Notes

2 M&As in Banking: A Literature Review

1. A problem that can often be observed while considering survey result in regard to M&As is connected to the historical difference based on market conditions, regulatory framework, technology, considered country, monetary union process, and so on. See Hasan et al. (2000).
2. This review could be incomplete because the number of the studies concerning M&As in financial sector is very high. Nonetheless the main papers have been reviewed.
3. See Franchini (2002), pp. 66–98.
4. The reasons of such results lie in the rigidity of certain costs: in particular, personnel costs. Especially in the past, incentives to leave, preretirement, hierarchical cutting or all those actions aimed at reducing employees and costs were not commonly used with reference to M&A operations.

3 M&As in Banking: Measurement of Some Effects

1. The authors wish to express their particular thanks to Mr Alessandro Figliuolo for his contribution to the chapter.
2. The most important works concerning this theme are: Jensen (1988), pp. 21–48; Vander Vennet (1996), pp. 1532–5; Berger et al. (1997); Dermine (1999), pp. 15–17; Llewellyn (1999), pp. 2–17.
3. About these aspects see: Sagari (1992), pp. 93–123; Borensztzein et al. (1998), pp. 115–35; Palmieri (2004), pp. 137–8; Focarelli and Pozzolo (2005), pp. 2435–63; Buch et al. (2005).
4. See Sullivan (1994), pp. 325–42; Slager (2005), pp. 16–22; Manna (2004). The indicator, by modifying its aggregates, can be calculated for different financial institutions.
5. The ratios could be obtained in terms of percentage weight of the 'external' division compared to the total figure (for example foreign loans to total loans) or by comparing the two figures (for example foreign loans to domestic loans). In both cases, an increase in the ratio would suggest a growing importance of the foreign division with respect to the internal one.
6. The main goal of this analysis is to obtain a discrimination based on the financial relevance of the covered regions. In this way, the comparison between companies characterized by an exclusive presence in underdeveloped economies and those operating in advanced financial markets, has to generate a discrimination that favours the latter.
7. It is also possible to simplify the considered classes, keeping at the same time a sufficient level of effectiveness. It is possible to aggregate several countries in homogeneous areas, obtaining a Ω set characterized by a lower number of elements. In particular, following macro areas could be considered: EU area, USA area, America (centre and south), Far East area (China, Japan, South Korea, India), rest of the world.

8. Several different aggregates (loans, deposits, etc.) to the total of the set could be considered as market share proxies.
9. The suggested solution does not measure the impact of web-based techniques, aimed at promoting, selling and managing products and services, on the internationalization level of an institution or financial group. The development of virtual channels makes it possible for the intermediary to serve customers everywhere, without remote operators physically present into the final market.
10. For these aspects, see Eisenbeis et al. (1984), pp. 881–92; Dubovsky and Varadarajan (1987), pp. 597–608; Zen (1994); Haubrich (1994); Klein and Saidenberg (1997); Zanotti (1998), pp. 30–46; Kwan and Laderman (1999), pp. 18–31; Laderman (1999); Cerasi and Daltung (2000), pp. 1701–26; Stiroh (2002); Minnetti (2002); Strahan (2006); Elsas et al. (2006); Mottura (2007).
11. See Winton (1999); Goisis (1999), pp. 407–26; Acharya et al. (2001); Landi and Venturelli (2001); Stiroh (2002); Acharya et al. (2004); Laeven and Levine (2007), pp. 331–67; Lepetit et al. (2007); Baele et al. (2006).
12. The scholar who created this index is C.E. Shannon, in fact it is often called Shannon Entropy (SE). With regard to the literature, see Jacquemin and Berry (1979), pp. 359–69; Hoskinsson et al. (1993), pp. 215–39; Raghunathan (1995), pp. 989–1002; Schwizer (1996), pp. 128–34; Behr et al. (2007).
13. Factoring, leasing, real estate and other instrumental companies (for example computational data centres).
14. By following Italian schemes, bank interest bearing assets are composed by loans, securities, equity investments, or better by the sum of the items 20, 30, 40, 50, 60, 70 and 100. With reference to insurance companies, the financial investments are represented by the sum of items C and D of the assets. With reference to asset management companies, the figure managed by the asset management company can be found in the explanatory note, section D – Other information, Section 1.2 – Information concerning managed wealth. Data about companies with merely instrumental activities are excluded.
15. In all cases, we try to define an aggregate able to express the economic margins of the core business and other revenues of strategic assets. With reference to insurance companies, there are several problems in defining the aggregate. First of all, the correct computation of the return belonging to mere insurance activities (premium reduced by services – claims) is influenced by the accountancy methods used for the balance sheet, or better by the adoption of IAS–IFRS principles (compulsory for listed companies and or consolidated balance sheet only). Then, concerning the life insurances, the item ‘net claim costs’ has to be depurated by those components that have financial nature, related to the variation of the reserve for amounts to pay and to the variation of mathematic reserves. See: Banca d’Italia (2005); Isvap (2005); Banca d’Italia (2006).
16. With regard this topic see: Bennet Stewart III (2000); Rappaport (1997); Guatri (1990); Velez-Pareya (2001); Pozza (2001), pp. 46–66; Magni (2001), pp. 94–119.
17. See, amongst the others: Uyemura et al. (1996), pp. 94–113; Panizza and Di Russo (1997), pp. 64–6; Peschiera (1998); Massari (1999); Birindelli and Del Prete (2000), pp. 105–17; AIAF (2003); Comana and Modina (2003), pp. 21–40; Fiordelisi (2004), pp. 339–66.
18. According to a bottom-up approach, NOPAT is obtained by the sum of following elements: net profit + interest charges on subordinated loans after tax +/− accounting changes. See Birindelli and Del Prete (2000), pp. 109–14.

19. According to a wide understanding of the invested capital, it should be computed taking in consideration issued securities and certificates of deposit. In this case, NOPAT should be increased by the interest charges paid on such debts after tax.
20. See Fuller and Farrell (1993), pp. 480–96.
21. This figure is considered to be correspondent to the effective capital in the balance sheet, or, to be more precise, that the entire capital is used to face the risks of different management areas.
22. The parameter used to define the benchmark could be represented by the size, the juridical category, the main competitors, etc.
23. With reference to the asset management companies, the general model of EVA measurement could be considered. Similarly, TE_{pre} could be calculated as difference between the EVA of a specific company and the EVA of the benchmark, while TE_{post} could be calculated as difference between the variation of the EVA of the conglomerate and the EVA of the previous benchmark. See AIAF (2001).
24. RORAC $> K_e$ has the same meaning of a positive EVA. In fact, if CaR = Ec (Economic capital), and considering the expected profits (EP), then the previous formula can be written again as EP/Ec $> K_e$, from which EP $> K_e \times$ Ec, that defines a positive EVA. See Kpmg (1997), pp. 160–5; Di Antonio (1998).
25. More in detail, overall marginal CaR is the sum of marginal CaRs of considered companies. These derive from the difference between the suggested risk capital, or the total CaR, and the partial CaRs, obtained by the combination of considered companies (for example, bank and asset management company CaR, bank and insurance CaR, asset management company and insurance CaR). See Sironi (2005), pp. 686–8.

4 M&As and Equity Risk in the EMU Financial Sector

1. In the general usage, 'abnormal returns' means returns above (or below) some market benchmark that is taken as representative of the price variations that would be expected for a given stock or portfolio if the event did not occur over the period of analysis.
2. The volume of M&A operations has been often observed to increase as prices on the equity market (or in some of its sectors) rise and to diminish with share values.
3. With the term 'market risk' we mean the sensitivity of the stock returns to market moves in a broad sense; for most of the surveyed studies, this is the slope coefficient (commonly called the stock's 'beta') in a market model regression.
4. Notice that Greece and Finland, that are located far from the core of the EMU area, are not involved in any cross-border operation. On this topic: European Commission (2007a).
5. The handbook by Bodie and co-authors (2005) contains a modern and clear description of the index model. All index data are retrieved from Thomson-Reuters Datastream. We carried out all analyses presented in this section using Morgan Stanley Capital International indices too, but did not find any appreciable difference in results.
6. It is unfortunate that data on asset values and on initial and final stakes are severely incomplete in the sample (as it is in the original list) since this hinders any further exploration of the M&A characteristics.

7. Available observations are generally about 65 trading days. We have used the same kind of index model as in section 4.4, which delivers consistent 'realized beta' estimates (Andersen et al., 2006). Standard errors have been estimated by the Newey&West method (Newey and West, 1987) to achieve robustness to autocorrelation and heteroscedasticity features that could arise because of market microstructure effects.
8. For all sample cases, the deal was announced in the same quarter when it was completed; therefore, our analyses do not distinguish between the impacts of the news and of the event on beta.
9. We have tested for positive or negative variations by the classical *z*-test procedure based on our robust estimates of beta standard errors.

9 Cross-Border Groups: Supervision after the Crisis

1. See European Commission (2009) 177 final, COMMISSION DECISION of 23.1.2009 establishing the Committee of European Banking Supervisors.
2. See The High-Level Group on Financial Supervision in the EU, chaired by J. de Larosière, Report, 25th February 2009, especially Recommendation 18, p. 52.
3. On the procedures for the appointment of the coordinator, his role and supplementary supervision, see Cotterli (2004), especially p. 276 and following pages.
4. See Vella (2009), which also provides full biographical references to the latest literature.
5. European Parliament Resolution of May 6, 2009, P6_TA(2009)0367.
6. Commission Communication COM(2009) 252 Brussels, 27.5.2009.

11 Measuring Value in Stock Exchanges' Mergers

1. The owners of listed stock exchanges, who are usually institutional investors, are particularly interested in fast, low-cost regulations, whereas post-trading companies wish to maximise profit.
2. On the day the Archipelago merger was announced, the value figure was 69 per cent higher than the estimated value based on a 19.5 times EBITDA multiple corresponding to NASDAQ's bid for the LSE.
3. Regulations introduced by the authorities, such as the banning of short sales, have intensified the trend.
4. In the third quarter of 2008, Chi-X recorded a market share of 22.7 per cent for stocks listed on the FTSE 100 index.
5. This percentage is very similar to the profitability of LCH.Clearnet, one of Deutsche Börse's main competitors (54 per cent in 2007).

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