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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 7 Bealtaine 2015

Thursday, 7 May 2015

The Committee met at 10.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

10% - income ratios with regard to the price of the house were moved off the map several multiples of ... schedules moving from 20 years out to 40 years and just the affordability factor? I mean ... like the basic business concept of selling cars, is if you want to sell new cars somebody has to buy second hand cars ... and it was becoming increasingly impossible for first-time buyers to come into the market because of affordability. Did anybody ... at anybody ... at any stage in Ulster Bank say this is ... this product is becoming possibly unsustainable?

Mr. Michael Torpey: I think, Deputy, or Chairman, you ... you touch on a very important point. I think the system, as a whole, failed to realise-----

Chairman: Yes, we know that.

Mr. Michael Torpey: -----the pressures and stresses that were there and within Ulster Bank we had a growth strategy which sought to compete in the marketplace. The assumptions we made, unfortunately, were the wrong assumptions and it ... it is unfortunate and in every respect - and it's something that I very much regret - that we didn't in fact challenge sufficiently on the variety of assumptions that underpinned the expectations of continuing growth in the market.

Chairman: Okay, I'm going to bring matters to a conclusion. Is there anything further Mr. Gallagher, Mr. Torpey you'd like to add? Okay, with that said, I'd like to thank Mr. Torpey and Mr. Gallagher for their participation today and for their engagement with the inquiry. The witnesses are now excused and I propose that we suspend up to 3 p.m. Is that agreed? Okay, thank you.

Sitting suspended at 2.15 p.m. and resumed at 3.12 p.m.

Bank Economists - Mr. John Beggs, Mr. Pat McArdle and Dr. Dan McLaughlin

Chairman: I now propose that we go back into private session ... or, sorry, public session for this afternoon's proceedings. Is that agreed?

We now commence this afternoon's session ... session hearing No. 2 with Mr. John Beggs, former chief executive of Allied Irish Banks, Mr. Pat McArdle-----

Mr. John Beggs: Sorry, Chairman, I was the chief economist.

Chairman: Chief economist, sorry. I was probably giving you a promotion there. My apologies for that. Mr. John Beggs, former chief economist, Allied Irish Banks, Mr. Pat McArdle, former group chief economist, Ulster Bank, and Mr. Dan McLaughlin, former chief economist at Bank of Ireland. The committee of inquiry into the banking crisis is now resuming in public session. Can I remind members and those in the public gallery to ensure that their mobile devices are switched off. Today we continue our hearing with senior bank executives who had roles during and after the crisis. This afternoon we will hear from former chief economist from Bank of Ireland, AIB and Ulster Bank, Mr. Pat McArdle, former group chief economist, Ulster Bank, Mr. Dan McLaughlin, former chief economist, Bank of Ireland, and Mr. John Beggs, former chief economist, Allied Irish Banks.

Pat McArdle is the former group chief economist with Ulster Bank, a position he held from 2002 until his retirement in 2009. From 1996 to 2002, he was Ulster Bank's chief economist. Prior to this, he was head of research at NCB. He is chairman of the International Institute of European Affairs economist group and is a member of the economic and monetary affairs committee at the European Banking Federation. Mr. Dan McLaughlin was chief economist with Bank of Ireland from 1999 until his retirement in 2013. Previously he was chief economist with ABN AMRO and Riada Stockbrokers. Mr. John Beggs was chief economist ... AIB Bank from 2011 until his retirement in 2012. Prior to that he was chief economist of AIB Global Treasury from 1992 until 2011. Previously he was chief economist of Goodbody Stockbrokers, the stockbroking arm of the AIB Group, and chief economist of Allied Irish Securities. He began his career in the Department of Finance in 1975. Mr. McLaughlin, Mr. Beggs and Mr. McArdle, you're very welcome before the committee this afternoon.

Before I commence proceedings, I wish to advise the witnesses that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. So, therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. And members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witnesses have been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis, and you have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So, before I commence proceedings, can I ask the clerk to administer the oath to Mr. McLaughlin, Mr. Beggs and Mr. McArdle.

The following witnesses were sworn in by the Clerk to the Committee:

Mr. John Beggs, former chief economist, AIB.

Mr. Pat McArdle, former group chief economist, Ulster Bank.

Dr. Dan McLaughlin, former chief economist, Bank of Ireland.

Chairman: Once again, welcome to Mr. McLaughlin, Mr. Beggs and Mr. McArdle. If I can invite Mr. McArdle to make his opening remarks please.

Mr. Pat McArdle: Thank you, Chairman. By way of preface to my opening remarks, might I say that I prepared my witness statement about a month ago. I got the notice relatively late in the day and I was away when it came, so it was late when I got it. Therefore, I hadn't the opportunity to do a full perusal, as I said in the cover letter. So my opening statement will, in some senses, add to that and reflect the benefits of reflection and research over the past month. It, therefore, is a bit different and if this causes confusion to some of the members of the committee, I apologise for that. But I have here with me hard copies of it, if necessary, if you wish to accept them. Do you wish me to give them to you?

Chairman: I can ask the secretariat to issue them as you are speaking to us.

Mr. Pat McArdle: Therefore, I am going to take, Chairman, my witness statement of 10 April and supplementary statement of 27 April as read, and highlight some of the issues that arise.

While my main focus as chief economist in Ulster Bank was external, and while I was not formerly part of the internal UB decision-making process, I accept that my voice was probably an influential one within the bank, particularly as regards to so-called soft landing. My team's emphasis was on short-term forecasting and we produced and published quarterly forecasts for GDP, inflation, employment, etc. These high-frequency short-term forecasts are designed to paint a picture over a two-year time horizon or occasionally less. Longer-term projections in Ireland are published by the ESRI, which produces forecasts for up to a quarter of a century ahead every two or three years. And, you've already discussed these with Dr. FitzGerald. For the economic input into the five-year planning circle ... cycle, Ulster Bank used the ESRI medium-term forecasts. As all ESRI forecasts, benchmark, high and low variants, envisaged a soft landing - and I refer you to my table in my supplementary witness statement - it follows that all UB medium-term planning was also predicated on a soft landing. I effectively buttressed this view in terms of my rolling quarterly short-term economic updates and *ad-hoc* reviews. My forecasts, and those of all other short-term forecasters, remained positive up until early 2008. The turnaround was then dramatic. At that time, the central expectation was that 2009 GDP would grow by 3.6%. Eighteen months later, the consensus was that it would fall by about 8.3%. This about-turn came too late to influence events, as the credit that fuelled the boom had been extended between 2004 and 2007. I was generally regarded as being towards the more pessimistic end of the range of short-term forecasters ... certainly over that period.

I should add that any views in the UB publications were mine alone and there was no difference between the internal and external positions I adopted. I was given freedom of speech by Ulster Bank, even if some of the things I said made them uncomfortable on occasion. I was a trenchant critic of the loose fiscal policy adopted and I was an outspoken advocate of a soft landing. In general, I did not input directly into the credit, the risk or the lending functions in Ulster Bank. Instead, my job was to produce regular economic briefings and they used them as they saw fit. However, there was the occasional exception and I recently came across a case where UB credit drafted a report based on my output and, somewhat unusually, I received a copy of it. It summarises my views in early 2004 and if you don't mind, Chairman, I'll quote from it:

> UB Economic Research unit (Pat McArdle) views on the ROI Housing Sector remain positive in the updated report dated 25 February 2004. Its rating however is amber, taking due recognition of the cycle. ... Neither of the usual major negative influences on the housing market (rapid rises and interest rates and unemployment) is forecast. ...
>
> Major changes are due on the supply side - last year['s] completions were in excess of 68 [thousand] but underlying demand is believed to be [around] 50 [thousand]. The difference is accounted for by pent up demand and holiday homes. There are signs that the building industry is aware of this and has the capacity to orchestrate a smooth transition but this is not certain. Pat McArdle does not rule out the possibility of a price correction of up to 20%. Even if this were to happen we do not think that this would have major knock-on effects, given bank capital requirements and stress testing.

A 20% fall in nominal prices would've equated to a much greater fall in real prices, about 35%, that's when you're after making allowance for inflation. In effect, therefore, I warned, in February 2004, that real house prices could decline by 35% ... that's within the 30% to 50%

range predicted by the two main contrarians some three years later. My main regret, Chairman, is that I did not continue in this vein. I should have stepped up my warnings as the housing market initially slowed and then regained momentum and even stronger growth. However, if anything, my later pronouncements are more consensual in that I did not disagree with the projected 15% to 20% fall in real prices advocated by the Central Bank and the ESRI. Of course, had I continued in the vein I just outlined, I would've been treated as a contrarian. Few agreed with them, and while it's cold comfort, it's unlikely that I would've been listened to either. Indeed, it's ironic that even though I disagreed with the contrarians later, we had stress tested in Ulster Bank for their more extreme predictions. The problem was not house prices, *per se*, but developer and real estate lending and we did not spot it or stress test for it, certainly sufficiently.

I want to make the following points. A soft landing and it's perhaps no harm to dwell on it for a minute since this has received such currency and it may not be as understood in the sense that I understand it. So a soft landing would've been quite bumpy, involving substantial job losses and up to €3 billion, I had estimated, in tax revenue foregone. In other words, it would've left a major hole in the budget. The regulators, management and board bear most responsibility for the collapse here as elsewhere, and I'll come back to that. Ulster Bank rejected the hard landing hypothesis, but stress tested for house price declines of 56% in real terms. That was at the very upper end of the range predicted by the contrarians. This was insufficient because the actual recession was much greater than anyone predicted.

I go on now, Chairman, to talk about the implications of a soft landing for a moment. It could've been, as I said, quite bumpy. A soft landing that saw house completions fall from their peak around 90,000 to the 50,000 sustainable medium-term level estimated by the ESRI would've had significant implications. I'd calculated that every 10,000 houses represented one percentage point off growth and that a soft landing would involve 30,000 construction job losses and up to €3 billion in tax revenue foregone.

I go on to speak about the regulator. There were no strong incentives for banks to make arbitrary judgments about the prudent limits of credit expansion. Hence, the infamous comment by Chuck Prince, chairman of Citigroup: "When the music stops ... things will be complicated, but as long as the music is playing, you've got to get up and dance." The regulator's job is to stop the music, or as it's more often put, "To take away the punch bowl just as the party gets going". All regulators failed to do this. This was a major failing and much of the focus post-crisis has centred on improving bank supervision. Indeed, responsibility for bank supervision of euro area banks has been removed entirely from national supervisors.

When I worked in the banking area of the Department of Finance in the '70s and '80s, I had the distinct impression that when the regulator said, "Jump", the bank's response was, "How high?" I was therefore shocked to read in the Honohan report that the regulator spent almost a decade in fruitless correspondence with one financial institution without ever achieving anything. Clearly, the boot had shifted to the other foot and the regulated, instead of the regulator, were now calling the shots. However, it seems, and I've only learned this recently, it seems that this only applied to prudential regulation, as bank representatives have testified to this inquiry last week that the regime on the consumer side remained quite strict, which would've been my memory of it from 20 years earlier. Therefore, I disagree with the conclusion in the Honohan report that the major responsibility lay with the directors and senior managements of the banks that got into trouble. In my view, the regulator had a higher degree of responsibility. And this should go without saying, really, because the regulator's job is to promote the safety and soundness of the banking system.

If the banks were capable of regulating themselves, there would, of course, be no need for rules and regulations and regulators. In saying this, I just want to emphasise that I am by no means trying to absolve the banks from blame. As is clear from the Nyberg and other reports, that there were many actors involved and that the banks were up there at the top. However, the regulator was the only one who had full information on large exposures and, critically, the only institution that could have sought to curb excessive balance sheet growth. It was only when the loans were transferred to NAMA in 2010 that it was revealed that the big developers had multiple exposures to the different banks. The regulator should have had full details from the large exposures reports that it received - I think they were quarterly - and it would've been a simple matter to add them up. Finally, in this section, in 2009, Patrick Honohan, then professor of economics at TCD, wrote, and this has been quoted here yesterday:

> A very simple warning sign used by most regulators to identify a bank exposed to increased risk is rapid balance sheet growth. An annual growth rate of 20 per cent real is often taken as the trigger ... Anglo Irish Bank, crossed it in eight of nine years, and indeed its average annual rate of growth 1998-2007 was 36 per cent ... So this was a very obvious and public danger sign.

On this basis the alarm bells should've been ringing for the best part of a decade.

Stress testing. Ulster Bank stress tested for a 36% fall in nominal house prices in its severe stress scenario. That was equivalent to a real fall ... a fall in real prices, sorry, of 56%, i.e. it was at the very upper end of the range predicted by the contrarians. Indeed, it was slightly above the upper end, I think. However, the real problem was commercial and not mortgage lending, and this was not adequately stress tested. In 2007, at the behest of the Bank of England FSA, global adverse scenarios for the UK, US and euro area were produced by RBS Group economics and we commissioned the ESRI to help translate them into three Irish shock scenarios: a mild, once in a decade, a medium, once in a quarter century, and a severe, once in century recession. I supplied the ESRI with the external ... these external global assumptions for the three shock scenarios in April 2007. These scenarios are based on global economic shocks, which severely affected growth, employment, credit, etc., and we left it up to the ESRI and their model to determine the impact of this on the Irish economy and on Irish house prices.

The severe scenario envisages a downturn of a magnitude not seen in the post-war period, greater than the 2009 UK recession and greater than any ... anyone else ... there was no other one that was known at that time. It entailed GDP everywhere going negative for a few years, unemployment rising to low double digits, short-term interest rates falling to be 1% or below, and Irish credit contracting by 5% per annum for a few years. This results are given in the accompanying table. In general, the outcome was worse than predicted ... that's the outcome in the event was worse than the scenarios we utilised I just should say for clarification ... and this was mainly because the impact of the construction rate of decline ... related decline, was vastly greater than expected, with new house completions virtually coming to a halt, whereas the model had predicted a fall of 20,000 units only. The predicted nominal house price fall, however, was 36% and, of course, the actual, as we now know, was 50%.

In conclusion, Chairman, the financial crisis has been described as an example of groupthink. In my experience, and I've now been through it, groupthink is almost impossible to understand unless you've experienced it. I suggest that a useful way to approach it is, perhaps, to look at two more recent examples. First, the Central Bank's proposed macro-prudential limits on mortgage lending were eminently sensible and less severe than the regime that applied when I took out my first mortgage, yet they were almost universally opposed, even by the Department of Finance, and were watered down in the event. Second, the expansionary 2015 budget was condemned by IFAC, the Irish Fiscal Advisory Council, a body expressly established to advise on policy and also by most economists, yet the Government persisted with widespread support from beneficiaries and politicians. So in my opinion, groupthink may well be alive and well.

The Bank for International Settlements was the only major institution I know of to warn of the crisis and I want to end with a quote from it. In a presentation in 2013, Bill White, who was the former chief economist there, reflected on why his warnings were ignored, and this is also relevant to groupthink. He said, and I quote:

> There were a few who did warn that there were serious problems building up under the smooth surface of the Great Moderation. I would like to believe that we at the BIS saw it more clearly than many others, though certainly the timing and the precise nature of its unfolding eluded us ... Why were these warnings (both public and private) not heeded? Why were the historical antecedents not given more emphasis? I am going to suggest in the immortal line of Flanders and Swan, that it was "A Tale of Seduction". All of the parties who contributed to the crisis (borrowers, lenders, regulators, central banks, academics and politicians) were each seduced by [the] various influences into believing different things that were not true. Moreover, since seduction normally involves more than one party, the relationships between these various parties also contributed to their having 'no eye to see and no ear to hear'.

Thank you, Chairman.

Chairman: Thank you very much. Mr. McLaughlin.

Dr. Dan McLaughlin: Thank you, Mr. Chairman. Good afternoon, everyone. Thank you for inviting me along to speak to you. As requested, I've furnished a statement addressing certain designated lines of inquiry to the banking crisis. I've also included some general points which I feel are relevant and rather than read out the full statement, I just want to summarise a few remarks.

Just by way of background, I was employed by Bank of Ireland in the role of chief economist from February 2001 to August 2013. I think Mr. Chairman, you ... in your opening remark, you said 1999. Just to clarify, it was 2001. During that time my office was in the dealing room of global markets, which was responsible for executing the bank's funding strategy and in providing a service on foreign exchange and interest rates to the customer base. I was in charge of the bank's economic research unit, which produced analysis and commentary on the Irish and UK economies and in developments in the financial markets. The unit also provided support to other areas of the Bank of Ireland Group, including a written monthly summary of economic and financial developments to the chief executive. As chief economist, I also participated in meetings with rating agencies, counterparty banks, and on occasion, debt and equity investors, as well as presentations to customers on economic outlook. I reported to the head of global markets.

I now want to turn to a couple of general observations on the banking crisis. The first relates to the banking system that operated in Ireland prior to the crash and to highlight that although there were common features, the range of the subsequent losses illustrates that the banks differed greatly in terms of credit standards, risk appetite, geographical spread and exposure and degree of loan concentration. Second, banks are mainly staffed by specialists, and in light of the fact that the bank is a publicly-traded company, other than information published in the market, everything is done on a need-to-know basis, which is particularly true in terms of crisis. A third point relates to the narrative that has developed around the banking crisis, which, given the benefit of hindsight, risks overstating what was known at any point in time. Our knowledge of the outcome makes it difficult to judge past events. We should also be clear as to what published data was available and when, an issue I address in more detail in my furnished statement.

In my view, there were three separate factors contributing to the crisis, each overlapping in exacerbating the other. The first was the property market: Ireland experienced a residential property boom which lasted well over ten years, and in my view, until around 2005, was mainly driven by fundamental factors, including strong growth in employment, rising household incomes, a move to a lower interest rate regime following euro membership and an extraordinary increase in population of, it was a 17% rise in the decade to 2006 of 615,000. It was only in the latter stages of the boom which saw an easing of credit standards and the Central Bank quarterly survey data of credit standards shows this, particularly from 2005. Affordability also started to deteriorate and my own affordability model pointed to a marked increase in the cost of servicing a new mortgage in 2007. Particularly following the monetary tightening initiated by the ECB, we saw the repo rate rise from 2% to a high of 4.25%, which wasn't reached 'til July 2008. I initially felt, in 2007, that the slowdown in the housing market would involve flat or falling real prices and not a fall in nominal prices, as the latter had only happened once in Ireland over the previous 30 years. The Irish economy is very open and hence heavily influenced by the international economic cycle, although from 1970 onwards, the Irish economy had contracted in GDP terms in only one year, which was 1982. The consensus view in mid-2008, which I shared, was that any US recession would be as short-lived as had been the case in the previous two, which had been 1990-91 and 2001. Both had lasted only eight months. This didn't prove to be the case, of course, and I believed that the unprecedented collapse of the global credit markets which followed the Lehman bankruptcy in September 2008, was a second and decisive negative which hit the Irish economy and the banking sector. The chairman of the Federal Reserve, Alan Greenspan, called it a "one in 100-year event". We will never know how steep the Irish property correction would have been in the absence of that collapse and I find it at variance with the facts that some people appear to play down its significance in relation to the banking crisis. The impact of the credit crunch was certainly extreme, both internationally and in Ireland. The S&P index fell by 50%, GDP in the developed economies experienced its largest post-war contraction, and Irish GDP, which actually rose by 1.2% in the third quarter of 2008, on the initial figures that were published at that time, contracted by an extraordinary 7.1% in the final three months of 2008. The total contraction in the recession was about 12.5%. So over half of that was experienced in just three months, post-Lehman.

Commercial property prices also tumbled, a prime factor behind the decline in the value of bank assets, with record falls recorded in many countries. UK prices fell by 26% in 2008, while the plunge in Irish values was also unprecedented. Capital values had fallen by 10% in the first half of the year, before falling by 15% in the third quarter and 18% in the final quarter of 2008 and a further 18% in the first half of 2009. It is also noteworthy that Ireland chose to mark to market these assets at an extreme stage of the cycle. It is also noteworthy that not many other countries, if any, followed that example.

Few, if any, envisaged the effective collapse of the global credit system, while the unprecedented scale of the policy response, including massive state support for banks, zero and even negative interest rates, which are still with us, seven years later, QE and new capital and liquidity rules for the global banking sector, is also testimony to the singular degree of financial disruption that emerged post-Lehman, with the ramifications still being felt, noticeably of course in the euro area. Finally, a third factor emerged in 2010, and again I don't think this is given enough attention, which relates to the sovereign debt crisis, which by 2012 had developed into an existential crisis for the euro. State support for the banking sector, initially seen as positive, was now perceived as adding stress to already high sovereign debt levels and the subsequent fall in government bond prices added to bank losses, given their holdings of government debt, a phenomenon that became known as the doom loop. In that context, it is noteworthy that a number of official reports into the banking crisis in Ireland, including Professor Honohan's, was commissioned in 2010, presumably on the view that the worst was over, but ECB lending to Irish-headquartered banks was higher in early 2011 than in 2008, and ELA support also peaked in 2011. New regulatory capital requirements also resulted in widespread bank deleveraging, so adding a further downward pressure to asset property markets.

In 2012, the Central Bank's housing models show that Irish residential prices were now as much as 26% below fundamental value. It is also of note that the Central Bank's prudential capital assessment review, or PCAR, which began in, which was in March 2011, identified a large capital shortfall in the main Irish banks and that ... and then substantially overestimated the projected pre-impairment profitability. In the event, the requirement to offload assets and to increase deposits put significant pressure on net interest margin. The scale and extent of private sector deleveraging in Ireland, which is still apparent, also resulted in a larger fall in bank assets than envisaged in the PCAR.

In summary, the correction under way in the Irish property market in 2008 turned into a crisis for the economy and the banking system in the wake of the post-Lehman collapse in the global credit system and a fallout from the subsequent sovereign debt crisis in Europe was a significant factor in delaying the return to bank profitability and in slowing the pace of economic recovery in Ireland. Thank you very much for your attention.

Chairman: Thank you.

Mr. John Beggs: Thank you, Mr. Chairman. You asked me to give evidence on eight lines of inquiry relating to my role as chief economist of Allied Irish Banks. Now I've covered these as best I can in my written statement of 9 April, and I propose today just to summarise the main points of those lines of inquiry. Before I do so, I want to clarify that I was not the chief economist of Allied Irish Banks in the period leading up to the banking crisis. I was promoted to this role in a restructured bank in late 2011, a position I held briefly until my retirement in 2012. My actual position from 1992 to 2011 was that of chief economist, global treasury. My role was primarily focused on advice within wholesale treasury and supporting corporate and commercial treasury in relation to general economic issues, particularly around the outlook for interest rates and exchange rates. The economic research unit which I headed was located within wholesale treasury in the capital markets division. The AIB Group's property-related Irish exposures were in the retail Ireland division. Overall risk management, capital management and relations with the supervisory authorities were handled at group division level. Though part of global treasury, my unit was a limited resource available to other business units across AIB and provided on-demand services to other parts of the group. One area of support was in relation to stress testing. My unit produced and published research and I will deal with aspects of that in the questions following my statement.

In giving evidence before this committee, on the lines of inquiry indicated to me, I believe therefore it's important to clarify that I did not occupy a central role within the AIB Group, or a management role in the lending strategy of the retail division. Furthermore, in relation to some of the lines of inquiry in which I've been asked to give evidence, I must point out that I had very little involvement with the Department of Finance or the Central Bank - Financial Regulator, during my career in AIB.

The first line of inquiry you asked me to comment on was in relation to banks' risk appetite and the appropriateness of their property-related credit policies. In relation to risk appetite, I make the point in my statement, I use a risk appetite statement from AIB from 2007, and then contrast it with the concentration of property as set out in the bank's presentation on their results for 2006, which shows that property lending constituted 33% of total lending. I make the point that reconciling the two is only possible, in my opinion, on the basis that AIB believed that its business was well diversified geographically and sectorally, well managed, of good quality and low risk, based on its customer profile and knowledge of its customers' financial standing. I believe that banks focussed primarily on what they perceived to be the quality of their individual loan books, with less consideration of the potential systemic risks in the Irish banking system as a whole, and the contagion risks, should serious problems emerge in an important bank, particularly given their overall dependence on external funding.

As to the appropriateness of property related credit policies, I'd make a general point that the sustained growth in the Irish economy in terms of real GDP and employment meant that the assets of the banking system became increasingly tied up in bricks and mortar in one form or another over the period. As banks are the main source of finance for the Irish private sector, there is a high correlation between the growth in credit and GDP-GNP. The appropriateness of Irish bank lending policies cannot be divorced from the stance of fiscal policy, other macroeconomic policies, and the role of monetary and prudential policy. Here, I want to integrate a comment on the third line of inquiry as to the appropriateness of macroeconomic and prudential policy, in commenting on this first issue. Strong growth in bank lending occurred against a very expansionary fiscal policy which provided misguided support to bank lending policies. Monetary conditions were also very favourable. Interest rates were too low. Prudential policy was too deferential and failed to pick up on warning signs. Last but not least, banks, as described by the Nyberg report, were engaged in high-risk growth strategies involving a significant expansion of credit. There were no countervailing policies in operation.

Research shows that while the decade of 1990s was primarily driven by exports, the expansion of credit was also a key contributory factor. Strong employment growth and the rise in the population led to a large increase in house building. Furthermore, the ratio of private sector debt to GDP was well within the range of other countries. In the period after entry into EMU, in my opinion, developments prior to around 2002-03 could be characterised as still within acceptable ranges for many key ratios. A period of slower growth was warranted thereafter as the growth in total lending carried increasing levels of risk as property price inflation and investment and construction headed for unsustainable levels based on international standards. I set out a number of statistics in my written statement relating to credit expansion which I won't go into here in this summary.

On the second line of inquiry, relating to risk concentration in base, and in adverse scenarios, I would say that stress testing was undertaken within AIB by the stress testing steering group which was part of the central group risk management framework. My role was to present an overview of the economic scenarios to the STSG based on, for instance, the initial economic data provided by the regulatory authorities, either in the UK or in Ireland. The aim was to provide group and divisional risk management, finance and credit units, with the fullest possible understanding of the transition from the base case to the adverse economic scenarios. The actual calculation of the effects of the adverse economic scenarios on the bank's capital and other metrics was undertaken by analysts within the group and divisional risk and credit units. When it comes to concentration risk, the methodology changed over time to include additional studies to examine the correlation between sectors, particularly in relation to property. Adjustments were made to the impact on credit provisions to take account of this factor.

As to the third line of inquiry, the adequacy of the assessment and communication of both solvency and liquidity risks in the banking institutions and sector, here I'm really looking at the role of the three policy makers, and I want to focus particularly on fiscal policy, because it seems to me, and certainly from my experience of the Department of Finance, that far too much of the time of the Department is taken up with the annual budget process. Macroeconomic issues over the medium term, or other issues, are not really handled effectively within the Department. And in terms of publications from the Department, they tend to just simply back up what's contained in the supporting ... what's contained in the annual budget statements. So therefore, there were no commentaries, that I'm aware of, from the Department, relating to the property sector in the period leading up to the crisis. The prudential practice covered both micro and macro policies and, I'm quoting here from the Honohan report which pointed out quite a lot of deficiencies in the way in which these policies were carried out, but at no stage did the assessment of the banking system, such as it was, show any concerns about liquidity or solvency issues.

On the macro prudential side there were annual financial stability reports published between 2004 to 2007. These reports failed to trigger a more cautious approach within the banking system. An important earlier point worth noting is that several research papers produced within the Central Bank and by the ESRI, the IMF and the OECD, consistently came to the conclusion that Irish house prices were overvalued, often by significant amounts. I believe that the consistency of this conclusion should have alerted the supervisory authorities to investigate the implications of this more rigorously with the financial institutions.

On the fourth line of inquiry, appropriateness of the expert advice sought, quality of the analysis, and how effectively this was used, I again refer to quite a number of international organisations that provide analysis and advice to the supervisory authorities. However, I also feel that these reports are often subject to a little bit of suasion from the domestic institutions as to what's contained in them. However a more ... I suppose, a better form or research from these organisations might well be found in the number of housing market reports published by the OECD and the IMF, in the 2003-04 period, and by the OECD in 2006, which raise quite a number of issues in relation to the Irish property market. And other studies produced by the OECD in 2006 raised issues about adjustments in the property market in the context of a monetary union and these, I believe, were important and useful studies for consideration by the authorities and also by financial institutions.

In the area of contrarian views, I would say that, by the time these contrarian views became public knowledge and got a great deal of publicity, the Irish property market was already in slowdown mode. I found the reaction to them to be quite surprising because research, I think that we had published, showed that by 2005 the ratio of house prices had already risen quite dramatically, affordability was deteriorating, interest rates were on the rise, investors were increasingly worried about the market, employment growth had levelled off, so we were in a situation where there was a turning point already on the way.

As to the remaining lines of inquiry, Mr. Chairman, I don't propose to read into my ... anymore out of my statement. I will make the point, though, in relation to the liquidity issue in banks, I sat in the dealing room of AIB during this period and every event, and there were quite a number of them, from mid-2007 to the collapse of Lehman Brothers, was a big event and was quite troubling in the context of how the markets saw it. I think, if you're not in that space, you don't really have a full appreciation of just how difficult that was.

So, Mr. Chairman, that concludes my summary of the main lines of inquiry, but with your permission, I propose to deal with the issue of Professor John FitzGerald's reference to me in his testimony to the committee on the 11th.

Chairman: Certainly, just procedurally, this is a section 25 statement regarding the testimony of Professor John FitzGerald to the joint committee on 11 February 2015 and you want to address that matter specifically, Mr. Beggs, yes?

Mr. John Beggs: I do indeed.

Chairman: Okay.

Mr. John Beggs: I provided the committee with a statement on this matter on 27 March. Well, first of all, I confirm that I did meet with Professor FitzGerald in relation to stress testing. I do not recall the exact date but I'm happy to accept from his records that it was in October 2005. Professor John FitzGerald himself, in his e-mail of 16 February to the committee, accepted the possibility that his recollection of the content of the meeting was faulty. Professor FitzGerald's recollections of the content and the nature of the meeting were in many key respects very different from mine. Specifically, I am certain that I expressed no concerns on the part of the AIB board about stress testing. The board never authorised or was aware of the meeting. I did not report back to the board on the outcome of the meeting. The meeting was an exploratory, technical one between economists to ascertain whether the ESRI's model could be used to enhance the scene setting of base and stressed economic scenarios by providing more economic variables than contained in regulatory exercises at the time. It was never the intention to ask the ESRI to carry out stress tests independently of regulatory ... of the regulatory ones and it was certainly never envisaged that the ESRI would apply macroeconomic scenarios to the bank's internal data. I never asked Professor FitzGerald to carry out stress testing on behalf of AIB. I sought to explore whether prescribed regulatory economic stress data, which consisted of only a limited number of indicators, could be run through the model to generate a more graphic and detailed economic picture of the stressed outcomes. The meeting failed to produce any results. As I recollect, Professor FitzGerald indicated that the ESRI would not undertake private unpublished work. There were some limitations as to what the model could do, but he was prepared to make data from the forthcoming medium-term review available to us. It was an inconclusive meeting and my unit never followed up on that.

If Professor FitzGerald did any other work for AIB or other banks on stress testing, I am not aware of it. The impression created by Professor FitzGerald's testimony is that the AIB board was concerned about the lack of severity in the stress test exercises as far back as late 2005, which may imply a broader level of concern. I have no knowledge of the board's opinion on the matter. I never received any negative feedback or reports from the board or board risk committee on stress testing. As a result, I have no reason to believe that the AIB board had any misgivings about regulatory stress testing. It was not my practice in AIB to attribute comments or opinions to other AIB business units or committees, least of all the board of the bank.

Stress testing in AIB is executed through the stress testing steering group, which is responsible for ensuring that a comprehensive stress testing programme is embedded in risk management and to ensure that an effective framework is in place to enable stress testing across the group. I attended the meetings of the stress testing steering group when a stress test exercise had to be carried out. My role was to communicate the evolution of the scenarios from base case to stress scenarios to the committee and onward to divisional risk management and business units, as appropriate. I was not involved in the application of the economic variables to the bank's internal data. This was ... sorry ... carried out by analysts within the divisional risk and credit units as well as in the group risk unit.

From an early stage, probably prior to 2005, I felt that the regulatory stress testing exercise could become too procedural. Banks were provided with stress tests, the work was carried out with great care and attention to detail, signed off by bank boards and reported on by the Central Bank in various reports, such as the annual financial report. I also felt that the stresses were too mild, though not on every occasion. I was also concerned that the moderate nature of the stresses were not conducive to maximising management buy-in of the risks involved. This was my personal opinion and had much to do with the view that people performing the stress tests in various business units needed to understand the broader economic and financial implications of a given shock to a base case scenario. To do this, one needed a model and the ESRI had one. A model would provide more outputs for consideration, a wider context to the changed economic environment and given the likelihood of a growing stress testing framework, a more consistent approach to the exercise over time. I raised these issues with the stress testing steering group and suggested that I talk to John FitzGerald in the ESRI to see what could be done. I stated this would have some cost implications.

I quote John FitzGerald from his testimony to the committee:

> We did macro-economic scenarios. The difference compared to what the Central Bank and so on was doing was that we used a model, so it was consistent. One did not get a housing price crash and no change in unemployment; one got a housing price crash, unemployment going through the roof and Government revenue collapsing, all coming together which is the way to do it. That was my concern. It was not just the Central Bank. It was interesting doing something similar with a British owned bank. The Bank of England and the Financial Services Authority, FSA, had a similar inappropriate approach to stress testing.

So, I also felt that the amount of data provided and scenario scene setting between the base case and stress tests were too limited. This applied to both Irish and UK regulatory tests. I wanted to bring more information to bear on the process of assessing the risks to the business from the economic deterioration under consideration in the stress. I carried out, personally carried out, most of the work on the macroeconomic inputs for stress testing in AIB. From year to year, I endeavoured to be consistent in how I interpreted the shocks and in producing additional information for the divisional risk and business teams, particularly the changes in employment, which were not specified in the macro-aggregates in the base or stress scenarios. This had to be estimated within individual banks from the changes in real GDP and unemployment rates supplied for the exercise.

In his testimony, Professor FitzGerald stated on several occasions that his recollection of the meeting in October 2005 might be faulty. In his letter to the committee of 16 February he states: "However, as my recollection of the timing of the meeting was faulty, there is always the possibility that my recollection of the content of the meeting was also faulty." Mr. Chairman, much emphasis has been placed on the importance of this meeting between the ESRI and AIB in October 2005 at the committee hearing on 11 February but it did not have the imprimatur of the AIB board. Thank you.

Chairman: Thank you very much, Mr. Beggs, and maybe if I can just deal with that matter before I move on to the lead questioners. In my opening commentary with you today and in your own ... start of your own engagement, you're making it very clear that you were the chief economist of global treasury between 1992 and 2011, and in your section 25 statement, you're making that very, very clear as well. Who was the group economist at AIB during that time?

Mr. John Beggs: There was no chief economist of AIB ever, as far as I know, and I just want to make clear that does not make me the de facto chief economist by virtue of the fact that I was the chief economist of treasury.

Chairman: How many economists at the sort of similar managerial level to yourself were at AIB?

Mr. John Beggs: I would have been the only one at my level.

Chairman: And who would have been the most visible AIB economist during that period?

Mr. John Beggs: I would have had a public profile through most of that period, but again I'd make the point that having a public profile doesn't give you a senior decision-making role.

Chairman: Okay. And was your reporting line solely into global treasury, or did it go beyond global treasury?

Mr. John Beggs: My reporting line was to the head of wholesale treasury, who reported to the head of global treasury, who would report to-----

Chairman: Okay.

Mr. John Beggs: -----the head of capital markets.

Chairman: Okay. So, your views would not have been confined just to the global treasury side of things, they would have travelled ... excuse me, to broader realms of the bank, yes?

Mr. John Beggs: Yes. One of the key services that we provided within global treasury was to the corporate and commercial treasury and there we had quite a lot of our clients who were interested in particularly interest rates and exchange rates and, of course, general economic issues. They were importers and exporters, by and large, but over time their interest in exchange ... in interest rates grew as they became more involved in the property market. But we expanded our research in 2004 to start thinking about the housing market and to try and understand what was going on.

Chairman: Okay. So, in your role, the title of which was "chief economist global treasury", between 1992 and 2011 were you ever asked to talk to the board or any other committees outside treasury about your views on the economy?

Mr. John Beggs: Okay, in relation to formal presentations, in my 20-year career in AIB, I made two presentations to the board of AIB. I think one was in 2005 and I'm not sure what the date of the other one, it could have been 2009-2010. Two in 20 years. The group executive committee, which was the most senior executive committee in the bank, I made two presentations in my 20-year career. And to the management committee of the retail bank, I never made any presentations whatsoever.

Chairman: Before we return to the content of the meeting, the engagement with Dr. FitzGerald, after that meeting, did you report back to your divisional head, the managing director of

AIB capital markets, or anybody in treasury, in regards to this meeting, or any other segment or functionary within AIB?

Mr. John Beggs: No, I reported back to the stress test steering group that the meeting had ... wasn't going to be very fruitful.

Chairman: Okay.

Mr. John Beggs: And that was the end of it. I should say that, perhaps with my colleagues here from other financial institutions, that I had a great deal of independence within AIB. My research was not vetted by anyone. It certainly wasn't vetted by the retail bank and it wasn't seen as supporting their business. We produced research. We obviously operated within certain constraints in relation to stock market and other, I suppose, compliance rules, but otherwise we were very independent and the bank were happy to have that situation prevail.

Chairman: Okay. Returning to the meeting with Professor FitzGerald, what was the motivation and the reasoning ... am I correct in that you instigated that meeting, yes?

Mr. John Beggs: Yes. I have to say I was very, very surprised to hear what Professor John FitzGerald had to say at the committee meeting. I've known him quite a long time. We've worked together in the Department of Finance in the 1970s. We've had some interactions, over the years. I ... I suppose, at my own initiative, I decided that what we needed to do ... I was doing the stress testing, shall I say. I may not be doing the stress testing, you know, indefinitely and I wanted to bring some consistency to the way in which these stresses and the scenarios were being presented to the risk analysts who had to carry out the exercise. A model was one way of doing it. So, I approached John FitzGerald with a view to, first of all, inputting the regulatory stress test, the data that we were given by, say, the Central Bank, which were very limited in number. I wanted to run those results through the model to generate a wider scene setting because the model generates quite a lot of information. And as Professor FitzGerald states in his ... in the letter to the committee, the model could do that and that, for me, was an important input into the stress test exercise to be carried out within the bank itself. I wanted the business units to get a full sense of ... the fullest possible sense as to what this stress involved. With the benefit of hindsight of what happened, it's quite clear that having the clearest and the most, you know, expansive version of a stress and what it would involve might have been useful.

Chairman: Okay. Again, to try and simplify this down, I'm an early school leaver, I did my education as a mature student and there are people probably watching it this evening, saying, "What was the model?" The model wasn't somebody from some model agency, it was an economic structure that was put in place and it's a bit like *The Hitchhiker's Guide to the Galaxy*, where they design a model in that that took so long that, when the data came out, they forgot what the data they actually put into it actually was, so the answer was of no use. What I understand this meeting was about ... or maybe if you can answer what this meeting was about, was to further extend the model so to give a more comprehensive analysis as to what was actually happening. Would that be correct in saying that?

Mr. John Beggs: Yes. First of all, we didn't have a model.

Chairman: You didn't, okay.

Mr. John Beggs: We were given a certain number of economic, base case, GDP, unemployment, house price changes and then a stress scenario and told, "Go away and-----

Chairman: Okay.

Mr. John Beggs: ----you know, do a stress based on that."

Chairman: Okay.

Mr. John Beggs: For instance, one of the things that was absent from the information given to us was, well, what's the change in employment as a result of this, because when the economy shrinks, it is possible to get an increase in unemployment simply because the labour supply keeps rising and you lose no jobs. So, you had to understand what actually happened. The model would give you a consistency to this.

Chairman: Okay.

Mr. John Beggs: And that's the reason why it was there, for consistency and for more complete set of data. If you look at the ESRI's medium-term assessment, you will find it gives you quite a lot of information.

Chairman: So, this would identify financial trends as to where the overall financial situation was going and people would make strategic plans as such and all the rest of it. But I suppose the one significant question that has to be asked here, did you go to that meeting with concerns, or was this just a modelling exercise?

Mr. John Beggs: I ... no, I ... as I said, I was concerned that stress testing could become procedural. I wanted to, if you like, liven it up by giving them more of a scenario around it, so I had no concerns going. It was very exploratory, to see what could be done. John FitzGerald is a very practical minded economist and I think it was ... it was to see whether there was something that we could get out of it.

Chairman: But did you have concerns, going to that meeting, as to ... that there were indicators out there that was not showing up in modelling data, or was this just to add bells and whistles to a model?

Mr. John Beggs: That ... the latter.

Chairman: The latter.

Mr. John Beggs: Yes. I had no concerns about-----

Chairman: All right.

Mr. John Beggs: It was to do with the structure of the exercise and nothing else.

Chairman: Okay. Can I bring you, Mr. Beggs, to core document BR1, C2b and it's pages ... it's a *finfacts* ... a *finfacts* interview, February 2008: "Irish economy will recover in 2009/2010" and Irish economy will recover in 2009, 2010 and downturn will not derail the economy, paragraph 1. This is ... did you have any authorship in this document, did you?

Mr. John Beggs: I-----

Chairman: It's an AIB ... "AIB bank says Irish economy will recover in 2009/2010; house prices need to fall to 2005 level." It's by the *finfacts* team, 7 February 2008.

Mr. John Beggs: Yes, I take responsibility for the document.

Chairman: Okay. You're the author of that document, are you?

Mr. John Beggs: I may not have been the author of it-----

Chairman: But you claim-----

Mr. John Beggs: -----but I certainly-----

Chairman: Okay, I'll just deal with the first paragraph of it. It says:

> AIB says that even if its forecasts prove overly optimistic, the downturn in activity is unlikely to derail the economy completely. The economy will still hold onto virtually all the gains in output, employment and living standards achieved since 1993. These are very impressive gains, with real GDP increasing by 167% and employment rising by over 75% in this period. As the chart shows, there has been a very strong growth in GDP per capita in Ireland relative to the UK and eurozone over the past decade.

What model was used to give us that information?

Mr. John Beggs: Sorry, Mr. Chairman, this is the result of a short-term ... short-term forecast which is not ... it is not model-based. They are, I suspect, as in line with most forecasters in Ireland, they are put together by reference to the availability of information, the availability of international forecasts about Ireland from international organisations. And they are, I suppose, informed opinions based on the information that we have at the time.

Chairman: How would you reflect on that document now?

Mr. John Beggs: Well, the first thing I will say to you is that this *finfacts* summary jumps in, as far as I can recall, some way down ... some way down the page of the original document.

Chairman: All right, okay.

Mr. John Beggs: And so what we are saying here is there's been quite a significant increase in living standards and employment over the years, and based on the information available in February 2008, the opinion was that most of these gains could be held, you know, as the economy slowed. Of course, we were only months away from a significant change in the global economic outlook, which, just to answer ... to add some information to what you're asking me: the volume of world trade declined by 20% in the 12 months from April 2008 to April 2009, and the world economy went into recession. So this is based on, as it says, "The fundamentals of the economy remain sound, though, so growth should pick up in 2009/2010 as the downturn in housing bottoms out and global growth improves". So a key assumption is that the global economy improves. That is not what happened. And as Irish GDP or changes in Irish GDP are extremely dependent on changes in exports, given that in 2008 exports were probably 90% of GDP, the trend in exports determines the trend in GDP.

Chairman: I just need to move on to one more slide with regard to this question, Mr. Beggs, and that is the ... in the AIB document titled, The Irish Economy Sharp Adjustment to Continue in 2009, and it's a presentation by yourself to ... I presume it's ... who actually is the presentation to?

Mr. John Beggs: Yes, Mr. Chairman, this was a presentation given to the ... I think it's called the LIA, they're a body that are involved in educational programmes within the financial services and it was delivered one wet winter's night in January 2009.

Chairman: And I'll move on to slide two, and in comparison to the earlier document, which I said is dated February 2008, this now is dated January 2009:

> Sharp downturn in the Irish property market; Global financial impact on subprime crisis; Global economic impact on credit crisis; Spill-over effects of property crash on [the] rest of Irish economy; Crisis in [the] Irish public finances; Rating downgrades; Loss of competitiveness and currency [improvement].

Would you think that's a significant change from the document of 12 months previous?

Mr. John Beggs: Oh certainly, and it's the fact that we were in global recession-----

Chairman: Yes.

Mr. John Beggs: -----that gave rise to that rather pessimistic presentation, if I recall.

Chairman: Okay. And you wouldn't ... there was no indication back in 2007, by your recollection, that this was ... or, what is it, 2008, that this was on the cards?

Mr. John Beggs: No, we had, I think from around mid-2007, the start of the sub-prime crisis. In the second half of 2007, it was quite clear from a number of leading indicators, from sentiment indicators, that a much slower rate of growth was in train internationally but the change that occurred in 2008 was much more significant and it was very abrupt.

Chairman: Okay, and-----

Mr. John Beggs: So that led to that more sober assessment in 2009.

Chairman: Fine. Just ... so just, final question. Your earlier engagement in 2005 with Professor FitzGerald at that time didn't assist you in any of these regards? Or did it?

Mr. John Beggs: No. But I think ... I think actually ... I reflected on the ... if I reflect on the very last slide in that presentation, where you can see the scale of the impact on the economy as a whole in terms of the public finances, what that meant in terms of the need for cutback in services, it shows you the benefit of a stress test exercise that is all-encompassing and gives you significantly more information than was used in regulatory stress tests back in 2005.

Chairman: Thank you very much. Deputy Kieran O'Donnell. Deputy, you've 25 minutes.

Deputy Kieran O'Donnell: Thanks. To Mr. McLaughlin, Mr. Beggs and Mr. McArdle: did ye consult with your former bank employers prior to coming before this committee? Mr. Begg?

Mr. John Beggs: I asked one question in relation to a technical point in relation to stress testing so that I could assist the committee in answering their questions.

Deputy Kieran O'Donnell: Mr. McArdle?

Mr. Pat McArdle: When I got the summons, I got on to them and I said I wanted to see ... I found that weeks or months earlier they'd supplied copious documentation to the committee. I said I wanted a copy of everything that mentioned me. And I got copious amounts of documentation from them, most of which I've read.

Deputy Kieran O'Donnell: Okay. Can I just, for a point of clarification, Mr. Begg, and you've gone at pains ... great lengths to give a statement in respect of Professor John FitzGerald's appearance before us. Can I take it from your statement ... how did you regard ... did you regard the stress testing that was in place in '05 in AIB as adequate or inadequate?

Mr. John Beggs: Oh, I think it was, it was adequate, in the sense that the ... the procedures were followed, you know, the stresses were provided. I was only looking to add more colour to the outputs around that stress test. I wasn't challenging the stress test, *per se*, and I should say that we were moving very soon thereafter into a different form of stress testing where banks would specify their own stress.

Deputy Kieran O'Donnell: Was the stress testing incomplete then? Would that be a fair summation?

Mr. John Beggs: No, I had a few ... I had a few points about information and statistics that were provided. It was particularly around ... what initiated my contact with John FitzGerald was the business about calculating the changes in employment between falls in GDP and the rise in unemployment.

Deputy Kieran O'Donnell: Who was on this stress testing steering group? Who was a member of that group in the bank?

Mr. John Beggs: I'm sorry, at this point in time, in relation to that period I couldn't ... I can't recall.

Deputy Kieran O'Donnell: Who was it, to who-----?

Mr. John Beggs: Oh, it was made up of members of group risk ... it was a committee of people from group risk and-----

Deputy Kieran O'Donnell: Who did they report to?

Mr. John Beggs: Pardon?

Deputy Kieran O'Donnell: Who did it report to?

Mr. John Beggs: It reported to the executive risk committee, and then after 2011, I understand it was the board, the board risk committee.

Deputy Kieran O'Donnell: And can I ask, why didn't your unit or you follow up with John FitzGerald's offer of providing the data to enable you to enhance the stress testing?

Mr. John Beggs: Well, we already had, we already had the report, the medium-term review. I mean, we already had and knew what was contained in, if you like, his written outputs.

Deputy Kieran O'Donnell: Did ye-----

Mr. John Beggs: But what we wanted to do was to have a regular use of the model to run.

Deputy Kieran O'Donnell: And did you factor those, that type of extra data about unemployment and housing, did you factor that into your stress testing thereafter?

Mr. John Beggs: We did. And even at that time we produced our own figures for that. So ... but my point was that there was no consistency ... necessarily any consistency between what I was doing and what, say, Bank of Ireland were doing, or Ulster Bank were doing in relation to, if you like, embellishing or producing additional information.

Deputy Kieran O'Donnell: And Mr. McLaughlin, very quick, and Mr. McArdle, do ye regard the stress testing in your individual banks in, we'll say, the period, we'll say, '05 to '08 was sufficient?

Dr. Dan McLaughlin: At the time I think, you know, some of them were stressing 20%, 25% falls in house prices, which would have been ... which had never happened. You know, the thing about once you'd remembered to put it into context is: when stress tests are done, you're looking at past data. Ireland had had experienced, since 1975, one year in which nominal house prices had fallen, and they'd fallen by 1.7%. One year since 1970 that GDP had fallen on an annual basis. So to put in stresses of 2% or 3% falls in GDP, 20% falls in nominal house price would have been severe. If you're suggesting that they should have had a stress test with a 67% fall in commercial prices, a 50% fall in residential prices, and a 12.5% fall in GDP, obviously they didn't, but at the time I don't think that was unreasonable. Plus, the major problem for the Irish banks wasn't just Irish commercial property; US commercial property prices fell 40%, and UK commercial property prices fell 35%. So I don't think it would have been reasonable at that time to have put in, given historical experience, to put in those numbers.

Deputy Kieran O'Donnell: Mr. McArdle?

Mr. Pat McArdle: The quick, the short answer to your question, Deputy, is yes. But let me expand. First of all, listening to John Beggs there ... it's eerily similar to the process I went through ... except we took it maybe one step further-----

Deputy Kieran O'Donnell: The slight difference there was that ye employed the ESRI to actually-----

Mr. Pat McArdle: Yes ... we did ... we did, yes-----

Deputy Kieran O'Donnell: Mr. Beggs you said that they wouldn't do the work. There's a bit of an inconsistency there.

Mr. John Beggs: Well, I have to say ... I am again surprised by the fact of the ... of the way in which my meeting was ... was portrayed ... and then to find later on that stress testing was done for .. for other institutions.

Deputy Kieran O'Donnell: Okay, Mr. McArdle-----

Mr. Pat McArdle: Just to continue ... the early stress tests, '04 and '06, came from the Central Bank. So you were given a range of variables. I said in my witness statement I had limited involvement in it because you just got them. It was a fact and I ... didn't ... I passed them over to the risk people and said, "You worry about that", right. Yes, I would ... the only comment I would pass on them ... yes ... there were a limited range. I can't remember how many there were but there wasn't more than half a dozen, at a guess of variables in it. Whereas ... so ... so was I happy with them? I was happy that they met the demands of the regulator. They were not by any means the full whack ... in the sense that we were to go on and do later.

In 2007 we got our impetus from the Bank of England and the ... the regulatory authority over there. And it was a totally different approach and now, obviously, there must have been some co-ordination between the regulators because I gather this happened because Ulster Bank was ... was regulated by the ... or part of RBS which was regulated in the UK. But it also would

... UBIL which you're interested in, which was not an important distinction at the time for us ... UBIL was just a small part of the ... part of a big group. We didn't ... I never recall making that distinction at all because I just worked for the group. But ... we got the 2007 ones then under the new Basel II ICAAP process ... emanated from London or from Edinburgh actually. And I spent some time recently trying to-----

Deputy Kieran O'Donnell: I suppose in the limited time ... I suppose the question-----

Mr. Pat McArdle: Yes-----

Deputy Kieran O'Donnell: The level of stress testing that each of the banks were doing ... was it greater than the requirement of the regulator at the time, do you believe? Yes or no, Mr. McArdle?

Mr. Pat McArdle: No ... no, sorry, Deputy. I'm not going to say "Yes or "No". It was equal to what the regulator demanded-----

Deputy Kieran O'Donnell: Fine. And Mr. Beggs?

Mr. John Beggs: Yes. We were simply carrying out the regulatory stress tests as required. As I said, when we got ... later on ... there were more *ad hoc* stresses done.

Deputy Kieran O'Donnell: And Mr. McLaughlin?

Dr. Dan McLaughlin: I think, basically, to be clear, the Central Bank set stress tests initially, which I wasn't particularly involved in at all. But ... then later on as a requirement of the Basel changes, the banks themselves had to do stress tests. I think those at the time, in my view, were adequate for Bank of Ireland.

Deputy Kieran O'Donnell: Okay-----

Mr. Pat McArdle: Sorry, Chairman. Can I finish my point though? I just want to quickly, very briefly say the 2007 ... that's why we applied the model. We had tremendous difficulty in doing it ... we ended up with maybe 100 variables, not five or six. We got a result and I gave you the result today in my thing ... and I just want to draw your attention to it ... to show you the type of result we got. And we got a 36% fall in house prices, which was pretty good actually.

Deputy Kieran O'Donnell: Okay. Can I just go back and ... Mr. McArdle, you made reference to groupthink. And ... in late 2006, Morgan Kelly wrote a piece in *The Irish Times* that there would be a 50% fall in house prices. Subsequent to that, right ... the AIB, Mr. Beggs around the same time, it's on page 49 of ore documents - Bank Economists. From the unit of which you were head of and you said: ''The Irish Housing Market - They think it's all over ... but it's not''. Mr. McArdle, on page 55 ... you wrote that ... Mr. ... it was from an *Irish Times* piece and I quote:

> Mr McArdle says he remained confident of a soft landing in the house market. He expects that the "modest fall" in house prices seen recently will continue for the rest of the year.

And Mr. McLaughlin, if I draw you very quickly to page 63, you gave a radio interview on 5 June 2007 ... Mr. McArdle, your piece was on 14 July 2007 ... Mr. McLaughlin, you basically stated that ... you said: ''Mr. McLaughlin said it was "completely ridiculous" to suggest that "suddenly in 2008 that the economy would fall off a cliff". And you ... prior to that in

January, you wrote a similar piece where you did ... it was in *finfacts* and you ... you basically ... more or less the same thing again, right. And there was one final thing then. On page 77 ... it's in January 2007 a extract from a transcript of a Bank of Ireland business banking debate. Interestingly, you said that:

> Some things we're fairly sure are going to happen. United will still be dominant in [the] world football. Christiano Renaldo will be the number one player in the world. But other things are....

more than likely to happen. You said that in five year's time. Well, United are no longer the dominant in world soccer-----

Chairman: ... last night who's No. 1-----

Deputy Kieran O'Donnell: Right and ... how do you reconcile that when you had Morgan Kelly coming out saying there would be a 50% fall in price that ... prior to that, Mr. Beggs and a couple of months after, Mr. McArdle, Mr. McLaughlin and Mr. McArdle, you both stated that we would have a soft landing.

Dr. Dan McLaughlin: I don't think I ever used the term ''soft landing'' but that's another issue-----

Deputy Kieran O'Donnell: You were saying in fairness in 5 June 200-----

Dr. Dan McLaughlin: Sorry, I'm not debating the general point. I'm just saying I never liked that term-----

Deputy Kieran O'Donnell: Well ... well, how do you reconcile it was completely ridiculous to suggest-----

Dr. Dan McLaughlin: Sure, I'm not disputing your general point-----

Deputy Kieran O'Donnell: Well, I'm reading it from the transcript-----

Dr. Dan McLaughlin: That's from *finfacts*. I think they are two separate issues though. If you ... I-----

Deputy Kieran O'Donnell: With due respect, Mr. McLaughlin-----

Chairman: Give him a chance.

Deputy Kieran O'Donnell: I just want to put it in context -----

Dr. Dan McLoughlin: Yes -----

Deputy Kieran O'Donnell: €20 billion of taxpayers money we'll say ... in terms of Bank of Ireland ... €5 billion gross went into ... of taxpayers money ended up going into Bank of Ireland-----

Dr. Dan McLaughlin: And that's to do with those forecasts, is it?

Deputy Kieran O'Donnell: No, it's to do with ... but saying that -----

Chairman: Deputy O'Donnell, I need to allow the witness to respond-----

Dr. Dan McLaughlin: I was going to answer the question but there are two separate issues. You're asking me, No. 1, about an article by a UCD economist-----

Deputy Kieran O'Donnell: Yes -----

Dr. Dan McLaughlin: Right. No. 2, you're asking me about our forecasts. To put it in context, obviously the forecasts were wrong. But the economy had grown by 5.7% in 2007 ... 5.7%. In the first quarter of 2008, the general consensus view ... that Central ... I produced a forecast saying 2008 the economy will grow at 3% in March. That was exactly the same as the Central Bank's view. Okay? The consensus ... the forecasts that the bank economists were coming out with weren't particularly different from the consensus, which ... you know I think-----

Deputy Kieran O'Donnell: Was there groupthink?

Dr. Dan McLaughlin: -----in time ... in time people portrayed that to be the ... not to be the case ... and that's complete nonsense. The facts are there. Obviously, I was wrong. I have no problem in admitting that, clearly, in retrospect, the economy did fall apart but not until the final three months of 2008. That's a fact. GDP fell 0.3% in Q1, 0.5% in Q2, it went up 1.2% in Q3. If you look back now at the data, you won't find those numbers because it's all been revised but at the time, which is the point I was making in my ... in my presentation ... we've got to be careful to be aware of what was said at the exact time. And the economy contracted 7.1% in the final three months of 2008 ... 7.1%. That's never happened in the history of the world. And it happened in the final months of 2008. That's why everybody got it wrong. You look at the OECD or the IMF or the ESRI's medium-term forecast in the summer of 2008, what were they saying? They weren't saying anything different. We all got it wrong. I got it wrong, absolutely. Your point about the UCD economist, it was a view at the time and-----

Deputy Kieran O'Donnell: Which proved to be correct-----

Dr. Dan McLaughlin: Absolutely but there's ... how many forecasts are out on the Irish economy right at this moment? The consensus ... the consensus------

Deputy Kieran O'Donnell: Mr. McLaughlin, was there groupthink? Was there groupthink amongst the banks? Because I don't see any great difference between what the economists have said here.

Dr. Dan McLaughlin: People were looking at what was happening. You can only look at the data. If the economy grows at 5.7%, it would be kind of odd to come out and say, "Actually, it's going to grow at -5%", because that would require an absolute enormous change. Now as it happened, there was an enormous change. If you're ... the consensus view at the time was obviously wrong. I shared that ... clearly I am ... I was wrong ... and the consensus view was wrong.

The ... the other issue you are referring to ... Morgan Kelly-----

Deputy Kieran O'Donnell: Yes-----

Dr. Dan McLaughlin: It was just another view at the time ... and obviously now people look back and say he said something ten years ago which has proven to be correct, but how many people wrote in 2007 that oil prices were going to go to $200? Nobody mentions them now. That was wrong ... how many people-----

Deputy Kieran O'Donnell: But, with due respect, Mr. McLaughlin, it was against the backdrop of nearly 90,000 units being built in 2006, With due respect was it not built in quicksand of the property structure in Ireland?

Chairman: I'll ask you to ask the question.

Deputy Kieran O'Donnell: Was it not built in quicksand? Your forecasts were built significantly around construction in Ireland.

Dr. Dan McLaughlin: No, it wasn't. If you look at ... if you look at what I actually wrote - it's very clear I said in 2007 the housing market was slowing down. I forecast in early 2008 a significant fall in house price completions, which was actually correct. It dropped to 50,000. My mistake, in terms of the housing market, was to say that the correction would be in real house prices, not nominal house prices, because we hadn't had a fall ... a huge fall in nominal house prices. Morgan Kelly's prediction was actually in real house prices as well, and all the analysis that people refer to are real house prices, not nominal. So, in 2007, I and most other economists in Ireland could clearly see the housing market was slowing down. What we ... what I didn't see was the fact that it would collapse the way it did, but I would argue, and this is where people may differ, I would argue that the liquidity collapse that happened in ... at the end of 2008 was a significant factor. Now some other ... some people disagree with that but it seems to me very difficult to sustain the view-----

Deputy Kieran O'Donnell: In such limited time, I mean was there not a solvency issue as well, with due respect, Mr. McLaughlin, at the time in the banks?

Dr. Dan McLaughlin: Well, why did Merrill Lynch, when it was asked by the authorities in a ... their analysis was published in a redacted form, why did they suggest that AIB and Bank of Ireland, or a combination of them, could take over some of the other banks? Obviously the view was at that time there wasn't a solvency issue and it's a moot point as to whether the solvency issue would have developed the way it did, had not the liquidity dried up completely.

Deputy Kieran O'Donnell: Mr. Beggs and Mr. McArdle, in the limited time I have.

Mr. John Beggs: Well, I would say in relation to the AIB research report that you're quoting here, "They think it's all over ... but it's not", I sort of knew I'd regret that title because really what we meant there was, this was about us. In April 2006, in another report that's referenced in these documents, we were saying there were lots of risks there, there were a lot of parts going wrong, things needed to slow down if we were going to have sustainability. Come October, the market continues to grow. Now there were some further deteriorations in affordability, which we note in the report, but, unfortunately, we were struggling with this market to understand what was happening. You referenced the 93,000 houses. Our analysis was all about why do you need so many houses? We tried to understand what the key drivers were-----

Deputy Kieran O'Donnell: In due respect, I've limited time. Why did you say there would be a soft landing?

Mr. John Beggs: Because I believed at the time that it was possible that that could happen, but that was without knowing that we were going to have a global economic crisis in, in mid-2008. And by the way-----

Deputy Kieran O'Donnell: And very quickly, and your view on Morgan Kelly's piece?

Mr. John Beggs: Morgan Kelly, as Mr. McLaughlin has said, Morgan Kelly said Irish house prices could fall by 50%. It was a view.

Deputy Kieran O'Donnell: Which turned out to be correct. Mr. McArdle, can you give me your view? Why did you, on the 14 July '07, on page 55 of the document here, say that there would be ... remain confident of a soft landing next year?

Mr. Pat McArdle: Because I believed it is the short answer. Many questions you asked there was the-----

Deputy Kieran O'Donnell: Why did you believe it?

Mr. Pat McArdle: Because it was the sensible, obvious thing to believe.

Deputy Kieran O'Donnell: Why?

Mr. Pat McArdle: Well, first of all, I would agree with you there was groupthink; 99% of the people in the world believed in a soft landing. So you had one, maybe two, people saying differently. They were the odd ones out, not us, right? Of course, it looks different now with ... in retrospect because it happened -----

Deputy Kieran O'Donnell: We all go over the ... sorry go on.

Mr. Pat McArdle: What happened ... they turned out we had a major crash for the reasons Dan McLaughlin outlined to you earlier, which are multiplicative and I won't go into them again. But I would say to you, we ... I predicted in '04, as I said earlier today, a 20% fall in house prices nominal, which is about 35% real a couple of years earlier. I told you earlier also what my definition of a "soft landing" was. It's a phrase I've grown to dislike as well by the way, but I used it a lot, unlike some of the others-----

Deputy Kieran O'Donnell: I'm not surprised, yes.

Mr. Pat McArdle: It wasn't ... it wasn't that comfortable a thing. So a soft landing was not what a lot of people seemed to think it was, everything would go smoothly ever after. And the final thing I'd say to you is: we stress tested for a 56% fall in real ... prices, which was more than even Morgan Kelly said. So, although I disagreed with him, we actually stress tested for it. The problem was not house prices. The warnings were in the wrong space.

Deputy Kieran O'Donnell: Can I ... final question for the three of you. What was your assessment on the night of the guarantee - and just following up from Mr. McLaughlin's - on the solvency ... the liquidity and the solvency situation for your individual banks? And what would have been your interaction with top management in your own institutions? Mr. McLaughlin.

Dr. Dan McLaughlin: I wasn't involved at all in the ... anything to do with the night of the guarantee. I had an office in the dealing room and it was pretty clear in the months running up to September that liquidity was becoming an issue for everybody, but that particular week after Lehman's, you know, the sky fell in. If you were sitting in a ... if you were sitting in a dealing room, there was ... there was ... you know ... you know, people probably don't have the experience of this, but if you're sitting in a dealing room where ... there was rumours flying around all the time that, you know, Bear Stearns had gone under ... not just ... rumours about all the major international banks because, obviously, all the banks would be dealing with each other. So there would be a rumour that such and such a bank had a liquidity issue, and it becomes self-fulfilling. So it was in that context at that time ... it was a very, very difficult time for markets and they were completely seizing up. So the first I knew of the guarantee was actually the next morning. I was actually on my way up to Dundalk to do a presentation and I heard it on the car radio. At the-----

Deputy Kieran O'Donnell: Well, I suppose, in the limited time, what was your view in terms of liquidity and solvency of Bank ... of Bank of Ireland?

Dr. Dan McLaughlin: I would have thought ... no, I didn't think there was any issue with the solvency at the time, no.

Deputy Kieran O'Donnell: Liquidity, obviously?

Dr. Dan McLaughlin: Not to the ... well, I wasn't too closely involved in it, but I never got the impression that it was a pressing issue at that specific time. Obviously, the bank had sought to turn out its funding, so I didn't think there was a ... liquidity was stressed in the market but I didn't think it was a specific issue for Bank of Ireland at that time.

Deputy Kieran O'Donnell: AIB, Mr. Beggs? Both liquidity and solvency?

Mr. John Beggs: Well, I had ... I had no interaction with the ... with the people involved on the night of the guarantee. I woke up to it the next morning. I would agree with what other AIB people have said, who know more than I do about the bank's position, that it was solvent. Obviously, the liquidity issue had become a bigger problem in the run-up to the guarantee. The nervousness in the market-----

Deputy Kieran O'Donnell: You had no issue with solvency with AIB?

Mr. John Beggs: Well, I've no information to agree or disagree, but I take ... I accept what others have said about our solvency on the night of the guarantee.

Deputy Kieran O'Donnell: Mr. McArdle?

Mr. Pat McArdle: I heard about it on the radio too. I had no interaction with the management in Ulster Bank about it. For my view on it, I would have agreed with ... I would have taken the view that if I were Government, I ask the experts what the situation is. There's no point in me giving an opinion on that. But, for what it's worth, the regulator told an Oireachtas committee on 14 October that all banks were solvent, so I would probably have believed that at that stage.

Deputy Kieran O'Donnell: And, finally, the modelling that ye had in terms of forecasting, where were they deficient and what would you have done differently if you were back there again, Mr. McLaughlin, just very quickly?

Dr. Dan McLaughlin: I would have taken on board a little bit more, in early '08, the funding stresses that were beginning to appear. I didn't think, obviously, it would lead to the essential collapse of the credit markets for about nine months. In terms of the medium-term forecast, the bank used the ESRI forecast, so my forecasts were just for a year or 18 months. I didn't envisage that the global credit markets would collapse the way they did. I regret now, obviously, that my forecast didn't reflect ... I think, if you look at some of the stuff I wrote, I was flagging some downside risk but I didn't think it would be as bad as it was.

Deputy Kieran O'Donnell: Mr. Beggs?

Mr. John Beggs: I'm not sure that things would be very different. I think, obviously, the funding ... the funding requirement of banks is an issue that probably should have been given more attention. I'm of the opinion that that funding would not have been available to the Irish financial sector unless external analysts and economists actually had a positive view about Ireland. They weren't just taking their cue from what Irish banks were saying. And I think we need to be a lot more critical and sceptical about ... about trends, particularly when there is a trend in place as to how this is going to work itself out. And that is true of the soft landing issue. We never envisaged soft landing to be soft, there was a certain amount of friction going to happen in a soft landing and the soft landing we are talking about was only house prices. We had no information or very little information about what was happening in commercial property. We've done a lot of talking and analysis around housing because we had monthly statistics, we had population. When it came to the commercial side, we didn't have that information. So we were acting in a very, almost naive way in that we didn't have full information. So more information around the sector as a whole and property as a whole, not just mortgages, would make a big difference in the future.

Deputy Kieran O'Donnell: Now, Mr. McArdle. Chairman, I want Mr. McArdle to-----

Chairman: Okay, very briefly please because you are way over time, Deputy, and we're still missing some questions.

Mr. Pat McArdle: Deputy, you used the term "model"-----

Deputy Kieran O'Donnell: I was waiting, Chairman.

Mr. Pat McArdle: -----you used the term "model". I need to distinguish ... we also used the ESRI, which is the ... has the only model in Ireland, as far as I am aware, and for the record, as you were told by Professor FitzGerald, it's been revamped now or updated or whatever. So that is the answer on that side, as far as I am concerned. For the short term, you use what is in your head or, perhaps more appropriately, your gut. You really forecast with your gut, and what I would bring to the party now that I ... that I hadn't before is experience ... experience of where things can go wrong.

Deputy Joe Higgins: Yes, gentlemen and Chair, what I'd like to do is to present two quotes that take a little time, but then give as much time as necessary to the witnesses. So the first quote, gentlemen, I don't expect you to be familiar with this, but the Oxford University Press published an extended article in 1999 by a Peter Englund from the Stockholm School of Economics. The article is called "The Swedish Banking Crisis: Roots and Consequences". And he relied extensively on a paper that was done for the IMF the year before by two analysts. One is a director of research at the World Bank, for the record, Asli Demirgüç-Kunt and Enrica Detragiache. And Professor Englund sums up what they found, and I want to read what he says and just ... you'll be able to take note in your head, it's not very complicated. So to quote:

> [This paper] identifies 30 major banking crises from the early 1980s and onwards. Most of these are in developing countries, the main exceptions being three of the Nordic countries (Norway, Finland, and Sweden) in the late 1980s and early 1990s. The majority of these crises appear to have followed a common pattern. They have (i) been initiated by deregulatory measures, which have (ii) led to overly rapid credit expansion. This has in turn been followed by (iii) a sustained increase in asset prices, apparently unwarranted by fundamentals (a 'bubble'). At some point (iv) the bubble has burst, with a dramatic fall in prices and disruption of asset markets (in particular for real estate) and widespread bankruptcies. This has been accompanied by (v) non-performing loans, credit losses, and an acute banking cri-

sis, in many cases intertwined with (vi) a currency crisis. Finally, (vii), a weakened banking sector has inflicted a credit crunch on the private sector, the severity of which has depended on (viii) the government measures taken to salvage the ailing banks.

The point I will put to you, and ask for your comment in a minute gentlemen, after the next quote is, apart from the currency crisis, if those eight factors-----

Chairman: Sorry there is a phone interruption there ... on top of your ... it might be coming quite close by to you. Continue, please.

Deputy Joe Higgins: -----if those eerily prefigure the Irish crisis that we have come through.

My second quote is from a witness before this inquiry, gentlemen, a former bank economist and commentator, David McWilliams. I noticed none of you mentioned Mr. McWilliams in your introductory remarks, you did mention Professor Kelly. Let me quote from the evidence David McWilliams gave to this inquiry. He said:

> I just want to make some opening remarks about the period in question, starting with 2000 and going up to 2008 and beyond. [I'll just skip a little bit and then continue] In fact, I probably spent the best part of a decade trying to warn as many people as possible on as many platforms as possible that our property market was going to crash and that when it did, our banking system would be in a situation where money would fly out of the system and lead to a banking crisis. [...] I made documentaries about this. I had [my own] TV show [on TV3]. [...] I warned people at every juncture that our housing market was a credit bubble and credit bubbles bust and it is not a matter of if they bust but when they bust. [...] When I hear the view that nobody saw this coming or that this was in some way a shock or we were taken by surprise, I do not believe that is the case. I think the Irish property crash and the banking crash were both incredibly predictable and absolutely preventable.

And Mr. McWilliams then refers to a "Prime Time" interview he did in October of 2003 which he says was watched by 400,000 people. And in that he said, and I quote:

> The Irish housing market is a scam. It is an enormous financial swindle that could potentially confine an entire generation of young Irish workers to years of bad debt. Far from being a reflection of economic vitality and fundamental demand the housing bubble is, in the main, a vacuous financial confidence trick that has been foisted upon us by an alliance of banks and the landowners.
>
> Today, in Ireland, the price of the average house is close to ten times the average wage. This represents an economic failure on a monumental scale. Behind this nonsense is excessive and irresponsible lending from our financial institutions. The situation would be laughable if it were not so serious.

Gentlemen, could I ask you to reflect on the two quotes, one from 1998 and then one from Mr. McWilliams some time ago and to give me your reaction? Why did you not understand these basics, that these other economists did?

Chairman: Mr. McLaughlin.

Dr. Dan McLaughlin: I'm not familiar with that paper but the fact that there were previous banking or property crises, of course I was familiar with those. Most of the crises occurred in high inflation periods where the price falls were significant falls in real house prices not in normal prices. I would argue, and I said in my opening statement, that I think you can explain a lot of what happened in the Irish residential property market up to around 2005 in fundamental terms. There's not many economies in the western world that have an 18% rise in their population in ten years, so obviously there was a massive increase in demand for housing. There's not many economies that grew by 9% per annum between 1994 and 2000. There's not many economies that grew 5.5% between 2000 and 2007. So we're talking at a time when employment was rising very rapidly, population was growing very strongly so I think ... and they other thing I think which one should bare in mind which is ... I think pretty obvious, but most people don't seem to think it has any relevance, is that Ireland joined the euro. And we went from a relatively high interest rate economy to a very low interest rate economy. Sweden didn't do that or any of those other countries didn't do that so anyone who looked at any economic analysis or any theory of finance would suggest that if you ... if your average interest rate is 7% or 8% and it becomes 3%, asset prices will rise. So all of those factors should be taken into account.

I think if you look at the Central Bank's quarterly survey of credit standards, which is done by the ECB all through Europe but the Irish Central Bank publishes the Irish one. It's only in 2005 that you get credit standards loosening, I think. Then I think it becomes much more credit driven. So the last ... '05, '06, particularly '07, I think were not driven by fundamentals. I think there was more of a credit driven element to it. This committee, over the last few days, has been discussing for example the introduction of 100% mortgages for first-time buyers which, if I recall, I think it was in 2005. So I think it is only over the last two or three years of the boom that we can say there was a bubble element came in. But also, in 2007, most people, including myself, were saying the housing market would slow down. Okay we weren't saying it was going to crash, but we were saying it was going to slow down. You look at all the forecasts that were produced, everyone thought that house completions would fall. By the way, is there a shortage of housing now?

Deputy Joe Higgins: Sorry, was that a question to me?

Dr. Dan McLaughlin: It was rhetorical. So people say there were far too many houses built, but can there be a shortage now if that were the case? So that's basically what I would like to say.

Mr. John Beggs: Well, first of all, in relation to Sweden, clearly this was a relatively recent event that had occurred in Sweden. If I am not wrong, the factor that led to that bubble bursting was German unification and the impact of the currency markets and what that meant for Sweden's fixed exchange rate. There is always some factor that eventually leads to these. In the case of the Irish crisis, it was a global crisis. The European Commission produced some report in 2009 that said, and it actually referenced local shocks and problems, banking crises and mentioned Sweden, but it said this time it is different. This is a much more significant crisis. That only sort of explains why the Irish one is a much more significant crisis than maybe one that was managed in Sweden.

I reference in my written statement under the issue of the role of advisors in analysing the crisis and I said:

> Against the backdrop of so much data and analysis, it would be difficult to argue that there was not a build up of interrelated risks and uncertainties in the Irish economy and banking system. After all, notwithstanding the belief in our economic fundamentals going back to the 1990s, the build up to the Irish banking crisis had previously occurred in varying degrees and circumstances in other advanced countries.

So I would say we had ample warning through the period. I referenced OECD reports, IMF reports, that the Irish property market was overvalued. Econometric studies that were saying we were 70% overvalued and then of course they were then pared back by other studies that said no we're not, which led Morgan Kelly to say "By the way, all those previous studies didn't take a long enough view of the timeframe for these analyses", and he came to the conclusion that we were 50%, 60% overvalued, and we would potentially have a fall of that magnitude.

So warning signs were there about what had happened in other countries. I would agree that in the period from probably 2004, I would say, or 2005 to 2007, lending policies ... lending was too rapid. It seems from what I have heard from other witnesses before this committee that maintaining market share, growing market share, seemed to be a more important driver of why credit was growing than there being, if you like, underlying sound reasons for the expansion. I agree with you that house prices were too high. They were too high from a very, very early stage in this recovery, making it more difficult for people to buy houses. In our reports we have ... I referenced this ... showing the impact of rising house prices, rising interest rates on affordability. By 2006, affordability had deteriorated to its worst levels in ten years and that was only after financial institutions had provided 100% mortgages, 35 to 40-year loans, you know, trackers, whatever ... all the means they could to make it affordable for people to still buy houses. And at the same time they were providing finance for property developers where there was, obviously, rampant inflation going on, on that side. So, we were building up a problem, and the question is ... absenting the global economic crisis from mid-2008, how would we have managed that? That's the, if you like, the counterfactual that can't be ... well, we could think about it, but we haven't really figured out or thought about what might have happened to the Irish property market in the absence of that global shock. But it did happen and we are in this situation now. So, I think the warnings ... warnings are there, even in our own research, we had sufficient warnings, that people in, you know, risk management, credit management, should've been saying, "Yes, okay, I hear you still think there's going to be a soft landing, but, you know, I'm going to be more sceptical than that about it."

Deputy Joe Higgins: Mr. McArdle?

Mr. Pat McArdle: We will always have contrarians, first of all. There always have been, there always will. Nobody's listening to the contrarians now, as I pointed out earlier, to the IFAC people, for example. Nobody listened, by the way, to Morgan Kelly's other six warnings which turned out to be wrong and ... very aesthetic and condemned them very strongly, if I remember correctly. So that's the first point, you'll always have contrarians. I quote you then in my witness statement at page 8, where I quote Professor Honohan to a Dáil committee in June 2010, where he said, "regulators should always pay attention to [contrarians] with coherent but not necessarily right views". He went on to say "Contrarians are nearly always wrong but it is the "nearly" that matters". So, here you're operating on a very small probability - it's the nearly that matters - and more attention was not paid to those two studies, you say, because warnings like that are nearly always wrong, in the words of Professor Honohan. I accept that it looks different now when you look back, but I would suggest to you, Deputy, that you got to put yourself in the mindframe that existed at the time.

The other thing I'd say, as regards your quote from the IMF, when it counted and where it mattered, the IMF said there'd be soft landing here. There's a rake of papers from the IMF every second week. They're not actually ... they're by individuals ... under the signatures of individual ... not the IMF *imprimatur*. So when it mattered here, the IMF and the OECD and the Central Bank said, "There will be a soft landing". They discounted that paper that you referred to. And I could quote you other examples, by the way, from other studies that came to different conclusions. There were, you know ... there were quite a number of other studies there too, given the ... and, indeed, I also say in my witness statement, the Central Bank reran Professor Kelly's analysis and data and they came to a totally different conclusion. So who are we to believe the Central Bank, with all their expertise and resources, or this one guy who had never been in this field and suddenly moved into it?

Deputy Joe Higgins: Okay. Mr. McLaughlin, I should say to you in relation to your question, rhetorical or not, that as a member of the inquiry, I'm not allowed to pronounce on my critique of the shortcomings or otherwise of the capitalist economy and the production of ... the necessities of life for our people. But-----

Chairman: That, Joe, is confined to the membership of the committee when we go to the final proceedings. Thank you very much.

Deputy Joe Higgins: But ... gentlemen, rather than put contrarians into a box, as you've just done now, Mr. McArdle, I would suggest perhaps ... that's what I take from what you said ... that we look at the substance of what was being said. And, could I put it to you, you know, learned gentlemen and experienced economists, but a child socialist with a very basic knowledge of some of the fundamentals of Marxism, would know that prices cannot defy the economic law of gravity, especially if they are driven into the stratosphere by endless credit and other factors. And could I ask you in relation to, Mr. Morgan Kelly came, I think one of you suggested perhaps, late, but in an article of great perspicacity, it was almost 40 housing booms he had analysed, and could I just put it back to you, that really economists, bankers and everybody else, should have known, and again-----

Chairman: I must push you now, Deputy.

Deputy Joe Higgins: Yes, okay. One person you couldn't have failed to see, or hear, during the ten years of the bubble, was Mr. McWilliams. None of you commented on that. The substance of the quotes I gave, is that or is that not very accurate assessment of what actually happened?

Mr. John Beggs: You made reference to Mr. McWilliams talking about the high price of housing, or he may have described it in other terms, but essentially I agreed with the point that house prices were extremely high, had become and were increasingly becoming unaffordable for a growing number of people, which is where this housing market in late, in 2006, was headed. I mean I do reference this in my statement, that we were running out of road when it comes to housing, that the affordability issue was reaching critical points whereby when you stress test people's incomes and their ability to afford to buy a house, that we were running at a point where fewer and fewer people would actually be able to meet those criteria, and that, may I say, was against a backdrop where, of extremely expensive average houses. I mean, I take the view and my comment, my written statement, I dismiss econometric evidence around house prices as being, you know, just that. But I base my view about the housing market on my own personal experience of my own children in the housing market in 2004, 2005 and 2006, and the extremely high prices that they had to pay for average properties. And, I'm thinking to myself, you know, how is this going to continue? What way are we going to manage a business, a sustainable business, if house prices are of this level? It's all right, you know, offering more and more better terms so that people can afford to buy it, but at the end of the day they are being pushed out to 40-year mortgages with, you know, interest-only or whatever. This was, actually, running out of steam long before Morgan Kelly pronounced, in my opinion, and our reports, notwithstanding some of the titles we put on some of our reports, and our view that "we hope for an equilibrium", or "we hope for a soft landing". The evidence is in the reports, and I did actually supply the committee with the full text of our April '06 report, because they've only given a *finfacts* summary of it here, but it does contain, as I said, the evidence that things were becoming untenable.

Deputy Joe Higgins: Gentlemen, briefly, did any of the other two gentlemen, did any of you take any serious notice of what David McWilliams was writing about from 2000 onwards?

Dr. Dan McLaughlin: It was just another view. I mean, as I said before, to go back and pick out papers that were written ten or 15 years ago, you can pick out papers that were written ten or 15 years ago that were wrong all the time, so it's just another view. I'm looking at something, I ... the notion that nobody thought that, everybody thought the housing market would go on forever, is completely wrong. It's absolutely, completely wrong. Of course, not many people thought it would collapse the way it did but in January 2007, I'm even looking at something I wrote myself, "the most likely outturn for the market is therefore a period of flat or only modest price growth ... until affordability is restored" - that's January 2007. So the notion that everyone was saying it was going to go up 10% per annum is just not true. The other thing I would point out is the major losses for the Irish banks were not in residential property, they were in commercial property ... in commercial property. Not many people, if I recall, wrote anything about commercial property, and that was what caused the damage for Irish banks' profitability and caused them to require significant capital inflow ... injection from the State, not residential property.

Deputy Joe Higgins: We've had substantial evidence here in relation to that, Mr. McLaughlin, which bears out what you're saying. All the evidence that was given is the commercial lending and so on was huge. Just a last question to you three gentlemen. You covered property and construction in a number of your reviews. Was the level of risk concentration apparent to you at the time, as it occurred, or did you recommend any action or have any discussion internally in relation to the concentration of risk?

Mr. John Beggs: I ... I wasn't aware of the concentration of risk until I ... until evidence was either provided before this committee or set out in whatever presentations the bank would make in relation to its annual results, but obviously they didn't ... there were concentrations in terms of the ... the property buckets and the type of investments they were making, whether it was residential investment, commercial development. AIB, and I can only speak about AIB, and what they said about that, that they considered that to be a well-diversified portfolio. In that regard I would say that what all property has in common, whether you segment it into all sorts of ... whether you do residential or commercial or whatever, it has expectations of confidence as a ... as a cornerstone of it all, so if that falters at a national level, all of these components or this diversification, just folds into one ... one bucket of ... of risk.

Deputy Joe Higgins: Mr. McArdle?

Mr. Pat McArdle: Sorry, my job in Ulster Bank was to do short-term forecasts, these high-frequency ones we discussed earlier and go out and have a high media profile. I was never aware of the Ulster Bank risk concentrations. I never made any recommendations about them and I don't think anyone ever discussed them with me either.

Deputy Joe Higgins: Thank you. Mr. McLaughlin?

Dr. Dan McLaughlin: I don't ... nobody ever discussed risk concentration with me. I would just make one point about ... or two points, briefly. One, Bank of Ireland had 45% to 50% of its loans in residential mortgages, of which about half were in the UK, so ... and a lot of other lending was in the UK as well, so I think there was a view that that offered diversification. I think what happened for all of the banks, in 2008, 2009, was that having commercial property in different jurisdictions didn't prove a very good risk diversification strategy, because in a crisis, unfortunately the correlations collapsed to one. In other words, they all collapsed together, and that is a rare phenomenon but that's what happened.

Chairman: Okay, thank you very much, and I now propose that we break until 5.25 p.m., to resume then. Before I do that, however, though, I wish to advise the witnesses, and to remind them that once they begin giving evidence, their evidence, they should not confer with any person other than their legal team in relation to evidence or matters that have been discussed before this committee. With that in mind I now suspend the meeting until 5.25 p.m. and remind the witnesses that they are still under oath. Is that agreed? Agreed. Thank you.

Sitting suspended at 5.08 p.m. and resumed at 5.29 p.m.

Chairman: Okay, so can I propose that we go back into public sessions, is that agreed? Agreed. Okay, just one item there ... and can I address this to Mr. Beggs before we continue. Just to clear up some matter on the earlier document that I asked to be displayed there. It's that presentation we discussed earlier this afternoon, Mr. Beggs. It refers to you as John Beggs, chief economist, AIB Group. Could you just clarify that, because you were saying that you were in the treasury group and so forth?

Mr. John Beggs: Yes. There are many occasions in my career when I've been described as the chief economist of AIB and people putting together slides do this, and, to be honest with you, sometimes I just didn't pick up on them, but my role - and where I could I always clarified it because it was important to the bank that I was only pursuing the role that I had and not assuming another role that the bank hadn't assigned to me. So that's ... that's an error.

Chairman: You didn't write that slide so?

Mr. John Beggs: I can't say that I did or didn't, but it's an error.

Chairman: All right, thank you. Deputy Michael McGrath, you've ten minutes.

Deputy Michael McGrath: Thank you, Chair, you're very welcome. gentlemen. If I can start by maybe just trying to get a ... a thorough understanding of how your respective positions sat within the organisation, and we have some details from the statements that each of you made in advance. Mr. Beggs, first of all, so you were chief economist at global treasury in AIB. You headed up the economic research unit?

Mr. John Beggs: I did.

Deputy Michael McGrath: How many people would that have had, typically?

Mr. John Beggs: There were three other economists working with me in the unit, so it was a unit of four people.

Deputy Michael McGrath: Three other economists, okay. And you reported to the head of?

Mr. John Beggs: I reported to the head of wholesale treasury, who reported to the head of treasury, because treasury had wholesale and corporate and commercial treasury.

Deputy Michael McGrath: And then the head of treasury reported to?

Mr. John Beggs: The head of capital markets.

Deputy Michael McGrath: The head of capital markets. Okay. And, Mr. McLaughlin, who did you report to?

Dr. Dan McLaughlin: Well, I was based in what was originally called the treasury and international banking bit of global market ... sorry Bank of Ireland, which became known as global markets. I reported to the head of global markets.

Deputy Michael McGrath: And who did the head of global markets report to?

Dr. Dan McLaughlin: He reported to the head of the wholesale bank.

Deputy Michael McGrath: Okay, and then you were in charge of, again, the bank's economic research unit. How many economists, how many staff typically were in that unit?

Dr. Dan McLaughlin: There was two other people with me.

Deputy Michael McGrath: Two other people, okay. And Mr. McArdle ... it's not ... I don't see ... who did you report to and what unit?

Mr. Pat McArdle: Yes, similar. By the end there was four, a unit of four. For much of the earlier time there was only two, I think, right. So we beefed it up towards the last few years in the knowledge that I would be leaving. Who did I report to? Maybe, rather than give you a misleading ... I can answer that technically and you might get a misleading impression from it. Economists ... as far as I'm concerned the economists in Ulster Bank were in a bubble, which was ... like, out there, right. So who we reported to didn't really matter much ... it was ... the work we were doing was ... diverged from the rest of the bank, and it was used as a utility player and I told you I was external in my focus with some internal demands that had to be satisfied. I initially reported to the chief executive of markets, to his successor, then there was an interregnum period of a year and I reported direct to Cormac McCarthy, the CEO, for a year, then to Robert Gallagher briefly and then to one of Robert Gallagher's reports who ... I have forgotten his exact title.

Deputy Michael McGrath: Okay, and when you say your unit, was that an economic research unit as well?

Mr. Pat McArdle: Yes, by the end, I had an economic research unit - one senior economist in Northern Ireland covering the Northern Ireland economy; one senior economist in treasury doing what the treasury people do, which Mr. Beggs referred to; and myself and a junior in the centre, looking mostly at the Irish economy.

Deputy Michael McGrath: Okay, and would it be fair to characterise the work that each of you did as focusing on the backdrop within which the bank was operating, so looking at the economic assumptions, within the external environment? You weren't involved in the bank's strategy or the bank's business model, that it was looking at the broader economic picture within which the bank was operating. Is that ... is that essentially what the work involved, rather than looking at, you know, the bank's strategy?

Mr. Pat McArdle: I'll take this since I have the mic. Yes, that probably is a correct categorisation in the sense that my job was external so about 70% of my time was spent doing things outside of the bank altogether. To the extent that I interacted in the bank, I provided for the ... you know ... copious briefings of various ... organise ... various committees and even the board, and occasional inputs into some medium-term planning, for which I used mainly the ESRI forecasts, right. So, I wasn't involved in determining the bank's strategy. I wasn't at that level, and I ... you know, it wouldn't really have ... seen it as my function.

Deputy Michael McGrath: Yes, I suppose in terms of perception, you know, each of you would have been, in many respects, the public face of the bank ... would have had a higher profile than the bank's CEO. But from what I am hearing today, and from your statements, you didn't really have any input into the running of the bank in the sense of strategic decisions the bank was making, its business model, its strategy, which was set by the board, presumably.

Mr. Pat McArdle: I think I said in my witness statement that I did not have a decision-making role. Maybe that's the best way to put it to you.

Deputy Michael McGrath: Yes, yes, okay. And a number of you said already that you weren't asked your opinion on the concentration of risk, the dependence on, you know, the property and construction sector. Is that a fair statement, that you were never involved in those type of discussions, that, you know, the bank were putting a lot of eggs in one basket here, "As an economist I see a risk"? Would you have had a forum to do that or was that really outside of your mandate? And, feel free, anyone, to take that.

Mr. John Beggs: Well, I can say in relation to property concentration, I was never consulted about the way in which AIB divided up its property concentration between investment and development, and I'm not ... I'm not sure as to what, in fact, I could have added to it, because most of the research we were doing was based on official, published figures. I mean, our research never utilised AIB banking statistics in any of the reports that we published. They were all official CSO or either Central Bank data. So it wasn't an area that we ever really went into. Most of my time-----

Deputy Michael McGrath: Yes.

Mr. John Beggs: -----similar with Mr. McArdle, it was spent, effectively, on the road talking to the corporate and commercial customers of the bank. I'd say 75% of my time was engaged in interest rate or exchange rate forecasting or talking about specific issues for individual customers.

Deputy Michael McGrath: Yes.

Mr. John Beggs: The internal bank involvement was, I said, when they asked for it or there was a regular ... some things were regular, like stress testing was a regular thing that I did. But everything else was just simply on demand and I didn't determine what it was. I didn't have any customer base. So we produced, you know, comments or maybe presentations. We did plenty of presentations to the retail bank at their request. The information was taken from us and then they made use of it or-----

Deputy Michael McGrath: Yes.

Mr. John Beggs: -----otherwise, as they saw fit.

Deputy Michael McGrath: I think, I suppose, Mr. Beggs, staying with you, it would surprise a lot of people to hear that you, as somebody who was very prominent, certainly in the public eye, and the most senior economist within the bank, in the course of 20 years, made two presentations to the board, two to the executive committee and none to the management committee for Republic of Ireland. I think it's important that the inquiry understands your role, all of you, because there certainly would be a perception that the economists would have been looking at the ... you know, the risks that the banks were facing and perhaps giving guidance and advice to the banks on strategy. That's not what I'm getting from listening to you today or listening to your statements.

Mr. Pat McArdle: Well, there's two roles that a bank economist can have, I call it internal or external.

Deputy Michael McGrath: Yes.

Mr. Pat McArdle: In RBS, which is our parent, for example, they had a group of economists in Edinburgh, much more resources than we had, and they had an internal role and it did precisely what you're thinking about. They had about 20 sectors, which they graded red, amber or green. So they were clearly integrated into the business unit. Now, it was decided in Ulster Bank that I should be external, and we did not have the resources to do both.

Deputy Michael McGrath: The bank guarantee ... and I fully understand none of you were involved in any shape or form, but presumably you have an opinion. With the information that was available at the time, have you a quick comment, each of you, on the decision to guarantee all six banks?

Dr. Dan McLaughlin: It seems clear to me that from the available information on the public record that most people thought it was a liquidity issue. I can't add any ... I wasn't involved-----

Deputy Michael McGrath: Yes.

Dr. Dan McLaughlin: -----in it other than that. I do think, probably, the ... what was included in the guarantee is probably a little bit puzzling because, you know, in general, most people would be aware that subordinated debt would be seen as, you know, higher risk, and obviously has a much higher interest rate to compensate, so the fact that that was included is probably surprising in retrospect, but that's my only comment.

Deputy Michael McGrath: Mr. Beggs?

Mr. John Beggs: Well, my initial reaction when I heard of the guarantee the following morning was a positive one, so I have to go with what my initial view was. I mean, I've listened to the testimony around this and what's been said about it and, really, I'm not in a position to judge whether it should have been four or six. But certainly, from the point of view of the way the markets had been behaving and how they were after that, it seemed at the time to be the right decision at that time.

Mr. Pat McArdle: I suppose I broadly agree with that. Thinking back to the time, as I said earlier, I thought it was solvent. I believed what I heard. I believed that the regulator should know, I mean, they're the ultimate authority with the information ... the only authority, I think, who would have had it. So I certainly believed that, I was sceptical about Anglo from the previous St. Patrick's Day for reasons that are well known. And I remember thinking, what would happen if they had nationalised Anglo that night and thinking "my God it will be chaotic, there will be queues outside the other banks." This was what I thought at the time and I suppose afterwards, I'm not so sure about that any longer. Or it could have been nationalised, as Professor Honohan has spoken about at length here. But the one thing that I would just mention is that Ashoka Mody, who was part of the IMF team that came over here, and I think I have got the right man, when Anglo was eventually nationalised the following January, in the middle of January if I recall correctly, he wrote an article that said that all of the trouble in Europe started with that decision. So, you know, it was never going to be an easy decision is the point I am making. If you ... and if you had raised the flag... the flag about Irish banks on the night in question or even the following week, there would have been fallout. We'll never know what it would have been. But all things considered, I probably agree with Professor Honohan's first conclusion on this, which is the one in his report, which said that a substantial guarantee on the night was necessary.

Deputy Michael McGrath: Mr. McLaughlin, sorry.

Dr. Dan McLaughlin: If I could just add a point?

Deputy Michael McGrath: Sure.

Dr. Dan McLaughlin: In other jurisdictions, there is a clear lender of last resort. So in the United States, it's the Federal Reserve. In the UK, it's the Bank of England. One of the issues probably which I think is not covered sufficiently is it was not clear, and it is still to some degree not clear, is the ECB the lender of last resort in the eurozone? And I think, had there been much clearer lender of last resort, and now of course we have, in theory we have one ... well the ECB is the regulator of the Irish banks ... the main Irish banks. We also have a resolution process in existence, none of that existed, but I do think had there been a much clearer idea of who was the lender of last resort, it might have been slightly different. But, you know, that's hindsight.

Deputy Michael McGrath: Thank you, Chair.

Chairman: Thank you very much. The next questioner is Senator ... Deputy John Paul Phelan. Deputy, ten minutes.

Deputy John Paul Phelan: Thank you. Gentlemen, good afternoon ... or evening I suppose now. There is only ten minutes, so I'd ask you to be as brief as you possibly can.

First of all, Mr. Beggs, just from your opening statement, and I want to put a quote to you. On page 1 you spoke and I quote "From my perspective, there were limitations on Group-wide participation and decision-making in AIB arising from the divisional structure and the hierarchical nature of the organisation." Can I ask you briefly to give examples, maybe, of that? Did you raise those concerns within the organisation at the time, or were you ... did you have discussions with other managers or management level people within AIB at the time about those hierarchical structures within the nature of AIB?

Mr. John Beggs: No, when I joined AIB in 1992, I joined ... I thought I was joining AIB, I joined the capital markets division and it took some time for me to realise that I was in a division and not in a ... in one bank, which of course is what has happened to AIB in recent years, with a unified banking model put in place. I discovered this in relation really ... the relationship between the retail bank and capital markets division, that people from treasury were, you know, that they were utilised by the retail bank but the retail bank made its own decisions. I mean Nyberg refers to this about the siloed nature of AIB in particular in relation to the issue of transferring loans from the ... from the sectoral teams in retail ... the retail division to elsewhere, to be managed in a different way. I think that was a limitation, you know, I have to say we produced the research in treasury. A bit like the way in which Mr. McArdle's research was produced, we were a bubble, if I can use that phrase, a unit that had a great deal of independence. The research went to the retail bank, but it sort of ... it was accepted by them but having a role in terms of pursuing an issue that you had really wasn't, you know, really wasn't possible. They ... I'm not saying they didn't listen, but I am just saying that you didn't have any management role in relation to the decisions.

Deputy John Paul Phelan: And were there any discussions with your ... well, managers about those concerns?

Mr. John Beggs: I would think ... I would think it was ... a lot of people were just simply doing their work within ... they were, within the division and they were ... in my case they were dealers in the treasury and that's it, you know. On the corporate side, of course they had relationships with corporate banking and retail banking because the customers were ... were really owned, if you like, by the retail or the corporate bank. The treasury service were provided with a treasury to those ... to those customers.

Deputy John Paul Phelan: Okay, thank you. Mr McLaughlin, I want to ask you about ... in the period in question up until the crisis, Bank of Ireland - and perhaps other institutions - held a number of roadshows or briefing meetings ... seminars for customers across the country. I remember them happening in my own part of the country at the time. I believe that you were frequently a speaker at those types of events. If you could briefly summarise the nature of the format of what happened. Were sales people from Bank of Ireland present at those events and what really was the purpose, ultimately, of those ... of those seminars?

Dr. Dan McLaughlin: Sure. As I said, I worked in what's it called global markets. And what global markets did was ... primarily it responsible for executing the funding strategy of the bank but also we provided an interest rate and foreign exchange service to the customer base, which was a mixture of corporate banks, sorry, corporate customers and retail customers. So, in general ... and this ... this started when I joined the bank in 2001, we used to do roadshows which would be organised around the country by, usually, somebody from global markets who was in charge of that region. So we would usually have a breakfast, say, and they would invite our corporate customers in the area or perhaps people that didn't bank with Bank of Ireland that were interested ... that they thought might be interested. So I would do a presentation, much as ... you examples of what I wrote ... the economic outlook, I'd would do a PowerPoint presentation, usually, about the economic backdrop, talking about Ireland, the global thing. I used to spend ... emphasise, a fair amount, the foreign exchange rates because obviously that was the main ... one of the main things that the global market sold to the customer base ... facility to do foreign exchange-----

Deputy John Paul Phelan: Were they used as a vehicle for sales is really a part of the question or not? I don't want to lead.

Dr. Dan McLaughlin: Sales in the ... well, you were trying to get customers but these were corporate customers for global markets in general.

Deputy John Paul Phelan: Okay, okay. I've only four minutes left so I want to turn to Mr. McArdle, I have more questions for you. Actually firstly, I want to turn to turn to your conclusions in your opening statements where you spoke about groupthink and you gave a very long quotation from Bill White and you spoke about a tale of seduction. Do you believe that you were seduced yourself and do you believe that you were a participant in the groupthink that you spoke about.

Mr. Pat McArdle: Absolutely.

Deputy John Paul Phelan: Okay. Can I ask you specifically then in relation to page 2 of your statement you say that "I was given freedom of speech by Ulster Bank even if some of the things I said made them uncomfortable on occasion." Did you view this as an important, I suppose, attribute to have in your role as the head economist in the bank at the time?

Mr. Pat McArdle: I'm independent by nature so in my job ... in all my jobs I've been like that. I guess they knew that before they took me on. So it was never was something that ... I don't ever recall having a discussion about the degree of freedom I had or anything like that. It was something that evolved, shall we say, and it was never really an issue.

Deputy John Paul Phelan: Can I then turn ... in relation to Professor Kelly, who has been referenced already in the discussion. Why then in 2009 did you, at that famous meeting in Kenmare, suggest to the organisers that an invitation should not have been extended to Professor Kelly for his freedom of speech on that particular occasion?

Mr. Pat McArdle: I suppose a lot of bankers here are apologising and saying they made mistakes. That was a big mistake by me in that I played the man, not the ball, right. That's the first thing and I apologised for it fairly quickly afterwards. But I would like to come, if I may, to the substantive point of that which is, you know, I took exception to what he was saying ... severe exception and I ... I thought he was off the wall, frankly. And I still take exception to what he said there and I think history has shown that I was right.

Deputy John Paul Phelan: Well, we'll leave that to history. We're just examining what happened at the time because I want to put a quote. I'm a frequent watcher of political programmes and you are quoted yourself on "The Week in Politics" at that particular time with a famous quote and I am going to put it to you: "Freedom of speech is fine and we're all in favour of it but there are some times when you have to temper things in the greater interest." What did you mean by that?

Mr. Pat McArdle: I'll tell you what I meant. I suppose, maybe, I spent a lot of ... 20 years in the Department of Finance, so I sort of take a national or nationalistic view of things. And I remember in ... I'm not sure what year you are quoting from now.

Deputy John Paul Phelan: 2009.

Mr. Pat McArdle: Okay. Round about 2009, '10, I was very uncomfortable with the way things were done here, in that you had ... an awful lot of people were talking down the Irish market. This included a range of people who were trying to make money out of it such as hedge funds, and they had advisers here in Ireland as well. And, for example, there was one character in the *Financial Times*, he was a former economist of the IMF, Simon something, and another ... there were two of them writing articles on Ireland, very, very negative articles. I remember reading one of these and looking up the name of the second guy and I discovered he was a hedge fund manager. I sent a note to the Irish ... to the *Financial Times*, so it was the *Financial Times*, to say, "Do you realise this guy is a hedge fund manager? He's probably talking his book in the parlance and was making money out of this", and he never appeared again. So, if I said that on "Prime Time. It would be the same with the Joe Duffy show, for example, which Brian Lenihan rang up Joe Duffy to complain about, when he was advising people to take their money out.

Deputy John Paul Phelan: I specifically want to ask you about this term "the greater interest" because I've heard of the national interest, I've heard of the common interest, I've never heard of the greater interest ... is ... and I wanted to really ask you, you know, did you ever temper your own comments in your time in Ulster Bank in light of the greater interest?

Mr. Pat McArdle: I think it probably should be obvious to you. Deputy, from the quotes that you've just attributed to me that I seldom, perhaps unfortunately, I would say, and to my detriment on occasion, that I seldom, if ever, tempered my comments.

Deputy John Paul Phelan: Are you equating the greater interest ... are you saying it's the same as the common interest, national interest-----

Mr. Pat McArdle: All three are the same as far as I'm concerned.

Chairman: Senator O'Keeffe, ten minutes.

Senator Susan O'Keeffe: Thanks, Chairman. Mr. McArdle, can you just confirm to me the evidence that Mr. McCarthy gave here that said stress testing tests were supplemented by macroeconomics stress testing, involving input from Ulster Bank Group economics, and John FitzGerald of the ESRI. Is that correct?

Mr. Pat McArdle: That's correct.

Senator Susan O'Keeffe: And he also went on just to say later we had stress testing from the ESRI. So that's...

Mr. Pat McArdle: The same thing.

Senator Susan O'Keeffe: You accept that. Okay. So Mr. Beggs, I am just puzzled here because Mr. FitzGerald-the ESRI did do stress testing for the Ulster Bank. And I think you said that one of the reasons that there was some problem with funding or that the ESRI couldn't take on a private job, so in relation to your own remark.

Mr. John Beggs: Yes, my recollection of the reasons for the difficulties of him doing stress testing for us ... one of the things was that he wasn't prepared to undertake private, private unpublished work because the ESRI published all of their research. There was also the issue, which he referred to himself, about the fact that they didn't have a very detailed financial sector in the report. And this meeting took place in late 2005. I'm not sure when the Ulster Bank stress test was done, it was some time later. So clearly there is a-----

Senator Susan O'Keeffe: When was it, Mr. McArdle?

Mr. Pat McArdle: April '07.

Senator Susan O'Keeffe: Okay. Did you realise that had happened?

Mr. John Beggs: No, because, to be honest, as I said, I had the meeting with him. He was an ex-colleague of mine. Nothing was going to come of it so I let it drop.

Senator Susan O'Keeffe: But you were talking about it in a private capacity. Mr. McArdle, can you clarify whether it was the ESRI you hired or Professor FitzGerald?

Mr. Pat McArdle: To be honest with you, I don't think there is any difference between the two. I realise this came up before when Dr. FitzGerald was here and he was asked a question and I think he gave a similar-type answer. We paid the money to the ESRI if I remember correctly.

Senator Susan O'Keeffe: Mr. McArdle, on page 3 of your own statement you said: "We didn't stress-----

Mr. Pat McArdle: Which of my statements?

Senator Susan O'Keeffe: Of your own statement this morning ... this afternoon, your opening statement, I'm sorry. You said: "We didn't stress test for real estate." Why was that?

Mr. Pat McArdle: The ... sorry, we did test it. Let me correct that. Did I say that?

Senator Susan O'Keeffe: Maybe. "The problem was not house prices, *per se*, but ... real estate lending and we did not spot it or stress test for it."

Mr. Pat McArdle: Well ... sorry, that's ... let me slightly correct that.

Senator Susan O'Keeffe: Yes.

Mr. Pat McArdle: They would've stress tested for everything. I ... real estate did not figure in the work I did in the sense that, as Mr. Beggs has said earlier, it was sort of hidden, and there wasn't as much information on it as there was on housing where you had completions and starts and the devil knows what. So when I ... we got ... what we did, let me perhaps explain it ... if I may take a minute-----

Senator Susan O'Keeffe: Should we ask somebody else from Ulster Bank to come ... if it wasn't you did, in fairness to you, Mr. McArdle?

Mr. Pat McArdle: Well if you'll just let me explain it, then you can decide whether you ask somebody or not. In this 2007 stress test, which is the one where we involved the ESRI, we produced the ESRI with hundreds of streams of information, right. And they ran their model and they gave us back equal amount. So it was very different from what Mr. Beggs was talking about. And then I passed that to the stress testing people, who were the risk people, and they would've stress tested for ... and I'm fairly sure they did it for everything, you know what I mean, it wasn't that we didn't stress test for real estate ... they stress tested for housing, they would've done it for commercial ... because I remember them coming to me looking for bank liquidations ... company liquidations to get some idea of how a bad time could affect companies. So, I was not involved so I have no specific knowledge of what they did, but I ... from the information I have, they were fairly extensive. Everything under Basel II and the ICAAP was ridiculously extensive and expensive in terms of time, money, resources, and in the end, didn't make much difference.

Senator Susan O'Keeffe: On page 4, again of your own statement, Mr. McArdle, you say, "... the alarm bells should've been ringing in Dame Street for the best part of a decade." You were talking about the whole idea of "An annual growth rate of 20 per cent real is often taken as the trigger ... Anglo Irish Bank, crossed in eight of nine years." Now and you were referring to Professor Honohan there. Surely everybody knew. It wouldn't just have been Dame Street where the bell would've been ringing, you would've known what was going on. I'm not saying that you were responsible, by the way, I know what your ... but, did you know and were you not sitting scratching your head going, "Oh, this is a bit serious."

Mr. Pat McArdle: Actually it didn't. I've been thinking about this-----

Senator Susan O'Keeffe: Didn't know?

Mr. Pat McArdle: I didn't know, no.

Senator Susan O'Keeffe: Okay.

Mr. Pat McArdle: Because, again, we got to go back to Deputy McGrath's question in trying to understand the role of the economist group. You see, there's a view out there that these economists were omniscient and they knew everything and they were into everything. That was not the case. I was not a financial analyst, so I wasn't looking at things. The only financial economist in Ireland was Professor Honohan actually, as far as I'm aware. There was no one else looking at that area, right.

Senator Susan O'Keeffe: But in fairness everybody knew that Anglo's growth rate was extraordinary, that they were-----

Mr. Pat McArdle: Yes, they did.

Senator Susan O'Keeffe: -----doing really well-----

Mr. Pat McArdle: They did. They did.

Senator Susan O'Keeffe: So would that not have rung an alarm bell in your head or indeed any of your fellow economists' heads?

Mr. Pat McArdle: Well, it rang an alarm bell in the sense that I was listening to regular complaints about Anglo who were, you know, taking market share from all the other banks, so I was conscious of that, right. But I didn't know the percentage increase in their balance sheet, because I would never have had a need to look at it. I was doing ... after all, don't forget my job is short-term forecasting, it wasn't analysing the competition.

Senator Susan O'Keeffe: Okay. You also say in page 3 of your statement, you say, I would've been treated as a contrarian if I had, you know, carried on in that vein. Are you suggesting that your own bank, your own employer, would've treated you as a contrarian?

Mr. Pat McArdle: Yes, I guess everyone would have-----

Senator Susan O'Keeffe: No, no, I'm not interested in everyone. I'm interested in your employer.

Mr. Pat McArdle: I think they would. I think they would be ... they'd probably ... and I can see where your next question is coming from. But they probably would've been quite unhappy if I had been out there leading the charge, in a way, saying, "You should be pulling back from lending for this, that and the other."

Senator Susan O'Keeffe: So, therefore, an economist employed by a bank was there to uphold the *status quo*?

Mr. Pat McArdle: I ... sorry, could you repeat the question?

Senator Susan O'Keeffe: An economist, employed by a bank, is there to uphold the *status quo* of the bank?

Mr. Pat McArdle: I don't think that's what I said at all. An economist in a bank, as I was-

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Senator Susan O'Keeffe: Well, you've just said you couldn't run away and be ... and have a contrarian view.

Mr. Pat McArdle: No, no. I didn't say I couldn't do it. I didn't do it, which is a different thing.

Senator Susan O'Keeffe: I think you said they might frown upon it.

Mr. Pat McArdle: I said ... no, you ... it was a hypothetical question. You asked me, "Would I have been treated as a contrarian?" I said, "In all probability, I would-----

Senator Susan O'Keeffe: No, you said you would've been treated as a contrarian-----

Mr. Pat McArdle: I said, "In all probability, I would've been-----

Chairman: Don't repeat past notes.

Mr. Pat McArdle: But, sorry ... sorry, if you allow me to finish the answer. I didn't do it, so it never arose, right.

Senator Susan O'Keeffe: No, in fairness, Mr. McArdle, you did suggest that you would've been treated as a contrarian had you done so. That's the point that I'm making. It was not an appropriate thing to do.

Mr. Pat McArdle: No, that's ... sorry, that's a different question-----

Senator Susan O'Keeffe: No.

Mr. Pat McArdle: That ... there's no ... there's nothing wrong with contrarians. In fact, they're flavour of the month at the moment. So I didn't say it wasn't appropriate-----

Senator Susan O'Keeffe: Although you did say earlier that they're normally-----

Mr. Pat McArdle: It's a mere statement of-----

Senator Susan O'Keeffe: -----nearly always wrong, but anyway.

Mr. Pat McArdle: -----fact.

Senator Susan O'Keeffe: Mr. McLaughlin, Exhibit B3, which was presented to us by Mr. Boucher, you may not have seen it, in fairness, it's not in the green book, and I'm not ... if you don't know the answer it's fine. It was financial market development and scenarios, strategic implications, September 2008. I'm just wondering whether it was a document in which you may have had a hand, act or part in the preparation of? No, that's fine. You, Mr. McLaughlin, appeared to write extensively for *The Irish Times*, in your time as an economist at Bank of Ireland, is that correct? You has a column, I think, pretty much. I have any number of them printed out.

Dr. Dan McLaughlin: It was kind of more in the first half of the noughties ... when I stopped writing it. But yes, I used to write-----

Senator Susan O'Keeffe: 2004, 2005, I have some of them.

Dr. Dan McLaughlin: Yes, yes, absolutely.

Senator Susan O'Keeffe: Yes. How important for the bank was that, that you, if you like, had a public platform, that you were able to, you know, proclaim your views as an economist for the Bank of Ireland in the media?

Dr. Dan McLaughlin: Nobody ever said anything to me about that. I actually started it when I was with my previous, I seem to recall, with my previous employer, so I'm not quite sure, your question is.

Senator Susan O'Keeffe: Well, was it important to the bank that they had their chief economist writing in *The Irish Times*? Was it a good thing?

Dr. Dan McLaughlin: It probably was, I don't know, nobody ever said anything to me about it, to be honest.

Senator Susan O'Keeffe: Okay. Mr. Beggs, can I ask you, you make a reference in your statement to the OECD, and you had a substantial quote from their report, Ireland's Housing Boom: What Has Driven It and Have Prices Overshot?

Mr. John Beggs: Yes.

Senator Susan O'Keeffe: And I just wanted to draw your attention to two other quotes in that same report. It says in it, it talks about soft landings and that whole notion and it actually says: "If a soft landing is defined as something that is *both mild and gradual*, there has not been a single case out of the 49 boom-bust cycles." That's a fairly serious remark to make, and clearly you would have been familiar with that article, that report, at the time.

Mr. John Beggs: Yes, all of these references to reports at that date, we had them available, and they were discussed-----

Senator Susan O'Keeffe: So would that have informed your-----

Mr. John Beggs: ----- and, you know, the information was shared with others. The idea that a soft landing, if you defined it as something that was mild and gradual, it never happened. When we are talking about soft landings, we were talking about it in relation to the housing market, I'm really referring there to a soft landing on prices. When you are at 93,000 units in 2006, it's very unlikely that we are going to have a soft landing, unless we have such a gradual deceleration in the rate of house building over four or five years, the likelihood was, I think it was referred to by other witnesses here today, that the output drop from 93,000 units to something more sustainable, which in our view was somewhere around 50,000, if it happened in one, two years, was going to have a big impact on the economy. So the soft landing really referred only to house prices, that house prices could stop rising, so I would agree with that and that was never ... our definition of soft landing was never quite as soft as generally supposed. In fact, in our report, we make the point that we did not rule out prices falling over several months and at the higher end of the market, where you couldn't justify what people were paying for houses at the top end, that we weren't ruling out significant price declines there, but our concept was, that for the average house price, that that would not decline.

Senator Susan O'Keeffe: Can I just finish? Again, in that same report, and I'm sure all of you saw it, the OECD said, Ireland, it is more exposed to a negative shock, sorry:

> However, it is more exposed to a negative shock that reduces residential and commercial

property prices simultaneously as more than half of the banking sector's loan book relates to property. Hence, it would be worthwhile for banks to err on the side of caution.

Now, is that a contrarian view or is that an important organisation giving a very strong opinion in 2006 or how did your bank view it at the time?

Mr. John Beggs: Well, I don't regard that as a contrarian view, there were plenty of views of that nature published over that period, which is what I referred to earlier on. And I think, because it wasn't so striking, I suppose, it tended to be, not ignored, but not really assessed for the message that was contained in it.

Senator Susan O'Keeffe: So even though it was an important organisation-----

Mr. John Beggs: Yes, and I made a point that, you know, I think it was in the report on strengthening the capability of the Department of Finance, there were references to reports by the OECD and the IMF on the Irish economy, and they tended to say everything was okay. There were a few issues that maybe ... you know, risks there, and I make the point that those reports were ... there was a lot of influence brought to bear on those reports before the publication by the Irish side. I mean, we all met the IMF and the OECD when their missions came to Ireland, so maybe some of their issues ... their concerns would have been challenged here or answered here before they went away to draft those reports.

Senator Susan O'Keeffe: Were you ever asked to feed into it?

Mr. John Beggs: Yes.

Senator Susan O'Keeffe: All of ... all of the banks?

Mr. John Beggs: Well, I certainly did, and in my days in the Department of Finance we would have had major input into an OECD or an IMF report.

Senator Susan O'Keeffe: So you could have shaped it a bit?

Mr. John Beggs: This is the nature of these country reports from the IMF and the OECD, but these housing market reports from the research department were more independent and had a series of really ... challenges and concerns that I argue, in my written statement, should have been looked at by the regulator, the supervisory authorities, and brought to the attention to the banks and have that ... have them challenged over these views.

Senator Susan O'Keeffe: So some of those positive remarks were made by those reports were in fact our own bankers talking to our ... us, through another guise.

Mr. John Beggs: Could I just make one point in reference to that. These ... all this information was there, but banks, AIB being no different, had, really, a very strong belief in its own customer base, the information that it had about its own customer base, and how sustainable their own customer base was. So they ... sure they heard these messages and listened to them, but nevertheless their microdata about their customers trumped the macro scenarios ... or the macro information that was coming.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you, Mr. Beggs. Senator D'Arcy. Senator, you have ten minutes.

Senator Michael D'Arcy: Thank you, Chairman. Mr. McLaughlin, Brian Goggin in evidence previously stated that he met with the ... met ... on Dame Street, in the Central Bank building, with representatives from the Financial Regulator's office in the Central Bank, and he was requested would he consider taking over INBS. Were you contacted by Mr. Goggin or were you in the loop in relation to that conversation at any stage?

Dr. Dan McLaughlin: No.

Senator Michael D'Arcy: Okay. Mr. Beggs, in terms of the Anglo ... representatives from Anglo Irish Bank, on the same day, arrived at AIB buildings and requested would they consider being taken over. Were you in that loop in relation to that conversation?

Mr. John Beggs: No.

Senator Michael D'Arcy: No. Okay. Can I ask Mr. McLaughlin, in terms of the discount of the Bank of Ireland loans that were transferred to NAMA, your reaction when you heard of the 43% discount?

Dr. Dan McLaughlin: I don't remember exactly at the time. It's a matter of record now as the lowest, which somebody-----

Senator Michael D'Arcy: I could comment but I would be-----

Dr. Dan McLaughlin: If somebody said that Bank of Ireland was the least bad bank in Ireland I don't think that was something to be proud of, but it was the lowest. In general I think I made a point in my opening statement that there are pros and cons of NAMA and I'm sure you've heard a lot of the pros. But one of the main problems with setting up such an institution at the time was that you are marking to market in a market that doesn't exist, and it's in ... you know, nobody ... virtually nobody ... I don't think anyone else ... Spain set up kind of a bad bank but about three years later. So there was advantages of doing it, but the disadvantage is it crystalises, in this case, €42 billion of capital losses.

Senator Michael D'Arcy: Same question for Mr. Beggs, about AIB's discount.

Mr. John Beggs: Well all I can say about it is that I was surprised and disappointed by the extent of it and I still ... I have never done any analysis as to why it was that large, but it's certainly from the point of view of, you know, AIB, and what had happened in AIB, all the business that it tried to do in the economy, that this was the bottom line discount, I just found that to be extremely disappointing.

Senator Michael D'Arcy: And same question for both of you, was the establishment of NAMA with the mark to market at the lowest point, was it a mistake?

Dr. Dan McLaughlin: I don't think it turned out to be quite the lowest point of the cycle but, in my view, it possibly was a mistake. I mean, the alternatives that were put forward was a type of insurance, which was basically adopted in the UK. So, as I said earlier, you know, there are advantages and disadvantages but I think it is interesting to note that it wasn't a model generally followed elsewhere.

Senator Michael D'Arcy: That's contrary to what representatives of NAMA have said, that they are a model.

Dr. Dan McLaughlin: Not on the same scale, I mean, Spain did one a few years later, but you are, you know ... let's be clear, there was no credit, the global credit system had collapsed.

AAA corporate entities that would normally issue short-term paper for a month to pay bills or to buy imports ... none of that existed. So, to try and get a price for commercial property or land in that environment ... anyone's guess and so, I think NAMA then said that subsequently, it had further mark-to-markets downgrades, I'm sure it did, but you're just crystallising losses at a stress point of the cycle and if you do that with any bank, you know, it's going to be problematical.

Senator Michael D'Arcy: Mr. McArdle, I'd hate to leave you out over there. Ulster Bank didn't participate with NAMA Were you surprised at the quantity of funds required from RBS for Ulster Bank?

Mr. Pat McArdle: Yes, I was more than surprised, I was shocked, number one. Number two, I was thinking about, while the others are answering the question there, I was thinking about the ... Ulster Bank didn't go to NAMA but it had obviously had some process by which it marked its book to market too and so, we would have had ... suffered from the same factors. My view ... this leads me into my view of NAMA ... I'm on record on saying NAMA at the time ... when I was writing for *The Irish Times*, was the least worst option. A lot of people disagreed with that, vehemently actually at the time in 2009, I still have that view. In fact, I think it has turned out better than could have been expected. What I would say, though, is that the process by which NAMA was set up, it took almost two years from the Bacon report to the transfer of loans was unfortunate. That timeline was far too long. Now, I don't think there was anything anyone in Ireland could have done about it because it was dictated by DG Competition in Brussels but it allowed time for the value of those assets to be marked down for a whole variety of reasons, some of which we touched on here earlier, the national interest, and that was unfortunate. And the final thing I'd say now is that it's obvious now that NAMA underpaid the banks for the loans they took.

Senator Michael D'Arcy: Mr. McArdle, on page 3 of your statement, point 4, "I want to make the following points ... The Regulator's management and board bear most responsibility for the collapse, here as elsewhere". More responsibility that the banks, who over-lent?

Mr. Pat McArdle: Yes, I think so. I think it's ... sorry I'm not going to argue about this. I toss it out because I was surprised when I saw it in the Honohan report and this is the first opportunity I've had to comment on it since then. I think it's self ... as I said in my thing ... it's self-evident, really, when you think about it, at least that's the way it appears to me that the watchdog, you know, has a sort of a higher moral responsibility, a higher actual degree of responsibility, higher even than the banks I would argue, although the banks obviously and politicians who ran the budget are up there with them, right. But, I think when you look at the order of things ... otherwise why have we got a regulator ... like ... why do we have a regulator at all? I'll leave it at that.

Chairman: Can I maybe just ask you one question, Mr. McArdle, is ... I think ... it was Mr. Sheehy, when he was here before us there from AIB recently, used the analogy of describing the regulator like a referee in a very competitive environment and the referee would needed to engage to maybe modify behaviour but if there is a riot taking place on the football pitch, who is engaged in the riot, the referee or the footballers?

Mr. Pat McArdle: Sorry, Chairman, let me answer a question with a question. Whose responsibility is it to stop the riot?

Chairman: Indeed, indeed. And I put it back to you, was there a riot on the pitch?

Mr. Pat McArdle: Sorry, Chairman, I was in my bubble, right. So, yes there was a riot on the pitch, I would say, yes. I mean, looking back, there was a frenzy of competition. I mean, we had ... in my view, anyway, we had excessive competition in Ireland. Too much of anything is bad for you and we had probably ... arguably, excessive competition. When you look at all that transpired, when you look at the competition that came from Anglo, when you look at the foreign banks, when you look at the attitude of the regulator who encouraged it, had a whole division in the ... IFSRA ... the regulator, you know, really, effectively sponsoring competition. So, I think we went wrong there and there was too much freedom to the banks, the model didn't work and the only ... well, sorry, to come back to the question, I can see your scepticism, but the only one who could have stopped it was the regulator.

Chairman: But, may I burst all our bubble this evening? In different sports ... sports codes, there's different behaviours.

Mr. Pat McArdle: Sorry, Chairman?

Chairman: In different sports codes-----

Mr. Pat McArdle: Yes.

Chairman: -----there's different behaviours towards the referee and in rugby it's probably the captain deals explicitly with the referee, that seems to be the mannerism of that. And in soccer, it's ... it can be the whole team, you know, going nose-to-nose and I've a certain member of ... or footballer, famous footballer from my own city that was quite famous for going nose-to-nose with referees. Surely, whether it is rugby or whether it is soccer, at some stage or other do the players not to go to the referee and say, "There's a problem here on the pitch"?

Mr. Pat McArdle: We don't know did they or not. I ... we don't know if they did or not and you'll have the regulator in, I see, shortly, so I suggest you ask him that question.

Chairman: Okay.

Mr. Pat McArdle: I don't know the answer to that.

Chairman: But to your knowledge, in your bank, the players never went to the referee, did they?

Mr. Pat McArdle: Well, I think I explained earlier-----

Chairman: To your knowledge?

Mr. Pat McArdle: -----to Deputy McGrath, I think I outlined my role, so I wouldn't know really if they had or not.

Chairman: Right. Yes, sorry, I'll bring you in, Senator.

Senator Michael D'Arcy: In golf, there's an etiquette that you don't break the rules.

Mr. Pat McArdle: And .. do you expect me to answer that?

Senator Michael D'Arcy: I do.

Mr. Pat McArdle: If the rules were broken, people deserve whatever penalties is coming to them, but I'm operating on the basis that, with some possible exceptions that I'm not allowed speak about, I'm operating on the basis that the rules were not broken.

Chairman: Day-to-day banking is what we're talking about here.

Mr. Pat McArdle: I don't think ... yes ... I mean, I would be very surprised if the rules were broken, first of all. And, secondly, if they were broken, someone should have done something about it.

Chairman: Okay, thank you. Senator Sean Barrett. The Senator, ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to our three visitors this afternoon. We're trying to shed light on the €64 billion, that's the terms of reference of this committee, and I take it none of you anticipated that we'd be here discussing the €64 billion. Even though you were senior people in banks, there were no signals, no alarm bells, nobody talking about it in the canteen, or in corridors or locker rooms?

Mr. Pat McArdle: Well, let me ... the answer to that, Deputy, is no. I said earlier, on the morning after the guarantee, it was a surprise. We all know what happened after that, when the €64 billion effectively materialised over the following two-and-a-half years and I would think ... first of all, nobody there on the night at the guarantee envisaged it, I would say, No. 1, and certainly, as far as I'm concerned, for me, I certainly did not envisage it. I had no idea that the commercial book for the banks was in such a state.

Senator Sean D. Barrett: And Mr. Beggs?

Mr. John Beggs: Yes, likewise. I had no knowledge, or even any inkling, that we could be in that degree of ... that degree of trouble and, you know, even, you know, talking to analysts outside of Ireland - bank analysts, credit analysts - they remained, you know, very, I suppose, positive about Ireland and the state of the Irish banking system. I can't put a date as to when that might have changed, but, you know, in comparison with, say, looking internally, at how people felt internally about it, the external view ... and they were very good analysts, I have to say. I had a high regard for their expertise and what they were doing, but this was still a very positive view and we had no ... I had certainly no inkling of it.

Senator Sean D. Barrett: Dr. McLaughlin?

Dr. Dan McLaughlin: It's a shocking figure and ... but I think, first of all, over €50 billion of it was to two banks, Anglo and AIB. And, secondly, that figure materialised over a number of years, it didn't appear overnight, and it largely appeared when ... it appeared for different banks at different times. But, you know, the Government injected preference shares into the two, what are called now the two pillar banks, initially. Again under the assumption that the fall in asset prices which ... any fall in asset prices would not be as large as subsequently appeared. But the stress tests in ... the PCAR stress tests in 2011, which the Central Bank did, they deemed that the Irish banks needed €24 billion in capital at that time. And so ... because €64 billion appeared over a period of time, and secondly, two banks accounted for over €50 billion of it.

Senator Sean D. Barrett: Yes. And, you know, the people looking in will identify our three visitors this afternoon as the public faces of banks which cost them €64 billion. They're extremely annoyed. You know, is there any regret here from the three of you, that you were in organisations which, you know, have imposed such a burden on Irish economy and the Irish society?

Mr. John Beggs: Well absolutely, yes, definitely.

Mr. Pat McArdle: Yes also, for the record. But let me add that it's not €64 billion any longer, of course. You're aware of the figures from the Governor and others, it's either €40 billion or €30 billion.

Senator Sean D. Barrett: €40 billion, that's the one he gave us. It still is an incredible burden on the people outside. And you, you were ... were you ever ... did you ever feel used to promote the share price of Irish banks?

Mr. Pat McArdle: Never.

Mr. John Beggs: No, never.

Senator Sean D. Barrett: Because you were the spokesmen for an industry which has cost us so dearly.

Mr. Pat McArdle: We may have been spokesmen, but we weren't talking about things like that. We were talking about short-term economic forecasts and ancillary things. So I never had the feeling ... well, first of all, Ulster Bank didn't have a share price here, so it couldn't ... it couldn't arise in my case, so perhaps I'll shut up.

Senator Sean D. Barrett: Did we have ... did you ever discuss with your senior management the loan-to-deposit ratio?

Mr. John Beggs: No.

Dr. Dan McLaughlin: Can I just say the ... I didn't, but I would just like to make a comment about loan-to-deposit ratio, because it's instructive that under the new Basel regulations it isn't a requirement, and I think people may not understand that you could have two banks, one with a loan-to-deposit ratio much higher than the other, but all the deposits could be corporate deposits that are one week notice. Whereas another bank could have far less deposit, but far more wholesale funding, that they've issued five and ten-year bonds. So a loan-to-deposit ratio can be quite a misleading statistic, and under the Basel requirements, under Basel III requirements, it is not a requirement to have a loan-to-deposit ratio of a given figure, because it's not a very reliable figure. What is required is now liquidity coverage ratios, stable funding ratios, which take account of the different types of funding you have, and the maturity of those fundings. It's a much more reliable metric than loan-to-deposits.

Senator Sean D. Barrett: Even reliable by people who imposed such debt on the rest of society. I have to say, we do have evidence that the banks resented attempts to regulate them under a number of headings, and we'll be talking about that with the regulator. Could I draw the attention of our visitors to UBI - B2, on page 16, and pages 24 plus, where Ulster Bank in this case, late August 2007, doubled a sectoral limit from 250% to 500%.

Chairman: Deputy, it's-----

Senator Sean D. Barrett: B2, and it's on page 16. But a massive increase-----

Chairman: Can I just give it a moment 'til it comes up there, Senator?

Senator Sean D. Barrett: Thank you, Chairman.

Chairman: Just to give them the context of this. It may not have been in the economists' book, but it may have been a book that ... this was a book that was ... dealt with the Ulster Bank banking officials' centre, is it?

Senator Sean D. Barrett: Yes, that's correct, that's correct, Chairman, thank you.

Chairman: Okay, yes, that wouldn't have been shared with the witnesses, so I just need to get it up on the screen here. Okay, sorry, it-----

Senator Sean D. Barrett: Well-----

Chairman: This is to come up at a future hearing, is it?

Deputy John Paul Phelan: No, no, it came up.

Senator Sean D. Barrett: It was, I think, discussed.

Deputy John Paul Phelan: The sectoral limits.

Chairman: All right, I'm sorry, this isn't pre-loaded up on the system now, because we'd have needed some forewarning on that, Senator.

Senator Sean D. Barrett: I'll just say also that there's a letter which I can read out, to Ulster Bank, dated 24 July 2008, commenting on no response to a letter five and a half months earlier, the 12 March 2008, asking for responses to points, you know, which are heavily redacted, where the bank was not complying with the regulator.

Mr. Pat McArdle: Sorry, Chairman, is there a question buried in there?

Senator Sean D. Barrett: The question is that you want to allocate most responsibility for the collapse to the regulator and his management and board. We have evidence that banks in many cases were reluctant to deal promptly with requests from the regulator.

Mr. Pat McArdle: I think that's a statement.

Senator Sean D. Barrett: It's a question that ... that ... how do you now see that if we have evidence that the banks were tardy in responding to the regulator can you blame the regulator as ... as thoroughly as you do in your statement today?

Mr. Pat McArdle: I did say, in my ... Deputy ... in my statement that I was not attempting to absolve the banks from blame, right. And they were certainly up to it. It was merely a question of the priority I was getting at ... in that ... we are talking here not about individual transgressions of the nature you are talking about. We are talking about saving the system in Ireland ... the whole banking system that cost that €64 billion or €30 billion whatever it is that you referred to earlier ... and in that way I said there was only one watchdog who could have done something about it, right? And I also said that ... this ... while I am familiar with corporate governance and the responsibility of boards, I ... I think I illustrated how really, that doesn't work or didn't work. And to come to the nub of your question, Senator, I knew nothing about the matters you refer to until I heard them raised here, I think it, was it yesterday? So I have no comment on them.

Senator Sean D. Barrett: We have a bank which lent outside policy limits €82 million in one month in September 2006 ... that's on page 21 of that document which I hope will ... will reach you in time. And could you also comment on ... within your banks ... where the non-executive directors and I have particularly in mind-----

Chairman: Last question.

Senator Sean D. Barrett: Thank you, Chairman. You will remember Jim O'Leary, Professor Niamh Brennan and Bill Livingstone within banks were not listened to and, obviously, no one reported back to you their concerns about the lending practices of Irish banks. But at board level, there were concerns which appeared not to be relayed back to the senior economists who are here this afternoon.

Mr. Pat McArdle: I presented to the Ulster Bank board roughly once a year, I think, as I said in my witness statement. I have no recollection of any of those concerns being raised with me. I'm pretty, I would have known Niamh Brennan, I'm pretty certain she didn't ask me ... in fact I have no recollection of ever been asked a question and I have no recollection of any of those concerns been raised with me.

Senator Sean D. Barrett: She raised, at the Carrickmacross meeting in 2004, issues which were still pertinent in 2006 and 2007.

Mr. Pat McArdle: By way of addendum, my presentations were about economics not about bank lending so it wouldn't ... that sort of thing wouldn't arise in the natural order of things in the presentations I gave.

Senator Sean D. Barrett: Should people working in a shop not notice that the shop business is going into rapid decline and may be required to be rescued by someone?

Mr. Pat McArdle: No, Deputy, this is something I have been thinking about for a while now. You know I mean it is clearly here that there's a ... there's a misalignment of impression ... you know ... you ... the way things operate in ... I worked in both the public and private sectors. The way things operate in both those areas, perhaps it's different in academia, is that you do your job, you're in an area and you are consulted or not. Rob Wright who, was in with ye, he said that in the Department of Finance he was shocked to see that people went home on budget night without knowing what was in the budget. That's perhaps an extreme example of the type of thing ... but the fact that I was in Ulster Bank doesn't mean I know ... I knew anything at all about the matters you are discussing.

Senator Marc MacSharry: Thanks very much and thanks, gentlemen, for being here and welcome. I'm going to try and cover a good bit of ground if I can so if we can keep ... just because I have limited time ... answers as short as possible. The first one is to '03. Did you feel that the strategy and risks appetite of your institution was appropriate in the context of your own and your team's analysis. So if I go from left to right or right to left as you are sitting. Mr. McLaughlin first.

Dr. Dan McLaughlin: Yes I didn't think ... Bank of Ireland I thought was diversified ... it was a ... 50% of its loan book was in residential mortgages which is historically is one of the lowest risk areas to lend into. It was diversified in and had a lot of lending in the UK and ... that ... and in fact that mortgage book had very little loan losses ... so I didn't think there was a particular problem.

Senator Marc MacSharry: So you were happy with it. Okay, and Mr. Beggs?

Mr. John Beggs: Well I'll say in relation to lending in the three years, say from 2005 to 2007, from what we've heard from AIB representatives before the committee that ... you know ... staying relevant with your customers and maintaining market share seems to me to ... should have been secondary really to whether the ... you know, the loans were appropriate, whether there was ... given the growth, the rate of growth over the period, did that give us sufficient time to manage those, manage the risk and understand the nature of the loans? It just seemed to me to be ... you know, the rate of growth of lending in that period was excessive and ... ran risks of not being adequately managed and understood. So, so I would have concerns, I think ... I think the bank, as I said earlier, banks are central to the growth of the Irish economy, they are the only source of-----

Senator Marc MacSharry: No, no, we get that. Do you feel now it was excessive, or you felt then?

Mr. John Beggs: Yes, because at the time I wasn't, I wasn't really watching it on a year-by-year basis and this is a hindsight view-----

Senator Marc MacSharry: So with hindsight, you are saying yes. And yourself, Mr. McArdle?

Mr. Pat McArdle: The only time I came close to this was in 2004 when we did a major exercise on the property book, looking at the demand for houses in the greater Dublin area over the ... up to the 2010 and the likely supply. And I remember we hired consultants to work out every site that would come on the market over that period and as part of that I was closer to the property people and I remember asking ... being told that the book was very well diversified, that they had the top ten risks were only a low percentage - I can't remember what it was - of the lending. So as far as I - and I wasn't involved, I didn't have that interaction with any other part of the bank. So as far as I was concerned, things looked relatively okay.

Senator Marc MacSharry: So you felt that the appetite was appropriate, or not?

Mr. Pat McArdle: Broadly speaking, I felt the appetite was appropriate. All the banks now, mind you, were growing at extraordinary rates when you lumped them all together, right. And I ... and this is why I am probably so disappointed in the regulator - I would have relied on the regulator to you know, to call the shots on that if it was getting out of hand.

Senator Marc MacSharry: Okay. In terms of the euro ... with the introduction of the euro and between competitiveness, which you have all spoken about and the highly competitive environment, and I suppose the additional facility and access to liquidity, or easier liquidity that the entry in the euro gave, did that drive down what you've referred to Mr. McLaughlin as credit quality or underwriting quality?

Dr. Dan McLaughlin: No, I don't think ... I think the euro had a massive influence in two ways. One is the average mortgage rate fell very significantly, which gave a very significant boost to affordability for a good few years. But I think the major change for the euro was it suddenly transformed the funding side, funding landscape for the banking sector, in that the Irish pound market was a very small market and suddenly Irish banks could issue bonds into the huge euro market. So I think it was instrumental in facilitating the very rapid growth in credit because it was much easier for Irish banks to access liquidity. I don't think you can say it directly affected the credit side, I think that clearly it must have been competition. I remember some, I forget who it was now, some politician who said "There's too much competition in the Irish market", and in retrospect that was probably right.

Senator Marc MacSharry: He's sitting beside you.

Dr. Dan McLaughlin: This was a Member of Dáil Éireann around 2005 or 2006 ... or seven or eight years ago.

Chairman: There's calls coming in folks please, will you turn them off rather than just having them on ... can I just give you a bit of time here Senator MacSharry.

Senator Marc MacSharry: No bother, it's not mine. Twenty lashes.

Chairman: But just, people, when a member's in possession, members in proximity to them are interfering with them when their phones are switched on, so I would ask you to have your phone switched off at all times, not just when you are in question time. Senator, back to yourself.

Senator Marc MacSharry: Okay. I suppose what I'm trying to get to, did it loosen? As economists, did it loosen the credit? I mean in the early 1990s, I mean, you needed a letter almost from both parents over 90, and one from the Pope, and a five-years' savings track record, and a guarantee from mam and dad and everything else. I mean, as more money became available, as competitiveness seemed to be driving each of your institutions to maintain market share, was the easier liquidity of the euro leading to looser underwriting approaches by financial institutions? Do you want to take that?

Mr. John Beggs: Well, I'm not sure it was directly responsible for it, but it certainly was part of what happened. I mean, the ... the ... the move to provide 100% mortgages, etc., I've said earlier had to do with the fact that prices were rising very rapidly. So if you were to ... if you were to ... banks moved away from, you know, these normal conditions for approving loans to looking at, you know, affordability, proportions of disposable income and that sort of thing, and stress testing them for increase in interest rates. But that was in a low interest rate climate, so I think competition ... I would agree with Mr. McArdle that there was excessive competition in the Irish market. The introduction of the euro facilitated that and ... I believe, though, as I said at the beginning in relation to AIB risk appetite and the concentration risk - and this applies to its other ... mortgage lending - that it believed that, notwithstanding the volume of business that it was doing ... that it was doing it ... that it was of good quality, low risk. So I can't ... I can't say that it led to a lessening of standards. I think we had a volume of lending which put us at risk.

Senator Marc MacSharry: So, "No," is your answer, okay.

Mr. Pat McArdle: Okay, mine is the same. I think you've got the wrong end of the stick, Deputy. What it did was two things: it drove down interest rates, right, in Ireland, it led to Bank of Scotland Ireland coming into Ireland and undercutting all the other Irish banks and the other Irish banks went down. So interest rates ... and there was a low interest rate regime in Europe, so it was much cheaper to borrow. That's the first thing. But that's on the demand side. And, by the way, tracker mortgages came and were promoted by the authorities, right, which were super low interest rates. So you had big boost to demand on that side. And the other thing it did on ... on this side was it funded. Irish banks could now get virtually unlimited resources at low interest rates in the inter-bank market.

Senator Marc MacSharry: I know, I get ... I get that, but-----

Mr. Pat McArdle: Yes.

Senator Marc MacSharry: -----the ... the-----

Mr. Pat McArdle: No, I don't think there's any direct connection with the standards though. That's another remove away, as far as I'm concerned.

Senator Marc MacSharry: So the kind of income ratios that were being considered by banks, say, in 2006, as opposed to 199 ... what would have caused that difference, where we would have been used to a two-and-a-half times plus once the second income-----

Mr. Pat McArdle: Yes.

Senator Marc MacSharry: -----and then to, maybe, five times or however ridiculous it became, you know?

Mr. Pat McArdle: Well, let me take that. The system changed and it moved away from the two-and-a-half times to the after-tax ... the proportion of debt service cost as a fraction of after-tax income. And we all had various indices which modelled that. I had one. I'm sure AIB had one. Dan had one. DKM had one and still has one. So it ... and that captured ... that model captured a lot of things that improved affordability, such as massive reductions in income tax, extension of loans ... I've forgotten the other factors. I have them here somewhere on a slide. There are about five different things. So ... and ... so ... when ... when ... it was only when the ECB raised rates round about 2006-7 up to 4%-4.25% that that affordability became stretched.

Senator Marc MacSharry: I just have two more very quick things. And this next question is just a "Yes," or "No." I know you won't want to answer it like that but it just a "Yes," or "No," on the basis that ... and there's one after this because we've just run out. The ... the ESRI, the IMF, the ECB, the Commission, the OECD ... when reports came from them that everything was going well, did you normally take them as factual?

Dr. Dan McLaughlin: They were another view, yes. They were another-----

Senator Marc MacSharry: Was that-----

Dr. Dan McLaughlin: -----another view.

Senator Marc MacSharry: But would you take it as factual? Would you say, "Well, their data is going to be correct because it's-----

Dr. Dan McLaughlin: Yes, of course, yes.

Senator Marc MacSharry: Would you?

Mr. Pat McArdle: Absolutely.

Senator Marc MacSharry: Okay, that's good. Can I also ask that, as economists, you know, with large institutions at the time, and looking back, and on the basis that you didn't, as you've told us, have any direct involvement in the guarantee, considering the fiscal cost to the Irish people, and it's been referred to ... with the benefit of hindsight, do you feel that by taking a different approach in terms of capitalising banks or in terms of the guarantee or in terms of when we capitalised or whether we allowed fail or didn't allow fail, would there have been much, if any, of a fiscal saving to the Irish people, as a result of an alternative approach?

Mr. Pat McArdle: I think Professor Honohan got it right. What did he say - 10% or something like that? The die was cast. The big bucks were lost by the night of the guarantee. We just didn't know it.

Senator Marc MacSharry: Right.

Mr. John Beggs: Yes, I'd agree with that. It's ... you know, most of the damage was done early and savings would have been small.

Dr. Dan McLaughlin: I think it's very difficult to answer. I think Ireland, in many ways, had a first mover disadvantage, in that ... in the sense in the eurozone, we were the first country to really come out with ... of a severe banking crisis and the attitude now of the European Commission, the ECB ... lots of things have been put in place which didn't exist in the autumn of 2008.

Senator Marc MacSharry: Thank you very much.

Chairman: Can I just ... just come back to something that Senator McSharry said there a moment ago. I think, Mr. Beggs, you earlier indicated to Senator O'Keefe that AIB had some role in helping to shape the OECD, IMF and ECB reports along with the Department of Finance. Was that correct, was it?

Mr. John Beggs: Well, not quite. I was in the Department of Finance for 12 years. We had annual or biannual interactions with these organisations and then, separately, when I was in AIB, I also met with them, and we would have had dialogue with them.

Chairman: Okay.

Mr. John Beggs: And I was suggesting that, perhaps, as is the case with OECD reports in particular, sometimes the country reports were somewhat influenced by national governments before they were published.

Chairman: Okay, but the ... just, I'll put the same question to Mr. McArdle and Mr. McLaughlin. Did your respective banks have some engagement, role, familiarity in terms of shaping those reports? Mr. McArdle?

Mr. Pat McArdle: I have a very similar experience to Mr. Beggs. I was in the Department of Finance too. I went on those missions to Brussels, to the OECD. I met the IMF when they came in. In fact, it was my job for a long time to organise the meetings with the IMF. When ... afterwards when I was in Ulster Bank, we met the IMF, I recall. I don't actually recall meeting the OECD, but I have ... I do not agree with Mr. Beggs, my esteemed colleague, that the banks influenced those ... I think it's an important point to make. They certainly came and asked us a pile of questions, right. I never had the feeling that I was ... I never saw the reports, so I couldn't try and influence them. And I never had the feeling that they went away massaged, quite the opposite in fact.

Chairman: The question I think was put ... shaped ... because you would be providing information ... it would give shape to those reports.

Mr. Pat McArdle: But sure like ... information ... you'd be providing two things. Well, no ... we didn't provide information really, because they got their information from the Department of Finance, the Central Bank and the ERSI. They came to us, and it was general chats about how the world is going, they were interested in our forecasts, I don't recall ... I didn't discuss anything pertinent to the bank with them. I can recall meeting them with the finance director of the bank at the time, and them ... in 2009, early ... and having a big discussion about provisioning and all that sort of stuff, which again wasn't my area. So I ... I'm going to take the position that I ... Ulster Bank certainly, as far as I'm aware, did not influence any of those reports. We never met the OECD, and we did meet the IMF.

Chairman: Okay, Mr. McLaughlin.

Senator Susan O'Keeffe: Yes, can I ask a clarification?

Chairman: I'll bring you in ... just let Mr. McLaughlin have a response first.

Dr. Dan McLaughlin: I don't recall meeting the OECD. I do recall-----

Chairman: This is part of the-----

Dr. Dan McLaughlin: No, I don't recall the meeting.

Chairman: This is standard year-to-year reports.

Dr. Dan McLaughlin: No, I don't recall meeting them, particularly, and the IMF would come in and we'd discuss the economy. I don't think there was any way that Bank of Ireland used ... deliberately tried to shape anything they were saying. Not ... no, I would disagree with that.

Chairman: Okay, all right.

Mr. John Beggs: Mr. Chairman?

Chairman: Yes, Mr. Beggs.

Mr. John Beggs: I really didn't mean to infer that ... that we shaped the report. My comments were more to do with, probably, days in the Department of Finance *vis-à-vis* official reports ... that there'd be quite a lot of dialogue when they were critical reports as to whether they should be, you know, left unedited, shall we say. I'm just making the point that these reports, coming from international organisations are the product of dialogue as opposed to completely independent, unedited or with the lack of ... no involvement from within the country concerned. That's the distinction I'm making.

Senator Susan O'Keeffe: Yes, that is fine. A clarification, Mr. McArdle. I think you said you didn't see any of the reports, and I'm just puzzled, because, obviously, the IMF and OECD reports ... whichever ones, they were all public reports we're talking about here.

Mr. Pat McArdle: Oh no, sorry, let me clarify that.

Senator Susan O'Keeffe: Yes. Thank you.

Mr. Pat McArdle: We saw them after they ended up published. We didn't see them in advance, therefore, we couldn't influence them. The way the process Mr. Beggs is talking about is that you get a draft of the report in, you read it and you say, "Don't really like that bit there, could you ... it's not quite right, could you soften it a bit?" We didn't have the opportunity to do anything like that because we never saw the drafts.

Chairman: Okay, Deputy Doherty.

Senator Susan O'Keeffe: Thank you.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus cuirim fáilte roimh an triúr ag an coiste. Obviously, the big issue in many homes across the State is the fact that the State had to put in €64 billion of funds into the Irish banks and that doesn't .... obviously, there is other concerns in different jurisdictions in relation to Ulster Bank. And I would guess that the perception out there, the common perception out there is that that happened because of a housing bubble, that house prices had gone out of control and losses were incurred by the banks. Now two of you have mentioned that it wasn't actually house prices that it was commercial property, Mr. McArdle made reference to that and Mr. McLaughlin you've made reference that it was commercial property losses that broke the bank. Can I ask you to, both of you to expand on why it was commercial property losses and not the losses in mortgages or housing that actually caused the significant losses in the banks?

Dr. Dan McLaughlin: Well, first of all, commercial property prices fell in Ireland 67% and land banks probably fell possibly even 90% I don't know. Also, commercial property prices fell in the other jurisdictions that the banks had assets in - the United States had a huge fall, the UK had a huge fall. That fall in asset prices was ... what happened was NAMA meant that that was marked to market. Obviously house prices dropped 50% and it's obviously a very serious thing for a lot of people that were in negative equity and some people obviously lost their homes. But the banks did not mark to market that house price fall, and as we now know the banks have now if you like ... the level of arrears tells you that the banks did not foreclose on those houses and therefore mark to market the price change. So commercial property was mark to market and that ... NAMA crystallised €42 billion of losses for the Irish banking sector.

Now obviously a lot of banks had put provisions against some of that but ... Senator D'Arcy asked me earlier about the NAMA discounts and I just made the point that, you know, the ... the Bank of Ireland one was lowest. But I was shocked, I think everyone was shocked that, how could banks, how could some banks have a 60 odd per cent discount on some of their assets. I think just factually it is the commercial property price falls, asset price falls that opened up the huge capital losses in most of the banks. And the problem or the issue with asset prices is that, in general, not always but in general, asset prices tend to rise over time. So obviously if you buy an asset five years later, I'm talking about real asset like land, five years later it's generally higher in price and that's what we see now.

Deputy Pearse Doherty: Can I ask you maybe a question, if house prices didn't fall and commercial property fell to the extent it did 67%, would the banks still have needed the amount of capital that the Irish state provided?

Dr. Dan McLaughlin: Well a lot of it, yes. They didn't get the capital to cover residential mortgage losses because they haven't put it in the results that they've had massive losses in residential mortgages.

Deputy Pearse Doherty: And Mr. McArdle you mentioned that most of it in relation to the €64 billion that was injected, how much would you estimate was a result of commercial property losses?

Mr. Pat McArdle: You would have to ask Professor Honohan for that he's the man with all the numbers. I don't know, I recall reading somewhere recently that even now, a lot of the mortgages that are impaired at the moment are SMEs and that, you know, it's SME debt rather than mortgage debt. It's not a big portion of the whole lot is the first thing. I don't think ... I'd be uncomfortable trotting out numbers because I don't really know-----

Deputy Pearse Doherty: Sorry, what's not a big portion of commercial property?

Mr. Pat McArdle: The mortgage, *per se*, if you just had a ... we'd stressed for mortgages don't forget for higher ... for 56% real fall if I recall rightly and the bank obviously decided it could live with it. I didn't do it so I don't know, and I never heard the results but they were presumably reported up the bank. Well I might not of heard of it ... whether they could live with it I don't know. But let's assume that it was okay because no one ever reported these stress tests were going to cause any Irish banks to collapse, you know, we never got any inkling of that. So the banks, some banks anyway, Ulster Bank had stress tested for very significant house price falls and there was no problem. The problem was in the commercial mortgage book. And why was the problem there was the second question. I think it's because of the cross borrowings, right ... in that I think they only became... well two things. first of all. The process by which NAMA did it, that two-year process, that caused Irish property values to go down. We'd have never ... if we had been able to do it like the Americans did - virtually overnight and stuff the banks with capital - we might have got away with ... instead of 67%, with a much lower fall. But I'm not going to go there because that's speculation and we'll never know the answer. But what we do know, and what should be available to the authorities is, the cross borrowing that all these big developers, you know, 20 of them, it turned out, that borrowed from all the banks. Now, that wasn't known to me and I suspect it wasn't known to the banks either. So I think that was a key factor.

Dr. Dan McLaughlin: Can I just add a thing, Deputy? You, know, the State injected, what ... €30 billion into Anglo. Anglo was not a residential property manager.

Deputy Pearse Doherty: Mr. Beggs, do you agree with the opinion of either ... the participants at either side of you that it was commercial property that broke the banks?

Mr. John Beggs: Yes, I do, based on the sort of analysis and the way they are thinking about it and looking at it. I mean, it wasn't house prices that ended up requiring the additional capital. It was on the commercial property book, which had grown dramatically in the years leading up to the ... to the banking crisis.

Deputy Pearse Doherty: The committee has had evidence that, in relation to commercial property ... and when we're talking about commercial property, you'll just maybe outline to listeners at home or viewers what that actually entails in terms of hotels, offices and so on. We've had evidence to the committee that the commercial property sector in Ireland was very small. We also have evidence from NAMA, for example, that 29 borrowers that went into NAMA - which was commercial property - had €34 billion of par debt. In relation to stress testing within your banks ... was stress testing done for commercial property? You know, there was a mention ... I am not sure which one of you mentioned, that there was no focus on commercial property. Was it-----

Dr. Dan McLaughlin: It was included ... from my recollection of the internal stress test in Bank of Ireland, yes it was. If memory serves, 40 odd per cent of the transfers to NAMA were foreign property. So it goes back to my point. You know, there was a massive property ... commercial property fall in America, in the UK. Also, in fairness, commercial property should also include land banks. I mean, the biggest losses where were banks were lending to developers or to people who were buying land, some of which was zoned and some of which wasn't. And, it was that price that fell ... in some cases, 90%. Now, just one very quick thing. I don't mean to suggest that all the losses were due to commercial property because, obviously, if you are AIB or Bank of Ireland or Ulster Bank, you're very intimately connected into the Irish economy. So the Irish economy contracts by 12.5% and unemployment goes from 4.5 to 15%, you're going to have a lot of losses on ... particularly on SME lending, which was inevitable as a consequence of the fall in GDP.

Deputy Pearse Doherty: Okay. Can I ask you just in relation to the UBS investment research report ... it was on 28 January 2008 - I'm not sure if you are familiar with it - it issued a sell notification for AIB and it estimated that commercial property was going to drop by 30%, if rent stayed static, and could go further. It mentioned commercial property was way overvalued. What was the impression? Did you as economists have a view on that? Did the bank discuss that report, particularly with AIB, because there was a sell recommendation to its investors at the time?

Mr. John Beggs: We .. I'm not familiar with the report. I certainly don't recall it. And that's something that probably would've been dealt with within group as opposed to capital markets. I think, in relation to stress testing ... I think it's been already reported and discussed at the committee here how AIB did a stress test in 2007 of commercial property, with estimated losses that were within ... within in tolerance limits. So it's, you know, big drops in property prices ... commercial property prices had been stress tested and found to be manageable. It all depends on how ... the degree to which the probability that you attach to that scenario and I think the ex-chairman made a point that they only stressed for a one in 25 year event and not more, which gave you, obviously, a lower outcome. But, I would think, just thinking back, there were probably plenty of such research reports that were becoming quite negative on Ireland and, clearly, commercial property was an area that would've been very much in focus. I mean, I'd say all the property portfolio, whether it be house prices and commercial property, they would've made assumptions of declines, given the height to which house prices had ... and property prices generally, had risen over the three or four years up to the crash.

Deputy Pearse Doherty: And ... sorry, you know just for the record, I ask this question ... and, Mr. McLaughlin, you mentioned land banks but can you, just for the record, put on the record, commercial property ... what are the categories we are dealing with when we're talking about commercial property?

Dr. Dan McLaughlin: Yes. In terms of commercial property, you could have a property that is ... that has tenants in it, like an office block, which is paying interest to the owner of the property. You could have somebody going to build some commercial property, or also you could have simply land, which has nothing on it at the moment, that somebody buys with the intention of either it has planning permission to build houses on it or offices on it, or it may not have planning permission and they hope to get planning permission. So commercial property-----

Deputy Pearse Doherty: And hotels and retail would be-----

Dr. Dan McLaughlin: Yes, sorry. All of those. So in other words, it's property on land that isn't residential, basically.

Deputy Pearse Doherty: Okay, thank you.

Chairman: I'm going to move towards the wrap-up. I just need to get two quick questions in first and then I'll move to Deputy O'Donnell and Deputy Higgins. Can I just put the question: did you, as economists within your own individual banks, have key performance indicators with regard to you or your unit's working outputs? Mr. McArdle?

Mr. Pat McArdle: No.

Mr. John Beggs: Yes, we did. Performance indicators? No, we had performance reviews, but they were non-specific in my case.

Chairman: Okay.

Mr. John Beggs: They didn't have targets or-----

Chairman: And how were they judged, Mr. Beggs?

Mr. John Beggs: Well, they would've been judged on, I suppose, you know, what sort of work I had done over the past year. I mean, I did a lot of presentations around the country for different parts of the organisation and so it would've been an assessment as to, I suppose, how hard I was working to meet customer needs. In terms of treasury, of course, I was part of treasury and treasury was judged on the basis of its profitability.

Chairman: Okay. And Mr. McLaughlin?

Dr. Dan McLaughlin: Well, everyone in the bank had an annual assessment based on what were called key result areas, which were basically objectives set at the start of the year, which was ... which largely was your job description. In other words, in my case, to produce economic research and so on.

Chairman: And how was that judged?

Dr. Dan McLaughlin: By your manager, you know, subjectively.

Chairman: All right. Just one other final question. In Mr. McArdle's contribution on his opening statement today and maybe it's a question for all of you, but you quote Bill White, the former chief economist of the Bank of International Settlements and you go on to give his commentary with regard to the "Tale of Seduction" and bearing in mind that Mr. White is an economist, similar profession to yourselves. He says ... he goes onto to say: "All of the parties who contributed to the crisis (borrowers, lenders, regulators, central banks, academics and politicians) [I note there's no economists in that section], were all seduced by various influences into believing there are different things that were not true." As economists, were you seduced? Mr. McArdle?

Mr. Pat McArdle: Maybe I'll take it. Well, I think the economists are in there hidden under the academics probably. You know, in Ireland, there's a big difference between academic economists and banking economists. We didn't hear from the academics until the crisis-----

Chairman: Can you tell a short tale of seduction, Mr. McArdle?

Mr. Pat McArdle: Pardon?

Chairman: Can you tell a short tale of seduction?

Mr. Pat McArdle: A short tale ... were we influenced, you ask, isn't that right by seduction-----

Chairman: You had used this vocabulary today-----

Mr. Pat McArdle: I think we were. I think we were, yes.

Chairman: In what way?

Mr. Pat McArdle: Well, I was ... I went along with the consensus on the soft landing.

Chairman: Okay. Mr. Beggs?

Mr. John Beggs: Yes. I believe I was ... I often told customers in talking about the economy and many of them were asking questions about its sustainability, I am often reminded by them of a list of criteria that I saw about bubbles in economies. I remember that I think that the tenth item on that list was when the domestically-based economists believe that it's different ... you know, and ... in our case it wasn't any different from anywhere else. Now I don't think we thought it was completely different, but at the same time I think we ... we really did believe, that absenting the global crash, that we could manage this to a ... to a soft landing.

Chairman: Okay and Mr. McLaughlin?

Dr. Dan McLaughlin: My views were my own. I believed the consensus view. I regret that now. I didn't take on board the possibility of a much steeper correction that eventually happened.

Chairman: Okay, thank you. Deputy O'Donnell.

Deputy Kieran O'Donnell: Just a very quick point, Mr. McLaughlin. You made reference to about commercial ... you know it was mainly commercial property brought about the major losses. Would commercial property include land that was owned for residential? The point really I suppose-----

Dr. Dan McLaughlin: Sorry, I meant ... I ... well ... when I say that I am particularly talking about the decision to sell or to ... for banks to sell assets to NAMA. That was largely commercial property and it included obviously in it landbanks as I understand it -----

Deputy Kieran O'Donnell: And I think my ... just a point of correction like ... some of those landbanks were residential landbanks, that's basically the point-----

Dr. Dan McLaughlin: Well, sure, absolutely but-----

Deputy Kieran O'Donnell: So it's not purely commercial, in the strictest sense but they-----

Dr. Dan McLaughlin: No, but-----

Deputy Kieran O'Donnell: They were still looking at building houses on that patch of land.

Dr. Dan McLaughlin: Sure, but most ... I would argue that most of it was commercial and I would ... and also there was ... they didn't sell residential mortgages to NAMA.

Deputy Kieran O'Donnell: Okay, thank you. Can I ... I accept that but it's just a point. Can I just ... a very quick question. You made reference to it earlier but I want to ask all three, Mr. McLaughlin. If the liquidity crisis hadn't been as severe as it was, where would Ireland's banking sector have ended up? And build into that, you speak about soft landing, right? You might just tell us-----

Chairman: Many questions together now, we only have so much time.

Deputy Kieran O'Donnell: Well, they are interrelated. Where would it have gone?

Dr. Dan McLaughlin: Well, it's impossible to say but I mentioned in my ... in my presentation that in 2012, the Central Bank has four models of the ... of Irish house prices ... and they all show that Irish house prices had significantly overshot fundamentals ... and one of the models was suggesting house prices were 26% below fair value. So all ... all my point was that I think it's at variance with the facts to suggest that the global liquidity crisis did not have a very profound effect.

Deputy Kieran O'Donnell: And do you believe if it hadn't happened, that the State would have had to put money into ... taxpayers' money into the Irish banks?

Dr. Dan McLaughlin: I think what is emerging about some of the ... that we didn't know that we now know about, for example ... some bank ... that the exposure of some banks to certain ... to one individual ... I think that's ... I find that shocking that ... that they're so large. So I think it's impossible to say that ... but clearly in my view, it certainly would not have been €64 billion.

Deputy Kieran O'Donnell: Okay. Mr. Beggs?

Mr. John Beggs: I would say in the absence of the liquidity crisis, the Irish economy banking system would have reached a point where ... we would have reached a limit as to ... some sort of a limit on as to external funding. I mean this was a big source of funds, rating agencies had become concerned about the ... the amount of external funding in comparison with peer banks. And that would have put it ... started to put a lid on it. As I said earlier, the question is whether the soft landing would have been quite as soft as we envisaged ... but I think that in the absence of that we would have managed ... we would have managed through. But it would have been with some cost of an adjustment in the housing sector, property sector. We were always working on the basis that the weak export sector, which other people believed that our export performance was impaired by our focus on property, that that would have improved and given its weight in the economy, on a statistical basis, might have offset some of the worst effects of any ... even soft landing adjustment in property.

Deputy Kieran O'Donnell: Mr. McArdle. And define what you mean by soft landing?

Mr. Pat McArdle: Yes. Liquidity is important. When your funding dries up overnight, it's bound to have an effect. So, would it have an effect? I'd prefer to generalise the question, though, and maybe take issue with Professor Honohan again and it seems to be my day for this. In his report----

Deputy Kieran O'Donnell: You are becoming a contrarian, Mr. McArdle -----

Mr. Pat McArdle: In his report, he has a graph where he looks at the external influence, and the domestic, and he attempts to do ... and his first report in 2010, I think it's either ... he has ... is either two third or three quarters internal. I'm on the record as saying roughly 50-50, which is my best guess. I agree with Dr. McLaughlin, quite impossible to say. But it would have been a hell of a lot less but for everything else that went on outside the country. And we wouldn't have had ... we wouldn't have needed as much money.

Deputy Kieran O'Donnell: Do you believe the taxpayer would still have been putting into the Irish banks?

Mr. Pat McArdle: I ... very, very difficult question to answer, I would say probably, but not to anything like the same extent.

Deputy Kieran O'Donnell: And Mr. Beggs, do you think the taxpayer would have been putting money into the Irish banks?

Mr. John Beggs: To be honest with you I find it ... I find it impossible to run what I've already said to you, to run that through to a conclusion as to whether we would have ended up needing a capital injection potentially, but I honestly can't answer it.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Gentlemen, were your inputs as economists used to influence the internal policies of your banks regarding issues of liquidity and solvency?

Mr. John Beggs: "No" is the answer. My main input into the bank, as such, apart from the general economic commentaries that we were producing, which were available to everyone, I would have made into the annual planning process, would have been asked for macro forecasts, resource growth ... oddly enough, the projected ... our forecasts of credit growth was never really of much use because they were ... they had their own targets for credit, but no, we had no ... I had no input into those broader issues.

Deputy Joe Higgins: Mr. McArdle?

Mr. Pat McArdle: Sorry. Yes. Similar situation.

Deputy Joe Higgins: Okay. Thank you. Mr. McLaughlin?

Dr. Dan McLaughlin: No, I had no input either. I was involved in ... on the execution side of liquidity, in other words trying to help raise liquidity, but in terms of any strategic input, no.

Deputy Joe Higgins: Okay. Thank you. And a technical question in regard to risk metrics in economic statistics. What mechanisms and data did you use to analyse the economic outlook that you delivered?

Dr. Dan McLaughlin: Well I did quarterly forecasts and the quarterly forecasts were largely based on the quarterly GDP numbers that had just come out, and using some other forward indicators, but most of the forecasts were largely for the following year, so, I ... in other words ... I'm not quite sure what you mean. I don't have a ... I did build an econometric model of Ireland once but I never used that to forecast for the year out.

Deputy Joe Higgins: Okay, Mr. Beggs?

Mr. John Beggs: Very much the same. It was based on experience, what data were available, looking at international trends, some forward looking indicators. There were quite a few indicators that were used in the financial markets, that had very good predictive ability for GDP over one or two quarters, and I'd say that was pretty much it.

Mr. Pat McArdle: I don't know how to answer this question. My answer to this ... first of all, I take on board what my two colleagues have said, but I'd like to maybe add to it, to ... I really think some of the inquiry are putting too much emphasis on these short-term forecasts, right? I gave you a table of them so you can see how they evolved in my supplementary statement. The banks, and other stockbrokers, love having a tame economist, but they really don't need them, because you're producing short-term forecasts which is the same as for everybody else. There was 15 people producing short-term forecasts in Ireland and if you look at my table you'll find they're all pretty similar. So I know I'm arguing, I probably wasted ten years of my life doing this stuff, but in the end that's about the bottom line.

Deputy Joe Higgins: So, you're all using the same basic data, in other words, is what you're saying? Yes, okay. Mr. McLaughlin, just going back to the point of commercial property housing crash, etc. Would it be true to say that there is quite a link between them in the sense that significant commercial loans would have been given, as you clarified, for what were to be extensive residential developments, and extensive loans would have been given for what became ghost estates, so that the crash in housing did go, very much, into the commercial side, in that regard, is that true?

Dr. Dan McLaughlin: Yes, I think it is, yes.

Deputy Joe Higgins: Yes, the ... a link. And the last question, Chair, is this. I think it was Mr. McArdle, it was yourself, I think, at an earlier stage you were beginning to take exception to the idea that forecasts, good or bad, may have had some input in relation to the bailouts, etc. that happened, when ... that ... could I just say to you that if the bank economists had what's, wrongly called, more contrarian views, but that you warned or challenged, early in the 2000s, and secured, as a result of force of argument, a change of policy, the bailout in fact might not have been necessary.

Mr. Pat McArdle: I broadly accept what you say there, right, but with the following proviso or qualification, you will recall that in 2004, I said house prices could fall by 20% and we stress tested for much more, so we would have to have broadened our horizon a good deal and got into this commercial area which was hidden from us, so I accept what you say with those provisos.

Chairman: And in that regard, that brings me to my very, very final question. Mr. Trichet, last week in his engagement with the inquiry and witnesses who have been before this, spoke about that when the guarantee was put in place, that there was a funding cliff that was going to be faced in two years, when the guarantee actually ran out. Did any of you do forecast work in that regard for your banks as to what was the long-term forecast for your banks following the guarantee being put in place?

Mr. Pat McArdle: Will I start off there? I retired in June 2009, you know, which is six months or so after the guarantee. I didn't do anything-----

Chairman: Are you aware of any forecasting done by Ulster Bank in that regard?

Mr. Pat McArdle: Sorry, would you just repeat the question, Chairman?

Chairman: When the guarantee was put in place, it subsequently ... in engagements that this inquiry have had, the issue has been brought to our attention that there may have been a funding cliff. One of the difficulties in the way that the guarantee was shaped, was that two years later there was going to be a funding cliff because the guarantee was going to run out. Did any of you do any forecasting in that regard as to where your banks would be when the guarantee expired?

Mr. Pat McArdle: No again, first of all, I didn't do it and I'm not aware of it. It would be outside of our ken again because that would not be an economic exercise, that would be done by the finance division, I guess, who would be looking at the liquidity and-----

Chairman: Are you aware of forecasting done in Ulster Bank in this regard?

Mr. Pat McArdle: Absolutely not.

Chairman: Mr. Beggs, any idea?

Mr. John Beggs: No, I'm not aware of anything either.

Chairman: And Mr. McLaughlin.

Dr. Dan McLaughlin: I wasn't involved in it but it is pretty ... I made the point in my statement that the Irish banks' liquidity take from the ECB and ELA peaked in late 2010, early 2011, not in 2008. I was trying to make the point briefly that a lot of things happened from 2009, 2010, 2011 and 2012 which, I think, are also relevant to why banks ended up losing so much money.

Chairman: Okay. I'm going bring matters to a conclusion, anything further you'd like to add, Mr. McLaughlin, Mr. Beggs or Mr. McArdle?

Dr. Dan McLaughlin: I'd like to thank the inquiry for inviting me along and listening to what I have to say and the best of luck in your endeavours.

Chairman: Thank you very much. Mr. Beggs?

Mr. John Beggs: I would like to wish you well also ... you know ... in terms of what has happened in the Irish economy, I must say it really is a matter of regret, personal regret about the way in which the Irish banking sector has really exposed the economy and the general public to so much pain and difficulties as a result of this. Personally, from the position that I came from within AIB, I personally don't believe that no matter how many doors I had knocked on with a contrarian view would have made much difference. But, I regret very much that I was not more contrarian than I had been.

Chairman: Okay. Mr. McArdle?

Mr. Pat McArdle: Yes, Chairman, I probably started off thinking like a lot of people that this inquiry was probably a waste of time. I've amended that view as time has gone by. I think it's a valid exercise ... a useful exercise in distilling all what went on and it may even find some new facts. Preparing for it was an arduous exercise over the last month and I hope that what we've discussed here today in some small way will help the committee and perhaps help repay some of the debt that I probably owe to society for the various things that I said and got wrong.

Chairman: Thank you very much, Mr. McArdle, Mr. Beggs, Mr. McLaughlin. I'd like to thank you for your engagement and participation with the inquiry today and now to just formally excuse you and to adjourn the meeting until 3.30 p.m. on Tuesday, 12 May 2015. Is that agreed? Agreed.

The joint committee adjourned at 7.16 p.m. until 3.30 p.m. on Tuesday, 12 May 2015.