

# Monte Titoli, Competitiveness Guaranteed

## Interview with Pierluigi Dimonopoli, Head of Issuer Services

**Pierluigi Dimonopoli discusses the central depository of Borsa Italiana (the Italian Stock Exchange) and its activities, which are not limited to the safekeeping of securities, but encompass a wide range of services that contribute to developing the Italian capital market**

According to the common stock exchange glossary, a central depository is a company that holds financial securities in safekeeping to facilitate the exchange of property. This is a useful definition to understand its role, but it does not capture the complexity of the services offered, which go far beyond safekeeping. An example comes from the recent news, with the introduction of Commercial Papers, a valuable alternative source of financing for institutions and companies that has been brought back into fashion thanks to the action of Borsa Italiana's Central Depository, the company Monte Titoli.

In order to better understand the role and importance of this company, we turned to its Head of Network Management and Issuer Services, Pierluigi Dimonopoli; someone who, with more than 35 years of experience in securities, is also a key witness to the evolution of this segment.

### **Pierluigi, let's start from the beginning. How and when did Monte Titoli come about?**

«It was founded in 1978: the Italian stock market was expanding, and an entity was needed to finalise the operations carried out on the Stock Exchange. Until then debt instruments were all managed by the Bank of Italy. With Law No.289 of 1986, Monte Titoli became the sole Depository of all Italian financial instruments. It almost seems like we are talking about another world: it was the era of stockbrokers, of shouted deals, of coupon detachments made by cutting up certificates with scissors. Obviously everything took place on paper. Monte Titoli had one of the largest automated vaults in Europe to hold the certificates, with automatic arms that took the securities from the drawers. I remember that many professionals and foreign institutional investors would come by just to visit the vault.. Today all this no longer exist; processes have been digitised. Monte Titoli's role was further strengthened in 2000, when the Bank of Italy stopped being the Depository of Government bonds, which were instead centralised here. Moreover, in 2015 we were among the first to join the common Target-2-Securities platform, managed by the ECB, in which all transactions are settled in central bank money.»

### **Could you expand on the role of a Central Depository?**

«On the one hand, managing the life cycle of the financial instruments centralised in it; on the other hand, regulating all transactions carried out by intermediaries both on regulated markets and over the counter (OTC) market. To give you an idea of our size: Monte Titoli currently manages a portfolio of deposited securities of 3.3 trillion euros, with over 40,000 financial instruments including shares, government securities, debt securities, ETFs and certificates. When I say that we "manage a security", I mean that we follow it throughout its life, from the moment it is listed onwards, including extraordinary events such as capital increases, coupon payments, dividend payments and so on. To date we have a client base of 188 intermediaries and over 2,600 issuers. This can be considered our main mission».

### **Then there's a set of "extra" services available to your issuers (which could be banks, fund companies, etc.). Could you briefly tell us about them?**

«One of Monte Titoli's strengths is its ability to provide both standard solutions, which do not require any particular administrative actions - for example managing corporate events such as a capital increase, payment of a dividend or notification of the convening of an ordinary shareholders' meeting - and a series of services tailored to meet the needs of the most complex clients. We can do this thanks to our knowledge of the market and a team of top-level experts. One example is the Yankee Bonds, bonds issued by Italian companies but circulating in the United States: we manage the life cycle of the security on behalf of the issuer and are also its tax representatives. Or PIK (payment in kind) bonds, which we have introduced in Italy and which, under certain conditions, allow issuers who do not have cash flows available to pay a coupon to capitalise it for the following period. And then there is all the so-called "intelligence" work we are doing to close the regulatory or infrastructure gaps that prevented us from competing with other European Central Depositories: we are investing time and resources into this, but it is already paying off».

**This brings us to the innovation of the moment, Commercial Papers, an instrument familiar to the rest of Europe, but for which Italy was lagging behind, at least until your intervention...**

«This is how it came about: about a year ago we began to wonder why this instrument did not find fertile ground in our country, and we realised that there was a rule dating back to 1994 that did not allow banks to issue Commercial Papers in Italy, while they could do so across borders through their foreign branches. Our analysis confirmed that this was to all intents and purposes a legislative typo that no longer had any reason to exist. Last February we had the opportunity to present our analysis to the Italian authorities, who seemed to agree with us, but in the meantime the Covid-19 pandemic arrived. We resigned ourselves to the idea of talking about it again after the health emergency had ended. Instead, to our surprise, the Italian government's Relaunch Decree in May 2020 included the abolition of this ban».

**Could you briefly explain what a Commercial Paper is, and its benefits?**

«In very simple terms, it is a short-term bond - with maturities ranging from 1 to 36 months - which is an attractive source of alternative financing to bonds, which generally have a much longer maturity. It is an advantageous tool for issuers, because it can help diversify sources of financing at generally better economic conditions, it is more flexible and has a very low cost. But it is also advantageous for investors - who are mainly money funds and insurance companies - because it is a valid tool for managing their liquidity, with returns higher than the average market returns, and therefore easier to manage because they are not subject to fluctuations».

**This service comes at a particularly delicate time due to the global health emergency. In this sense, could it help to alleviate the burden of the crisis for the companies using it?**

«By their very nature, Commercial Papers are particularly suitable for institutional investors, because they start from a minimum value of 50 thousand euros. I believe that in this early phase they will remain the main target. But as soon as they are better known, the audience will certainly expand to the business world: they will definitely be useful for obtaining liquidity and thus contributing to the recovery of the real economy. In addition, they can help those who constantly have liquidity on their account, which is currently subject to negative rates. Obviously we are talking about a new sector and we need to give the market time to "digest" it. The first feedback we received in this respect is very encouraging.. It is our role to facilitate this kind of innovation».

**In conclusion, a question about your career. How did you come to work at Monte Titoli?**

«I started working at Monte Titoli in 2015, and since then I have been following issuers from the point of view of new product development and liaison, but I have been dealing with securities throughout my career, at companies such as JPMorgan, Mediobanca, HSBC, CITI and BNP Paribas. For thirty years I have lived their evolution. It is incredible how this world has changed. In 1998 the total dematerialisation of securities was introduced, and it was a good thing, it would be unthinkable to control volumes like those we have today while still managing everything on paper. This evolution has also facilitated the transition from monthly transaction settlement to the current standard, where transactions are settled within two days of negotiation. And to think that other Central Depositories around the world have not yet moved to total dematerialisation...».