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Monti says he did not know of bank probes

By Guy Dinmore and Giulia Segreti in Rome, Ferdinando Giugliano in Padua and Rachel Sanderson in Milan

Asked if he had been aware of the judicial inquiry Mario Monti replied: 'No'

Mario Monti has said he did not know about judicial investigations into Monte dei Paschi di Siena last year when his government was approving a €3.9bn rescue loan, raising questions about whether Italy's prime minister was kept in the dark by regulators probing the bank.

Asked by the Financial Times if he had been aware of the judicial inquiry, Mr Monti, who was holding a campaign rally in Padua ahead of elections later this month, replied: "No".

"I am the prime minister and I have already said everything I had to say," Mr Monti said, referring to the Siena bank.

Parliament approved the €3.9bn in state loans to Monte dei Paschi, Italy's third-largest lender by assets, in December 2012. Since then it has emerged that the bank's former management was under investigation for suspected fraud involving lossmaking derivatives transactions with foreign banks and other financial crimes.

Under pressure to disclose details of its supervision of Monte dei Paschi, the Bank of Italy said on January 28 that from late 2011 it had been co-operating with "criminal inquiries" conducted by the Siena public prosecutor, together with stock market regulator Consob and the finance ministry police.

Asked by the FT whether it had kept the government informed of events, the Bank of Italy said criminal investigations were covered by confidentiality requirements.

"The Bank of Italy kept the government informed about issues relevant to its action as soon as the prosecuting magistrates gave their clearance," the central bank said. It declined to disclose when it had informed the government.

Mr Monti's office declined to say when the government was informed of the criminal probe into the bank or when it first became aware of hidden losses.

With the banking scandal developing into a significant campaign issue ahead of the February 24-25 elections, Elio Lannutti, an opposition senator and member of the senate finance and treasury committee, has accused the Bank of Italy, Consob, politicians from the two main parties and the government of a mass cover-up.

"This is a great act of mystification and cover-up of the biggest scandal in Italian history," he told the FT.

"The houses of parliament were not informed… How is it possible that small criminals are in prison, chicken thieves are wiretapped and nobody at Monte dei Paschi had their calls intercepted? This is because there is a system that protects itself. And those who had to supervise did not supervise," the senator – who is not running for re-election – added.

Mr Lannutti, known as a fierce critic of banks and as a defender of shareholders and consumers, is a senator for the small Italy of Values party which did not support Mr Monti's unelected technocrat government that came to office in November 2011.

The senator said Mr Monti must have known what was going on, noting that newspapers had reported last May that finance police had searched the bank's headquarters in Siena and the home of its former chairman, Giuseppe Mussari. Those reports followed days after a documentary by investigative reporter Milena Gabanelli broadcast on state television that alleged substantial losses at the bank through risky derivatives.

Monte dei Paschi's new management stated on Wednesday evening that the derivatives trades had resulted in losses of €730m.

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Last June – just weeks after the derivatives were aired by the media – the cabinet approved, on the recommendation of the Bank of Italy, raising the amount the government was preparing to lend Monte dei Paschi from €3.3bn to €3.9bn.

Explaining the proposed increase, a cabinet statement noted that the Bank of Italy had explained the extra sum was needed to reach capital ratios imposed by the European Banking Authority taking into consideration the "losses in the fourth quarter of 2011 and the evolution of the bank's assets". The statement made no mention of derivatives losses or the criminal inquiries.

Mr Lannutti, who heads a consumer association that is taking legal action against the Bank of Italy and Consob, alleges that the Bank of Italy, which started intensive inspections of Monte dei Paschi in 2010, wanted to keep its findings under wraps so as not to prejudice the ascent of its then governor, Mario Draghi, to the presidency of the European Central Bank in late

2011.

Asked by a television interviewer last month whether Mr Draghi had failed to inform "anybody" of the Bank of Italy's findings, Ignazio Visco, who replaced him as governor in late 2011, insisted that the bank had been "a very careful supervisor" and that the previous management of Monte dei Paschi had hidden documents from supervisors.

A senior Bank of Italy official rejected allegations that it had tried to cover up the scandal in order not to prejudice Mr Draghi's move to the ECB. However, the official admitted that the Bank of Italy had perhaps taken too long to bring about the replacement of Monte dei Paschi's management, while noting that the central bank did not have the powers to do so and had to act through "moral suasion".

On Thursday at the ECB monthly press briefing, Mr Draghi defended his oversight of Monte dei Paschi saying that the Bank of Italy had "done everything it should and appropriately and on time".

Italy in mid-2011 – still some months before Mr Monti was appointed to replace Mr Berlusconi as prime minister – was plunging into a sovereign debt crisis. Two senior civil servants who are closely following the scandal and asked not to be named, said the entire Italian system had an interest in managing a quiet rescue of Monte dei Paschi without provoking a wider banking crisis – including the opposition centre-left Democratic party, which long had close political ties to the bank.

Critics are also questioning a November 28 2012 statement by Monte dei Paschi's new management which asked for an extra €500m in state loans without disclosing the bank already knew by then that the former management was under suspicion of concealing the lossmaking derivatives or that a judicial probe was ongoing.

Prompted by leaks to the media, Monte dei Paschi's new director-general Fabrizio Viola and Mr Visco, governor of the central bank, revealed last month that they found out the "true nature" of the derivatives losses when a previously unknown document was discovered in a safe in the bank in October 2012.

Consob has wide-ranging powers to conduct investigations in co-ordination with the judiciary, including wiretaps, searches and seizures. Consob told the FT that it "promptly" used all its powers and informed the judicial authorities of this. Asked when Consob told the government it was co-operating with the judiciary, the regulator replied that it was is an "independent" organisation.

Giuseppe Vegas, head of Consob, told Il Messaggero, a Rome newspaper, on January 30 that he launched a probe into Monte dei Paschi after receiving a document from an anonymous whistleblower in August 2011. Mr Vegas said the letter spoke of transactions involving state bonds and "structured shares" and "nothing else".

However a copy of that document obtained by investigative reporter Ms Gabanelli – and published in the daily Corriere della Sera a few days after the article in Il Messaggero – revealed that it spoke of €800m of suspected losses through "black funds", fraudulent schemes, "toxic shares" and "structured products evaluated at fantasy prices" hidden from the accounts. Despite this apparent reference to derivatives, Consob shut out of its investigations its quantitative analysis department that would have been able to evaluate the possible derivatives losses.

Mr Vegas told the FT that the use of probability scenarios could only be used with regards to information given to clients and that in the case of Monte dei Paschi it was not a matter of retail products but of "financial contracts negotiated among banks".

Consob specified that it was not its task to evaluate and investigate the efficiency of risk management models of banks, but to supervise transparency and fullness of information given to the market by listed companies, such as Monte dei Paschi.

Mr Vegas noted the confidentiality of the findings of the judiciary until they are deposited in court. Prosecutors are still questioning suspects, including Mr Mussari who was replaced as chairman by Alessandro Profumo last April following pressure from the Bank of Italy. Mr Mussari has not commented in public on the allegations.

The emerging timeline of events in the run-up to the Tuscan bank's request for €3.9bn has raised questions not just about the supervision of the bank but also the extent to which minority shareholders were kept in the dark. While Monte dei Paschi's largest shareholder, the Siena banking foundation, held seats on the bank's board and would have been privy to the regulatory statements from the Bank of Italy, minority shareholders were not.