BREXIT

The Italian job: Milan hoping to clear up after Brexit

Select Milano has set the City's lucrative clearing business in its sights

Select Milano is planning to swoop in on London firms after Brexit *GETTY IMAGES*

By Lucy McNulty
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A group of Italian regulatory experts and entrepreneurs is promoting Milan as a eurozone hub for financial services, as it looks to step into the void created by the UK's departure from the EU.

Select Milano, an independent, non-government organisation, is looking to pick up business that London could lose for regulatory reasons after Brexit. In its sights is the City's lucrative clearing business, which processes around $570 billion of euro-denominated derivatives transactions daily.

Frankfurt and Paris will also be keen to compete for any business that could be up for grabs. Milan, Italy's economic capital, is mounting a charm offensive, touting its established ties to the City - such as the London Stock Exchange Group's ownership of the Milan stock exchange, Borsa Italiana.

Select Milano has been trying to build "a permanent bridge" between London and Milan since 2013, when then-British Prime Minister David Cameron promised to hold a referendum on the UK's membership of the EU.

Bepi Pezzulli, a lawyer, is chairman of Select Milano. He previously managed treasury operations at the European Bank for Reconstruction and Development, and was formerly head of legal and compliance for investment manager BlackRock in Italy, Cyprus and Greece.

Pezzulli met with FN in London in December to discuss the group's plans.

Financial News: Why did you launch this initiative?

Pezzulli: We set up Select Milano in 2013, when the [UK] prime minister announced he was calling a referendum.

We thought that once Brexit hits there [would] be an operation to steal business from the City, and Paris and Frankfurt would [lead that]. But breaking the economic unity of a City cluster isn't good.

Rather than breaking the City cluster, we thought we should expand its perimeter to include Milan. [My] mission in life is to anglicise Milan. I think Italy has got an untapped potential in developing a better financial services industry, [and that] can help the country go back to its former glory.

So how do you plan to anglicise Milan?

Our market infrastructure is already owned by the London Stock Exchange Group. But we're also working to ensure Milan's non-domiciled regime is equivalent to that in effect in Britain, so if you're ultra-high net worth individuals you can 'opt in' a flat tax of €100,000 for 15 years.

We have approached the European Court of Arbitration to allow disputes to be governed by English law.

There's a 50% tax break, too, that was approved in Italy's 2017 financial services bill on December 7, so multinational executives from top banks relocating to Milan will get 50% of their salary tax free for five years. [After five years, the top tax rate is 43.6%.] The Tobin [or financial transaction] tax will lapse on the 31st December, 2016. And we're working on reforming the capital gains tax to align it with England. [We're looking to replicate] a small square mile right in the eurozone.

Who do you hope will benefit?

We're trying to offer solutions to the City of London rather than to individual financial institutions. [We're] targeting the clearing market because, with Brexit, this market will flow back into the eurozone. That's going to be expensive and complex. But I think no more than 11,000 jobs will be lost as a result.

We think some of those jobs could transfer [to Milan], while some jobs will be just created locally.

On December 4, Italy voted to reject constitutional reform as part of a referendum proposed by its then-Prime Minister, Matteo Renzi. How will this affect institutions' willingness to buy-in to Select Milano? Mature democracies come with constitutional steps. The same applies to England. It's democracy. Markets know how to deal with it.

I'm [also] not sure how the constitutional referendum is relevant to the financial stability. So far, no Italian bank has gone bankrupt. There's a bit of drama surrounding [Banca Monte dei Paschi di Siena], but it doesn't really impose a threat to financial stability. I would be way more worried about the financial health of the German banks, nowadays... [By comparison,] Italy is in business.

What are the next steps?

Clearly, Brexit is a wake-up call and reforms are needed. I also don't think that Brexit is going to be the catastrophe [for the UK] that many pundits foresee, because it may be also an opportunity for very pragmatic economic policies. We are competing against Paris and Frankfurt.

Paris has got a very high tax rate and its labour legislation is a nightmare. Frankfurt doesn't really have an infrastructure, no international schools, no universities, no housing stock. [It is also] a real threat to the dominance of the City of London. Milan doesn't threaten the City of London. It's the second-largest industrial [city] in Europe, already clears €10 billion daily, has six universities, housing stock, industrial tissue, research and development, so the whole ecosystem is there.

The new government is business-friendly, is being well received by the markets [and] ... the government backing of Milan's global ambition continues, and [this initiative] is fully funded with €1.5 billion. If conditions allow, we'll do a roadshow in London to ensure the City knows that the doors of the country are open.

What do you make of LSE CEO Xavier Rolet's comments that New York would be the natural alternative to London for euro clearing, due to economies of scale and savings derived from clearing many currencies in one place?

If New York is such a logical location, why hasn't it emerged as such before Brexit? The real driver isn't economies of scale, but whether it is politically acceptable that such a strategic market be located out of the eurozone. We simply don't believe that is likely to happen as Europe should regulate its own market infrastructure.

What do you think of the UK's House of Lords' view that moving euro-denominated clearing to the eurozone presents big risks to both the UK and EU economies?

It is entirely sensible that the right result would be clearing staying in London. But we don't believe that this will be allowed, as the [European Central Bank] needs to be in control of systemic risk within the eurozone. Given, therefore, clearing will leave, we believe that Select Milano's approach - to use the LSE's existing clearing infrastructure and 'place' the business in Milan - is both politically convenient and economically logical. The worst outcome for London is for clearing to move to a potential genuine competitor - Frankfurt.

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