# ITALY AND THE BANKING UNION

## An Assessment of Banca Monte dei Paschi di Siena's Precautionary Recapitalization

Name: Jan A. Timmermann

Student Number: S2018799

Supervisors: Shawn Donnelly and Giedo Jansen

Date: 10th of July 2019

Study Program: Public Governance across Borders

Abstract

In the aftermath of the Euro crisis the European states decided on the creation of a banking union as part of the European Union. The banking union is based on two pillars: The Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The single supervisory mechanism was established to enhance oversight over big cross- border financial institutions and is institutionalized in the ECB. The single resolution mechanism is another institution created to end the provision of state aid to failing banks and therefore imposing costs for the public. A third pillar that was introduced by the Van Rompoy report envisaged for a third pillar of banking union: the common deposit guarantee scheme. However, this idea was soon dismissed. With the bankruptcy of Monte Paschi di Siena (MPS), the tension concerning the insurance of savers and depositors came to light.

This research aims at examining the shift from national interest to approve banking union to the nationalist decision to provide- state aid to MPS by the application of Moravscik's national preference formation. Generally, this research aims at answering the question: *Did Italy's preference for a common deposit guarantee scheme and a supranational resolution regime affect the articulation of the national interest to provide state aid for Monte dei Paschi di Siena?*

# Table of Contents

## Table of Abbreviations

| | |
|---|---|
| ABI | Italian Banking Association |
| BRRD | Bank Recovery and Resolution Directive |
| BoI | Bank of Italy |
| EDIS | European Deposit Insurance System |
| EU | European Union |
| FITD | Fondo Interbancario di Tutela Dei Deposit |
| SRM | Single Resolution Mechanism |
| SSM | Single Supervisory Mechanism |

## Introduction

In the aftermath of the Euro crisis the European states decided on the creation of a banking union as part of the European Union. The banking union is based on two pillars: The Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The single supervisory mechanism was established to enhance oversight over big cross- border financial institutions and is institutionalized in the ECB. The single resolution mechanism is another institution created to end the provision of state aid to failing banks and therefore imposing costs for the public. A third pillar that was introduced by the Van Rompoy report envisaged for a third pillar of banking union: the common deposit guarantee scheme. (Howarth & Quaglia, 2016)

This common deposit guarantee scheme would reimburse the deposits of clients of a failing or failed bank to a certain amount. It aims at preventing bank run, meaning that creditors withdraw their money from their bank deposits. A bank run could have contagion effects and imposes risks for financial stability. (Howarth & Quaglia, 2016) The creation of banking union showed high tensions between governments with stronger banking systems such as Germany and weaker such as Italy. While Germany stated the problem of moral hazard towards this set of regulation, Italy stated the need for this scheme in order to strengthen the credibility in the banking system and avoid bank runs. (Howarth & Quaglia, 2016, p. 138) In the end the idea of this pillar was dismissed and just the single resolution mechanism as defined by the bank recovery and resolution directive (BRRD) and the single supervisory mechanism adapted. Instead the member states agreed to harmonize the national guarantee systems in order to guarantee an insurance up to 100,000 Euros.

The tensions concerning the regulation soon came to place. While the regulation was implemented in 2016, the same year the struggling Italian bank Banca Monte dei Paschi di Siena (MPS) failed the European Central Bank's (ECB) stress test and a capital shortfall was diagnosed. Under the application of the BRRD this requires a "precautionary recapitalization". In order to raise capital a private sector involvement (PSI) was planned. However, also due to the difficult market situation in Italy no investor could be found.  Therefore, the Italian government was forced again to be investor and guarantor of the last resort, the same role European states played during the financial crisis. The government purchased a EUR 5,4 bn in shares of MPS post bailing in institutional junior creditors following the regulatory framework of the BRRD which converted their sub-ordinated debt into equity. This mechanism of the framework is called a "precautionary recapitalization" which provided banks with a capital shortfall with fresh capital after creditors and bondholders are bailed- in. However, the bail- in did not cover private owners of junior bonds. Moreover, depositors who had more than EUR 100.000 in deposits were not subject to a bail- in as is foreseen in the BRRD.  The state once again provided state- aid to a bank imposing high costs on the public. This step was most likely against "the spirit and letter of the law" (Götz, Krahnen, & Tröger, 2017). Moreover, the decision taken was considered to be nationalist in the sense that Italian government was alleged to bend the rules in order to protect junior- debtholders and maintain the bank national (Verón, 2017).

This research will examine the role of domestic interests on (non)compliance to EU regulation. The fact that Italy opted for a greater integration towards the Banking Union but not satisfying this will be under analysis. In order to screen domestic interests Andrew Moravscik's national preference formation will be applied and the role of domestic pressure groups will screened and tested. This research has a high political and societal relevance. It adds to the research on compliance in the European regulation determined by a liberal theory. Moreover, the topic is also politically of high relevance, as the provision of state- aid imposes high costs on the public.

## Research Question

This research aims at examining the relationship between the preference of Italy for a common deposit insurance system and their preferences concerning the resolution regime and the provision of state- aid towards MPS. As Italy opted for both, but only the resolution regime was adapted in banking union the emphasis lies on how domestic influential social groups' demand changes through this decision and how the national interest evolved.

*Did Italy's preference towards a common deposit guarantee scheme and a supranational resolution regime affect the articulation of the national interest to provide state aid for Monte dei Paschi di Siena?*

To test these preferences more questions, need to be considered. First the question of preference of Italian government prior to the creation of the banking union.

*What was the position of Italian government towards the resolution of banks prior to the creation of banking union?*

This will then be compared by the position of Italian government post- intervention to screen whether there has been a policy shift.

*What was the position of Italian government towards the resolution of banks post implementation of the BRRD?*

## Theoretical Framework: Liberal Intergovernmentalism

In order to analyze the national decision, the theory of liberal intergovernmentalism by Andrew Moravscik will be applied. Liberal intergovernmentalism sees European integration as a two level- game in which firstly European member states articulate their interests based on a process of national preference formation. This is then followed by a negotiation on the international level.

However, the application of the European banking union framework and the included distributional effects in Italy can be seen as the product of national decision making. As such the national decision- making needs to be analyzed on the lowest level of European integration: the process of national preference formation. The issue under study is in opposition to "security externalities" (Moravscik, 1998, p. 28) of economic interest, thus the "endogenous policy theory" (Moravcsik, 1993, p. 28) will be applied.

Gennerally, the economic explanation suggests that national preferences reflect issue- specific interests (Moravcsik, 1993, p. 26). Thus, the theory can be applied as it connects the national preference to the outcome to provide state- aid towards MPS. However, domestic interest cannot be sharply defined. National groups and the government are in a relationship in which "groups articulate preferences [and] governments aggregate them" (Moravscik A. , 1993, p. 483) In other words: national groups are dependent on their respective structures and power struggles in which their interest and preferences are constantly redefined. Consequently, leading to the change of government behavior. In identifying the societal groups Moravscik identifies "private individuals and voluntary associations with autonomous interests acting in the civil society" (Moravcsik, 1993, p. 483) as the most important actors in the formation of national interests. The key actors in national preference formation are sectoral and factoral interest groups, economic officials and elite opinion which express their interest to chief executives and ruling parties (Moravcsik, 1993, p. 93) The autonomous interest of those societal groups can be generally be contextualized as cost- benefit relationship. These should generally be those groups, that "stand to gain and lose a great deal per capita" (Moravcsik, 1993, p. 483). Hence, if a group would loose or gain a lot through a policy they tend to articulate their preferences strongly and tend to be the most influential group. Moreovere, "in economic affairs some firms and groups, particularly those with fixed investments and assets, may seek to influence governments directly" (Moravcsik, 1993, p. 484). In determining the most important groups, one needs to look at government officials that choose to articulate the interests of specific groups based on a cost- benefit analysis. Government officials choose to support the certain interests of certain groups whose vote precures their seat in office. Consequently, politicians are dependent on “the support of a coalition of domestic voters, parties, interest groups and bureaucracies, whose views are transmitted, directly or indirectly, through domestic institutions and practices of political representation” (Moravcsik, 1993, p. 483). As governments can choose which coalition to support other groups and their propositions can be alienated. Governments can favor different societal groups if they anticipate that their specific interests help them stay in office and as such disfavor other societal demands. In this case the role of the producers needs to be emphasized. Existing domestic producers may get favored by national governments against consumers, taxpayers or third- country producers which is determined by the more intense, certain and institutionally represented organized interests by these producers (Moravcsik, 1993, p. 36). Producers have the capacity to articulate their interests which are issue specific and based in their fields towards politicians and ruling parties. As opposed to other interest groups the interest of these interest groups are clearly organized in specific interest groups and they participate in politics on a daily basis. Therefore, producers have the advantage over other pressure groups that they are able to exert direct, instrumental pressure on politicians and can exercise structural power on politics. Moreover, it is possible that powerful societal groups who a are disadvantaged by the co- operation will seek to obstruct government policy even if the policy would generate net gains for the society as a whole. Thus Moravscik argues that it requires a specific analysis of the domestic societal interests in the respective issue area and if this interests influence government behavior. (Moravcsik, 1993, p. 487) Thus, different societal groups compete in order to gain the favor of the government.

However, there are situations where liberal intergovernmentalism sees the national preference formation detached from societal groups. This occurs when the policy under discussion is a macro- economic policy idea. This is due to the fact that these policies tend to have no clear implications of a “cause- effect- relations between EU rules and individual welfare” (Schimmelpfenning, 2015b, p. 4). As such the consequences for domestic societal groups of the regulation are not always clear and may not have short- term implications on individual welfare. As such macro- economic policy ideas as macro- economic stability (Moravcsik, 1993, p. 491) generates a more diffuse pattern of societal interests. This leads to a higher variability and ambigousness by societal groups concerning the regulation. (Moravcsik, 1993, p. 493) As no clear demands from societal groups are made and liberal intergovernmentalism expects the “preferences in this area to reflect the macro- economic preferences of ruling governmental coalitions” (Moravscik, 1998, p. 3) However, the Euro crisis showed a special pattern of preference formation. Through the sovereign- bank nexus in the crisis financial markets and state interests became strongly intertwined. As such the short- term welfare implications of macro- economic policy alternatives were strongly visible. (Schimmelpfennig, 2015a, p. 180) This would counter the original formulation by Moravscik and extents the theory to the point that there are cases in which "material interstes (…) prevail over iedological preferences" (Schimmelfennig, 2015, p. 180) in macro- economic policy. Therefore, there are cases in macro- economic policy ideas where the governing coalition does not enjoy as much independence from national interests as in other cases.

For the research on national preference formation three aspects need to be analyzed:

1. Identification of important societal groups

These should generally be those groups, that "stand to gain and lose a great deal per capita" (Moravcsik, 1993, p. 483) The groups taken into consideration will be further identified in the section "Sampling".

2. The nature of their interests

I conclude, that in the context of the topic under study national interests can be compared by compliant and nationalist nature of the interest.

3. Their relative influence on the national interest

Generally, the research expcets the domestic interests to be the same post and prior the implementation of the new rules. This would explain the bending of the rules towards the banking union. As such the following hypothesis can be formulated:

*H1: National preferences concerning resolution and the common deposit guarantee scheme were equal post and prior to the creation of the banking union.*

# Methods

## Research Design

The theoretical framework of the national preference formation will be practically applied. This will be done through a deductive qualitative approach.

Firstly, domestic actors who have influence in the decision making are identified. Followed by the analysis of the respective standpoints and preference toward the decision. Generally, this reconstruction can be broken down to the "congruence method" (George & Bennet, 2005, p. 206). As the decision to provide state aid to MPS was a linear retrospective process the research will examine societal groups positions prior to the creation of banking union and post implementation of the European set of regulation on the 1st of January 2016. This approach is feasible as it does not solely create observations of the MPS case but clearly connects the actions and preferences articulated by domestic pressure groups in a causal relationship. Therefore, this design helps to clearly connect the outcome of the MPS state- aid to the domestic national preference of Italian societal groups. This research design is also feasible as the European authorities' intervention is a clear historic event where the decision making can be traced back in time.

Secondly, the two acquired data sets prior and post intervention will be compared through comparative qualitative research design. The goal of this design is to examine the influence of societal groups on the change of national interests. Prior to the position the government supported a European resolution and supervisory regime in a package deal with a common deposit guarantee scheme. However, the proposal of the common deposit guarantee scheme was dismissed. The date sets by Howarth and Quaglia provide information on the national preferences towards the banking union by applying Moravscik's liberal intergovernmentalism. In order to make the data set that this research will provide comparable the same theory will be applied.

## Case Selection and Sampling

The research examines the stances of the Italian government towards the two decisions taken by applying a liberal theory of state- society relations. Therefore, the unit of analysis are domestic pressure groups based in society. To reconstruct the decisions taken, the research units are sampled by a purposive process.

First and foremost, the relative influence of one domestic group on the decisions is a key sampling requirement. Therefore, the parties governing back in 2016, namely, the Democratic Party (PD), the Popular Alternative (AP) and the Centrists for Europe (CPE) will be units of analysis. Moreover, on the national level the position of Banca di Italia, the Italian central bank will be analyzed, as their position plays a major role in decision making on financial institutions. The Bank of Italy's main objective under their role under the treaty on the functioning of the European Union is the save guarding of price stability. Its goal is to pursue the stability and efficiency of the financial system. The stability and efficiency are seen as a tool to implement the principle of the protection of savings embodied in the constitution giving them the role of a key state actors. (Bank of Italy, n.d.) Moreover, Italy's banking sector is characterized by locally acting banks. Besides the described units on a national level, regional pressure groups are involved in the decision making such as the Tuscany and Siena government as MPS is a big employer in the region.

As representants of private interests who have a clear position and influence on the decision is the ABI. The Italian banking association which represents the interests of the banks in Italy plays an important role in the decision- making process as they have a clear interest in the regulation determined by their sector. Moreover, as the loss of MPS affects savers and creditors the focus lies on consumer protection groups. Especially, the application of the bail- in tool would have imposed high losses on the holders of sub- ordinated debt. The Italian Banking Association, creditors and holders of sub- ordinated debt have fixed investments and as such are expected "to seek to influence governments directly". (Moravcsik, 1993, p. 484) All these groups are expected to have a material interest on the regulation which can be determined by a cost- benefit relationship and as such play a major role in national preference formation. Moreover, these groups are dependent on the regulation towards the resolution of the bank. As liberal intergovernmentalism foresees national preference formation to be issue- specific these groups are expected to have a clear material interest (Moravcsik, 1993).

## Operationalization and Data Collection Methods

In order to reconstruct the national interest provide state aid to MPS a limited sequence of events in a specified time frame will be evaluated. The time frame starts with the implementation of the BRRD on 1st of January 2016 in Italy request and ends with the end of the year 2016. Moreover, the data used is qualitative and can be categorized into three types:

The first are firsthand preference articulations of interest groups. These can be articulated through press releases and legislative texts by the Italian government, NGOs, the ECB, the Italian central bank, EU institutions, political parties, banking unions, depositors, investors or the MPS itself. Moreover, parliamentary debates and blog entries by members of the Italian parliament provide first hand insides about the preference formation. Also interviews in newspapers by representatives of pressure groups will be used. This type of data will be accessed through government websites and government releases.

Secondly, the media landscape will be screened. The media plays a great role in preference formation and articulation. It gives insights about the different pressure groups and their respective preferences. Moreover, the media is highly useful in screening a change in preference formation as different interest groups are able to articulate themselves through the media. Also opposing pressure groups seek the media to articulate contention towards positions. Through the discourse in the media the domestic bargaining resulting in the preference to provide state-aid to MPS can be reconstructed.  The newspaper articles used will be from big transnational newspaper as the Financial Times, the New York Times, the Wall Street Journal or the Handelsblatt but also local media as Italian TV and newspapers. Moreover, internet publications as Politico or Euronews will be used to screen the preferences. The newspaper data will be accessed via the internet or hard copies in the library.

Thirdly, scientific articles will be used for the analysis. Although the topic has not been heavily discussed among scholars, the scientific literature provides insights about the different motivations of the actors. Especially, the data set provided by Howarth and Qualia (2016) that reconstructs Italian government's national preferences for Banking Union is important in comparing the policy shift.

### Data Analysis

The data found in the data collection will then be analyzed by the actors position towards the deposit guarantee scheme and the resolution regime. The relevant actors' position will be compared to the position of Italy during the negotiations of the Banking Union. As such the positions on the specific issue will be checked if they are equal to the preferences formulated before the regulation came into place. In order to measure the influence of a specific interest group in the national preference formation the sequencing of statements and events are important. As the Italian government is the key institutions in articulating domestic preferences a statement or a position can only have direct influence on the decision- making if the societal group has made a demand prior to statements made by government officials.

## Dataset One: Negotiations of the Banking Union

### Italy's Position towards the Resolution Regime

In order to understand the European intervention for precautionary recapitalization, the nature of the Italian government's national interest prior to the creation of the banking union needs to be analyzed. This is because domestic responses towards regulation can change greatly due to political or economic events. Public opinion regarding the capital shortfall of MPS is a great example of this.

The scholars Howarth and Qualia (2016) made use of the liberal intergovernmentalism by Moravscik to screen Italy's preferences in the creation of banking union. In general, they state that Italy has been emphasizing the acceleration of the establishment of the single resolution mechanism aiming to harmonize the different domestic interests in the EU and counter contagion effects between different national banking systems in times of distress. Moreover, they lobbied for a structural alignment of the single supervisory mechanism with the single resolution mechanism in the supranational organization ECB in order to provide rapid help for failing banks. In this context they pointed out the possible conflict of national interest and supranational organizations while a bank is in distress. Desiring a timely intervention for struggling banks Italy lobbied for a simplification of the banking union's general structure and wanted the ECB to have direct supervision of its banks in order to have quick access to the single resolution fund during times of financial distress. (Howarth & Quaglia, 2016, p. 134) Furthermore, Italy and the Italian banking association emphasized an insurance system to provide banks with liquidity shortage with capital ex- ante. This preference for ex- ante measures was also visible in their position towards an ex- ante measure in the single resolution fund to protect banks in distress. (Howarth & Quaglia, 2016, p. 135)

However, in opposition to a resolution on supranational level there were tensions concerning the bail- in of creditors concerning the national flexibility of the national resolution authority in the Italian case the Bank of Italy. The hierarchy of creditors was questioned by Italy. Especially, the treatment of holders of subordinated debt and deposits by small and medium enterprises was questioned by Italy and they opted for flexibility during the negotiations on the application of bail- in. (Howarth & Quaglia, 2016, p. 116) Moreover, the Italian government opted for an application of the bail- in tool only on newly issued bonds. They reasoned that that investor must be aware of the new regulation which would require some time. Also, the banks should have a buffer of bail- inable liabilities as for example TLAC. To ensure these measures the Italian government opted for an entry of the BRRD on the 1st of January 2018 instead of 1st January 2016. (Rossi, 2016, p. 3f.)

## Implications for the Case

The Bank Recovery and Resolution directive imposed a legal framework for state bail-outs for failing banks imposing restrictions and clear rules towards state-aid by member states towards banks. This directive emphasizes ensuring discipline in the market and wipes out the implicit government guarantee which many banks had previously utilized and led to heavy risk taking before the crisis. The directive defines a European standard of conditions if a bank is considered to be failing or likely to fail and which action to take once a failing bank has been identified. (Cutura, 2018)

In a usual insolvency process, the equity on the liability side of the balance sheet will be reduced until the failing bank is bankrupt. In this scenario, if raising new equity or a private sector involvement is not possible the resolution authority either lets the bank fail or recapitalize it by using taxpayer's money. The BRRD however enhances the possibilities for resolution authorities by writing of equity and converting outstanding debt into new equity. In this case the bank can write off debt and can be recapitalized by compensating the losses. If applied correctly the bank has neither to face a bankruptcy which could harm the overall stability of the financial system, nor the public needs to fund a costly public banking bail- out. (Cutura, 2018) The restrictions imposed, aim at reinforcing accountability to the private financial sector. According to the directive, state aid should only be possible when "private creditors had already been subjected to bail-in procedure imposing heavy losses on them" (Donnelly, 2018, p. 163). As such the directive also aims to facilitate private sector mergers and acquisitions, thereby ensuring private sector involvement (PSI) (Cutura, 2018)

The case of Monte dei Paschi is striking due to sheer amount of subordinated debt. Investors held about 2.1 billion Euros of subordinated bonds which would be subject to a bail-in and thus greatly increased the likelihood of a loss for these creditors. Half of these bonds were held by private household investors who would lose out by an application of the bail-in. (Smith, 2016)As such, the societal group of "savers" can be identified. As these group "stand to gain and lose a great deal per capita" (Moravcsik, 1993, p. 483) the savers would lose out on the newly banking rules.

The second hypothesis after the preferences on the resolution has been made clear and we expect the national preference to be equal post and prior the implementation of the new banking union's rules can be formulated as follows:

*H2: The nonsatisfaction of the national preferences in the creation of the baking union towards the resolution regime facilitated the bending of the rules of banking union.*

## Italy's Position towards the Common Deposit Guarantee Scheme

In June 2012 the Four Presidents report was published and aimed at creating the third pillar of the banking union the common deposit guarantee scheme. The proposed regulation aimed at creating a public backstop and the insurance of deposits. (Van Rompuy, 2012) However, by December 2012 the idea of a common deposit guarantee scheme had seemingly vanished from political discussion. The earlier ambitious regulation was replaced by the idea of a harmonization of national deposit guarantee schemes. Finally, in autumn 2015 the European Commission made another attempt in facilitating the creation of the common deposit guarantee scheme but it was rejected by the member states again.

The Van Rompoy report aimed to "strengthen the credibility of the existing arrangements and serve as an important assurance that eligible deposits of all credit institutions are sufficiently insured" (Van Rompuy, 2012, p. 4). Originally, the banking union should contain this pillar; however, some member states opposed the regulation as there were problems of moral hazard. The creation of banking union especially the proposed third pillar, the common deposit guarantee scheme revealed high tensions between governments with banking systems of differing strengths. In particular, the German government feared that governments with healthier banking sectors (such has their own) would be net contributors to the new framework and therefore unjustly bear financial responsibility for weaker member states like Italy. (Howarth & Quaglia, 2016) Italy countered this perspective by emphasizing the need for this scheme to offset contagion effects and bank runs in order to guarantee financial stability. (Howarth & Quaglia, 2018) Italy's preference for the common deposit guarantee scheme was also influenced by the social functions of their national deposit guarantee scheme. The Italian government opted to preserve these functions, specifically their ability to facilitate early intervention in the case of crisis. (Howarth & Quaglia, 2016, p. 153)

## Italy's Deposit Guarantee Scheme Prior to Harmonization

Italy's deposit guarantee scheme consists of two different schemes that cover different types of banks.  First: the Interbank Fund for Deposit Guarantee Scheme (Fondo Interbancario di Tutela Dei Deposit) a guarantee scheme for joint- stock companies and cooperative banks and second: the Fund for Deposit Guarantee of Cooperatives (Fondo di Garanzia dei Depositanti del credito cooperative) by mutual banks. With the implementation of the first deposit guarantee scheme directive in 1994 the membership for Italian banks became compulsory. (Howarth & Quaglia, 2018)

The primary mandate of these two guarantee schemes was the depositor pay- out in the context of bank liquidation. However, their scope was broadened to provide guarantees, credits, acquire equity and fund purchase and assumption transactions. To apply these measures a Bank of Italy approval was required. (Howarth & Quaglia, 2018) The two deposit guarantee schemes were funded ex- post with a system of providing liquidity by participating banks when a failure occurred. Historically, these systems have been generous in providing help for failing banks. Thus, the schemes could provide Italian banks with financial support instead of reimbursing creditors. The scope thus was extended from mere deposit guarantee scheme to an interbank insurance system that helped struggling banks. This system was substituted by the mechanism that the framework could intervene even when a resolution procedure had not been formally initiated. Moreover, the deposit guarantee scheme was directly supervised by the Bank of Italy. (Howarth & Quaglia, 2018) The system thus is based on ex- post measures. Moreover, the national deposit guarantee schemes has been used to fill the deficit between assets and liabilities including subordinated debt in order to seek for a buyer of mainly branches. However, the European legislation on state aid limited the provision of state- aids. The directive of 2013 requires different conditions for the provision of state aid. Thus, firstly the bank's shareholders, junior capital holders and debt holders need to share the burden of the losses. The new directive limited the scope of the deposit guarantee scheme to mere deposit guarantees and abandoned the contribution of ex- post measures to banks in distress which was considered state- aid. (Stanghellini, 2016)

In conclusion, it's clear that the Italian government had a preference for a greater level of integration on a European level concerning the resolution issue which was ultimately not satisfied. But instead of turning the tide towards Italy's perspectives, the issue of savers brought latent political tensions to the surface. Italy lobbied for a common deposit guarantee scheme AND a resolution mechanism. Although Italy envisaged the two as a package deal, other member states, such as Germany, disagreed. Eventually the member states dismissed the idea of a common deposit guarantee scheme increasing Italian dissatisfaction regarding European regulations on the protection of savers.

The third hypotheses aims at examining the effect of the lack of a European deposit insurance. As we expect the preferences to be equal prior and post the implementation of the rules the next hypothesis can be derived.

*H3: The non- satisfaction of national preferences towards the deposit insurance facilitated the bending of the rules of banking union*

The data sets discussed by Howarth and Quaglia (2016) and Howarth and Quaglia (2018) reveal a preference based on interests controlled by the Italian Banking industry namely the Associazione Bancaria Italiana (ABI). As such, the model of decision making in their research found this organization to be the most influential in the national preference formation. From this a model can be derived.

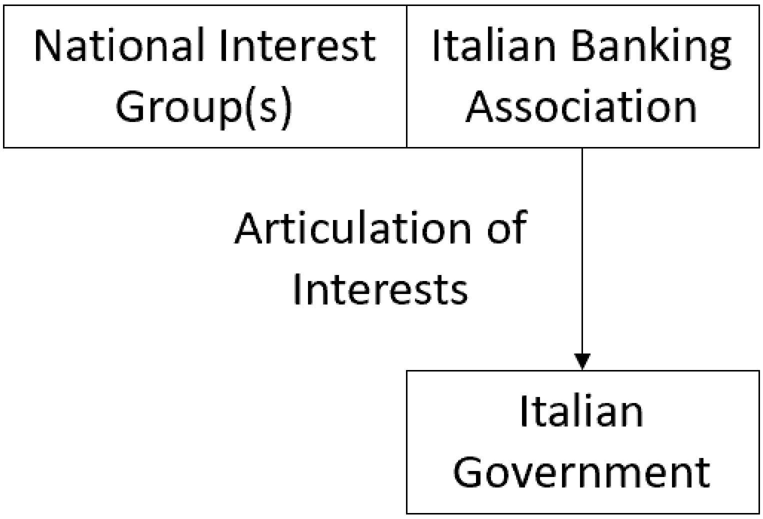


*Figure 1: Model of Decision- Making according to Howarth and Quaglia (2016)*

## Dataset Two: Reconstructing the decision to provide state- aid to MPS

Using google and limiting the time frame to the year 2016 different documents have been collected. In government documents, public speeches, firsthand organizational websites and newspaper articles preferences concerning the European Banking Union's rule set and the resolution towards Monte dei Paschi could be identified. In the reconstruction of the decision different major events concerning the resolution of Monte dei Paschi occurred. In order to give a framework during the analysis of policy positions the following table has been created.

| Date | Event |
| --- | --- |
| 11th of April 2016 | Launch of Atlas Fund |
| 23rd of June 2016 | After the Brexit the Market react in turbulences and MPS experiences a shock |
| 4th of July 2016 | The ECB requests MPS to reduce portfolio of non-performing loans |
| 29th of July 2016 | MPS is the weakest performer in the Euro-wide stress test, performed by the ECB, the same day the management board approves a recapitalization plan with a private sector involvement |
| 4th of December 2016 | Prime Minster Matteo Renzi loses the constitutional referendum and the markets react in turbulence again triggering a shock of Monte dei Paschi |
| 23rd of December 2016 | The precautionary recapitalization is decided by the Italian Government |

*Figure 2: Major Events concerning the Resolution of MPS*

## Monte dei Paschi in January and February

MPS was hit by market turbulences at the beginning of the year 2016. The bank especially had problems with a high ratio of non- performing loans. With the decrease of market confidence, the bank sold the majority of a 1.6 billion euro securitized single and medium enterprises lease portfolio in January. This was accompanied by an increased distrust of investors and its share price dropped by almost one third. Investors started to raise questions of the stability of the institution and mention the risk that will arise from a moment of turbulence in the financial system. (O'Neill, 2016) Thus, MPS struggle came along with the implementation of the BRRD's rule. The first two months of 2016 have been difficult for the Italian banking sector in general and the BRRD came into force on the first of January 2016 (European Commission, 2015a). However, Prime Minister Matteo Renzi publicly announced on the 21st of January 2016 in the Italian TV show "Porta a Porta" that Monte dei Paschi di Siena has been struggling but have overcame the crisis and is now a good business (Enders & Ingolf).

Remark: Although the Italian banking sector i.e. MPS showed weaknesses and investors raised concerns about the stability of the bank, the Italian Prime Minister publicly announces to invest in Monte dei Paschi.

## The Creation of the Atlas Fund

On March 10th Italy has appealed to the European Court of Justice to overturn a European Commission ruling that rejected a 2014 rescue plan for the troubled Italian lender Banca Tercas. In 2014 the Italian deposit guarantee scheme had provided funds to cover some of the bank's losses which was considered to be state aid by the commission. (Reuters.com, 2016) The commission ruled on the 23rd of December 2015 that the use of the FITD was incompatible towards the ruling on state aid (European Commission, 2015b) Clearly the government maintained the preference towards their deposit guarantee scheme to provide banks with a capital shortfall liquidity by this fund and retained the possibility to intervene through this fund. (Howarth & Quaglia, 2018, p. 153) The appealing against the court can be seen as a reluctance towards the new regulation and especially the ruling on state aid.

On the 7th of April deputy governor of the Bank of Italy Salvatore Rossi publicly criticized the European set of regulation. He especially emphasized the need for financial stability in Italy. Banks, he suggested, should not be treated equally to other businesses but rely on the confidence of savors. This is because the stability of the entire financial system and the entire economy can only be ensured if the confidence of savers is guaranteed. Rossi also criticized the proposed European deposit insurance since it does not include a public backstop function for ailing banks and has a long transition time. He especially criticized the Northern European countries for their preference to harmonize major national regulations before discussing mutual guarantee schemes. (Rossi, 2016)

Thus, the Bank of Italy articulated a preference which had been a policy position in the negotiations of the banking union by supporting the guarantee scheme. The emphasis on this regulation as well as functioning as a backstop facility were both retained as economic policies.

On the night of the 10th April into the early hours of the 11th The Bank of Italy and government representatives came together to discuss the launch of the Atlante fund. (Whitecase, 2016)

On 11th of April the Italian government announced the launch of the Atlante fund, a private alternative investment fund in which different institutional investors invested. The fund's objectives were firstly to act as backstop facility for capital increases for Italian banks by acquiring shares of the affected bank and secondly to facilitate the purchase of non- performing loans and property assets from Italian banks. (Whitecase, 2016) In this case the Italian government acted as a facilitator for the creation of a private rescue fund where only Italian financial institutions were able to invest. The fund was run by Quaestio a private capital management company.

The creation of the Atlas fund builds on a clear sequence of events. Initiated by the Commission's ruling towards the state aid on the 23rd of December 2015 followed by the appealing towards the European Court of Justice, the Bank of Italy took the initiative. Prior to the commission's ruling the Bank of Italy had been responsible towards the supervision of the FITD with the mandate to provide aid to failing banks (Howarth & Quaglia, 2018). By criticizing the European set of regulations on 7th of April Rossi laid the groundwork for a similar system. Examining the sequencing of the events demonstrates that the Bank of Italy had not only made their opinion public before the creation of the Atlas fund but also clearly influenced the creation of the fund since the government and Bank of Italy aligned in order to create it. As governments are also dependent on the support of their bureaucracy (Moravcsik, 1993, p. 36) the Bank of Italy can be considered to be a key actor in national preference formation. However, what is striking about the creation of the fund is that no producers' preferences have been articulated. Viewing it as a "backdoor" negotiation, however, reveals that the Bank of Italy is closely aligned with the interests of the Italian Banking Industry who preferred to maintain the original structure of the Italian deposit guarantee scheme as it existed prior to harmonization. In the Italian case financial markets and state interests became strongly intertwined through the sovereign nexus in the financial crisis. (Schimmelpfennig, 2015a) This is supported not only by the possible contribution of aid towards banks in struggle, but also by the provision to buy nonperforming loans which were a reason for the sovereign nexus. The regulation can, moreover, be understood as a fragmentation of material interests and macro-economic policy ideas. The connection between financial markets and state interests became even more apparent by the situation of the fully state-owned bank Cassa Depositi e Prestiti. This bank had the third biggest contribution with approximately half a billion Euros following Unicredit and Intesa with 1 billion euro each. (Bocconi, 2016) As such the creation of the Atlas fund can be understood as a reaction towards the Commission's rulings and the new regulatory framework. The Atlas fund, however, does not provide a deposit guarantee, but acts as a fund for the protection of the national banking system with a backstop facility as opted by Rossi.

The tensions concerning the Commission's rulings towards the Tercas case and the state- aid implications of the FITD did not end with the creation of the Atlas fund. Instead, parliament called for an investigation concerning the use of the fund. With the supervisory mandate, the

Bank of Italy's governor Ignazio Visco Italy testified on April 26th, 2016 before the sixth standing committee (Finance and Treasury) of the Italian Senate in Rome. He criticized the new European regulation of the restriction of the interbank deposit protection fund which limited the interbank deposit protection fund's scope towards pure reimbursement of deposits. Every intervention other than the reimbursement of deposits was considered state- aid although it is funded privately and decided independently by the fund's management bodies. (Visco, 2016) The next day  Stefano De polis member of the Bank of Italy's national resolution authority supported the view by Visco. He stated that : "The mentioned orientation leads to the paradox that we have experienced in recent months: on the one hand, the DGS Directive regulates preventive and alternative interventions, aimed at favoring the solution of the banking crisis, on the other hand the application of the discipline on state aid, read jointly with the new European legal framework for resolution, it effectively inhibits them interventions to the funds. In summary, the reasons for protecting competition and limiting aid of state seem to prevail over the needs of effective crisis resolution, to safeguard the functionality of the system and protection of creditors' rights" (De Polis, 2016, p. 10f.) The negative position towards the European legislation was again supported by Ignazio Visco in a speech on the 5th of May 2016 where he stated that generally, Italy should not rule out state- aid per se. He suggested that in case of a systemic risk of a bank's failure the state should intervene and secure banks investors. This should also include holders of subordinated debt. (Visco, 2016)

As stated before, the Bank of Italy's main objective with their role under the treaty on the functioning of the European Union is the save guarding of price stability. Moreover, its goal is to pursue the stability and efficiency of the financial system. The stability and efficiency are seen as a tool to implement the principle of the protection of "saving in all its forms" (Bank of Italy, n.d.) embodied in the constitution. Thus, the bank of Italy is not a societal group with material interests, but a state actor. However, with their role of protecting savings their role can be interpreted as the representator of material interests of the savors. However, being confronted with their role of maintaining financial stability, both macro- economic policy ideas and material interests need to be balanced by this societal group. With this background the statements support the further opposition of the Bank of Italy towards the Banking Union rules. The first statement made by Visco can be understood as a pure criticism towards the ruling of the European commission. De Polis the next day supported this criticism but added a strong criticism towards the harmonization of the national deposit guarantee schemes and the envisaged European deposit insurance system as both do lack a public backstop facility. Both statements suggest that the Bank of Italy sees its capacities limited in resolving a crisis and the protection of “creditors’ rights” (De Polis, 2016, p. 11) Thus, both statements show a high reluctance by the Bank of Italy towards the banking union rules of the deposit insurance. The statement of Visco made on 5th of May 2016 made later by Visco moreover shows an opposition towards the bail- in of sub- ordinated debt and the lack of possibilities to intervene for the authorities. This criticism adds up to a high reluctance of the Bank of Italy towards the BRRD and the deposit insurance which leads to high constraints for the Bank of Italy in order to pursue their mandate.

## The Democratic Party Loses Elections in two Cities

On 5th of June 2016 the governing democratic party lost elections in Rome and Torino leading to a win of the five-star movement. This party made a campaign against the European austerity politics and especially opposed the Euro as a currency. (BBC, 2016) Rome and Torino are major cities in Italy and the election were a high loss the democratic party which governs on national level. As governments seek to maintain themselves in office this election can be considered a warning sign for the governing party. Especially, as the opponent successfully criticized the European Banking union regulation. (Moravcsik, 1993)

## The Brexit Shock

When the United Kingdom decided to leave the European Union on 23rd of June 2016 the markets reacted in turbulence. The struggling Monte dei Paschi’s share price dropped 50 percent within two weeks (Armellini, 2016). This was followed by public positions of the government against the BRRD’s rules. On 26th of June 2016 Francesco Boccia, the president of the committee of budgets stated that suspending the bail- in rules was not a “heresy”. (Boccia, 2016) A representative of the government stated the same day that the government strongly supported overcoming the European austerity politics and embracing a policy that boosted employment and social inclusivity. Moreover, Claudio de Vicenti, the secretary of the council of ministers of Italy, stated that the Italian government was ready to use all the tools necessary to guarantee the stability of the financial system and was ready to protect the savers of the banks (Bartoloni, 2016) The next day the 27th of June 2016, on a Brexit summit with the European Commission and the German chancellor Angela Merkel prime minister Matteo Renzi asked for flexibility in the application of the European regulation. Moreover, he announced that his government would do everything given the regulatory framework in order to resolve the problem. Furthermore, he noticed that the Brexit vote was an external shock which had implications on financial stability to an exceptional occurrence which would permit state- aid towards the failing bank. The same day Visco governor of the Bank of Italy categorized the

Brexit to be a strong shock. The Bank of Italy "will use all the tools available to support the banking system" to avoid a systemic crisis as the volatility was greatly increased and there are risks of contagion. (Il Fatto Quotidiano, 2016)

The Brexit shock can be seen as an event which required the articulation of a preference by the government. The high number of statements by different government officials concerning the Brexit shock showed a high preference opposing European legislation while the financial stability was at stake. The statements represent the governments reaction to the crisis. What is notable that it was the first time the government showed opposition towards the European regulation, while the opposition towards the rules prior in the year was solely articulated by the Bank of Italy. The statement that abandoning the bail- in rules was not a "heresy" can be considered as exemplary for the strong opposition towards the rules. This is in line with the statement made by Visco on the 5th of May 2016 when he stated that in times of distress Italy should rescue creditors and this should also include the holders of sub- ordinated debt. (Visco, 2016) Moreover, the statements show that the government emphasized the "protection of creditors" (De Polis, 2016, p. 11) as opted by de Polis on the 27th of April 2016. Further, the simultaneous statements by the governor of the Bank of Italy Visco and the government suggests that the Bank of Italy's advocation towards the government of Italy had been successful or that at least the interests were equal. This interest in protecting creditors by the government can be seen as anticipation of the savors' material interest. The savors did not publicly announce their preference and did not exert influence on the government. Yet, the government preferred the protection of savors over the compliance towards banking union's rules. This preference lead to negotiations on the European level lead by prime minister Matteo Renzi to allow leeway in the application of the rules. Moreover, the statement by Visco is striking as it displays the "support for the banking system" (Il Fatto Quotidiano, 2016). Which can be seen as an articulation of the material interests of the banking sector. Equally to savors the banking industry had not made their position towards the regulation publicly. As such the sequence of interest articulation shows that the Bank of Italy and the government again align in the formulation of national preferences in order to resolve the crisis. The statements show that there was consensus about the application of all the tools available and a lobbying by the Bank of Italy towards the government. Moreover, the statements and the request for flexibility can be seen as statements legitimating the use of a precautionary recapitalization which can only be applied "in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability" (European Parliament, 2017, p. 2) As such, the statements by Renzi and Visco that define the Brexit as a strong external shock which hampers the financial stability of the system put pressure on the European Commission in order to allow a state intervention.

## The European Central Bank Raises Requirements

On 4th July the European Central Bank raised requirements for MPS to reduce the non-performing loans in the portfolio and develop a plan for recapitalization. (Gruppo Monte dei Paschi, 2016) On July 8th 2016 Pier Carlo Padoan the finance minister publicly announces that Italy was "continuing to explore all ways to allow public intervention in the banks within state aid rules . . . to protect savings" Another not named state official being part of the government insisted that "If we bail in subordinated debt, people will not be able to live," (Sanderson, Barker, & Jones, 2016). His statement is validated by the suicides of several pension fund holders after previous bail-ins of subordinated debt. (Brambilla, 2016) On 11th of July 2016 the president of the Tuscany region Enrico Rossi stated that in case of state intervention the responsible managers of MPS should be held accountable and they should be replaced by people with lower salaries. Moreover, he asserted that it was politically necessary to protect pensioners. (Allegranti, 2016) The following day Antonio Patuelli the president of the Italian Banking Association (ABI) stated that the BRRD needs to be balanced against the Italian Constitution, whose Article 47 says that the Republic "encourages and protects" saving (Merler, 2016) (Brambilla, 2016).

Meanwhile, ongoing debates with the Commission centered around the treatment of the subordinated debt and the application of the bail-in tool. However, the discussions were held behind closed doors. (Timpone, 2016) The negotiations with Brussels lead to the conclusion that the sub- ordinated debt of creditors would not be touched by the Italian government and the Commission would allow Italy leeway in the recapitalization of the Banks (Brambilla, 2016)

The statements after the ECB raised a request towards MPS shows a clear preference in protecting savors. Also, the statement by Enrico Rossi the governor of the Tuscany region show the dilemma the governing officials faced. As major material interests by savors and pensioners as in the Tuscany region are influenced by the decision- making towards MPS the statements made by the government officials again can be seen as anticipating the interests of the savors and the banking system (Allegranti, 2016). Further, the statement made by Patuelli (ABI) is the first and only public statement made by the Banking Association concerning the European regulation, but it was clearly a subject of volatile debate within the discussions. The nature of the statement with references to the constitution and the Bank of Italy as the safeguard of Article

47 demonstrates that the Italian banking industry's interest was already being represented by both the Italian government and the Bank of Italy. As such, the relatively quiet voice of the Italian Banking industry's public persona is not indicative of the strength of their lobby or their interests. It is merely that they were able to hide behind the Italian government, especially the Bank of Italy, who in truth had continuously represented their interests throughout the ordeal.

## The Private Rescue Deal

The stress test conducted by the European Banking Authority on the 29th July 2016 clarified the difficulties the bank was experiencing. MPS was the weakest performer in the European Union. Following negotiations conducted on the same day, the board of MPS approved a 5 billion euro recapitalization by a pool of investment firms led by JP Morgan and Mediobanca in order to counter a bail-in under the BRRD and sought to find investors for equity. The consortium for the search of an investor contained some of the biggest names in the financial industry: Goldman Sachs, Citi, Santander, Credit Suisse, Deutsche Bank and Bank of America Merrill Lynch were all contributing to the deal. As such, no state aid was necessary, and the deal was considered to be privately funded. (Martin, 2016) The bad loans were a cleaned up by the 3 billion Euros already allocated by the Atlas fund. The idea of this plan was that if the bank cleaned up its bad loans, it would become a takeover target. Moreover, the plan intended to clear out 28bn of non-performing loans. Pier Carlo Padoan, finance minister, said the government welcomed the deal with "great satisfaction". (Sanderson, Barker, & Jones, 2016)

The ultimate deal has different components which need to be considered and foremost among these is the non- application of the bail-in. Since the governing political officials, the central bank and the Italian Banking Association demanded that subordinated capital not be bailed in, the deal does not contain a recapitalization from the conversion of subordinated debt. As such, the national preferences articulated on supranational level were satisfied. The deal relies on private funding (plus the funds by privately funded Atlas fund). The precautionary recapitalization was possible as the European decision bodies considered the Brexit to be an external shock which made the private sector involvement possible (Sanderson, Barker, & Jones, 2016).

The second component of interest is the use of Atlante fund and the goal of MPS to become a "take- over target". This is in line with the historical function of the deposit guarantee scheme. Prior harmonization the national deposit guarantee schemes had been used to fill the deficit between assets and liabilities including subordinated debt in order to seek for a buyer of main banking branches, which is a very traditional method of bank management. (Stanghellini, 2016)

The Atlante fund was proposed by Bank of Italy official de Polis on April 27, 2016 to function as a public backstop facility.  (De Polis, 2016, p. 10f.)

## The Launch of Atlas 2

After the approval by both ECB and the board of MPS the consortium led by JP Morgan began the search for investors. However, the contention concerning MPS did not ebb and the bank was also discussed in the parliament. When asked about the situation of the bank and the safety of public investments on August 3rd, 2016, a MP5 parliamentary vice minister of the economy and finances by in parliament responded that the protection of savings represented an absolute priority for the government. He concluded that the situation of MPS was being followed by the ministry with constant attention. (Cameri, 2016)

Once again, this statement demonstrated that the government is somehow anticipating the material interests of the savers. Although a formal solution had ostensibly been found by the Italian government, the bank was still under a special focus and the creditors had not been saved yet. Moreover, the biggest problem in the Italian banking system was actually that the ratio of non- performing loans in the bank's balance sheets had not been resolved. This is why the Italian government, in cooperation with the Italian Banking industry, launched Atlas 2 on the 8th of August 2016. (Arhold, Struckmann, & Immordino, 2016)Unlike the first Atlas fund Atlas 2 focuses solely on the purchase of non-performing loans in the banking system and could not provide liquidity to banks in distress (Il Sole 24, 2016).During the launch no public statements by the Italian government or the Italian banking industry were made, but it can be assumed that the banking industry's interests were aligned with the government's when the fund was launched. On the one hand the macro-economic policy idea by the government to preserve financial stability can be derived, and on the other hand the banking sectors' material interest in maintaining their business needs to be considered. This again would support Schimmelpfenning's assertion that during the financial crisis financial markets' material interests and state macro-economic policy ideas became strongly intertwined. (Schimmelpfennig, 2015a, p. 180)

## Times of Uncertainty

Despite the alignment of banking and governmental interest, there was also an upsurge of critical opinion. On the 30st of August financial politics expert Carla Ruocco, one of the leading politicians of the five-star movement, gave an interview concerning the status of the banking sector and the European banking regulation. When asked about how to resolve the crisis without a great damage she criticized the government for the non-completion of the banking union, particularly condemning their treatment of the third pillar, the European Deposit Insurance. This action increased the risk of damage to Italian savers by a resolution of the bank. In her opinion the EU does not care about Italian savers. Moreover, she suggested that the Italian government should be braver in negotiating with the EU. Nationalizing the Bank Monte dei Paschi, Ruocco believed, would have helped the financial system. (Affar Italiani, 2016) The statement by Ruocco is striking as the issue of the European Deposit Insurance System has not been publicly discussed since the investigations of the parliament in April. However, it shows that some societal groups still played a part in the completion of the third pillar of the banking union.

On 20th September 2016 the supervisory board of Monte dei Paschi put a new chief executive officer in place named Marco Morelli (Morelli, 2016). During the month he met investors in Europe, the United States and Asia to get investments. However, no investor could be found. During this period the government already made preparations in case of a failure of a private sector involvement. (The Daily: Observer, 2016)

The tensions concerning the uncertainty of the rescue plan came also to place by the organization of savers. The victims who lost their investments in December 2015 due to the resolution of four saving banks organized themselves in a victim organization of investors called "Vittime del Salva- Banche". The organization had little formal organizational structure and was established through the social media platform Facebook. They made a statement on 5th October 2016 concerning the resolution of MPS which held that JP Morgan was unable to raise capital and that the only possible solution would be to nationalize the bank. (Vittime del Salva- Banche, 2016) A few days later the organization organized a town hall meeting for private shareholders and subordinated bond holders of MPS where they stressed the need for a saving of holders of subordinated debt by the intervention of government. (Vittime del Salva- Banche, 2016)

According to Moravscik the criteria for relevant societal groups in national preference formation are those that "stand to gain and lose a great deal per capita" (Moravcsik, 1993, p. 483). The member and people present at the townhall as holders of subordinated debt would have lost out under a resolution scenario of Monte dei Paschi. An application of the conversion of subordinated debt usually provides losses to the bondholders but in the case of the resolution of the bank, the shareholders would also lose out. Thus, the societal group has a clear interest in the regulation. In order to pursue their material interest, they opted for a public intervention and the bail-out of holders of subordinated debt. Moreover, Moravscik contends that "in economic affairs some firms and groups, particularly those with fixed investments and assets, may seek to influence governments directly." (Moravcsik, 1993, p. 484) But though they stood to lose a lot and have fixed assets the it is questionable whether the organization exerted direct influence on the government. However, the organization contributed towards the public reluctance towards the bail- in tool as other societal groups were demanding equal positions.

The organization Si-Toscana, based in Tuscany and representing regional interests, made their preferences public through the words of Tommaso Fattorion on the 12th of October. In a public discussion in Siena, the city where MPS is based, he proposed a nationalization of the bank in order to rescue holders of subordinated debt and shareholders. (Redazione, 2016) The motivations of this organization however, unlike Vittime del Salva Banche, cannot clearly be attributed solely to material interest. MPS has a strong connection with the Tuscany region and is a big employer there. However, the organization does not solely focus on consumer protection rights and works on a broad variety of topics. As such, this societal group's influence is unlikely to be causal but can be seen as an additional voice within the general public opposition towards the European regulation.

Because of the failure to raise capital by Monte dei Paschi and the consortium on 28th of October, the Italian government finished a contingency plan in case the bank failed to raise the 5 billion Euros in capital. This contingency plan included a state guarantee and a compulsory conversion of bonds into shares by institutional investors. (Quaglia & Jewkes, 2016) As such the contingency plan can be seen as a reaction of the material interests and preferences articulated by the savors as their material interests are represented in the contingency plan. The savors' groups articulated their position sharply and as such can be seen as a coalition of societal group that is worth to represent in decision making. (Moravcsik, 1993) The plan did only include the conversion of bonds hold by institutional investors, but excluded private investors' contribution. Thus, the government included the material interests by the savors. However, the government made already preparations in case the bank would fail, in September and the sequencing cannot assure a clear influence by the pressure groups. Moreover, the government's position is not new. As the Brexit- shock occurred in June government officials were already ruling out the contribution of private holders of sub- ordinated debt. Thus, the government was following its positions made in June and July which aimed at the safeguarding of private holdings of sub- ordinated debt.

Although the government tried to anticipate the interests by savers and the public, prime minister Matteo Renzi still faced public opposition in forms of raids and demonstrations. On

5th November 2016 violent demonstrations against Renzi's constitutional change proposal occurred in the Tuscany region where MPS is based. Moreover, the polls showed that Renzi would lose the referendum which would have implied a resigning of the prime minister (Gutteridge, 2016) Moreover, voices from consumer protection groups continued to critique the concerning the resolution of MPS. On December 1, 2016 Altro Consumo, a consumer protection group, announced that retail customers had been sold bank bonds which were not accounted for in their risk profiles. The organizations recommended that the managers responsible for the destruction of MPS and the regulatory authorities who allowed the mis-selling of these financial products should be held accountable and pay their bills. In this realm they especially criticize former Bank of Italy governor Mario Draghi and Vegas. (Altro Consumo, 2016)

Their role as a consumer protection group as well as the content of their statements suggests they did articulate material interests. The criticism is directed towards the regulation and the bank. The statement happened at a time where a private sector involvement had not been ruled out yet publicly, but the viability of the plan was certainly at stake. Altro Consumo's criticism can be understood as a demand to support the holders of subordinated debt and to hold politicians, Bank of Italy officials and bank managers accountable for their mistakes.

On the 4th of December 2016 Matteo Renzi lost the election for his constitutional reform in the referendum, resigned and left Italy left without a government. The markets reacted in turbulence again due to the politically uncertain situation there. The implications of this turbulence were far reaching. Qatar's sovereign wealth fund, for example, was supposed to provide a one-billion-euro funding towards the bank. However, the funding could be never materialized as the Qataris considered the political situation to be too risky. (The Daily: Observer, 2016) Following the bad situation on 9th December 2016 Banca Monte dei Paschi di Siena asked the European Central Bank (ECB) for a third extension until January 20, 2017 to raise more capital. The draft decision would have to be adopted unless the ECB's Governing Council responded within five days to articulate objections. (Alemdar, 2016) However, the same day the European Central Bank rejected the request by Monte dei Paschi di Siena for more time to raise capital. This facilitated the pressure on the government which had lost its prime minister Mateo Renzi and pressure on the Italian government to step in and rescue the bank. (Aloisi, 2016) In the 4th quarter of 2016 the bank thus has failed to find investors for the bank. Meanwhile on the 12th December 2016: an interim government with Paolo Gentiloni as the new prime minister was implemented. (Binni & Pullella, 2016)

On 19th of December MPS made a final call for private and institutional investors to invest in shares in order to meet the requirements of recapitalization. Moreover, it asked its investors of subordinated debt to swap their bonds to equity. (Nextnow.it, 2016) However, the bank could not raise sufficient capital. The projected deadline of the 22nd December 2016 was not met and no private sector involvement materialized. Moreover, due to the lack of an anchor investor and private sector involvement, the Atlante fund withdrew its support due to the increased risk perceived by private investor Quaestio. (Fiore, 2016) This left the Italian government to be the ultimate decision maker in the MPS saga. The bank thus formally requested state aid on the 22nd of December 2016 for a precautionary recapitalization. (Il Fatto Quotidiano, 2016)

The lack of intervention of the Atlas fund can be seen as loss for the central bank and government. The fund was initiated by them and could be seen as a replacement for the functions of the deposit guarantee scheme to provide capital to banks in distress. However, the fund could not hold up to the structure of the FITD which was formerly directly supervised by the Bank of Italy (Howarth & Quaglia, 2018). The new pure private structure, however, did not allow the government and Bank of Italy to take the fund's capacities. Moreover, it shows that the banking industry was not willing to rescue MPS at their own costs but preferred a government recapitalization.

On 22nd of December 2016 same day Jean- Pierre Mustier CEO of Uni Credit criticized the Italian government who in opposition to Spain and Portugal has not helped its banks. Nevertheless, he stated to be confident that there will be a proper solution in the best interest of the Italian banking sector. (Der Standard, 2016) The decision for the rescue fund was included in a 20 billion Euro package deal for four struggling banks in Italy and also got the support by the Forza Italia. On 20th December Silvio Berlusconi stated that "Monte Paschi di Siena must be absolutely saved, whatever Europe may say, otherwise it would be a disaster for the country, for the system" (Fatto Quotidiano, 2016) These statements again can be seen as a clear material preferences towards the use of state aid by the Italian government. Uni Credit was struggling as well and especially had big problems in the high ratio of nonperforming loans. As such they had a material interest in a public intervention as this would be a landmark case also for Uni credit if they would need a funding (Der Standard, 2016). The statement by Berlusconi being member of the opposition party Forza Italia moreover suggests that there was a political preference on towards the provision of state aid towards the bank. This is also represented in the high figures of votes favoring the 20 billion euro fund the next day. 389 were in favor of the solution in the Senate and only 134 opposed the deal. (Fatto Quotidiano, 2016)

## The Final Decision and Components of the Deal

On the 23rd of December 2016 the Italian cabinet announced that the bank would be rescued with a 20 billion Euro fund which has been established for the banking sector and was approved by the parliament earlier in the week. (Ligon & Fedirka, 2016) The deal resulted to a requested amount of 8.8 billion euros which was subdivided into different aspects of the rescue plan. 6.3 billion euros were used in order to meet the 8 per cent Tier 1 equity rate. 4.2 billion Euros were the conversion of sub- ordinated debt into equity and about 2.1 billion euros was provided by the Italian state. Moreover, the deal contains another 2.5 billion euro to meet the total capital ratio (TCR). (Bank of Italy, 2016) However, the Italian government provided a loophole for the bail- in of sub- ordinated debt. The bail- in of the subordinated debt was shouldered by large and institutional holdings. (Coppola, 2016) Yet, retail holders were compensated by the regulation. Their sub- ordinated debt was converted into a senior- ranking bond thus not leading to a loss. This was an additional 2 billion euro amount the state would provide under the precautionary recapitalization. (Unmack, 2016) The compensation was possible as the regulation of the precautionary recapitalization foresees the possibility to compensate bond holders who have been miss sold (European Parliament, 2017). The solution was thus more expensive than the original market solution with private sector involvement, the overall costs for the Italian public were approximately 6.6 billion Euros. (thelocal.it, 2016)

The final deal can be seen as a result of the ongoing process of domestic preference formation. While the government and the Bank of Italy made their policy positions clear early in the year, the material interests of private households were included in the deal. Ultimately, the interest to protect savors which was articulated early in the year by the bank of Italy and later by the savors prevailed over the application of the European rules. In opposition to institutional holders of subordinated debt the private savers' interest was considered, and their bonds not converted to equity. However, what is striking is that the government did not publicly announce their policy position during the possible failure of the private sector involvement, but private interest groups dominated the discussion. The lack of clear preference statements can however be attributed to political uncertainty in the government, the lost referendum and the resulting resignation of prime minister Matteo Renzi.

The last step in the precautionary recapitalization of MPS was the approval by the European Commission. On the 4th of July the European Commission has approved the precautionary recapitalization of Monte dei Paschi. (European Commission, 2017)

## Interim Conclusion and Results

After the process of national preference formation has been reconstructed with the identification of the different actors, their interests and their influence on decision making there are some findings which need to be outlined.

### Identification of relevant groups

The data collection reveals four general types of actors who contributed to the process of domestic preference formation. The table *Figure 2: Relevant Actors in National Preference Formation* provides an overview about the different actors who made statements along with their time of intervention. It shows that the Bank of Italy was the first actor in the articulation of interests but analysis has revealed that the government officials and ruling party the Democratic party actually followed the interests of the Bank of Italy. Private non-commercial actors were those who articulated their interests at a late stage and the private producer actors were relatively calm about the decision making.

| Type of Actor | Actor | Time of Intervention |
|---|---|---|
| *Government* | Prime Minister Mateo Renzi | June 2016 |
| | Ministry of Finance | June 2016 |
| | Democratic Party | June 2016 |
| *Government Agency* | Bank of Italy | April 2016 |
| *State Actors* | Five Star Movement | August 2016 |
| | Tuscany Government | July 2016 |
| *Private Producer Actors* | Monte dei Paschi di Siena | Not applicable |
| | Uni Credit | December 2016 |
| | Italian Banking Association | July 2016 |
| *Private Non- Commercial Actors* | Altro Consumo | December 2016 |
| | Vittime del Salva- Banche | October 2016 |
| | Si- Toscana | October 2016 |
| | (Mayor Elections in Turin and Rome) | June 2016 |
| | (Demonstrations) | December 2016 |

*Figure 2: Relevant Actors in National Preference Formation*

## The Special Role of the Bank of Italy

A finding that is striking in the reconstruction is the role of the central bank the Bank of Italy. In opposition to the expectations by Moravscik that the material interests by societal groups which “stand to gain and lose a great deal per capita” (Moravcsik, 1993, p. 483) are the most influential in national preference formation the bank of Italy, a state institution was one of the main drivers of the national preference formation. As such the decision- making was mostly not determined by societal groups but the government and the Bank of Italy. Moreover, the sequencing of the events show that the central bank was the only group which exerted direct influence on the government. The lobbying towards the creation of Atlas fund can be considered as being a macro- economic policy idea, as it was designed to facilitate financial stability. As such it can be concluded that in the creation of Atlas the government and central bank acted relatively autonomous. As *Figure 1* shows that the Bank of Italy was the first actor in the national preference formation to articulate a preference. With their earliest statements made in April they showed their reluctance towards the new harmonization and the lack of a public backstop facility in the planned European deposit insurance system. Their active advocation lead to the creation of the Atlas fund which can be seen as a tool to pursue the interest to have a public backstop facility for ailing banks. The Bank of Italy thus reacted towards the ruling of the Commission which prohibited the use of the national deposit insurance to provide capital towards ailing banks. As such the Bank of Italy took the initiative in order to retain this funtion and advocated this towards the government. The clear influence by the Bank of Italy can be seen by the common meeting on the 11th of April 2016 which resulted in the cretion of the Atlas fund.

The influence by the Bank of Italy can be moreover seen by the statements made by government officials after the Brexit shock and the interim period resulting in the first restructuring plan. The opposition of the Bank of Italy made in May towards the application of the bail- in tool (Visco, 2016) was later present in the formulation of the government officials who had a consensus that private holders of sub- ordinated debt should not be subject to bail in. This interest later was pursued by the government and manifested itself in the ultimate decision from December 2016. As such the Bank of Italy articulated their preference towards the bail- in tool again relatively early and was able to exert their influence to the government. Moreover, the simultaneous statements made by government official Claudio de Vicenti and the Bank of Italy which aimed a using all the tools available to support the banking sector show that the government and Bank of Italy are in line with their preferences (Il Fatto Quotidiano, 2016) (Bartoloni, 2016).

However, another conclusiton concerning the connection between the Bank of Italy and the Italian banking industry can be derived from the statement made by Antonio Patuelli the president of the Italian Banking Association (ABI) on 12th of July who stated that the BRRD needs to be balanced against the Italian Constitution, whose Article 47 says that the Republic "encourages and protects" saving (Merler, 2016) The responsibility for the protection of savors lies within the central competences of the Bank of Italy granted to them under the constitution (Bank of Italy, n.d.). This is in line with the statements made by Visco on the 27th of June 2016 that the Bank of Italy "will use all the tools available to support the banking system. (Il Fatto Quotidiano, 2016) These statements can be seen as a support for the domestic banking sector and a clear interest towards producers interests. As such it can be seen that the Italian banking industry is represented by the bank of Italy due to the high influence of the bureaucratic body but did not publicly lobby towards the government. Moreover, this would support Schimmelpfenning in the sense that financial market industry interests and state interests became strongly intertwined. (Schimmelpfennig, 2015a, p. 180) Visco (Visco, 2016) and Rossi (Il Fatto Quotidiano, 2016) both representatives stated the need for public intervention in order to avoid a systemic crisis and ensure the stability of the financial system. Although, the interest of the banking industry is determined by material interests as not being put down to resolution, and the Bank of Italy's interest is based on macro- economic policy idea both as such follow the application of the same tools in order to resolve the crisis.

## The Late Intervention of Creditors

One aspect of national preference formation which requires further explanation is the late emergence of national preference in the savers, especially the holders of sub ordinated debt. According to Moravscik the societal groups that "stand to gain and lose a great deal per capita" (Moravcsik, 1993, p. 483) are the most influential in national preference formation. Moreover, "in economic affairs some firms and groups, particularly those with fixed investments and assets, may seek to influence governments directly" (Moravcsik, 1993, p. 484). For these reasons, the holders of subordinated debt can be viewed as a societal group with a clear material interest. In comparison to the Bank of Italy, which is a state actor and therefore has no fixed investments, the holders of subordinated debt would actually take a high loss under a regular resolution procedure. Although the interests of this population were articulated by the government and Bank of Italy early in time, societal groups representing the interests of creditors made no public statements regarding their policy position after the mid of the year when MPS entered the struggle caused by the Brexit shock. Usually, liberal intergovernmentalism would expect these interest groups to take a position earlier in the national preference formation. Although the struggle of the bank became apparent in June and a resolution could have been triggered, the material interests by the creditors were not articulated. As such it can be seen that the government anticipated the material interests by the creditors. The statements made by the government officials emphasizing the protection of savings and opposing the bail- in resulted in negotiations on European level where prime minister Matteo Renzi opted at the Brexit summit for suspending the contribution of private holders of sub- ordinated debt. This resulted in the solution of a private sector involvement (Il Fatto Quotidiano, 2016) As such the government was anticipating the savors' material interests as a reaction to Brexit and the uncertainty and articulated them on the international level. The positions by the savors became sharper when the failure of the private sector involvement became apparent in October 2016. After this the two societal groups Vittime del Salva Banche and Si-Toscana made clear demands that the bail-in tool should not be applied towards private holders of subordinated debt. However, the government did already make clear in June and July that they were not going to let private investors be subject to the bail- in. Moreover, the government had been preparing a plan in September which was made public in October in the case the bank would fail to find investors. As such the articulation of the two societal group may be seen as a confirmation of the path the government took after the Brexit shock. Thus, the sequencing does not suggest a clear influence by these societal groups but rather an anticipation of material interests by the Bank of Italy and the government.

Another remark about the creditors is the sole focus on the application of the bail- in tool. In opposition to the Bank of Italy the creditors' groups and no other group made demands for a greater integration towards the European Deposit Insurance System. As such it can be seen that the application of the bail- in tool was mostly driven by material interests and the savors trusted the national deposit system at place.

### Alternate Model of Decision- Making

Bringing these two observations together an alternative model of decision- making needs to be considered. As opposed to the first model of decision making, the influence by different societal groups changed. As such the Italian banking industry was relatively calm on the decision making. Moreover, private non- commercial groups advanced later, and the sequencing cannot prove that they directly exerted control on the government, but the government rather anticipated the need of these pressure groups. This is due to the fact that the government already guaranteed after the Brexit crisis that private holders of sub- ordinated debt would not be subject to the bail- in. Moreover, the Bank of Italy made early attempts in advocating their position towards the government and articulated them sharply. By April as the first actor they showed their preference on the European regulation anticipating the crisis of the banking sector. The government however made only statements when the crisis became apparent. Thus, the model of decision making can be stated as follows.

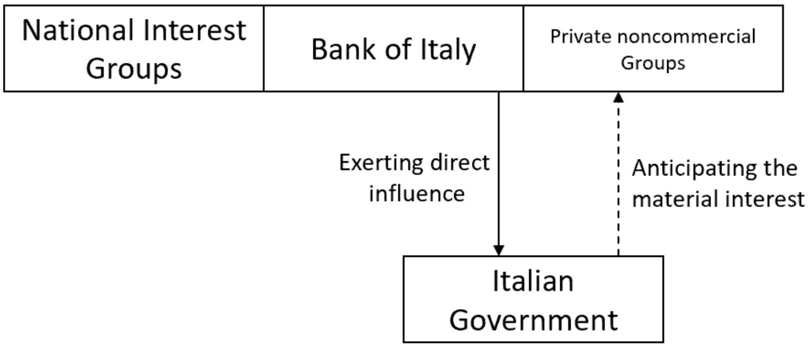


*Figure 3: Decision Making in the National Preference Formation towards MPS*

## National Preferences on the Resolution

The data set shows that all the stakeholders demonstrated high reluctance towards the bank recovery and the resolution directive. The bail-in tool in particular was highly contended in discussions between the Central Bank, the government and private non-commercial actors. This contention is particularly visible in their decisions regarding the recapitalization of MPS. In the first deal made after the Brexit struggle, the government ruled out an application of the bail-in tool and Renzi asked for flexibility on the application of the rules on supra-national level. This was supported by both Visco and Renzi who declared the Brexit to be an external shock that might require the Italian government to intervene. (Il Fatto Quotidiano, 2016) A strong preference for avoiding the bail-in was also voiced by the Italian Minister of Finance, and the Secretary of the Council of Ministers. (Sanderson, Barker, & Jones, 2016) (Bartoloni, 2016). Since there was widespread apprehension, the non-application of the bail-in was included in the first plan of a recapitalization on the 29th of July 2016 (Martin, 2016). However, this plan also included pure funding by private investors as well as a contribution by the Atlas fund.

The second move towards the recapitalization once again showed a clear domestic preference towards defying the BRRD in its original version and bringing the bank to resolution. In this case the creditors' preference emerged, but the policy position by the government stayed the same. This decision again demonstrates that there was a clear national preference held by the Italian government, the Bank of Italy and domestic societal groups to abandon the bail-in rule, at least for private holders of subordinated debt. Further, the rule did not exclude institutional holders and emphasized Italian savers. The reconstruction of this case evidences that the high level of reluctance on the part of the Italian state towards the application of the BRRD, was mostly determined by the possible loss of creditors under the application of the bail-in rules.

## National Preferences on the Deposit Guarantee Scheme

National preference formation regarding the deposit guarantee scheme have dominated the political sphere since the government appealed against the ECJ court's ruling on the FITD's state aid (Reuters.com, 2016). Since that time the Bank of Italy, with their former role as a supervisor of this fund, has dominated the debate. By analyzing their use of governmental pressure and reconstructing the sequencing of events it can be concluded that the Bank of Italy's interests were satisfied by the creation of the Atlas fund. The discussion revolving around a the deposit guarantee issue ended when the central bank ended with the investigation of the parliament in April (Whitecase, 2016) Clearly the Bank of Italy had an obvious preference for a tool that could provide banks with capital shortfalls to counter a crisis. Since the central bank lobbied hard to finish the European Deposit Insurance System prior to the creation of the Atlas fund, they were calm on the issue after the creation of Atlas and the parliament closed the investigations. (De Polis, 2016) Additionally, the government did not make their preferences on the creation of the fund known. There were, however, a few interest groups whose preferences were not at all satisfied in this instance. The perspective of the five star-movement, for example, was articulated by its leading politician and financial politics expert Carla Ruocco, criticized the non-completion of the banking union and the need for the completion of the EDIS. Thus, there were critics, but the government chose to ignore them (Affar Italiani, 2016) The role of the Atlas fund in these decision-making processes is particularly salient here. The first plan of July 2016 included a contribution by the Atlas fund to purchase non-performing loans hold by MPS the second plan the fund contained no intervention. This shift reveals that just as in their opposition to the FITD, the Bank of Italy lost its supervisory function over the fund and could not control it. Unfortunately, no clear preferences could be derived from the data collection that occurred after the investigation in the parliament.

## Testing the Hypotheses

After the decision towards the provisions of state aid has been reconstructed hypotheses need to be tested in order to compare the national preferences post and prior implementation of the BRRD.

*H1: National preferences concerning resolution and the common deposit guarantee scheme were equal post and prior to the creation of the banking union.*

The first hypothesis aims at comparing the interests before and after the implementation of the new banking union rules. In his original formation, Moravscik expected that the key actors in national preference formation are sectoral and factoral interest groups, economic officials and elite opinion which express their interest to chief executives and ruling parties (Moravcsik, 1993, p. 93). Similarly, Howarth and Quaglia in their book "The Political Economy of the Banking Union" identified the Italian Banking Association, a sectoral interest group, to be a main driver in the national preference formation. However, the reconstruction of the case has showed that there was no clear lobbying by the Italian banking industry towards the resolution of MPS. The analysis has shown that the Bank of Italy was the most influential actor in expressing interest towards the government. The identity of the societal group who represented the national preference changed but the actual preferences articulated on government level remained constant. This observation would support Schimmelpfennigs findings that during the crisis, financial markets and state interests became strongly intertwined. (Schimmelpfennig, 2015a, p. 180)suggesting that the Bank of Italy and the Italian banking industry had similar interests in the formation of national preference as well as in the negotiations on the formation of the banking union.

During these negotiations Italy desired the direct supervision of the bank through the ECB, a timely intervention and quick access to the single resolution mechanism. (Howarth & Quaglia, 2016, p. 135) This preference, was not ultimately complied with in the case of MPS. The bank was considered to be solvent on an institutional level, so the government needed to rule out an access to the single resolution fund. The main preference present in this action was the treatment of holders of subordinated debt. The treatment of holders of subordinated debt and deposits by savers and small and medium enterprises was questioned by Italy in particular and they opted for flexibility during the negotiations on the application of bail-in. (Howarth & Quaglia, 2016, p. 116) Moreover, the Italian government opted for an application of the bail-in tool only on newly issued bonds. They reasoned that investors needed time to become aware of the new regulation, since it would require some time to activate. (De Polis, 2016) As such, the outcomes of the MPS case show that the national preferences pertaining to the bail-in tool were similar before and after their implementation of the new set of rules. The first solution of the 29th of July 2016 did not include an application of the bail-in tool at all. The second decision from the 23rd of December 2016 ruled out a provision by the holders of subordinated debt. The swap by Italian government provided a loophole that favored savers, and private savers were not touched at all. Moreover, the focus on smaller savers found in the data set by Howarth and Quaglia (2016) is especially visible, as only institutional holders of bank bonds were bailed in. Due to these circumstances it is clear that the national preference on the topic of subordinated debt conversion was the same both prior to and post creation of the banking union.

The Italian deposit guarantee scheme prior to the implementation of the banking union's rules protected depositors but also provided for early intervention in the case of a crisis (Howarth & Quaglia, 2016). The system accounted for the possibility that the deposit guarantee scheme could fill the deficit between assets and liabilities (which included subordinated debt) in order to recapitalize a bank and make it attractive for external investment. (Stanghellini, 2016) Italy opted to preserve these "social functions" within the creation of the banking union (Howarth & Quaglia, 2016, p. 153). However, the commission's ruling from December 2015 ruled out the use of the FITD to recapitalize banks with the fund's money (European Commission, 2015b). The preferences visible in the reconstruction of the case established a clear preference for a system that could provide capital to banks with a shortfall. Actions to protect these preferences were evidenced by the Italian government's appeal of the commission's decision (Reuters.com, 2016). Further, the Bank of Italy lobbied publicly for a European Deposit Insurance and the necessity to act as a "public backstop" (De Polis, 2016, p. 12). The central bank's advocation resulted in the creation of the Atlas fund. Breaking down the sequence of events leading to the Atlas fund's creation confirms that the Bank of Italy and the government aligned in order to create a public backstop facility (Whitecase, 2016). After parliament investigations has been closed the Bank of Italy did not articulate any further need to increase the integration of the deposit insurance, nor did the government offer their position on the completion of the third pillar of the banking union. However, criticisms offered by Five-Star party politician Carla Ruocco, revealed that these problems had not been rectified to everyone's satisfaction. (Affar Italiani, 2016). The position of the government and the Bank of Italy in regard to the insurance function relied on the funding possibility of the FITD towards banks in distress. As such it can be seen that through the creation of the Atlas fund the government chose the interests of the Bank of Italy over the interests of the opposition.

*H2: The nonsatisfaction of the national preferences in the creation of the baking union towards the resolution regime facilitated the bending of the rules of banking union.*

The second hypothesis aims at explaining the effect of the preference of Italy towards the resolution regime. The preceding analysis shows that Italy had a clear preference towards the resolution regime. Italy's main issue with the resolution regime was the BRRD, which was heavily criticized by the Bank of Italy and the Italian government. This perspective was especially obvious when the government asked for flexibility on the rule in June 2016 when the Brexit shock prompted market turbulence and MPS became involved. (Il Fatto Quotidiano, 2016) Apart from the clear preference on the part of the Bank of Italy in which Visco opted for a rescue of savers and the holders of subordinated debt, (Visco, 2016) the preferences towards the bail-in of private holders of subordinated debt became especially apparent by the government in July when several government officials articulated the political necessity of avoiding the bail-in rules (Boccia, 2016) (Bartoloni, 2016) (Sanderson, Barker, & Jones, 2016). It's clear that the reluctance towards the bail-in tool was already in place during the first struggle of MPS in July 2016. This was additionally supported by the emergence of private non-commercial groups representing savers who demanded the bail-in be refused in order to save their investments. They also placed great pressure on the government which anticipated the needs of the savers prior to their public involvement. The government made an early attempt to pursue leeway in countering the bail-in rule during the recapitalization that occurred in July 2016. Later, they articulated the interests of the private savers and the Bank of Italy by providing a loophole for these actors to swap their junior bonds for a senior ranking one. (Coppola, 2016) Upon analysis it is clear that the government satisfied the material interests of savers without the savers being visibly involved in national preference formation. In conclusion, it is clear that the presence of the bail-in tool in the set of rules was a clear motivator fueling Italy's decision to bend the rules of the banking union.

*H3: The non- satisfaction of national preferences towards the deposit insurance facilitated the bending of the rules of banking union*

The issue of deposit insurance garnered a lot of attention by the Bank of Italy in the beginning of the year. However central bank's interest on the subject declined due to the launching of the Atlas fund. The Bank of Italy had a high interest in creating a "backstop facility" (De Polis, 2016, p. 11) as stated by de Polis. The central bank stated its main interest regarding the banking union was to maintain the "social function" of the fund. In fact, only the central bank articulated the need for a European Deposit Insurance System, the Italian government and most domestic societal groups did not. (Howarth & Quaglia, 2016). Only Carla Ruocco stated the need for the completion of the third pillar of the banking union. (Affar Italiani, 2016) Thus, it is clear that the subject of subordinated debt prevailed over that of deposit insurance. For this reason, the issue of deposit insurance did not directly influence the decision to support a recapitalization towards MPS, but resulted in the creation of the Atlas fund.

## Conclusion

To conclude, after national interests towards the decision tor recapitalize MPS has been reconstructed and compared to the data prior to the implementation of the European set of regulation by a deductive approach the research question needs to be answered.

*Did Italy's preference towards a common deposit guarantee scheme and a supranational resolution regime affect the articulation of the national interest to provide state aid for Monte dei Paschi di Siena?*

The data set by Howarth and Quaglia showed that Italy had opposing points towards both regulations and articulated them in the international negotiations. Both regulations played moreover a role after the regulation has been implemented in January 2016. The reconstruction of the case shows that all of the domestic pressure groups available had an opposing position towards the Banking Union rules, especially the bail- in tool. Starting with the opposition by the Bank of Italy in April and their opposition towards the bail- in tool and the lack of a public backstop facility of the national deposit guarantee system the Atlas fund was created in order to create a backstop facility. The preference towards the banking union rules were later articulated by the government after the Brexit shock and the "protection of savors" (De Polis, 2016, p. 11) was emphasized by both the Bank of Italy and the government. This preference remained a dominating policy idea, showing a clear influence by the Bank of Italy towards the government. The later emergence of the creditors supported the reluctance towards the bail- in tool. As such the preference during the negotiations of the banking union and post implementation remained the same. Thus, it can be seen that the preferences were not satisfied in the intergovernmental negotiations on the bail- in tool. However, in opposition to the negotiations on the banking union the Bank of Italy was a main driver which represented the material interests by the savors. The government relying on the support of this state actor and needing to anticipate the creditors' material interests was left with no alternative but the suspension of the bail- in rules. As such it can be concluded that the non- satisfaction of the national interests towards the bail- in tool facilitated the bending of the rules.

The deposit insurance, however, did not create as sharp reactions as the bail- in tool. Although the Bank of Italy made early attempts in criticizing the regulation at hand and in conclusion created the Atlas fund together with the Italian government, the discussion vanished after the parliamentary investigations had been closed. Thus, the savors seemingly trusted the deposit part of the national deposit guarantee system as this was not subject to discussion of societal groups with material interests. As such the exclusion of the European deposit insurance and the public backstop facility ultimately did not lead towards the bending of the rules, but the creation of the Atlas fund. However, what became apparent that the European Commission did not make it easy for Italy. The creation of Atlas would not have been necessary as the Commission ruled falsely. In March 2019 the European Court of Justice ruled, opposing the Commission's ruling that the use of the FITD cannot be considered state aid but was funded privately and decided independently and thus could not be considered to be state- aid (Guarascio, 2019). In conclusion the use of the FITD could have saved administrative effort by both the Italian government and the Bank of Italy and might have contributed to an orderly resolution of the banking crisis.

## Literature


Affar Italiani. (2016, August 30). *Referendum, banche, governo: parla Carla Ruocco, deputata 5stelle*. Retrieved June 3, 2019, from affaritaliani.it: http://www.affaritaliani.it/politica/palazzo-potere/referendum-banche-governo-parla-carla-ruocco-deputata-5stelle-438420.html

Alemdar, M. (2016, December 9). *The world's oldest bank is in trouble amid Italy's political crisis*. Retrieved May 27, 2019, from Trtworld.com: https://www.trtworld.com/in-depth/the-worlds-oldest-bank-is-in-trouble-but-is-italy-248481

Allegranti, D. (2016, July 11). *Il dàgli alle banche è trasversale. Così il governatore pd Rossi imita Grillo (con tanto di vignette)*. Retrieved May 9, 2019, from Ilfoglio.it: https://www.ilfoglio.it/politica/2016/07/11/news/il-dagli-alle-banche-e-trasversale-cosi-il-governatore-pd-rossi-imita-grillo-con-tanto-di-vignette-98202/

Aloisi, S. (2016, December 9). *Exclusive: ECB rejects Monte Paschi's request for more time to raise capital - source*. Retrieved May 27, 2019, from Foxbusiness.com: https://www.foxbusiness.com/features/exclusive-ecb-rejects-monte-paschis-request-for-more-time-to-raise-capital-source

Altro Consumo. (2016, December 1). *ALLEGATO*. Retrieved May 20, 2019, from Altroconsumo.it: https://www.altroconsumo.it/organizzazione/-/media/lobbyandpressaltroconsumo/images/in-azione/azioni-in-corso/tutela%20del%20risparmio%20nel%20settore%20creditizio/attivit%C3%A0%20ac/allegato%20al%20contributo%20altroconsumo_audizione%20%2019%20gen%202017

Altroconsumo. (2018, June 5). *Altroconsumo.it*. Retrieved May 10, 2019, from altroconsumo.it

Arhold, C., Struckmann, K., & Immordino, M. (2016, September 29). *The new bank resolution scheme: The end of bail-out?* Retrieved June 1, 2019, from whitecase.com: https://www.whitecase.com/publications/insight/new-bank-resolution-scheme-end-bail-out

Armellini, A. (2016, July 8). *A €45bn headache for Italy*. Retrieved May 20, 2019, from Euobserver.com: https://euobserver.com/beyond-brussels/134251

Bank of Italy. (2016, December 29). *The "precautionary recapitalization" of Banca Monte dei Paschi di Siena*. Retrieved May 6, 2019, from bancadiitalia.it: https://www.bancaditalia.it/media/approfondimenti/2016/ricapitalizzazione-mps/index.html?com.dotmarketing.htmlpage.language=1

Bank of Italy. (n.d.). *About Us*. Retrieved June 3, 2019, from Bank of Italy: https://www.bancaditalia.it/chi-siamo/?com.dotmarketing.htmlpage.language=1

Bartoloni, M. (2016, June 26). *De Vincenti: «Brexit prima dei due anni, fiduciosi su Borse ma pronti a tutelare i risparmiatori»*. Retrieved May 6, 2019, from ilsole24ore.com: https://st.ilsole24ore.com/art/mondo/2016-06-26/de-vincenti-brexit-prima-due-anni-fiduciosi-borse-ma-pronti-tutelare-risparmiatori-142816.shtml?uuid=ADnmpXj&refresh_ce=1

BBC. (2016, June 20). *Italy elections: Big wins for Five Star protest party*. Retrieved May 27, 2019, from BBC.com: https://www.bbc.com/news/world-europe-36569410

Binni, I., & Pullella, P. (2016, December 11). *Italy hurries to form new government as banking crisis looms*. Retrieved April 20, 2019, from reuters.com:

https://www.reuters.com/article/us-italy-politics/italy-hurries-to-form-new-government-as-banking-crisis-looms-idUSKBN14009P

Boccia, F. (2016, 6 26). *Sospendere il bail-in non Ã¨ un'eresia*. Retrieved May 15, 2019, from Francescoboccia.com: http://www.francescoboccia.com/article.php?post_id=3644&cat_id=5

Bocconi. (2016, May 8). *Atlante Fund: Evolution of the Italian Banking crisis*. Retrieved May 13, 2019, from bsic.it: http://www.bsic.it/atlante-fund-evolution-italian-banking-crisis/

Brambilla, A. (2016, July 9th). *Se intervento pubblico per le banche fa rima con stabilità di governo*. Retrieved April 10, 2019, from Ilfoglio.it: https://www.ilfoglio.it/economia/2016/07/09/news/se-intervento-pubblico-per-le-banche-fa-rima-con-stabilita-di-governo-98184/

Cameri. (2016, August 3). *VI COMMISSIONE PERMANENTE (Finanze)*. Retrieved April 5, 2019, from cameri.it: http://documenti.camera.it/leg17/resoconti/commissioni/bollettini/pdf/2016/08/03/leg.17.bol0684.data20160803.com06.pdf

Coppola, F. (2016, December 31). *The European Union Is Bailing Out Banks Again*. Retrieved June 3, 2019, from forbes.com: https://www.forbes.com/sites/francescoppola/2016/12/31/the-european-union-is-bailing-out-banks-again/#2434b5846670

Cutura, J. (2018). Debt holder monitoring and implicit guarantees: Did the BRRD improve market discipline? *SAFE Working Paper, No. 232*.

De Polis, S. (2016, April 26). *La tutela dei depositi bancari nel quadro*. Retrieved from bancaditalia.it: https://www.bancaditalia.it/pubblicazioni/interventi-vari/int-var-2016/depolis-270416.pdf

Der Standard. (2016, December 22). *Kein Großinvestor für Monte dei Paschi*. Retrieved March 20, 2019, from Derstandard.at: https://derstandard.at/2000049693555/Krisenbank-Monte-dei-Paschi-findet-keinen-Ankerinvestor

Donnelly, S. (2018). Advocacy coalitions and the lack of deposit insurance in Banking Union. *Journal of Economic Policy Reform, 21:3*, pp. 210-223.

Donnelly, S. (2018). Liberal economic nationalism, financial stability, and Commission leniency in Banking Union. *Journal of Economic Policy Reform*, S. 159-173.

Enders, M., & Ingolf, G. (Regisseure). (kein Datum). *Tod eines Bankers* [Kinofilm].

European Commission. (2015a, December 12). *Single Resolution Mechanism to come into effect for the Banking Union*. Retrieved June 15, 2019, from Europa.eu: http://europa.eu/rapid/press-release_IP-15-6397_en.htm

European Commission. (2015b, December 23). *State aid: Commission finds Italy provided incompatible state aid to Banca Tercas and welcomes plans of private funds to step in*. Retrieved May 3, 2019, from europa.eu: http://europa.eu/rapid/press-release_IP-15-6395_en.htm

European Commission. (2016, December 23). *COMMISSION DECISION (EU) 2016/1208*. Retrieved May 17, 2019, from EUR-Lex: https://eur-lex.europa.eu/eli/dec/2016/1208/oj

European Commission. (2017, July 4). *State aid: Commission authorises precautionary recapitalisation of Italian bank Monte dei Paschi di Siena*. Retrieved May 18, 2019, from europa.eu: http://europa.eu/rapid/press-release_IP-17-1905_en.htm

European Parliament. (2017, July 5). *Precautionary recapitalisations under the Bank Recovery and Resolution Directive: conditionality and case practice*. Retrieved May 5, 2019, from europarl.europa.eu: http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/602084/IPOL_BRI(2017)602084_EN.pdf

Farris, S. (2016, August 29). *Tutti al capezzale del Monte dei Paschi*. Retrieved June 15, 2019, from sbilanciamoci.info: http://sbilanciamoci.info/tutti-al-capezzale-del-monte-dei-paschi/

Fatto Quotidiano. (2016, December 19). *Mediaset sotto assedio, Vivendi alza la posta e si prepara a salire al 30% di Cologno*. Retrieved June 20, 2019, from https://www.ilfattoquotidiano.it/2016/12/19/mediaset-sotto-assedio-vivendi-alza-la-posta-e-si-prepara-a-salire-al-30-di-cologno/3270721/

Fiore, L. (2016, December 21). *MPS: Atlante II disposto a cartolarizzazione NPL anche con intervento dello Stato nel capitale*. Retrieved June 21, 2019, from finanza.com: https://www.finanza.com/Finanza/Notizie_Italia/Italia/notizia/MPS_Atlante_II_disposto_a_cartolarizzazione_NPL_anche_con_i-467382

Flick, U. (2014). *SOZIALFORSCHUNG Methoden und Anwendungen.* Reinbek: Rowohlt.

Fonte, G. (2016, December 23). *Rom bewahrt Monte Paschi vor dem Aus*. Retrieved May 20, 2019, from Manager-magazin.de: https://www.manager-magazin.de/unternehmen/artikel/a-1127388.html

George, A. L., & Bennet, A. (2005). *Case Studies and Theory Development in the Social Sciences.* Cambridge: MIT Press: London.

Giegold, S. (2017, June). *Monte dei Paschi new subsidieis put the credibility of banking union at stake*. Retrieved March 15, 2019, from sven-giegold.de: https://sven-giegold.de/monte-dei-paschi-new-subsidies-put-the-credibility-of-the-banking-union-at-stake/

Götz, M., Krahnen, J. P., & Tröger, T. (2017). Taking bail-in seriously: The looming risks for banking policy in the rescue of Monte Paschi di Siena. *SAFE Policy Letter, No. 54*, pp. 1-4.

Gruppo Monte dei Paschi. (2016, July 4). *RISULTATI DELLO STRESS TEST EBA 2016*. Retrieved May 3, 2019, from Gruppomps.it: https://www.gruppomps.it/media-e-news/comunicati/risultati-dello-stress-test-eba-2016.html

Guarascio, F. (2019, March 19). *EU rules Italian bank rescue legal in blow to antitrust watchdog*. Retrieved May 30, 2019, from reuters.com: https://www.reuters.com/article/us-italy-banks-tercas-eu/eu-rules-italian-bank-rescue-legal-in-blow-to-antitrust-watchdog-idUSKCN1R00Y5

Guarascio, F., & Sinner, M. (2016, July 19). *EU court says bail-in legal but bank rescues need not hit investors*. Retrieved May 27, 2019, from Reuters.com: https://www.reuters.com/article/us-eurozone-banks-court/eu-court-says-bail-in-legal-but-bank-rescues-need-not-hit-investors-idUSKCN0ZZ0N8

Gutteridge, N. (2016, November 6). *ITALY IN CHAOS: Florence erupts in violence as anti-Renzi protesters clash with riot cops*. Retrieved May 27, 2019, from Express.co.uk:

https://www.express.co.uk/news/world/729174/Italy-referendum-Florence-Renzi-reforms-EU-Brussels

Howarth, D., & Quaglia, L. (2016). *The Political Economy of European Banking Union.* Oxford Scholarship Online.

Howarth, D., & Quaglia, L. (2018). The Difficult Construction of a European Deposit Insurance Scheme: A step too far in Banking Union? *Journal of Economic Policy Reform, 21, 3,* pp. 190-209.

Il Fatto Quotidiano. (2016, June 29). *Banche, Merkel gela Renzi: "Abbiamo già concesso flessibilità all'Italia. Non possiamo discutere ancora le regole"*. Retrieved June 3, 2019, from ilfattoquotidiano.it: https://www.ilfattoquotidiano.it/2016/06/29/banche-merkel-gela-renzi-abbiamo-gia-concesso-flessibilita-allitalia-non-possiamo-discutere-ancora-le-regole/2868835/

Il Sole 24. (2016, August 8). *Atlante 2: raccolti 1,7 miliardi, target 2,5/3 per fine settembre*. Retrieved May 3, 2019, from ilsole24ore.com: https://st.ilsole24ore.com/art/finanza-e-mercati/2016-08-08/atlante-2-raccolti-17-miliardi-target-253-fine-settembre--185954.shtml?uuid=ADFX2b3&refresh_ce=1

Ligon, C., & Fedirka, A. (2016, December 30). *The Evolution of Italy's Banking Crisis*. Retrieved May 27, 2019, from Geopoliticalfeatures.com: https://geopoliticalfutures.com/the-evolution-of-italys-banking-crisis/

Martin, W. (2016, July 29). *The oldest bank on earth just agreed a rescue deal backed by JP Morgan, Goldman Sachs and Deutsche Bank*. Retrieved from businessinsider.de: https://www.businessinsider.de/italian-businessman-corrado-passera-attempts-to-rescue-monte-dei-paschi-di-siena-2016-7?r=US&IR=T

Merler, S. (2016, July 19). *Italy's bail-in headache*. Retrieved June 6, 2019, from Bruegel.org: http://bruegel.org/2016/07/italys-bail-in-headache/

Moravcsik, A. (1993). Preferences and Power in the European Community: A Liberal Intergovernmantalist Approach. *Journal of Common Market Studies,* pp. 473- 524.

Moravscik, A. (1998). *The choice for Europe. Social Purpose and State Power from Messina to Maastricht.* Cornell University Press.

Morelli, M. (2016, September 20). *Marco Morelli dal 20 settembre 2016 ricopre la carica di Amministratore Delegato e Direttore Generale di Banca Monte dei Paschi di Siena.* Retrieved from marco-morelli.com: http://www.marco-morelli.com/

Nextnow.it. (2016, December 19). *Monte dei Paschi bank launches cash call to boost finances*. Retrieved May 5, 2019, from http://www.nextnow.it/news/montedeipaschibanklaunchescashcalltoboostfinances

O'Neill, D. (2016, February 3). *MPS securitization beats bad debt, bail-in rout*. Retrieved May 18, 2019, from Euromoney.com: https://www.euromoney.com/article/b12knz3xg43zb6/mps-securitization-beats-bad-debt-bailin-rout

Patton, M. Q. (2002). *Qualitative research and evaluation methods.* Thousand Oaks, Calif: Sage Publications.

Quaglia, M., & Jewkes, S. (2016, November 1). *Italian banker drops rival rescue plan for Monte dei Paschi*. Retrieved June 15, 2019, from Finance.yahoo.com: https://finance.yahoo.com/news/italian-banker-drops-rival-rescue-plan-monte-dei-105107684--

finance.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmRlLw&guce_referrer_sig=AQAAAH0Ry30feL-A8Z1LtGGAoqD7NE7hAdjl8FYX2aLQajNMeqwuFq5iLGHKKIbFbARB9ruUXph

Quotidiano, F. (2016, December 21). *Banche, via libera del Parlamento ad aumentare il debito pubblico di 20 miliardi. Anche Ala vota si*. Retrieved from https://www.ilfattoquotidiano.it/2016/12/21/banche-via-libera-del-parlamento-ad-aumentare-il-debito-pubblico-di-20-miliardi-anche-ala-vota-si/3274140/

Redazione. (2016, October 12). *Mps: il dibattito sulle conclusioni della Commissione d'inchiesta*. Retrieved from Radiosienatv.it: https://www.radiosienatv.it/mps-il-dibattito-sulle-conclusioni-della-commissione-dinchiesta/

Reuters.com. (2016, March 10). *Italy appeals against Commission ruling on Banca Tercas rescue plan*. Retrieved May 26, 2019, from https://www.reuters.com/article/italy-banks-europe/italy-appeals-against-commission-ruling-on-banca-tercas-rescue-plan-idUSR1N14W02L

Rossi, S. (2016, April 7). *Salvatore Rossi: The Banking Union in the European integration process*. Retrieved from bis.org: https://www.bis.org/review/r160413d.pdf

Sanderson, R. (2016, July 29). *Monte dei Paschi board backs private sector rescue plan*. Retrieved from Ft.com: https://www.ft.com/content/1d47b04a-5586-11e6-9664-e0bdc13c3bef

Sanderson, R., Barker, A., & Jones, C. (2016, July 10). *Italian banks: Essential repairs*. Retrieved June 26, 2019, from ft.com: https://www.ft.com/content/a594eb58-443c-11e6-b22f-79eb4891c97d

Schimmelpfennig, F. (2015a). Liberal intergovernmentalism and the euro area crisis. *Journal of European Public Policy, 22:2*, pp. 177-195.

Schimmelpfennig, F. (2018). Liberal Intergovernmentalism and the Crises of the European Union*. *JCMS 2018 Volume 56. Number 7*, pp. 1578-1594.

Schimmelpfenning, F. (2015b). *LIBERAL INTERGOVERNMENTALISM AND THE EURO ZONE CRISIS* . Retrieved from ethz.ch: https://eup.ethz.ch/content/dam/ethz/special-interest/gess/cis/european-politics-dam/documents/People/Publications/European_Integration/Liberal.pdf

Schlamp, H. J. (2016, December 5). *Strafe für den "Verschrotter"*. Retrieved May 12, 2019, from Spiegel.de: https://www.spiegel.de/politik/ausland/italien-und-matteo-renzi-nach-dem-referendum-strafe-fuer-den-verschrotter-a-1124393.html

SITI. (2016, December 15). *Siti - Sindacato Italiano per la Tutela dell' Investimento e del risparmio MPS*. Retrieved May 30, 2019, from sindacatositi.it: http://www.sindacatositi.it/

Smith, G. (2016, December 6). *Italy Is Preparing a Bailout of Its Largest Problem Bank*. Retrieved May 27, 2019, from Forune.com: http://fortune.com/2016/12/06/italy-monte-paschi-bailout-mps/

Smith, G. (2016, April 12). *Italy's "Last Resort" Bank Bailout Fails to Calm Investors' Fears*. Retrieved from Fortune.com: http://fortune.com/2016/04/12/italy-bank-fund-atlas-renzi/

Stahlhut, A. M. (2014, June 1). *Really Blocking a Banking Union? Germany's Reluctance Towards pan-European Banking Resolution.* Retrieved April 23, 2016, from utwente.nl:

https://essay.utwente.nl/65230/1/Stahlhut_MA_SchoolofManagementandGovernance.pdf

Stanghellini, L. (2016, March 12). The Implementation of the BRRD in Italy and its First Test: Policy Implications. *Journal of Financial Regulation, 2*, pp. 154-161.

The Daily: Observer. (2016, December 26). *How JPMorgan could not save Italy's problem bank*. Retrieved April 18, 2019, from Antiguaobserver.com: https://antiguaobserver.com/how-jpmorgan-could-not-save-italys-problem-bank/

The Economist. (2016, August 1). *MPS fails EBA stress test, announces rescue plan*. Retrieved June 6, 2019, from http://country.eiu.com/article.aspx?articleid=1964465380&Country=Italy&topic=Economy&subtopic=Forecast&subsubtopic=Policy+trends

*thelocal.it*. (2016, December 30). Retrieved June 3, 2019, from Italians to pay three-quarters of bank bailout bill: https://www.thelocal.it/20161230/italians-to-pay-three-quarters-of-bank-bailout-bill

Timpone, G. (2016, July 8). *Crisi MPS, scontro Roma-Bruxelles verte su perdite per obbligazionisti*. Retrieved from investireoggi.it: https://www.investireoggi.it/economia/banche-italiane-scontro-roma-bruxelles-verte-perdite-obbligazionisti/

Treanor, J. (2016, December 9). *Monte dei Paschi bailout: what you need to know – the Guardian briefing*. Retrieved May 20, 2019, from Theguardian.com: https://www.theguardian.com/business/2016/dec/09/monte-dei-paschi-bailout-worlds-oldest-bank-eu

Unmack, N. (2016, December 23). *Italy's Monte dei Paschi bail-in is a bailout*. Retrieved from reuters.com: https://www.reuters.com/article/us-eurozone-banks-mps-breakingviews-idUSKBN14C100

Van Rompuy, H. (2012, June 26). *TOWARDS A GENUINE ECONOMIC AND MONETARY UNION.* Retrieved from https://www.consilium.europa.eu/media/33785/131201.pdf

Verón, N. (07. November 2017). *Precautionary recapitalisation: time for a review*. Von Bruegel.org: http://bruegel.org/wp-content/uploads/2017/07/PC-21-2017-BRRD-1.pdf abgerufen

Visco, I. (2016, April 28). *Fact-finding inquiry on the Italian banking and financial system and the protection of savings, also regarding supervision, crisis resolution and European deposit insurance*. Retrieved May 12, 2019, from bis.org: https://www.bis.org/review/r160428a.htm

Visco, I. (2016, May 5). *Workshop on Stability of the Banking System*. Retrieved May 20, 2019, from European University Institute: https://sou-pasteditions.eui.eu/wp-content/uploads/sites/7/2016/05/Keynote-speech-by-Ignazio-Visco-Governor-of-the-Bank-of-Italy.pdf

Vittime del Salva- Banche. (2016, October 8). *Obbligazioni subordinate MPS*. Retrieved March 3, 2019, from http://www.vittimedelsalvabanche.it/wp/wp-content/uploads/2016/10/proposta-MPS.pdf

Whitecase. (2016, May 6). *Steps taken to backstop the Italian Banking System: Atlas fund, NPL state guarantee and insolvency reforms*. Retrieved May 5, 2019, from Whitecase.com: https://www.whitecase.com/publications/alert/steps-taken-backstop-italian-banking-system-atlas-fund-npl-state-guarantee-and

Worstall, T. (2016, December 27). *Monte Dei Paschi Deposit Run And Shortfall Shows Errors Of ECB Rules On Bank Rescues*. Retrieved from forbes.com: https://www.forbes.com/sites/timworstall/2016/12/27/monte-dei-paschi-deposit-run-and-shortfall-shows-errors-of-ecb-rules-on-bank-rescues/#c683bd38a738