HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 17 Meitheamh 2015

Wednesday, 17 June 2015

The Committee met at 09.30 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.

Mr. Tom Considine: But I'm not sure I see the connection between the two things. I mean, the reason for the property tax incentives was not driven by a desire to reduce the tax paid by individuals. It was designed to-----

Senator Susan O'Keeffe: Well, it did.

Mr. Tom Considine: Well, it's an inevitable consequence. Any tax ... any tax break is going to benefit somebody, otherwise it won't work.

Senator Susan O'Keeffe: Right, and so are there figures-----

Chairman: Right, but last question now, Senator, I'm wrapping up.

Senator Susan O'Keeffe: Yes, in fairness, you've said that you can't remember whether you gave that specific advice as to the benefits that people would get ... whether you gave that advice to the Minister?

Mr. Tom Considine: Well, I ... to be honest, I think it would have been so self-evident, I don't see how you could have tax incentives that wouldn't benefit high net worth individuals.

Chairman: Thank you. Okay, with that said, I'm going to bring matters to a conclusion, we're going to break for lunch. In doing so, I'll just wish to wrap up with yourself, Mr. Considine, and in doing so to invite you, if you want, to make any final comments by means of closure, or by means of clarification to anything else you've said.

Mr. Tom Considine: No, thank you, Chairman. Thank you for your courtesy. Thank you.

Deputy Pearse Doherty: Could I just ask, just on that point, the information that he said ... you said you would look for in terms of the bonuses, if that could be furnished?

Chairman: Yes.

Mr. Tom Considine: Yes.

Chairman: And Mr. Considine has agreed to do that.

Mr. Tom Considine: I'll send it in to the committee.

Chairman: Okay, with that said, I'd like to thank Mr. Considine for his participation here today and for his policy of engagement with the inquiry. The witness is now excused. The witness is suspended until ... or the meeting is suspended until 2.30 p.m. when we will hear from the further witnesses from the Department of Finance. So, with that said, thank you again, Mr. Considine, for your engagement with the inquiry this morning. I propose that we suspend until 2.40 p.m., but I would suggest just for members we just need a quick, short two-minute private meeting to deal with some issuing of a notification that we just need to be in session for to make happen. So, with that said, just a brief suspension and to resume in two minutes for a two-minute meeting. Is that agreed? Agreed.

The joint committee went into private session at 1.34 p.m., suspended at 1.36 p.m. and resumed in public session at 2.40 p.m.

Department of Finance - Mr. David Doyle

Chairman: So I now propose that the committee of inquiry goes back into public session, is that agreed? Agreed. And doing so, we'll move on with session 2 of today's hearings with Mr. David Doyle, former Secretary General, Department of Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. Today, we continue our hearings with senior officials from the Department of Finance who had key roles during the crisis period. At our first session this afternoon, we will hear from Mr. David Doyle, former Secretary General, Department of Finance. David Doyle joined the Department of Finance in 1975. He was second secretary in the public expenditure division from early 2001 to June 2006, when he succeeded Tom Considine as Secretary General. He retired in January 2010.

Mr. Doyle, you are very welcome before the committee this afternoon. Before hearing from 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 of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with this 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. 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 screen to your left and right. 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 of affirmation to Mr. Doyle, please.

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

Mr. David Doyle, former Secretary General, Department of Finance.

Chairman: Thank you, Mr. Doyle, and if I can now invite you to make your opening remarks to the committee this afternoon, please.

Mr. David Doyle: Thank you, Chairman. Thank you for the opportunity to make these opening remarks to the committee. May I say that my objective at all times during the banking crisis and today has been and is now to serve the public interest. I will limit myself to comments on the guarantee, nationalisation, the ECB, Central Bank, regulator, while also dealing briefly with fiscal policy.

Fiscal policy in the decade up to 2008 should have been more conservative and the crisis was caused by a dramatic escalation in lending by the banks. The banks created the banking crisis but the Financial Regulator and others might have done more. The Department was concerned about the over-reliance on the property market as a component of economic growth and, of course, about pro-cyclical fiscal measures and Ireland's lost competitiveness. However, the Department did not anticipate the severity of the property crash and the international financial crisis. It accepted the consensus view of the Central Bank, the ESRI and others that the construction sector was facing a soft landing. At that time, it was generally thought that there would be a significant reduction in levels over a number of years and not a sudden crash. The Department was wrong to take, without challenge, the assessment of the Central Bank, the Financial Regulator and the banks' reassurance about the state of the financial sector. Such a reliance on consensus forecasts and the assessment of the Central Bank, the regulator and the banks was a mistake and I regret it. In the decade up to 2008, the demand from virtually all sides of the political and lobbying spectrum was for greater expenditure on more public services and for a reduction on taxation. The typical response to increased levels of spending in many quarters was that it wasn't big enough.

Before dealing with fiscal and taxation policy matters in more detail, I'll just run over quickly the guarantee decision itself and the decision to nationalise Anglo Irish Bank. You are all familiar with the fact that funds were flowing out of the country and that there was huge public concern about the safety of savings, which led to the introduction of the €100,000 guarantee. That assuaged the ordinary customers of banks but not the wholesale money market and larger depositors. Intensive discussions took place between the day of that decision around the middle of September and the end of the month about what further measures might need to be adopted. Matters came to a head on 29 September. The Minister had detailed advice from Merrill Lynch with the input from the Central Bank, the regulator and the NTMA also. Merrill's document, that was considered on the night of the guarantee, was that you could not ... they recommended you should not allow any Irish bank to fail because of the state of the market and the impact of that would be so damaging. They went through a number of options, liquidity provision, taking Anglo and Nationwide into protective custody, consolidate some of the banks and introduce a guarantee. Their conclusion was:

> Even if the situation stabilises the immediate outlook for monoline single asset ... lenders is increasingly uncertain. In this context it is important for the Government to act quickly and decisively to step in and prevent a systemic problem.

Turning to the guarantee night, on the night of the guarantee, the Financial Regulator was of the view that while Anglo was illiquid, it was profitable and solvent. All of the banks were suffering from liquidity pressures but Anglo had no access to liquidity and was facing imminent collapse. The question of emergency liquidity assistance was considered for Anglo that night and stand-by arrangements were put in place for it. But there was a major concern that if word got out into the market that ELA had been put in place, that this would have leaked, inevitably it would have leaked, and lead to the sort of consequence that you had with Northern Rock which has, if you recall, the BBC running the story, ELA had been extended, massive queues outside their branches, including in Ireland, and a decision then to guarantee their deposits and ultimately nationalise it. On the night, concern about the sustainability of Anglo and Nationwide models were heightened. The two major banks, AIB and Bank of Ireland, emphasised those concerns and argued that they should be addressed by nationalisation, which should also be accompanied by a guarantee for all banks. The regulator continued to assure the Government on the night that all the banks were solvent. Nationalisation of the organisations was considered on the night of the guarantee. The case for nationalisation was that the business models were regarded by the major banks and indeed, by the Department and the NTMA as suspect.

There was a real concern that there could be a serious problem with their loan books, regardless of what the boards of management were saying.

An involuntary liquidation at that time of a bank would have created a real danger of a complete collapse in the banking system with all that would entail for the economy as a whole. An orderly nationalisation, given the conditions at that point, would have taken over all the assets and liabilities, as occurred in January 2009. The reservations that night about nationalisation centred around a number of key questions. The first was whether nationalisation was warranted. There were concerns about the business model but no quantified evidence had been produced which showed insolvency. There was some theoretical stress testing but no bottom-up examination of the loan books had been carried out.

On a second question, whether nationalisation could be undertaken without having a domino effect, one view was that nationalisation might lead to the undermining of the other banks even with a full guarantee. This is because it could give rise to the idea well if Anglo was that bad, the others could be equally exposed. So in that case, the guarantee might not have been convincing from day one and might have failed.

On the third question, whether nationalisation would avoid the need for a guarantee, the view was that, nationalisation or not, a guarantee would have to be given to save the banking system and in strong conditionality terms. On a fourth question, whether the ECB would allow a bank failure, the view of the ECB as quoted to the meeting by the Governor on the night was that Mr. Trichet had advised him that no bank failure could be allowed, or words to that effect. On this point, the domestic and international market turmoil at that stage was such that this view was shared by all concerned at ministerial, Central Bank and Department of Finance official level. Nationalisation would not, of course, have been a bank failure as such, but it might have been regarded in the panicked market conditions as tantamount to a failure, and indicative of greater dangers.

Throughout the night of the guarantee the pros and cons of (a) nationalising Anglo and having a guarantee, or (b) having a guarantee, were debated several times and late into the night. The two main contending viewpoints in the debate were: there was a strong case for immediate nationalisation; and the nationalisation at that point could lead to an undermining of the banks and the guarantee. Whatever about those contending viewpoints, the simple fact was that if emergency measures were not taken that night to address the problems created by the banks, there was a very real danger of a collapse in the domestic banking industry, not just in Anglo but quickly in the rest of the banks, through a widespread loss of confidence.

The damage to individual depositors, large and small, both personal and business would have been extreme. The potential reputational damage would have undermined consumer business confidence, domestic and international investment, existing and future. A collapse in the banking industry would have led to Ireland's sovereign borrowing reputation and capacity being irretrievably damaged. A collapse on this front, combined with impacts on revenue, would have resulted in Government services and investment across the board being summarily cut or suspended. No one was prepared to countenance this. The Taoiseach and the Minister left the room for a private political discussion late in the night to review the debate. On their return, my recollection is that the Taoiseach said they had decided to recommend a guarantee to the Cabinet and that Anglo would not be nationalised for the present. The Minister did not in decree, indicate any disagreement on this approach.

Turning to nationalisation of Anglo in January of 2009, very quickly after the guarantee, there were a series of meetings with Anglo which didn't generate a lot of confidence given their business model, one aspect of which was they paid more for deposits and charged more for loans. They very assertively stressed their profitability, their liquidity and their positive future but it was received with some scepticism. A report by PwC after the guarantee pointed to end September transactions with another bank and this raised serious questions. That matter was referred immediately to the Financial Regulator. Subsequently, further corporate governance issues regarding directors' loans and the nature of certain other loans also raised serious concerns.

It also became clear over the following months that new or existing shareholders were not going to emerge and a "white knight" who some people were expecting to emerge, wasn't going to emerge either. The banks, the domestic banks had enough of their own problems to address without getting involved in Anglo. All of that undermined confidence, despite the appointment in December of 2008 of a new chairman and public interest directors. The loss of confidence culminated in early 2009 and led the Government to decide the close control of the bank had to be taken to ensure confidence in the banking system for the same reasons I referred to earlier, that a bank closure had to be avoided. That decision was taken after consultation with both the Central Bank and the regulator.

Turning briefly to the ECB. The ECB is an independent body and it pursues its treaty-mandated primary role which is the maintenance of price stability through interest rate policy, and that policy takes account of the average conditions across the eurozone, not in individual countries. Credit growth in Ireland to households and non-financial businesses in the ten years 1998-2008 increased by an average of nearly 20% each year. Interest rate policy over much of the early 2000 period operated to boost borrowing and lending in the Irish context. Those low rates encourage inappropriate lending by the banks.

The Treaty on the Functioning of the European Union states that the European system of central banks, which consists of the ECB and the national central banks of all member states, "shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system". The ECB, as you know, is completely independent of Governments and so is the governor. It's a matter for the Central Bank to say whether the ECB ever advised the Irish Central Bank and any others experiencing excessive growth rates that specific measures needed to be taken to curb this. My view is that they should have.

Turning to the Central Bank. When the Central Bank was being amended following the Government decision in 2001 on financial regulation, there was express powers included in the legislation to give authority to the Governor and the board to issue guidelines to the regulator. I might just read that out:

> 'Either [the Government] the Governor or the Board may, with respect to the functions of the Governor or the Board, issue to the Regulatory Authority guidelines as to the policies and principles that the Authority is required to implement in performing functions, or exercising powers of the Bank ... The Regulatory Authority is required to comply with guidelines issued to it under this section.

The financial stability analysis produced by the Central Bank in 2006 and 2007 suggested that while concerns were heightened about escalating house prices and associated banking exposures, this would not lead to any insolvency issues. The Central Bank placed undue reliance on their reports of the banks and assessment of the regulator in arriving at this conclusion. That was a mistake. The regulatory regime also imposed ... the legislation also imposed obligations on the regulator in relation to financial stability. It provided that if a matter relating to the financial stability of the State's financial system arises in the connection with the performance or exercises by the regulatory authority of its functions, that authority shall consult the Governor.

It goes on to say then if that arises, they may give a report to the Minister. The Department has told me there was no ... they could find no record of such a report. I do recall the financial sector having deep concerns about the credit union sector.

The combination of the express authority given to the Central Bank, together with the requirement on the Financial Regulator to put any financial stability issue to the Central Bank, and the fact that there was some common membership of the board did provide for an effective corporate governance structure if properly operated. While somewhat cumbersome, it was an appropriate regime. I'll just mention briefly an IMF report into the regulatory system in 2006 more or less gave it a clap on the back and said it was amongst best practice and that they had ... conclusion was that the results of stress tests undertaken through the Central Bank and the regulator and the major lending institutions confirm that the major domestic lending institutions have adequate capital buffers to cover a range of large but plausible hypothetical shocks. The Financial Regulator operated a principles-based regulatory system, which obviously took at face value the assessment of the banks and did not exercise independent judgment on their exposures and the quality of their loan books. This, too, was a mistake.

Turning to fiscal policy, in the decade up to 2008, Government programmes, combined with the pressures ensuing from social partnership, as well as the need to address both infrastructural deficits and demographic pressures on various sectors, drove expectations of public expenditure higher. The outcome was that from 1998 to 2008, total Government current and capital spending, excluding the Central Fund, increased from €20 billion to about €60 billion. Total current spending increased from €18 billion in 1997 to €53 billion by 2008, an average increase of 11%. That was clearly an excessive increase. The Department did recommend a much tighter control of current spending. Total capital spending increased from over €2 billion in 1997 to €9 billion in 2008, an average increase of 15%. A good deal of this increase was supported by the Department, as it felt that major infrastructural deficits such as our core interurban transport corridors - motorways - had to be tackled before demographic pressures crowded out investment. In general, prior to 2008, and as result of the pressures exerted by the social partners, individual Ministers and the Cabinet, the annual budget day packages ended up significantly higher than those recommended in the budget strategy memoranda put forward by the Ministers for Finance. The fact that revenues were buoyant in that period added to expectations.

Taxation, just to touch briefly on that, Chairman, the reduction in the top tax rate from 48% in '98, to 41% by 2006 increased disposable incomes significantly and that added to the appetite for fixed assets. The pressure from all sides were for less taxation over that period and, as I noted earlier, for more public services. Tax incentive generally in relation to housing and the incentives for commercial development did contribute to pressures in the construction sector. Other factors driving activity were reduced interest rates, the availability of loans and easier terms and the expectations that investing in property was always going to be a winning formula. Loose and unco-ordinated planning development controls contributed to the problem. On foot of recommendations from the Department of Finance, the Minister for Finance progressively moved from 2005 onwards to reduce and terminate tax incentives associated with building and tax minimisation by high earners.

Uncontrolled lending: the accepted analysis after the establishment of the ECB and the transfer of monetary policy from Irish Central Bank was that the only tool available to Government to control economic activity in the economy was through taxes and spending. The Department of Finance placed too much store on this conclusion. Greater consideration should have been given to the impact of uncontrolled lending. The Department should have adopted a more critical stance on monetary and regulatory matters in the decade ending in 2008. As Secretary General between July 2006 and January 2010 I was an *ex officio* member of the board of the bank but not of the regulator. I do not recall any proposals being advanced by the management teams of either the Central Bank or the regulatory side on foot of any identified imminent threat to financial stability or to the solvency of any particular institution.

As I said earlier, the analysis that was done was insufficiently critical of the realities behind the financial reporting of the banks. Some of the factors involved in pushing growth in the economy over the decade ending in 2008 include increased wages and changes in Government spending and taxation. However, increased bank lending was by far the biggest factor. The average annual increase in spending already touched on was about €10 billion - sorry - €4 billion a year, average of about 10% a year. The tax package cost about €1 billion a year, increased costs of wages and salaries in the economy, all adding fuel to what was going on, was about €6.5 billion. Unit labour costs in the economy increased by more than 55% in Ireland between 1997 and 2008, remained static in Germany and increased by 26% in the USA and 36% in the UK. The average increase in lending to individuals and non-financial business was almost €25 billion per annum or an annual average of more than 20%. The total increased from €40 billion in 1997 to over €300 billion in 2008. The reality is that it was this huge increase in lending that drove excesses in the property market. A more moderate approach to spending and taxation would have been better. Even with such moderation in spending and taxation, the uncontrolled explosion in credit by the banks would still have created much of the problem which crystallised in 2008.

I might conclude, Chairman, the guarantee decided in September 2008 was essential to avoid a complete collapse of the banking system and the economy. Ultimately, Anglo Irish Bank had to be nationalised in January 2009 to stop it collapsing and triggering a wider banking failure. The ECB set interest rates at a level that it judged appropriate to the whole of the euro area. The question of ensuring that credit growth was appropriate to the particular conditions in each euro country was left to the domestic central banks. Measures to control credit should have been taken. The Central Bank placed undue reliance on the regulator's assessment of the financial reports of the banks - that was a mistake. The regulator took the report of the banks at face value and did not subject their loan books to any meaningful scrutiny - that was a mistake. The Department of Finance was wrong to rely on consensus forecasts for a soft landing. It was also wrong to take at face value the assessment of both the Central Bank and the regulator of the state of the financial sector. I regret this. Fiscal policy in the period 1998 to 2008 was pro-cyclical. The pressure for more spending and less taxation came from all sides. The average increase in lending by the banks to individuals and non-financial business, in the period 1998 to 2008, was €25 billion per annum. That is what really caused the banking crisis. Thank you Chairman.

Chairman: Thank you very much, Mr. Doyle, for your opening statement. Just one question before I bring in Deputy O'Donnell. At any time from 2006 onwards, when you became the general secretary, did you ... under your tenure as Secretary General at the Department of Finance, carry out any in-house examination of the theory that there would be a soft landing? Not external reviews of other material, was there any examination carried out by the Department of Finance to examine the possibility that there would be a soft landing?

Mr. David Doyle: I don't recall such an examination, Chairman. As I said in my statement, the Department placed its reliance on the consensus forecasts, including forecasts from the Central Bank, the ESRI, which all spoke about a gradual reduction to a more sustainable level, which was assumed at the time to be about 50,000 houses a year.

Chairman: Which were all external assessments but not one done by the Department of Finance?

Mr. David Doyle: Not to my knowledge now but I am not putting my hand on my heart and saying that nobody in the Department did that. I think you are going to be meeting some of the people that were involved in the economic side but I can’t recall one major-----

Chairman: Okay, thank you very much. Deputy Kieran O’Donnell you have 25 minutes.

Deputy Kieran O’Donnell: Thanks, Chairman. Welcome, Mr. Doyle. Mr. Doyle, I want to, Chairman, make reference to document Vol. 2, page 27, and also the Department of Finance, Vol. 2, page 114.

Chairman: -----up first?

Deputy Kieran O’Donnell: Sorry?

Chairman: We’ll get the ... one up first, yes?

Deputy Kieran O’Donnell: Yes, yes.

Chairman: Okay.

Mr. David Doyle: Sorry, Chairman, ... or, Deputy, what’s the Department of Finance document that you’re referring to?

Deputy Kieran O’Donnell: Department of Finance document is a document from Merrill Lynch ... memorandum from Merrill Lynch, Sunday 28 September.

Chairman: It’ll be on your screen there, Mr. Doyle, rather than going through the books.

Deputy Kieran O’Donnell: They’re related, Mr.-----

Mr. David Doyle: Which volume is that in, Deputy?

Deputy Kieran O’Donnell: Sorry?

Mr. David Doyle: Which volume is that in?

Deputy Kieran O’Donnell: That’s on ... Vol. 2, Department of Finance. They’re both Vol. 2, one Department of Finance, page 114, and one Vol. 2, David Doyle, yourself, page 27. And the question, I suppose, I have, Mr. Doyle, is, when you’ve got it-----

Mr. David Doyle: Yes.

Deputy Kieran O’Donnell: You’ve made reference to everyone else stating that the banks were solvent on the night. Do you believe, based on ... do you believe that the banks were solvent on the night of the guarantee? And, more particularly, I want to draw reference to a ... a memorandum from the 25th, page 27, where you say “D Doyle noted that Government would need a good idea of the potential loss exposures within Anglo and [Irish Nationwide Building Society] - on some assumptions [Irish Nationwide Building Society] would be 2bn after capital and Anglo could be [€8.5, obviously, billion].” And I’m referencing that back to the Department of Finance document from Merrill Lynch, where Merrill Lynch states in their document that, and I quote, “However [this is about Irish Nationwide] there are concerns over the influence of the Chief ... In the extreme stress case analysis the total writeoffs including loss of interest income would ... [would] just deplete most of [Irish Nationwide] reserves of €1.8 billion.”- which is really very close to the €2 billion you speak about ... Irish Nationwide Building Society - and, secondly, about Anglo Irish “If one [were] to apply [Irish Nationwide] stress case scenario the writeoffs would deplete ordinary shareholders and other lower category subordinated debt of €7.5 billion”. The overall capital that Anglo had at the time was just over €9 billion. So, based on what I read there and your own pronouncements in ... on the ... the memo of 25 September, did you believe Anglo and Irish Nationwide Building Society were solvent on the night of the guarantee?

Mr. David Doyle: Well, first of all I think that that meeting was the 24th. It’s ... it’s ... 25th is written on it, I believe.

Deputy Kieran O’Donnell: Yes. Well I-----

Mr. David Doyle: Secondly, in relation to the note on the fifth paragraph - D. Doyle note and so on - the question posed sounds like me. All right, the question. But I wasn’t in the habit of answering my own questions.

Deputy Kieran O’Donnell: Well, can-----

Mr. David Doyle: So, I-----

Chairman: Allow the witness respond to this question.

Mr. David Doyle: I’ll just finish it now.

Chairman: Sure.

Mr. David Doyle: When I first saw that note appearing in ... I think it was the year after I retired, I ... I was ... I didn’t accept that I had actually given the information that’s included in the second bit of that. And, since ... since it was included in the ... in the documentation, I have racked my brains to try and remember did I say that and I’m convinced I didn’t. And, in fact, I am saying I didn’t give that information. I asked another party that was at that meeting from PricewaterhouseCoopers, did I in fact give that information in response to my own question, and he said “No”. My understanding from him is that it was probably the people from the NTMA that were at the meeting.

Deputy Kieran O’Donnell: That posed that question?

Mr. David Doyle: Yes, that posed that question. No, no, I’m saying I probably did pose the question. But I didn’t answer my own question. There was a contribution from-----

Deputy Kieran O’Donnell: What question would you have posed, do you believe?

Mr. David Doyle: No, I ... the question’s fine. The question’s fine. The Government would need to have a ... a clear idea of the potential exposures.

Deputy Kieran O’Donnell: But I’m-----

Mr. David Doyle: The answer ... the answer that was given by somebody else, I ... I can’t give you an explanation as to what their ... what their-----

Deputy Kieran O'Donnell: Well-----

Mr. David Doyle: Well, I could try and help you on it. I believe that, in the manuscript notes which this comes out of, the next statement that was made by Merrill Lynch was that these were top-of-the finger assessments. Now, at that point you are ... in terms of a stress test, this wasn't a detailed analytical stress test that we're talking about here. It was, "Here's a loan book, €70 billion. If the potential losses are 5%, 10%, 20%, 30%, what does that show?" It's not based on any rigorous examination of the loan book. A real test ... stress test that you would get in a due diligence situation would be to get in and do a bottom-up examination of the loan book - look at the collateral, look at the cross-guarantees, the wealth of the individuals - and come up with an analysis. But, as I said, this is ... this is a-----

Deputy Kieran O'Donnell: Mr. Doyle, you would have read the Merrill Lynch document that I've quoted from, which ... with the memorandum-----

Mr. David Doyle: Yes.

Deputy Kieran O'Donnell: -----and-----

Mr. David Doyle: Well, I ... I'll come on to that, Deputy. As I said, for a start, it wasn't a D. Doyle answer to my question but obviously on the night there ... there was some speculation done on ... on the basis of the theoretical stress tests I'm talking about. Apropos of Merrill Lynch document, what ... what they ... what they did say was ... what size ... page number is that again, Deputy?

Deputy Kieran O'Donnell: Page 114.

Mr. David Doyle: 114, yes. "In [an] extreme stress case analysis the total writeoffs ... would just deplete most of INBS reserves of €1.8 billion." Now, the other document talks about "on some assumptions INBS could be 2bn after capital". Now that ... after capital is their reserves are wiped out and another €2 billion is required. So-----

Deputy Kieran O'Donnell: Yes, but, sure, Merrill Lynch was saying that as well.

Mr. David Doyle: No, they're not saying that. I'm sorry-----

Deputy Kieran O'Donnell: Merrill Lynch are saying that'd wipe out all the reserves.

Mr. David Doyle: Yes, but they're not saying "and another €2 billion in capital is required".

Deputy Kieran O'Donnell: Oh right. Okay.

Mr. David Doyle: Yes. And similarly then, on Anglo, they're saying if you apply the same stress test, that you will be ... the €7.5 billion, which was the bulk of their capital, would be ... would be wiped out.

Deputy Kieran O'Donnell: Well then, taking-----

Mr. David Doyle: It's not saying "and another €8.5 billion would be required".

Deputy Kieran O'Donnell: Well, then, taking all factors into account - obviously the limited time - do you believe Anglo and Irish Nationwide were solvent on the night?

Mr. David Doyle: Well, on the basis of ... of what the regulator was saying, that they were solvent, on the basis of what-----

Deputy Kieran O'Donnell: What did you think on the night? You were general secretary of the Department of Finance at the time.

Mr. David Doyle: Well, I might just finish. At the top of page 114 you have a statement from Merrill Lynch, "It is important to stress that at present, liquidity concerns aside; all of the Irish banks are profitable and well capitalised." Now, in the case of Anglo, that night they had run out of liquidity. And a bank that runs out of liquidity is on borrowed time. If it can't meet its obligations, that will become known very fast. Liquidity, being the available ... cash available to it, would simply disappear. People would start pulling out funds and, very rapidly, an illiquid bank becomes an insolvent bank. So, what I definitely felt ... that if their lack of liquidity continued, they would rapidly become insolvent. Now, if ... if ... there was certainly a concern about the ... the business model and-----

Deputy Kieran O'Donnell: You have given, I suppose ... I want to get through a couple of areas Mr. Doyle and you've given, your basic point is you're saying that you had serious concerns about the solvency of Anglo and Irish Nationwide in terms of the way the liquidity was-----

Mr. David Doyle: I had clear concerns. I had serious concerns that their liquidity had disappeared and if that continued, they would rapidly become insolvent. Just if I might, finally, Deputy, point out that after the guarantee, PwC were sent in to do a range of analyses on the banks and I think in the case of Anglo, certainly in the case of Anglo and I think also probably Nationwide, they applied stress tests of varying degrees of write-offs and I don't think in any of those write-offs they come out and said they're insolvent. Finally if I might just point out that-----

Deputy Kieran O'Donnell: You'd appreciate I want to cover a number of areas Mr. Doyle and I appreciate you want to-----

Mr. David Doyle: Yes, but I think it is a salient point. The interim results that were produced by the bank on 2 December did not show an insoluble position.

Deputy Kieran O'Donnell: Okay. In terms of your role as general secretary of the Department, what advice did you give to the Minister for Finance and the Taoiseach leading up to the blanket guarantee being put in place? What advice did you give to them that you felt should be put in place in terms of the guarantee?

Mr. David Doyle: In terms of the guarantee. Well I-----

Chairman: Include the options in that as well, Mr. Doyle.

Mr. David Doyle: Yes, well the options that were all there in relation to the presentation by Merrill Lynch were discussed with the Taoiseach and the Minister. The first and overwhelming view that we did give them, which tied in with the view of the Central Bank, the regulator and the European Central Bank, that you could not have ... let a financial institution fail. Because of the complete collapse in confidence that would ensue, on top of the collapse in confidence that had already occurred in Ireland and internationally because we were dealing with a context of an international financial meltdown. I am not saying that that caused our problem.

Deputy Kieran O'Donnell: Did you consider the nationalisation of Anglo and Irish Nationwide in terms of the options you put to Government?

Mr. David Doyle: Yes, that was considered on the night. It was considered part of the suite of-----

Deputy Kieran O'Donnell: And what was your view on that Mr. Doyle?

Mr. David Doyle: My view was that there was on the one hand a strong case for doubting the business model but I could see the reservations that there were at that particular moment in time.

Deputy Kieran O'Donnell: What was your own personal view that you gave to Government?

Mr. David Doyle: I'm giving it to you now. I could see the reservations that if you did immediately nationalise, the potential was there for ... to undermine the rest of the banks. Nationwide or Anglo Irish was significantly exposed to commercial property, as was Nationwide. So too were AIB and Bank of Ireland but not to the same extent. And that ... the view that you could undermine the guarantee had to be taken seriously. That was the view of the Governor and the chairman of the Financial Regulator.

Deputy Kieran O'Donnell: So, when it came down to it Mr. Doyle, what was your bottom-line view to Government?

Mr. David Doyle: My bottom-line view was that, in light of the various considerations that the guarantee was a measure that had to be taken place, in the context of being the first stage in addressing the problems in the financial industry.

Deputy Kieran O'Donnell: You agreed then, with the blanket guarantee?

Mr. David Doyle: I wasn't happy about it. We hadn't been happy about it right over the course of that year, but by the time the end of September arrived, the international meltdown was such that I didn't really see a practical alternative. I could see the arguments for a nationalisation but-----

Deputy Kieran O'Donnell: We have Mr. Kevin Cardiff's statement, which we have received. He has to say, as yourself, that the Taoiseach and Minister for Finance left the room at some point. You might just explain when they left the room? And you added into your own statement that the Minister for Finance, when both the Taoiseach and the Minister came out and said they are going with the blanket guarantee, he did not in any way show any disagreement. Yet, we have Mr. Cardiff saying:

> the Minister [for Finance] told me some time later that during a pause in the meeting, when he and the Taoiseach had left the room to speak privately, he agreed with the Taoiseach to follow the broad guarantee approach. He did not use the word 'overruled' but rather indicated he thought it important that he and the Taoiseach presented a common political position.

Now, what view did the Minister for Finance express to you in terms of his view on the nationalisation of Anglo and Irish Nationwide?

Mr. David Doyle: Are we dealing with before they left the room or after it?

Deputy Kieran O'Donnell: Both.

Mr. David Doyle: Both, well okay. Before they left the room, the Minister and Mr. Cardiff were very strongly of the view that Anglo in particular should be nationalised.

Deputy Kieran O'Donnell: Did you concur?

Mr. David Doyle: I didn't disagree at that time. I wanted to see what ... how the argument would unfold and how the debate would unfold. The reservations about that approach that I touched on in my opening statement were that it could undermine the guarantee and call into question the need to have further nationalisations. We now know what happened since but ... so that particular argument, Anglo business case very doubtful, there's an exposed property market, the need to be nationalised and take out versus the other one.

Deputy Kieran O'Donnell: You had the Minister for Finance and Mr. Cardiff in favour of nationalisation of Anglo and Irish Nationwide and after the meeting-----

Mr. David Doyle: Well, I am not finished, if I may, on the Minister's perspective. That was the argument at the outset of his intervention. When he listened to the reservations about what nationalisation could imply for the credibility of the guarantee and the rest of the banks, he changed his mind and he accepted that-----

Deputy Kieran O'Donnell: But was the decision changed? The decision to go with a blanket guarantee, did that arise out of the meeting between the Taoiseach and the Minister for Finance when they stepped out to have a private meeting?

Mr. David Doyle: I just might continue, if I may, seeing as how this is an important issue, the debate went on. Nationalisation could be a problem. The Minister would have said "Yes, I accept that view, I have listened to the views of the Central Bank and the regulator, they don't think there should be nationalisation at this point." The meeting would then go on several times over the course of the night. The Minister went back to the same issue and the same debate took place quite a number of times over the course of the night. So there was a continual concern. Each occasion, the pros and cons of each would be discussed and it appeared that the Minister was acquiescing. What he was really ... position ... he was not saying "I remain convinced that Anglo should be nationalised." At some stage during the course of the night - you asked me when, I actually can't recall what time, it was quite late anyway - the Taoiseach nudged the Minister and said "Come on, let's go out and have a chat." So they went out and had a chat. I don't know how long that lasted. I can't recall. It certainly was not five minutes or ten minutes, could have been longer.

Deputy Kieran O'Donnell: It was an a.m. meeting rather than a p.m. meeting was it?

Mr. David Doyle: I could not swear on that Deputy.

Deputy Kieran O'Donnell: Very late anyway.

Mr. David Doyle: Very late. Eventually the Taoiseach came back in and said that they had decided to recommend to the Cabinet a guarantee and that Anglo was not being nationalised. I am pretty certain he said "for the moment".

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

Mr. David Doyle: And the Minister-----

Deputy Kieran O'Donnell: Did you have any subsequent discussion with the Minister on this matter?

Mr. David Doyle: No. No, I never had that discussion-----

Deputy Kieran O'Donnell: At all?

Mr. David Doyle: -----that Mr. Cardiff refers to. No, about the decision.

Deputy Kieran O'Donnell: No?

Mr. David Doyle: No.

Deputy Kieran O'Donnell: Not with the Minister, no.

Mr. David Doyle: No.

Deputy Kieran O'Donnell: Can I just move on-----

Chairman: You have five minutes, Deputy.

Deputy Kieran O'Donnell: Yes, I appreciate that, thanks, Chairman. The ... also on the night of the guarantee, we've had the banks in before us, who've stated they did not bring the broad outline of a guarantee to the meeting on the night ... on that fateful night on 30 September, on the night of the guarantee. Kevin Cardiff has stated in his statement that they explicitly sought a very broad guarantee and provided a suggested wording. Did the banks, on the night of the guarantee, bring a formula, a wording, for a guarantee?

Mr. David Doyle: My recollection is they sought the broad guarantee and the nationalisation. I don't recall myself seeing a draft of the guarantee statement. I certainly saw one coming up from the Central Bank.

Deputy Kieran O'Donnell: Did you see one coming from the banks?

Mr. David Doyle: Personally I can't recall one.

Deputy Kieran O'Donnell: But they gave a verbal that they wanted a broad guarantee?

Mr. David Doyle: They wanted a broad guarantee.

Deputy Kieran O'Donnell: With Anglo and Irish Nationwide nationalised?

Mr. David Doyle: Yes.

Deputy Kieran O'Donnell: Can I ... on ... can I go to document ... Vol. 2, page 111, Department of Finance, Chairman, and it's the bullet point for Cabinet, 28 September '08, it's a handwritten note: "As of 9 a.m., ... the"-----

Mr. David Doyle: Sorry, Deputy-----

Deputy Kieran O'Donnell: It's page-----

Mr. David Doyle: What's the date on that? The date on the volume?

Deputy Kieran O'Donnell: 28 September ... it's Vol. 2, Department of Finance, page 111 ... it's a handwritten note from your good self.

Mr. David Doyle: Yes, Deputy.

Deputy Kieran O'Donnell: Yes:

> Minister from D. Doyle
>
> Above summarises position on financial markets.
>
> As of 9 a.m. today the Governor has not heard from Trichet.

Now, what was your understanding of the communications between the Governor of the Central Bank, John Hurley, and the ECB officials in the period that led to the guarantee, the bank guarantee being put in place?

Mr. David Doyle: Well, first of all, I will just explain that that note would have gone over to a Cabinet meeting which was considering the budget, which was the other crisis that was in train at the time.

Deputy Kieran O'Donnell: I presume the bank guarantee was of a top ... higher priority on the night?

Mr. David Doyle: Well, this was on the morning of 28 September.

Deputy Kieran O'Donnell: Yes.

Mr. David Doyle: It was ... the banking situation was critical and so was the budget, but I'm just making that point. That was the context. They were meeting-----

Deputy Kieran O'Donnell: So, when you-----

Mr. David Doyle: So, in relation to the question that you asked, what was the relationship between John Hurley and the ECB-----

Deputy Kieran O'Donnell: And what was your understanding of communications coming up to the guarantee with the ECB?

Mr. David Doyle: My understanding was that the Governor was in close contact ... now, he had been out sick with a serious illness, came back around the middle of September.

Deputy Kieran O'Donnell: I think around the 19th.

Mr. David Doyle: My understanding is from then on he was in close contact with the European Central Bank in relation to unfolding events. You had Lehman's etc., etc., etc., and that weekend, because of the unfolding pressures, there was an expectation on our part that something could come from the ECB in terms of an intervention. And we were anxious to know was there going to be some intervention coming and, as I recall, Mr. Hurley was in contact with the ECB to establish whether something was ... would be coming, but, as to what he was told by the European Central Bank-----

Deputy Kieran O'Donnell: What did Mr. Hurley tell you on the night of the guarantee he had been told by the central bank, by Jean-Claude Trichet, the ECB?

Mr. David Doyle: What he told ... what he told the meeting that night was that the ... Mr. Trichet said to him ... and I have included in my written statement my version of that. Just to be precise: "On the core question [whether the ECB would allow a bank failure] the view of the

ECB as quoted to the meeting by the Governor on the night was that Mr. Trichet had advised him that no bank failure could be allowed, or words to that effect."

Deputy Kieran O'Donnell: And looking back now, Mr. Doyle, would you have done anything different in terms of advice given to Government on ... leading up to the night of the guarantee in terms of the decisions that were taken?

Mr. David Doyle: Looking back now, there's an awful lot of things have happened since I retired, but, on the night, I think the Government were in an impossible position. They were on the horns of a dilemma. Action had to be taken. As various learned commentators have said, it was the least worst option on the night.

Deputy Kieran O'Donnell: And do you think-----

Chairman: Final question, Deputy.

Deputy Kieran O'Donnell: Yes, final question. The ordinary person looking in, where they've ended up at a gross cost of €64 billion, do you think something could have been done differently in the periods ... the years leading up to cause the crisis, to ensure that it didn't happen?

Mr. David Doyle: Yes. Well, as I've said in my statement, steps to control excessive credit growth should have been taken. Now, that credit growth peaked in 2007 and was the same in 2008 as it was in 2007.

Chairman: He'll explain.

Mr. David Doyle: Yes. Sorry?

Chairman: I'll give you room to explain the steps.

Deputy Kieran O'Donnell: Sorry, yes. Go on, yes. What steps should have been taken?

Mr. David Doyle: Well, as I said, credit should have been controlled. It averaged 20% a year for ten years and, what I'm saying, steps should have been taken over the period up to the build-up of that from 1998 to 2006-2007. If you have credit growing, as it was in some years by 30%, 35%, it would seem to me blatantly obvious that there should have been an intervention. Now, what should that intervention have been? If you listen to some people, they say they didn't have the authority. In my opinion, there was authority there.

Deputy Kieran O'Donnell: Did you bring ... you were-----

Chairman: Sorry, Deputy-----

Deputy Kieran O'Donnell: Yes, sorry.

Chairman: -----you're out of question time. I'll bring you back in-----

Deputy Kieran O'Donnell: Well, it's just the context, Chairman.

Chairman: No, no, no.

Deputy Kieran O'Donnell: He's a member of the board of the Central Bank.

Chairman: I'm going to let ... sorry, Deputy, I'm going to let Mr. Doyle answer this question.

Deputy Kieran O'Donnell: Yes, okay.

Chairman: I'll bring you back in in the wrap-up because you'll have other time, and then I'll bring in Deputy McGrath. Mr. Doyle, please complete the question and then we'll move on.

Mr. David Doyle: Yes, steps should have been taken to curb the credit growth. The regulator should have stepped in and said to each, individual bank, "You're lending too much. It needs to be cut back." They should have gone to the Central Bank and looked at the whole big picture and said, "We're building up too much credit" and there should have been an intervention. Now, the Central Bank had *force majeure* authority in relation to the regulator to issue directions which they had to observe. That should have been done, directing the regulator to make sure that credit would only grow by whatever rate was appropriate to the economy. It wouldn't have just been ... the whole picture is not just credit, but it's largely credit, as I said in my opening statement. The pro-cyclicality of expenditure and taxation added somewhat to the issue, but it wasn't the major component. The major component was the excessive lending. If ... if ... if the banks weren't complying with directions from the regulator to curb credit, well then it would have ... should have been a matter for the Central Bank to step in and bring in the chairman and chief executives, lay it on the line, and if they didn't accept that credit was going to be curbed, then you'd make a public policy intervention. If the Central Bank felt that, for some reason, they had inadequate authority or powers, they could have presented suggestions to the Minister for Finance to get additional powers. I don't believe they were necessary. To touch on the question that you were ... on the latter part of your question in relation to the ... to my arrival on the board of the bank in 2006, I think Governor Honohan, when he was here, said that the problem in the banking system was created in 2002, 2003, 2004 and 2005 and that if you came up with a bright idea in 2006 to address the problem, it was too late.

Chairman: Okay, thank you. Just before I bring in Deputy McGrath, can I just ask you one question, Mr. Doyle, and that is, was there any prepared documentation or draft Bill or draft legislation in the building on the night of the guarantee that was proposing or suggesting the nationalisation of a financial institution?

Mr. David Doyle: There were drafts of legislation that had been prepared by the Department with the agreement of the Minister, with the input from the Attorney General, not physically in that building but they were in the Department of Finance across the square. There was a team ready on the night to finalise a Bill for nationalisation of ... there would be different versions, for a bank, a building society, and there was stand-by arrangements for a bank guarantee also. So that legislation was on stock waiting for political direction.

Chairman: So, because we've had heard discussions that there was some legislation prepared earlier in the year, we want to ensure what that's for. Are you saying this evening, that once the meetings were taking place around the guarantee, that somewhere here in Dublin, there was a draft of a Bill to nationalise a bank if a decision was made in the room that night potentially to nationalise the bank, specifically for those discussions - not something that was earlier drafted, not relevant to those discussions?

Mr. David Doyle: No, though the legislation had been drafted over the course of the year and it had very advanced stage by the night of the 29th.

Chairman: Okay. And on the night of the guarantee, was that legislation ... were ... was the

Minister for Finance or the Taoiseach or yourselves, cognisant of that draft Bill? Was it specific to the discussions that was taking place and at any time during the night was it discussed that there was, that there was legislation that could enable the nationalisation of a financial institution?

Mr. David Doyle: Well, the Minister was inextricably involved in the work on drafting the legislation with the Attorney General and he was totally aware of the work that had been done and the stand-by team that was there, ready to turn it into a final product.

Chairman: Okay. Anglo was subsequently nationalised in the following January or in and around that period. The Bill to nationalise Anglo in or around that January, was that similar or more or less the same Bill that was in waiting or available on the night of the guarantee?

Mr. David Doyle: I couldn't swear it was identical. It was the principle features and the provisions that were in the September draft were utilised in January so that when the Government made the decision, the Bill was very quickly produced.

Chairman: Okay.

Mr. David Doyle: There was a lot of the issues that were considered in September had to be incorporated in that Bill.

Chairman: So, very final question on that. Was there legislation available and prepared enough that could have advanced the nationalisation of Anglo or another financial institution on the night of the guarantee?

Mr. David Doyle: It was at an advanced stage and it could have been turned around, with the input of the parliamentary draftsmen and the Attorney, within a very short period.

Chairman: Okay. And was it discussed in the discussions over the course of the evening that that was available?

Mr. David Doyle: Well everyone knew that, whatever decision was made, legislation was required.

Chairman: Okay. Thank you-----

Mr. David Doyle: So-----

Chairman: -----Deputy McGrath.

Deputy Michael McGrath: Thanks Chair. Mr. Doyle, you're very welcome. Can I just continue along the theme that the Chairperson opened up there. You have confirmed that draft legislation to nationalise a bank was prepared and similarly to issue a guarantee. Was there special resolution legislation prepared, which would have enabled the Government to take a bank into State custody, as such, to separate the deposits from the bondholders and to execute an orderly wind-down of a bank, involving the bail-in of bondholders?

Mr. David Doyle: Not, not ... I'm not aware that there was, Deputy. I do know that over the course of a year, and I wasn't dealing with this hands on myself, there was a small team dealing with it. I did know that, in the context of moving on any particular organisation, there were all sorts of legal issues, some of them relating to constitutional issues in relation to the rights of shareholders, if the State was to step in and how you would deal with them. So at that particular point in time, there was no special resolution legislation ready.

Deputy Michael McGrath: Can I-----

Mr. David Doyle: And in relation to the question of dealing with bondholders, the bondholder issue in terms of whether you would bail them in, it wasn't, it wasn't an issue that was on the agenda; it was deliberately put off the agenda. Dealing with bondholders, to get them to take a bath you're more or less getting into a liquidation situation. And the read at the time was that if you got into a liquidation situation, certainly an involuntary liquidation, where a deficit ... whoever was driving the liquidation saying there aren't enough assets here to discharge the liabilities, an involuntary liquidation would have been seen as a disaster for the rest of the industry. A voluntary liquidation, where the shareholders or the promoter of the liquidation was saying that all the assets will be realised and all the liabilities of that company would be discharged, that would be a totally different question of thing ... different question. But, bondholders being written off in that context couldn't arise in a voluntary liquidation.

Deputy Michael McGrath: Can I put it to you, Mr. Doyle, that as far back as January 2008, in a financial stability issues scoping paper, it looked at a number of different scenarios, including the scenario of an insolvent bank. It looked at the scenario of examinership for a bank, for example. And yet, are you telling me that at the end of September 2008, when the proverbial hit the fan, the Department did not have resolution legislation in place to deal with a situation where a bank was insolvent or where the Department felt that the bank should be put into some form of examinership, so that there could be a more detailed examination under the bonnet to check the proper underlying health of that bank?

Mr. David Doyle: Well, a lot changed between January and September 2008. The financial markets continued to melt down and then reached crisis point. The resolution mechanism that was available was the one that I outlined to the Chairman. An examinership of a company, an ordinary company, doesn't give rise to the same sort of an issues that does in relation to a bank. If you appoint an examiner to a bank, the first thing that happens is that a red card goes up around every money desk around Europe and the world, and no ... and funds are called and there's no fresh funds made available. So you instantly trigger a financial crisis with that institution. So an examinership wasn't judged, at that point, to be an appropriate approach. You must remember that throughout the year, all these financial institutions were producing annual reports saying they were making huge profits with their interim results and five-year declaring dividends. So, there was nobody saying we are going to have an actual crash.

Deputy Michael McGrath: In February of 2008, in a paper "Overview of Financial Stability Resolution Issues", 8 February 2008, its on Vol. 1, page 71, of your own booklet, David Doyle booklet. Page 81 in that presentation says - this was February 2008, over six months before the guarantee - "As a matter of public policy, to protect the interests of taxpayers any requirement to provide open-ended/legally binding State guarantees which would expose the Exchequer to the risk of very significant costs are not regarded as part of the toolkit for successful crisis management and resolution." And yet, six months later, the Department did not have in its toolkit the option, where it believed, if it did so believe, that a bank was in deep, deep trouble, to strip that bank down, to protect depositors to the extent of the deposit guarantee, to bail in bondholders and effectively conduct an orderly wind-down of that bank. Why not, is the question?

Mr. David Doyle: Well, it could ... it could have quickly produced that, I suspect, if ... if the policy decision had been made to-----

Deputy Michael McGrath: Had any steps been taken towards preparing resolution legislation prior to the end of September '08?

Mr. David Doyle: Well, I've already told you, I'm not aware that there was, what became common throughout Europe, a resolution suite of legislation prepared. You'll be meeting some of the people that dealt with this day-to-day, but what was ready was a suite of legislation to deal with the Government decisions that emerged.

Deputy Michael McGrath: Nationalisation or a guarantee?

Mr. David Doyle: In relation to that particular statement that you have there in that presentation - that State guarantees are not part of the toolkit - that was the view, that State guarantees should not be part of the toolkit. And right through ... like, the ... when people did their crisis exercises, my recollection is, from what I was told, is that the reaction of the central bankers, the regulators, was, "Well, based with this hypothetical crisis that you're looking at now, the Government will have step in with cash." That was their first reaction. Our reaction was that's not the first thing to do, it's to try and see can you resolve it on trade acquisition or trade sale or merger-disposal situation. Now, by the time September arrived, you had the international financial meltdown taking place; you had Bradford & Bingley being nationalised; you had German banks being nationalised; you had Lehman's being let go to the wall; so towards the end of that month, the view down in Dame Street was that the financial markets had become so crisis bound that, as a last resort, a guarantee would have to be considered. That was the view that started to emerge the week before this down in Dame Street, because of the huge flows of liquidity and what was going on internationally, that it would have to be considered.

Deputy Michael McGrath: So do you believe that the Department was as prepared as it could be at the end of September 2008 in putting before the decision-makers the options at their disposal to deal with the crisis?

Mr. David Doyle: Everyone could always be better prepared. What was ... what was prepared was to meet the political decisions that were arrived at. At the time-----

Deputy Michael McGrath: But you didn't know in advance ... you didn't know in advance-----

Mr. David Doyle: At the time-----

Deputy Michael McGrath: -----what the political decisions were going to be.

Mr. David Doyle: No.

Deputy Michael McGrath: So should you not have had the broadest possible set of options available to the decision-makers, that if they had decided that they wanted to let Anglo and Nationwide go, that that could have been done in an orderly fashion, protecting depositors in so far as possible, burning bondholders and limiting the impact on the rest of the system? That option wasn't there.

Mr. David Doyle: Well, the legislation could have been rapidly turned around, but the option wasn't there. The option wasn't there to burn the bondholders. You had crisis in the money markets; you had panic right across Europe; you had people in the domestic market extremely worried, money being withdrawn; you had the view being taken around Europe that bondholders could not be bailed in, that you couldn't have a bank failure, and that if you had a bank failure, this would cause a most extreme financial and economic crisis in Europe. But, as I said, if ... if the possibility had emerged that you would ... you would make an intervention where you would secure the depositors and have a deferential approach to bondholders, it could ... it could have been rapidly dealt with in the legislation. We had the most amazing Attorney General of all time when it came to drafting legislation, but you would have to consider yourself what would have happened if you had brought in a measure to wipe out bondholders. Now, I can't recall what proportion of the Anglo funds were bondholders. I don't think it was by any means the majority of their funds. But if you had said, "We're going to take on this particular institution, guarantee deposits under the deposit guarantee scheme up to €100k and everyone else will be burned proportionately", there would have been an instant meltdown in the rest of the banks in Ireland, possibly having a domino effect across Europe, given what had happened on Lehman's and the ... the knock-on effect in terms of the domino implications for the Government sovereign market would have been disastrous. The Exchequer would not have been able to go into the market. It did have ... had built up a big cash reserve at the time against the pressures that could emerge in the market. But once that was exhausted, you ... and funds had been withdrawn from it, well, you would have been in severe difficulties.

Deputy Michael McGrath: I think ... I think, Chairman, we're in the realm of speculation now as opposed to evidence and I'd like to stick to evidence.

Chairman: Okay, and ... yes, and I would encourage that as well.

Deputy Michael McGrath: You said twice in your witness statement, Mr. Doyle, that Merrill Lynch, in their evidence ... or in their advice, stated it was "important to stress that at present, liquidity concerns aside, all of the Irish banks are profitable and well capitalised." That was their advice to Government, as such, at the end of September 2008, and you clearly placed some weight on it, because you've quoted it twice, but can I put it to you that, in arriving at that conclusion, what Merrill Lynch did was base it on some information and conversations they had with PwC as regards Anglo Irish Bank, with Goldman Sachs as regards Irish Nationwide, and with very limited verbal information from "the Ministry of Finance", as they put it, and IFSRA, the Financial Regulator - "We have not spoken to the management at any of the Irish banks." So, in arriving at that conclusion, Merrill Lynch had not gone into the banks, they hadn't assessed the records of the banks, the quality of the loans, the quality of the underlying collateral, and they hadn't even spoken to the management of the banks, not to mention ... not to mind, say, examine the underlying documentation. So was that not a rather flimsy basis for advice to Government which formed the basis of a very significant decision?

Mr. David Doyle: Well, to be fair to Merrill Lynch, they had only been in there for ... on the assignment for a couple of days. They were reviewing the published documentation in relation to the financial institutions, which were statutory declarations under company law in relation to their financial results. They wouldn't ... they wouldn't have got much information from the Department of Finance because the Department of Finance was not the regulator of the financial institutions, but the people in the regulatory regime were supposed to be the experts on the true state of the banks. So were they to ignore what the Financial Regulator was saying or take it for what it was worth? I'm sure they would have assumed that there was a robust regulatory regime there.

Deputy Michael McGrath: But do you now believe, Mr. Doyle, in truth, that those who had to make a decision on that night were in a position to base that decision on accurate and comprehensive information about the underlying health of the banks?

Mr. David Doyle: The information that they had from the regulatory system was that the banks were solvent. The information that they had from the financial organisations themselves, if you look at any of their reports or interim statements in 2008, they were all claiming they were making huge profits. If-----

Deputy Michael McGrath: We know what's in the public domain, Mr. Doyle.

Mr. David Doyle: If ... if ... if ... pardon?

Deputy Michael McGrath: We know what's in the public domain. All of that is in the public domain.

Mr. David Doyle: Yes. Yes.

Deputy Michael McGrath: I'm asking you, do-----

Mr. David Doyle: Yes, well-----

Deputy Michael McGrath: -----you believe now that those making the decision had access to accurate and comprehensive information about the underlying health of the banks? We know what information they had. We know what they were told by the regulator. We know what the annual accounts for the banks told them.

Mr. David Doyle: They had limited information. They didn't have the bottom-up analysis of the books of the banks that you would need. If you were in a full due diligence situation, you would know exactly what was underneath the loan book of any institution. The Government did not have that.

Deputy Michael McGrath: Can I ask you about the inclusion of subordinated debt, Mr. Doyle, in the guarantee, and if you can outline the reason as to why it was included? You might comment whether the ECB had any view on that issue. And I believe you're familiar with the evidence, the witness statement from Mr. Kevin Cardiff, that that was circulated to you and he says in that witness statement, page 12 ... that there was a short discussion about the question of whether to include dated subordinated debt within the guarantee. "I was asked", he said, "whether that issue had been covered in any of the discussions with the Merrill Lynch team, and I reported that at the meeting of 26 September they had advocated - on balance - that dated subordinated debt would have the same protections as senior debt and so dated subordinated debt ... was included." Is that accurate to the best of your knowledge, that Merrill Lynch recommended the inclusions of dated subordinated debt?

Mr. David Doyle: To the best of my knowledge, and I think if you look at their document ... where they're dealing with the nationalisation ... recommendation ... if somebody tells me where that is ... their document, anyway, says that if you were to nationalise, you would also guarantee the depositors and the ... and the dated subordinated debt in that institution. So it came up in that context, and Kevin's recollection there, to the best of my knowledge is, is accurate. I did see some documentation, separately ... in relation to, to that question and ... I ... I don't ... I haven't seen any documentation produced by the committee but it's a minute after the event of the guarantee from the NTMA to Kevin and William Beausang. And it ... it said ... and I think this might have been written in the context of presenting a case to the European Commission as to why ... may I read that out, Chairman?

Chairman: You can, indeed.

Mr. David Doyle: "I believe it is important to include dated subordinated debt under the guarantee"-----

Chairman: Before you just commence can you tell who it's to and whose name is at the end of it, Mr. Doyle, please?

Mr. David Doyle: It's from Brendan McDonagh. It's dated 11 October and it's an e-mail to William Beausang and Kevin Cardiff, and people in the Attorney General's office-----

Chairman: Okay.

Mr. David Doyle: -----and various others.

Chairman: This is your document and not a committee document yes?

Deputy Michael McGrath: It's not mine; it's a copy that I was given by the Department.

Chairman: All right. It's probably not on our system, no.

Mr. David Doyle: It is not on the system. But I've no problem giving it over to you:

> I believe it's important to include dated subordinated debt under the guarantee as the problems we are dealing with here were caused by the financial institutions having too great a mismatch between their assets and liability profiles to such an extent that they were funding long-term assets with too much reliance on short-term funding, be it commercial paper, interbank deposits and corporate deposits. Surely the objective of the guarantee of this dated subordinated debt from our point of view is to give the covered institutions the ability to access at least two-year term funding to reduce their reliance on short-term funding, thereby avoiding the liquidity squeeze. If any covered institution was to issue term debt with a maturity longer than two years, then the market would want to be compensated for that by an appropriate step up in the interest rate pricing. The investors in dated subordinated debt, while receiving a reasonable return commensurate with the risk, are not equity-type investors and invest on the basis that they expect their original principal to be returned at maturity whereas equity investors take the risk of losing their equity, but also with the very real possibility of receiving a multiple of their equity investment through dividend income and capital appreciation, in theory.

So that was the, that was the *raison d'être* I saw on the documentation after the event. The first time I, I recall seeing anything about it was in that Merrill Lynch document. And, as it turned out, a lot of that subordinated debt was taken out through liability management exercises.

Deputy Michael McGrath: Do you believe, Mr. Doyle, that the Central Bank and Financial Regulator had sufficient powers to take direct action against banks in the period 2003 to 2008? Do you think they had the powers?

Mr. David Doyle: Personally, I think so. And if there was any ... as I said earlier, if there was a deficit in it, there was very close liaison with the Department of Finance in terms of identifying an issue that needed amending legislation.

Deputy Michael McGrath: Mr. Doyle, Morgan Kelly published an article on a potential house price bubble in *The Irish Times* at the end of 2006, as you know, and later published a report on the same theme as part of the ESRI bulletin in summer 2007. Can you recall if any discussions were held ... at senior management level in the Department afterwards on either of those? And were Mr. Kelly's concerns given serious consideration?

Mr. David Doyle: I don't recall any discussion of the article. But what I ... I ... I have read the article and ... what he was, in fact ... with his conclusions ... it was interesting the conclusion that he reached. He said the expected ... if the average. He says:

> a close relationship historically across different economies and housing markets between the size of increases in real house prices, and subsequent declines. If this relationship were to hold for Ireland, the expected fall in average real house prices is in the range of 40 to per cent, over a period of around 8 years. [So a soft landing]. Such a fall would return the ratio of house prices to rents to its level at the start of the decade.

Now he wasn't predicting a short ... a soft landing, he said that could happen but, equally, the opposite could happen. But he did go on to say "The Government did not cause the current boom, and is powerless to do anything about a subsequent bust" That's on page 15 of his article.

Deputy Michael McGrath: Thank you, Mr. Doyle. When Governor Honohan attended before this inquiry and he clarified some evidence subsequently in writing on the question of what should have been done with Anglo Irish Bank and Nationwide, he set out a hindsight scenario. And I want to put that to you ... and that hindsight scenario is on the basis that you now know the cost to the State of rescuing Anglo and Nationwide will be in the order of €35 billion. And in that hindsight scenario, his view is that although Anglo was systemically important at the time, the Government would have done better by not including those two banks in a guarantee. It could have advised the ECB and the European Commission that it intended to liquidate these banks, protecting only insured depositors. European officials would have been shocked, they might possibly have agreed to some risk-sharing arrangement to induce the Government to refrain from the bail-in and absent from such a risk-sharing agreement and notwithstanding the associated significant reputational damage, on balance, some bail-in should have been applied. My question is, with the benefit of hindsight, and given we now know the cost of rescuing those two banks is of the order of €35 billion, should a different decision have been made regarding Anglo and Nationwide?

Mr. David Doyle: If ... if the conditions in the domestic and international European financial markets were such that the lenders to those banks could have been hit for a significant write-off, I think that would have been a preferential outcome, but the conditions that applied at that point, given the advice that was coming from the European Central Bank that there was to be no bank failure, it's very difficult to see how that could be done. I think ... I think Governor Honohan made a number of comments. He did say:

> I think, with the information available, they should have nationalised Anglo ... Would it have saved €40 billion? No.

That was his answer, on page 732 I have written down here, I don't know whether ... I don't have the hearing notes with me.

Deputy Michael McGrath: Yes. Well, that's with the information available at the time. He is now saying that his recommendation would've been to nationalise and work it out that way-----

Mr. David Doyle: Well-----

Deputy Michael McGrath: -----and ... but-----

Mr. David Doyle: Well, Deputy, I'd have to say, you know, nationalisation at the time that was being considered ... the type of nationalisation that was being considered was not to step in and take control of the assets, being the loans, and release all ... release ... say to the depositors and lenders, "You'll get your money back when the assets have been realised." That's sort of tantamount to an involuntary liquidation. The nationalisation that was being-----

Chairman: Just to get clarity - I'll afford Deputy McGrath a bit of extra time here - we established earlier with you, Mr. Doyle, that there was legislation that was available through the nationalisation of a bank and that Anglo could've been nationalised on the evening. Given the comments that you said there and your quote with regard to Professor Honohan, I suppose the obvious question, is why was legislation not actually acted upon and did anybody, on that night, advocate that the legislation would be used?

Mr. David Doyle: Well, as I've said in my earlier comments, the Minister and Kevin Cardiff pressed strongly for nationalisation. The Minister, having heard the debate surrounding the possible consequences of that, arrived at a different view and then went over those arguments a number of times. So, in terms of, was anybody saying the legislation should be used, the argument was being put forward that Anglo should be nationalised. It wasn't accepted universally or by majority of those, so-----

Chairman: And I'm not-----

Mr. David Doyle: -----if it had been ... if the decision had been made to nationalise it, it could've been used.

Chairman: I'm not being pedantic and I will afford Deputy McGrath time to come back in, but you see, it's one thing to say, "Let's go and nationalise a bank." That's a very abstract concept. What I'm trying to establish is on the evening, was there a concretised proposal that said, "We can nationalise Anglo Irish Bank, we do have legislation here and we can move it." So the argument in terms of nationalising Anglo is in the context that there is a vehicle and a mechanism and a methodology to actually do so. Not that we need to go in and do something now, how can we do it, but there is actually a method to do it.

Mr. David Doyle: To be honest with you, Chairman, I don't recall anybody saying, "We have a piece of legislation." But everybody knew. The attorney who had written it with his parliamentary draftsman, the Minister who was involved with it-----

Chairman: Okay.

Mr. David Doyle: -----Kevin, myself, the Governor, the regulator all knew that the legislation was there.

Chairman: Thank you. Deputy McGrath.

Deputy Michael McGrath: Finally, Chair and Mr. Doyle, when this committee had an engagement with Jean-Claude Trichet in Kilmainham, he was very explicit that in the lead up to the guarantee, there was no message to Brian Lenihan, there was no message to Ireland, there was no message to the Government that "You shall save your banks and that no bank shall fail." And can I just ... you have given your own statement to us today on that issue. But again, can I just put to you what Mr. Kevin Cardiff submitted in his witness statement which starts on page

14. His recollection is that:

> [B]efore the guarantee night, the Governor of the Central Bank, John Hurley reported three important points from Frankfurt, after discussions with the President of the ECB:
>
> > 1. There was no European approach to the financial crisis in preparation at that point.
> >
> > 2. The message from [Mr. Trichet] the President was that each Government should protect its own financial institutions and should not let them fail [and finally]
> >
> > 3. The ECB was not preparing any special intervention in relation to liquidity, including in relation to collateral.

That is a complete contradiction of what Mr. Trichet said to this committee in Kilmainham. Which is accurate?

Mr. David Doyle: I don't want to be semantic, but-----

Deputy Michael McGrath: Could you just answer the question?

Mr. David Doyle: My ... but ... my ... no, we will go through it. My recollection on this before the guarantee night ... so that was the day before I take it, because Kevin was in touch with the Governor on that Sunday and my understanding is you had a certain note there that was passed into the Cabinet. The Governor was in touch with Mr. Trichet. My understanding is that Kevin's account there is what he would've got from the Governor that Sunday. I think the Minister and Kevin were down in the Central Bank on the Sunday and inevitably, the feedback in relation to where the ECB was or wasn't, would've come to him then. So, if you're asking me, is it accurate, I didn't hear that, but the impression that I got, was that the substance of what Kevin is saying there is correct. But I couldn't put a hand on my heart and say-----

Deputy Michael McGrath: Did this account that Mr. Cardiff has given, was that conveyed on the night of the guarantee to decision makers? Was any account given by him or Mr. Hurley of the position of the ECB or of any communication from the President of the ECB about the backdrop against which the decision was being made?

Mr. David Doyle: Well, what I have included in my statement is a statement to the effect that on the night the Governor advised the meeting that the message from the ... Mr. Trichet, was that no bank should be allowed to fail.

Deputy Michael McGrath: Thank you. I think we have clarity on my first question.

Chairman: Okay. And we may come back to this in the supplementaries-----

Deputy Michael McGrath: Yes.

Chairman: -----afterwards, Deputy. Senator Michael D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. If I could just continue there, Mr. Doyle, please? You said Kevin and the Minister went to Dame Street.

Mr. David Doyle: Central Bank headquarters.

Senator Michael D'Arcy: Yes.

Mr. David Doyle: My understanding is they were down there.

Senator Michael D'Arcy: Your note for the Cabinet meeting of the Sunday-----

Mr. David Doyle: Sunday morning.

Senator Michael D'Arcy: Sunday morning. So, subsequent to the Cabinet meeting, they went to Dame Street, is that correct?

Mr. David Doyle: No, they ... well, the Cabinet meeting continued. My recollection is that Kevin was over in the treasury ... national treasury building for a good deal of the day, going through the options of what needed to be done and later on then, teamed up with the Minister and went down to the Governor for a discussion.

Senator Michael D'Arcy: Okay, that's fine. Within the Department of Finance, who is the best placed person to ... who is the best informed person in relation to the entire banking sector in your view?

Mr. David Doyle: Well, I'd have to say Kevin was extremely well informed. He was the head man on that side. He had my full confidence, the Minister's full confidence and he was very familiar with the financial services industry.

Senator Michael D'Arcy: Thank you. Can I just refer to your ... our Department of Finance document, Vol. 2, please. And if we start with the crisis simulation exercise which was late in 2007-----

Mr. David Doyle: What page number there please?

Senator Michael D'Arcy: Number seven.

Chairman: Page 7. Okay.

Mr. David Doyle: Sorry about that, do you know what page?

Senator Michael D'Arcy: Crisis, page 7.

Mr. David Doyle: Page 7.

Senator Michael D'Arcy: Yes, so it starts with the crisis simulation exercise and then it moves to the summary of each individual group who participated and the Central Bank feedback on page 12 and it says to a number of points that are outlined why it "meant ... it was not possible to carryout a systemic impact assessment". And move to page 15 which was the Financial Regulator's feedback, "The assessment of the crisis was unclear as there was no systemic impact assessment carried out." And then I move to page 16 and it is the feedback from ... again, sorry, continuation of the feedback from the regulator and it says, "We need to explore what measures/options are available to handle a crisis apart from ELA or Government guarantees." And then on page 18, Mr. Doyle, the Department of Finance feedback:

> In planning [a] next exercise, a particular concern should be to test the central elements of the national response to a financial stability event ([that is,] financial analysis of an individual institution in difficulty, liquidity/solvency assessment, ELA procedures, Eurosystem/ECB aspects, systemic analysis, interacting with media/political level, communications between national authorities, resolution issues etc.) rather than areas which are, while still important, more peripheral.

There seems to be a lot of energy put into the exercise without a clear determination that this was worthwhile. Was it worthwhile and the benefit that it contributed towards the actual crisis, when the crisis erupted?

Mr. David Doyle: Deputy, for a start, I wasn't at that exercise. That was Kevin and William Beausang, and I think Michael Manley were there, the people who represented the Department. The purpose of having the exercise, my understanding was they'd have the exercise, stand back and look at actually what happened and identify, well, how well did that go? How could it be made better? You know, the next time round what were the areas we need to look at? So that was the sense that the exercise took place, there's a critical evaluation taking place, with a view to what would happen the next time. I think Kevin would probably share with you his view of that particular exercise.

Senator Michael D'Arcy: I'm asking your view, Mr. Doyle, please.

Mr. David Doyle: Well, my view is what I said. The reason they did the exercise was to see, if there was a problem, how would the various players in the Central Bank, regulator and Department react to the hypothetical stress scenario that was discussed, and then to evaluate that, and then clearly a lot of people weren't totally satisfied with the way it had done and were identifying how the next such exercise could be enhanced.

Senator Michael D'Arcy: Can I go to page ... same volume, page 93 and 94. There was an e-mail to yourself from Brendan McDonagh. I'm not sure if this is protected. Is this protected? No. This is from Brendan McDonagh to William Beausang.

Mr. David Doyle: Beausang.

Senator Michael D'Arcy: Yes. And it's also available to yourself, cc'd to yourself. And the question was in relation to the impact of a full guarantee, and this is dated 26 September 2008. So this is three days before the actual night of the guarantee. And Brendan McDonagh says:

> This is very difficult to answer as the potential real exposure to the Exchequer of writeoffs is not yet independently qualified.
>
> The rating agencies will be taken aback at the scale of the state involvement in any [I'm not quite sure what it is, I assume it's clean-up] operation and the speed of it occurring. Clearly the length of the workout will be an important factor in their assessment of Ireland's credit rating also. We expect to be put immediately on negative watch and probably soon after be downgraded, how many notches from AAA we just don't know.
>
> Combining [to] takeon of banks Balance sheets of Anglo and Inbs of 110bn and guaranteeing the others of over 420 bn with a deteriorating budget deficit will lead at least in our estimation, an increase in the cost of funding of perhaps ... 1 percent in funding costs.

I just want to leave it there, Mr. Doyle, please. It would suggest, or would it suggest, that the bank guarantee was well considered days before the night of the bank guarantee itself within the Department, within the NTMA, that this was one of very few options that were available to yourselves? Is that a fair comment?

Mr. David Doyle: It's fair comment that by the end of September the possibility of having a guarantee was going to be looked at. I think the reason that I that day asked for the assessment of the implications for the sovereign debt was that ... I'm not sure whether I can refer to discussions of the Central Bank board, Chairman?

Chairman: You can in general terms as long as you don't be specific in terms of personalities or institutions.

Mr. David Doyle: Okay. Well, my recollection is that at a board meeting the previous day or two days ... I think it was the previous day, that the Governor at that meeting said that up to that point his conclusion, having regard to all the analysis available to him, was that a guarantee shouldn't be part of the suite of measures, but that given where things were now he felt that, for the first time, that a guarantee would have to be contemplated. And in the light of that, then, I posed the question, "What are the implications of that going to be, for the sovereign debt cost?" Now, in Brendan's note, which actually wasn't copied to me at the time ... what the note at the top ... oh, yes, it was ... I'm sorry it was, it was forwarded on by William ... what Brendan's note is saying there, a 1% increase in debt costs, and the debt ... national debt at the time was €50 billion, so that's going to cost €500 million. The reference to €110 million nationalised bank is a separate issue. That was hypothetical and if it had been nationalised, in fact, it wasn't going to be on the basis of the State writing cheques to make up for the borrowing of those nationalised banks, so it's ... I don't think the read ... I can see where he was coming from, but it was going to be, we were going to be underwriting ... the nationalisation would have meant that we would have been standing behind the borrowing of the banks, not actually, borrowing the money. So we're like the State, like the borrowing of the ESB which ... so what was really critical there was the 1% and the half a billion that that was involved in the additional servicing cost, and that was the figure around which the fees for the guarantee centred, in, in the days after the guarantee had been decided.

Senator Michael D'Arcy: Mr. Doyle, the Wright report, Nyberg report, public accounts committee report and Professor John FitzGerald were... none of whom were satisfied that the Department, the Department had neither ... the Wright report states:

> The Department had neither the time nor the resources to conduct in-depth investigation of issues. There was a shortage of skills in the requisite disciplines.

Do you think that's a fair assessment?

Mr. David Doyle: I think it's a fair assessment. The Department had a wide range of staff, I think, before I retired. We had our own in-house review of the capabilities of the Department. That was published about six ... in the middle of 2009, and it identified the need for the Department to increase its skill base. I wouldn't accept that the Department had no skill base, say, in relation to economics, for instance. There were something like, depending on what figure ..I ... 60 to 80 people in the Department with some form of economics qualification, but, as somebody else commented, how many economists do you need to work out that the explosion in credit was a fundamental problem, you know? There was a failure there, as I said in my opening statement, to stand back and look at what was happening in reality in the housing market, and to accept the assurance of the Central Bank and regulator. But, basically, a lot of the people in the Department were very committed and dedicated, but the Department did need a broader pool of skills, accountancy, taxation, economics, right across the board; it did need to enhance its skills base. And from what I've read, that has been carried through into action.

Chairman: Okay, I now propose, given that Senator D'Arcy has concluded his questioning, that we would take a short break. It is now 4.40 p.m., that we would suspend until 4.55 p.m., and resume at that time. In doing so, if I could just remind the witness that once he begins giving evidence he should not confer with any other person other than his legal team in relation to his evidence or matters to be suspended ... or discussed before the committee. With that in mind I now suspend the meeting until 4.55 p.m., is that agreed? And in doing so remind the witness that he is still under oath. Thank you.

Sitting suspended at 4.40 p.m. and resumed at 5.02 p.m.

Chairman: Can I now propose that we go back into public session? Is that agreed? And the next questioner is Deputy John Paul Phelan. Deputy, you've ten minutes.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. Doyle. I want to refer to your opening statement and indeed to the core documents ... I think it's page 141 to 145, which is about the domestic standing group. What arrangements, if any, were in place for the Department of Finance representative on the domestic standing group to report back to the Department's management board on the working of the group and were there regular updates provided and, if so, how were these provided?

Mr. David Doyle: There weren't ... open reporting to the management group. The reality is that the work that this group was doing at the time was regarded as ultra sensitive. The manager group was quite a large group and, while everyone trusts everyone else, I think, as a former Minister said to me once, "If you know something and tell somebody else something, the number of people that know it is not one plus one equals two, it is one plus one equals 111." So it was regarded as ultra sensitive that ... the fact that legislation was being prepared to take fundamental action. So ... but I would've been briefed by Mr. Cardiff as he saw fit.

Deputy John Paul Phelan: And were there others?

Mr. David Doyle: The people that were involved in the work of the group? Well, there was Mr. Cardiff, Mr. Beausang, Mr. Michael Manley, they would've been the three main people - second secretary, assistant secretary and principal officer.

Deputy John Paul Phelan: And there's no written reports or ... or ... you know, that would've been brought back to the Department from the standing-----

Mr. David Doyle: I think they were keeping records of the meetings-----

Deputy John Paul Phelan: Okay.

Mr. David Doyle: -----which they retained themselves and ... but they weren't being circulated in the Department.

Deputy John Paul Phelan: Can I ask you also to explain why your Department did not undertake or commission any analysis of the risks to the economy that would arise in the event of the ... of an interruption in the flow of foreign funding that was coming in at the time when you were Secretary General?

Mr. David Doyle: Those ... those ... was there a risk analysis taken of an interruption in the international money supply? No. There was a progressive tightening of the money markets but at no point before September did they become so critical that liquidity ... the bottom of the liquidity pot available to the banks started to run dry. Also, being part of the European Central Bank system, the Department always hoped that the European Central Bank would ... as things tightened, that their arrangements for providing liquidity would be loosened. In fact, they were moving the other way - and I think Kevin mentions that in his documents - they were moving towards tightening of collateral.

Deputy John Paul Phelan: But why was there ... was there any in-depth analysis of the risks that that could pose?

Mr. David Doyle: Well, we were ... no, no. We were dependent on the Central Bank, which was responsible for financial stability-----

Deputy John Paul Phelan: Okay.

Mr. David Doyle: -----monetary policy and, in conjunction with the regulator, in dealing with the financial markets.

Deputy John Paul Phelan: I want-----

Mr. David Doyle: You ... you ... we would expect that that's where the financial expertise lay and if there was an identified need, they would bring it forward before the board and then bring it forward to the Minister and the Department.

Deputy John Paul Phelan: I want to turn to your membership of the board of the Central Bank, by virtue of your position as Secretary General. You said earlier on - in answer, I think, to Deputy O'Donnell - that steps to curb excessive credit growth should have been taken. Did you, at any juncture, voice those concerns as a member of the board of the Central Bank? You had an opportunity and a position on the board to raise those concerns.

Mr. David Doyle: Yes, I did have that opportunity but, as I noted earlier, with the wisdom that Governor Honohan shared with you, which was to the effect that the damage was being done by the banks mainly in 2004, '05 and '06; if you come up with some great idea at the end of 2006, it would've been too late. If you look at the trends for lending to households in the non-financial sector, which is not the total-----

Deputy John Paul Phelan: My time is very ... we're down to four minutes and I don't want to cut you too short, but I-----

Mr. David Doyle: Well, I'm sorry, Deputy, but it's an important part of the response.

Chairman: I'll afford you a bit of time, Deputy Phelan.

Deputy John Paul Phelan: Okay.

Chairman: I'll afford you a bit of time.

Deputy John Paul Phelan: Okay.

Mr. David Doyle: The main increase in lending took place before 2006. It went from €40 billion in 1997 to €270 billion by 1996. There was another increase in 2007 of 311 and it's ... remained at that and started to reduce significantly after that. So, when I went on the board, there was a lot of concern about the explosion in credit that had happened - the potential implications of it. Their assessment was that it wasn't going to create financial instability. They had tightened some of the liquidity rules, made the decision in 2006, implemented it in early 2007 in relation to 100% mortgages but that was all too little too late. The first thing that I read on becoming Secretary General was an analysis from the International Monetary Fund on our regulatory regime which, as I said earlier, gave us a green card, not quite best-in-class, but the banks could cope with anything adverse that would come down the road at them.

Deputy John Paul Phelan: I want to turn now to your time before you were Secretary General, when you were ... I think, immediately prior to it, you were head of ... or responsible for public expenditure division within the Department of Finance in the run-up to 2006, a period when public expenditure increased by almost 44%. In hindsight now, do you believe that you ... or can you express to the inquiry whether you voiced any concerns at that increase in public expenditure or do you think, looking back on it now, that you could have done more to raise those concerns?

Mr. David Doyle: Well, I think if you go through the budgetary documentation for each year, you will see the Department of Finance expressing concern about the rate of growth in spending. If you look at what happened in the first ... 2000, an increase of 20% in current spending; 2002, 14%-----

Deputy John Paul Phelan: Are you happy that you-----

Mr. David Doyle: I'm-----

Deputy John Paul Phelan: -----voiced those-----

Mr. David Doyle: -----I'm happy that-----

Deputy John Paul Phelan: -----concerns? Okay.

Mr. David Doyle: -----there was a serious political discussion-----

Deputy John Paul Phelan: Okay.

Mr. David Doyle: -----at that point, with the Taoiseach, the Minister for Finance, and the Tánaiste-----

Deputy John Paul Phelan: Okay.

Mr. David Doyle: -----of the day in which it was pointed out, clearly to them and it was pointed out in a memorandum for Government that this pace of increase could not be sustained.

Deputy John Paul Phelan: Okay. But your advice wasn't taken, is that what your inferring from-----

Mr. David Doyle: The advice of the Department of Finance is sometimes taken-----

Deputy John Paul Phelan: And sometimes not.

Mr. David Doyle: -----but not always.

Deputy John Paul Phelan: Okay. Can I ask you-----

Mr. David Doyle: That's what governments are for.

Deputy John Paul Phelan: I want to turn now to the night of guarantee, in particular. We've had evidence from Mr. McDonagh, then of the NTMA, that they were not consulted on the night of the guarantee, that they were in a room adjacent to where the discussions were taking place. Why were the NTMA not part of that discussion on the night, in light of the fact that the taxpayer was put on the hook to the tune of €34 billion or €35 billion, and these were ... this was the authority which was responsible for funding the State, effectively?

Mr. David Doyle: Well, for a start, they had contributed to the analysis that underlay the Merrill Lynch and their input was invaluable in that context. They were ... they were invited by Kevin Cardiff to come in and to be available and to deal with the decisions. As to why they weren't invited ... I actually can't ... into the room, I can't recall.

Deputy John Paul Phelan: Do you think that was an error in hindsight, in light of the fact that they were the people responsible, with expertise for funding?

Mr. David Doyle: Well, I think they would ... there would potentially have been a more thorough discussion. I know at least one of the people that was there from the NTMA in the outer chamber would have been as sceptical, or possibly more so sceptical, about one of the financial institutions.

Deputy John Paul Phelan: Can I ask, also, in relation to the relationship between the Department of Finance and the National Treasury Management Agency at the time, there was some comment in some arms of the media that it was an uneasy relationship. Can you describe the nature of it?

Mr. David Doyle: For the vast bulk of the period of my career in the Department, I didn't actually deal with the treasury management agency, except for a short period. Going back when it was established in 1990, by a decision of the Government to separate from the Department so it would be professionalised and staffed with people with appropriate skills, there did seem to be some - I'm just observing from outside - some historical baggage about the few of the people in the Department that the NTMA were, had, you know, been hived off. The people in the NTMA seemed to think that the Department resented that. I never found any justification for that myself. My own dealings with them were ... I regarded them as highly professional and competent. Towards the end of the 90s, I dealt with a number of issues where we transferred additional tasks to them - central treasury management agency ... or central treasury management, State Claims Agency. And at the time, Charlie McCreevy issued a press release in which he said that the investment experience ... investment expertise available to him was in the National Treasury Management Agency.

Deputy John Paul Phelan: Okay.

Mr. David Doyle: They were subsequently tasked with the National Pensions Reserve Fund, the National Development Finance Agency, the National Asset Management Agency. That was all testament to the way in which both the Ministers for Finance over the years and the Department regarded them as independent, expert advisers in relation to financial matters.

Deputy John Paul Phelan: Finally, I'm going to ask you, all in the one question, in relation to your own pension entitlement, leaving the public service. When you retired in 2010, your pension was topped up in order for you to be able to pay ... be paid the maximum on retirement. I want you to state whether that's correct or not. And, secondly, is it common practice for retiring civil servants, teachers, nurses, guards, to have their pensions topped up in such a manner? Why was this payment sanctioned? Who sanctioned it? And do you believe that the taxpayer has got value for money for that payment?

Chairman: All right. The question is made.

Deputy John Paul Phelan: Thank you.

Mr. David Doyle: Well, the arrangements for ... for pensions for secretary generals are laid down at the outset of a contract. Mine were no different from anyone else. I think in my case there was two added years because I had been in the service for ... I can't remember now, 1972 to 2010. So it was about two added years. Younger secretary generals retiring would have got an awful lot more than that. Standard arrangements. Do I think that the arrangements were justified? I think that the pension arrangements for top people and, indeed, the salaries for it were excessive. They've been significantly reduced now and the pension arrangements have been significantly curbed.

Deputy John Paul Phelan: Who sanctioned it?

Chairman: Sorry, Deputy, I'm moving on.

Deputy John Paul Phelan: No, but that's ... I'm ... I'm-----

Chairman: Okay-----

Deputy John Paul Phelan: I asked the question and I just ... I'm going to ask-----

Chairman: I'm after giving you lots ... I'm after giving you more leverage now than I ... than others, in fairness, and-----

Deputy John Paul Phelan: Yes.

Chairman: -----you've been chasing salary levels and ... I don't know how that's relevant to the lines of inquiry. If you can make an argument for that, I'll facilitate it but if it's just kind of looking into somebody's wallet, I'm just moving on. Deputy Higgins.

Deputy John Paul Phelan: I asked who sanctioned it. I asked it about three times now at this stage.

Chairman: All right, well ... all right, well, what's ... make the relevance to evidence, Deputy, and then I'll make ... I'll move on with the question.

Deputy John Paul Phelan: The relevance to evidence is that there's a lot of people watching here today whose pensions have been greatly depleted as a result of the crisis that the country found itself in.

Chairman: Okay.

Deputy John Paul Phelan: And they have a legitimate question as to people who got substantive pension payments. And this is a unique, slightly different, topped-up pension and I want to know how it came about. That's all.

Chairman: Okay.

Mr. David Doyle: Well, my understanding of the general arrangements that were made for secretary generals - there was a time limited nature of the appointment and there was an age limit also on the appointment. The time limit was generally seven years and so if you retired considerably below the normal retirement age of 60 or 65, there was a top-up. I couldn't swear what the total top-up was supposed to be but I have a feeling it would've been up to seven years generally. In my case, it was two. Who sanctioned it? They were the arrangements approved by the Government. They have been ... they have been ... those top-ups, as I understand it, no longer apply and the basic salaries have all been significantly reduced. As I said, I ... I never set out to become Secretary General so that I could earn more money. That was what went with the job. I'd have been very happy with less and, in a way, I'm surprised that my pension wasn't cut even more than it was.

Chairman: Okay, thank you. Deputy Higgins.

Deputy Joe Higgins: Mr. Doyle, could you tell us, just very briefly, relating to PricewaterhouseCoopers loan book analysis of Anglo Irish Bank and Irish Nationwide Building Society around the guarantee time?

Mr. David Doyle: Are you referring to a particular page there, Deputy?

Deputy Joe Higgins: PricewaterhouseCooper. No, it's-----

Mr. David Doyle: Is that a document?

Deputy Joe Higgins: Well, there is reference to it, yes, in the Department of Finance, Vol. 2, page 113, but I would ... I think this is well known. I'm not asking you for a specific-----

Mr. David Doyle: Okay.

Deputy Joe Higgins: -----thing.

Mr. David Doyle: Okay. Okay, don't hold me to specific figures then - but if there's a particular document, I'll have a look at it - but my recollection is that post the increase in the deposit guarantee scheme to €100,000, the view was that that bought time. It bought time to ease the concern of the ordinary citizen who had a few bob tucked away in the banks and was concerned about it ... that assuaged them. But, in relation to what the position was in the banks, the Department and the National Treasury Management Agency were very concerned that we didn't have a flow of information coming to us about what the real state of play in the financial institutions was. PwC were commissioned by the regulator, to my recollection, at the request of the NTMA and ourselves to go in and have a look firstly, at what the liquidity position was in each of the financial institutions and in the case of Nationwide, I think what they found was that the, there was, strangely enough a large cash pile at the time, which was going to dissipate rapidly over the following few months because there was a major facility going to expire. They were, they were losing a lot of their normal deposits. If you recall, there had been a false story published at the beginning of September 2008 to the effect that Nationwide were in discussion with their, with their lenders in the context of, of seeking protection. I can't remember the exact story but it was false and it did damage them, quite apart from whatever other damage might have been done there anyway. They also went in and looked at Anglo, and they found-----

Deputy Joe Higgins: Yes, but in relation to that looking Mr. Doyle, were you made aware that this look was really depending on the banks' own management information?

Mr. David Doyle: Yes, we were aware of that. We were also aware that the PwC people that went in there in the course of, of a couple of days were able to feed us information about the liquidity exposures, information that we didn't have otherwise. So, like, they-----

Deputy Joe Higgins: But did it or did it not emerge later really, in view of the huge amount that was spent on the guarantee, that there should have been a much more thorough and forensic examination? Rather than relying on ... and can I refer to one document ... that's from William Beausang, it's not in the book but it's cleared for display ... from William Beausang, e-mail, and yourself is copied into that Mr. Doyle, on 19 September 2008? Maybe that could go up, yes, thank you. And then in the second last paragraph under Anglo, it says GS, which is Goldman

Sachs, who were had looked at INBS, “were very clear that if they were in our position they would have legal, accounting and corporate finance expertise combing through the books”. Now, shouldn’t that really have been a warning to the regulator and to yourselves that a forensic examination was needed, not depending on information from the management of the banks?

Mr. David Doyle: For a start, this is about a fortnight before the actual meltdown of the market. Secondly Goldman Sachs were in there originally doing some work for, as I regard, Nationwide, and they were asked by the Central Bank to go in and have a look on their behalf. So, while they did say this, they also said I think over the following fortnight, that things weren’t as bad as they thought originally. Goldman Sachs expressed that view in some document or other. The, the central point that you’re making is that the system didn’t have adequate information, we found that the regulator ... did not have adequate information to say to us exactly what was their liquidity position, what was their exposures. And we weren’t happy with that, we were pressing the regulator to get people in ... Goldman Sachs did some work for them, they eventually brought PriceWaterhouse in to do a, a job on the liquidity and then they also asked them to do a significant job on the loan book.

Deputy Joe Higgins: Okay. Would it be true to say, Mr. Doyle, that in the case of Irish Nationwide, more was known. and that really by the guarantee night, it should have been clear from the evidence that it was not solvent? Can I refer to core document Vol. 2, page 6? And this relates Mr. Doyle to the-----

Mr. David Doyle: What book is that in?

Deputy Joe Higgins: It’s Vol. 2 of the ... your document.

Mr. David Doyle: I, I have two Vol. 2s.

Deputy Joe Higgins: DDO, Vol. 2, David Doyle.

Mr. David Doyle: Yes, but which date Deputy? I have two----

Deputy Joe Higgins: Vol. 2, 9 June 2015, page 6.

Mr. David Doyle: And now I just ... I’m just saying, I have two blocks of green-----

Deputy Joe Higgins: One for the Department of Finance-----

Mr. David Doyle: Yes, but-----

Deputy Joe Higgins: The one with dates on them.

Mr. David Doyle: Yes, but-----

Chairman: Yes, but we have it on screen anyway here, Mr. Doyle.

Mr. David Doyle: What days are on the bottom of it ... on yours.

Deputy Joe Higgins: 9 June, but it’ll come up on the screen anyway.

Mr. David Doyle: Okay.

Deputy Joe Higgins: This relates, Mr. Doyle, to a meeting organised by the Regulator with the main banks and Irish Nationwide, etc., and in page 6, at the bottom half of the page, meeting 5. I’ll just take a sentence from that ... two sentences from that paragraph. It says, “The banks [this is a minute of the meeting] ... The banks reiterated that it was not a realistic proposition for either institution [that's AIB or Bank of Ireland] to provide unsecured funding for an entity that had a hole in its balance sheet which would exceed its reserves." And two sentences down, "Both AIB and BoI [Bank of Ireland] independently took the view that the CBI/FR [Financial Regulator] was seriously ruling in the possibility of letting IN [Irish Nationwide] go as a realistic option." And because of time, I'll just go to another piece of evidence, which is Mr. Drumm and this on the same book but it's page 119 and this is a letter from Mr. Drumm to the Financial Regulator in relation to whether Anglo Irish should take control of Irish Nationwide and in page 119, Mr. Drumm says, in a minute or statement, and I repeat:

> To publicly undertake to make up any deficit in net assets after the loan book has been realised and all liabilities [...] repaid. That is to say, any losses incurred in realising the loan assets will first be absorbed by member's equity [...] and then if any loss remains, by the Minister.

Is it very clear or not, Mr. Doyle, that all the main players were saying Irish Nationwide is simply insolvent?

Mr. David Doyle: That first meeting that you referred to, page 5 and 6 of Vol. 2, DDO ... The background to that particular meeting which the Department wasn't at. I think Mr. Cardiff deals with it in his statement. The regulator brought in AIB and Bank of Ireland ... this is post the leak in London that said they were-----

Deputy Joe Higgins: Yes.

Mr. David Doyle: They were-----

Deputy Joe Higgins: The nub of my question, Mr. Doyle, essentially, because of time, is this, with all that evidence, a person might say ... an ordinary person might say that it was blindingly obvious that main players were saying "INBS is finished. It's a bust bank." And my question to you then is this, on the night of the guarantee, was there a discussion on the seriousness of INBS's alleged hole, according to other banks, before a decision was made to guarantee it?

Mr. David Doyle: The banks came in to that meeting on the night of the guarantee and said that, in their view, Anglo and Nationwide should be nationalised.

Deputy Joe Higgins: But that's not the question I've asked-----

Mr. David Doyle: Well there-----

Deputy Joe Higgins: Was there a major discussion on how serious the situation was and that this was in fact insolvent?

Mr. David Doyle: The bulk of the discussion was on Anglo, rather than Nationwide.

Deputy Joe Higgins: Yes.

Mr. David Doyle: There were concerns about Nationwide. Looking at it in retrospect, given everything that emerged for both those organisations, once you got past the point of the guarantee, the capitalisation and then the NAMA loan acquisition and write-offs, obviously they were seriously insolvent. Were they insolvent on that night? There were people who were saying that they were in major trouble. The ... what the regulator was saying they weren't insolvent, my understanding from what I saw elsewhere subsequent to some of those earlier meetings with Goldman Sachs, they weren't saying clearly that they weren't insolvent. The PwC, when they went in and did the liquidity thing, said, "Yes, actually, INBS might have plenty of cash but it's all going to disappear." When they went in and did their Project Atlas work, the three different stress tests, my recollection is that that ... even that stage didn't show that their capital was wiped out, but it did show a lot of concern.

Deputy Joe Higgins: Yes. And in Vol. 1 and Vol. 2, I don't have time to quote it, Mr. Doyle, but you can take my word that it's here, both Merrill Lynch said that INBS loans were €11.7 billion, and that its assets were €3.6 billion, and Goldman Sachs said it had regulatory capital of €1.834 billion; again, further evidence. Now, in view of these ... all these players were in daily contact with yourselves, with the regulator; would you say that there should have been ... of course Anglo, but because of the apparently extra information that was known about Nationwide, that there should have been the most serious discussion in relation to Nationwide? And because my time perhaps is finished-----

Mr. David Doyle: Could I just note quickly, if you're saying ... and I haven't put my finger on the document ... if you're saying that there was still roughly €2 billion in shareholders' funds left that didn't mean that they were insolvent-----

Deputy Joe Higgins: No, no, no-----

Mr. David Doyle: -----that they were below the-----

Deputy Joe Higgins: That would be ... that's all the regulatory capital it had. But if-----

Mr. David Doyle: But if it was insolvent, it would have had no regulatory capital.

Deputy Joe Higgins: No, but I was taking from two separate things. The-----

Mr. David Doyle: Merrill's were saying in their document, on the night of September, if you apply the stress test of whatever it was, 10% or something, maybe it was 20%, that there would be a large write-off in their capital, but, as I said earlier, that stress test was a theoretical one; it wasn't constructed on the basis that Deputy McGrath referred to earlier, getting in and actually looking at the individual loan books and the collateral cross-guarantees, net worth of the individuals and so on. So were we convinced that Nationwide was a wonderful organisation? No. Did we almost collapse when Anglo came in and said they wanted to buy Nationwide? Absolutely.

Deputy Joe Higgins: Finally, Mr. Doyle, then-----

Chairman: Ask, and I'm going to move on then, Deputy, thank you.

Deputy Joe Higgins: Finally, on the night of the guarantee, Mr. Cardiff says that the Taoiseach was from the very beginning advocating a broad guarantee, and stuck with that, which included both Anglo and Nationwide. Is it surprising to you, in view of these serious concerns about some of these institutions, that the Taoiseach of the country would take such a stand at the very beginning of what was a critical discussion?

Chairman: We have to test that evidence now, by the way, Deputy. So, first of all, would you concur with what is being presented, and do you have a view on it? Like, that evidence has to be tested.

Mr. David Doyle: I accept what Kevin is saying, that the Taoiseach put it on the table early on. It's ... it's impossible to recall with clarity a meeting that happened, whatever it is, seven years ago now, but I accept his word that the Taoiseach put it on the table. But my recollection is the Taoiseach was a pretty direct character. He'd put it on the table and say, "Now, let's examine this." I don't recall ... like, if he had come in and said, "Let's examine this. We're not going to discuss anything else. Let's just do it", I'd accept that that wouldn't have been the appropriate position, but that's not what he did. He put it on the table and the debate went on for about six or seven hours after that.

Deputy Joe Higgins: Would it have been more appropriate to put on the table first the known state of the banks one by one, and the risks, and then come with possible solutions? Would that not have been a more logical approach?

Mr. David Doyle: On that night, the money was running out. The fear was that Anglo wouldn't open in the morning and the rest of the banks would be disastrously affected and there'd be economic chaos. There wasn't the time to go in and get a root-and-branch analysis from the ground up as to what the true financial position of the banks was. We were relying on what the regulator - who had been regulating all these institutions for so many years - presenting his view or the view of the regulatory machine, which is more appropriate to describe it, of the state of the banks, which was that they were solvent, profitable, well-capitalised and well-managed, I think, was the mantra.

Chairman: Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman. Could I bring you ... you're welcome, Mr. Doyle, could I bring you to page 169 of Vol. 3, in the core documents, DDO?

Mr. David Doyle: Vol. 3. Which page again there, Deputy?

Senator Sean D. Barrett: 169. It's an interview with you in, I think, 2010 on 14 October, "David Doyle, Former Secretary-General", and the second last bullet point is "The ECB's supervisory role with regard to the Central Bank was questioned." Could you give us your questioning of how the ECB supervised the Central Bank?

Mr. David Doyle: So I'm just trying to find that bullet point - page 169, is it?

Senator Sean D. Barrett: The second last-----

Mr. David Doyle: The second last, okay.

Senator Sean D. Barrett: ---of the bullet points, yes. It begins, "By 2007 the damage was done", and the last sentence is: "The ECB's supervisory role with regard to the Central Bank was questioned." Could you give us your views on that?

Mr. David Doyle: First of all, this note of this meeting was never agreed with me, right. It's just to note that, it's not an agreed report. It's their note of the meeting. The statement there is still the same statement I made in my opening statement today, in my written response to you and my oral statement today. I don't know what the workings between the European Central Bank and the Central Bank are because they're shrouded in secrecy and, you know, if you want to know - from an authoritative point of view - as to what ... how that worked, you'd have to get it straight from the Governor, who's a member of the ECB. In relation to my ... my, just, external observation, when you had credit growing throughout the early part of the 2000s, at phenomenal growth rates, 30%-35%, I'm just staggered that no intervention was made. Now the European Central Bank, its core function or its principal function, I think, is the word, is inflation; but it's also, as part of the ESCB with the central banks, charged with the task of contributing to financial stability. Now, throughout the 2000s, you had a significant drop in interest rates, which reflected the economic conditions right across the eurozone, particularly some of the bigger countries where the growth rate was very low. In our case, it was extremely high, so the interest rate regime applicable throughout the eurozone was not appropriate to Ireland, and my point ... my criticism is that, given that excessive growth rate and what that was doing to the economy, there should have been an intervention. I don't know whether the ECB ever advised the Irish Central Bank that they should make an intervention.

Senator Sean D. Barrett: Thank you. On page 11 of that volume, there's a letter to Mr. Jean-Claude Trichet, dated 30 October, from the Taoiseach's private office and it says, "I ... acknowledge receipt of your letter ... of 16 October", and it's copied to the Department of Finance and it's copied to the Governor. Was that unusual, at that time, that people would wait a fortnight and not reply to Mr. Trichet?

Mr. David Doyle: That's on page ... page-----

Senator Sean D. Barrett: Eleven.

Mr. David Doyle: It's the Taoiseach's letter and the Taoiseach's .... I think, you know, there was an awful lot going in the country at that stage.

Senator Sean D. Barrett: If I could come to ... on page 13-----

Mr. David Doyle: You want to ask ... ask other people.

Senator Sean D. Barrett: Okay. The last paragraph is that Mr. Trichet says: "I am writing to underline the importance that the ECB attaches to the exclusion of interbank deposits with maturity of up to three months from liabilities covered by the draft-scheme." So, we could have saved money if we'd responded to Mr. Trichet's letter?

Mr. David Doyle: Well, that's one view. As to whether you would save money, is another thing.

Senator Sean D. Barrett: If you exclude people from a benefit, you save the money, isn't that right?

Mr. David Doyle: It depends on what the market interpretation of that decision would be. If the Government took their decision ... the ECB, obviously, had some reservations but in the final analysis, they didn't pull any support for the guarantee or, indeed, for the liquidity available to the Irish ... the Central Bank's ... you must remember that in Paris, a week before this, the Heads of State and Government got together and they more or less, basically agreed that they'd throw the kitchen sink at the financial crisis in terms of equity, guarantees, special facilities.

Senator Sean D. Barrett: I'll bring you to page 71 in that volume at point 28, "According to the Irish Government, Anglo is a fundamentally sound institution", and this was on 14 January 2009. That's what we told the European Union. It wasn't a financially sound institution at that stage. It was in all the evidence to the contrary.

Mr. David Doyle: I think, you know, the reality is that the assessments that were ongoing in relation to Anglo, around that time, were showing concern but they were ... and if you recall, just before Christmas that year or before Christmas ... in Christmas 2008, the Government had decided to put forward a proposition to invest in the banks and as part of its intent to stand behind the banking system and it had intended to supply €1.5 billion in capital to Anglo. This document, reading it, is the Commission analysis of the proposal. That proposed injection of €1.5 billion of Anglo was, in fact, taken off the table that, that week, I suspect. Around about that time, the Government decided to nationalise Anglo-----

Senator Sean D. Barrett: Who made the €8.5 billion estimate? I know you didn't, it was attributed incorrectly to you. Was somebody else at the meeting - in response from questioning by you said that they ... they were short €8.5 billion? Who said that?

Mr. David Doyle: Are we going back to the note now of 24 September?

Senator Sean D. Barrett: Yes.

Mr. David Doyle: I have seen various manuscript notes talking about different figures. One that refers to figures after capital and one that doesn't refer to figures after capital. So, precisely which is the correct transcription, I don't know. I did say earlier that I'm absolutely satisfied I didn't answer my own question that I posed. I asked the accountant that was attending the meeting from PwC, whose name is incorrectly recorded in that minute as Dan O'Connor - I think it was Denis O'Connor - I asked him "Did I, did I make those ... did I gave that answers to my own question?" He said, "No", that he thought it was the NTMA representatives. So, I can't recall on what basis they made those but I would suggest that they were saying, "Well, if Anglo's book has to be written off...", like, to arrive at a figure of €8.5 billion after capital, their loan book at the time was about €70 billion. Their capital say was, just to make it easy, €7 billion.

Senator Sean D. Barrett: And did this undermine-----

Mr. David Doyle: If ... if you wrote ... if you had to write down a loan book by 20%, that would be around €15 billion. Which we----

Senator Sean D. Barrett: Does this undermine-----

Mr. David Doyle: -----but there was no ... there was no evidence-based analysis that demonstrated that but you know, you can do .... you can do a stress test. You can say, "Well, if the book has to be written off by 20%, this is what could emerge." So as to what the person that made the comment meant by that, you know, you would have to ask that person.

Senator Sean D. Barrett: On the ... in Vol. 2 on page 151, on the afternoon of the guarantee, there's a memo here, "Anglo currently 1.6 billion short." And then you were at the meeting with the €8.5 billion. So we shouldn't have said to the EU on 14 January 2009, Anglo is a fundamentally sound institution when we knew it wasn't.

Mr. David Doyle: Is that ... is that, sorry, Chairman. Is that in booklet DDO?

Senator Sean D. Barrett: This .. the Vol. 2 of DDO on page 151 is a note that says Anglo on the-----

Mr. David Doyle: Okay-----

Senator Sean D. Barrett: -----the 29 September 2008 was €1.6 billion short and yet four or five months later we told the EU it is a fundamentally sound institution.

Mr. David Doyle: Well currently, well, like the way I would read that it's a liquidity report. It's not a capital report. ILP is "currently 0.5 billion short due to net outflows of 1.1 billion". Anglo "currently 1.6 billion short."' That seems to me to be an update on liquidity. If you recall on the night, the Central Bank and the regulator advised the meeting that Anglo were short something like €2 billion potentially the next morning. They would be going into the red. And if that wasn't addressed, that would have had the most dire consequences. So that's not a €2 billion deficit in insolvency as far as I read that.

Chairman: That's supplementary-----

Senator Sean D. Barrett: Page 91 of Vol. 3, Ms Nolan estimates "a possible economic loss in Anglo's loan book over the next three years of €12.5 bn".

Mr. David Doyle: Certainly, give me that reference again, Senator.

Senator Sean D. Barrett: It's page 91 of Vol. 3 and that's called Anglo's Capital Position. And it's €12.5 billion over three years.

Mr. David Doyle: Are we DDO now or DOF, Vol. 3?

Chairman: It's on the screen in front of you, you don't need to be going through those books there.

Senator Sean D. Barrett: DDO.

Mr. David Doyle: Yes, and on what date is this?

Senator Sean D. Barrett: What date? It's 13 May 2009.

Mr. David Doyle: 13 May?

Senator Sean D. Barrett: Yes.

Mr. David Doyle: 13 May. Well, there was an awful lot of water passed under the bridge between the 30 September and 13 May. And some of that water I can't get into in relation to Anglo. In relation to corporate governance issues that came up and concerns about different loans. They ... they were in the public domain. They had a major damaging effect on the company. They produced interim results in December-----

Chairman: I ... I'm ... because the matters and the feeling where I'm actually I think you are actually going, Mr. Doyle, and because in my entry today, I spoke about other matters that are running concurrently and all the rest of it, I'm going to conclude that there. Senator, I'm moving on unless you have something really, really pertinent to ask that is not related to this matter?

Senator Sean D. Barrett: Well, yes about NAMA.

Chairman: Yes, very briefly if you can.

Senator Sean D. Barrett: Yes.

Chairman: I'm moving on; we're not taking any more on Anglo.

Senator Sean D. Barrett: Yes, thank you. The alternatives to NAMA that were considered and why was NAMA chosen? Thank you, Mr. Doyle.

Mr. David Doyle: After the guarantee there was a lot of concern about the situation of the banks as the property market continued to decline. There was more and more concern in the international market about the real position of the banks. They were regarded as having a lot of deadweight loans, which was dragging them down. The Minister decided to bring in Dr. Bacon to look at the options. The two principal options that were identified was, one, an insurance-based approach where you would write out an insurance policy, charge the banks an appropriate fee, let them work out the facility over the following ten years, say, and at the end of that period, if there was a deficit on the loan portfolio, it would be made good by the policy, for which they would have paid a significant premium. And the understanding on that particular option was that if there was a deficit from that arrangement, there would be a levy on the bank in subsequent years. However, the analysis that was done was concerned that that approach would still leave the market very uncertain about what, in reality, was going to emerge. So, the recommendation was that the cleanest thing to do was to take the loans off the banks for a discount and take it off their balance sheets, remove the doubt about their underlying financial position. They were the two main options, Senator.

Chairman: If I can just deal with one matter briefly with you before I bring in the next questioner who is Senator O'Keeffe. In an analysis paper you prepared in 2004 - it's coming up on the screen now, Mr. Doyle - it was estimated that a decline in housing output of 10,000 units would cost the Government €500 million in lost revenue. Despite warning that the current level of housing output was unsustainable at that time, no policy or strategy was proposed to deal with such a scenario." So can I ask you was this, in your opinion, a reason for the Government to be very reluctant with measures to cool down the property market?

Mr. David Doyle: That particular note, Chairman, was done in the context of propositions being advanced. I think that note was-----

Chairman: In and around .... I think it's August '04 is the period-----

Mr. David Doyle: I think it's later than that to my recollection.

Chairman: Sorry, it's actually ... it is later in the year, it's quite recent.

Mr. David Doyle: It's 24th of the something, '05.

Chairman: Yes, '05, sorry. That was-----

Mr. David Doyle: And I have signed it 24/11 there when I came back from the Minister.

Chairman: Yes.

Mr. David Doyle: That was done in the context of a proposition being advanced ... I ... I ... as it's in the heading there: "Could a significant decline in housing or output be affected by an expansion of public investment?" So like, in 2005 there was the usual heightened concern about housing output, or where the housing market was going and, I can't remember who advanced the proposition that if the market did contract, that the Exchequer would be in position, because of the marvellous position the Exchequer was in, to make up for that drop in activity, which wasn't an argument that held any water. And the purpose of that note was to demonstrate that well, if ... if housing output dropped, there would be a big impact upon revenue and that if you then tried to replace, through public capital investment, the capital equivalent of 10,000 houses, there would be a huge net cost on the budget. So it wasn't a practical proposition.

Chairman: Okay, can we maybe examine that proposition a bit further with you, Mr. Doyle, in that we do know, and we knew it then as well, that the construction sector was growing so exponentially that it had grown to nearly one quarter, just under one quarter of the Irish economy? And it was by any measure or means at least twice what it should be by EU norms or considered at a sustainable level, which is in around 10% or 12%; it was up around 24%. So the proposition ... could a counter-proposition to that be - and this is what the question is that I'm testing with you - was the Government, or was it your opinion, a reason that the Government to be very reluctant for measures to cool the property market because there's not a lot of apparent measures there at this time to actually cool the market? In fact, discussions of earlier today, with Mr. Considine this morning, will show that the taxation measures that were under review were not actually acted upon, they just remained under review between the, kind of, 2003 to 2006 period. So, can I put it to you, if I go onto the next page there, it's two pages in ... and in the top paragraph it gives a sort of relationship between the 10,000 houses volume decline or ... it's the third line down, "a rough rule of thumb is that each 10,000 volume decline in housing output [my Latin isn't great so you might translate that for me later] reduces economic growth by about [one quarter] - 1 percentage point. As a result, employment growth would be around ½- 1 percentage point lower than would otherwise be the case." So there's a correct ... or there's a direct correlation here between the number of houses being built and how it's actually presenting in economic growth and if the production of houses ... and as we know this morning ... there was an overproduction of houses being built at the time as well, that if the ... the roll-out of housing units was reduced, it would have an impact on the headline sum on the economy. And then it ... just to bring you down onto the next paragraph, and it's the ... it's the second line into that and it goes again, "However a broad rule of thumb is that each 10,000 reduction in housing output would reduce revenue by around €500 million", and I presume that that's in annum. So, the question I'm putting to you: did these figures in any way influence or give consideration to the Administration of the day that to take any cooling measure with regard to the property market would have an immediate adverse effect upon the revenue and employment figures, regardless of what the long-term consequences would actually be?

Mr. David Doyle: Well, the Administration of the day were aware that the market had overheated and there was a crazy level of output. The clamour of the day in relation to the higher prices was to try and have some sort of an intervention to make it easier for people to get houses. It was the market that was driving the completions, complete with the zoning, the banking credit, and as I said-----

Chairman: Well, we subsequently discovered afterwards that a lot of these houses were built in places nobody actually wanted them to be built.

Mr. David Doyle: Well, that's your planning development and control. As I said in my opening statement, it was totally unco-ordinated.

Chairman: But also, Mr. Doyle, that's also the bricks and mortar of it. That's where the houses actually were. It wasn't just the planning. The bricks and mortar were in different parts of the country where nobody wanted to live. So what we had was an overproduction of houses at the time, it was having an impact upon the economic figures, it was having an impact upon the employment levels. And the question I'm putting to you, and I'm asking for your opinion ... was, in your opinion, a reason for the Government to be very reluctant with measures to cool down the property market?

Mr. David Doyle: I don't think so because at that time, we were talking about prior to my becoming Secretary General, essentially-----

Chairman: But it continued on.

Mr. David Doyle: Yes. The ... well, the market started to slide at the end of 2006. House prices started to decline, credit peaked, the level of houses being bought dropped. And that ... it coincided on my becoming Secretary General, I wasn't responsible for it.

Chairman: But you were in the Department ... but you were in the Department at the time. Did you ... did you not have an observation on it?

Mr. David Doyle: The Department and the Government of the day would have been looking at what the net debt position was. And net Government debt had fallen, as proportion of ... of output, to about 25% by the end of 2006 and the cash reserves and the National Pensions Reserve Fund were significant. So the debt was ... the true debt was about half that. The general Government surplus in 2006 was €5 billion or 3% of output. If the ... your hypothesis that the Government wasn't concerned about-----

Chairman: I ... I'll simplify the question. I'll simplify the question. Was the percentage of the Irish economy that was into the property sector and the direct and indirect relationships that it had, both in terms of the ... it ... it's sheer size, 25% - consumption taxes and other things come with it - did that have an influence or any bearing in terms of how that sector would be actually addressed? I think you used the word earlier, I think that ... when you're into something, how do you get out of it afterwards? Were you in so deep into property that it became impossible to extrapolate yourself out of it?

Mr. David Doyle: Well, that was Morgan Kelly's conclusion, that the Government hadn't caused the problem and the Government couldn't do anything about the collapse. Whether that's true or not, I mean, he did say that. You could debate parts of that. But all I was making the point that the budgetary position was so strong, if the Government wanted to make an intervention to drive prices down or to drive property output down, which wouldn't have been all that easy to do because everyone was building all over the place, there was the financial scope there, apparently, only on the face of the numbers. The underlying position was that given the obsessive level of building that had been going on, the real revenue flow was underneath that, were... weren't lasting, that was clearly known. I can recall myself pointing out at the end of 2006 to my colleagues and to political people that the very figure that you spoke about, the 25% of output there on the construction side, that it was unreal and that it would come down and that we were going to be facing tremendous pressures. What we didn't factor in was the international recession which drove out but down internationally about 8%, including in America, England, our main markets. That impacted on us. It didn't factor in the financial crash either and it didn't factor in the collapse in building. It didn't factor in the unsustainability of the reality behind the banks' explosive increase in lending.

Chairman: Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks Chair. Mr. Doyle, are you currently or have you been since you retired in any paid directorship of any financial organisation or financial company?

Mr. David Doyle: No, Senator, I spend my time minding my grandchildren.

Senator Susan O'Keeffe: Excellent. When you were, to follow up on Senator Barrett's observations about NAMA, was there any involvement on the part of the European Central Bank in any of the final decision-making, given that you laid out certain options that were there? Did the ECB get involved and if so how?

Mr. David Doyle: My recollection is that the ECB were approached at the highest level by the Department and the National Treasury Management Agency and the Central Bank in the run up to the decisions on NAMA to ensure that decisions that were being contemplated would be supported by the European Central Bank. Their involvement in funding the whole operation was critical and that was explored and I understand, cleared and agreed with them, before the final decision was made.

Senator Susan O'Keeffe: That is to suggest that they agreed with whatever had been laid out. Did they actually have any input into the discussions, negotiations, ideas?

Mr. David Doyle: I can't honestly answer that. But all I know is that when the ideas were articulated and before they were approved by Government, the arrangements with the ECB to stand behind it were put in place. That's my understanding, you know, if you asked me to swear on it, I am 99% certain that there was advanced clearance by the ECB for the concept.

Senator Susan O'Keeffe: Okay. Was it something you had close up and personal...

Mr. David Doyle: I was not over there, no. Mr. Cardiff, I think Ms Nolan, the Governor, the Minister possibly were over there.

Senator Susan O'Keeffe: Perhaps we can ask them when they come in.

In relation, going back to 2008 if I may, in the summer of 2008, you will recall in July that you were looking, obviously the Department was looking at the budget situation and it was predicted at that point in July that there would be a shortfall perhaps of about €3 billion. And by the time early September came, that had moved on to €5 billion. In fact, in your own ... in the documents, it was already declared that there was a recession in the country, and that by the end of September there was, the shortfall looked like it was perhaps close to €6 billion. So obviously there was a lot of concern behind the scenes. Yet in that documentation relating to the budgetary consolidation, there is no mention anywhere of the banks and what was happening with the banks. Was there a parallel universe there where budget and constraints and expenditure and so on was here, and over here you had "bank mess", for want of a better word? And if so, why was that?

Mr. David Doyle: Well, the manner in which tax shortfalls emerge is by stealth. You don't get, like when Revenue Commissioners get in the cash in a particular quarter, it is impossible for them to extrapolate from a particular quarter what's going to happen by the end of the year. It's an accumulation of knowledge, so the budget deterioration was accelerating. I can recall myself coming back from my holidays in August that year and it was as if the wind had been taken out of the country. There'd been a complete loss of confidence. I can remember the Taoiseach being personally alarmed at what was going on and was very anxious that something be done to try and address the slide in economic activity. But equally we were concerned about the slide in the revenues, so when the Government decided to bring forward the budget, there was a twin-track approach of, say, "Okay, we'll take some measures to reduce the fiscal slide", bearing in mind the strong position that the public finances were in, apparently, "but we will also look at stimulatory measures where it can be shown to be good value for money". So, you'd have a twin-track approach.

Senator Susan O'Keeffe: So you-----

Mr. David Doyle: The Taoiseach ... the Taoiseach and the Minister and the Department were well aware of what was going on in the banking side. Now, at that point, for good or evil, what we had been told was the banks were solvent. There was no talk at that point ... at the end of September, the budget was about a fortnight away. There was no talk about major capital outlays. That started to emerge in December, when the Government decided it would have to back up its support for the banks by a capital injection.

Senator Susan O'Keeffe: But, in fairness, Mr. Doyle, you didn't know ... okay, you knew how bad the tax returns and the economy was sliding. You also knew that all of the banks, and in particular two or three institutions, were under extreme liquidity stress-----

Mr. David Doyle: Yes.

Senator Susan O'Keeffe: -----and that internationally there was very little confidence in them and that there was a stand-by on the Moody's and so on, looking to downgrade and so on. How is it then that you waited - you collectively, not you personally - until you arrived in the ... in the state of crisis on the 29th? Why was there no intervention before the 29th, given that those tracks were going in only one direction at that time? Why not act earlier and do something?

Mr. David Doyle: In which area now? The banks-----

Senator Susan O'Keeffe: With the banks.

Mr. David Doyle: -----or the budget?

Senator Susan O'Keeffe: Well, either. I mean, everything was converging and everything was going down and neither looked like they were going to come up. Why did you wait until the 29th, until the absolute crisis came, when everyone was then running around and chasing and trying to fix something? Why not act earlier? Why not nationalise one of the banks earlier, or offer some other alternative? Why did you wait?

Mr. David Doyle: Well, just firstly on the budget, we didn't wait until the middle of October. There was corrective measures in-----

Senator Susan O'Keeffe: No, no, I'm not talking ... I'm talking about the night of the guarantee.

Mr. David Doyle: Yes, but you were talking about the twin-track approach. Just dealing with that track, in the middle of the year, there was corrective action taken. There was a squeeze put on everything. At the end of September, there was a slide taking place in revenue. There was a budget coming up to address that slide that would be followed up in the months that followed. The real crisis on the banking front, it was beginning to emerge, but it didn't cascade until that weekend.

Senator Susan O'Keeffe: But why did you wait for it to cascade is the question I'm asking you? Why didn't you intervene earlier before it absolutely hit the buffers in the state it was in?

Mr. David Doyle: The perception was that the need for a capital intervention wasn't there. There were reservations about nationalisation but not total; it could have been contemplated. Was that going to make things any different for Anglo, or Nationwide, *vis-à-vis* the guarantee? Not really. The guarantee was going to ... was saying the Government is going to stand behind them. The nationalisation was going to say the Government is standing behind them. In terms of the impact on the budget and on economic activity, in the short term, it wasn't going to be significant. We know that in later months, and moving down ... moving down the road there were major issues in relation to capitalisation requirements which had significant budgetary implications. The big fiscal problem ... yes, the capitalisation was one and the debt that ... the net debt that arises on foot of that was truly shocking, but the big fiscal impact was first of all the collapse in the international ... not the collapse in the international economy, a significant downturn over two years. And then, the huge drought in domestic confidence, big increase in the savings ratio, a massive shake-out in employment. All of that accelerated after the period we're talking about. But the-----

Senator Susan O'Keeffe: But that's not-----

Mr. David Doyle: -----the Department we're looking out of all of this from the point of view of very ... what it perceived to be, a very strong financial position.

Senator Susan O'Keeffe: Even though the banks had been in crisis now since August 2007, you were still of the view that the banking situation in Ireland was strong?

Mr. David Doyle: No, I'm talking about the Government finances were extremely strong at that time.

Senator Susan O'Keeffe: Even though you were in recession, you'd already declared that the country was in recession? How could that be?

Mr. David Doyle: Well, your recession could be X quarters with a negative growth. What I'm saying is, if you look at, at what was ... what the debt position was, it was one of the lowest in Europe, at 25% of output. That was the general government debt, and the surplus ... there was a surplus of €5 billion, 3%. There's that point of view, that the Government came into the 2007-8 period from a position of recent financial strength. So there, there was no evidence that ... at that time, that you were facing a major-----

Senator Susan O'Keeffe: It does say in the document-----

Mr. David Doyle: -----capital requirement-----

Senator Susan O'Keeffe: It does say here-----

Mr. David Doyle: -----for the banks.

Senator Susan O'Keeffe: -----agree that the current state of the public finances and its future trajectory if left unchecked, is untenable. And that was dated 3 September 2008. But any ... I ... well ... that's okay.

Mr. David Doyle: That's right.

Senator Susan O'Keeffe: I mean, I don't understand how that can be untenable and stable at the same time?

Mr. David Doyle: The future trajectory? The particular point that we were ... you were at at that stage was, we had one of the lowest debt ratios in Europe. So, if the downturn had been a small downturn, you would have been able to cope with that. So from that point of view, some relative position of finance strength, apparently.

Senator Susan O'Keeffe: Can I just for clarification? The famous document that we discussed before with the note from you about Mr. Trichet, I don't want to discuss the document *per se*, I'm just trying to clarify, this was bullet points for the Cabinet on 28 September 2008, is that correct? That was a Cabinet meeting that took place therefore. on 28 September. The day before ... I'm sorry, I'm not ... or was it the morning ... for the following morning, I'm not clear?

Mr. David Doyle: My recollection is that in the run up to the budgets the Cabinet would be in session most weekends just immediately before a budget. So I'm assuming that, I think it was, a Cabinet meeting to go through the options for a very difficult budget. And it was written at 9 o'clock in the morning or thereabouts.

Senator Susan O'Keeffe: Yes, that would have been the Sunday morning?

Mr. David Doyle: Yes.

Senator Susan O'Keeffe: Yes, okay. I'm ... just wanted to clarify that.

And then finally if I may, in a separate point, much has been written and through freedom of information and so on and shown, the various meetings that the Minister for Finance would have had with various bankers and various property developers and so on. During his tenure as Minister for Finance, when you were the Secretary General, did you ever attend any of those meetings with the Minister for Finance, when he would have been meeting with bankers or ... and-or property developers? And-----

Mr. David Doyle: Which Minister are you talking about now, Senator?

Senator Susan O'Keeffe: I'm talking about Mr. Cowen. And I'm also trying to find out if you know ... can you recall when you learned about the Maple Ten? At what point did you learn-----

Mr. David Doyle: Well let's deal with the first point in relation to meetings with developers and bankers. If you're talking about a particular meeting-----

Chairman: The second question-----

Senator Susan O'Keeffe: The second question; I don't want to know anything about the details. I just want to know-----

Chairman: Well, don't be asking it, so, if you don't want to know anything about it.

Senator Susan O'Keeffe: No, but I only want to know when Mr. Doyle found out. I don't want to know any of the detail about it but I think we are entitled to ask when he discovered, or when he found out, that we don't need to know the rest of anything. But we are entitled to ask that, I believe, without declaring any-----

Chairman: I'll let Mr. Doyle to make the judgment of responding to that now.

Senator Susan O'Keeffe: Anyway just-----

Mr. David Doyle: Will I deal with the first part-----

Chairman: You can.

Senator Susan O'Keeffe: Please. Yes.

Mr. David Doyle: -----of the question first?

Senator Susan O'Keeffe: Absolutely.

Mr. David Doyle: Yes. Every Minister for Finance that I ever dealt with had meetings with bankers and developers. And usually there would be an official there. Every Minister for Finance that I ever dealt with, which goes back to probably ... well, I don't know was I there when Richie Ryan was there, but it goes way back anyway.

Chairman: Or privately.

Mr. David Doyle: They had ... they had meetings socially, in social settings. And if you're referring to a particular meeting in 2008 down in Druid's Glen, there was nobody from the Department at that. I don't know-----

Senator Susan O'Keeffe: But you may have attended-----

Mr. David Doyle: -----was Minister Cowen, was he even the Minister and I forget-----

Senator Susan O'Keeffe: But you may have attended some meetings.

Mr. David Doyle: But I wouldn't see anything unusual about-----

Senator Susan O'Keeffe: No, I wasn't ... I just asked-----

Mr. David Doyle: -----a Minister ... it would be perfectly respectable for a Minister to meet developers, bankers, both formally in the Department and at social occasions.

Chairman: Okay. Thank you. Deputy Doherty.

Senator Susan O'Keeffe: Sorry, Chairman, did you make a ruling on-----

Mr. David Doyle: There was the other ... the other question-----

Chairman: I would always give members advice that when they move into an area that is somewhat sort of eyebrow raising for me-----

Senator Susan O'Keeffe: Yes.

Chairman: -----that they would discuss that with legal before we actually move into that area.

Senator Susan O'Keeffe: Okay.

Chairman: I don't know if you've done that, Deputy ... or, Senator.

Senator Susan O'Keeffe: No, because I wasn't looking for anything except the timing. That's all.

Chairman: But it's still ... it's still an eyebrow raising moment for me if you're inside in that space and-----

Senator Susan O'Keeffe: I'm sorry. I wasn't trying to accuse you. I was-----

Chairman: -----and I would ask people to talk to legal before. I don't know where you're going with it.

Senator Susan O'Keeffe: That's it. That's all I wanted to know, was when did he find out. That's it. I don't want to know any more than that.

Mr. David Doyle: Well, that may be material to some of the issues that are in progress at the moment.

Senator Susan O'Keeffe: Okay. Thank you.

Chairman: Okay. Thanks for that answer. We're moving on, okay. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte ag an coiste, tUasal Doyle. Can you describe the general nature of the advices, if any, that you provided to the Minister and the Government on the risks involved and especially the growing dependency on construction-related economic activity and tax revenues? And, Mr. Doyle, can you refer in your response to the frequencies of such advice and the nature of supporting analysis, if any?

Mr. David Doyle: Now, are you talking about the period since I was appointed or just to take a broad retrospective view?

Deputy Pearse Doherty: As general secretary.

Mr. David Doyle: As general secretary. Well, as general secretary, if you look at pre-budget outlook documents, memoranda for Government, stability pact updates, you will see that the Department was concerned about the state of the industry. As I said, in my opening statement, the Department was wrong to accept the general consensus that the industry was facing a gradual reduction to sustainable levels. In the run up to the 2007 election ... sorry, Freudian slip - budget, it was totally different.

Deputy Pearse Doherty: Some people believe they're connected, but anyway.

Mr. David Doyle: There was a lot of concern that ... if you recall, the housing market had started to slide the previous ... the ... yes, around about that time. So there was a lot of worry that the construction industry was going to contract. And, on the one hand, you had ambition of the political system, taken at its widest, to have the best possible intervention in a budget in terms of improved public services and appropriate levels of taxation. And we were arguing for a very much lighter approach because our concern was that while we were exhibiting high growth rates at the time, that the possibility ... probability was that that was going to tail significantly. I think at the time, I was concerned myself that we could have been facing a recession. Now, a recession would be a very technical thing, a small drop in growth. We never envisaged a depression.

Deputy Pearse Doherty: You state that this stress test, in your opening statement, conducted by the Central Bank and the Financial Regulator weren't based on the worst-case scenarios. Did the Department have concerns, or not, about the adequacy of these tests at the time and were those concerns expressed to the Central Bank or to the regulator?

Mr. David Doyle: As I said at the outset, it was a matter of regret that the Department, over that entire period, took the assessment of the Central Bank and the regulator in relation to the true state of the financial services. The Department should have been more ... questioning.

Deputy Pearse Doherty: I heard your comments in that the question specifically is, did you have concerns in relation to the adequacy of the stress tests and if you did at the time, did you ... make that, did you make your views aware to the Central Bank or regulator?

Mr. David Doyle: My understanding is the Department didn't have those concerns, that they regarded the people down in Dame Street as the experts in the financial sector and the markets and knew what was going on in the banks. The traditional stance in relation to the Central Bank and the regulator in the Department was to regard them as completely autonomous and independent, and-----

Deputy Pearse Doherty: You didn't have the concerns so that's the way ... I'll move on to the next question. You were a board member of the Central Bank ... you were the Secretary General of the Department of Finance, you had a bird's eye view in relation to both prudential supervision, the stability of the financial sector, and also the issues in relation to the Department. Given everything that was happening in public, and I'll just mention a number of them. We had, in January of 2008, we had UBS telling their investors to sell shares in Anglo Irish Bank; we had Fitch coming out with critique in relation to Anglo Irish Bank; we had an attack by the markets in relation to the banking sector; we had the issue that was revealed sometime at least round February-March in relation to the contracts for difference issue in Anglo Irish Bank. We had all of that and the construction and obviously the Central Bank had the whole access to information in terms of concentration of lending in the property sector, and concentration of individuals. Why did you, or can you convince us otherwise, take no action to deal with the tsunami that was facing the Irish State in relation to this?

Mr. David Doyle: You're talking about 2008 now-----

Deputy Pearse Doherty: I'm talking about any time when you were on the board of the Central Bank and general secretary to the Department of Finance, why didn't you do anything to try and stem the problems that the people in that room, on the night of the guarantee, faced?

Mr. David Doyle: Can I go back to what I said at the beginning in relation to one of the remarks that Patrick Honohan made when he was in here? And I'll just ... I hope I got it right-----

Deputy Pearse Doherty: If you had a bright idea, it was too late in 2006. My question to you, Mr. Doyle, is did you even have a bright idea after 2006?

Chairman: Be mindful of the language now, Deputy.

Deputy Pearse Doherty: I'm sorry, I think the quote was put to me, or was about to be put to me and has been put to the committee beforehand.

Mr. David Doyle: I didn't have a bright idea. The lending had all been incurred. The problem, as Patrick said, was sitting in there waiting to pop out. What I did hear at the Central Bank was a lot of concern about potential exposure in the market, but I also heard was the ... the risk analysis that they did in their financial stability reports in late 2006 and late 2007 which said, "Yes we're concerned, yes there looks like the property is overvalued ... we've looked at this and our conclusion is that even with a market correction, the banks are well placed to cope with the pressures that could emerge." As I said, we were at fault for accepting that analysis.

Deputy Pearse Doherty: You gave evidence to the committee in relation to previous questioning about the Merrill Lynch analysis, and the document about €8.5 billion capital for Anglo after ... after capital, and about €2 billion for Nationwide. And you mentioned that Merrill Lynch said this is tip of the finger tips, or some language of that sort. Top of the finger tips data, it wasn't an in-depth data. The question I'm really putting to you is, given your position as general secretary of the Department of Finance for a number of years, given your position as a board member of the Central Bank, do you think it was appropriate that we had to rely on that type of tip of the finger tips data, or whatever suggestion that you had, no real in-depth analysis of where the losses could be in the banks? Could a bright idea not have been, to look in at the start of 2008, to send a team into Anglo Irish Bank when the markets were saying there was going to be losses in terms of their loan book, and actually assess that? So there would at least be a bit more concrete data on the table when the decision had to be taken on the night.

Mr. David Doyle: It would've been better if the regulator had done that, but the noises that were coming to the Department from the regulator from the financial reports the banks were producing right throughout 2008 is, "Everything in garden was rosy; they were making big profits."

Deputy Pearse Doherty: You believed all that?

Mr. David Doyle: There were a lot of people believed it and ... the Central Bank, the regulator, was mistaken to believe it, and I regret that we believed it.

Deputy Pearse Doherty: Okay. Can I ask you, on the night of the guarantee - forget about whether they were insolvent or not, because I think that's some ... a bit of semantics, because solvency is not just solvent on that point in time, it's the risk of solvency in the future - was there any concern raised in the meetings that took place on the night of guarantee in relation to the risk of solvency of either Nationwide or Anglo Irish Bank?

Mr. David Doyle: There was. There was an immediate consideration that illiquidity would rapidly become insolvency.

Deputy Pearse Doherty: I understand that. I'm not talking about the danger of an illiquid bank becoming insolvent. I'm talking about an analysis from some financial institutions or others that the banks themselves, given the loan losses, not the illiquid nature of the bank, could be insolvent in the future.

Mr. David Doyle: Well, that debate around nationalisation reflected the concern that there could be a problem emerging. And if that problem emerged, that would damage the market.

Deputy Pearse Doherty: So-----

Mr. David Doyle: So the argument that they should be nationalised related to the concern about the quality of the loan book, but in the case of AIB, Bank of Ireland, EBS, Irish Life and Permanent, there was no such concern. There was a concern about Anglo and Nationwide.

Deputy Pearse Doherty: And was that ... you mentioned problems, because you had problems arising and so on in the past and in evidence that you've given, was that named in the meetings, as in, "There is a potential risk of Anglo Irish Bank or Irish Nationwide becoming insolvent as a result of loan losses and its lending?" Was words to that effect mentioned by anybody in any of those meetings?

Mr. David Doyle: That would've ... that was the *raison d'être* for the argument for nationalisation. They needed to be taken out ... that, you know, in simple terms.

Deputy Pearse Doherty: Can I ask you-----

Chairman: You should wrap up now, Deputy, shortly.

Deputy Pearse Doherty: Okay. Can I ask you in relation to the guarantee itself ... and explain this to me because I've not been ... we've not been able to get this at the committee so far. The guarantee was announced by Government. When did the banks, legally ... when were we contracted, bound by the guarantee? There's evidence here in the book, I think, which talks about ... it's page 26, Vol. 3, which says that on Friday, 24 October, it was in "[the] order [to designate] the first group of banks and building societies to participate in the Credit Institutions (Financial Support) Scheme 2008 ..." was made on Friday, 24 October 2008. It's also the same month where the Minister starts to make provision for contingent capital to be made available to the banks. So my question to you is: were we actually, as a State, legally bound by a guarantee on the night of the guarantee, or was it when the banks signed up to the scheme and the order was signed on the 24th? And at that stage, did we know that these banks would be requiring at least some capital?

Mr. David Doyle: To be honest with you, Deputy, I couldn't give you a legal answer to that. When the announcement was made, there was a moral statement made. The legislation, I think, was passed on the 3rd. It was introduced the next day and I think it was passed within a day or two. I can get a precise answer for you from the Department for that, or you can ask Kevin - he will know on the spot - when he's in.

Deputy Pearse Doherty: And the capital ... when did you begin to know that capital would be needed? Did you know on the night of the guarantee that at least some capital would be needed for these institutions or how soon did you know, with the first date we have here is sometime at the end of the October?

Mr. David Doyle: Well, on the night of the guarantee, what we knew is that you had taken a step which was supposed to ensure financial stability, and everything associated with that in terms of the legal instruments that you mentioned, negotiation with Europe for clearance of the guarantee, dealing with people coming in, saying, "We want to be in it too," and so on, and so on, that takes up ... did take some time, but I think I saw in Kevin's document a note that he sent to the Central Bank, the NTMA, and our legal people, and Merrill Lynch and so on to the effect that we need to lift our heads now and start looking at options in relation to the strategic direction of the banks, whether any of them needed capitalisation and so on. So it was actioned from that point on, once the smoke had cleared on the outcome of the guarantee, the initial smoke.

Chairman: Thank you. Deputy MacSharry.

Senator Marc MacSharry: Thanks. Thanks, Mr. Doyle, for being here. Can I ask ... the Central Bank financial stability reports were flagging risks to the financial system as early as September 2004, and what action, if any, was taken by the Department of Finance in response to these reports?

Mr. David Doyle: Well, in 2004, I can't comment. When I was on the board-----

Senator Marc MacSharry: You did work in the Department at that stage, did you?

Mr. David Doyle: I did. I wasn't dealing with banking; I was dealing with spending.

Senator Marc MacSharry: Have you a view, while we have you here?

Mr. David Doyle: Well, I have ... as I've ... I've given my view in my opening statement today, which I think covers the decade prior to 2008, in which I said that I felt that the regulator didn't get involved adequately in assessing the real position surrounding the loan books of the banks. They accepted too readily the analysis that the banks made, that they were making huge profits, which went on over quite a number of years.

Senator Marc MacSharry: You did mention that, in fairness, earlier on. But I suppose what I want to get at here-----

Mr. David Doyle: The Central Bank would have been largely reliant on the view of the banks and the Financial Regulator. You had people doing their stability report who said there are risks, but there's no fundamental issues arising, and there's no threat to financial stability. So the Department didn't, on foot of that, take action. What it did do in relation to the brief the Department had on the fiscal front was to urge caution and moderation on spending and taxation.

Senator Marc MacSharry: So in 2004 ... sorry, after 2004 and the IMF and the OECD and ECOFIN and various bodies were recommending tighter fiscal stance, and you spoke a little bit about that, would you have a view, in terms of your own opinion of the Central Bank's recommendations to the Minister that they weren't more forceful at that time, is there any view you'd like to give on that?

Mr. David Doyle: Well, I think ... the recommendations to the Minister came in the form of a letter once a year from the Governor to the Minister separately from very, very periodic visits to the Minister by the Governor on a one-on-one basis at which home truths, I'm sure, were shared. But in relation to the-----

Senator Marc MacSharry: And yourself. you used to-----

Mr. David Doyle: -----in relation to the letters that came in to the Minister from the Governor on behalf of the board right over that decade, they were all based around, "You must run a tighter ship on expenditure and taxation, and run a better fiscal balance." And it was a mistake not ... for the Department not to examine what was going on in the credit market and to seek to have the Central Bank make an intervention.

Senator Marc MacSharry: You were a director of the ... you sat on the board of the Central Bank for the period that you were secretary?

Mr. David Doyle: From the middle of 2006.

Senator Marc MacSharry: From the middle of 2006 on. And there were six members of that board that were also on the board of the regulator; isn't that correct?

Mr. David Doyle: Approximately, yes.

Senator Marc MacSharry: And would you have been aware at all that in the period up to your tenure and the time that you would have finished up as director general ... as Secretary General that no action was ever taken by the regulator or the Central Bank following any prudential regulatory breach by a financial institution?

Mr. David Doyle: I'm not sure that I was aware that they took no action. We are talking about middle 2006 to the end of 2009.

Senator Marc MacSharry: Yes.

Mr. David Doyle: I am aware that there's a criticism that the bank, the Central Bank/regulator ... it ended up as a single organisation, but ... they were criticised for not being sufficiently interventionist, particularly in relation to one institution, which I don't think ... I'm not sure whether it has been named or not, and that they were overly concerned about legal exposures.

So there was ... there is that criticism, but I am aware that, in 2006, they decided to tighten up on the capital adequacy requirements for 100% mortgages. There was action in 2007. That was too little, too late. In relation to imposition of fines, I do recall them imposing fines on one particular organisation which I, I don't propose to mention, Chairman, on foot of an issue that was brought to them by the auditor of that organisation, and that, as I understand, was actioned and might have led to some penalties; and there were other penalties emerged. But there was no ... like, in relation to the big issue of what was happening this big explosion in credit-----

Senator Marc MacSharry: When somebody's in breach ... somebody did make a breach, there was no action taken: you weren't aware of that - or were you?

Mr. David Doyle: Well, I'm saying that I was aware of some action in particular instances, but, if there were breaches of regulation-----

Senator Marc MacSharry: There were.

Mr. David Doyle: That I ... yes, well, I'd have to know what they were, and was it the case that there was absolutely no intervention?

Senator Marc MacSharry: Would it suffice to say that there were-----

Mr. David Doyle: Okay.

Senator Marc MacSharry: -----and would it suffice also to say that it's a matter of evidence here that there was no action taken against any prudential regulatory breach? Does that surprise you, and why do you think you didn't know that if you were a director of the Central Bank?

Mr. David Doyle: Well, I'm not saying that ... I, I mean, I'm saying that I'm aware there was measures taken for potential regulatory breach - at least one or two that I'm aware of. Maybe I'm being Jesuitical, on that point. I'm also aware of the criticism that the regulator wasn't sufficiently determined in relation to the market, was too deferential ... that's the word.

Senator Marc MacSharry: Did you know Tom O'Connell, the chief economist in the Central Bank?

Mr. David Doyle: I met the guy a couple of times.

Senator Marc MacSharry: Did you ever liaise with him, or have an exchange with him about the economy, what needed to be done, what was being done, the state of affairs in banks, or any aspects of the economy?

Mr. David Doyle: I didn't have any contract with Tom outside the board, outside the Central Bank. He would have interfaced with the Department, with the head of the economic desk, I'm sure, in relation to meetings of the board. I would have seen, Mr. O'Connell presenting papers, I'm sure, in the context of the stability report.

Senator Marc MacSharry: Did he ever when presenting papers, highlight his major concerns for the situation, from a banking regulatory perspective? Because he has given evidence to the committee, he had an extraordinary difficulty in getting his message across to board level.

Mr. David Doyle: I have no recollection of documents being presented and the case being made that those documents were not agreed with, and that there was some effort made to stop any individual at the board, who appeared before the board, making their own views clearly known to the board; they had the floor.

Senator Marc MacSharry: They had the floor, okay, good. Can I ask you about your relationship with Ministers of the day? Was it difficult to get your point across if, for example, a Minister had view A, and you had an alternative view, because you felt that the Minister's view was wrong? Did you find any of the line Ministers that you dealt with in finance particularly difficult in that regard, or were they very open to your advice?

Mr. David Doyle: I'd honestly, say, Senator, I never had that difficulty. And Ministers ... and Ministers can be extremely robust and I think, on occasion, I would be myself, if I needed to be.

Senator Marc MacSharry: Good, can I also ask and I asked your predecessor earlier on, in your period as secretary of the Department, did you feel that there was any sectoral interest that had the leg of Government or the ear of the Minister or the Taoiseach to the extent that it had an unhealthy influence on budgetary preparations, such as health was put forward as something that had a very significant input by your predecessor in the earlier session. Did you have any view on that?

Mr. David Doyle: Sectoral interests, now, outside the role of Ministers and Departments?

Senator Marc MacSharry: Yes, we spoke previously to your predecessor and following on from some documentation which was a budget submission by the IAVI, I think, in that instance, and I asked, "Did this happen regularly?" He said he had checked. In fact, in the current year and there seem to have been 1,200 such representations made pre-budget and just in line with that, I was asking him, "Was there any unhealthy level of contact or influence of a particular sector over another that could influence policy?" Such as, I suppose, in this instance, either financial services in banks or property.

Mr. David Doyle: I can honestly say that every interest group that came into the Department with their submissions or in to meet a Minister were given a fair hearing but I never saw or never picked up on a Minister ... any Minister paying undue deference to any particular group.

Senator Marc MacSharry: Yes.

Mr. David Doyle: Every Minister, without exception, gave them a fair hearing, listened to their point of view, considered the issue objectively, independently afterwards.

Senator Marc MacSharry: And if I could just ask you to confirm very finally and you did ... you did make reference to it in your opening statement. Do you recall any representations being made by politicians or sectoral interests for less expenditure or more taxation, during the period you were Secretary General?

Mr. David Doyle: No.

Senator Marc MacSharry: Thank you.

Chairman: Thank you very much. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chair, and thank you, Mr. Doyle. So, a few brief questions following on from your earlier evidence today. You said earlier on that accepting the consensus view of the soft landing was a mistake. But were you not a part of formulating that consensus view ... in that language soft landing? Because we heard in evidence from Tom O'Connell about the 2007 financial stability report which talked about favouring a soft landing over a hard landing. Professor Honohan told us that there was no evidence in that report and there is none to back up that assertion and Mr. O'Connell told us that that language came from the board, which you sat on at the time. Do you remember that conversation about putting that language into the document?

Mr. David Doyle: I don't recall that ... I've a vague recollection of being sent a draft of some document by Tom O'Connell, whether it was 2007 or 2006, I don't know or what the document was. Following a discussion of the board, board members might be sent documents that want to ... "Is this okay? Does it reflect your views?" I might have put something in and I recall the only instance I ever got that was I sent it back to them and said, "You have editorial control."

Deputy Eoghan Murphy: Because according to Mr. O'Connell, the editorial control was actually exercised by the board in a one-day or two-day session during which they would finalise the language for the financial stability report and that the language-----

Mr. David Doyle: The board would discuss it but the final editorial control, in that sense, would be the Governor but he would try to reflect what was going on at the board but I ... I don't recall a discussion at the board myself to the effect that soft landing is the only credible scenario.

Deputy Eoghan Murphy: But do you recall receiving that first draft and-----

Mr. David Doyle: Oh, yes.

Senator Marc MacSharry: -----and seeing the soft landing language and taking comfort in it?

Mr. David Doyle: I don't, I don't to be honest with you.

Deputy Eoghan Murphy: You said earlier on that September was the crisis point but there were earlier crises in 2008 and one in particular was the St. Patrick's weekend-----

Mr. David Doyle: Yes.

Deputy Eoghan Murphy: ----- in March of that year. At that point, one bank, no one would lend to one bank in the Irish economy. In another bank, no Irish bank would lend to. The Governor and the Financial Regulator were approaching each of the banks and asking them to lend to each other. That was the green jersey agenda. €20 billion had been wiped off bank shares in Ireland since the beginning of the year and there was a feared run on one bank, which led to intervention. So why not move in then? Why not take the opportunity then to seek a resolution?

Mr. David Doyle: For a start, the ... there definitely was confusion in the minds of the banks themselves about the ... what was the driving force for that speculation and threatened runs and adverse comment. Was it international speculation, was it caused by some of the speculation on shares that was going on that we ... would be difficult to go through? Was it based on analytical evidence on what the true story in the banks was or was it just an Irish ... an anti-Irish story? Or did it reflect the common things that were happening across Europe, the UK, the massive downward trend in share prices generally? Now, the trend in Irish share prices was more. But there was ... there was clouded thinking there. There was a cloud, you know, was there a real Irish problem or was it an international problem?

Deputy Eoghan Murphy: That's just the potential share run, though. That's almost a crisis point in itself. At the end of the first few months of the year, which had already seen a number of mini-crises and I listed them out, the different things that were happening. Banks weren't lending to Irish banks. Irish banks weren't each other. The Financial Regulator and the Governor were going to the banks asking them to lend to each other. And they were or were not ignoring them. So, why not take the opportunity then and it's come up briefly raised by my colleagues, why not step in then and make a resolution?

Mr. David Doyle: With the guarantee, with capital, with nationalisation-----

Deputy Eoghan Murphy: With anything that's already been discussed by the domestic standing group since the summer of the previous year.

Mr. David Doyle: Yes. Well-----

Deputy Eoghan Murphy: You're anticipating something, why not take an opportunity then?

Mr. David Doyle: Well, it's a viewpoint that maybe an intervention ... there was, there was no evidence being produced by, by the banks themselves that an intervention was necessary or appropriate. There was no analysis from the regulator or the Central Bank that an actual intervention was necessary. There was stand-by arrangements being pushed through that consultative process with the bank and the regulator and the Department to prepare for an event, an event in the future. The event hadn't crystalised. Possibly, if you had stepped forward with an announcement at the time that the Government was going to stand behind the banks and provide capital, that might have calmed the market down. But the reality ... like what the real problem was that when it came to the crunch and the problem was created by the explosion increase, explosive increase, in credit rolled out by the banks - when it came to the crunch, they assets that they had lined up, particularly on the development side weren't remotely near worth what their loans that they should ... for those assets.

Deputy Eoghan Murphy: I don't want to go over old ground Mr. Doyle, I'm actually running out of time. So I will just move on to ... just briefly, were any decisions taken at that Cabinet meeting on 28 September, the Sunday meeting in 2008? Any decisions by Cabinet in relation to the banks.

Mr. David Doyle: I don't know. I've read what Kevin says about that but I don't know. I was never informed. In fact, there was never-----

Deputy Eoghan Murphy: But ... but if Cabinet makes a decision, you would be informed?

Mr. David Doyle: About the banks now?

Deputy Eoghan Murphy: Yes.

Mr. David Doyle: Yes, well, not always. The Cabinet could have a discussion, arrive at a preliminary view, arrive at a decision in principle they are going to think about it. They are not going to unnecessarily release it ... they'll release a decision when they've made a final decision. So, I mean, I realise what's in Kevin's document. But I wasn't aware, I wasn't made aware that they had, as Kevin's suggesting, made some sort of a decision in principle.

Deputy Eoghan Murphy: Thank you. Earlier on in evidence you were talking about the Minister and the Taoiseach going into a room and coming back out and saying, “We’re going for a guarantee and not nationalisation”, and you used the words “for the moment”. So, was it implied that nationalisation was coming, shortly, down the line?

Mr. David Doyle: Well ... the nationalisation, if it had been decided, wasn’t going to happen that night, but it would have taken a couple of days to put in place. It’s a messy arrangement, the preference of the bank and the regulator was to do it at a weekend. Now, as I said, my recollection is that is what the Taoiseach said.

Deputy Eoghan Murphy: So was it-----

Mr. David Doyle: I haven’t seen it written anywhere but that’s my recollection.

Deputy Eoghan Murphy: From your recollection-----

Mr. David Doyle: Whether he meant ... whether he did, in fact, say that ... I’m basing that on a non-contemporaneous note that I prepared myself about two years ago about the night. And that was my recollection. I’m trying to dredge it up from my subconsciousness and it’s what happened on the night. And I noted that in that particular non-contemporaneous account, which is a personal one.

Deputy Eoghan Murphy: But if that ... even if that isn’t your recollection or even if it isn’t accurate, does it infer that you were expecting nationalisation to come shortly after the guarantee decision?

Mr. David Doyle: It wasn’t being ruled out.

Deputy Eoghan Murphy: It wasn’t being ruled out.

Mr. David Doyle: That’s ... that’s my interpretation on it.

Deputy Eoghan Murphy: Okay, thank you. Just two other brief questions. Were you aware of the over-exposure of the banks to commercial property from 2006, when you took over as Secretary General at the Department of Finance?

Mr. David Doyle: I was aware from what the Central Bank work was being done that the scale of property exposure was significant. Was I aware that they were issuing loans without adequate appraisal of the valuation, the net worth of the individuals, the cross-collateral, the personal wealth, other pledged assets, inadequate documentation-----

Deputy Eoghan Murphy: I said,”Were you aware of the exposure?”, though, which was the question.

Mr. David Doyle: I was aware of the exposure but-----

Deputy Eoghan Murphy: Okay.

Mr. David Doyle: -----I would have always assumed that the banks were being run on a sensible basis, that if they were lending money to David Doyle for €100 million that they would check out David Doyle and expect David Doyle to put up significant equity, that in return for lending David Doyle €80 million or whatever that I would have sufficient assets behind me to back that up. I would have checked out the exposures of David Doyle to other banks ... now all of these things were going on.

Deputy Eoghan Murphy: Yes, but surely the point of the whole regulatory infrastructure assumes that you can't just trust the banks, so when you became aware of that over-exposure, what did you do about it to satisfy yourself that it wasn't a risk to the economy or to the banking system?

Mr. David Doyle: I don't think I said ... I may ... I didn't intend to say I was aware of over-exposure. I was aware of the exposure.

Deputy Eoghan Murphy: The exposure. And you didn't consider it an over-exposure?

Mr. David Doyle: Well, what we're ... what the analysis that the industry and the Financial Regulator were presenting was that the overall exposures of the banks still left them in a profitable, solvent, liquid and well-managed state. That was the story. As I said originally at the outset, it is a matter of regret that the Department accepted that analysis of the banks, the regulator and the Central Bank.

Deputy Eoghan Murphy: Okay, thank you. Thank you Chair.

Chairman: Thank you very much. I'm just going to move to wrapping things up. I have just one or two questions that remain outstanding and I just need to round off some matters with you as well, and then I'll invite the two leads and bring matters to a conclusion. If there is anything you'd further like to add at that time, Mr. Doyle, you are more than welcome to. If I could just return to the issue or, or get into the area of the troika bailout programme and Ireland's contribution to it. The bailout programme was of €85 billion, €17.5 billion came from a National Pensions Reserve Fund and that's excluding bond redemptions from NAMA disposals. Could you maybe please elaborate to the committee the main features of the discussions with the troika, bilaterally with our EU partners and particular, if the €17.5 billion, as mentioned with regard to the National Pensions Reserve Fund, was presented as a precondition for assistance in that programme?

Mr. David Doyle: I'm sorry, Chairman, but I ... I can't answer those questions because that all happened after I retired.

Chairman: Okay.

Mr. David Doyle: But Kevin is coming in and he's the man on that.

Chairman: And ... and you have no information in that regard, no?

Mr. David Doyle: Well, the only information I would have in relation to the National Pensions Reserve Fund, what happened behind it ... when I was leaving, there was a significant cash reserve there and the conclusion of the Minister - with the advice of the Department - was that that cash reserve, while it was supposed to be for the longer term, needed to be used in the emergency that we had and he took steps to ... I think to provide for directed ... directive investment powers in relation to the fund. So, obviously that translated into action later on.

Chairman: Okay. On the eve of the guarantee, was there a sum put on how much Anglo would cost if it were nationalised or during that broader discussion period?

Mr. David Doyle: No, the ... the legislation for ... for nationalisation of Anglo was ... was centred around stepping in as a shareholder, as it were, you would take responsibility for collecting the value of all the loans and you were going to stand behind the people that had loaned money to the bank.

Chairman: Okay, okay.

Mr. David Doyle: You weren't going to stand behind the shareholders. The shareholders were not going to be compensated for any historic value. They had essentially almost been wiped out at that point. But there was a billion apparent capital value in Anglo around that time, on the basis of the shared value, and there was-----

Chairman: But ... but wiping out the shareholders, yes-----

Mr. David Doyle: Sorry, just to finish on this. There was a mechanism envisaged in the draft legislation to ... to deal with the shareholder residual value and a process of assessment and determination and appeal and so on, and that's all in the legislation ... in the January legislation. But from ... from, as I said, from the middle of October on, Kevin and his team moved on to considering what are the real financial needs of Anglo. And the initial figure that was put on that was about a billion and a half. I recall the company asserting, throughout that last quarter, that a billion in extra capital will see them right and they were confident that major investors were going to supply that ... that equity. So when ... when the State did move in to nationalise, the quantification of the likely capital hadn't been determined. The Government nationalised to take Anglo off the agenda and to stand behind the banking system.

Chairman: But we ... we know all that happened and it happened after your tenure. I want to come back to your tenure, which is, on that eve ... was a costing put on how much it would cost to nationalise Anglo? You say ... you've indicated there that part of the nationalisation process would be to take out the shareholder base. That's one cost eliminated immediately. There's also the borrowings that ... and the lending exposure that Anglo had. So were you ... was there discussions of that nature as to how much Anglo ... it would cost to nationalise it? At the guarantee time, now.

Mr. David Doyle: The cost of nationalisation. There was no ... there was no figure put on it because what the Government was ... was going to contemplate at that time ... it was standing in to stop the ... the bank sinking. There was a realisation that there ... there might be a need for financial strength and the company had been saying it needed about a billion and it was confident. So, that was the figure. As events unfolded, that figure became unreal.

Chairman: I still don't understand and I'll just repeat the question once more and I will, maybe, press you to answer it. Was there a cost put on ... you've confirmed earlier this evening that there was specific legislation with Anglo in mind with regard to its nationalisation. In that period, was there any costing put on what this action would cost if we were to enable this draft legislation into a bill to deal with this bank? I am not talking about the year after; I am talking about during your term.

Mr. David Doyle: During my time.

Chairman: During the guarantee period.

Mr. David Doyle: On the night around my time. On the night, no. The Government was contemplating stepping in to rescue it.

Chairman: Sorry, but I have to force you here now. I try not to interrupt, Mr. Doyle, but we know that a Bill was prepared. What I am asking is you, you said that everybody was cognisant of it but it wasn't on the table. Were people cognisant of the figure in their head even though it might not have been on the table and if they were, could you inform us what the figure was?

Mr. David Doyle: That night, no. There is a longer answer but-----

Chairman: Okay. I will give you time for a longer answer if you give me a figure.

Mr. David Doyle: I will give you a longer answer with a bigger figure.

Chairman: I need a figure. You can talk all day if you want but do you have a figure at the end of it?

Mr. David Doyle: The first big figure that emerged was the following April, May, June - I can't remember the exact date - when a figure of, when you had the... It had been nationalised, you had a new chairman.

Chairman: We will cover this with Mr. Cardiff tomorrow because that's during his tenure; it's not during yours.

Mr. David Doyle: I was still there but Kevin is in a much better position to explain it because he has it all comprehensively in his document. There was a need, given everything that had happened, with all the events of December 2008, a further loss in market confidence, a new board, a new approach had been taken to look at what the reality behind that bank was, and quantifications being reached. I think there was a figure of €4.5 billion or €5 billion capital, provided before the summer, and further large figures after that.

Chairman: I will wrap up with this. Just on the night of the banking guarantee, the question has it been solvent or not solvent, the proposition was put forward, I think, by Mr. Trichet when we met with him because the State were guaranteeing them they were de facto solvent, because the State was solvent. Would you concur with that?

Mr. David Doyle: That they were all solvent?

Chairman: Because the State was now guaranteeing them they were de facto solvent.

Mr. David Doyle: What the State was guaranteeing was borrowing. To conclude that they were all solvent, you would have to be absolutely certain that the assets were in each company to back up those loan exposures. The fact that they were being guaranteed meant that if a deficit arose due to solvency, that the State would step in and provide capital. So, in that broad sense, what he said is right.

Chairman: So they were de facto solvent because the State was now standing behind them?

Mr. David Doyle: Yes.

Chairman: Did the banks in that regard remain solvent from September 2008 up to the end of your tenure as Secretary General of the Department of Finance?

Mr. David Doyle: Capital had to be provided for them, that was to strengthen their capital position, not to address an insolvency. So my recollection is that the insolvency positions ... the insolvency position ... I think in fact if you look at the whole period since, none of them were determined to be insolvent because capital was provided.

Chairman: The State was standing behind them and the State was solvent. So I'll repeat the question to you. Did the banks remain solvent right up until the end of your tenure as Secretary General of the Department of Finance?

Mr. David Doyle: On the definition of solvency on the basis that you outlined, yes.

Chairman: Can I then return to the e-mail that you introduced earlier this afternoon and it's the correspondence to William Beausang from Brendan McDonagh? It's the third paragraph of it; actually I think it's the fourth paragraph of it. This is actually, I think, is in the Beausang documents but you actually introduced it this afternoon. You are familiar with the e-mail that you were talking about earlier today yes?

Mr. David Doyle: That's the one of 11 October?

Chairman: Yes, that's the one, the one of 11 October '08. That's it. In the ... in the fourth paragraph of that, it says - one second there now - "Surely the objective of the guarantee of" ... and this is October '08 now, I'll remind.

> Surely the objective of the guarantee of this dated subordinated debt from our point of view is to give the covered institutions the ability to access at least two-year term funding to reduce their reliance on short-term funding, thereby avoiding the liquidity squeeze. If any covered institution was to issue term debt with a maturity longer than two years, then the market would want to be compensated for that by an appropriate step up in interest rate pricing and that would be entirely commercial."

So basically what they're saying there is that the guarantee is going to be called in, or would be called in in that regard. So, can I put the question to you, Mr. Doyle: did this structure or design of the banking guarantee, along with the period of duration as outlined here, have any relationship to the Irish State entering a bailout programme two years and two months later, after the banking guarantee had expired?

Mr. David Doyle: Well, the bailout happened about ten months after I left-----

Chairman: Yes, but the architecture-----

Mr. David Doyle: -----so------

Chairman: And I pitched my question very clearly now to your term in the way that it was designed and set up and all the rest.

Mr. David Doyle: It played a part. It played a part.

Chairman: To what extent?

Mr. David Doyle: Well, the guarantee said that the Government was going to stand behind the banks to stop them collapsing and ruining the country; that had a price. The price of not doing that, of letting them fail and ruin the country would have been far greater, so if you're subtracting the answer to that second bit from the first bit, it didn't have a cost, but there was a huge cost and the cost was caused by that drastic increase in lending by the banks. The alternative would have been a nightmare for the country.

Chairman: And we'll try to get our head around as to what the guarantee or not guarantee options actually were as this inquiry commences, but we do know a guarantee was put in place, we do know it was of a particular construction and design and the question I'm putting to you is: did the structure or design of the banking guarantee, along with the period of duration, which was as outlined in the e-mail that you provided, or introduced into discussions this evening, the ... have any relationship to the Irish State entering a bailout programme, or an assistant programme, as it was called, two years and two months later?

Mr. David Doyle: Well, on the narrow issue of subordinated debt, it wasn't ... it wasn't critical. Most of that subordinated debt-----

Chairman: ... the duration and the time, would that be considered-----

Mr. David Doyle: Most of the subordinated debt was wiped out.

Chairman: Forget about the duration and ... or, sorry, forget about the subordinated debt, but the duration period.

Mr. David Doyle: Well, that's fine. On the general implications of the guarantee-----

Chairman: Yes.

Mr. David Doyle: -----once it became established, post the really ... the biggest ... the big exposures, realisation about the exposures happened post-NAMA loan transfers and valuations. A huge bill emerged. On foot ... as a result of the Government deciding it's going to stand behind the banks, that deficit had to be made good and that was part of ... of the bailout.

Chairman: Final question. Was the Irish State solvent in the immediate period prior to the bailout programme commencing?

Mr. David Doyle: In my opinion, it was, in the immediate period ... we're talking about 2010. It had a very much increased debt burden. In terms of------

Chairman: Structural deficit of about €30 billion as well.

Mr. David Doyle: In terms of the sustainability of that debt problem, if the conclusion was that that debt burden, the overall debt burden, wasn't going to be sustainable in future years through economic recovery and achieving a better budget balance, then the debt would have continued to deteriorate and that would be a sort of a Government insolvency-----

Chairman: But the assistant programme indicated a €30 billion structural deficit that had to be corrected over a period of time. That's what the programme was about. So, did that ... does that imply or not that the Irish State was solvent?

Mr. David Doyle: Well, a structural deficit is something that ... it leads to an insolvency unless it's addressed.

Chairman: So without the assistant programme, was the Irish State insolvent?

Mr. David Doyle: Without the ... without the rescue? Well, that depends on what was happening on the markets, would the Government be able to borrow funds, would it be able to correct the budget sufficiently to turn-----

Chairman: The funds were at eight point odd percent at the time, that's what when ... we were approaching junk status on our bond yields at that time. They were gone over the 8% threshold.

Mr. David Doyle: Well, the bond yields were 15% a decade previously.

Chairman: Once they went over 8%-----

Mr. David Doyle: Relative to what Germany was paying, 8% was a huge burden.

Chairman: Okay. Thank you very much. We'll wrap up so with Deputy O'Donnell and then Deputy McGrath to conclude.

Deputy Kieran O'Donnell: Mr. Doyle, would you be able to provide the committee with those non-contemporaneous that you've completed on the night of the guarantee?

Mr. David Doyle: Well, I've given them to my legal advisors and the Attorney General's office. I'd have to take direction from them on that.

Deputy Kieran O'Donnell: Subject to clearance, you'd provide them to the-----

Mr. David Doyle: I've no problem myself.

Deputy Kieran O'Donnell: Why was there no contemporaneous notes completed around the decision on the night of the guarantee? There appears to have been contemporaneous notes done on various other meetings but why was there no note done by you or your officials on the decision taken on the night of the guarantee?

Mr. David Doyle: Well, I think Kevin has a copy of his contemporaneous notes-----

Deputy Kieran O'Donnell: Are they personal notes, now?

Mr. David Doyle: Well, they are notes; that's a record. There are also ... there are other records that I have seen of a privileged nature in relation to the night.

Deputy Kieran O'Donnell: When you say privileged nature, what do you mean?

Mr. David Doyle: That would be communication between the Attorney General and the Taoiseach.

Deputy Kieran O'Donnell: And are they ... do they form the ... in substance ... are they contemporaneous notes of the decision that was taken on to provide the blanket guarantee?

Mr. David Doyle: I don't think I'm free to comment on the content of any Attorney General communication. But it was the communication to the Taoiseach after the night about what transpired that night.

Deputy Kieran O'Donnell: So there is a note there that indicates what happened on the night.

Chairman: That note is in possession of the Attorney General, is it?

Mr. David Doyle: It's an Attorney General communication, yes, which is legally privileged.

Chairman: Okay, and that is no ... well, the committee has, with the permission of the Taoiseach's office and Cabinet, got up a situation now where the Attorney General will be waiving a lot of his entitlements, so maybe that question can be referred to the AG when he comes in-----

Deputy Kieran O'Donnell: Thank you, Chairman.

Chairman: Or the then AG.

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

Chairman: Okay.

Deputy Kieran O'Donnell: Just on all the evidence that's been given, like, can you explain the gap here that back as early as 6 June and it's document 77 on Vol. 2 of your own documents, you're preparing legislation to nationalise, legislation for a bank, okay? Then even prior to that, on 24 April, the Department of Finance, page 21 ... document 21, Vol. 2, you're preparing ... your ... within your Department, you're looking to put in place a guarantee for institutions. So, it would appear as if you were doing some contingency planning, at least, what, nearly five months out? So the question I'm asking is, there appears to the ... in terms of resolution mechanism legislation, it was mentioned at some stage but it never seemed to get anywhere. Why did you get to a point on the night of the guarantee where ... or two quick questions, did you ... was it your understanding prior to the meeting the night of the guarantee that you would be nationalising Anglo? And, why was there no resolution mechanism legislation in place? How much did ye pay Merrill Lynch, and why did ye ignore the advice of Merrill Lynch and who was driving on the night of the guarantee ... the blanket guarantee would be put in place?

Chairman: That's a lot of questions now, Deputy. Mr. Doyle?

Deputy Kieran O'Donnell: They're a summation really, Chairman.

Mr. David Doyle: Well, I think Merrill Lynch were paid, as I saw on Kevin's note, something like €7 million for a year's work, which was a massive amount of work, massive price.

Deputy Kieran O'Donnell: But you didn't-----

Mr. David Doyle: They gave their advice. The Government, Taoiseach and the Minister, with the input of the people that were there, considered that advice. The Taoiseach and the Minister made a decision brought it to Cabinet, they made a decision. That's what-----

Deputy Kieran O'Donnell: So it-----

Mr. David Doyle: -----they make decisions.

Deputy Kieran O'Donnell: So was it a political decision or a financial decision?

Mr. David Doyle: It was a financial decision. I have a clear recollection of both the Taoiseach and Brian Lenihan saying to me that in their view this decision had to be reached regardless of the political consequences, that what they were trying to do was to do the right thing for the country at that time.

Deputy Kieran O'Donnell: Why did you ignore the advice of Merrill Lynch?

Mr. David Doyle: Well, they had a view. The recommendation that came in from the Governor of the Central Bank, the chairman, chief executive, the regulator, was to take a different course. So that was the recommendation that was given to the Taoiseach and the Minister. I think when a Governor and chairman of a regulator and regulator and director general come in and give you advice as to what they think should be done, having touched base with the ECB, it's not advice that can be-----

Deputy Kieran O'Donnell: So who drove the blanket guarantee? Who was driving the blanket guarantee policy on the ... before or on the night of the guarantee? Who was the prime driver of it?

Mr. David Doyle: The prime driver was the market. The market was taking money out of the banks-----

Deputy Kieran O'Donnell: No, no, who was the individual-----

Mr. David Doyle: -----which was going to lead to a collapse.

Chairman: Could I maybe reclarify your question? The shape of the particular ... like, there's multiples of guarantees that could be put in place and different structures of guarantees. The model of guarantee that was put in place. Is that what you're asking?

Deputy Kieran O'Donnell: Who was driving that on the night of the guarantee, and what ... and the model that transpired?

Mr. David Doyle: Well, the model that transpired was a universal model. Apart from undated subordinated debt, everything else would be guaranteed. The view was that the guarantee had to be comprehensive and not leave room for doubt and further undermine-----

Deputy Kieran O'Donnell: Whose view was that, Mr. Doyle? Whose view?

Mr. David Doyle: That was the general view - the Central Bank, the two main banks, as I recall. It had to be comprehensive.

Deputy Kieran O'Donnell: So the-----

Mr. David Doyle: In terms of who was driving it on the night, there were options put on the table. The Taoiseach was in charge. There was a robust debate. They were taking the decisions that they felt needed to be taken to save the banking system.

Deputy Kieran O'Donnell: What advice did you give finally? What advice did you ... because, ultimately, you were the Secretary General of the Department of Finance. What advice did you give on the night of the guarantee to the Taoiseach and the Minister for Finance?

Mr. David Doyle: My view was that the decision they were arriving on it was the right one. It wasn't a pleasant decision. It was going to be a very difficult outcome. We were in an impossible situation. Faced with the alternative - an economic and fiscal meltdown, with the huge economic consequences that would have for the country, left, right and centre, for public services that, if you had a collapse in the banking system, a collapse in funds available to the Government-----

Deputy Kieran O'Donnell: It's a very simple question.

Chairman: It's the final question. Deputy, final question.

Deputy Kieran O'Donnell: Did you disagree then with the Minister for Finance and Kevin Cardiff on their view that Anglo should be nationalised?

Mr. David Doyle: I didn't ... I didn't ... I didn't disagree or I didn't agree. I listened to the views of the other parties in the room. The other parties in the room from the Central Bank and the regulator were of the view that the market conditions weren't right at that point to nationalise.

Deputy Michael McGrath: Thanks, Chair. Mr. Doyle, just picking up on what Deputy O'Donnell was saying there about Merrill Lynch, can I ask you, in your view, was there one clear recommendation from Merrill Lynch on the eve of the guarantee as to what action should be taken? We've all read the memos and reports and there's a lot of, "On the one hand and on the other hand." Was there one clear recommendation as to the action that the Government should take?

Mr. David Doyle: There was one clear recommendation and that recommendation was that the Government could not afford to let the banking system fail and that it had to step in with measures to ensure that the banking system didn't collapse.

Deputy Michael McGrath: And apart from that? In terms of options, say, to implement that?

Mr. David Doyle: Apart from that, there were a number of options put on the table. There was no ... what they said was, "There is no right answer." So, it was ... it was up to ... the Taoiseach and the Minister to decide which of those options they bring to Cabinet.

Deputy Michael McGrath: So, is it unfair to say that the decision taken was against the advice of Merrill Lynch? Or is it fair to say?

Mr. David Doyle: I don't ... parts of it ... if you read ... if you read the document ... parts of it they said they wouldn't support. But at various stages, you know, an option to guarantee everybody was there in the document. At another stage,. that was downplayed a bit, but, like, in the round, I don't think it would be fair to say that the Government took decisions contrary to the recommendations.

Deputy Michael McGrath: A number of weeks later, Mr. Doyle, Merrill Lynch presented some reconsiderations for recapitalising Irish financial institutions and, in essence, they estimated that, dependent on the level of impaired loans "cumulative capital requirements will range from €6.6 billion, at the current estimate at impairment rates, to a maximum of €13.1 billion", based on Merrill's own analysis, which takes account of PwC's stress testing for a worst-case scenario. They were only out by about €50 billion. Have you any comment on that?

Mr. David Doyle: They were out by €50 billion because of the events that flowed after that. The commercial property market continued to slide. That was the big impact on the banks, not the housing market, strangely enough, although that was a big impact. But the big issue was the development loan portfolio. The quantification of that ... was extremely slow coming, it didn't really ... it didn't come until NAMA became operational and they started to get the loan portfolios over and they saw precisely what was behind them or, more relevant, what wasn't behind them in many cases, and what the reality of the valuation ... the valuation of the property on the ground was. If they had had ... sight that all that was going to happen, combined with the international recession that was going on, combined with the collapse in domestic confidence, and investor confidence generally, they would have come up with a bigger figure, but they didn't.

Deputy Michael McGrath: Final question, Chair, is just on the issue of ... of fiscal policy in the Department during your tenure, Mr. Doyle. And Governor Honohan makes a number of criticisms, as you know, in terms of fiscal policy in his report. But there's one reference on page 30 of his report where he says: "And, in a final twist, real expenditure rose by over 11 per cent in both 2007 and 2008, an unfortunate late burst of spending which boosted the underlying deficit at almost the worst possible time." What was the advice that you were giving, at that time, to Government about spending, going into 2007 and going into 2008? The outturn was an increase of about 11%, in both years.

Mr. David Doyle: I have slightly different figures here myself. Well, maybe 11%. In 2007? For the 2007 budget?

Deputy Michael McGrath: Yes, well, I think it's outturn really.

Mr. David Doyle: Do yo want me to go into recommendations in terms of the outturn?

Deputy Michael McGrath: Yes, please.

Mr. David Doyle: In 2007 - the 2007 budget - the recommended increase in current spending was about 7.5%

Deputy Michael McGrath: In the June budget strategy memo is it?

Mr. David Doyle: Yes, the outturn year on year was 12%. For capital expenditure, the recommended increase, from the notes I have, was 9.5%. The outturn was 20% in 2007. In 2008, the recommended current increase was 7% and the outturn was about 10%. The recommendation on capital was 13%; the outcome was 16%. And there's a consistent pattern, if you look back over the years, of the Department urging moderation in relation to current outlays and the outturn, at the end of the day, being significantly ahead of that. On capital, we were positively disposed, I suppose, towards capital, as I mentioned in my opening remarks, because we had concluded at the end of the '90s that the country had a major infrastructural deficit, that there was an opportunity on the fiscal front because of the improvement that was happening to make significant investments in our capital, motorways and so on, and we felt that that opportunity had to be taken over the decade, early 2002 to 2012, because our feeling was that after that period, demographic pressures would start crowding out investment.

Deputy Michael McGrath: Just to clarify, when you said the recommended increase in expenditure, are you referring to the budget strategy memo from the summer, from June? Is that what you are referring to?

Mr. David Doyle: Yes, that's my understanding-----

Deputy Michael McGrath: Okay. Thank you.

Mr. David Doyle: -----from what I've been given.

Chairman: I'm just going to invite you for one final comment ... just one note there I have in front of me. There is, on the basis that all evidence has to be tested, one evidential narrative would be that Minister Lenihan, on the night of the guarantee, was overruled by the Taoiseach and some suggestion has that been made. Can you concur or do you ... with that suggested evidential narrative or do you have a different view in it or could you care to offer an opinion from your observations on that night?

Mr. David Doyle: I can neither concur or with ... that he was ... I can't concur that he was overruled, I can't concur that he wasn't overruled.

Chairman: Okay.

Mr. David Doyle: On the night, as I said in my remarks, there was a debate going to and fro ... there were different opinions. The Minister had one; others had another. That debate took place right over the night, over hours and hours and the Taoiseach and the Minister left the room and came back with a recommendation to Cabinet was the guarantee.

Chairman: Okay.

Mr. David Doyle: And I ... I was never aware that there was a suggestion that the Minister was overruled. And at this stage, the late Mr. Lenihan can't deal with it. I know there are stories out there about it, but I believe the Taoiseach of the day is coming in, so-----

Chairman: Okay, I will bring matters to a conclusion, Mr. Doyle, and if I can invite you by any means of any final comment, any other thing you'd like to add before we close for today's proceedings and excuse you.

Mr. David Doyle: No. I'd just like to thank the Chairman for your ... and the committee for your courtesy. Thank you very much.

Chairman: Thank you and with that said, I now say to the witness, to thank Mr. Doyle for his participation today in the inquiry and for his engagement with the inquiry and to now formally excuse you and to say the meeting is adjourned until 9.30 a.m. tomorrow morning.

The joint committee adjourned at 7.28 p.m. until 9.30 a.m. on Thursday, 18 June 2015.