](http://www.italtrade.com)

## Central Bank

Banca d'Italia — [www.bancaditalia.it](http://www.bancaditalia.it)

## Supervisory Authority

Banca d'Italia — [www.bancaditalia.it](http://www.bancaditalia.it)

## Payment System Operators

SIA Group — [www.sia.eu](http://www.sia.eu)

Istituto Centrale Banche Popolari Italiane (ICBPI) Group — [www.icbpi.it](http://www.icbpi.it)

Equens SE — [www.equens.com](http://www.equens.com)

European Clearing Cooperative — [www.euroclearingcooperative.com](http://www.euroclearingcooperative.com)

CartaSi — [www.cartasi.it](http://www.cartasi.it)

CBI (Customer to Business Interaction) Consortium — [www.cbi-org.eu](http://www.cbi-org.eu)

## Banks

UniCredit Group — [www.unicreditgroup.eu](http://www.unicreditgroup.eu)

Intesa Sanpaolo — [www.intesasanpaolo.com](http://www.intesasanpaolo.com)

Banca Monte dei Paschi di Siena — [www.mps.it](http://www.mps.it)

Banca IMI — [www.bancaimi.com](http://www.bancaimi.com)

Banco Popolare — [www.bancopopolare.it](http://www.bancopopolare.it)

UBI Banca — [www.ubibanca.it](http://www.ubibanca.it)

Banca Nazionale del Lavoro (BNL) — [www.bnl.it](http://www.bnl.it)

## Stock Exchange

Borsa Italiana — [www.borsaitaliana.it](http://www.borsaitaliana.it)

## Ministry of Finance

Ministry of the Economy and Finance — [www.tesoro.it](http://www.tesoro.it)

Department of the Treasury — [www.dt.tesoro.it](http://www.dt.tesoro.it)

## Chamber of Commerce

Italian Chambers of Commerce — [www.camcom.gov.it](http://www.camcom.gov.it)

## Bankers' Associations

Italian Banking Association — [www.abi.it](http://www.abi.it)

Italian Corporate and Investment Banking Association — [www.aicib.net](http://www.aicib.net)

Italian Federation of Co-operative Credit Banks — [www.confcooperative.it](http://www.confcooperative.it)

Italian Private Banking Association — [www.aipb.it](http://www.aipb.it)

National Association of Private Banks — [www.assbank.it](http://www.assbank.it)

Association of Foreign Banks in Italy — [www.banchestere.it](http://www.banchestere.it)