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Monte Paschi Prosecutors Seek Seizure of $2.4 Billion

By Elisa Martinuzzi and Sergio Di Pasquale - Apr 16, 2013

Prosecutors in Italy are seeking to seize 1.8 billion euros ($2.4 billion) of assets from Nomura Holdings Inc. (8604) as part of an investigation into Banca Monte dei Paschi di Siena SpA's use of derivatives to hide losses.

Sadeq Sayeed, Nomura's former European head, and Raffaele Ricci, a managing director in fixed-income sales, are also being probed for colluding to obstruct regulators and making false statements, prosecutors in Siena, where the bank is based, said in a statement yesterday. They are also sequestering 14.4 million euros of assets from three former Monte Paschi managers already under investigation, including Chairman Giuseppe Mussari, General Manager Antonio Vigni and finance chief Gianluca Baldassarri.

The seizures are linked to allegations of fraud and usury, prosecutors said. Monte Paschi has claimed Nomura (8604) colluded with its former managers to devise one of two derivatives in 2008 and 2009 that hid total losses of much as 557 million euros. Nomura reaped at least 88 million euros from the transaction, dubbed Alexandria, according to the Italian lender.

"The amount in question is unprecedented," said Andrea Castaldo, a criminal lawyer and professor at the University of Salerno, Italy, who isn't involved in the case. "The allegation of usury raises concern as to why it wasn't spotted by regulators before."

Monte Paschi sought a 4.1 billion-euro bailout in February, its second in four years, as its capital shortfall widened. The bank has lost 33 percent of its market value since Jan. 17, when Bloomberg News first reported the lender's use of derivatives, which had never been fully disclosed to shareholders.

Shares Rise

The stock gained 1.3 percent to 19.35 euro cents in Milan trading yesterday, valuing the Italian bank at 2.3 billion euros. Nomura (8604) rose 0.1 percent to 773 yen at 9:10 a.m. in Tokyo trading today.

The prosecutor's order to seize assets must be ratified by a judge in Siena within 10 days, a police official said.

Monte Paschi has said Nomura's transaction, and a similar derivative designed by Frankfurt-based

Deutsche Bank AG (DBK), “should never have been put together.” The two firms “were perfectly aware of the context, the illicit objectives” of Monte Paschi’s former executives, the company said in a report released March 29. Lawyers for the three former Monte Paschi executives didn’t immediately answer their mobile phones.

Denies Wrongdoing

Nomura, which isn’t under probe itself, said yesterday that the bank will “vigorously” contest any suggestion of wrongdoing in the case. Sayeed, 59, said he denied any allegation of wrongdoing against him. Ricci didn’t return a call and an e-mail seeking comment. Deutsche Bank said Monte Paschi’s claims were “entirely without merit” and that the lender would defend itself vigorously.

As part of the deal with Nomura, Monte Paschi bought Italian government bonds using a loan from the Tokyo-based bank. It swapped the fixed-rate interest payments on the bonds with a floating rate and guaranteed the credit risk on the bonds, effectively making a bet on the future value of Italian government bonds. As those securities tumbled during Europe’s sovereign debt crisis, Monte Paschi was forced to post additional margin at a cost of 173 million euros, the bank said.

About 1.7 billion euros of the assets to be seized is margin pledged by Monte Paschi to Nomura, prosecutors said. The Siena prosecutor has frozen payments on the contract, said a person with direct knowledge of the probe, who asked not to be identified because the probe is continuing.

Nomura said in its statement that no assets have been seized in relation to the probe. Because Monte Paschi deposits its margin in an account used by Nomura in Germany, the Bank of Italy may ask the Bundesbank to seize the contents of that account, according to two people with knowledge of the investigation who asked not to be identified. They declined to give details of the German central bank’s response. Officials at the Bundesbank declined to comment.

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