

HOUSES OF THE OIREACHTAS

Volume 2

No. 21
Morning
No. 22
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 27 Bealtaine 2015

Wednesday, 27 May 2015

The Committee met at 9.30 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.

Nexus Phase

Central Bank-Financial Regulator - Mr. Tony Grimes

Chairman: We have a quorum. I call the meeting into public session. Is that agreed? Agreed. We have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session. Can I ask members and those in the public gallery to ensure that their mobile devices are switched off? We begin today's session, and series of sessions and public hearings, with Mr. Tony Grimes, former director general of the Central Bank of Ireland. In doing so, I would like to welcome everyone to the 29th public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today we continue our hearings with witnesses from the Central Bank of Ireland and the Financial Regulator. At this morning's session we will hear from Mr. Tony Grimes, former director general at the Central Bank. Mr. Tony Grimes held senior management positions in the Central Bank in the area of economics, international relations, markets and payments. He was appointed assistant director general in 2004 and oversaw the financial markets and payments of securities, settlements divisions. In August 2007, he was appointed to the role of director general at the Central Bank and Financial Services Authority of Ireland, a position he held until his retirement in 2011. During his time as director general, he was also appointed acting Governor from 19 July 2008 until 19 September 2008, in the absence of Governor Hurley due to illness. Mr. Grimes, you are very welcome before the committee this morning.

Before hearing from the witness today, I wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to 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 do so, you are entitled thereafter only to 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. Therefore the utmost caution should be taken not to prejudice those proceedings. In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information they have come across in the course of their duties. This stems from European and Irish law including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations have been taken into account by the committee and will affect the questions asked and the answers which can be lawfully given in today's proceedings. In particular, it will mean that some information can be dealt with in a summary or aggregate basis only, so that individual institutions will not be identified. 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 witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. 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, with that said, if I can now ask the clerk to administer the oath to Mr. Grimes this morning.

The following witness was sworn in by the Clerk to the Committee:

Mr. Tony Grimes, former Director General, Central Bank.

Chairman: Once again to welcome Mr. Grimes before the inquiry this morning and I understand, Mr. Grimes, that you're proposing that your opening statement would be taken as read. Is that agreed?

Mr. Tony Grimes: Chairman, yes, because-----

Chairman: Okay, thank you very much, Mr. Grimes. So, just to inform as well that the opening statement will be published on the committee website also today. So, with that said, if I can begin with the first questioner this morning and invite Deputy Joe Higgins. Deputy, you've 25 minutes.

Deputy Joe Higgins: Thanks, Chairman. Thanks, Mr. Grimes. Mr. Grimes, can I ask you, in, say, the second half of 2007 and then into 2008, up to and including September 2008, were there concerns at senior levels of the Central Bank that one or more Irish financial institutions might be insolvent?

Mr. Tony Grimes: Deputy, yes. At that time there were concerns. Obviously, we read the papers; we were in receipt of reports from various sources; there was interaction with the markets; obviously we looked at share prices and so on, so it's absolutely true to say that we had concerns. Now, it's not the same thing as saying the concerns extended into us having a clear view of the insolvency of particular institutions but certainly I would say, from the spring onwards, you know, of 2008, there were concerns, but they were just concerns at that stage, as I said.

Deputy Joe Higgins: Well, can I take you through some of the evidence in relation to these concerns and tease things out a bit? So, Vol. 2, page 3 of the core documents and we have an e-mail here in which you are included, Mr. Grimes. This should come up shortly-----

Chairman: It's section 33AK so it'll be taken from the booklet, Joe.

Deputy Joe Higgins: Right.

Chairman: Okay.

Deputy Joe Higgins: In your booklet then, Vol. 2, page 3, you see ... you see an e-mail there towards the end of 2007 in which you are included and the subject is a list of issues for the domestic standing group, again a meeting that's to be held very shortly, and if I just quote from the e-mail, it says, "Please find attached a list of issues that need further examination / clarification in order to facilitate actions the Dept or the [Central Bank] may need to take should a financial institution in Ireland find itself in difficulties, or systemic problems arise in the financial system", and this list has been prepared for a discussion at the domestic standing group.

So then, if we just turn the page to page 4, Mr. Grimes and, under "Ministerial and CBFSAI powers", which is the Central Bank and regulatory authority powers, and down one, two, three,

the fourth bullet point:

The legal position regarding a number of potential policy options for the State to provide support to financial institutions in difficulty requires further examination. These include:

- the legal scope for a “letter of comfort” to be given to the Central Bank in an emergency situation confirming the Minister’s intention to approach Dáil Eireann for legislative authority to enable the issuance of a financial guarantee to the Central Bank.

And if you turn to page, just once more Mr. Grimes, to page 7. We have, “Three scenarios for institutions having difficulties ... 1) illiquid but solvent ... 2) nearing insolvency ... [and] 3) insolvent”. You’re following me there, yes?

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: And then to quote that paragraph 3:

Once an institution is insolvent the Central Bank cannot provide [emergency liquidity assistance] to the institution. In order for the institution to be assisted [Central Bank] would require ... some form of guarantee from the Government eg a letter of comfort. This would allow the [Central Bank] to treat the institution as illiquid, but solvent.

So, can I ask you to maybe comment on that? What’s this all about?

Mr. Tony Grimes: Yes, if we go back to the date of this, it is October 2007. I suppose it was the very start of the contingency planning that was taking place both within the bank and as part of DSG. And ... I think this would have been one of the first documents to have been used in the committee. And what it’s actually trying to do is set out the options. At that stage, it was no more than setting out the options. But just the context of course is, it was following on the Northern Rock episode which occurred in September 2007. So, authorities everywhere were on I think higher alert I think following that incident. So, this is the contingency planning episode that followed that. So, it’s setting out the options which were there. I think it shows that contingency planning by the authorities begun as early as, you know, autumn of 2007.

Deputy Joe Higgins: But-----

Mr. Tony Grimes: Sorry, thank you, yes ...

Deputy Joe Higgins: I think ... I’ll put it to you Mr. Grimes, that any observer would see a situation being set up here by the Central Bank and the Department of Finance for a clear situation where a bank or a financial institution might be declared insolvent. Could you comment then on the emphasis that is given and I’ll just give one more quote Chair ... going forward Vol. 1, page 101 and a scoping paper from the Department. And I just quote the Central Bank role in-----

Chairman: What page, Deputy?

Deputy Joe Higgins: It’s Vol. 1, page 101. I’ll just quote as clearly as I can:

It is very important to note that the CBFSAI [the Central Bank] is prohibited from providing [emergency liquidity assistance] to an insolvent institution. Therefore if there is any concern that a financial institution seeking ELA as insolvent, the [Central Bank] would not be in a position to provide liquidity support without the question of some guarantee arising

from the Exchequer.

A theme that keeps coming up, Mr. Grimes, is emergency liquidity for an institution that might be insolvent but legally could not be funded by the Central Bank unless there was a Government guarantee. Why does this theme keep recurring?

Mr. Tony Grimes: Well, it's absolutely clear that if the institution is insolvent the Central Bank could not lend without a formal guarantee of the Government. Now ... and yes ... that's absolutely clear. In the situation in which the authorities think that the institution is solvent but illiquid, it has been the practice also to require a guarantee of the Government, even if the institution is not formerly insolvent. But ... and that's the way it has been in practice.

Deputy Joe Higgins: Yes, I mean, that's clear ... that funding can be given to an institution that has liquidity problems but it's absolutely prohibited that funding would be given to an institution that's deemed to be insolvent.

Mr. Tony Grimes: Without a Government guarantee.

Deputy Joe Higgins: Without a Government guarantee. But the question I put to you is: why does this theme keep emerging? Is ... would you ... is there a preparation here for a suspected insolvency that might be looming or might be seen to be in the pipeline?

Mr. Tony Grimes: No, I'd like to be very clear here. I mean, when we're talking about the time period here, which is the autumn of 2007, it is purely contingency planning. Even in the marketplace, I think, there were not many doubts about solvency of any institution at that time. So I'll get back to what I say. We certainly, in my experience, had no particular institution in mind at that stage. It was contingency planning, as was being done elsewhere in Europe and globally, I guess, at the same time.

Deputy Joe Higgins: Okay. Well, let's go forward then, if I may, to the ... September 2008. And I refer to Vol. 2, page 45, Chairman.

Mr. Tony Grimes: Vol. 2 of the core document, Deputy, or-----

Deputy Joe Higgins: Vol. 2 of the core document, Tony Grimes, core documents, yes. Vol. 2, page 45.

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: Yes. And then you will see in page 46 and 47 handwritten minutes of a meeting, which is transcribed on page 45. Yes?

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: Can you tell us ... and you were an attendee at that meeting, which was in the period not too long before the actual guarantee was given. Can you tell us, what is the nature of that meeting, Mr. Grimes? One thing that would strike me on reading it is that it's ... seems to be a very, very high level ... the Taoiseach is in attendance, the Minister for Finance, the Secretary of the Department of Finance, the Attorney General, yourself, as Governor ... acting Governor of the Central Bank, and the chief-----

Mr. Tony Grimes: Not ... actually, not at that time. I ceased to be acting Governor, I think, on 19 September.

Deputy Joe Higgins: Okay.

Mr. Tony Grimes: I think the date of this is the 26th.

Deputy Joe Higgins: Yes, well, the Governor had just resumed work-----

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: -----after a period of some illness, but ... but the chief executive officer of the National Treasury Management Agency. Would you agree that it's a very-----

Mr. Tony Grimes: Of course.

Deputy Joe Higgins: -----high-level meeting?

Mr. Tony Grimes: Of course.

Deputy Joe Higgins: So can you tell us about that meeting please?

Mr. Tony Grimes: Yes. My recollection is that it was a stock-taking meeting. I mean, it was clear, even in the days before the guarantee, that we were facing, you know, important issues, and very serious issues as regards the liquidity of the banking system. It was one of a series of meetings at the end of the previous week. I think the date of the meeting in question is the 26th, which, I think, is the Thursday or Friday of the weekend before the guarantee. It was one, you know, of a series to discuss options, to hear the latest information that we all had on the state of the banking system and on the state of individual banks. So, that was the purpose of the meeting.

Deputy Joe Higgins: Chairman, the minute we have here is from ... was it ... this was not an official meeting of the domestic standing group, it was-----

Mr. Tony Grimes: No, no. No, it wasn't.

Deputy Joe Higgins: -----it was an informal meeting.

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: So I think that the minute could then be put up. There is no prohibition, Central Bank-wise, on this.

Chairman: There are two institutions identified in it, Deputy Higgins, and there's financial information on it other than the general point that you're making with regard to that this would be a crisis. This would imply that this was a crisis management situation.

Deputy Joe Higgins: Yes ... it would just be easier to explain if the minute was there, Chair, but ... but, Mr. Grimes, it seems as if there was a debate between different attendees in relation to whether or not some financial institutions were solvent or insolvent. Would that be true?

Mr. Tony Grimes: Yes, I think the issue of solvency was raised in the course of the meeting. I don't think it was at the core of the meeting; I think the real purpose of the meeting was contingency planning for what we felt might be coming down the road in the following few days. So, it wasn't a meeting called to discuss solvency of particular institutions, but, as you see from the minutes, there is a reference there to a possible solvency situation-----

Deputy Joe Higgins: Mr. Grimes, if you say it wasn't a discussion on particular institutions

that might be insolvent, half the minute, half the minute is given over to that. So it must have been a very important core of the meeting.

Mr. Tony Grimes: My recollection is that the core of the meeting was concerned with discussing a Merrill Lynch report around the same time. Now, it may not have been the same meeting precisely at which the Taoiseach, you know, attended because the meetings at that time over that particular weekend tended to merge, and it was very hard to know which was which, but ... over the same day, if my memory is right, the extent of Merrill Lynch report, which was commissioned by the Department, was discussed in some detail. And I think the date of that was around that period as well. I might be wrong about the particular date but just to reiterate, I have a strong memory that the purpose of the meeting that the minute refers to was not just about the possible solvency situation of one or two institutions.

Deputy Joe Higgins: Mr. Grimes, I correct myself. In fact, the entire minute that we have, which was written by a very high level official, is entirely on the question of insolvency. Can I quote Chair from this minute?

Chairman: Yes.

Deputy Joe Higgins: It's ... the minute starts, the PwC reported on the Anglo loan book and gave details.

Chairman:institutions if you can, just the PwC report and the financial institution.

Deputy Joe Higgins: Okay. Then you see paragraph 4, Mr. Grimes, there was a discussion of various forms of State intervention. Then the regulator said, there is no evidence to suggest that a particular institution which is named is insolvent on the going concern basis, it is simply unable to continue on the current basis from a liquidity point of view. He felt another institution was in a similar situation. Now a very high-level official in the Department then, noted that Government would need a good idea of the potential loss exposure within, and those two financial institutions are named. On some assumptions one of them could be €2 billion after capital, and the other one could be €8.5 billion after capital. What's the meaning of that minute? Does it mean, to put it clearly from an interpretation that I drew which I just put out to you, that after its capital and resources were used up, the first institution would be €2 billion ... insolvent to the tune of €2 billion, and the second insolvent to the tune of €8.5 billion?

Mr. Tony Grimes: Again ... to restate that it is my recollection that the issue of solvency was not at the core. The reason for the meeting-----

Deputy Joe Higgins: Mr. Grimes, that's not the question I asked you.

Mr. Tony Grimes: Okay, sure. On the particular reference, I don't recall the interpretation you're putting on that, Deputy ... that the figures refer to the possible insolvency of those two institutions. There is some doubt about the reference to capital there, and whether the possible losses are before or after capital; and certainly my recollection, you know, from having attended the meeting, was that virtually nobody who was present at the meeting concluded after the meeting that ... that the two institutions which are referred to here, were, or were likely to be, insolvent at that time.

Deputy Joe Higgins: But, Mr ... Mr. Grimes, why did the very high-level official in the Department of Finance specifically refer to the Government needing a good idea of the potential loss exposures within these two institutions and then, what seems to me goes on to put a sce-

nario, which was being mooted, that both of them were seriously insolvent?

Mr. Tony Grimes: Again ... to state ... it is ... it was not my interpretation - and the minute is somewhat obscure on this - it was not my interpretation that the reference there was meant to imply the two institutions were insolvent. If you read the following paragraph, it actually refers to the various options in terms of resolution of the crisis that were also being discussed at the meeting, which was in fact the real purpose of the meeting. So I can't do anything else but to repeat my understanding that actually-----

Deputy Joe Higgins: Yes, Mr. Grimes, it was the purpose of the meeting undoubtedly but the entire minute is virtually taken up with the question of these two institutions. Now, can I put to you as well, because my time is running short, that we had evidence from senior bankers - from Allied Irish Banks and Bank of Ireland - that the Government on the night of the guarantee, night-early morning, proposed to put out a statement which ... which referred to the solvency of all the banks and the bankers advised against that particular statement and it was taken out. Are you aware of that evidence?

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: What's your interpretation of that?

Mr. Tony Grimes: I think that my interpretation is that the reference to possible insolvency in the statement was just ... to be careful that actually it would not scare the markets and that ... what that-----

Deputy Joe Higgins: Mr. Grimes, why would it scare the markets to reaffirm that all the banks were-----

Chairman: You're out of time now, Deputy, again. So, Mr. Grimes, to respond. Mr. Grimes.

Mr. Tony Grimes: Again, on this, just to come back to the point, I think nobody present at that meeting walked out of the meeting of the view that we had been told that two institutions were insolvent. It would have been absolutely inconsistent with the subsequent meetings that were heard ... that were held between the 26th, the date of this particular minute, and the date of the guarantee decision on the 29th.

Deputy Joe Higgins: Mr. Grimes, just going back to your previous answer, in regard ... reference to what senior bankers advised the Government. Surely it would be to reassure the markets that one would say that there was no problem with solvency. Why would it scare the markets, as you say?

Mr. Tony Grimes: Well ... again, I wasn't privy to the discussion on the night of the guarantee about, you know, a possible issue to the press, so ... so I'm a little bit in the dark about the debate surrounding the reference in the communication to solvency.

Deputy Joe Higgins: Mr. Grimes, keeping that ... the minute of that very high-level meeting, in which, I reiterate, the Taoiseach, the Minister for Finance, the most senior officials of all the institutions dealing with the finances of the State were in attendance, where the entire minute is given over to, yes, the crisis generally but the vast majority to problems of one and two financial institutions, in my ... or what I put to you was that the most senior official in finance referred to plain insolvency. Keeping that in mind, and keeping in mind the earlier questions I asked you in relation to the discussions within the Department and the Central Bank about the

process of providing emergency liquidity or emergency lending assistance not being possible where institutions were deemed to be ... deemed to be insolvent, but would need a guarantee to have such assistance, can I put it to you that a reasonable person would say that what we have here is an explanation for the guarantee that was given on 28-29 September? In other words, that it was to cover over the fact that two institutions were insolvent, that this was known at the highest level of the State, the political and the financial ... the political leadership and the financial leadership of the State, and that the guarantee was given in order to-----

Chairman: You'll have to allow the witness to respond and you're going to run out of time.

Deputy Joe Higgins: -----to allow those institutions to survive?

Chairman: Okay. And when I take your reply I'll be moving on now, okay? Mr. Grimes.

Deputy Michael McGrath: Chairman, a bit of consistency, please, in your application of the rules.

Chairman: Yes, I do appreciate that. Mr. Grimes?

Mr. Tony Grimes: Deputy, again, I would like to state very categorically that in my experience the representatives of ... you know, of the Central Bank, but also I think of others who were at the meeting, did not come out of that meeting with the view that we had been told that there was an insolvency situation in ... okay, in the two banks, and that we carried that information and point of view into the meetings that were held in the Taoiseach's Department on the 29th. It was clear, to me at least, that as we entered the meetings on the 29th, we were not talking about anything like certainty about the solvency ... about the insolvency of two institutions. The working assumption was they were under stress but solvent.

Chairman: Yes, and can I just round that off with you before I bring in Deputy O'Donnell. We'll come to Deputy Higgins later on in the wrap-up again. And I just want to bring up a document. It's a memorandum from Merrill Lynch, it's Sunday, 28 September, it's from Vol. 1, 12 May, it's TG ... it's TGR that that is ... but it'll come on your screen now in a moment, Mr Grimes. This is ... the overall situation here, as we understand from the 28th, is that the one party that was to have the fullest picture of each financial institution in the marketplace was the CBFSAI ... was your agency. And, if you ... what I'm asking you here to do is to comment from the Central Bank's collation and analysis and scrutiny of Irish financial institutions' advices on the liquidity and solvency of Irish financial institutions prior to the issue of the guarantee. Now, this document is the Sunday before the guarantee ... and it's the Merrill Lynch briefing document, and if you look at paragraph four, the very last sentence actually in it says "The liquidity issues facing Irish banks are compounded by investor concerns with regard to the high concentration of commercial property risk in their [prospective] portfolios." Now, this would show that there are major liquidity concerns developing there ... that the ... Merrill Lynch are saying that there are very big problems coming down the line. Would you care to comment upon what ... what was the Central Bank's reading and your own interpretation of that Merrill Lynch memorandum?

Mr. Tony Grimes: I think it was clear that it echoed a lot of the concerns and the knowledge that we had about the liquidity situation of the system, as a whole, and individual banks in that period. I mean, we had been tracking very carefully - I suppose for more than one year - the liquidity developments, you know, which affected every single bank. The Central Bank effectively organises the provision of liquidity to the individual banks on behalf of the Eurosystem.

So we were ... we could track very well the deterioration in the liquidity situation of each bank over those months. This was no surprise.

Chairman: But what has been said in the Merrill Lynch document here, Mr. Grimes, is that it's not just a liquidity issue, but there are particular concerns with regard to the concentration of commercial property, so it's the type of loan exposure, the concentration risks. So it's not just liquidity, that there's a whole load of other stuff here as well with regard to the type of lending model that was actually in place.

So, was the exposure to the property market actually on your radar at that time along with the liquidity issue?

Mr. Tony Grimes: Well, it was, you know, obviously known. I mean the markets had been talking for, you know, nine months about the exposure to property, you know, of the major banks here. It, you know, had been subject to various reports in the market; indeed, it had been highlighted in financial stability reports for many years that there was, you know, a major exposure here, so it was no surprise. If you look at the movement of the share prices of the Irish banks over the previous six months or so, it was clear that market commentary tended to focus a lot on the banks' exposure to property. So this was saying no more than what, you know, everybody knew.

Chairman: Okay. Thank you. Deputy O'Donnell.

Deputy Kieran O'Donnell: I want to welcome Mr. Grimes. Mr. Grimes, can I take up ... you were a member of the financial, the ... a board of the regulator, correct?

Mr. Tony Grimes: I was, from 1 May 2008 onwards.

Deputy Kieran O'Donnell: Okay. So do you believe that a financial stability report took sufficient note of the concerns of the supervision during the period, we'll say, in which, which is the critical period in '08? So you were, you were director general of the Central Bank, but you were a member of the regularity board, which, obviously, was over supervision. So do you feel that, I suppose, in particular, that the financial, we'll say, stability report, particularly for '07 and '08, took account of the level of supervision and the concerns of the supervisory authority?

Mr. Tony Grimes: Just to go back, I, I think, took up my position about halfway through the production of the 2007, yes, FSR. It was published in the middle of November 2007, so I was involved in that to some extent. I think I set out in the written statement that we acknowledge now, of course, that that FSR did not fully anticipate the sort of crisis that occurred in the autumn of 2008.

Deputy Kieran O'Donnell: Can I just before you ... can I just put it in context? And, Chairman, I'd like to quote from Vol. 1, page 97, which is the Governor of the Central Bank at the time, John Hurley's, foreword to the financial stability report, and I quote, and he's speaking about, he says:

However, the Irish banks have negligible exposure [it's the third paragraph down] to the sub-prime sector, and they maintain relatively healthy by the standard measures of capital, profitability and [the] asset quality. This has been confirmed by the stress testing exercises we have carried with the banks.

So the two questions, I suppose, I want to ask there is that were those stress tests ... do you

believe that they reflected the concerns, we'll say, that were being expressed at the regularity board level of which you were a member of at the time? Did it come up for discussion in terms of the stress test of the banks with the Financial Regulator at the time and that board, that they'd concerns about the loan portfolios of the banks, stress tests, liquidity, profitability?

Mr. Tony Grimes: Okay. I think, though, I need to talk about the timing here. I was appointed to the board of the Financial Regulator authority on 1 May. The first meeting I attended was at the very end of May 2008. The last FSR to be published was done in November 2007. So, it wouldn't have been that current, of course, at the time I was appointed to the regulatory board. But I mean the issues that were identified in the FSR were the usual ones that, you know ... high rates of increase in credit, indebtedness and so on.

Deputy Kieran O'Donnell: I suppose the question, really, and the limited time ... because I don't want to ... when you ... in your time on the board of the financial regulatory authority from May 2008 onwards, which was a critical period, was there discussions at board level with the Financial Regulator, financial regulatory board, on the solvency of the banks, the liquidity of the banks, the stress tests of the loans, the problem with the quality of the loans, the high concentration in the construction sector, the overall viability of the banking sector itself?

Mr. Tony Grimes: Yes, I think, there was from time to time discussion there but less, I would say, in the context of the financial stability report of 2007 than in the context, you know, of the more recent developments which were occurring in-----

Deputy Kieran O'Donnell: But in terms of the most recent developments that were occurring?

Mr. Tony Grimes: Yes, there was some discussion, obviously, from time to time.

Deputy Kieran O'Donnell: In '08?

Mr. Tony Grimes: In '08.

Deputy Kieran O'Donnell: And were they serious discussions?

Mr. Tony Grimes: I think to some extent they were. They were looking at developments on the liquidity side, in particular ... they noted, though, in particular what was happening to individual institutions ... there was a lot of interaction with one institution in particular-----

Deputy Kieran O'Donnell: Would you be comfortable naming that institution, Mr. Grimes?

Mr. Tony Grimes: Well, it was Anglo at that time-----

Chairman: Be careful now.

Deputy Kieran O'Donnell: Okay and in that context, what particular issues were coming to the fore in relation to that institution?

Mr. Tony Grimes: Apart from the issues which subsequently became the subject, you know, of legal issues ... yes, there was obviously issues to do with liquidity, with market views on concentration on property and that that was a major reason for the very significant decline in the share price of Anglo, which was relatively worse than that of other Irish institutions at the time and certainly, there was concern around those issues.

Deputy Kieran O'Donnell: Would be fair to say in conclusion at this point that a sig-

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nificant portion of the time of the financial regulatory board was taken up with discussing the circumstances of Anglo? Of this institution?

Mr. Tony Grimes: Yes, but, I suppose, as a new member of the board, I was also taken with the number of regular regulatory issues that came before the board that actually absorbed a fair bit of the time of the board in terms of consumer issues but not just consumer issues, the process, you know-----

Deputy Kieran O'Donnell: Can I move on to an area-----

Mr. Tony Grimes: -----and other issues and so on.

Deputy Kieran O'Donnell: -----the round-table discussions, did you chair those?

Mr. Tony Grimes: I chaired one of them.

Deputy Kieran O'Donnell: Which was the February-----

Mr. Tony Grimes: Which was the 2008.

Deputy Kieran O'Donnell: In February 2008.

Mr. Tony Grimes: In February 2008.

Deputy Kieran O'Donnell: Can you explain how often and what was the round-table discussions?

Mr. Tony Grimes: It was a meeting which was organised by the Central Bank and by the regulator-----

Deputy Kieran O'Donnell: And how often?

Mr. Tony Grimes: -----which typically followed on from the publication of the financial stability reports. So, there would be a gap of a few months and the purpose of the meeting was to ... to outline to the banks the particular issues contained in the financial stability reports to make sure that the issues were fully understood by the banks and, most importantly probably, to get the feedback from the banks about the issues raised.

Deputy Kieran O'Donnell: And you chaired that in which meeting?

Mr. Tony Grimes: In February 2008.

Deputy Kieran O'Donnell: Which obviously was coming into a very critical period.

Mr. Tony Grimes: It was.

Deputy Kieran O'Donnell: What did you discuss with ... what banks were present?

Mr. Tony Grimes: I think that all the six domestic banks were there, in addition to two or three of the banks who would have been relatively active in the retail market, so-----

Deputy Kieran O'Donnell: Okay.

Mr. Tony Grimes: -----I think if my memory is right, about nine banks.

Deputy Kieran O'Donnell: Nine banks. And what would have been discussed ... what

would have been the primary issues?

Mr. Tony Grimes: There would have been a presentation by some of the authors of the FSRs. They would have ... yes ... actually outlined the principal messages contained in the ... in the reports in two or three sessions. And then there would have been I suppose, yes, a wide-ranging discussion that was aimed at hearing the responses from the banks on the messages conveyed.

Deputy Kieran O'Donnell: In ... in your witness statement, Mr. Grimes you state that "Liquidity issues were also raised at the Roundtable with the banks in February 2008". In what form did that ... what way did you raise that liquidity? Was solvency raised with the banks at that time?

Mr. Tony Grimes: I don't recall solvency being raised as such. But it would have been implicit, to some extent in some of the messages, you know, contained in the reports. Liquidity was a more topical issue at the time in terms of the liquidity flows and what was happening in the marketplace. But again, in general terms, because the nature of the meetings was such that none of the banks are likely to be very explicit about their own circumstances.

Deputy Kieran O'Donnell: Was the meeting ... would you regard the meeting as a regular meeting or at that time would you regard it as a crisis meeting?

Mr. Tony Grimes: It was a regular meeting but I suppose the subject matter was conditioned by the fact that in February 2008, the liquidity issues had been around for some time. So there was more focus on liquidity issues than might have been the case in previous round-tables.

Deputy Kieran O'Donnell: And did you regard liquidity issues at that time as being of an urgent nature?

Mr. Tony Grimes: I think so, yes. I mean we, in the Central Bank had sight of what was happening. We had sight of the tensions in the liquidity markets, which occurred right up from the beginning in Northern Rock and more especially about the ... around the year-end 2007, they abated somewhat at the beginning of 2008 and ... but were still there and they were apparent from the increase in the, in the volume of funding that the domestic banks were taking from the ECB.

Deputy Kieran O'Donnell: Can I move on to the period at which you were acting Governor which was from 19 July to 15 September and just to look at that period? And I suppose, the things I want to discuss on are the type of representations, views or advices that were provided by the Central Bank to the Government or the other advisers regarding the bank guarantee and the extent of the discussions with Government. And you might also discuss your interaction with officials of the ECB, including the ... Jean-Claude Trichet on the options being discussed. So you might just give me an idea of ... of the type of areas that were being discussed around the guarantee at that time and just that two-month lead in which you were acting Governor at the time.

Mr. Tony Grimes: Yes. The two-month period which began in July, but that in reality only began in August when I attended a meeting in Frankfurt of the Governing Council and from then until mid-September.

Deputy Kieran O'Donnell: What, what date was that in August with ... in Frankfurt?

Mr. Tony Grimes: It would have been early August.

Deputy Kieran O'Donnell: Okay.

Mr. Tony Grimes: And so, actually from that period ... and I am restricted a little bit in what I can say. I can really only talk in general terms about this. But there would have been concern in Frankfurt, I think, about what was ... what was happening in the global markets. But at the same time, there was a view in Frankfurt I think that ... or should I say, you know, there was no view in Frankfurt that we were heading into the spiral that we all headed into in September. But there was increasing concern as we moved from August into September, about what was, what was happening. In September, in particular, and starting in September but moving on from there, there were a lot of issues in the markets-----

Deputy Kieran O'Donnell: Had you another meeting in Frankfurt early September?

Mr. Tony Grimes: There was a meeting also in early September.

Deputy Kieran O'Donnell: How early would that have been, first week?

Mr. Tony Grimes: The first few days.

Deputy Kieran O'Donnell: Okay, and you might just take us to there in terms of your interaction with ... with Jean-Claude Trichet and the ECB and their view on, in terms of Ireland and the banking sector.

Mr. Tony Grimes: I think the views were, in very general terms, about the issues which affected all of the member states at that time. It was normal that there would be a full discussion but you have to recall that meetings of the ECB are conditioned more by what's happening in the euro area as a whole and do not actually look at the individual member state's circumstances.

Deputy Kieran O'Donnell: I suppose what I want-----

Mr. Tony Grimes: Because you're required to take a euro area-wide view.

Deputy Kieran O'Donnell: In the limited time I have, Mr. Grimes, what was the general policy around saving or not saving banks in terms of any bank ... no bank to fail, in terms of the approach from the ECB?

Mr. Tony Grimes: Well, I think that issue only became live after, I think, the middle of September and particularly after the Lehman's affair and even more particularly towards the weekend before our guarantee, which would have been 27th, 28th, 29th of the month. I wasn't privy at all to all the interactions between the ECB and the Central Bank over the period. The Governor had returned to take up his position around mid-month-----

Deputy Kieran O'Donnell: So you'd no specific discussions with the ECB in your tenure around how to ... the approach on the Irish banking situation?

Mr. Tony Grimes: There were discussions in general terms about the tensions in the markets and, in particular, how the ECB would respond in terms of liquidity issues and over that, if you like, over that time there were a lot of very special liquidity interventions, some of them co-ordinated by the Bank of England and the Fed and the Swiss Bank, so a lot of the attention focused, you know, on the global markets and the role that the ECB could play in this area as part-----

Deputy Kieran O'Donnell: What would ... what was your interaction with Government during your time, tenure as Governor of the Central Bank-----

Chairman: On the same issues.

Deputy Kieran O'Donnell: -----on the same issue, in terms of the bank situation and giving advice in terms of a potential bank guarantee and so forth?

Mr. Tony Grimes: I don't recall any specific interaction with the Minister at that time but, of course, we would have been frequently meeting in the DSG format, which contained the senior officials from the Department and the regulator and the NTMA at that time, so I don't recall specifically meeting the Minister over that period, but the intensity of the meetings was quite high.

Deputy Kieran O'Donnell: When you say the intensity, what was generally the ... the general-----

Mr. Tony Grimes: I suppose it was all concerned with reporting on crisis management issues, with trends in liquidity and with planning for what might happen in a worst-case situation.

Deputy Kieran O'Donnell: And what do you think? Do you believe ... What was the ... the defining moment in terms of the banking crisis for Ireland?

Mr. Tony Grimes: I think the Lehman's issue was, you know, a major one. I mean, you could see that from the perspective of the ECB as well, that the concentration on having to put in place special liquidity issues became very intense from that time and I guess the system as a whole was following issues like what was happening with Freddie Mac and Fannie Mae, AIG and all the events in the US, in particular. So it was building up to the end of the month when, I think, the real issues emerged over the weekend in Europe in terms of some of the European banks which required special interventions.

Deputy Kieran O'Donnell: Now, are you ... you were present in Government Buildings on the night of the guarantee, Mr. Grimes, is that correct?

Mr. Tony Grimes: I was, for some of the meetings.

Deputy Kieran O'Donnell: What meetings were you present at?

Mr. Tony Grimes: I was present for the initial exchange of views about what the remedies were, what the crisis was, what the liquidity situation of the individual-----

Deputy Kieran O'Donnell: Were you asked for your opinion, Mr. Grimes?

Mr. Tony Grimes: I ... I think I was asked for my view on the liquidity situation and about the quality of collateral for-----

Deputy Kieran O'Donnell: What view would you have given on the night, Mr. Grimes?

Mr. Tony Grimes: I would have said, in respect of one individual bank, that the collateral that we had was probably adequate in the light of the haircuts that we had taken to ... on the funds that we advanced to that bank.

Deputy Kieran O'Donnell: And was that in respect of ELA funding?

Mr. Tony Grimes: No. Okay, not at that stage.

Deputy Kieran O'Donnell: So what type-----

Mr. Tony Grimes: It was standard-----

Deputy Kieran O'Donnell: ECB funding?

Mr. Tony Grimes: Sure, ECB's funding.

Deputy Kieran O'Donnell: And were you taking major discounts on the ... on the collateral at that time?

Mr. Tony Grimes: Yes, we were. But the haircuts that we took were determined not by our own requirements, but by ECB collateral policy, which determined the particular type of haircut for the assets which were used in the collateral operations.

Deputy Kieran O'Donnell: And what level of ... of discount are we talking about on ... on the collateral being offered, the loans being offered?

Mr. Tony Grimes: I'm not sure if I can answer that, but if you feel it's okay-----

Chairman: Well, you needn't be specific but can you confirm that that matter was being discussed?

Mr. Tony Grimes: It was discussed and ... and the level of haircut was quite significant.

Deputy Kieran O'Donnell: Had that been going on for some time, Mr. Grimes?

Mr. Tony Grimes: In terms of the size of haircut?

Deputy Kieran O'Donnell: No, both the size in haircuts and how long had this type of haircut been in place for collateral being provided for the ECB for funding.

Mr. Tony Grimes: Well, I mean ... yes, as I say, there was nothing specific to that individual bank in terms of ... of the size of the haircut. The size of the haircut was in line with general ECB policy on collateral-----

Deputy Kieran O'Donnell: I accept that.

Mr. Tony Grimes: It just depended on the particular mix of assets.

Deputy Kieran O'Donnell: The question ... the question, I suppose, I'd like to know is that, how long would that ... had that type of haircut been ... been posed on that institution with the ECB, in terms of funding from the ECB?

Mr. Tony Grimes: It would've been in place for as long as it was accessing funds, you know, which was over a year or more, I'm sure, from the ECB, under its standard ECB funding arrangements.

Deputy Kieran O'Donnell: And that's obviously one institution that ... am I at liberty to name, Chairman?

Chairman: No, you're not.

Deputy Kieran O'Donnell: Okay.

Chairman: And please ... and don't even slip it out there by accident either because I'll have to reprimand you, Deputy, for breach of-----

Deputy Kieran O'Donnell: Well, I ... I think it's ... it's ... it's a bit like the elephant in the room that ... that the ... we have an institution here that, clearly, was getting major discounts on its collateral in terms of what the haircuts, as you call it, from the ECB, over a long period of time. Would that not indicate, Mr. Grimes, that there was ... that the level ... that the type of loans that ... that were in place in this institution were of low quality?

Mr. Tony Grimes: Okay. Deputy, I must insist on this, because it's, you know, important. The haircuts applicable to any institution are determined by general policy of the ECB, bear no relationship to the particular institution other, in so far-----

Deputy Kieran O'Donnell: No, I'm not ... no and I'm not saying-----

Chairman: I have to allow him finish, and then I'll bring you in.

Mr. Tony Grimes: Other, in so far as the type of assets they offer, would have particular characteristics.

Deputy Kieran O'Donnell: But ... but I would think it would be reasonable to say ... I'm not talking about a specific institution, but, clearly, the level of discount that's applied in respect of ... if you're giving over something that is a loan of a value of, we'll say, €1 million, and you're getting back only 50% of that by way of ... of funding from the ECB, that's clearly of a less quality than giving over €1 million and getting back €900 million, so ... is ... is the haircut not an indication of the quality of the loans?

Mr. Tony Grimes: It is in part, but actually it just reflects the type of ... the type of asset they have. And, just to be fair to the institution involved, it's as much that they hadn't what we call market driven ... marketable securities in their portfolio. Much of the portfolio was in ... in the form of individual loans, and the haircut automatically, across the system, applicable to individual loans, tend to be higher, because of the nature of those.

Deputy Kieran O'Donnell: And did you have concern over ... that it was over a long period of time that that level of haircut had been applied on any institution? Is it ... would it be a cause of concern to the Central Bank?

Mr. Tony Grimes: Well, it was a cause of concern that domestic institutions for a year or more were using more collateral in their ECB operations than we would have been comfortable with, for sure.

Deputy Kieran O'Donnell: Okay, and, just, I suppose, to follow on from that, you finish out ... in terms of your ... you were present at the first meeting on the night of the guarantee. Were you present at any further meetings?

Mr. Tony Grimes: I ... I was also in ... towards the end of the evening with a meeting with the banks, when, I think, I replaced John Hurley, who left about 1 o'clock or so, and I took his place at that time.

Deputy Kieran O'Donnell: And what ... what happened at subsequent meetings that you attended?

Mr. Tony Grimes: The subsequent meeting was after the decision on the guarantee was taken. It was after the banks had come back with the offer to provide funds to Anglo, for some days up to a week, so the purpose of the meeting was more tying up the loose ends, to some extent.

Deputy Kieran O'Donnell: And can I finish on one point?

Chairman: Last question?

Deputy Kieran O'Donnell: Yes, last question, Chairman, thank you. Finish up on one point. The big issue around the night of the guarantee is clear around the issue of solvency versus liquidity. The question I have to ask is: what would have been the test of the Central Bank would have looked at to ensure that the Irish banks were solvent on the night of the guarantee?

Chairman: Okay, thank you, Deputy. Mr. Grimes.

Mr. Tony Grimes: I suppose that we would have been informed by a number of factors. One of them would have been the assurances from the regulator that there was not a solvency issue, but I think that we would probably also have taken, somewhat into account, some of the issues in the marketplace that were out there, and ... but, formally speaking, we had no indications that any of the banks were insolvent. They were meeting all of their regulatory requirements and so on. If you took a forward looking view I ... I contend that it still wasn't obvious that there was a serious insolvency issue at that time, because to think that a bank is actually insolvent, you really have to understand the loan book. If we're ... if we're operating on the commercial property side you have to, you know, evaluate the collateral, you have to evaluate the loan-to-value ratios, you have to evaluate whether the size of any capital losses are likely to eat through what would be the buffers of capital in place, and it's important to bear in mind, I think, that many of the ... of the catastrophic falls in the ... in the value, particularly of commercial property at the time, occurred subsequent to the introduction of ... of the guarantee. I mean, the fall in ... in the commercial property market, if my figures are right, were what was about 3% in quarter 1 of 2008, but the rate of ... of decline increased to about 15% in quarter 3, 2008, and about 19% in quarter 4, 2008. So, I think a lot of the destruction in value occurred subsequent to the introduction of the guarantee, and reflected, I think, in many respects, the meltdown, okay, in the financial markets as a whole. But they're also the read across to conditions in our local markets and in the economy here.

Chairman: Okay, thank you. I just want to deal with one matter before I bring in Deputy O'Keefe. Just one particular matter with regards to the financial stability round-table discussions that took place with the Governor of the Central Bank and with the banks themselves, and that's to do with the aggregate lending exposure of the banks. Deputy O'Donnell touched on this, and I touched on it earlier when I was speaking to you as well. Was there dialogue taking place regarding the change in funding of banks and the concentration of bank lending on the property sector at these meetings?

Mr. Tony Grimes: In the round-table meeting?

Chairman: Yes.

Mr. Tony Grimes: It would have been referred to in the presentation that was given to the round table, to the members of the banks at the round table. But you have to recall it would have been in general terms, you would not expect very specific reactions from individual banks there in light of the fact that their competitors were sitting around the table in the same room.

So their reactions tended also to be in general terms.

Chairman: Okay. But was this seen as a concern or was it seen as something that needed to be attended to, or was it something that was seen that required an action, either by your side of the house or by the banks themselves?

Mr. Tony Grimes: Well, I think it should probably be read in the context of the message of the 2007 FSR, which recognised a lot of the issues that you talked of, the increase in concentration in property, even though some of the aggregates had actually started to improve in 2000, you know, in the period. But it would have been referred to in the presentation, the fact that the concentration in property was still high, at the time we were speaking there were just the first signs, I think, of a decline in the commercial property market. So it would have been a concern certainly of the bank in its presentation.

Chairman: And in regard to any difficulties that might arise coming down the lines Mr. Grimes, was there any consideration given to the shock absorption capacity of the banks in that regard, how would they deal with it if it were to happen?

Mr. Tony Grimes: No.

Chairman: And was that on your radar or on the bank's radar?

Mr. Tony Grimes: I think it was not something the banks actually focused on, I think if you asked them individually at the time, they would not have recognised that it was a major solvency issue for them at that time. Certainly there were no strong views expressed at the round table that recognised this as a major threat at the time.

Chairman: That was the banks' analysis and views. What was the Central Bank's analysis and view?

Mr. Tony Grimes: Well, we had pointed out the risks in the report. The purpose of the meeting was to put that message out there to elicit the reaction from the banks and to see if further action was necessary.

Chairman: And what action did you take upon highlighting this as a difficulty, what action was then taken by the Central Bank?

Mr. Tony Grimes: I think at the stage that we are talking about, which was spring of 2008, there was probably an awful lot ... there was not a lot that, you know, we might have been able to do. What we were doing all the time, in the background of course, was working on the contingency arrangements and they had been in place since the beginning of 2008, in fairly serious terms, in terms of what the authorities would actually do.

Chairman: No, but I actually ... we can talk about contingency and measures and all the rest, but there was, you were saying this morning that there was a concern by the Central Bank with regard to the aggregate lending exposures of the bank, particularly in property and concentration levels. You had identified this to the bank. Did the bank take any action itself in this regard specifically?

Mr. Tony Grimes: At that time, I don't think so. I mean, yes the messages that we were putting out there were probably the same messages as had been espoused to the banks over the years and the meeting occurred also at a time when liquidity tended to be the major issue.

Chairman: Okay thank you. Senator O’Keeffe. Senator, ten minutes.

Senator Susan O’Keeffe: Thanks Chair. Can you tell me Mr. Grimes, why do you think that the stress tests that were carried out by the bank, by the Central Bank, failed to foresee the severity of the crisis?

Mr. Tony Grimes: I should say at the outset that other than one of them, that did not occur in my time.

Senator Susan O’Keeffe: But you were senior manager at the bank.

Mr. Tony Grimes: I was but not ... I had nothing to do with stress tests, if you like.

Senator Susan O’Keeffe: Okay. So it is not something you can discuss.

Mr. Tony Grimes: But I mean, I can answer in general terms. It is clear I think that what was set out, what the risks were, were understated to some extent. There were issues on the methodologies employed and I think even though the people at the time felt they were in line with, you know, international standards, there were clearly some issues that arose in terms of the lack of second-round effects and so on.

Senator Susan O’Keeffe: At the time Mr. Grimes, as opposed to now with hindsight, do you think that the Central Bank was responding in a timely fashion? I am talking here between August 2007 and September 2008. As you were going in and out of work every day, did you think at the time that the Central Bank was responding in a timely fashion to the local dilemmas that were facing you and the international environment that was all around you?

Mr. Tony Grimes: When I look back at that period, I mean ... sorry.

Senator Susan O’Keeffe: No, sorry Mr. Grimes, I am asking you to recall at the time, did you think when you went in and out of work we’re going a good job, we’re doing a great job, we’re doing a poor job, it’s very difficult. What were you thinking?

Mr. Tony Grimes: Yes, I think that we were hit with a series of issues from the very beginning of my time in August 2007. That was the start of Northern Rock. From the very beginning of that time, we were really involved in crisis management issues. That absorbed a huge amount of the attention of the bank, as well as the interaction with the ECB in Frankfurt on similar issues. Were we doing a good job? We were certainly trying to prepare as well as we could, in case the contingency arose, that we had to respond to the sorts of issues which subsequently actually emerged.

Senator Susan O’Keeffe: Do you believe Mr. Grimes that the Central Bank was independent of Government?

Mr. Tony Grimes: I do.

Senator Susan O’Keeffe: Do you believe that the board of the Central Bank was independent of Government or, if you like, of political parties in general?

Mr. Tony Grimes: I do.

Senator Susan O’Keeffe: Do you recall whether the Central Bank met with any representatives from the Construction Industry Federation in the time that you were discussing and the time that you were involved?

Mr. Tony Grimes: I recall one meeting, I think.

Senator Susan O’Keeffe: Do you know why they ... what the meeting was about?

Mr. Tony Grimes: I think they would probably have been concerned about the liquidity issues that were facing their members and I can’t recall precisely a date but probably-----

Senator Susan O’Keeffe: Their members being developers.

Mr. Tony Grimes: Yes, probably some time in the spring of 2008 but I would have to check that. So, it was a very general meeting, expressing the sorts of issues that were faced by, I think, by the construction sector.

Senator Susan O’Keeffe: But just the one meeting?

Mr. Tony Grimes: I think so.

Senator Susan O’Keeffe: Do you recall Mr. Grimes, whether when the financial stability reports were being presented across 2005, 2006, 2007, do you remember any discussion about changing the tone of those reports, about removing material that might have been difficult or that would be suggesting that things were more difficult than they were or do you believe that they were treated fairly and put out as a fair representation of what was happening?

Mr. Tony Grimes: I think they were regarded, you know, as a fair representation. I mean, there would have been some internal discussion to which I was not a party, because I was not a party other than the second half of the 2007 report, but from my knowledge I think there would have been some debate about the tone. But the tone was really reflected I think more in the Governor’s introduction than in the substance of, you know, of the reports. I would be very surprised if the text of the report was, you know, affected in any way.

Senator Susan O’Keeffe: There were not people in the bank, you know, working in the bank saying “we really should be putting this in” or “this piece is really important” and senior people saying “let’s take them out because that will reflect badly on the bank”.

Mr. Tony Grimes: I say again, I wasn’t directly involved but from the knowledge I had at the time, other than a normal debate about whether the tone properly reflected the sort of risks being run and on the other side, the need not to so-called “frighten the horses” but I mean in general, I felt the message was very clear and that the risks were well highlighted at the time.

Senator Susan O’Keeffe: By the end of 2007, two financial institutions were already highly dependent on ECB money for their liquidity, in fact the same two institutions that Deputy Higgins was discussing with you earlier. So from that time on, they were under pressure. Would that be a fair way of describing their position?

Mr. Tony Grimes: Yes, it would, but you have to recall that it’s quite normal that banks would access ECB funding. I mean, it’s a normal state of things, so the fact, you know, that some individual institutions are constantly accessing funds is, in itself, in no way remarkable. It’s not ... I mean, what would be remarkable is probably a very significant increase, okay, in the amount of funding taken from the ECB.

Senator Susan O’Keeffe: One of those two institutions had its credit ratings downgraded significantly at the beginning of September. Were you present at the meeting that took place over a ... the first weekend in September, at which representatives of two major banks were

present to discuss what to do with this institution because it was in crisis?

Mr. Tony Grimes: No, I don't think so.

Chairman: specific now. Just be general.

Senator Susan O'Keeffe: Okay. At that meeting, there's evidence given by Mr. Boucher over several pages, but he says "we [looked] at, from memory, ... a quantum of around ... €4 billion and we fed back to the regulator that we weren't comfortable, that wasn't an accurate picture of what was needed" and then he went on to say:

to be honest, I felt we should get out of the building ... "We can't support these people. [We] don't have enough information to enable us."

That figure of around €4 billion, if we go back then to the Vol. 2, the one ... page 45, the minute that we discussed earlier, that this institution could be €2 billion after capital. This meeting had taken place some weeks before this one so, again, there's obviously something going on, that lots of people are saying, "There are big problems here." This is what I can only conclude from reading these.

Mr. Tony Grimes: I ... yes, I think it's true to some extent that there was a view in the market that one or two institutions-----

Senator Susan O'Keeffe: No, sorry, Mr. Grimes, these are people meeting in your offices talking about it, not the market.

Mr. Tony Grimes: Yes.

Senator Susan O'Keeffe: I'm talking here about your own ... you guys.

Mr. Tony Grimes: Yes, but in this case, I think the interaction was with the regulator's side of the-----

Senator Susan O'Keeffe: But the regulator-----

Mr. Tony Grimes: -----of the institution.

Senator Susan O'Keeffe: But the regulator's side would have surely reported this to the bank's side in the ... no?

Mr. Tony Grimes: Not-----

Senator Susan O'Keeffe: You didn't know?

Mr. Tony Grimes: No, I didn't know that.

Senator Susan O'Keeffe: Okay. So, going back again if I may, in my last bit of time, go back to the minute that we discussed earlier. How ... what other way can you describe what that means? If institution X could be €2 billion after capital and institution Y could be €8 and a half billion after ... what does that actually mean then, if it's not suggesting insolvency? What does it actually mean?

Mr. Tony Grimes: I can only tell you, Senator, that I, nor the others, left that meeting in the frame of mind that we had been told that the two institutions in question were insolvent. This was not the message that came through. The purpose of the meeting was-----

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Senator Susan O’Keeffe: No, I understand that, Mr. Grimes, because you said that earlier, but the point is, what do those figures mean then?

Mr. Tony Grimes: I don’t know. I mean-----

Senator Susan O’Keeffe: You don’t-----

Mr. Tony Grimes: -----it’s a minute, I think, of ... you know, of a meeting that probably lasted some hours. It’s a very short meeting or it’s a very short minute.

Chairman: And it’s not your minute either. I appreciate that.

Mr. Tony Grimes: And it’s not our minute.

Chairman: Final question, Senator.

Senator Susan O’Keeffe: Do you then ... finally, do you believe that the banks, all of them, were solvent on that night when that guarantee was agreed by all the people sitting round at that table? And was the ... can you recall whether the NTMA was present at any of those meetings in Government Buildings that night?

Chairman: Thank you, Senator.

Senator Susan O’Keeffe: There’s two parts.

Mr. Tony Grimes: Okay, on the final one, the NTMA was present-----

Senator Susan O’Keeffe: Sorry, say again, Mr. Grimes?

Mr. Tony Grimes: Was present-----

Senator Susan O’Keeffe: Yes.

Mr. Tony Grimes: -----for some ... of the evening. I mean, I shared a room with them when I wasn’t in the main meeting, so, yes, they were there. They weren’t called, as far as I know. On the first issue, again, was-----

Senator Susan O’Keeffe: Were the banks solvent, in your view?

Mr. Tony Grimes: I think, in spite of what was out there in terms of stresses for particular institutions, my view was that they probably were stressed to some extent but that there was no evidence really that they were insolvent-----

Senator Susan O’Keeffe: Thank you.

Mr. Tony Grimes: -----at that time.

Chairman: Deputy Murphy. Deputy, ten minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Grimes. You’re very welcome. You mentioned Lehman Brothers earlier on and I was just wondering is it fair to say that the Irish authorities - the Department of Finance, the Central Bank, the Financial Regulator - did not anticipate the fall of Lehman Brothers or a Lehman-style crisis?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: Okay. But then, in your opening statement, you say that, from early 2008, the domestic standing group was increasingly active in crisis management preparations, especially in discussions on the legislative changes necessary for nationalising a bank and on the circumstances in which a guarantee of all bank liabilities would be appropriate. So, the possibility of a system-wide guarantee was already there, regardless of what might happen to Lehman Brothers, or a bank of such a size?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: Okay. And is it fair to say then that, having those discussions in February 2008, that crisis management is at an advanced stage, or is it just preparation? Are we in discussions, or are we actually actively working to manage a crisis that could be coming?

Mr. Tony Grimes: No, it was contingency planning at that stage, but I think it had moved beyond it to some extent. I mean, we already had the Northern Rock episode in September 2007. We had the liquidity issues at the end of 2007 also, over the end of the year, so we'd moved beyond the stage of thinking it could never happen. It was into, I think, a realisation that we'd better be prepared in case and that a lot of the discussions around that time had that in mind. So I think we felt it wasn't a purely academic exercise at that stage and there was ... there was a possibility that at some stage we would have to make a call.

Deputy Eoghan Murphy: Okay. You'd had a simulation at the end of 2007 and so now, in early 2008, we've moved from simulations and exercises into actual possible management of a crisis coming?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: So then, in relation to March 2008, we heard evidence from Mr. Hurley last week about the green jersey agenda. Are you familiar with that?

Mr. Tony Grimes: Only indirectly again, but I would have been present at meetings with some of the banks at a time when the Irish banks, as a group, were under stress in liquidity terms and, as happened elsewhere, I think, there would have been a view that, in the light of those circumstances and in the light of circumstances in which the money market, the euro area money market, was becoming increasingly sort of nationalised and segmented; that, from a financial stability point of view, it wouldn't make sense if Irish banks were to pull their lines with each other.

Deputy Eoghan Murphy: So where did the Central-----

Mr. Tony Grimes: So it was purely a liquidity issue.

Deputy Eoghan Murphy: Okay. I'm just curious though as to where the Central Bank and the regulator got the authority to approach Irish financial institutions in secret to ask them to provide each other with funding support in order to maintain the financial stability of the system?

Mr. Tony Grimes: Okay, it wasn't in secret; it would have been in the course of the frequent meetings that we would have had with all the banks at that time.

Deputy Eoghan Murphy: But did the domestic standing group know about this?

Mr. Tony Grimes: I'm not sure.

Deputy Eoghan Murphy: Did the board of the Central Bank know about it?

Mr. Tony Grimes: I'm not sure.

Deputy Eoghan Murphy: Did the European Central Bank know about it?

Mr. Tony Grimes: No, but I think it would have been consistent with what I understand would have been happening in European financial markets around the same time.

Deputy Eoghan Murphy: And the Department of Finance, did they know about it?

Mr. Tony Grimes: I honestly don't know that. I mean, it might have been mentioned in one of the meetings of DSG, but I couldn't be certain about that.

Deputy Eoghan Murphy: Okay. In March 2008, it's about five months since one of the pillar banks has cut funding off from another bank, so was the green jersey agenda designed to support a particular institution?

Mr. Tony Grimes: No, no, it wasn't and I don't want to emphasise it because it was just, in a way, a general exhortation among local banks that they wouldn't be instrumental in causing an outflow of funds to each other, basically-----

Deputy Eoghan Murphy: So, if it wasn't-----

Mr. Tony Grimes: -----at a very sensitive time.

Deputy Eoghan Murphy: Okay. So, if it wasn't concerning an individual institution, then the concern was a systemic risk?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: Okay. And yet you're not aware if the domestic standing group, or the Department of Finance, or the board of the Central Bank knew that this approach was being made?

Mr. Tony Grimes: No.

Deputy Eoghan Murphy: Okay. And was this green jersey agenda ignored by the banks?

Mr. Tony Grimes: I think that we ... that we run the risk of actually overstating it because it wasn't really a policy decision, it was more something that you know emerged in the course of the frequent meetings that we would have had with all the individual institutions. And in the context of the exploration by them, and us, of what measures might be put ... be put in place to make the liquidity situation somewhat better.

Deputy Eoghan Murphy: Okay. Was it an approach in the context of discussions in February 2008 in the ... of the circumstances in which a guarantee of all bank liabilities might be necessary?

Mr. Tony Grimes: No.

Deputy Eoghan Murphy: Okay.

Mr. Tony Grimes: No, no. I don't see a connection between them.

Deputy Eoghan Murphy: But this action being taken, then, in March 2008, are we already in the type of crisis that you say that the domestic standing group is preparing for?

Mr. Tony Grimes: In March?

Deputy Eoghan Murphy: 2008.

Mr. Tony Grimes: It's becoming closer but still, I think, very much in the liquidity sphere. For example, you'll recall that on 17 March 2008 there was a major issue with regard to the share price of one bank. But, I mean ... and that led ... or that was part of a worldwide decline, I think, in bank share prices. But it was a very serious issue. Again, I think some of the pressures eased to some extent after that but that was the context. Certainly, from then on, a heightened, you know, awareness of the possibility of some systemic issue became apparent.

Deputy Eoghan Murphy: But prior to that share price issue in the middle of March, you were already considering the possible nationalisation of an Irish bank or a system-wide guarantee to all liabilities?

Mr. Tony Grimes: Yes, in purely contingency terms, though.

Deputy Eoghan Murphy: What does that mean?

Mr. Tony Grimes: Well, it means that we didn't have any particular bank in mind, I think, at that stage.

Deputy Eoghan Murphy: You had a fear for the system?

Mr. Tony Grimes: It was a fear for the ... yes, sure ... yes. And, I think, we needed to be prepared in case there was some systemic issue that would arise.

Deputy Eoghan Murphy: And at this point had you already discussed, in the domestic standing group, the idea of a domino effect? Or a contagion effect?

Mr. Tony Grimes: It was implicit, I think, right the way through.

Deputy Eoghan Murphy: Implicit right the way through?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: That one bank could-----

Mr. Tony Grimes: Absolutely.

Deputy Eoghan Murphy: -----bring the other banks down?

Mr. Tony Grimes: Absolutely.

Deputy Eoghan Murphy: Okay. So, should concerns ... these concerns and these actions, taken in March 2008, they were clearly expressed and acted upon by the Central Bank and the Financial Regulator ... should they have prompted emergency intervention by the Government in one or more of the Irish banks at the time?

Mr. Tony Grimes: It would've been a very big call at the time, I think. Each of the banks that we're talking about had substantial value still in terms of their share price-----

Deputy Eoghan Murphy: Despite ... I beg your pardon ... despite the drop in shares-----

Mr. Tony Grimes: Of course.

Deputy Eoghan Murphy: -----from, I think, €50 billion to €30 billion in Irish share prices in a period of six months up until March 2008?

Mr. Tony Grimes: Yes.

Deputy Eoghan Murphy: That wasn't seen as a significant enough fall in share prices?

Mr. Tony Grimes: I think the fall ... it was important, of course, but, in relative terms, it was higher than what was recorded elsewhere but not by a huge extent. If you look at the figures about the fall in financial stocks at the time, it's clear that the share prices of the Irish banks ... the fall was higher by not by ... yes, but not by a massive amount.

Deputy Eoghan Murphy: But should the Government have intervened in March 2008 with a bank or with the system formally, as opposed to what the Central Bank Governor and the Financial Regulator were doing themselves?

Mr. Tony Grimes: I would not have thought the basis was there in March 2008 to intervene.

Deputy Eoghan Murphy: Okay, thank you. I'll move on from that, if I may.

Chairman: Final question, Deputy.

Deputy Eoghan Murphy: Just, then, looking back at the ... the rapid growth in the bank balance sheets between 2003 and 2008 up to that period. I mean, should the Central Bank have been more active in assessing the asset quality of the banks?

Mr. Tony Grimes: Again, I was not directly involved in my role. With hindsight, I think that ... yes ... the growth looks extremely high. I heard Mr. Hurley saying, you know ... and described the actions the Central Bank took in terms of ... yes, the capital increase that was put in place by the regulator, the expectation that interest rates, you know, were about to rise and so on. With hindsight, I think some intervention would have been good but it wasn't seen in that way at the time. And, as I say again, I wasn't directly involved at that time.

Chairman: A brief supplementary, if you want.

Deputy Eoghan Murphy: Thank you, Chair. In a simulation exercise in 2007, did fear over the asset qualities in the banks come up on the Central Bank side?

Mr. Tony Grimes: I think it did, yes.

Deputy Eoghan Murphy: Were you involved in that simulation?

Mr. Tony Grimes: I was.

Deputy Eoghan Murphy: Okay. And so when we see the concerns raised by the Central Bank after the simulation about asset quality, is that you raising those concerns?

Mr. Tony Grimes: We were certainly concerned about them. The simulation exercise, though, was a little different in that it looked specifically at what would happen if one individual bank were to fail or close to failure. We never tested, you know, a systemic issue. I think that conditioned to some extent ... yes ... the lessons that we took from the experience.

Deputy Eoghan Murphy: Thank you.

Chairman: There are just one or two matters I want to deal with before we take a break, Mr. Grimes, and one follows on from Deputy Murphy's question in that the ... it would appear that clear concerns were expressed by the regulator about the risk of asset growth at some banks before the onset of the crises. Now, you're indicating there that the Central Bank-FSAI examined the possibility or were looking at this. Did ... at any time did you see that a systematic ... a systemic problem?

Mr. Tony Grimes: What period are ... are you talking about, Chairman, just to be clear?

Chairman: In the period that you were taking to Deputy Murphy about.

Mr. Tony Grimes: Okay, 2003-2008?

Chairman: And then onwards, yes, yes.

Mr. Tony Grimes: Well, onwards actually didn't apply because the growth on the credit side-----

Chairman: No, I come back to 2003-2008 now. Not after that.

Mr. Tony Grimes: Okay. But, you know, the housing market had started to decline actually from the end of 2006. So, the period 2003 to 2006 is the relevant period here. I just have to say I wasn't directly involved ... in the assessment of-----

Chairman: But to your knowledge, did the CBFSAI examine the possibility that this might be a systemic problem?

Mr. Tony Grimes: Well, I think the messages it had in the reports were fairly clear in highlighting the risks. You could argue it didn't highlight them sufficiently.

Chairman: Systemic risks?

Mr. Tony Grimes: Yes.

Chairman: Okay.

Mr. Tony Grimes: But ... should they have taken action then ... its just hard to ... with hindsight, you'd certainly say yes.

Chairman: So were you, at that time, more focused upon the ... the quality of lending or on the asset base of the banks?

Mr. Tony Grimes: I just have to speak personally here because I took up my role in 2007 - towards the end of, you know, 2007 - at which stage the bulk of my focus was on the ... the liquidity situation of the banking system. And it was, I think, way earlier than that that the issues to which you refer arose.

Chairman: Okay, can I just in general ... just to get a feel ... maybe to get a feel for this before we return after the break. Now what I want to do is just ... describe, maybe if you could, for us the separate roles played by you, as the deputy governor of the bank ... of the Central Bank of Ireland and that which Mr. Patrick Neary, the director of the Financial Regulator, during this period?

Mr. Tony Grimes: Well, they were entirely separate. He was the head of the regulatory office. He was the head of all the supervision teams that actually inspected the banks. So, in reality, the regulatory office was looking after the well-being and the supervision of the individual banking institutions. My role was on the central banking side. Obviously, financial stability was one of the issues I was concerned with. But we were also concerned with the whole range of the ... of the other services that the Central Bank was actually involved with on the payment side, on the liquidity management side and on behalf of the ECB and so on, on production of notes and-----

Chairman: If there were a structural map of the ... of the whole entire structure of the Central Bank, the regulator's office, the Governor and the board, was the regulator's office in a subordinated position to the Governor and the board?

Mr. Tony Grimes: No. I would not have thought so. Okay, he regulate ... or ... he reported directly to the authority of the regulator and via that to the Minister, I think. Now, there was this overarching role of the CBFSAI, which was a very unusual construct, but it meant that the chair and the CEO of the regulator ... yes, they also sat on the board of the bank, but there was no reporting structure as such, okay, between the regulator's office and the Governor.

Chairman: Okay. So was the regulator, by your interpretation of that, Mr. Grimes, a complete and separate entity from the Governor and board of this ... of the overall authority?

Mr. Tony Grimes: Well, it's hard to say that ... that it was, you know, entirely separate, in that ... as I say, both the chair and the CEO sat on the board of the Central Bank to ensure some form of co-ordination between the two sides of the organisation, but in terms of formal reporting lines and ... and the authority they had to implement our mandate, which was, you know, effectively, the supervision and the regulation of individual financial institutions.

Chairman: Okay. You were acting Governor for a period of time ... and I just want to clear this up, because Mr. Neary is coming in on Thursday and the committee wants to get a proper idea as to what the structural map of the CBFSAI was, following the 2003 Act. When you were Governor ... or acting Governor, were ... was the regulator in any way accountable to you in your broad role as Governor of the Central Bank or the chairperson of the board?

Mr. Tony Grimes: Yes. No, in no operational sense did he report to the Governor.

Chairman: In what sense, at all ... in ... if ... if any sense whatsoever?

Mr. Tony Grimes: Yes, the only sense in which he was is in membership of the board of the bank.

Chairman: And you were chair of the board?

Mr. Tony Grimes: Chair of the board.

Chairman: So being chair of the board-----

Mr. Tony Grimes: And they reported, I think, from time to time, to the main board of the bank in terms of some of the regulatory activities. You'll see that in the minutes, you know, of the Central Bank board.

Chairman: And could the board at any time direct the office of the Financial Regulator in the terms of taking an action or to ask it to give account for its actions?

Mr. Tony Grimes: Well, it didn't.

Chairman: But could ... under its structure ... there's articles of association-----

Mr. Tony Grimes: Yes, I mean-----

Chairman: -----the legislation underpinning it.

Mr. Tony Grimes: -----there is the issue-----

Chairman: Could that have done those two things?

Mr. Tony Grimes: -----you know, of the guidance, which might have been done. I heard the Governor ... or ... you know, I heard Mr. Hurley speak on this and I think I share his view that he didn't feel it was necessary at the time for the Governor or the board of the bank to issue-----

Chairman: I'm trying to clarify between practice and legislation and rules. Whether a practice was taken or not, what I'm trying to find is the underpinning factor of this. Was the office of the regulator accountable to the board and could it have been directed by the board? Whether it was done in practice or not, we can discuss later.

Mr. Tony Grimes: Okay. Accountable, I think not. It's clear there was ... there was in the Act, you know, the possibility of issuing, you know, a guidance to the regulator. Yes, it was a possibility if the Governor and-or the board of the Central Bank thought fit.

Chairman: Okay, thank you.

Mr. Tony Grimes: It was a possibility. It was never exercised.

Chairman: Okay. I'm now proposing that we would break until 11.30 a.m. In doing so, I just want to remind the witness that once he begins giving evidence that he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before the committee today. With that in mind, I now suspend the meeting until 11.30 a.m., and remind the witness that they are still under oath until we resume. Is that agreed? Agreed.

Sitting suspended at 11.14 a.m. and resumed at 11.38 a.m.

Chairman: Back in quorum, I'm going to bring the meeting back into public session. Is that agreed? And in doing so, I now invite Deputy John Paul Phelan. Deputy, you have ten minutes for questioning.

Deputy John Paul Phelan: Thank you, Chairman. Good morning, Mr. Grimes. In the period after August 2007, while you were director general and deputy governor of the Central Bank, what was your ... what direct responsibilities did you have in those roles for specific areas within the Central Bank?

Mr. Tony Grimes: I suppose the direct roles were ... responsible for the economics department in the bank ... in the bank, concerned with monetary policy, international relations, financial stability - indirectly - currency production-----

Deputy John Paul Phelan: When you say financial stability - indirectly - what do-----

Mr. Tony Grimes: Well, no, I mean, in the reporting line, it reported to me, sort of, via

intermediaries.

Deputy John Paul Phelan: Okay.

Mr. Tony Grimes: Currency production, monetary policy, payments systems and the shared services that we ... that we were responsible for to the regulator as well as to the bank staff.

Deputy John Paul Phelan: Okay. Did ... in evidence last week with Mr. Hurley, reference was made to the memorandum of understanding between the Central Bank and the Financial Regulator in terms of responsibilities, and it emerged that responsibility for overall financial stability rested with the Central Bank. In that capacity were there any decisions taken or discussions had in the year, we'll say, the 12-month period in the run up to September 2008 with regard to financial stability and overall responsibility for that?

Mr. Tony Grimes: Well, I would say it happened continuously, in the sense that we were continuously directing, with the regulator side of course, as joint members of the DSG we were continuously acting with officials from the Department, we were involved in contingency planning, we were interacting with the ECB in terms of our liquidity provision.

Deputy John Paul Phelan: Okay, again, my time is slightly limited. I'm really trying to find out were there any specific decisions that were taken in that period, which would fit into the realm of overall financial stability, in light of the provision that existed in that memorandum?

Mr. Tony Grimes: I would say it was mainly in relation to the 2007 financial stability report, which was published in 2007, and more specifically also in the degree of contingency planning in the financial stability sphere, and that started really from the autumn of 2007 and continued right through the period.

Deputy John Paul Phelan: Okay. Can I refer then specifically to that period? I think in answer to a question from the Chairman at the start of the meeting you said that "We had been tracking very carefully ... for more than one year" the liquidity position of all banks.

Mr. Tony Grimes: Yes.

Deputy John Paul Phelan: When you say "we" I assume you mean the Central Bank. Who, whom within the Central Bank was doing that tracking? How many people; what were their levels; and were they specifically dedicated to that task for the 12-month period in question?

Mr. Tony Grimes: They were, but it was part of their normal operation. I said earlier, I think, also that we in the Central Bank are responsible for the provision of liquidity to domestic institutions on behalf of the ECB. So that involved, you know, auctions of liquidity in normal times every week and every month. As the crisis enveloped it was much more frequent in practice. So the people in what we call our financial markets department, of which I was head at one stage, they would have been in constant touch with each of the banks. Not just the six domestic banks we are speaking of here, but the 30 or 40 banks which were-----

Deputy John Paul Phelan: In operation.

Mr. Tony Grimes: -----actually operating in the system and which accessed their-----

Deputy John Paul Phelan: How many people were in that section, can you remember? Do you know?

Mr. Tony Grimes: Yes, the department was about 30 people.

Deputy John Paul Phelan: Okay.

Mr. Tony Grimes: Of which about a third would have been responsible for the management of Ireland's external reserves, and about ten to 12 in what we call the market operations desk.

Deputy John Paul Phelan: Okay, and in terms of those ten to 12 people then who were specifically looking at this area of tracking liquidity, did any reservations emerge, or any information come to light in the course of that 12-month period that indicated that it was more than a liquidity issue that faced the Irish banks in the fall of 2008?

Mr. Tony Grimes: I would say from that source, no.

Deputy John Paul Phelan: Why not?

Mr. Tony Grimes: Because in that particular part of the bank, our role was to monitor and interact with the Central Bank in terms of providing the liquidity to the individual banks. Now, we would obviously have seen that the levels of liquidity provided on behalf of the ECB was growing, okay, in the light of the wider liquidity crisis, affecting both Irish banks and the Eurosystem as a whole. So from ... towards the end of 2007 the level of support that banks were receiving from the ECB was growing.

Deputy John Paul Phelan: But there was no stage that alarm bells rang that it was more than a liquidity-----

Mr. Tony Grimes: Well, there was no stage where-----

Deputy John Paul Phelan: -----issue?

Mr. Tony Grimes: There was no stage when we felt that it was beyond a liquidity issue into a solvency issue, because-----

Deputy John Paul Phelan: Do you view that now as a failing, with hindsight? Or how do you explain that subsequent to September 2008, in the early part of 2009 major cash injections had to be provided for all of the domestic banks to varying levels?

Mr. Tony Grimes: Okay, well, I mean, I'd account for it by saying I think that, you know, the extent of the deterioration in the quality of the assets in quarters three and four of 2008 was extremely sharp, and that if you look at the data, even the decline, okay, you know, in the value of houses was modest enough until September 2008, about 10% or 12%. The decline in the value of commercial property; again, until the summer of 2008, was modest enough. It was really in that period in the second half of 2008 that the decline occurred, and I think reflecting the deterioration in the domestic economy here, but also the global economy.

Deputy John Paul Phelan: Okay.

Mr. Tony Grimes: So that one, in my view one couldn't anticipate earlier the extent of the ... yes, I'm just ... subsequent in time.

Deputy John Paul Phelan: Do you accept with hindsight or not that that was a substantial failing of the operation of the Central Bank at the time, and particularly with its overall responsibility for financial stability?

Mr. Tony Grimes: I think that we took extremely seriously what we were looking at from the liquidity side. It clearly reflected there were tensions out there. The tensions were not unique to Ireland, but indicated, I think you're right in saying, more widely a perception that there was a serious issue with regard to commercial property in particular. I think you can have that in tension, okay, without it leading to the conclusion of insolvency.

Deputy John Paul Phelan: But you don't accept any responsibility-----

Mr. Tony Grimes: No.

Deputy John Paul Phelan: -----for the subsequent developments?

Mr. Tony Grimes: I think that we share responsibility in not recognising early enough that the issues were moving beyond liquidity into solvency. But whether they arose as early as that I think ... I really am not sure.

Deputy John Paul Phelan: Can I ask you briefly then what are your views with regard to the changes in the regulatory structure following on from the Central Bank Reform Act in 2010? And do you believe that the new structure will help-----

Mr. Tony Grimes: Absolutely.

Deputy John Paul Phelan: -----to prevent such a similar crisis happening in the future?

Mr. Tony Grimes: I do. I think one of the faults of the system that we had in place was the splitting of responsibility between the two parts of the organisation. The information flows between the two sides, it did exist, but probably required one or the other to sort of initiate the information request. And the structure didn't really lend itself, I think, to very efficient management.

Deputy John Paul Phelan: My final question: in evidence last Thursday Mr. Hurley said the following: "In fact, in the course of the crisis, because we had a smaller banking system, and because we had developed very close links with the banks, particularly in the type of meetings I referred to earlier ... my assessment is we had far more information than some of the larger countries where the logistics were much more difficult." Firstly, I'd ask you do you agree with that statement from Mr. Hurley? And then, if you had access to much more information, how is it that you didn't appear to recognise the dangers that lay ahead at the end of 2008?

Mr. Tony Grimes: Okay, let me answer that in two parts. The first part is we had a lot of information on the liquidity requirements of banks from interacting with them every week and every day, sometimes even hourly, on their requirements. So when I heard from other witnesses to the inquiry saying that we really didn't know the situation in terms of liquidity, in my view that's absolutely false. We did know. We had very precise information. But the second part of the question is: we had information on the liquidity requirements of banks. We did not have the information on how the funding they received from the ECB was part of their overall funding strategy. In other words, we would not have known in terms of individual institutions what share of their funding was coming from ECB as opposed to from depositing institutions or from the markets, because that is a type of overview that came from the people who looked after the individual institutions and not from the point of view of the markets operations desk of the Central Bank.

Chairman: Deputy Michael McGrath. Deputy, 20 ... ten minutes.

NEXUS PHASE

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. Grimes. Can I just start by asking you if there was a clear understanding of who had ultimate accountability for the financial stability of the financial system, and you believe that this was clearly defined and understood by both the Central Bank and the regulator?

Mr. Tony Grimes: Yes. I think it's clear. It lies in the sphere, you know, of the Central Bank, I think.

Deputy Michael McGrath: Okay.

Mr. Tony Grimes: There is no doubt about that in legislation.

Deputy Michael McGrath: And that was clearly understood by both entities?

Mr. Tony Grimes: Yes.

Deputy Michael McGrath: Thank you. You refer in your witness statement on page 11 that special resolution regime legislation as such was not available at the time, and this was in the crisis in September 2008. Can I ask you why special resolution legislation was not available at that stage, given that you said yourself contingency arrangements were being planned since early 2008?

Mr. Tony Grimes: Yes, and in reviewing the minutes, actually, of the DSG in the earlier part of 2008, I ... yes, I noticed, you know, a reference there that the Central Bank had made a request that there would be some update with regard to the legislation on insolvency, and that was on the record, I think, far back in 2008. I think the issue of special regime was further discussed around the summer of 2008, and there was a relatively clear and strong view from the Department, I think on the advice of the lawyers there that, one, there were technical and constitutional issues which made it not feasible to introduce such a regime-----

Deputy Michael McGrath: Okay.

Mr. Tony Grimes: ----- quickly. There was also, I think, the view expressed that introducing it at that particular time may reflect more the sort of crisis situation than might be helpful----

Deputy Michael McGrath: Yes.

Mr. Tony Grimes: -----in the summer of 2008.

Deputy Michael McGrath: Yes. But can I ask the Central Bank's position? Did the Central Bank recommend to the-----

Mr. Tony Grimes: Absolutely.

Deputy Michael McGrath: -----Department of Finance that special resolution legislation be prepared?

Mr. Tony Grimes: I think that we're on the record early in 2008 saying we saw a need for insolvency legislation, and I think by that we included something like the special-----

Deputy Michael McGrath: And that was conveyed to the Department of Finance?

Mr. Tony Grimes: Well, it emerged I think as one of the conclusions they ... in a minute of the DSG in the early part of the year. But that's the best, you know, of my recollection on that,

but certainly I think that was our view.

Deputy Michael McGrath: Okay. And what did you make of the fact that at the end of September '08 it would appear that there wasn't resolution legislation in place, and you believe if it was ready that the Government would have had greater options as to what they may have decided to do?

Mr. Tony Grimes: Deputy, I think it would have actually increased the options, but having been part of the discussions on the evening I'm not really sure it would have made a difference on the night. But certainly it would have ... in the week or so leading up, you know, to the crisis it would have been one additional measure that might have been considered.

Deputy Michael McGrath: I suppose the point is, Mr. Grimes, that in September 2007 we had hundreds of people queuing on the streets of Dublin to get their cash out of Northern Rock, and this was a full year before the crisis hit Ireland as such, and the main banks. And so the question that I think a lot of people would want to know is, why the Central Bank and the Department of Finance were not more prepared with legislation on the books that would have given them the option of taking banks into custody, for example, separating good assets from bad assets?

Mr. Tony Grimes: Yes. I mean I'm not aware of the particular constitutional issues which made a rapid resolution of the issue impossible, to be honest.

Deputy Michael McGrath: Okay.

Mr. Tony Grimes: We were governed by, I think, the advice we got that it wasn't something that could be easily introduced. I think it should have been perhaps, but ... and I also think that even when it was introduced in 2010 or so, it was less ambitious in scope than the SRRs that had been introduced elsewhere for constitutional reasons as well.

Deputy Michael McGrath: Can I just clarify, Mr. Grimes, did you say that the amount of emergency liquidity assistance at the end of September '08 was in the region of €40 billion?

Mr. Tony Grimes: No, no. The normal, of normal ECB lending using standard collateral, it was-----

Deputy Michael McGrath: Normal ECB lending, but what type of lending what that? That wasn't ELA?

Mr. Tony Grimes: No. It was not ELA. It was the lending that the banks would access-----

Deputy Michael McGrath: Okay.

Mr. Tony Grimes: -----using their standard collateral.

Deputy Michael McGrath: And how much actual ELA was there in the Irish banking system at that time?

Mr. Tony Grimes: Well there was none other than the overnight operation that was put in place for one bank on that evening.

Deputy Michael McGrath: Okay. So when you were making the arrangements for a €3 billion facility for Anglo Irish Bank, for example, that would have been ELA?

NEXUS PHASE

Mr. Tony Grimes: That would have been the first.

Deputy Michael McGrath: There was no other ELA in the system-----

Mr. Tony Grimes: Correct.

Deputy Michael McGrath: -----at that stage?

Mr. Tony Grimes: Correct.

Deputy Michael McGrath: Okay. Can I just ask you to clarify in the course of the meetings you attended on the night of the guarantee decision, who raised the issue of subordinated debt being included in the guarantee, or did anyone raise it in your presence?

Mr. Tony Grimes: I think at the second meeting I attended, which was late in the night when there was almost wrapping up of some of the technical aspects of the guarantee, it was mentioned at that stage.

Deputy Michael McGrath: By whom?

Mr. Tony Grimes: I think by the Department officials as part of their summary, perhaps, of what was proposed.

Deputy Michael McGrath: Okay.

Mr. Tony Grimes: I was not in the room in the early part of the discussion with the banks.

Deputy Michael McGrath: You weren't in the room when the banks were present at any stage, were you?

Mr. Tony Grimes: Not in the initial meetings with the banks, I wasn't.

Deputy Michael McGrath: Okay. Can I just take you to Vol. 1 page 56, Mr. Grimes, which is an extract from a meeting in July 2008 of the domestic standing group.

Mr. Tony Grimes: Yes.

Deputy Michael McGrath: And from the documentation before us it is clear that the domestic standing group discussed Seán Quinn's contracts for difference in Anglo. Can I ask you, Mr. Grimes, when did you become aware of Mr. Quinn's exposures to CFDs?

Mr. Tony Grimes: To be honest, I find it hard to recall at this stage.

Deputy Michael McGrath: Approximately?

Mr. Tony Grimes: I suspect maybe a month or two earlier, but that would be only a guess.

Deputy Michael McGrath: These meetings of the domestic standing group noted that Anglo was funding Mr. Quinn's margin calls. Can you recall when you became aware of that?

Mr. Tony Grimes: No. It must have been around that time, but I didn't think actually you'd want to pursue this particular angle, so it isn't something I had researched.

Deputy Michael McGrath: Well, it's in the core booklet.

Mr. Tony Grimes: It is; I accept that.

Deputy Michael McGrath: Pages 56 and 57.

Mr. Tony Grimes: Sure.

Deputy Michael McGrath: And it relates to a meeting which you attended.

Mr. Tony Grimes: Yes. But I assumed it was some time around that period, but-----

Deputy Michael McGrath: And did you think it was appropriate for a bank to fund margin calls for the biggest investor in its own shares?

Mr. Tony Grimes: No, that's ... I thought, you know, highly unusual.

Deputy Michael McGrath: Highly unusual. And would you have expressed that view at the meeting?

Mr. Tony Grimes: I'm not sure, with hindsight.

Deputy Michael McGrath: And from the documentation before us, the domestic standing group was told the CEO of Anglo Irish Bank had very recently advised the Financial Regulator that there was a low point in the share price below which the bank could not continue to lend to Mr. Quinn. Did that cause concern at the meeting?

Mr. Tony Grimes: I think my recollection of the meeting, to be honest, is less to do with that particular aspect of the Anglo Irish than it was to the other issues discussed, even though it actually absorbs the bulk of the minute.

Deputy Michael McGrath: It does.

Mr. Tony Grimes: I think that it was a regular meeting of the DSG, in which the bulk of the issues that we would have been discussing would have been the liquidity issues, you know, around that time.

Deputy Michael McGrath: But can I ask you what was the position of the Central Bank with regard to the exposure that Seán Quinn had built up in Anglo Irish Bank in relation to contracts for difference in the summer of 2008? What was the Central Bank's position?

Mr. Tony Grimes: I think the Central Bank regarded it mainly as, you know, a regulatory issue but we would have been, of course, interested in the implications it could have, both with the share price, you know, of Anglo and any further implications of that for liquidity to Anglo in the event that, you know, market confidence in Anglo were to decline further.

Deputy Michael McGrath: And did you believe it was a significant issue potentially which could affect the stability of the financial system?

Mr. Tony Grimes: I think it was, yes.

Deputy Michael McGrath: And what action was the Central Bank taking at that time to address that concern which you have expressed there now?

Mr. Tony Grimes: Well, the action at the time was really, you know, to stand behind the banks in liquidity terms and to do whatever was necessary. I mean, I don't think that we saw ourselves as having any other direct role, you know, in that period. I think that we regarded it mainly as a regulatory issue.

Deputy Michael McGrath: I would put it to you, Mr. Grimes, that the concerns were documented at this meeting in July 2008 and there's a reference to this being:

a very sensitive market situation as if Quinn was unable to meet to his margin requirements and if the 'overhang' of Anglo shares were disposed of by the [contracts for difference] counterpart[s], ... the adverse impact on Anglo's share price could be very serious. However, it was very difficult to predict how the situation would be likely to unfold.

So, there was a high degree of knowledge at the Central Bank at this stage about the potential risks to the bank and indeed, the wider system as a result of the contracts for difference built up by Mr. Quinn and I'm asking you what actions were being taken at that stage to address the risks and the concerns which were clearly evident?

Mr. Tony Grimes: Yes, to be clear, I think that we actually envisaged any direct actions would fall within the realm of the regulator. I mean, we felt it was actually outside our role but certainly we were aware of the fallout from anything that happened for the liquidity and for the stability of the system as a whole. So, it was more a sort of indirect concern than a direct concern and I think at that stage we felt that we, as a central bank, did not have any direct intervention mechanisms.

Deputy Michael McGrath: So, just to clarify, there were no actions by the Central Bank, just to clarify.

Mr. Tony Grimes: There were no actions by the Central Bank.

Deputy Michael McGrath: And were there actions by the Financial Regulator that you were aware of as a very senior person in the Central Bank?

Mr. Tony Grimes: There were, just in so far as the frequent, you know, interaction on this issue between the regulator's staff and the bank was, as far as I know, extremely intense at that time.

Chairman: Senator Michael D'Arcy. Senator, ten minutes.

Senator Michael D'Arcy: Chair. Mr. Grimes, thank you for coming. Can I, first of all, clarify with you, please, because it is still a little bit unclear and Mr. Patrick Neary is in tomorrow, can you define exactly what is guidance in the definition of guidance that the CB ... Central Bank could provide for the Financial Regulator, in terms of financial stability? Is it instruction, is it direction, or what exactly is guidance, please?

Mr. Tony Grimes: As far as I know, the understanding was that it would reflect, if it were ever used and thought to be necessary, a type of general instruction of concern that the Central Bank might have had about developments in individual banks or in the system as a whole that required the regulator to use its own intervention tools, so I would not have thought that the Central Bank would ever have issued a guidance to the regulator saying "you must, you know, increase some particular ratio by X per cent".

Senator Michael D'Arcy: Could you?

Mr. Tony Grimes: I think the interpretation of when it would be used was in relation to principles and policy and there is, I guess, some debate about what that actually means in practice but in so far as I was aware at the time, I would have thought that a guidance would have reflected some general concerns that there were on behalf of the bank and that they would be

conveyed to the regulatory authority in sufficient specificity, if you like, to enable the authority and the regulator to take it forward and to impose specific actions but that the recommendations for specific actions would not come from the bank but would come from the regulator's interpretation of what the guidance would be.

Senator Michael D'Arcy: I'm still not sure that's clear ... you said you could tell and to give an instruction but could you tell the regulator that there was a specific issue that was causing concern for the Central Bank, that the stability of the banking sector could be at risk? Could you tell them to do ... to make a particular action or not?

Mr. Tony Grimes: Senator, I think it's a matter, you know, of legal interpretation here. The understanding on the Central Bank's side was that if ever a guidance had to be used, it would be expressed in very general terms but it would also be expressed in terms specific enough to leave it clear to the regulator what type of intervention would be required on their part to address the concern conveyed.

Senator Michael D'Arcy: I just want to explore this a little bit more, Chairman, please, so ... so what you've said is you could raise the matter with the regulator-----

Mr. Tony Grimes: Yes, raise-----

Senator Michael D'Arcy: -----directly, raise the matter directly-----

Mr. Tony Grimes: Okay, one would be more precise, you know, and formal, I mean, if a guidance-----

Senator Michael D'Arcy: If a guidance was issued----

Mr. Tony Grimes: If a guidance was issued, yes it would be quite a formal-----

Senator Michael D'Arcy: -----there was a matter to be acted upon. Is that correct?

Mr. Tony Grimes: Yes.

Senator Michael D'Arcy: Okay and then it was a matter for the regulator to act?

Mr. Tony Grimes: Yes-----

Senator Michael D'Arcy: That's your understanding?

Mr. Tony Grimes: Yes, that's my interpretation.

Senator Michael D'Arcy: Okay, thank you. In terms of the information available to us from the Central Bank, did the Central Bank identify specific problems developing in the Irish economy? The Central Bank have the responsibility for financial stability and that requires it to communicate such problems to the Department of Finance. Do you believe the nature and severity of the problems were clearly communicated to the Department of Finance in an appropriate manner?

Mr. Tony Grimes: Over what period are you thinking of, Senator?

Senator Michael D'Arcy: I suppose-----

Mr. Tony Grimes: Generally speaking or-----

Senator Michael D’Arcy: The period from the Northern Rock issue to the guarantee.

Mr. Tony Grimes: I would have thought so, to be honest ... I mean, the intensity of interaction between all, you know, of the authorities, was extremely high at that time. The DSG came into effect, I think, some time formally in either 2006 or in 2007 and from that time there was a lot of interaction between all the authorities, not just at the level of the DSG principals but, you know, down a layer or two, and I would have thought that between the formal communication as part of the DSG but also the very frequent informal contacts that there should have been no doubt at all at the level of the departments about the information that we had and the concerns that we had.

Senator Michael D’Arcy: You ... in the first page of your opening statement, I want to quote you:

For example, it did not collect [the Central Bank did not collect] information on the consolidated balance sheets of individual banks on which calculations of capital were based using the prudential framework. Also, the Central Bank did not examine the quality of bank assets; [that] was the role of the Financial Regulator.

Did the Central Bank have the consolidated data on the cumulative sectors, the statistics that were available per sector, per commercial real estate, per residential - was that information available to the Central Bank?

Mr. Tony Grimes: As I understand it, the Central Bank had information on the sectoral analysis of lending but it was on the basis of the returns that were made by the banks operating within the State, not on a consolidated basis. Only the regulator collected consolidated information from the banks, i.e., the headquarters of the banks here plus their foreign subsidiaries.

Senator Michael D’Arcy: But you had the information in relation ... per sector? So, the commercial real estate sector -----

Mr. Tony Grimes: Yes. That was ... that was connected ... that was collected in terms of domestic offices.

Senator Michael D’Arcy: Yes. And in terms of the ... the bank balance sheet growth from ‘01 to ‘08 for the main banks in the region ... year on year, 30% growth per annum, compound. And also the level of indebtedness of the ... the private sector in relation to GDP ratio. From the FSR reports and I’m ... I collated these figures, in 1995 the rate was 71% of GDP, for 2007 the rate of indebtedness ... personal indebtedness within the State in a 12-year period had reached a projected figure from the FSR report of ‘07 of 248% of GNP. That left the citizens of this country now the most indebted people within Europe. And you had... and you said a moment ago, Mr. Grimes, that you had the ... you had consolidated data per sector and prior to that I asked you about the-----

Mr. Tony Grimes: No, I didn’t say consolidated data per sector.

Chairman: If you allow time, Deputy, or Senator to allow time. What is your question?

Senator Michael D’Arcy: My question to you is: why did you not act in relation to the guidance for the Financial Regulator to act upon his powers when you saw those levels of growth? You identified them in the FSR reports year on year and there was no action taken by you ... and when I say you ... not you, individually, but your organisation.

Chairman: Mr. Grimes.

Mr. Tony Grimes: Senator ... just ... I mean ... you know ... I personally cannot answer. I mean, I accept the points that the increase in some of the aggregates, with hindsight are truly large.

Senator Michael D’Arcy: Truly large?

Mr. Tony Grimes: Truly large and-----

Senator Michael D’Arcy: That’s a bit of an understatement-----

Chairman: Sorry, Senator. I’ll have to allow time for a response.

Mr. Tony Grimes: But -----

Chairman: And if you want to get a question in, you’ll have to allow it.

Mr. Tony Grimes: I was not personally involved in any of the analysis, you know, at that time. I mean, the bulk of the increase in credit and indebtedness to which you refer took place, I think, in the period 2003 to 2007. I was working in a ... in a sort of entirely unrelated part of the bank in that period. So, I would’ve been generally aware, as a senior officer of the bank, I suppose, at the time but ... but not at the level of policy reaction.

Chairman: A brief supplementary.

Senator Michael D’Arcy: Mr. Grimes, did you ... did you participate in the FSR reports?

Mr. Tony Grimes: As I said earlier, I participated only in the second half of the 2007 FSR. The FSR was largely in draft form in August 2007 when I took over. It was published in 2000 ... sorry ... in November of that year. The bulk of the drafting was done. There were nuances that occurred subsequently from a board meeting of the bank in September and a short meeting of the board in October but the bulk of the drafting was done earlier.

Chairman: Senator Barrett. Senator, you have ten minutes.

Senator Sean D. Barrett: Thank you very much, Chairman, and welcome, Mr. Grimes. You state in your opening statement on page 5, in paragraph 3, “with regard to money and capital flows within the euro area, the Central Bank could not have [been] intervened directly to control such flows”. Could it have intervened indirectly?

Mr. Tony Grimes: Yes. I think, first of all, any direct intervention ... restriction of money and capital flows would have been entirely at odds with the single capital market and single money market that was set up in 1999 as part of monetary union. I’m ... in fact, it would have been entirely contrary to the ethos of that. So, no is the answer ... no direct intervention. If there was concern - as there was, because it was raised at the time in the FSRs about the degree to which some of the banks were funding externally - I think, if there was concern, it would have to have been addressed by restrictions addressed to the individual banks in terms of their funding ratios. But ... but that would be at a level of individual banks. It could not have been a general banning of capital flows.

Senator Sean D. Barrett: Thank you. The core documents, Chairman. Vol. 1, page 4. There is a minute there, “Board discussions: 2006”. Do we know what month that board discussion took place?

Mr. Tony Grimes: I can tell you from a ... notes it occurred in June-----

Senator Sean D. Barrett: June -----

Mr. Tony Grimes: 2006-----

Senator Sean D. Barrett: 2006-----

Mr. Tony Grimes: -----and it was part of the preliminary discussion by the joint boards of the 2006 FSR.

Senator Sean D. Barrett: Because the second sentence says “The risks to the property market and the very high component of economic growth accounted for by the construction sector together with the rapid rate of credit growth are increasingly problematic.” So, the people at that meeting ... who was with you ... that was ... the Central Bank board knew that in June 2006, is that correct?

Mr. Tony Grimes: As far as I am aware, it was a joint meeting of the Central Bank board and of the Financial Regulator authority ... which met to consider and to approve, ultimately, the financial stability reports. So, it would have been the first joint discussion of the ... 2006.

Senator Sean D. Barrett: Thank you very much. Now the question that was raised with you by Deputy McGrath - the material that’s on page 57 of the same volume. You recall, Chairman, this had to do with Anglo and the Quinn CFD purchase and so on. And that meeting was on 8 July 2008. I think that’s about 12 weeks before the events of 29 September and attending ... you were ... you were listed as an attendee and representatives of the Central Bank, Financial Regulator, the Department ... two from the Department of Finance. What happened that report of the domestic group? Did it go through other people? Was it ... did ... was it actioned at any later stage?

Mr. Tony Grimes: In general, the reports of the DSP were circulated to members. They may also have been circulated to the Governor from time to time. I’m not sure if that was done systematically.

Senator Sean D. Barrett: Because it does, as I think as Deputy McGrath was saying, illustrate very important knowledge. But I’m trying to see ... did anything happen because, you know, this knowledge which was available in early July ... about the difficulties that Deputy McGrath elucidated and your replied to? What happened? Was this knowledge just left lying around the place or did ... was did people go on holidays in August, as they might? But, what were the results of ... of this very important information?

Mr. Tony Grimes: Well, I think that ... my ... my recollection is that there was a lot of interaction between regulatory staff and, you know, Anglo Irish Bank at this stage. There was a lot of concern about how the overhang of the CFD positions would be resolved. But, from the Central Bank point of view, this ... we looked upon that directly as an issue of regulation. And it was primarily a matter for discussion between the regulator and the bank concerned. Having said that, as I said earlier, I think, we were concerned about the fallout from such an overhang for the liquidity ... that might occur and the need to maybe supplement liquidity available to that bank if it became-----

Senator Sean D. Barrett: Because page 6 of the-----

Mr. Tony Grimes: ----- a serious issue in the market.

Senator Sean D. Barrett: Yes. If I may, page 6 of your statement has, as a duty of the Central Bank, to contribute “to the maintenance of financial stability both domestically and within the euro area”. Was the ECB informed of the ... of the difficulties ... on these pages?

Mr. Tony Grimes: Senator, I’m not sure about that. It may have been ... it may have been, you know ... have been mentioned in ... in formal discussions with ... with the ECB but I’m not personally aware of whether it was or not.

Senator Sean D. Barrett: And could I take up finally ... page 101 of that document? I think it’s a Department of Finance document, is that right, written in January 2008?

Mr. Tony Grimes: Yes.

Senator Sean D. Barrett: It says “The authorities in Ireland have practiced constructive ambiguity regarding financial stability planning to date. For the future it would seem appropriate to maintain this approach.” Would there not be a case for precision and clarity rather than constructive ambiguity?

Mr. Tony Grimes: In my view, this, in a way, would go to the heart of the moral hazard issue with regard to ELA in that, traditionally, it has always been thought that central banks would never pre-commit to give ELA because if ... if it did, there was the risk that, you know, a bank would engage, you know, in a type of reckless activity and, you know, there was a feeling always - and it’s not just here - that actually you would not want them to count on you if something went wrong. So ... so there was no pre-commitment here. It ... it was always entirely at the discretion of the local central bank. So, constructive ambiguity referred to that. It was to avoid the moral hazard issue that might arise.

Chairman: Two minutes there now, Senator.

Senator Sean D. Barrett: Thank you, Chairman. How many staff were involved in the prudential regulation of banks during your time as Governor?

Mr. Tony Grimes: Again, it wasn’t on my side of the house, but the impression I have is that the Department would’ve been 20 or 30 people.

Senator Sean D. Barrett: Thank you very much and thank you, Chairman.

Chairman: Okay, the next questioner is Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an tUasal Grimes. Can I ask you ... begin by asking you just what advice was sought by the Department of Finance in relation to the financial stability of the banking sector and/or individual financial institutions? And could you outline to the committee what meetings you participated in with any Government Department to understand the nature of those interactions during the period and what did you do?

Mr. Tony Grimes: I presume the period you refer to is the crisis period of around September-----

Deputy Pearse Doherty: Well in the ... not just in the-----

Mr. Tony Grimes: -----’08 or even-----

Deputy Pearse Doherty: The financial stability reports ... or even the year before, was

there meetings, was there interactions?

Mr. Tony Grimes: Well, there were constant meetings to be honest. I mean, okay, we spoke, you know, to what the operation of the DSGs. They tended to meet extremely frequently at .. okay, at the level, you know, of principal, from time to time, but at the operational level as well ... so ... and also informally.

Deputy Pearse Doherty: The question, sorry, Mr. Grimes, the question specifically is in relation to advice sought by the Department of Finance in relation to the financial stability of the banking sector or individual institutions so it's meetings in that regard that I'm interested in.

Mr. Tony Grimes: Well, I suppose, in a sense, the subject matter, you know, of the meetings of the DSG were always about financial stability issues and/or individual institutions. So, you can almost take it that, you know, every meeting of the DSG had that agenda item as the main issue.

Deputy Pearse Doherty: Okay. And outside of the DSG, were there meetings with the Department of Finance or did the Department of Finance seek advice from the Central Bank in relation to the stability of the banking sector or in any individual banking ... bank in the State?

Mr. Tony Grimes: I think once or twice it sought formal advice. I think there was a request to the regulator and the bank around the period of the guarantee to write to the Minister on the advice - and that's on the record - but, other than that, I would've thought that the frequency of the interaction constituted the information exchange.

Deputy Pearse Doherty: Okay, okay. Can I ask you in ... you've mentioned ... in your opening statement, on page 4, you mention the problems surrounding ELA. If I quote from your statement it says one of the ... one of the ... with the use of ELA, one of the issues with the "use of ELA is that its use required a floating charge on banks' assets that needed to be registered at the Companies Office. New legal instruments were introduced in 2007 to avoid this issue." So, what were those legal instruments and were they used?

Mr. Tony Grimes: Yes, I mean, it's fairly technical but they were legal instruments and the banks ... we signed with the individual banks that allowed us to take good title to the types of collateral they would have offered. Often they would be ... it would be non-marketable instruments so you're ... so to take good title for those you required a particular legal structure and we had worked on that structure and, you know, they were extensively used over the following years.

Deputy Pearse Doherty: Okay. You also mention, in relation to ECB liquidity, that it reached €40 billion at the period of September 2008. Can you give us a breakdown of the ECB liquidity to Irish domestic banks and for international banks of that €40 billion?

Mr. Tony Grimes: Okay. That €40 billion was entirely to the six Irish banks in the aggregate.

Deputy Pearse Doherty: So was there any liquidity extended to the non-domestic banks - the IFSC banks?

Mr. Tony Grimes: Yes, of course. Sure. I mean, at one stage the liquidity extended to Irish banks was only a share of the total liquidity that the Central Bank extended to, you know ... to the system here. Often the share would've been 20% to 25% of the total, reflecting the

importance of the foreign banks operating here who would use, yes, the Central Bank here as the source of their liquidity.

Deputy Pearse Doherty: So when the ECB references the percentage of the entire liquidity that was available to ... at the Irish banking system as a percentage of the entire ECB that was available-----

Mr. Tony Grimes: It's covering the whole system.

Deputy Pearse Doherty: And are you saying that 80% of that went to banks that were in the IFSC or non-domestic-----

Mr. Tony Grimes: It varied.

Deputy Pearse Doherty: -----on average?

Mr. Tony Grimes: In more normal times it would be 80% or so to the non-Irish banks. That share would have varied of course as the crisis hit here ... and the non-Irish banks. But we had also issues with foreign banks who would not have been eligible to access ECB, you know, funding in their own jurisdictions, who might have had subsidiaries operating in Ireland, accessing funds through the subsidiaries here. And we were concerned about that because the impact of that was to raise the overall figure that had a profile and we were concerned about that.

Deputy Pearse Doherty: Okay. Did the ECB ever express any concerns, or not, with the quality of assets that were being used as collateral for ECB liquidity purposes in the pre-guarantee period?

Mr. Tony Grimes: They expressed concern but in general terms ... not specifically related to Ireland, in fact it's sort of ironic that just before the crisis, in September '08, there was a tightening of liquidity ... or a tightening of collateral conditions, you know, by the ECB, reflecting a general concern within the Eurosystem that the quality of assets it was being required to take was lower than it was comfortable with ... reflecting increasing risk that the Eurosystem, as a whole, had to take on.

Deputy Pearse Doherty: Okay, but it wasn't specific to Ireland?

Mr. Tony Grimes: It was not specific.

Deputy Pearse Doherty: Okay. In your opening statement you say "The possible nationalisation of Anglo raised issues, both in terms of lack of an immediate legislative provision (although it could perhaps have been ready by the following weekend)". So, that's your evidence. Are you aware that that is contradicted by what Governor Hurley has said ... that the legislation was available and what's your view in relation to what he has said before the committee?

Mr. Tony Grimes: Well, I don't think it contradicts it exactly. I mean, my understanding was that the legislation was very close to finalisation. Whether it was absolutely on the stocks on the night of the 29th I am not aware of but certainly the finalisation ... it had been worked upon for months, so ... so I wouldn't regard that as a serious difference.

Deputy Pearse Doherty: Okay. I want to go to page 45 of Vol. 2 of the evidence book. It's the minute of the meeting on 25 September 2008, which was referred to earlier on. And I just want to focus in on the bit where David, and I'm quoting, "D[avid] Doyle noted that Government would need a good idea of the potential loss exposure ... within Anglo and INBS - on some

assumptions INBS could be 2bn after capital and Anglo could be 8½ [full stop]”.

Chairman: Deputy, is that in the public-----

Deputy Pearse Doherty: It’s a public document. In relation to this here ... just in relation to the accuracy of that part of the minute, do you agree with it or do you disagree with it and can you outline to the committee, if you disagree with it, what part of it?

Mr. Tony Grimes: Well, it isn’t my minute.

Deputy Pearse Doherty: Yes.

Mr. Tony Grimes: I ... I didn’t say the information that’s here, so I’ve no way of knowing the source of this. But my conclusion was, from having attended the meeting, that ... I mean, if this had been said at the meeting I think it would have been a very notable piece of information for the meeting to absorb, and would undoubtedly have conditioned some of the policy reactions taken afterwards, in the light of that information, if that was our conclusion. It was not my understanding.

Deputy Pearse Doherty: Okay. So that’s the point. I appreciate that it’s not your minute. It is the minute of the meeting that you attended, and my question is, in your recollection, does that minute reflect what happened or what was said and, if not, what in your view was said that would best reflect what should be in that minute?

Mr. Tony Grimes: Deputy, I don’t recall. We were having so many meetings around that period. I’m ... I really have to rely on the minute that’s here. But, as I say, in substance I did not take from the conclusion of the meeting that there was a clear and definitive outcome that this was, you know ... a conclusion that said, you know, two of the institutions which are mentioned here, were insolvent.

Deputy Pearse Doherty: Mr. Grimes, you mentioned earlier on that there was an issue, I think, or words to that effect, in relation to ... in relation to after capital or before capital, and that has been suggested to the committee before. Is that your view, or is it not your view, or do you have any view in relation to this?

Mr. Tony Grimes: No, I can’t identify with the particular drafting, but I can identify only with the conclusion, which is what I said, that I didn’t come away from the meeting with a clear understanding that there was a solvency issue at that time with these two institutions.

Chairman: Thank you, Deputy. Mr. Grimes, we acknowledge that these are not your minutes. Do you have minutes of this meeting? No meeting ... and were minutes kept by you of this meeting?

Mr. Tony Grimes: To the best of my knowledge, Chair, they weren’t.

Chairman: Okay. Can I confirm that ... were you acting Governor at this meeting, or not?

Mr. Tony Grimes: No.

Chairman: Would you accept or not, that in ... you weren’t acting Governor, is that what you-----?

Mr. Tony Grimes: No, I was not.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Chairman: Okay. So, you were present at the meeting, and did ... Mr. Hurley was not present at the meeting, so what capacity-----?

Mr. Tony Grimes: No, he was present. He was present.

Chairman: Okay. So, in what capacity were you there at the meeting?

Mr. Tony Grimes: In my capacity as, I suppose, one of the senior people from the various institutions who met that day to discuss the options, and the options that we were discussing are set out in the final paragraph of the minute. They were general issues that needed to be discussed.

Chairman: Did the Central Bank take minutes of the meeting?

Mr. Tony Grimes: Not to my knowledge.

Chairman: Okay. Would you accept or not, that in ... during this period, and certainly over any significant period, that this would have been an extraordinary critical time for the State and for people in your career, and in your positions, this would have been a major ticket item in terms of your duties and roles as ... relating to the Central Bank?

Mr. Tony Grimes: Yes.

Chairman: And, are you challenging the content of that minute this evening, to say that it's not accurate?

Mr. Tony Grimes: No, that isn't what I said. I think, Chair, I'm-----

Chairman: I just want to clarify that.

Mr. Tony Grimes: Yes. I'm saying, I think, that I regard the paragraph you refer to as sort of ambiguous, and that its message is not clear to me, and that the substance of the conclusion of the meeting, in my memory, was not in line with one interpretation of that paragraph, which is that the two institutions were not solvent. That is my understanding of the outcome of the meeting, that no clear message emerged from the meeting that this was the conclusion.

Chairman: Okay. Senator MacSharry, Senator you have ten minutes.

Senator Marc MacSharry: Thanks Chairman, and welcome, Mr. Grimes, and thanks very much for being here. We were talking earlier on about the issue to do with contracts for difference with Deputy McGrath, and you were saying that it certainly was a highly unusual situation and that, really, you felt that it was in the regulator's domain to take appropriate action. Is that a fair representation of-----

Mr. Tony Grimes: I think so.

Senator Marc MacSharry: Okay. Were you a director of the regulator, at any stage?

Mr. Tony Grimes: I was from May 2008.

Senator Marc MacSharry: Is it correct that six members of both boards are members of each, so that there's dual membership for six?

Mr. Tony Grimes: No, it's not that simple. It's-----

NEXUS PHASE

Senator Marc MacSharry: Okay.

Mr. Tony Grimes: There's six members of the regulatory board sit on the 12-member board of the Central Bank.

Senator Marc MacSharry: Okay, so-----

Mr. Tony Grimes: And of the ten members of the regulatory board, those six, plus four others, constitute the ten member of the regulatory authority. I know it's confusing.

Senator Marc MacSharry: Okay. Just so I'm clear, and maybe I'm not, there are six of the regulatory authority-----

Mr. Tony Grimes: Correct. On the Central Bank-----

Senator Marc MacSharry: On the Central Bank.

Mr. Tony Grimes: Were ... were, of course has changed.

Senator Marc MacSharry: Okay. Were you one of those?

Mr. Tony Grimes: No, I was a member, *ex-officio*, on the board of the Central Bank.

Senator Marc MacSharry: Were you-----

Mr. Tony Grimes: From my position as director general at the time, with the Governor ... yes.

Senator Marc MacSharry: Okay. What I'm trying to just get around here is that ... and it's come up a couple of times that, look, that was an issue for the regulator, this is an issue for the Central Bank. Was there any dual membership, so that people-----

Mr. Tony Grimes: Yes, there was dual membership.

Senator Marc MacSharry: Okay. Were you ever one of those?

Mr. Tony Grimes: I was briefly on both boards from May 2008-----

Senator Marc MacSharry: Okay. And during that period, is it reasonable that you would have known what was going on in the regulator and the Central Bank?

Mr. Tony Grimes: From May 2008 I would have had ... yes, but to say if you're a member of the board you know about what's ... is brought to your attention, as a member of the board, it is not the same as having an operational role.

Senator Marc MacSharry: I understand that. Is it that things are kept secret from members of the board?

Mr. Tony Grimes: No, no, I wouldn't ... not at all, but ... but it's the nature of things that you cannot ... you cannot-----

Senator Marc MacSharry: I see. So, before your appointment in this dual role, where you were available to both, and were knowledgeable to both, and their activities, to the extent that board members would be made available ... other people had that kind of a role, did they?

Mr. Tony Grimes: No. I was the first.

Senator Marc MacSharry: You were the very first?

Mr. Tony Grimes: Yes.

Senator Marc MacSharry: Okay, and what date did you assume that role?

Mr. Tony Grimes: May 2008.

Senator Marc MacSharry: May 2008.

Mr. Tony Grimes: And the rationale, I think, was because of the crisis at that period, it made sense that there would be better communication between the two boards, and that this was ultimately, you know, I guess, put in place at the time of the reunification of the board, following the-----

Senator Marc MacSharry: Okay. And just so ... so that we're clear, the domestic standing group that Deputy McGrath would have spoken about earlier that discussed the contracts for difference was that before that time?

Mr. Tony Grimes: Yes. The reference in the minute here is July 2008. I was appointed to the regulatory board at the end of May 2008.

Senator Marc MacSharry: So, you were in this dual role-----

Mr. Tony Grimes: I was.

Senator Marc MacSharry: -----at the time that the domestic standing group considered the issue of contracts for difference, which you told Deputy McGrath you felt was highly unusual, and that really it was a matter for the regulatory authority ... it was a regulatory issue, I think you said at the time, is that fair?

Mr. Tony Grimes: That's my view.

Senator Marc MacSharry: Okay. So, what did they do?

Mr. Tony Grimes: As far as I recall, the ... yes, the actions taken were partly put in place by the board of the bank concerned, and there were some legal issues, you know, arising from that that I'm not sure you want to get into ... at least I'm-----

Senator Marc MacSharry: Well, you can take it as read that I want to get into them. It's whether these people let me.

Chairman: Sorry, the ... Deputy, it's the jurisdiction and the legislative basis of the State that will determine what questions which you can ask and can't ask, not any individual member of this committee. So please proceed.

Senator Marc MacSharry: Well, he's looking for guidance I think.

Chairman: Well he is, and ... and he's given it to himself, because he knows what the guidance is.

Senator Marc MacSharry: Okay, so is it the position that the regulator took actions that are secret because of Article 33AK?

Chairman: That's a leading question, please.

Senator Marc MacSharry: Or not?

Chairman: No, even "or not", it is ... it's leading. No matter what way you dress it up and throw it out, it's leading. Move on.

Senator Marc MacSharry: I think it's a fair question.

Chairman: Well, you can-----

Senator Marc MacSharry: And I would ask that the Chairman take further guidance on it. What we are asking here is-----

Chairman: I have, and I have been told. It is a leading question.

Senator Marc MacSharry: What we are asking here ... Chairman, I am talking to yourself; I am not asking anybody. Okay. What we are asking here is that at a time that Mr. Grimes had a dual role with both the regulator and the Central Bank, he made reference earlier on to actions being taken, when asked directly by Deputy McGrath what actions were taken, he answered, "Well, it was a regulatory issue." So I have asked what regulatory actions were taken in that regard, and he's saying, "Well, I don't know whether you want to get into it." Now I'd like to get into it. So what's the legal basis that we can't?

Chairman: I do not think that's what actually he said, but you can clarify that: were there actions taken by the regulator in respect to these matters?

Mr. Tony Grimes: Well, yes, the actions that I am aware of were the interactions between the regulator staff and the staff of the bank concerned. And here were actions taken within the bank concerned that, ultimately, led to the resolution of this but also to additional issues that I am not, you know, at liberty, I think, to talk about.

Senator Marc MacSharry: Just so we're clear, you're not at liberty to tell us the actions the regulator took?

Mr. Tony Grimes: I think the actions the regulator took were the interactions between the regulator's staff and the bank concerned.

Senator Marc MacSharry: Does that mean that they had a chat with the staff? Would that, would have been or...

Chairman: Sorry, I'll have to interject here. You are now moving into issues that are specific to the section that was ... that I read at the opening of this address. Mr. Grimes is very aware of this and, in fairness to Mr. Grimes, with whatever testimony he gave, he cannot end up in a situation where he's incriminating himself by breaching that section. You cannot and you know that, I know that, everyone knows that.

Senator Marc MacSharry: I'm learning it. I mightn't know it.

Chairman: Well, there was plenty of training on this for the committee members.

Senator Marc MacSharry: Just so that we are clear, we can't talk about the actions the regulator took because of section 33AK. Is that the case?

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Chairman: Mr. Grimes can't talk about it because you cannot ask somebody to commit a legal offence. It's a legal offence if Mr. Grimes ... We can go round in circles ...

Senator Marc MacSharry: It is specifically covered then, is it?

Chairman: Yes, and you know this. Senator, there was plenty of back briefing on this when we actually met in private session around this, so please don't play this out as if it's something new. And you're using your time, and, in fairness, you're deliberately now creating a situation where you are asking the witness in front of us to create a felony. That cannot be permitted. Please drive on.

Senator Marc MacSharry: Well, we might have a private session on this.

Chairman: We can have as much private time as you can, but the legal advice is very clear on this so move on, Senator, please.

Senator Marc MacSharry: I know the advice is clear, maybe the ... it's the interpretation that-----

Chairman: It is the committee's legal advice. The committee has its own legal team. If you wish to challenge that and go away and get your own independent legal advice and feed it into us, I'd be quite happy to hear it, but I am sure they'd give you the same legal advice. So please move on.

Senator Marc MacSharry: What I'd say Chairman-----

Chairman: Move on.

Senator Marc MacSharry: With the best of respect to your good self-----

Chairman: Move on.

Senator Marc MacSharry: ----- is if a genuine question arises and it's put to you, there's no point in getting annoyed about it. Okay.

Chairman: Move on.

Senator Marc MacSharry: At the end of the day, we are all here-----

Chairman: We are indeed and we're operating within a legislative framework which we all must honour. So please move on.

Senator Marc MacSharry: That's grand. What I'll say for the record is that we might just have a brief couple of words, as we did several times last week to facilitate you and your queries, for me and my queries.

Chairman: And I said we'll accommodate that, Senator.

Senator Marc MacSharry: Very good.

Chairman: So you're going to extinguish your time and we still ... the same spot.

Senator Marc MacSharry: Very good. Well, you might allow me some time as you do for Deputy Doherty and others when these things arise-----

NEXUS PHASE

Chairman: I will if ... and I allowed it for your colleague, Deputy McGrath, this morning and he certainly went over time because he was pursuing a good line of questioning so I'd ask you now to.

Senator Marc MacSharry: Very good. Well, as you know, Chairman, none of us are here on a party political basis. We're all colleagues I thought.

Chairman: Please, please. Move on.

Senator Marc MacSharry: Can you just confirm that a contract for difference for want of a better expression is a spread bet on stock? And can I also ask, in terms of the principles-based regulation, which was adopted both here and nationally, did it in effect amount - and I asked this last week - was it tantamount to self-regulation?

Mr. Tony Grimes: I think that is to go too far, Senator, but there was a huge degree of reliance, I think, on the boards and the managements of the banks concerned, and that the focus of the regulatory activity, as I understand it, was on process, rather than looking at underlying activities and looking at fundamental risks. So there was a refocusing, I think, under the principles-based regulation. There was process, maybe at the expense of substance.

Senator Marc MacSharry: Do you feel that the interconnectivity between the regulator and the Central Bank was sufficient or insufficient?

Mr. Tony Grimes: I think in the crisis period it turned out to be sufficient. I think there was a lot of contact between, you know, the senior management of both sides of the organisation. So in general, you know, it was sufficient but we were still operating within the divisions of labour that had flowed from the 2003 Act, which meant that each side regarded its focus as rather exclusive: one side on the prudential regulation of financial institutions and the Central Bank side of the broader financial stability issues

Senator Marc MacSharry: Just finally, Mr. Hurley, last week, there was much talk and it was touched on earlier on by some others here, about the issue of no bank should fail ... that we should not have another Lehmans, I think, was the wording that certain witnesses have used. When questioning last week Mr. Hurley, it was somewhat frustrating in the sense that it was difficult to ascertain who said this, at what point did somebody make the determination, and in what office of authority they may have been. Mr. Hurley wasn't in a position to provide that clarity and I wonder are you in a position to say who first mentioned it to you, or like so many others, was it something that just happened?

Mr. Tony Grimes: No, I think I face exactly the same constraints on this as Mr. Hurley does. I think that what we can say is-----

Senator Marc MacSharry: Because Mr. Hurley did not mention anything about a constraint or section 33AK.

Chairman: He did.

Mr. Tony Grimes: He did.

Senator Marc MacSharry: Not on this issue he didn't, Chairman, and this would be a very significant point. This would be a significant point. If this question is answerable, and we just cannot have the answer because of that, that in itself is important evidence.

Mr. Tony Grimes: Okay. What I would say ... there was a general understanding on our part that there was a strong expectation that member states would stand behind the banks in their jurisdiction.

Senator Marc MacSharry: At what point in time did this general understanding become generally accepted?

Mr. Tony Grimes: My recollection is it was rather late in the day when ... you know, a few days before the 29th. There was a coincidence of crises in the euro area affecting banks in Germany, France, Belgium. So I think emanating from that, there was an understanding emerged.

Chairman: I just want to return to one issue there and that's, Mr. Grimes, to ask you can you comment upon or advise on regulator checks on structured large and medium exposed facilities by Irish financial institutions in the years leading up to 2008?

Mr. Tony Grimes: Okay. What's the reference, Chairman?

Chairman: There is no reference; it's just in general to the documentation we have received. What I would be asking you to do is to comment upon or advise on regulator checks on structured large and medium exposure facilities by Irish financial institutions in the years leading up to 2008. Have you any comment to offer in that regard?

Mr. Tony Grimes: I don't have anything specific. I know that the regulator was urged at meetings of the DSG, and maybe of the financial stability committee in the course of 2008, to look specifically at land and development exposures in banks and that it did so but that is the only comment I have.

Chairman: Okay. And that's with regard to restructure of large and medium facilities, yes?

Mr. Tony Grimes: No, I have no comment on that.

Chairman: Okay, thank you. I am going to move towards wrapping matters up. I just want to deal with just one item and that's going back to the minutes that we were ... A number of matters I will take them in the wrap-up after I bring in the leads. On that minute that we discussed earlier and following the line of questioning from Deputy McGrath and from Senator MacSharry as well, there would be one consistent issue or maybe I can put it to you - is there a consistent issue with regard to the content of both those documents that relate to the stability of the Irish State? These are not regulatory matters but are actually stability issues. Would you see them, or accept them, as being stability issues?

Mr. Tony Grimes: I do, in the sense that by the time that meeting was held - I think it was held on 26 September. I mean, the stability issues for the State were emerging. I mean, all around us it was ... and at the end of a period after Lehmans when so many banks, globally, had failed, there was a huge amount of tension. So, when that meeting was held, it was definitely in the context of, you know, a financial stability issue and, you know, the minute refers, in the final paragraph, I think, to the various options that were on the table. So that's the context in which the meeting was held and that's the context in which my memory of the meeting was formulated.

Chairman: Thank you. Deputy Higgins, five minutes.

Deputy Joe Higgins: Mr. Grimes, did the Financial Regulator have sufficient staff and resources, in your view, to carry out the regulator's responsibilities?

Mr. Tony Grimes: I wouldn't have thought so. Certainly, if you judge by the resources which are now actually made available, both in the reconstituted bank but also globally, I think that, if you have a handful of people looking after the two or three major banks in the country, it clearly was not sufficient. It might have been in a very principles-based environment but even then I doubt it, it wasn't-----

Deputy Joe Higgins: Yes, Mr. Grimes, evidence before the committee would say that there was a three-person team in the regulator's office responsible for Bank of Ireland and Anglo Irish Banks together and another three-person team responsible for Allied Irish Banks and IL and P. Considering that the auditors of those banks told us that, in one case, there was up to 200 staff working on the audit of Allied Irish Banks, was that, or not, just a question of a shortage of resources, or was it a pathetic inadequacy of resources?

Mr. Tony Grimes: I think it was.

Deputy Joe Higgins: And did that feature at the Central Bank board in ... leading up to 2006, 2007?

Mr. Tony Grimes: Yes, there were some requests for additional staff, I think, from the regulator's side. And they had their own budgets though and so the Central Bank, as such, didn't have a role, you know, in actually approving the budgets or the numbers of staff.

Deputy Joe Higgins: Mr. Grimes, our evidence book shows that there were generally at least six members of the financial regulatory board also on the board of the Central Bank ... of the 12, so half or more of the board of the Central Bank were also in the Financial Regulator. Are you telling me that, in 2003, 2004, 2005 and 2006, that it wasn't a major subject of discussion on the board, the amount of resources available?

Mr. Tony Grimes: I can't tell you that for sure because I wasn't on either board at that time, but certainly it seems a very few staff to be undertaking such, you know, a widespread role.

Deputy Joe Higgins: Mr. Grimes, you attended two meetings on the night of the guarantee. Were you at the meeting where the, according to Governor Hurley's evidence, the Taoiseach went around the room to see if everybody there was in agreement with the guarantee. Were you at that portion of the meeting?

Mr. Tony Grimes: I'm not absolutely certain I was at that. I was certainly at the initial meeting where all the parties were around the table and there was an initial exchange of views on options, which included the guarantee and nationalisation, and it was an exchange of views around the table on that. After that, there was a meeting with the banks that I did not participate in and that went on for a number of hours. There was another plenary session after that, with the banks absent, and I'm not 100% sure if I was at that.

Deputy Joe Higgins: Do you remember, or did it happen at the meeting you were at, that the Taoiseach went around the room and asked if there were any dissenters to the idea of a guarantee?

Mr. Tony Grimes: I've a feeling I was at that meeting.

Deputy Joe Higgins: Were there any dissenters?

Mr. Tony Grimes: Not to the best of my knowledge.

Deputy Joe Higgins: Was the Minister for Finance present at that meeting?

Mr. Tony Grimes: Yes.

Deputy Joe Higgins: Thank you. Mr. Grimes, you said to Senator O’Keeffe that there was no evidence that the banks were insolvent on the night of the guarantee. Can I ask you by which ... which definition of “insolvency” were you ... had you in mind when you made that statement?

Mr. Tony Grimes: I think that you can be ... look at the very formal definition of insolvency in regulatory terms: did they breach the regulatory ratios? It’s clear that they didn’t. A wider look at insolvency would be much more forward looking and ... but even then, as I said earlier, it was unclear. There were certainly risks there of insolvency for one or two institutions but you had to take into account, I think, a lot of factors in making a judgment on insolvency, including collateral, including the buffers available for the banks, including the declines in asset prices, which actually occurred in a very serious way subsequent to that meeting, so it’s a very delicate judgment to make and the judgment that I made was that they’re probably not insolvent at that stage.

Chairman: Thank you. Deputy O’Donnell.

Deputy Kieran O’Donnell: Thanks, Chairman. Could I refer again, Chairman, to Vol. 1, page 57? It’s a domestic standing group committee meeting of 8 July ‘08 which, Mr. Grimes, you attended on behalf of the Central Bank and it relates to the Quinn Group. It says:

Consideration was also required given the exposure of the Irish banking system and the Irish economy to the Quinn Group and the impact on investor sentiment towards Ireland of any deterioration in its financial position of the possible need to refinance its bond holding. The current bond holders were largely US insurance firms and had no domestic interest.

And it looks ... the company were due to post a loss published the end of October. So, the question I suppose I wanted to ask you was, on the night of the guarantee, was the Quinn Group a factor in guaranteeing Anglo Irish Bank?

Mr. Tony Grimes: At the meetings that I was at, Deputy, it did not emerge at all in substance.

Deputy Kieran O’Donnell: And that ... do you remember that particular issue coming up at the domestic standing group and what was the context in which it was brought up? Do you remember that?

Mr. Tony Grimes: Yes, in general terms, I’m aware of the difficulties caused by the CFD and the need to sort of unwind them and the risks that, if the shares were released suddenly to the market, that would create a very serious risk and that it could, you know, ultimately undermine further confidence in Anglo and hence the need for the bank to intervene further in providing liquidity. All those were certainly-----

Deputy Kieran O’Donnell: And was the Central Bank supportive of the unwinding process that unfolded?

Mr. Tony Grimes: We were informed about it, Deputy. We were not part of the solution. The solution, I think, emerged from interactions between the management of the bank concerned and the regulator, but, as I said earlier, there were further issues involved in the unwind-

ing of it and I think-----

Deputy Kieran O'Donnell: Would you regard it as a stability issue for the Central Bank?

Mr. Tony Grimes: Well, if the unwinding hadn't occurred, obviously, and if there was an avalanche of shares put on the market at short notice, I think there might have been issues certainly.

Deputy Kieran O'Donnell: You would have seen ... there could have been a stability issue?

Mr. Tony Grimes: Well, to the extent that any further deterioration in the share price, which itself is not fundamentally a stability issue, it's a market judgment, but to the extent that it reflects a lack of confidence about the marketplace, certainly-----

Deputy Kieran O'Donnell: And would you-----

Mr. Tony Grimes: -----it would have to be addressed.

Deputy Kieran O'Donnell: You were consulted by the Financial Regulator in the type of process that was put in place to unwind the shares?

Mr. Tony Grimes: We were certainly concerned that the issue would be resolved.

Deputy Kieran O'Donnell: Okay, and the ... the final question I want to ask was, we spoke earlier, and when I asked you about, you said one institution that the level of discounts the ECB was applying to loans that were being provided as security for funding was very very high. A very high hair shirt you called it at the time-----

Mr. Tony Grimes: Haircut.

Deputy Kieran O'Donnell: Haircut. What did I, hair ... hair shirt, haircut.

Chairman: Deputy, move on.

Deputy Kieran O'Donnell: I presume Chairman, like everyone else, I get a bit of extra time, thank you Chairman. I think I'm too much of a gentleman, Chairman. Can I go back and say that, did it apply to any other institution that they were getting that level of discounts?

Mr. Tony Grimes: As I said earlier, Deputy, the level of haircut was not specific to the institution. It was specific to the mix of assets they offered. So if some other institution had offered the same mix of assets in line with the existing ECB policy they would have been subject to the haircut, the same haircut.

Deputy Kieran O'Donnell: The question I suppose I'm asking was, did it apply to any other financial institution in Ireland?

Mr. Tony Grimes: Did the same degree of haircut? At time ... at that time, because of the institution concerned, it would not have had the same ... the same range of other assets as other banks. And, of course, the haircut was dependent. In other words, if a bank has a large share of retail mortgages, the haircut on retail mortgages was significantly less than it would be on commercial sort of loans-----

Deputy Kieran O'Donnell: Okay.

Mr. Tony Grimes: -----so it was that, that determined it.

Deputy Kieran O'Donnell: And the final thing then, would you have been aware at the time that, we have seen correspondence here last week from the Financial Regulator to another institution where they were unable to raise any money from the ECB or any interbank funding, would you have been aware of that at the time? That you had one institution that was not able to raise money on either the interbank market or the ECB market as early as 8 March of '08?

Mr. Tony Grimes: I would not have been specifically aware of it but intermittently around that period, you know, individual banks experienced difficult issues from time to time. So-----

Deputy Kieran O'Donnell: Well I suppose the question is-----

Chairman: The last question.

Deputy Kieran O'Donnell: The last question really is, when you had an institution like that, which could not raise money on the interbank market or the ECB, would that have set off red lights in terms of how the Central Bank would have viewed liquidity for that bank?

Mr. Tony Grimes: I think the answer is that we had red lights from many institutions from time to time. I wasn't aware of that particular instance because sometimes, the collateral they bring to market can vary, as they get more collateral into ECB-conformable styles. So the fact that they wouldn't have enough collateral at a point in time doesn't mean that, a few weeks down the road, they couldn't convert other assets into a format that would become ECB-compatible.

Chairman: Thank you very much. I just want to tidy up some very quick matters and then I'm going to bring matters to a conclusion, Mr. Grimes. You said that you were in, on the night of the guarantee, you were in an ante-room with Mr. McDonagh from the NTMA for a period of time, yes? Did you discuss what the business of the evening's ... or course of events were going to be with Mr. McDonagh at any time during that engagement or what did you discuss with him?

Mr. Tony Grimes: We discussed of course the issues that we knew were there, that, you know, the crisis emerging, the need to address. The first issue was Anglo, but I think more importantly to address the contagion, the possible contagion from Anglo to the remainder-----

Chairman: What time of the evening was that approximately?

Mr. Tony Grimes: Well, I think I was at the Taoiseach's Department by about 7 o'clock. I think the initial meeting of the plenary meeting went on from ... we were called in eventually, it might have been eight o'clock before we were called in for about an hour.

Chairman: Okay, thank you. Just going back to Senator O'Keeffe's question earlier, where there was a meeting in the first weekend in September to discuss one financial institution, which was in the process of being downgraded. And then, following on from Mr. Boucher's testimony in regard to that, were you at that meeting or not?

Mr. Tony Grimes: That's the meeting that Mr. Boucher said he was-----

Chairman: Mr. Boucher, you refer to here.

Mr. Tony Grimes: Yes, that was earlier in the summer some time.

Chairman: I think it was the first week ... its the first weekend in September.

Mr. Tony Grimes: Okay, I don't have a recollection of it then.

Chairman: Okay. Were you the Governor at that time?

Mr. Tony Grimes: The first week of September I was, yes.

Chairman: And, so what ... this was an emergency meeting at that weekend to discuss one institution which had received a significant downgrading and it's your recollection to the committee today that you weren't aware of that and that you had no hand, part, act or role in that meeting.

Mr. Tony Grimes: I certainly have no recollection of a meeting with Mr. Boucher around that time because he would not have been the normal representative of Bank of Ireland-----

Chairman: And were you aware of even the meeting itself? Were you aware of it, as Governor?

Mr. Tony Grimes: I don't recall being aware of that.

Chairman: Okay. Okay. Just finally, I just want you to comment upon the adequacy of loan loss provisions and capital adequacy positions of the Irish financial institutions up to 2008. What we see here is the annual report of the, its going to come up on the screens any second now, its the ... it's the Governor's foreword. And down in the corner of the page it says, the financial crisis was of course inspected like others, but it goes on to say then:

However, Irish banks [were negligible] have negligible exposure to the sub-prime sector and they remain relatively healthy by the standard measures of capital, profitability and asset quality. This has been confirmed by the stress testing exercises [that] we have carried out by the banks.

Can you talk about your role in all of that? Why would the ... what were you doing that would have made the Governor actually make that statement?

Mr. Tony Grimes: And the date of the statement was, Chair, please?

Chairman: Yes, sorry. 2008. It's the Governor's foreword, of the Governor's ... its the annual report in 2007, and it's ... it goes on for a number of pages. It's signed by John Hurley, Governor. But can I ask you what, what role were you doing that would've assisted the Governor and his report to have made such a statement?

Mr. Tony Grimes: So the dates would have been sometime in the middle of 2008, is that right? Reflecting the-----

Chairman: It's the annual report for 2007.

Mr. Tony Grimes: Yes.

Chairman: Yes.

Mr. Tony Grimes: I suppose I would have been aware of the analysis that had been conducted in the stress test. I think that we subsequently became aware they were not as stressful or methodologically as sound as we had hoped. So, I would have to say that I didn't disagree with the assessment at the time.

Chairman: Okay, and do you have anything further to add?

Mr. Tony Grimes: No, Chairman, thank you.

Chairman: I'm going to bring matters to a conclusion so and in doing so, I would like to thank Mr. Grimes for his participation here today and for his positive engagement with the inquiry. The witness is now excused and I'm proposing to suspend the meeting until 2.30 p.m., when we will hear from the further witnesses from Central Bank of Ireland. And as we now are in private session, I can just excuse the witness and accommodate Senator MacSharry's request.

The joint committee went into private session at 1.08 p.m. Sitting suspended at 1.21 p.m. and resumed in public session at 2.43 p.m.

Central Bank-Financial Regulator - Ms Mary Burke

Chairman: I now call the committee back into public session. Is that agreed? Agreed. We now commence with session 2 of today's public hearings with Ms Mary Burke, Central Bank of Ireland IFSRA. 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 hearings with the Central Bank of Ireland and the Financial Regulator. At our first session this afternoon we will hear from Ms Mary Burke, a senior official at the Central Bank IFSRA. Later this afternoon we will hear from another Central Bank IFSRA witness, Mr. Con Horan.

Mary Burke joined the Central Bank of Ireland in 1984 and has worked in financial services regulation and supervision since 1998 across various industry sectors. In May 2006, she was appointed to the position of head of banking supervision at the Financial Regulator. She is currently head of prudential policy at the Central Bank, a position she has held since 2010. Ms Burke, you're very welcome and I would also like to acknowledge that you are accompanied today by your legal representative, Mr. Niall Michelle.

Before I hear from you this afternoon and the witness, I wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to 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 do so, 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 and, therefore, the utmost caution should be taken not to prejudice those proceedings.

In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information they have come across in the course of their duties. This stems from European and Irish law, including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations have been taken into account by the committee and will affect the questions asked and the answers which