Hiding in the shadows: the blame for Banca Monte dei Paschi di Siena's sudden turn of bad fortune has been laid at the door of shareholders, management, regulators and politicians

MAKING THE WRONG KIND OF HISTORY

Management, shareholders and regulators all seem to carry some of the blame for allowing Banca Monte dei Paschi di Siena to acquire Antonveneta, which created uncontrollable risks for what had previously been one of Italy's more conservative banks. **WRITER** *David Lane*

Allegations of bribery and offshore transactions, court seizures of bank accounts, derivatives operations gone wrong, magistrates' investigations, huge losses and a devastated share price reflect the banking disaster at Italy's Banca Monte dei Paschi di Siena (MPS), founded in 1472 and the world's oldest surviving bank.

On February 14, Gianluca Baldassarri, formerly MPS's head of finance, was arrested while reportedly carrying €35,000 in cash. Among 13 other people currently identified as under investigation are Antonio Vigni and Giuseppe Mussari, previously general manager and chairman of MPS, respectively. They have both now been replaced at the bank, by Fabrizio Viola and former UniCredit CEO Alessandro Profumo, respectively.

> PUTTING A LAWYER WITH LITTLE KNOWLEDGE OF BANKING AT THE TOP OF ONE OF ITALY'S BIGGEST BANKS WAS IRRESPONSIBLE. THE FOUNDATION GOT WHAT IT DESERVED *John Andrew*

The management upheaval in the early months of 2012 was a sure sign of troubles at the bank and their cost became clear when MPS posted net losses of €4.7bn for 2011. There has since been little good news. Red ink coloured the first three quarters of 2012, with the bank reporting a €1.7bn net loss at the end of September, and the revelation in January that three dubious transactions uncovered in October had caused the bank to seek a further €500m of state aid augured badly for the full year's result. On January 25, shareholders approved a €4.5bn convertible bond issue to be subscribed by the government. Meanwhile, the legal plot has thickened.

Shareholders, management, regulators or politicians – who is to blame? From what has emerged so far from the murkiness, all are culpable to a greater or lesser degree for the destruction of what until just over five years ago was considered a solid, conservative and prudent large national bank rooted in a wealthy, historic city in one of Italy's richest regions. In a breathtaking move even at that time, MPS's adventurous acquisition of Banca Antonveneta in 2008 put the bank on the slope down which it then tumbled. To ensure it would remain Italy's third largest bank, MPS overpaid heavily just as the financial crisis took a sharp turn for the worse.

BETTING THE BANK

At just over €10bn, plus a further €7bn to repay loans to Santander, Antonveneta's former parent, the deal was a huge drain on liquidity at MPS. The acquiring bank's market capitalisation in June 2008, one month after a €5.8bn rights issue to help pay for the acquisition, was about €11bn.

"The figures are huge, absolutely astonishing, with no mitigating factors for the purchase. Basically, [Mr] Mussari bet the bank and he got the bet wrong," says John Andrew, a Milan-based investment banker who was involved in the birth of Antonveneta through the merger of two Padua banks in 1996. According to Mr Andrew, instead of applauding the chairman when he announced that he had just done the deal, MPS's board should have fired him.

From 2001 until his appointment to MPS in 2006, Mr Mussari had been chairman of the Fondazione Monte dei Paschi di Siena, the charitable body that wholly owned the bank before its flotation and still has a 37.6% stake. Mr Mussari was linked to the political left which dominates Siena and the Tuscany region, and eight members of the foundation's 16-strong board are appointed by the city authorities and five by Siena's provincial government. Mr Andrew has no sympathy for the foundation, the value of whose stake and capacity for doing good works in the city and surrounding region have been hammered.

"Putting a lawyer with little knowledge of banking at the top of one of Italy's biggest banks was irresponsible. The foundation got what it deserved," he says.

Salvatore Bragantini, a Consob commissioner from 1996 until 2001

WASTED OPPORTUNITY?

Yet the responsibility for the deal lay with the bank's board, not with the politicians and the foundation, although these might have prevented the disaster by setting stricter rules covering transactions that alter the shape of the business. But neither is the Bank of Italy exempt from criticism. Speaking at annual World Economic Forum meeting in Davos in January, Ignazio Visco, Italy's central bank governor, said that the bank was not a policeman but ensures healthy and prudent management and "intervenes where management seems imprudent".

Even so, alarm bells apparently did not ring in the Bank of Italy's directorate or its supervisory service when MPS embarked on its acquisition of Antonveneta in November 2007. A few questions might have flagged a warning.

"What did the Bank of Italy ask MPS about its due diligence? What procedures did MPS follow? Who were its advisers and who was paying them? What structure was put in place to consider the deal? Who was involved at MPS? How often did they meet? What matters were discussed? What safeguards were established? Where are the records of meetings?" asks Mr Andrew, who was involved in numerous transactions in Italian banking in the 1980s and 1990s. He believes that if the Bank of Italy had done its work, MPS's failure to carry out due diligence would have emerged.

"On the surface the deal looked crazy and events proved that it was," he says.

REGULATORY SHORTFALL

The Bank of Italy is not alone in drawing fire from critics. This year, another Italian regulator has become embroiled in the MPS saga. As a listed company, MPS is regulated by Consob, the Italian stock market watchdog, as well as by the country's central bank. In July 2011, Consob's Ufficio Esposti in Milan, a service dealing with complaints, received an anonymous letter from an MPS employee alleging various illegalities in the bank's finances at MPS and giving the names of employees allegedly involved. Among the illegalities listed in the four-page letter, which provided details of what was alleged to have been done, were corruption, fraud, criminal conspiracy and false accounting. For reasons that are so far unclear, this letter was only made public at the start of 2013.

Consob's chairman, Giuseppe Vegas, who took over in January 2011 after serving from 1996 in the ranks of Silvio Berlusconi's political party in the senate and parliament's lower chamber, has been criticised for failing to look further into the allegations. While the stock market watchdog has no obligation to react to anonymous complaints, given concerns about the banking sector in the wake of the financial crisis, it would arguably have been sensible to have investigated thoroughly on this occasion.

"If an anonymous letter simply made general allegations we might or might not have decided to dig deeper but in cases of specific and detailed allegations we would certainly have investigated," says Salvatore Bragantini, a Consob commissioner from 1996 until 2001.

During the period that Mr Bragantini was a commissioner, Consob had three chairman: Enzo Berlanda, an accountant, tax specialist and heavyweight public and political figure; Tommaso Padoa Schioppa, a much respected central banker; and Luigi Spaventa, an eminent economist who had previously been chairman of MPS.

"They would certainly have brought a letter like the one Consob received in July 2011 for discussion by all the commissioners," says Mr Bragantini. He believes that Mr Vegas slipped up in not communicating MPS's difficulties to the market after he learnt of them at a meeting with Mr Profumo last October.

MPS's collapse has caused massive losses for shareholders, added a further burden to the Italian taxpayer and seriously hurt the people of Siena where the foundation spent large sums helping the local community. It has also hit the reputation of Italy and those responsible for regulating its banking sector. Failures in key positions and at crucial moments have created a case history that is still being written and seems likely to be discussed for some time to come.