European Commission - Statement

Statement on Agreement in principle between Commissioner Vestager and Italian authorities on Monte dei Paschi di Siena (MPS)

Brussels, 1 June 2017

Today, Commissioner Margrethe Vestager has reached an agreement in principle with Pier Carlo Padoan, the Italian Minister of Economy and Finance, on the restructuring plan of Monte dei Paschi di Siena (MPS) to enable the precautionary recapitalisation of the bank in line with EU rules. This follows intensive and constructive contacts between the Commission (at political level with Vice-President Dombrovskis and Commissioner Vestager), the European Central Bank (ECB) in its supervisory capacity and the Italian authorities.

EU rules, in particular the Bank Recovery and Resolution Directive (BRRD), offer a possibility for the State to inject capital into a solvent bank, provided that certain criteria are met (so-called "precautionary recapitalisation"). State aid in this context can only be granted as a precaution (to prepare for possible capital needs of a bank that would materialise if economic conditions were to worsen) and does not trigger resolution of the bank. The option of precautionary recapitalisations for solvent banks under the BRRD was agreed between co-legislators in the European Parliament and the Council.

Since a precautionary recapitalisation involves the use of taxpayer money, EU State aid rules make sure that public funds can only be injected in a bank that is profitable in the long-term. This requires the bank to undergo in-depth restructuring with the purpose of keeping its viability in the long-term. Furthermore, the State must be sufficiently remunerated for its capital injection and the bank's shareholders and junior bondholders must contribute to the costs to limit the amount of taxpayer money.

Commissioner Margrethe **Vestager**, in charge of competition policy said: "*This solution is a positive step forward for MPS and the Italian banking sector. It would allow Italy to inject capital into MPS as a precaution, in line with EU rules, whilst limiting the burden on Italian taxpayers. MPS will undergo deep restructuring to ensure its viability, including by cleaning its balance sheet from non-performing loans*. *I hope this will enable MPS to focus on lending to the Italian businesses and support the Italian economy.*"

Vice-President Valdis **Dombrovskis**, in charge of financial stability, said: "*I am glad that together with the Italian authorities and following close cooperation with the SSM we found a way forward for MPS while respecting the Banking Union rules to safeguard financial stability and limit costs for taxpayers*."

This agreement in principle is conditional on the parallel confirmation by the ECB in its supervisory capacity that MPS is solvent and meets capital requirements and on Italy obtaining a formal confirmation from private investors that they will purchase the non-performing loans portfolio.

The Commission services will now engage with Italy on finalising the details of MPS's final restructuring plan. Italy will need to notify this final restructuring plan, including the commitments by the Italian authorities on how to implement the plan. On this basis, the Commission will adopt its formal decision under EU State aid rules.

Background

MPS's capital shortfall in the "adverse case scenario"

- In the 2016 stress test carried out by the EBA and ECB, MPS's capital ratios were deemed sufficiently high under the so-called "baseline scenario", i.e. where the economy and financial situation evolves as expected.
- However, the bank had a capital shortfall in the "adverse case scenario", i.e. if economic conditions were to worsen. MPS first attempted to raise private capital on the markets but in December 2016 announced that this private capital raise had failed. The Italian authorities then decided to apply for State aid in the form of a precautionary recapitalisation.

Restructuring plan and burden-sharing

- The Commission and the Italian authorities have agreed in principle on a far-reaching restructuring plan for MPS with the purpose of ensuring MPS's viability in the long term. On the one hand, MPS will dispose of its entire non-performing loans portfolio on market terms, reducing the risks on its balance sheet. At the same time, MPS will take a number of measures to substantially increase its efficiency. As part of this, MPS's senior management will be subject to a salary cap (covering the total remuneration package) as required under EU State aid rules. This cap corresponds to 10 times the average salary of MPS employees.

- In line with EU State aid rules on burden-sharing, MPS's shareholders and junior bondholders will contribute to the costs of restructuring of the bank. This makes sure that those who stood to benefit from their investments contribute to the cost of restructuring before Italian taxpayer money is put at risk. Depositors remain protected at all times, in line with the EU Directive on Deposit Guarantee Schemes.

Compensation of retail junior bondholders for mis-selling

- Retail junior bondholders should be adequately informed about potential risks when they decide to invest in a financial instrument. In case they were mis-sold, banks can ensure that there are no adverse effects on retail junior bondholders. Such compensation is an entirely separate consideration to burden sharing under EU State aid rules.
- MPS will compensate retail junior bondholders who were mis-sold by converting these bonds into equity and buying those shares from the retail investors. MPS will pay retail investors in more secure senior instruments.

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