Tax and Legal Issues

Taxation profiles[1]

Significant tax developments

The description included therein is a selection of some significant tax amendments, clarifications and case law that occurred in Italy in 2022 and in the beginning of 2023.

Step-up regime for Italian shareholdings unlisted and listed companies

Article 1, paragraph 109, of Law no. 197/2022 ("2023 Italian Budget Law") reintroduced the chance for resident individuals and non-resident entities (with no permanent establishment in Italy) to opt for a one-off tax step-up of shareholdings in unlisted companies (which include also the companies listed in unregulated markets) held as of 1 January 2023. The provision may be of major interest since it would allow to reduce the tax burden (at a flat rate of 26%) on the possible capital gain that may arise from a later disposal of the same shareholdings. A 16% substitute tax has to be paid on the value of the shareholding as of 1 January 2023, the latter having to be certified by a sworn appraisal dated no later than 15 November 2023. The substitute tax may be either paid one shot within 15 November 2023 or through three annual instalments beginning 15 November 2023. The 2023 Italian Budget Law extended for the first time the step-up regime to securities, units or rights traded on regulated markets or multilateral trading systems, held as of 1 January 2023, for which the "normal value" (with reference to the month of December 2022) may be taken as tax cost instead of the purchase value, provided that the aforesaid value is subject to the substitute tax of 16%.

Step-up regime for OICR units

Article 1, paragraphs 112-114, of 2023 Italian Budget Law, introduced for the first time the possibility to opt for a realignment regime of the tax cost (i.e., subscription or purchase value) of the units of investment funds ("OICR") to their actual value as of 31 December 2022, subject to the payment of a substitute tax (at a rate of 14%) on the difference between the said values. The new rules apply indifferently to units of both Italian and foreign OICR.

The regulation then provides the technical details for exercising the option with intermediaries with whom custody, administration, and portfolio management relationships are maintained (or in the tax return), and for the payment of the substitute tax.

[1] Thanks to Di Tanno Associati.

It follows that if, subsequent to the exercise of the option, there is a sale or redemption (as well as a *switch*) of the units, the sale consideration or redemption value must be compared with the purchase or subscription cost increased by the value subject to the substitute tax in order to determine the taxable differential.

Clarifications are expected from the Tax Authorities whether the realignment is effective also with respect to profits distributed by the OICR, which should fall within the capital income which the law considers as "realized" as a result of the realignment.

This is typically the case for closed-end funds, where the management company may make partial capital redemptions (which reduce the tax cost of the units) and (taxable) income distributions during the life of the fund.

Moreover, clarifications are expected from the Tax Authorities as regards the value to be considered for the purpose of the substitute tax (that resulting from the Banca d'Italia prospectus or from the periodic prospectus made available to the investors) and whether the regime applies also to units with "enhanced economic rights" (i.e., *carried interest*).

Investment Management Exemption

Article 1, paragraph 255, of the 2023 Italian Budget Law, introduces – by amending Article 162 of the Consolidated Law on Income Tax, referred to in Presidential Decree No. 917 of 22 December 1986 (so-called TUIR) – an investment management exemption (IME) which is effective as of 1 January 2023. In a nutshell, the IME is a "safe harbour" regime aimed at providing certainty that foreign investment vehicles (including private equity and hedge funds) and controlled entities will not trigger a permanent establishment (PE) due to local activities carried out in Italy by their investment managers.

The purpose of the IME is to stimulate the placement in Italy of asset managers operating on behalf of foreign investment vehicles. In fact, as noted in the Explanatory Report to the 2023 Italian Budget Law, *"the change to the domestic definition of permanent establishment reflects the need to reduce such a risk"* which *"could have a strong dissuasive effect on the decision to locate 'asset managers' in Italy"*.

The new paragraph 7-*ter* of Article 162 TUIR, therefore, introduces, within the framework of the current regulation of "personal PE", the presumption of independency – from the non-resident investment vehicle – of the asset manager (regardless of whether it is a resident entity or an Italian PE of a non-resident entity) who, in the name or on behalf of the aforementioned vehicle or of its direct or indirect subsidiaries, and even if with discretionary powers, habitually enters into contracts of purchase, sale or negotiation, or otherwise contributes, including through preliminary or ancillary transactions, to the purchase, sale or negotiation of financial instruments, including derivatives and including equity or asset holdings, and loans.

For purposes of the IME, pursuant to subsequent paragraph 7-*quater*, investment man-

agers are deemed independent if all the following requirements are met: (i) the foreign investment vehicle (and its subsidiaries) are resident or located in a white listed Country (i.e., those that have an actual exchange of information agreement in force with Italy); (ii) the foreign investment vehicle meets independence requirements (to be further detailed by a Ministry of Economy and Finance Decree); (iii) the investment manager does not hold any directorship/managing power on controlling bodies of the investment vehicle (and of its subsidiaries), and is not entitled to more than 25% of the foreign investment vehicle's profits (also considering profit entitlements held by other entities of the group); and (iv) the investment manager should support its remuneration by proper transfer pricing documentation in compliance with the arm's length principle (guidelines on the matter should be provided by the Italian Tax Authorities ("ITA")).

In addition, new paragraph 9-*bis* aims to clarify that an Italian entity carrying out activity in Italy does not constitute an Italian PE fixed place of business of the foreign investment vehicle merely because the activity exercised by the Italian entity is for the actual benefit of the foreign investment vehicle. For this purpose, it becomes relevant that the activity provided for the benefit of the foreign vehicle is carried out by the personnel of the resident enterprise, that the activity falls within the scope of its business purpose, and that it is remunerated at the terms and prices that would have been agreed upon between independent parties.

UE Directive on global minimum tax (Pillar II)

On 14 December 2022 Council Directive No. 2022/2523/EU was published, introducing measures to ensure a minimum level of taxation for multinational and large-scale domestic groups in the European Union ("Directive").

The Directive transposes into EU law the OECD document *"Tax Challenges Arising from the Digitalisation of the Economy - Global Anti-Base Erosion Model Rules (Pillar Two)"* (so-called "Model Rules"), approved on 14 December 2021 by the OECD/G20 Inclusive Framework on BEPS.

The complex system of rules adopted is aimed at discouraging harmful tax competition caused by lower corporate income tax rates through the establishment of an overall minimum level of taxation (15%) on the extra-profits of multinational (and EU domestic) groups with a combined annual turnover of at least EUR 750 million.

In a nutshell, the new taxation system is based on two rules: (i) the Income Inclusion Rule ("IIR"), which operates as a priority rule and governs the determination and allocation to the group's parent entities (first and foremost to the Ultimate Parent Entity), on the basis of the criterion of 'participation' in the Globe Income, of the Top-Up Tax i.e., of any differential between the 15% and the aggregate effective tax rate ("ETR") of the group's constituent entities of a given jurisdiction, and (ii) the Undertaxed Payments Rule ("UTPR"), which operates as a subsidiary rule with respect to the IIR, for the collection – in the countries of residence of the con-

stituent entities – of the residual Top-Up Tax, not recovered through the IIR. It is worth noting that the Top-Up Tax is levied only on excess profits, i.e. the GloBE income produced in the low-taxed jurisdiction that exceeds the so-called "ordinary" profits, calculated on the basis of a lump sum of the cost of personnel and the value of tangible assets.

The hierarchy between the State of residence and the State of source is then reversed in the case of the introduction of a Qualified Domestic Minimum Tax ("QDMT"), which allows for the collection of Top-Up Tax in the countries of residence of the low-taxed constituent entities on a priority basis and which can therefore neutralise the Top-Up Tax allocated to the parent entities on an IIR/UTPR basis.

From a subjective standpoint, it is to be noted that the Directive provides for certain exclusions stated by Article 2. In particular, the Directive does not apply to (i) governmental entities, international organisations, non-profit organisations, pension funds, and investment funds that are ultimate parent entities or real estate investment vehicles that are ultimate parent entities; (ii) entities where at least 95% of their value is owned by one or more entities referred above, directly or indirectly, provided that they operate exclusively, or almost exclusively, to hold assets or invest funds for the benefit of the entities referred to above or exclusively carry out activities ancillary to those performed by the entities referred to above; (iii) entities where at least 85% of their value is owned, directly or indirectly, by one or more entities referred to above, provided that substantially all of their income is derived from dividends or equity gains or losses that are excluded from the computation of the qualifying income or loss in accordance with the Directive.

EU States must transpose the Directive into domestic law within 31 December 2023, while UTPR mechanism must entry into force as of 2024 (see Article 56 and Recitals 29 of the Directive).

Proposal Directive COM(2021)565 on shell companies

The proposed EU Directive No. 565 of 22 December 2021 ("Proposal") on shell companies is still being debated in the UE forum as the text has not yet been finally approved. The Proposal has not been amended during 2022, therefore see Tax & Legal 2022 for more details.

In this regard, it is to be noted that, according to the current Proposal, EU States should still transpose EU provisions into domestic law within 1 January 2024. As a result, also data and information related to 2022 would contribute to determine whether an entity should be subject to the reporting requirements.

Long-term saving plans" (PIR): clarifications issued by Circular letter No. 10/E of May 10, 2022

The 2022 Italian Budget Law introduced a number of amendments to the regulation of "long-term saving plans" (PIR), which are saving plans reserved to Italian resident individuals (not

engaged in business activities), characterized by a favourable tax regime, as (i) dividends and capital gains deriving from the investments are fully exempt from 26% taxation in the hands of the individuals if certain requirements in terms of portfolio composition and holding period (5 years) are met, (ii) instruments included in the PIR are exempt from the inheritance tax.

As mentioned in "Tax and Legal Issues" of last year, the 2022 Italian Budget Law introduced, *inter alia*, the possibility for individuals to hold more than one "Alternative PIR", with no amendment to the maximum annual (EUR 300,000) and overall (EUR 1.5 million) investment plafond. With Circular Letter No. 10/E of 14 May 2022, ITA clarified that it will be the responsibility of the PIR-holder to monitor compliance with the annual and overall plafond, as the individual intermediaries with which the PIRs are opened cannot know the amount of resources allocated in the PIRs held with other entities. To this end, the PIR-holder will be required to self-certify compliance with these limits at the time the plan is opened and at each subsequent deposit, as well as to notify each intermediary with which it holds an Alternative PIR of the compliance of the annual and overall plafond. The data relating to the type of PIR subscribed and necessary for the Tax Authorities to verify the compliance with the annual and overall plafond used by the taxpayer will be disclosed by the intermediary as tax withholding agent with whom the PIR is set up, when submitting the tax withholding agent and intermediaries' declaration (Form 770).

As regards the tax credit (equal to any capital loss and negative differential realized) in relation to the qualified investments made in 2022 (equal to 10% of the amount of such investments, to be utilized over 15 years, in equal instalments), with Circular Letter No. 10/E/2022 ITA clarified that, for the purposes of determining the maximum amount of tax credit available, not only the sums invested in the qualified financial instruments during 2022 are relevant, but also the sums invested in the qualified financial instruments in the subsequent years, as resulting as of the date of realization of the capital loss. For example, in case of a PIR set up in 2021 (of EUR 300,000) with investments in 2022 (of EUR 300,000) and 2023 (of EUR 300,000), the loss realized in FY2026 from the disposal of units subscribed in 2021 generates a tax credit of maximum EUR 180,000 (900,000*20%) and the loss realized in FY2027 from the disposal of units subscribed in 2022 generates a tax credit of maximum EUR 120,000 (600,000*20%).

ITA also clarified that if the taxpayer decides to utilize the aforesaid capital losses as a tax credit, the same must be used within the quantitative limits provided for by the rule (as illustrated above), while any amount of capital losses 'in excess' of the 10% limit for investments made from 2022 (20% for investments made in 2021) may be deducted from capital gains, income and positive differentials in the ordinary manner set forth in Article 6 of Legislative Decree No. 461 of 21 November 1997.

Clarification on VAT treatment of certain services outsourced by management companies

In Rulings no. 363 and 364 of July 2022 (later confirmed in Ruling no. 489 of 5 October 2022), ITA provided further specifications to the principles already set forth in Rulings no. 628/2020, 527/2021 and 631/2021 as regards the VAT treatment of certain services commonly outsourced by management companies (SGR) to advisory companies/third outsourcers, which should stimulate a general assessment by management companies of the correctness of the VAT treatment applied so far, as well as in a pro-future perspective.

In particular, in Ruling no. 363 and 364, the request for clarifications was filed by companies carrying out for the benefit of AIFMs a number of operational and advisory services (such as (i) compliance; (ii) internal control; (iii) AML; (iv) consulting; and (v) risk management), for the provision of which they also make use of third parties, as sub-suppliers or co-suppliers, either self-employed individuals with their own VAT number or other companies.

With reference to the VAT regime of such services, ITA first of all recalled some principles expressed in the past on the relevant conditions for the advisory services to be exempt from VAT, namely:

i) the referability, from an objective standpoint, of the advisory services rendered by the third party among the services that characterize the management of investment funds, which are exempt from VAT pursuant to Article 10, paragraph 1, no. 1) of the VAT Decree;
ii) the referability of the aforementioned services to investment funds that are similar, from a subjective standpoint, to UCITS.

With regard to the objective profile, it is clarified that the types of advisory services rendered by an advisor/outsourcers (compliance, internal control, AML, regulatory and organizational advice, risk management, AIFMD-compliant corporate procedures manual, privacy) can be traced among the management services of investment funds – exempt from VAT – when there is an intrinsic link between these services and the SGR's own activity *"such that it has the effect of fulfilling the specific and essential functions of the management of an investment fund"*.

In terms of the subjective profile, only management services of investment funds that are effectively comparable to UCITS (such as AIF managed by a regulated AIFM), according to the interpretative principles expressed by EU case law, are exempt from VAT under Article 10, paragraph 1, no. 1 of the VAT Decree.

That said, the most innovative aspect of the Rulings concerns the attention paid, for the purposes of the applicability of the exemption, to the scope of the responsibility assumed by the advisory company/outsourcer.

In fact, according to ITA, outsourced services fall under the VAT exemption if said responsibility embraces the specific and essential elements of fund management; in essence, it is necessary for the advisory company/outsourcer to act as if it were the internal function of the SGR in charge of an essential service of collective management (e.g., risk management and

compliance), with respect to the performance of which it assumes a contractual responsibility towards the manager.

Conversely, if the advisory company/outsourcer acts as a mere operational support to the internal function of the SGR, assuming responsibility with respect to technical aspects only (while there is no assumption of responsibility with respect to the essential service), it carries out a VAT-taxable advisory service (a mere "co-sourcing" of collective management, which is insufficient for the purposes of the VAT exemption).

In Ruling no. 364/2022, with respect to the above, ITA also considered the VAT exemption regime as applicable to the license of a software to the AIFM, if it is provided exclusively for the management of investment funds and if it has an intrinsic nexus with the management of those funds, without prejudice (somewhat laconically here) to any consideration of the degree of liability of the service provider, as indicated above.

New clarifications on Carried Interest

During 2022 and the beginning of 2023 ITA released additional clarifications regarding the carried interest ("CI") regime provided for by Article 60 of the Law Decree No. 50/2017.

As regards the so-called "hurdle rate requirement", in Ruling No. 225/2022 ITA dealt with an investment plan according to which the carried interest had to be distributed to the beneficial managers after five years regardless of the effective payment of the hurdle rate (accrued) to the other shareholders, who decided not to distribute any dividends in such a period through a separate agreement. In this regard, ITA stated that the accrual of the hurdle rate is not sufficient to fulfil the requirement, as the effective payment of the minimum return to the other shareholders is necessary. As a result, in the case at hand, ITA denied that the hurdle rate condition was met and consequently stated that Article 60 presumption did not apply.

As regards the minimum investment requirement, ITA clarified that the minimum threshold of 1% (which, for investment funds, is a static requirement, to be observed at the closing of subscriptions) for corporate entities must be verified not only at the time of the implementation of the investment plan but maintained also thereafter, e.g. in case of capital increases or shares/quotas purchases by third persons (other than the managers). In particular, in Ruling No. 295/2022 ITA dealt with a case where a company had issued convertible bonds subscribed by the SGR and noted that, in the event of conversion, the interests held by the SGR would increase and consequently the interest percentage held by managers would decrease. In this case, should the managers not supplement the initial investment, the minimum investment condition could not be considered as met.

Moreover, in Ruling No. 310/2022, ITA clarified that a significant change in the original investment plan requires a new verification of the conditions provided for by Article 60. In this case, the applicant fund stated that the business sector in which it operates has been severely

affected by COVID-19 pandemic and, therefore, the new scenario required to review the management incentive strategy. Specifically, the amendments to the inventive plan mainly included the possibility to "activate" the incentive mechanism in relation to lower investment multipliers, in light of the reduced turnover and marginality due to the pandemic emergency. However, in the case at hand, ITA acknowledged that, notwithstanding the review of the investment plan features, Article 60 conditions were met, as (i) the minimum investment of 1% was attested by an appraisal and (ii) a minimum return was guaranteed to the financial investors through the determination of an investment multiplier below which no extra-return was awarded to the managers.

As known, where the conditions to automatically qualify the carried interest as financial income are not met, a case-by-case analysis must be carried out.

In this regard, ITA confirmed that the carried interest may be characterized as financial income when the managers investment is significant in absolute and/or in relation to their salary levels, even if the 1% threshold is not reached. For examples, in Ruling No. 311/2022 ITA acknowledged the CI's financial nature in a case where the overall amount subscribed by managers was relevant in absolute (amounting to approximately EUR 2.6 million overall) and in relation to the managers' ordinary remuneration, as the required commitment was between a minimum of 1.8 and a maximum of 3.1 times of each manager's gross annual remuneration.

Another key element for the qualification of the carried interest as a financial income is that the managers' ordinary remuneration (fixed and variable) is in line with market standards for their position, in order to exclude that carried interest is aimed at supplementing the management ordinary retribution. ITA emphasized the relevance of such element in Rulings No. 225/2022, No. 281/2022 and No. 311/2022.

ITA confirmed also that leavership clauses constitute a key element to link the carried interest to the working activity of the assignee managers.

In Ruling No. 281/2022 ITA identified the financial nature of CI income in a case in which (i) good leavers could keep their shareholdings and continue to be entitled to ordinary income and carried income, albeit to an extent that takes into account the time of leavership occurrence according to a vesting mechanism, and (ii) bad leavers are not obliged to dismiss their shareholdings in favour of the issuing entity or other shareholders, but their interests automatically convert in a different category of shares with limited financial and administrative rights; in addition, ITA noted that also good leavers are exposed to the risk of capital loss as, if the decide to sell their quotas at a leavership event, the exercise price should be equal to the current market value.

In the same manner, in the above-mentioned Ruling No. 295/2022 ITA acknowledged the financial nature of CI with regard to an investment plan which provided that (i) in good leavership events, the managers would retain a certain percentage of carried shares, while the re-

maining interest was converted into ordinary shares according to a 1:1 ratio, and (ii) in bad leavership events, carried interest bearing shares would be redeemed by the company or other shareholders at a price equal to the lower between market value and subscription value.

Lastly, it should be noted that with Parliamentary Question No. 5/00052 was clarified that carried interest presumption provided for by Article 60 of Law Decree No. 50/2017 applies also to holding companies.

Clarifications on the tax treatment of sale & purchase agreements' indemnity clauses

In 2022 ITA have released clarifications regarding the tax treatment for income taxes purposes of the price adjustment within the context of sale and purchase agreements' indemnity clauses concerning shareholdings.

In particular, according to ITA interpretation (see Ruling No. 110/2022 and No. 132/2022), the fulfilment of indemnity obligations provided for by sale and purchase agreements have the essential purpose of adjusting the economic value of the investment and consequently have the nature of adjusting the price of the investment, rather than representing forms of compensation for damages or losses suffered by the purchaser.

Therefore, on the basis of a case-by-case examination of the contractual clauses, the value reduction of the purchased shareholding would be qualified as an adjustment of the purchase cost that is subject to the same tax (IRES) treatment that was applied to the transaction that gave raise to such component, regardless of the accounting treatment applied by the taxpayers.

Moreover, ITA have clarified that the accounting derivation principle would apply for IRAP purposes.

These clarifications have been confirmed by ITA with Ruling No. 185/2023.

Tax discrimination of non-EU investment funds

With a series of ground-breaking decisions, the Italian Supreme Court (see judgments nos. 21475, 21479, 21480, 21481 and 21482, each published on 6 July 2022) has stated for the first time that Italian rules providing for withholdings to be levied on outbound dividend distributions made by Italian companies to non-resident funds are in breach of the principle of the free movement of capital under Article 63 TFEU.

All the case-law at issue were triggered by refund requests submitted by a U.S. investment funds in relation to the 15% withholding tax levied on Italian-sourced dividends collected throughout several fiscal years (from FY2007 to FY2010) under the Italy-U.S. Double Tax Treaty, instead of the more favourable regime applicable at the same time to Italian funds (i.e., substitute tax of 12.5% on the management result accrued in each year).

It is worth noting that difference in treatment between domestic and EU funds was already subject to the scrutiny of the EU Commission (see EU Pilot 8105/15/TAXU) that led Italy to amend its domestic law by providing for no WHTs on outbound dividend payments to such funds. Moreover, it was found that, according to its wording, the scope of Article 63 TFEU also extends to transactions with non-EU Countries (see ECJ, case C-190/2012, *Emerging Markets*). On this basis, the Italian Supreme Court has ruled that the different treatment between Italian and foreign based funds with respect to outbound dividends was discriminatory as the two situations were comparable and none of the justifications put forward by ITA were applicable.

Foreign tax credit on inbound dividends subjects to the domestic 26% WHT

According to the Italian Supreme Court (judgment no. 25698 of 1 September 2022), non-entrepreneurial individuals who are tax resident in Italy must be granted a "foreign tax credit" on inbound dividends collected in relation to "non-qualified" (and, from 2018, also "qualified") shareholdings pursuant to Article 165 TUIR, even if they are subject to final WHT or substitute tax in Italy.

In particular, as the Court stated, most of the Italian Double Tax Treaties in force still include the old wording according to which no foreign tax credit is granted to the taxpayer who *chooses to* subject his foreign source income to a final WHT instead of ordinary taxation (with progressive individual income tax rates). In other words, in such a DTT, the foreign tax credit is not granted where a final WHT *is opted for* by the taxpayer. In the Supreme Court's view, as in the current tax system inbound dividends cannot be subject to income tax at progressive rates based on an option by the taxpayer and are therefore still subject to the 26% WHT, the foreign tax credit cannot be denied.

However, the decision at issue has not clarified how the principles established by the Supreme Court will apply in practice to future dividend distributions.

Real estate capital gains realized by non-resident investors

According to Article 1, paragraphs 96-99, of 2023 Italian Budget Law, capital gains realized by certain non-resident investors on the disposal of non-listed "participations in companies and entities", owning directly or indirectly real estate assets located in Italy for more than 50% of their value (at any time during the 365 days before the transfer) from 1 January 2023 would become subject to taxation in Italy at a 26% rate, unless a DTC prevents Italy from taxing it.

The new provision, which may be considered as an anti-abuse rule with respect to capital gains from the disposal of real estate vehicles, is consistent with Article 13, paragraph 4, of the OECD Model Tax Convention and with Article 9, paragraph 4, of the OECD Multilateral Con-

vention to implement tax treaty related measures to prevent Base Erosion and Profit Shifting (so called "MLI"), in particular with reference to Article 15 of the BEPS project.

Therefore, the actual consequences of this rule should be analyzed considering also the Italian DTC network and the future developments related to the implementation of the MLI.

According to Article 1, paragraph 98, of the 2023 Italian Budget Law, trading and instrumental real estate assets are expressly excluded from the new discipline.

In more detail, it has been introduced:

i) paragraph 1-*bis* to Article 23 of the ITC that provides that such capital gains on participations in non-resident companies and entities are deemed to be realized within the Italian territory; and
ii) paragraph 5-*bis* to Article 5 of Legislative Decree No. 461/1997, that repeals the domestic exemption that is generally provided for capital gains on non-qualified participations realized by (a) investors resident in white listed countries; (b) entities and international bodies established according to international treaties implemented in Italy; (c) "institutional" investors, although not subject to tax, established in a white listed country; and (d) central banks and bodies which manage the official reserves of a country.

Further to the above, Article 1, paragraph 99, of the 2023 Italian Budget Law has however expressly confirmed the domestic exemption for capital gains (also on such real estate entities) realized by qualified investment funds established in an EU/EEA white listed country.

Legislative framework introduced by the AIFMD in Italy

On 25 March 2014 Legislative Decree No. 44 of 4 March 2014 was published in the Official Gazette[2]. The Decree, which came into force on 9 April 2014, was drawn up in accordance with the criteria contained in the European Delegation Law 2013[3] and provides for amendments to the Legislative Decree No. 58/1998 (i.e. the Consolidated Law on Finance).

In particular, *inter alia*, Banca d'Italia Regulation on collective investment schemes of 19 January 2015 (and following amendments) provides for:

– the amount of minimum share capital of a management company managing reserved closed-end funds equal to EUR 500,000 and, for sub-threshold managers[4], equal to EUR 50,000;

[2] Legislative Decree implementing Directive 2011/61/EU of 8 June (AIFMD, Alternative Investment Fund Managers Directive), which itself amended Directives 2003/41/EC and 2009/65/EC and Regulation (EC) 1060/2009 and Regulation (EU) 1095/2010, entered into force on 21 July 2011, upon publication on the Official Journal of the European Union and has been adopted by all member states no later than 22 July 2013.

[3] Law No. 96 of 6 August 2013.

[4] AIFMs which manage portfolios of AIFs whose assets under management in total do not exceed a threshold of EUR 500 million when the portfolios of AIFMs consist of AIFs that are unleveraged and have no redemption rights exercisable during a period of 5 years following the date of initial investment in each AIF.

– proportionality for sub-threshold managers, providing some exemptions with reference to evaluation procedures, organizational requirements and remuneration policies.

Ministerial Decree No. 30 of 5 March 2015 (i.e. MD 30), entered into force on 3 April 2015, focuses on the following issues:

– the definition of general criteria for Italian CIUs, including Italian Alternative Investment Funds (AIFs);
– the possibility for CIUs to provide direct lending (i.e. a CIU is allowed to invest in credits originated by third parties or in credits originated by the CIU itself);
– the minimum, non-fractionable, initial subscription amount of at least EUR 500,000 in relation to retail clients intending to invest in AIFs reserved to professional investors, with derogations for members of the boards of directors of the manager or employees of this latter. In this respect, it is important to mention that the Ministerial Decree No. 19/22 published on the Official Gazette No. 62 of 15 March 2022 amending MD 30/2015, lowered the minimum threshold required to invest in reserved AIFs. Non-professional investors, within the framework of an investment advisory service, may acquire AIFs' shares or units with an initial amount not lower than EUR 100,000, provided that their total investments in reserved AIFs is lower than 10% of their financial portfolio (for further details, see lett. e) paragraph *"Structuring, managing and marketing AIFs: the Italian framework under the AIFMD regime"*);
– the subscription of units or shares of AIFs within 24 months (up to 12 months under certain conditions provided by the fund rules or the by-laws) from the date the fundraising procedure is completed;
– the subscription of AIFs reserved to professional investors is also allowed through contribution in kind or credits.

At the European level, after a long consultation process, on 25 November 2021 the EU Commission has published a package of legislative proposals – including the review of the AIFMD – with the aim of improving the Capital Markets Union's framework. The legislative procedure regarding AIFMD continued throughout 2022 (the Council adopted its position in June 2022) and, in February 2023, the EU Parliament adopted the proposal. The main novelties are related to:

– information provided by the AIFM at the time of authorization;
– policies, procedures and processes to assess credit risk and monitor the credit portfolio as well as prudential rules for AIFs granting loans;
– information relating to portfolio management and risk management delegations.

The trialogues are currently underway and they are supposed to end before the summer 2023.

AIFI is closely monitoring the evolution of the process with ongoing dialogues at both Italian and EU level.

The EuVECA Regulation

Regulation (EU) 345/2013 has been introduced by the European legislator with the aim of favoring the cross-border fundraising activity of EuVECA (European Venture Capital) funds, allowing their managers to obtain a marketing passport without recurring to the opt-in procedure and without complying with the whole charges required to AIFMs. The provisions contained in the Regulation should be read together with the additional provisions set forth by Banca d'Italia within the Regulation on collective asset management (new Title VII).

The introduction of the EuVECA label aimed at simplifying the access to capital markets for SMEs by defining a harmonized product, intended for both professional and retail investors (with a minimum investment of EUR 100,000).

More recently, with Regulation (EU) 1991/2017 some novelties have been introduced with reference to EuVECA funds. In particular, the definition of qualifying portfolio undertaking has been widened including enterprises that: (i) are not admitted to trading on a regulated market or MTF with maximum 499 employees; (ii) are SMEs admitted on SMEs growth markets with an average capitalization of less than EUR 200 million on the basis of end-year quotes for the previous three calendar years.

The Regulation introduced novelties also in relation to the registration procedure. In particular, the registration of managers should be finalized within two months from the date of application while, with reference to the registration of EuVECA funds, it is established that AIFMs authorized under AIFMD could require the registration for venture capital funds for which they want to use the EuVECA label.

The European Long Term Investment Fund (ELTIF) Regulation

ELTIFs were introduced in 2015 by the Regulation (EU) 2015/760 with the aim of creating a new European product framework for both professional and retail investors in order to improve investments in long-term assets.

ELTIFs are closed-end AIFs managed by EU AIFMs and therefore subject to the AIFM Directive (2011/61) and to the Delegated Regulation (UE) 231/2013.

Banca d'Italia is the national competent authority authorizing the managing of ELTIFs and to approve the ELTIF Regulation. In particular, in case of first institution of an ELTIF, the authorization is given by Banca d'Italia, after consultation with Consob.

Since their launch, however, ELTIFs have not been able to become a widespread tool within the EU financial market. Therefore, on 25 November 2021, the EU Commission proposed a revision of the Regulation with the aim of introducing flexibility and improving the use of ELTIFs for institutional as well as retail investors.

Within the review process the EU Council and the EU Parliament has put forward their own positions respectively on 24 May 2022 and 28 June 2022.

The final version of the amendments has been adopted with the Regulation 2023/606 and published in the EU Official Gazette in March 2023. Among the novelties introduced particularly relevant are: the removal of the limits regarding the minimum portfolio invested in financial instruments (10%) and the minimum initial subscription invested in one or more ELTIFs (10.000) for retail investors; the widening of eligible assets and investments; the streamlining of the authorization process; the introduction of greater flexibility on diversification and concentration limits; the lowering up to 55% of the minimum investments in eligible assets.

Moreover, it is worth underlying that the new ELTIF Regulation introduces more flexibility on the possibility of setting up ELTIFs in the form of Fund of funds.

ESMA is empowered to define specific rules concerning the definition of minimum holding period, redemption policy, liquidity management and matching mechanisms.

Structuring, managing and marketing AIFs: the Italian framework under the AIFMD regime

The most common legal structure used by Italian-based private equity funds is the closed-end investment fund managed by an Italian management company (i.e. SGR). However, the Legislative Decree No. 44 of 4 March 2014 introduced a form of collective investment undertaking, the fixed-capital investment company (SICAF), which may be used also for the purpose of setting up private equity investment vehicles.

a) SICAF

SICAF is an Alternative Investment Fund established as joint stock companies (*"società per azioni"*) with legal personality and governed by its by-laws and therefore (as well as SGR) it is a supervised and regulated entity. In fact, SICAF is both authorized by Banca d'Italia and subject to its supervision on a permanent basis. Moreover, SICAF may be internally managed (i.e. managed by the board of directors appointed by its shareholders) or externally managed (i.e. managed by an authorized Italian or EU management company).

The main entities involved in the setting-up of a SICAF are:

- the company with registered office and general management located in Italy and with a minimum paid-up capital. The promoting shareholders must appoint the board of directors that manages the SICAF, the auditors and the accounting firm;
- the shareholders/investors, that may be professional or not;
- the custodian entity, that must be appointed among authorized banks in Italy, Italian branches of community banks, investment companies and Italian branches of investment enterprises.

On this topic, in 2020 AIFI published the notebook *"Le SICAF: veicolo di investimento"*. There is an ongoing dialogue regarding the introduction of a number of elements of simplification.

a1) SiS (simplified investment company)

The decree No. 34/2019 of 30 April 2019 (so called "*Growth Decree*") introduced the SiS (società di investimento semplice – "simplified investment company"). The new investment vehicle should invest exclusively in unlisted SMEs – as of Article 2, paragraph 1, lett. f) of Regulation (EU) No. 2017/1129 of 14 June 2017 – in seed, start-up, and early-stage phases. The decree defines SiS as an internally managed SICAF able to collect capital from both professional and non-professional investors and provides for the application of specific simplifications as of those applicable to the so called "sub-threshold managers".

More in details, in July 2021, following a public consultation, Banca d'Italia and Consob published supervisory guidelines on SiS, specifying that:

- SiS apply art. 107 of Intermediaries Regulation regarding the marketing of CIUs;
- SiS may centralize in one single function the corporate control functions;
- reserved SiS may not establish some corporate control functions;
- within the authorization process, reserved and non-reserved SiS may present the information required as of art. 5, par. 2 of Delegated Regulation (EU) No. 231/2013, instead of the program of operations;
- SiS must have a professional indemnity insurance and it is not possible to cover risks through additional own funds.

In relation to SiS, AIFI published a document – "SiS in pills" – summarizing: definition of *simplified investment companies*, eligible investments, authorization process, applicable supervisory regime, legal requirements, type of investors, fiscal regime and potential benefits. Moreover, the document specifies that a SiS can invest its assets for a maximum of EUR 25 million. It is, however, possible to collect commitments for a value that exceeds the EUR 25 million threshold.

b) EU management company operating in Italy

Articles 41 and following of the Consolidated Law on Finance as implemented by Banca d'Italia Regulation provides (*inter alia*) for the conditions that must be met for cross border transactions of management companies. Therefore, authorized EU AIFMs could manage an Italian AIF by either establishing a branch in Italy or not (i.e. operating in the free provision of services). In particular, the EU AIFM shall notify to the home state competent authorities the intention to operate in Italy through a branch (specifying its intention to manage an Italian alternative investment fund). The beginning of the activity of the branch must be preceded by a communication to Banca d'Italia (and Consob) from the home country competent authorities.

c) Main principles provided with regard to marketing of units or shares of AIF

The attribution of the European Passport is recognized to manager authorized by Banca d'Italia

according to the AIFMD; therefore, it is granted to AIFMs and to sub-threshold managers that have exercised the opt in.

Article 32 of the AIFMD, Articles 42 and following of the Consolidated Law on Finance as implemented by the Issuer Regulation, set the conditions that should be met for marketing units or shares of Italian AIF both in Italy and in other EU member states.

The main fulfilment provided by the mentioned rules regards SGR or SICAF wishing to market in Italy units or shares of Italian reserved AIF and of EU AIF managed by the same. In this case, they have to submit to Consob a letter of notice regarding each AIF they intend to market.

Marketing procedure for units or share of AIF for sub-threshold differs from the one defined for AIFMs. Nevertheless, sub-threshold SGR or SICAF, before the investment and in compliance with AIF rules or by-laws, should prepare an offer document for each of the AIFs they manage or market in Italy or in an EU member state.

Managers intending to market in an EU member state other than Italy units of an Italian AIF or of EU funds managed by the same, must submit to Consob a notification in relation to each AIF they intend to market.

The manager starts marketing after receiving from Consob the communication that the notification file has been notified to the competent authority of the EU State where he wishes to market.

The offering of AIF units or shares in non-EU countries must be preceded by a communication to Banca d'Italia and must be executed according to the law of the non-EU country (where units are offered).

d) The notion of "pre-marketing"

The concept of pre-marketing has been introduced by Directive (EU) 2019/1160 and, in relation to EuVECA and EuSEF funds, by Regulation (EU) 2019/1156.

In particular, while Regulation (EU) 2019/1156 is directly applicable in the Italian national law, Directive (EU) 2019/1160 on cross-border distribution of investment funds has been transposed with the publication on the Official Gazette No. 285 of 30 November 2021 of Legislative Decree No. 191 of 5 November 2021.

Pre-marketing consists in the provision of information or communications, directly or indirectly, on investment strategies or ideas by a management company (SGR or SICAF) or an EU AIFM to potential professional investors resident or having their registered office in the European Union, in order to understand their interest in an Italian or EU AIF not yet established or established, but for which the notification procedure, introduced by the Article 43 (paragraphs 2 and 8), has not yet started in the member state in which the potential investors reside or have their registered office. In any case, pre-marketing never constitutes an offer within the meaning of Article 43, paragraph 1 AIFMD.

In the pre-marketing phase, documents that allow investors to decide on the investment cannot be made available. Moreover, the beginning of the pre-marketing phase must be notified to Consob via PEC within 2 weeks from the beginning of the activity specifying: i) the member states and the periods in which pre-marketing activities took place or will take place; (ii) a description of pre-marketing; (iii) a list of AIFs or compartments of AIFs which are pre-marketed. The pre-marketing notification must be sent to Consob also in the case of pending approval of the operational provisions.

Following these novelties, in September 2021 AIFI published a first set of Q&A regarding pre-marketing with a group of associate members. Following the CONSOB resolution n. 22437 published on 14 September 2022, the Q&A has been revised specifying that:

- sub-threshold managers are excluded from the pre-marketing obligations;
- no further information has been provided regarding the definition of "pre-marketing";
- reverse solicitation is not compatible with pre-marketing.

e) Ongoing dialogue with supervisory authorities to simplify procedures

In order to simplify and accelerate procedures for GPs, AIFI established a continuous and constructive dialogue with Italian supervisory authorities. In particular, the Association elaborated some specific documents to improve market standards: i) recommendations, shared with the authorities, over the most controversial issues regarding the authorization of new GPs; ii) standard regulatory clauses for venture capital funds, in order to facilitate the launch of new initiatives; iii) standard offer document for closed-end funds reserved to professional investors to accelerate and simplify the notification process; iv) standard by-laws for management company of private equity, venture capital and private debt funds; v) guidelines on remuneration policies; vi) standard by-laws for SICAFs, in particular for a multi-section internally managed SICAF; vii) MiFID II guidelines; viii) ESG guidelines; ix) practical guide on Disclosure Regulation; x) KID/PRIIPS standard document; xii) whistleblowing guidelines; xii) ESG reporting document.

f) The Italian Ministry of Economy and Finance (MEF) lowered the threshold required to invest in AIFs

In recent years, taking into account the request coming from high-net-worth private investors to diversify their asset allocation through alternatives, AIFI started to support (at national as well as European level) the need either to lower the minimum investment threshold for retail investors in closed-end reserved AIFs or to define a semi-professional category of investors.

On 3 March 2022 MEF published the Decree No. 19/22, lowering the minimum threshold required to invest in reserved FIAs, that has modified the Decree No. 30/15. In particular, the new Article 14 clarifies that the participation in reserved AIFs can be extended to: non-professional investors that under investment advisory services acquire AIF's shares corresponding

to an initial amount not lower than EUR 100,000, provided that the total amount on investments in reserved AIFs is lower than 10% of the financial portfolio.

Institutional Investors opening up to Alternative Investments

In order to expand the range of actors and opportunities within the private equity, venture capital and private debt market, AIFI constituted Invest AIFI, composed by insurance firms, pension funds and privatized pension schemes of professionals (i.e. "casse di previdenza"). The initiative aims at channelling investments of those financial actors towards the Italian real economy through specialized funds. For this purpose, periodical meetings, training activities and analyses on performances as well as on terms and conditions of private capital funds are organized.

Investment rules and incentives for Italian pension funds

The Decree No. 166/2014[5], in defining investment limits for pension funds, granted considerable discretion and a wider choice for pension funds in investment management. At the same time, the Decree defined appropriate procedures and organizational structures for a consistent management of the investment policy.

In particular, pension funds are able to invest in alternative investment funds, including closed-end funds, and financial instruments not traded in regulated markets with a 30% portfolio limit. The investment in funds of any type is subject to specific conditions set out under Decree 166 and specific limits are provided for AIFs (i.e. 20% of the portfolio of the pension fund and 25% of the portfolio of the AIF).

Furthermore, AIFI worked to enhance specific incentives. In this regard, the Italian Budget Law for 2017 had positively acknowledged the proposals made by the Association. In particular, the law provides for zero taxation in relation to the income generated by pension funds and social security funds when carrying out activities related to the real economy also through private equity and venture capital funds. The Budget Law 2019 has increased from 5% to 10% of their assets the basis for calculating the fiscal incentive.

AIFI also proposed to extend this measure to the private debt funds, left outside the scope in the first implementation phase.

Finally, in the last years, the Association has also promoted actions in order to support the launch of funds of funds acting as centres of competence to conduct due diligence activity with the aim of selecting target funds for pension funds as well as the request of introducing a tax credit for pension funds and privatized pension schemes of professionals investing in private capital funds.

[5] Italian Ministry of Economic Affairs and Finance Decree No. 166 of 2 September 2014.

Eligible investments for insurance undertakings

An important development concerns the eligibility criteria for investments held to cover technical provisions, following the implementation of EIOPA Guidelines on the Solvency II Directive[6].

Following the rounds of public consultation, IVASS amended its Regulation No. 36/2011 in order to expand the range of assets following the overarching objective of ensuring the insurance companies' stability and their sound and prudent management.

The set of rules aims at widening the range of investments allowed to life and non-life insurance companies thus allowing them to benefit from greater investment diversification. In this regard, the category of allowed equity securities not traded on a regulated market would now also include units in limited liability companies. In particular, the limit of 5% for investments in closed-end AIFs not traded on regulated markets and reserved AIF has been removed.

In addition, IVASS now has the power to authorize insurance companies to carry out investments exceeding the limits set out in the Regulation itself, if certain conditions are met (in terms of risk management, compliance with the investment policy, safekeeping of the assets, etc.).

On 30 December 2015 IVASS published Regulation implementing Solvency II Directive, entered into force on 1 January 2016 (D. Lgs. No. 74/2015). In particular, great attention should be paid on the provisions related to models and parameters determining solvency capital requirements. The Regulation sets out positive capital requirements for medium-long term investments in alternative assets.

Moreover, the Delegated Regulation (EU) 981/2019 (entered into force on 8 July 2019) has introduced the possibility to treat, under certain conditions, a sub-group of equity investments as long-term investments, related to a risk capital charge of 22%.

This novelty could represent an important step to bridge the gap between insurance companies and private capital funds with the objective of guaranteeing a stronger flow of capital towards AIFs and, consequently, the real economy. In October 2021, the European Commission has started the revision of Solvency II with the aim, among others, of providing a more effective definition of the parameters related to the long-term category. The review process is still ongoing.

AIFI, together with Ania and the relevant authority – IVASS – has started a working table in order to identify the problems deriving from the application of specific risk weight categories and to delineate shared solutions.

[6] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance.

Banks and the treatment of high-risk exposures

Banks using the standard method attribute a risk weight of 150% to the exposures including units or shares of CIUs, when related to particularly high risks. Among those, also exposures in private equity and venture capital are included.

On 17 January 2019 EBA published its Guidelines regarding exposures associated with a particularly high risk, according to Article 128, paragraph 3 of Regulation (EU) No. 575/2013 (so called CRR) related to prudential requirements for banks and investment firms. In particular, the document introduced specific definitions, for the purpose of the guidelines, for investments in venture capital and private equity.

EBA underlined that, in line with the answer provided by the European Commission Q&A 2013_374, the definitions apply not just with reference to direct investments but also when the look-through approach is used for exposures in the form of shares or units in collective investment undertakings (CIUs). EBA Guidelines did not substantially modify the prudential requirements (equal to 150%) for supervisory purposes for banks using the standard approach when evaluating indirect investments in private equity and venture capital, in coordination with the revision process of CRR II, which is still underway.

On a slightly different level, AIFI started a discussion with ABI to share with banks a potential standardization of the information required for the consultation of the parameters related to the look through approach, pursuant to Article 132 of the CRR II. On 18 October 2021 the Association has organized a direct confrontation between banks and funds and in addition to a standard layout, a certification of the accounting results has been processed.

More recently, AIFI shared with ABI:

- on March 2022, a letter that managers can use in their relation with banks in order to implement the look-through or mandate based approach;
- on October 2022, a minimum standard layout regarding funds' underlying that banks may require to managers.

Retail Investment Strategy

In recent years there has been a growing interest around retail investors and the possibility to increase their participation within the EU Capital Markets Union. In this respect, the EU Commission launched in 2021 a retail investment package in order to *"ensure that a legal framework for retail investments is suitably adapted to the profile and needs of consumers, helps ensure improved market outcomes, empowers retail investors and enhances their participation in the capital markets"*.

On the national level, there is an ongoing dialogue between AIFI and AIPB in order to make the private banking and private capital sectors closer to each other and evaluate viable ways to cooperate.

In general terms, there are a number of recent novelties that testify how the market is working to favor a greater involvement of retail clients. In particular:

– the revised version of the ELTIF regulation that removed the limits regarding the minimum portfolio invested in financial instruments (10%) and the minimum initial subscription invested in one or more ELTIFs (10.000) for retail investors;
– the Ministerial Decree No. 19/22 published on the Official Gazette No. 62 of 15 March 2022 amending MD 30/2015, that lowered the minimum threshold required to invest in reserved AIFs to EUR 100,000, provided that their total investments in reserved AIFs is lower than 10% of their financial portfolio;
– long-term saving plans (PIRs) and, more specifically, Alternative PIRs, that could represent an efficient tool for retail investors as they introduced an exemption regime on capital gains providing that some conditions are met.

AIFI is now monitoring the process for the definition and implementation of a retail strategy both at the European and national level, by taking part in the discussions and supporting dedicated analyses and working groups.

AIFI activities to attract foreign investments

AIFI keeps on developing several activities in order to attract foreign capitals by undertaking, among others, the following actions:

– international missions to strengthen relations with international investors. In particular, every year AIFI organizes an event in London dedicated to international investors with the aim of spreading knowledge about the Italian market success stories. Moreover, other international initiatives are planned on a year-by-year basis;
– participation to the FeBAF (Federation of Banks, Insurance and Finance) Anglo-Italian, Italian-French and Italian-German dialogues in order to pursue several objectives, *inter alia*: analysing and preparing for potential consequences of Brexit; ensure that the Italian financial ecosystem will play a significant role in the future construction and development of the European and international framework; promotion of Italy and Italian enterprises thank to the agreement with the Italian Trade Agency with the aim of attracting international capital in Italy, facilitating exit options and orienting foreign companies interested in evaluating potential M&A acquisitions in Italian enterprises.

ESG/Sustainable Finance

In recent years the attention towards sustainable and responsible investments and the need to measure, manage and mitigate environmental, social and governance risks (ESG – *Environmental, Social and Governance*) has considerably grown within the international and European context.

In this developing framework, AIFI has long been committed to spreading a sustainable culture among its members as well as within the financial community, by subscribing the *"Charter of sustainable and responsible investment of Italian finance"* promoted by FeBAF, organizing meetings between members and stakeholders aimed at starting a process to identify shared guidelines and suggesting its members to adhere to the United Nations' Principles for Responsible Investment with the aim of responding to the requests expressed by investors, as well as contributing to the development of a more sustainable global financial system.

In this respect, the Association has drafted ESG guidelines with the aim, on the one hand of supporting AIFI members in the definition of an investment strategy that integrates financial elements with environmental, social and good governance aspects and, on the other hand, of offering to all the stakeholders involved a more effective assessment of the ways through which our industry relates to the topic.

More recently, in light of the entry into force of the Regulation (EU) 2088/2019, an operational guide has been elaborated and submitted to AIFI members. In view of the obligations required to AIFMs with the deadline of 10 March 2021, the Association decided to suggest, also taking into account the incompleteness of the regulatory framework, to adopt a gradual approach in fulfilling the provisions.

The following publication of SFDR Regulatory Technical Standards (entered into force in January 2023) has led the Association at the end of 2022 to publish legal analyses in order to shed light on the most relevant implications for GPs.

On 8 March 2022 the ESG AIFI working table in collaboration with SIRSA has published the report *"Sustainability Report: commitment and transparency on ESG themes"* with the objective of representing how the Italian private capital industry is dealing with sustainability and what are the main elements that should be considered when taking information from portfolio companies and making disclosures towards institutional investors. The report also contains the main results from the survey *"ESG future metrics & progress to date"*, conducted with Invest Europe and other national associations, that highlight the high level of attention that Italian GPs on sustainability issues.

Furthermore, on 11 November 2022, AIFI published the result of a survey on gender equality in order to sketch an overview on how Italian GPs stand on this specific aspect. From the survey emerged that the domestic private capital market is aligned with other comparable EU markets in terms of gender equality. On a general level, there is still work to do in order to get to a more balanced situation.

On parallel, there has been a constant dialogue with the Italian authorities, Consob and Banca d'Italia, on a number of different ESG related issues. In particular:

– clarifications on the disclosure requirements brought by SFDR and RTS;

– sharing of private capital GPs' market practices on the integration of ESG factors in their investment policies;
– dialogue on the *"Supervisory expectations on climate and environmental risks"* in order to prepare Italian GPs and support them in the definition of their action plans.

ESG related issues are and will be at the center of the EU policy. There are still numerous doubts related to the application of the rules while, at the same time, other important novelties should be discussed, further elaborated and/or implemented (among others, the Corporate Sustainability Reporting Directive (CSRD) and the relevant standards that EFRAG is currently drafting; the Corporate Due Diligence Directive that is still within the legislative process; the definition of EMSA guidelines on the use of ESG or sustainability related terms in funds' names).

AIFI is committed to provide assistance and guidance for its members.

Next generation EU

In the light of the strong impact that COVID-19 emergence had on the European Union economies, on May 2020 the European Commission launched its proposal to create a new instrument, Next Generation EU, in order to ensure a sustainable, inclusive and fair recovery for all member states. In this respect, AIFI elaborated and shared proposals with Italian institutions that were preparing the National Recovery and Resilience Plan (PNRR).

The PNRR (the resources for Italy amount at EUR 191,5 billion) has been divided into 6 missions: digitalization, innovation, competitiveness, culture, and tourism; green revolution and ecological transition; infrastructure for sustainable mobility; education and research; inclusion and cohesion; health. It also includes an ambitious reform plan that is strictly related to the disbursement of EU funds. In particular, the Government intended to implement four important reforms: public administration, justice, simplification of legislation and promotion of competition.

In this context, it is important to underline that AIFI decided to set up a working table that will monitor the evolution of infrastructures' investments, both in Italy and abroad. This specific sector, characterized by a high growth over the last years, is destined to have a strong development in the near future. The group will pursue the main following objectives: defining proposals to facilitate investments, realizing a guide for infrastructure funds, giving space to sustainable investments.

Throughout the year, AIFI has monitored the implementation on the National Recovery and Resilience Plan (PNRR) that Italy presented to the European Commission. The measures that may improve and incentivize the regulatory environment for the private capital activity, including that of infrastructure funds, have been discussed and analyzed.

The Association is also monitoring the implementation steps focusing on the initiatives that may potentially foster public-private partnerships.