

Italian bank scandal reveals depth of financial crisis

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Prosecutors investigating the Monte dei Paschi di Siena (MPS) banking scandal have ordered the seizure of €1.8 billion (US\$2.3 billion), in a probe into suspected fraud charges against MPS.

They alleged that the assets to be seized were funds held by the Milan branch of the Japanese bank Nomura International. MPS is the oldest bank in the world, founded in 1472, and the third largest bank in Italy. It has lost a third of its value in the last year.

The seizure targets €88 million of hidden commissions received by Nomura and €1.7 billion deposited with Nomura by MPS as collateral for a loan. Also a total of €14.4 million are to be seized from ex-MPS president Giuseppe Mussari, ex-managing director Antonio Vigni and from the former chief of the finance department, Antonio Baldassarri.

Prosecutors are investigating losses related to risky derivatives trades carried out during Mussari's management.

The focus of the investigation is the “Alexandria” trade of 2009, a risky bet against Italian sovereign debt linked to a swap on interest. This caused huge losses for MPS, as well as raising grave concerns over the Italian state's financial ratings. This and other derivatives operations are connected to a dubious acquisition of the AntonVeneta (AV) bank from Spain's Banco Santander (BS) for €9 billion—a sale that put AV's value considerably higher than market estimates.

In addition, Nomura's president Sadeq Sayeed and Nomura's managing director Raffaele Ricci (formerly with Dresdner Bank), responsible for the “Alexandria” deal, are under investigation for aggravated fraud and usury. According to Italian law 231/2001 on corporate administrative liability, Nomura cannot be investigated, as it is not a domestic bank.

This prompted Italian prosecutors to resort to the interbank payment system, which links European banks through the respective central banks of each country. Bank of Italy requested Germany's Bundesbank freeze a Nomura account currently held with Citigroup, while similar requests were submitted in London with Citigroup there and Bank of America. No response has yet been confirmed.

The MPS scandal first erupted on January 22, when the “Alexandria” trade was exposed in the media. The deal was initially thought to have caused a loss of €220 million and was carried out under Mussari's presidency. The bank's new management claims to have “discovered” it last October and that it is “being reviewed,” along with other structured transactions carried out in previous fiscal years.

Accountancy firm PricewaterhouseCoopers and financial advisor Eidos initially reported the size of the loss to exceed half a billion euros. According to other estimates, the actual losses could be as high as €920 million.

For its part, Nomura declared: “This trade was fully reviewed and approved prior to execution at the highest level within MPS including their board and also their then Executive Chairman Mussari. Additionally, MPS had the trade reviewed by their external auditors KPMG.” KPMG declared that it was not aware of the agreement between MPS and Nomura, claiming it never approved the structure of the financial transactions related to it.

The same day the news was made public, Mussari resigned from his position as head of Italy's largest banks lobby, Associazione Bancaria Italiana (ABI). In a letter to ABI's vice president, Mussari said that he has respected the law but that he didn't want to damage the association, even indirectly.

On February 28, the Monti government bailed out MPS for €4.1 billion with so-called Monti-bonds. This amount is comparable to the recently-imposed home property tax (IMU) which is deeply unpopular due to its effect on average families, already struggling from a deepening economic crisis.

On March 6, a close collaborator of Mussari, MPS executive David Rossi, was found dead under mysterious circumstances, officially due to suicide.

Mussari, who was unanimously elected as head of ABI in 2010, has political ties with various sections of the ruling class. As a youth, he joined the Federazione Giovanile dei Comunisti Italiani (Federation of Italian Communist Youth, the youth movement affiliated to the Stalinist Italian Communist Party, or PCI) and then the PCI.

He kept close ties to the parties that emerged from the dissolution of the PCI in 1991, such as the Partito Democratico (PD), to which he personally gave €175,000 in 2010. He is also intimately connected with Comunità e Liberazione (Communion and Liberation), a Catholic ecclesiastic movement.

On March 28, MPS's new CEO Fabrizio Viola declared that now "this balance sheet is a turning point and reports a bank that is very different from the recent past". This is part and parcel of broader attempts to present this scandal as some kind of error or aberration, while the opposite is true.

Financial bets and speculation are the modus operandi of modern capitalism, a system that extracts unprecedented profits through parasitic financial schemes. Moreover, no new regulation has been implemented to prevent the formation of such risky deals in the future. In country after country, such scandals emerge amid continuing deregulation of the financial sector.

Mario Draghi—the current head of the European Central Bank (ECB) who was president of the Bank of Italy during MPS' derivatives acquisitions—declared that the Bank of Italy had "intervened promptly within its legal boundaries". He added that the Bank of Italy did not have the power to remove Mussari or any other CEO.

Draghi bears enormous responsibilities, especially during his mandate as director general of the Italian Treasury (1991-2001). In 1993, he wrote the Unified Banking Text (Testo Unico Bancario, or TUB), a law

that repealed the Italian bank legislation of 1926-1936, originally promulgated to separate finance from savings, therefore protecting deposits from financial speculation.

By removing such restraints, the path was cleared for the inevitable growth of financial instruments which played a fundamental role in triggering the current world economic crisis, as well as the MPS scandal. The process of deregulation was followed by the privatization of the Italian bank system by center-left governments in the 1990s.



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