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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 24 Meitheamh 2015

Wednesday, 24 June 2015

The Committee met at 9 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.

Senator Marc MacSharry: Okay. Just finally then, on the interest rate reduction, was there an understanding in Minister Lenihan's time that the interest rate would be revisited?

Mr. Kevin Cardiff: It was explicit.

Senator Marc MacSharry: That it would be?

Mr. Kevin Cardiff: It was explicit in the memorandum for Government that the interest rate would be revisited.

Senator Marc MacSharry: Would be revisited. Okay, thanks very much.

Chairman: Okay, thank you very much. Just one very final issue, and it's just to clear up with regard to your engagement with the inquiry last week. And on page 16 of the transcript of your engagement with us, you went on to say that "Anglo passed us in a document about themselves." Now, being mindful of matters that are taking place outside of this committee room and so forth, would it be possible for you to elaborate as to what the key message of that was and to elaborate as to when you actually received it, or not? And mindful of other matters, yes.

Mr. Kevin Cardiff: Okay, I don't think it touches on other matters at all. It was received in the Department and I ... when I was talking to the PAC, I was a little bit confused about it so I surmised and then I turned out to be wrong, so I won't surmise. Certainly, it came in in the middle of September, maybe towards the 18th, 19th, 20th, in around then. The document itself is in the PAC records, so it's not ... it's available to you. I don't recall what's in it much except that it was a relatively upbeat view of their current position.

Chairman: Okay. Thank you very much. Mr. Cardiff, I'm going to bring matters to conclusion. I do know that we do need to wrap up to facilitate matters. Is there anything you would like to add by means of a closing comment or additional commentary?

Mr. Kevin Cardiff: Yes, just ... I mean, I don't envy your task. You are dealing with issues in which reputations, careers and billions and billions of euro are involved so, you know, there's so many agendas around that it's a really tough job for you to bring out the truth, so I hope you do. I wish you well with that and I'd just like ... as I said in private session, a lot of arrangement and co-ordination to ... for me coming from abroad to do this and I got a lot of courtesy and help from your staff, so I appreciate that.

Chairman: Thank you very much and those comments are certainly appreciated. So, with that said, Mr. Cardiff, I'd like to thank you for your participation with the inquiry today and also last week and for your extensive engagement with the inquiry. With that now said, I now formally excuse the witness and propose that we suspend until 3.50 p.m. when we will hear from further witnesses from the Department of Finance. Is that agreed? Agreed.

Sitting suspended at 3.07 p.m. and resumed at 3.50 p.m.

Department of Finance - Mr. William Beausang

Chairman: We will go back into public session. Is that agreed? Agreed. In doing so, we will now move on to session 2 of today ... or the afternoon session, which is a public hearing with Mr. William Beausang, assistant secretary, 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 the senior officials in the Department of Finance who had key roles during and after the crisis period. At our session this afternoon, we will hear from Mr. William Beausang, assistant secretary, Department of Finance. William Beausang joined the Civil Service in 1982, he was appointed assistant secretary in the banking, finance and international division of the Department of Finance in April 2005. He transferred to the government reform unit in the Department of Public Expenditure and Reform in July 2011. Mr. Beausang, you're very welcome before the inquiry 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 the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. 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 screen 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. They are before the committee and will be relied upon in questioning and form part of the evidence in the inquiry. So with that said, if I can now call on the clerk to administer the oath to Mr. Beausang, please.

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

Mr. William Beausang, Assistant Secretary, Department of Finance.

Chairman: So once again, Mr. Beausang, you're very welcome before the committee this afternoon and if I can invite you to make your opening remarks to the committee, please.

Mr. William Beausang: With the committee's permission, in my opening statement I would like to summarise three key themes in my written evidence as follows: the Department of Finance's role in relation to financial regulation, the Department's relationship with the Financial Regulator and the Central Bank and financial stability planning carried out by the Department in the period preceding the onset of the crisis, up to August 2007 and thereafter.

From April 2005, I was responsible, at assistant secretary level in the Department of Finance, for policy and legislation for financial regulation. In essence, this related to putting in place, in the Statute Book, the regulatory framework applying to financial institutions. In practice, this primarily involved my unit participating in the negotiation and transposition into Irish law of what was at the time described as an avalanche of EU financial service directives, under the EU financial services action plan or FSAP. The FSAP was designed to put in place a common pan-EU framework for the regulation of the financial sector. This was considered essential to building a single market in financial services in the EU and promoting the provision of financial

services on a cross-border basis. Each of the directives was the outcome of an extended period of expert analysis and debate at the EU level. The process involved in advanced ... in addition to finance ministries, the European Commission, committees of the EU financial supervisors and intensive consultation with industry representatives. The financial service directives were regarded and represented as embodying cutting-edge modern models and approaches to financial regulation, such as the state-of-the-art Basel II accord for banks, which I'll say a little bit more about later.

The existence and presumed full implementation of this detailed and comprehensive EU regulatory framework, endorsed at EU level by all member states and supervised domestically by the Financial Regulator, provided very substantial reassurance to the Department as to the safety and soundness of individual institutions and indeed, of the stability of the domestic financial system as a whole. Once this EU-determined regulatory framework had been put in place in legislation by the Department of Finance, the Financial Regulator was responsible for implementing and enforcing it and supervising the financial firms to which it applied. The legislation establishing the Central Bank and Financial Services Authority of Ireland and the EU regulatory framework did not provide the Minister of Finance with any statutory role in overseeing or scrutinising the Financial Regulator's performance or the exercise of its supervisory functions and responsibilities. Strict supervisory independence was a key principle internationally, such as under the Basel core principles for effective banking supervision. The concept of supervisory independence was also central to the design of the EU framework for financial regulation. The authoritative expert consensus at the time was that banking supervisors should benefit from the same high degree of independence as central bankers. It was therefore integral to my area of the Department's relationship with the Financial Regulator that we should not take any significant action or step which could interfere or encroach on that strict supervisory independence. This was essential to rule out any scope for any perception of political interference in financial regulation and supervision, given the major conflicts of interest that might potentially arise. Any perceived breach of that principle would certainly have given rise to major concerns at regulatory authority level, given the authority's statutory mandate. In addition, the professional secrecy obligations under which the Financial Regulator operated, set out in EU and domestic law, prohibited the disclosure of information held by the Financial Regulator by virtue of the exercise of its statutory role and responsibilities. This was a very wide non-disclosure provision.

The strict independence conferred on the Central Bank under the CBFSAI legislation, and the EU treaties as part of the Eurosystem, created an identical dynamic in terms of my area's responsibilities *vis-à-vis* the Central Bank on financial stability matters. The stability of the financial system was a core function of the Central Bank under national legislation and the EU statute establishing the European system of central banks. My unit in the Department did not therefore have any legal mandate or statutory role which would have permitted it to seek to critically assess or second-guess the Central Bank's assessments of the financial conditions and the capital buffers available to the banks to deal with economic shocks, as set out in the Central Bank's financial stability reports during the relevant period.

Against this backdrop, the Basel II accord provided what proved to be entirely unwarranted reassurance to the Department that the supervisory, prudential and financial stability systems in the CBFSAI were operating effectively. Basel II was the detailed and comprehensive regulatory regime for determining capital requirements and carrying out bank supervision introduced under the EU capital requirements directive or CRD. The CRD was officially adopted by member states in June 2006 to enter into force from the start of 2007. The very substantial

programme of work in both the Financial Regulator and the credit institutions involved in transitioning to compliance with the CRD is evidenced, for example, by the extensive consultation documentation issued by the Financial Regulator in October 2006. Basel II and the CRD were characterised as modernising and making capital requirements for banks more robust, comprehensive and risk-sensitive, fostering enhanced risk management in credit institutions, as well as strengthening financial stability overall. However, as early as February 2009 the high-level group on financial supervision in the EU, commissioned by the President of the Commission to make proposals to strengthen European supervisory arrangements, concluded that the international banking crisis heightened the need for a fundamental review of the Basel II CRD framework. The high-level group concluded that Basel II underestimated some important risks and overestimated banks' ability to handle them, that the Basel methodology seemed to have been disproportionately based on recent past economic data and good liquidity conditions and that these mistakes led to too little high-quality capital being held by the banks.

In summary, from my perspective the sophisticated and technically complex modelling of banks' risks and reliance on risk weightings based on assessments by external credit rating agencies to determine capital requirements under Basel II helped contribute to an entirely misplaced confidence in the capital adequacy of banks and the efficacy of bank supervision, even as the liquidity crisis intensified. Indeed one regulatory expert in his evidence to the UK parliamentary commission on banking standards characterised Basel II as "a complete waste of time". It contributed to a situation where bank supervision seems to have essentially comprised an administrative procedure to review systems and processes for the management of risk put in place by the banks themselves. According to the Nyberg report, prudential supervision comprised tick-box checks that formal procedures were in place, not checks on how they operated in practice. The false sense of security engendered by the CRD was compounded by the outcome of the stress tests reported in the Central Bank's financial stability reports. These extreme but plausible scenarios appeared to show that even if a hard rather than a soft landing occurred for the property market, capital buffers in the bank were adequate.

I turn now to contingency planning in the period 2005 to 2006. Financial stability planning carried out in my unit involved the development of contingency plans for any Government intervention required to resolve an individual financial institution in distress or stabilise the banking system as a whole. There are a number of distinct strands to this work stream in my area of the Department over the period from mid-2005 onwards and an important focus of our work, at least initially, was in reviewing the Central Bank's crisis management manual, the black or red book, and reviewing the case for putting in place a corresponding manual for the Department. It also encompassed a first assessment of the many legal issues that arose in relation to the successful resolution of a distressed financial institution. This included consideration in particular of the legal issues involved in facilitating a market solution, where a large overseas bank might be encouraged to take over a distressed, at risk, domestic institution. It also identified the need to review the legal framework for crisis management, and examine the legal powers that should comprise part of the public authority's toolbox where intervention was required to support an individual institution or the banking system as a whole. There was also a significant EU dimension to this work at the EU financial services committee, at which the Department of Finance was represented at second secretary general level, relating to arrangements for responding to the failure of a cross-border financial institution. A critical backdrop to this work throughout 2005 and 2006 was that the Financial Regulator consistently and strongly highlighted to the Minister and the Department that the credit union movement represented the most significant risk to financial stability in Ireland during ... at that time. In light of the Financial Regulator's assessment of national financial stability risk, in the Department we prioritised the assessment

of the credit union sector and undertook and completed a major programme of work to review, assess and respond to the various issues and concerns raised. In parallel we continued to progress broader financial stability planning, tracking developments and recommendations at EU level.

Turning to financial stability planning in 2007 and 2008, in terms of broader financial stability planning, an important focus in 2007 was aligning national planning with developments at EU level, given the growth in the cross-border provision of financial services and following participation in the EU crisis simulation exercise in April 2006. A key next step flowing from deliberations at EU level was the establishment of a national ... of national domestic standing groups, on which work commenced in the Department in the last quarter of 2006. This led to the formal establishment of the DSG, comprising representatives of the Department, the Financial Regulator, and the Central Bank in July 2007. The DSG played a crucial role from August 2007 with the onset of the liquidity crisis, ensuring that the Minister was fully informed of the Financial Regulator's and Central Bank's assessment ... assessments of financial conditions and the funding pressures on the banking system. The stringent confidentiality requirements that I've already referred to would otherwise have seriously inhibited communication between the public authorities and this crucial information flow from Dame Street to Merrion Street. The DSG was a forum for communication and information exchange. It provided the basis for multiple reports to the Minister and Government on financial conditions, many of which are in the public domain. The DSG did not have a decision-making role, nor did it have any joint mandate in relation to the distinct and differentiated responsibilities of the organisations participating on it.

As the crisis intensified in 2008, and as foreseen by the governing documents for the DSG, management of the crisis migrated to the top management level in the Central Bank, Financial Regulator and the Department of Finance, with the NTMA involved from end-2007 and increasingly prominent. As set out in my written statement, from the autumn of 2007 we did seek to utilise the DSG to seek to develop the principles and agree a shared analysis and methodology that would better guide and inform crisis management on a co-ordinated basis among the public authorities. This work did not progress significantly beyond the Department's February 2008 scoping paper on financial stability planning on account of, for example, the important differences in emphasis with the Central Bank's assessment, as reflected in the Central Bank's comments on the Department's scoping paper, and its own paper on resolution options circulated in June 2008, the Financial Regulator's evident preoccupation over that time with the resolution of the CFD-related share overhang issue in one institution and the Central Bank and Financial Regulator's enduring assessment that the crisis was exclusively attributable to international liquidity situation, and the consequent sole focus on supporting bank funding. The Department, therefore, continued to prioritise over the period, the preparation of draft emergency legislation to nationalise a bank. In early September 2008, this work was reorientated to taking a building society into public ownership on the basis of a major contribution from the office of the Attorney General, and, at a late stage, the Department's commercial legal advisers. By end September 2008, our contingency planning advanced to the point that legislation to do either could be finalised for publication and enactment at very short notice. The draft legislation also contained provisions to set aside competition law requirements to facilitate a market solution, provide financial assistance to credit institutions in the form of guarantees or capital, and provide the required legislative basis for the proposed secured liquidity scheme for bank funding.

In conclusion, my written statement and the supporting document I have submitted to the committee covers the foregoing issues, as well as those lines of inquiry which I have not ref-

erenced in this overview in considerably greater detail. Thank you. I am happy to answer any questions.

Chairman: Thank you very much, Mr. Beusang, again. If we can commence questioning, and, in doing so, if I can invite Senator Marc MacSharry, please. Senator, you've 25 minutes.

Senator Marc MacSharry: Thanks very much. Welcome, and thank you for your opening comments. Can you comment on the frequency of contacts with the ECB in 2008, and identify the level at which such contacts took place, to your memory, and the broad discussion content?

Mr. William Beusang: The only information that I'd have on that, Senator, is really indirect information I would have obtained at the DSG, and back in the Department, and talking to more senior officials, David Doyle and Kevin Cardiff, where I would have had an awareness that the Governor, John Hurley, was in constant, or was, you know, in ongoing contact with the president of the ECB in keeping updated and briefed on developments and stresses in the Irish financial sector. I suppose as things intensified, as the crisis intensified into September 2008, as I think other witnesses have mentioned, there was a real impetus to ensuring that we really reinforced the difficulties that we were experiencing at that time at European level. Indeed, in work that I would have done, in a, sort of, scenario note that I would have done back in November 2007, I would have identified the possible requirement for an EU-level intervention to deal with the systemic difficulties that were arising in the Irish financial sector. I mean, this was, kind of, presented as something, you know, what could happen next, what could happen ultimately in terms of how things were moving at that point in time?

Senator Marc MacSharry: When was that roughly in 2008?

Mr. William Beusang: That was in, if I can recall correctly, I think that note was done in November 2007. So even at that stage, and reflecting the discussions that I know the Governor would have had with the president, even in advance of that, there was awareness that what we might need to stabilise the Irish financial system was an EU-level response, dealing with all the difficulties that were emerging.

Senator Marc MacSharry: So in late 2007, it was clearly on the ECB's agenda, at least, that a pan-European solution may have to be considered?

Mr. William Beusang: Just to make sure that I haven't over-stressed that point, I mean, that would have been a report that I would have done, or a note I would have done up the line in the Department. I mean, you would have to ask the Governor, I suppose, at what stage, or look at his evidence as to what point he might have made that argument to the president, or indeed, did he ever make that point to the president? I know at a much later stage, and I think I enclosed the document with my written statement, around 17 September or so, we had a meeting of the DSG, and one of the specific action points from the DSG was to alert the European authorities, the authorities in the ECB, as to our difficulties, and the significance of our difficulties at that time.

Senator Marc MacSharry: This is September 2007.

Mr. William Beusang: Sorry, that's September 2008, now. That was at a much later stage, Senator.

Senator Marc MacSharry: But specifically, when you were asked to prepare this document, to look at a European resolution, was it the Governor that was asking you to do that or-----

Mr. William Beausang: No, that was an exercise, an internal report or note that I prepared on the basis of a request for a, kind of, “What’s happening now, what could happen next, what might ultimately happen?”, a sort of ... a forward-looking piece.

Senator Marc MacSharry: And was it the DSG that asked for that-----

Mr. William Beausang: No, I think it was a request that came from, if I recall correctly, from the Secretary General at the time.

Senator Marc MacSharry: Okay. To your knowledge, throughout 2008 was there any joint plans agreed to mitigate the crisis? Were the ECB, through John Hurley, telling the Department, “Look, do this, do that”?

Mr. William Beausang: No, I mean, the sense was reflecting two factors, reflecting the fact that there was, as you can imagine, a huge level of confidentiality and secrecy around these issues, so that would be a major concern that if we, outside of the, kind of, Central Bank confidentiality, if information leaked out, that we were ... that our banks were under significant funding pressures, that, you know, calls would go out to banks and other institutions in other jurisdictions, and that would intensify our difficulties. So there was a high degree of sensitivity and secrecy around our own work. But more than that, I mean, there was a strong sense, and this probably reflected the work that had been done at EU level up to then, in looking at the issues that would arise if there was a failure in a cross-border financial institution, that there was a major ... I mean, all of the crisis management done at EU level related to this issue of, “Well, what about if a major European cross-border bank got into difficulties”, and what arrangements would need to be put in place for what they used to, what was referred to, and what I’m sure is still referred to as “burden-sharing”, where governments in different member states where that bank operated would get involved in resolving that, those issues. So that was the focus of work at, kind of, in the, sort of, the EFC, that is the economic and financial committee, and the FSC, two high level European committees. There was no sense of there, I mean, that was as far as that, there was a sense of any kind of EU response to difficulties in any particular member state, and that would arise if you were talking about a cross-border bank. And it’s interesting to make the point that, I mean, those kind of, that work stream I won’t say broke down, but where it really got into difficulties was getting to a point with member states where there was any sense the member states were willing to agree, kind of, burden-sharing arrangements. That was a step too far for most member states at that time.

Senator Marc MacSharry: And did your paper advocate that?

Mr. William Beausang: The paper, I mean, the paper I’m talking about, it was a scenario analysis internal to the Department of Finance, so it wasn’t related to the EU work stream on crisis management.

Senator Marc MacSharry: Okay. In terms of the guarantee, in your e-mail to Brendan McDonagh of the NTMA, you refer to, “In the event the State provides a guarantee for all deposits and credits, of the domestic banking system...”, and it goes on later, “...Minister confirms intention to provide guarantee, if required.” It would appear that a pre-determined position may have been agreed by 26 September. Can you advise on the discussions and analysis provided by the NTMA in response to your e-mail, and discussions with the Secretary General on the same-----

Mr. William Beausang: Is that e-mail available, just so that I can look at it?

Chairman: It's coming up. It should be on your screen there now, Mr. Beausang.

Mr. William Beausang: Just while I'm waiting for it to come up, I certainly had no sense of a predetermined outcome on 26 September. I think what the Secretary General was asking me to do was make sure that we had more information on an option that was increasingly emerging as one of the options that would be put on the table whenever this thing came to a head. I mean, I was reviewing, obviously, the paper trail myself, and what I established was that the power to actually provide a blanket guarantee in the contingency legislation only went in around then, around 25 or 26 September. Up to then, there was a power to provide financial support to a distressed institution, but just a single institution, there wasn't a sense of that we were providing a power that could provide a broad blanket guarantee across the whole of the financial system. So that gives some indication, I suppose, as to the point that the guarantee came very clearly, you know, was very formally on our radar or in our planning in terms of it being in the contingency legislation that was being developed at that time. Up to then, it wasn't in the Bill.

Senator Marc MacSharry: At that stage, there was nationalisation legislation already in existence, was there?

Mr. William Beausang: Well, I mean ... at the point ... you know, let's say at end September, we'd a piece of legislation that, you know, at short notice could be finalised to nationalise a bank, nationalise a building society, set aside competition rules in case anybody was interested in coming in and taking over the stressed institution and also in providing a guarantee or capital support to an institution, you know, the broad power to provide financial assistance under the legislation as it ultimately turned out to be. So there was a nationalisation Bill prepared and more or less ready to go. I mean, there would have been some ... some finalisation required if the Government decision had been to nationalise the ... any institution but the legislation was essentially ready.

Senator Marc MacSharry: What preparations were made, if any, to facilitate the wind-down of a financial institution or allowing a bank to fail?

Mr. William Beausang: What ... well, I mean, I think it's ... it's quite clear that the ... given the systemic nature of the crisis that we were facing - and I think it's borne out in, certainly, the Nyberg report and the Honohan report - that allowing an institution to fail in those circumstances would have been catastrophic. So ... obviously, in our planning we had looked, at different times, at the whole issue of winding down of a financial institution, at a special resolution ... a special resolution regime for the banks. What we concluded was that there was huge, you know, technical, legal, policy, potentially constitutional difficulties in putting such a regime in place. But, in any event, I think it's very important to make the point that, you know, the SS ... the SRR that's now in place - the Credit Institutions (Resolution) Act - it's explicitly set up on the basis that the resolution powers only ... only play out - are only available to be implemented - in a situation where the decision has been taken not to wind down the bank. So the special resolution regime that we have from 2011 is explicit that the resolution powers - things like bridge banks, the transfer of liabilities and special manager and all that - those things only happen if the decision is made that the bank shouldn't be subject to an orderly wind-down. So, I mean, that's important to, kind of, feed in to the discussion on the special resolution regime and proposals for orderly wind-down.

Senator Marc MacSharry: As you'll be aware, Patrick Honohan, the Governor, is of the view - and it's in the public domain - that the two banks "ought to have been intervened", to quote his words, for a period of days and that that would have given an opportunity for a Eu-

rope-wide regime to be put in place, which may have been more beneficial to Ireland. What's your view on that?

Mr. William Beausang: Well, considering that the full kind of European-wide SRR model with kind of bail-in ... bailing-in of creditors and so on is only in place, I understand, from the beginning of this year, so I'd be quite sceptical that it would have been possible - at that time and in that environment - to move more quickly. I mean, in talking about ... I mean, the fundamental issue and, I mean ... it's ... like, there's nothing new here, it's in the Nyberg report ... the fundamental issue, when you're looking at other options and whatever options were availed of, was senior bondholders, you know, the bail-in mechanisms and, I mean, as Nyberg himself said, you know, a special resolution regime, for example, that wouldn't have been a panacea at the time, unless costs are ... there was burden-sharing going to be achieved under that special resolution regime and, I mean, I don't need to go in with the committee all of the issues that have arisen around the non-availability of that option up until the new SRR or the new ... sorry, I won't remember offhand, but the new European-wide regime for banking resolution that came into effect relatively recently. And, of course, as things stand, it's currently untested, so it remains to be seen how effective that kind of model will be or the impact it will have - once it is implemented - in terms of the cost of bank funding and so on. So, it's a ... it's a very broad issue, I suppose, to consider.

Senator Marc MacSharry: Can you advise what discussions took place with Merrill Lynch and the NTMA or, indeed, other advisers on the issue of subordinated debt and the rationale for including subordinated debt in the guarantee?

Mr. William Beausang: Well, I don't think I can add anything more than what is in the Merrill Lynch memorandum. I'd no direct discussions with Merrill Lynch or with the NTMA, I think, in advance of the guarantee coming into effect. I mean, you know, personally at the time the guarantee was introduced, I wouldn't have had a kind of a deep knowledge or awareness of, let's say, the distinction between dated and undated subordinated debt. And indeed, it was only subsequently when I was reporting to the European Commission to DG Competition in the context of our state aid application that I gathered information from the NTMA from an e-mail from Brendan McDonagh that I think I submitted with my written evidence and also presumably an oral briefing from Merrill Lynch that explained, I suppose, the market reason, the funding reason the sovereign reason why dated subordinated debt should be included and why that case should be made to the Commission for the inclusion of dated subordinated debt. I wasn't present at any discussions on the 29-30 September where this was discussed. If they were discussed at that meeting.

Senator Marc MacSharry: Have you a view on it? Whether it would have been worthwhile that it would have been a good thing to do?

Mr. William Beausang: Well, I'm ... I suppose there was a sense that there was one opportunity to take a, you know, whatever step that might be to try to create greater confidence in the Irish financial system. What I think, just to elaborate on that a little bit more. I would have been conscious myself that at the time, the UK authorities provided guarantees for Northern Rock. The guarantees over time extended into their capital structure. Now they didn't extend as far as our guarantee did, but they did find themselves in a situation where they guaranteed the deposits first and then they had to move into, you know, wholesale funding and beyond. So there was a sense that you wanted to avoid a situation with a guarantee. I mean, if you are going to ... if you're going to take that approach, you want that approach to be as impactful as possible and not find yourself in a situation where you are tweaking it at a later stage because that would

obviously damage your credibility.

Senator Marc MacSharry: Can you describe for us the meetings that you would have been aware of or that you attended leading up to night of the guarantee, specific to the preparation?

Mr. William Beausang: I think there was some significant meetings in the Central Bank, in the NTMA that I didn't attend. I was working on the legislation at that time so, you know, it's clear from the attendance list at those meetings I wasn't at them. So I wasn't party to discussion. I mean, one of those ... one of the meetings was a meeting where Merrill Lynch gave a presentation on resolution options or the state of the Irish financial ... the Irish banking system, whatever. I wasn't at that meeting and I think there was maybe another meeting in the Central Bank which obviously I have seen reports of subsequently but I wasn't present.

Senator Marc MacSharry: And the night of the guarantee itself?

Mr. William Beausang: The night of the guarantee itself. I was present for the first phase of the discussions. I think Kevin Cardiff's note, there's a sort of a segment of the meeting where Jim Farrell the chair of the Financial Regulator comes in and makes the case for the guarantee and then the discussion extended, you know, there was sort of a broader discussion about other options that were there. The nationalisation option being the main one, I suppose. And at that point, you know, looking at that hand written note at that phase of the meeting, I left the meeting because there was some preparation to be done. What was clear was that contingency arrangements needed to be put in place for the Central Bank, perhaps to provide ELA to the institutions the next day and that would only happen ... the Central Bank will only lend if they have a guarantee, a Government guarantee of that lending or, as it turned out because we wouldn't have had power to give a guarantee for that lending at that point, what they looked for was a letter of comfort saying that any losses on that lending would be made good by the State. So that's what I was involved in, in just putting together ... or perhaps talking to the director general of the bank as to what was the specific language required. But that was part of the contingency planning that was required at that point, Senator.

Senator Marc MacSharry: Did you take notes of any of the meetings that you attended?

Mr. William Beausang: Well, are you talking about any particular meeting?

Senator Marc MacSharry: Well, on the night of the guarantee.

Mr. William Beausang: No, I didn't take notes at the meeting. I didn't take notes at that meeting.

Senator Marc MacSharry: In meetings that you did attend of this nature around this time - and obviously we get the privacy and the secrecy that was required - were instructions ever issued with regard to the recording of a meeting not to take notes?

Mr. William Beausang: No.

Senator Marc MacSharry: Okay. Can I ask, in your opening statement you mentioned Basel II framework was expected to foster stability in the EU, financial system by strengthening incentives for banks to conduct sound risk modelling and managing and by involving supervisors more directly in the review of banks' risk profiling, the risk management practice and risk bearing capacity. With the benefit of hindsight and everything that has happened, how did Basel II incentivise conduct in risk management practices?

Mr. William Beusang: You see Basel II created a whole infrastructure, a whole industry, there was a Basel II industry around applying what was ... I mean maybe a good illustration of the complexity that was involved in Basel II; the original Basel I framework I think is described is 30 pages long, the second one is well over 300 and is, you know, hugely complex, technical, based on what was considered, at the time, best practice in terms of risk modelling, credit assessment and so on.

I think part of the difficulty was that from, obviously from the banks' perspective - to the extent that they paid any attention to this - but certainly from the regulator's, that as sometimes happens with all kinds of models, the model itself becomes the oracle in terms of whether something is working, is perceived to be working, or otherwise, rather than, as I'm sure people more expert to talk about Basel II would tell you, that it's meant to be just an aid to decision making or to the exercise of supervisory judgment.

But, I mean, it's important to make the point that when you talk about Basel II that it wasn't just a kind of technical modelling exercise. There was three pillars to it and one of the most ... the second pillar to it was what was called the supervisory review. It was characterised by the IMF in June 2008 as the heart and soul of the framework, which adds a solid layer of supervisory judgment to more rules-based approach of pillar 1. That's the modelling piste. It's built around principles that define roles and responsibilities of banks and their supervisors in the assessment of capital adequacy which include, as well as go beyond, the risk covered in pillar 1.

So, Basel I envisaged that you'd have this modelling and you'd have this sophisticated risk management systems but you'd also have supervisors assessing whether the modelling of risk was capturing all the risks in the institutions. But, I mean, it's absolutely clear, although I don't have direct knowledge of it, that the time, energy and resources in the Financial Regulator in just putting that model in place in a small country - you would have heard in talking to the people from the FR, you know, their staff resources, the limits on staff resources - it was a huge exercise, and in the banks themselves. And I think that point is made, either in the Honohan report or the Nyberg report that, as far as the banks were concerned, the risk management experts were taken off the day-to-day assessment of the risks the banks were carrying, to help create this infrastructure that the banks would need going forward to be competitive in capital markets, you know, under the Basel framework.

Senator Marc MacSharry: Was it the intention of Basel II that banks would supervise themselves?

Mr. William Beusang: I think ... you know it ... it's a contentious issue and obviously, I mean, you will talk to people who will hold that ... that kind of, the Basel ... you know, that in moving from Basel I to Basel II there was an ... you know, there was an improvement, in principle, in terms of the design and the regulatory system. But certainly and ... I mean, it comes across very strongly from the work that the UK commissioned on banking standards did, that they concluded that ... and this was in their report on the failure of HBOS, they say, and this is a parliamentary committee:

The requirements of the Basel II framework not only weakened controls on capital adequacy by allowing banks to calculate their own risk-weightings, but they ... distracted supervisors from concerns about liquidity and credit; they may also have contributed to the appalling supervisory neglect of asset quality.

So that's in a bigger country with a much better-resourced supervisory body and that's the

conclusion they're coming to in terms of the impact of Basel II on the efficacy of financial supervision over that period and in relation to the different supervisory approach that it encouraged, where as I said, supervisors were encouraged to review the model not to review the risks.

Senator Marc MacSharry: Just two last questions. In your time at the Department did you ever experience any major contrarian views to fiscal or banking decisions being taken?

Mr. William Beausang: I mean, from my experience, Deputy, there was a lot of contrarian views in the Department of Finance on a whole range of issues. I mean, you know, in terms of what the Department ultimately has to do, which is advise Minister and advise Government, that works through the hierarchy, the management system, and those views are then represented, or those options are then represented, to the Minister. I mean, in terms of my area of responsibilities in the Department, I'd no direct interaction with any individual in the Department, or, indeed, in the Central Bank or the Financial Regulator, that was articulating strongly very contrarian views around where the banking system was or where the economy was, more generally. But, I mean, in terms of my responsibilities, my focus was very much on financial regulation and the stability of the banks rather than the broader macroeconomic framework, which was the responsibility of another area of the Department.

Senator Marc MacSharry: Earlier on we had John McCarthy who quoted from John FitzGerald's evidence here some time back, where he made reference to the politicisation of the advice of the economics unit. In your time, have you ever experienced, or during this critical period, was there an undue political influence which determined the direction of policy?

Mr. William Beausang: No, I wouldn't say that I had ever any experience of that. I mean, I think, in the Department ... I mean, because I had worked as an economist on the economic side in the late 90s, and, at that time, we were writing papers warning about the risk of a hard landing. So you could imagine that there was a, sort of, I think, a loss of credibility in the ability of the Department, and certainly ... and I can't say because I'm not part of the political system, but I mean, in a scenario where, at that point in the economic cycle, the Department is saying there's big risks here now, house prices are taking off, credit is taking off, the fact that then the economy rolls forward and performs very strongly and shows ... and demonstrates a capacity to grow, you know, into the early 2000s, you know, quite sustainably, at a rapid pace, you can imagine that there was a certain scepticism around the Department's ability to call the economy correctly, even maybe within the Department itself.

Maybe to elaborate on that a bit more, I mean, when I first joined the Department in 1990, there was a designated economic service, and part of that work would have looked at things like, you know, longer term or medium-term economic forecasts, but, as we moved towards EMU, and moved into EMU, that kind of resource, increasingly, was looking at meeting the, kind of, governance requirements around our membership of EMU, things like the Stability and Growth Pact, and the kind of fiscal forecasting that was involved in ... that was required in that context. So, I mean, you know, at a point in time in the Department, there was ... it was somebody's job to worry about the current account of the balance of payments, which would have reflected the flows of finance into the State. You know, by the time the new century came around, and with our membership of EMU, and the fact that the monetary policy division of the Department, that would have been very involved in looking at monetary factors in the run-up team, you know, the fact that that had been recast as what, essentially, was my area, the financial regulation area, meant that there was a significant diminution of expertise in the Department at that ... you know, like, at that time, and it's ability to maybe call issues. As you know, more generally, as you probably heard from other witnesses ... I mean, kind of, macroeconomic modelling or forecasting ...

I mean, the financial sector was, kind of, ignored in that work in a lot of instances, and that there wasn't a realisation maybe more broadly amongst the economics profession of the importance of monetary factors in assessing, you know, the current economic state.

Chairman: Thank you. Senator D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Beausang, you're welcome. On page 3 of your opening statement, Mr. Beausang, you state, "The model of 'principles-led' 'risk-based' supervision was set out in IFSRA's Strategic Plan." Section 5.4, you also state, "We knew that IFSRA's supervisory approach was, therefore, strongly underpinned by a comprehensive system of technical regulation encompassing specific rules, regulations, codes and the supervisory powers necessary for their implementation." And this is a question that I put to other witnesses, Mr. Beausang. Why did the Irish principles/rules-based regulation, which was similar to other EU countries' rules-based regulation, fail so much worse than those other countries who had similar regulatory systems? This is a question I have put to other witnesses Mr. Beausang. Why did the Irish principles rules-based regulation, which were similar to other EU countries rules-based regulation, fail so much worse than those other countries who had similar regulatory systems?

Mr. William Beausang: I think you have to bring it back to the way in which those rules were implemented. We put in place those rules, that was our job. As I outlined in my witness statement and in my overview, we took, as far as prudential regulations were concerned, consumer protection legislation was done and it was obviously a domestic initiative but we took these models of financial regulation. They were carefully worked through by experts in Brussels, committees of financial supervisors, significant consultation with industry. We took those models, having negotiated those models and those models had been agreed by all member states and put them in place. It was then the responsibility of the Financial Regulator to implement the regulation and to supervise the banks in the manner that those regulations suggested. So the contrast that is often drawn is between the approach taken in Ireland and let's say the approach taken in Spain. Although I couldn't say this definitively, in broad terms they were operating the same framework, they were operating the same pan-EU framework of financial regulation. Of course they had their own difficulties in Spain eventually but the Spanish regulator is seen and the Spanish central bank is seen to have been more intrusive and having people on the ground in the banks rather than as occurred in Ireland. So that is the conclusion I would come to as to why things were disproportionately worse here. Apart from the conduct of the banks which is a separate issue there were significant supervisory failures as documented in Nyberg and as documented in the Honohan report.

Senator Michael D'Arcy: Can I ask you your view in relation to, you are talking about a prudential regulation of the institutions. You are talking about the prudential-----

Mr. William Beausang: Always yes, the prudential regulations.

Senator Michael D'Arcy: And your view in terms of the Central Bank's role in terms of financial stability, did they do a good job or poor job? Your view please?

Mr. William Beausang: It is clear from the reports that are already in the public domain, there's major failures in terms of macro-prudential supervision by the Central Bank for whatever reason and the issue of the structure has been mentioned by other witnesses. There did not seem to be an awareness of the role of the Central Bank in actually seeking to intervene, to deal with the risks that were being created in the financial system. This may have reflected ... I mean

you are looking at the banks on the one hand and the economy on the other-----

Senator Michael D’Arcy: Looking at the banks please?

Mr. William Beausang: Yes so looking at the banks the Central Bank was responsible for financial stability. The Central Bank had all the powers and all the mandate and as part of the euro system, was responsible for financial stability. We know where we got to.

Senator Michael D’Arcy: Can I ask you about the awareness of the Department of Finance in relation to the build up of the banking balance sheets that was freely available from banking reports, AGMs, and the role and actions of the Department of Finance in terms of any impact that they proceeded to really impact on the system?

Mr. William Beausang: When you set up a regulator and give a regulator a role ... and my role relates to legislation and policy from financial regulation, I am looking across to Dame Street and they are responsible for financial stability. They are responsible for assessing the financial stability conditions in the bank. They are responsible, engaging with the Financial Regulator to really understand what is going on in the banks because the headline figures, as important as they are, it was really only what came through, what came into the public domain, let’s say, once the banks’ distressed loans were transferred into NAMA-----

Senator Michael D’Arcy: Mr. Beausang, the bank balance sheets increased year on year in the region of 30% for eight years in a row. I am asking the role of the Department of Finance, if they raised any flags? I think Mr. Rob Wright used the term he would have pressed the red button and asking about your knowledge of the role of the Department of Finance.

Mr. William Beausang: In terms of the role of the Department of Finance on the banking regulation side, we had no role in raising issues/concerns around the stability of the banks with the Central Bank because that was their job and they were an independent Central Bank. Once you get into a space where the Department is encroaching on the independence of a Central Bank, or the independence of the supervisor, you’re getting into, sort of, potentially quite difficult territory so, I mean, the responsibilities are defined in legislation. I mean, as a civil servant, you know, we operate within our legal powers and I know you’re ... there’s a broader issue about the role of the Department of Finance and I’d obviously accept and acknowledge what other witnesses have said and what the Wright report said about the broader role of the Department and looking at the economy in terms of macroeconomic management, but in terms, specifically, of assessing financial stability conditions in the bank, that was the Central Bank’s role and we had all the evidence, as far as we were concerned-----

Senator Michael D’Arcy: And nothing to do with the Department of Finance; is that what you’re saying?

Chairman: Can I reframe that question?

Senator Michael D’Arcy: Yes.

Chairman: If you don’t mind, Senator, just a moment. The legislation that set up the regulator’s office and that set up the new Central Bank structure and the whole structure that was put in place was done through legislation passed in this House. The Minister would have been in the Chamber and the Department of Finance officials would have been sitting next to him during that period, so the architecture of what Senator D’Arcy is talking about is the child of the Department of Finance and the Minister. So, as Senator D’Arcy is asking, in terms of the

macro-stability of this country, is the proposition today that you set it up and then you didn't see any responsibility for stability and accountability afterwards?

Mr. William Beausang: No, you see, you need to ... you know, and I think it's documented in the Honohan report, in particular, when you talk about financial stability, the Central Bank has a distinct role in ascertaining whether the banking system is stable and whether there's any ... what is the scale of systemic risk that's there for the banking sector. The Department's involvement then, on my area of the Department, in looking at the banks specifically, is actually very specific and looking at the regulatory structures itself, the responsibility for the legislation that we have, but it's also then the planning for a difficulty but we don't have a role and we didn't have the information and we would have been precluded from getting the information that would have allowed us to make any independent assessment. And I think it's Donal Donovan, in his book, makes the point that, I mean, the Department ... the Central Bank would certainly have given the Department short shrift, if it had arrived at its door, telling ... and I'm ... asking or requesting to get involved in financial stability analysis. In my evidence in section 5.9, I go ... because I mean it's obviously a hugely legitimate question to ask, but I go through a range of issues which we took reassurance from in relation to banking ... in relation to the stability of the banking system. I've mentioned already, yes ... I mentioned the Central Bank and IFSRA's legal mandate; I mentioned the regulatory framework that was put in place under Basel II; I mentioned that the Central Bank was part of a broader financial stability surveillance, as part of the euro system, as part of the ECB; there was the financial stability reports; There was the IMF, FSAP and the OECD reports; there was the favourable ratings from the Irish banks-----

Chairman: Mr. Beausang, I'm going to pull this back because you're going into a lot of process. The fundamental question here that Senator D'Arcy asked you is that there was a 30% year-on-year growth in the banks in this country. There was, by any modest examination, quite a significant growth in the banking sector in this country and is your testimony to this inquiry today that you and your Department were not aware of that?

Mr. William Beausang: Well, when I started off, when I was first appointed to the role in April 2005, I initiated a project to see was it possible to-----

Chairman: Coming back to the question because I ... I'll just stop the clock a second there-----

Mr. William Beausang: Okay.

Chairman: -----because we could be around the house on this all afternoon. I put a question to you which summarises Senator D'Arcy's thing: were you and your Department aware of the levels of growth that was taking place in Irish banking during this period? You're in the position-----

Mr. William Beausang: We were-----

Chairman: -----you're the assistant secretary-----

Mr. William Beausang: Yes, we-----

Chairman: -----for banking, finance and international division, the Department of Finance, from 2005 onwards. Are you aware of the growth that's taking place in the banks-----

Mr. William Beausang: We ... we-----

Chairman: -----during that time?

Mr. William Beusang: We obviously had that information, Chair.

Chairman: You had that information?

Mr. William Beusang: Yes.

Chairman: Okay, so back to Senator D'Arcy so and we can pursue this line of questioning, rather than going around the other issues.

Senator Michael D'Arcy: Yes. And did you choose to do anything about it, the growth-----

Mr. William Beusang: We didn't have ... just, as I said earlier, we didn't have a legal role that would allow us to get involved in financial stability analysis-----

Senator Michael D'Arcy: Okay, you didn't have a legal role. Was it discussed about the growth of the balance sheets in the banks - 30% year-on-year growth for eight years in a row? Was it discussed at all, even informally, in the Department of Finance?

Mr. William Beusang: Well I'm not aware of it being discussed in a formal way, on my side of the house-----

Senator Michael D'Arcy: Informally?

Mr. William Beusang: -----because we were responsible for, for financial regulation. So more broadly, at MAC level, there was ... obviously there were several discussions about the economic developments and, you know, what the economic prospects were looking like at that time.

Senator Michael D'Arcy: And informally, was it discussed?

Mr. William Beusang: Well, that would have been part of that discussion, part of the risks that other witnesses would have talked about, in terms of the advice that the Department on the economic side would have been given ... giving to the Minister.

Senator Michael D'Arcy: You made the point that you didn't have a legal role.

Mr. William Beusang: Yes.

Senator Michael D'Arcy: Okay. Was there anything, informally, that you could've done, that may have been available to-----

Mr. William Beusang: Well I think-----

Senator Michael D'Arcy: -----in your view, in your sector that you could've discussed it with the Minister, could have discussed it with your senior officials, that this was growing at a dangerous rate?

Mr. William Beusang: I think that what could have helped and it reflects a recommendation that's in the Nyberg report, and finding in the Nyberg report, that nobody was joining up the dots in terms of the risks that were there. There were risks obviously more broadly and looking at economic developments. There was risks in the banks and macro ... you know, in macro-financial risks. The DSG, and if you look at the terms of reference for the DSG, part of its work was to try to draw together the analysis that the Department would have been doing

on the one hand and the Central Bank might have been doing on the other, to seek to take stock of what, you know, contingency planning or what actions might be necessary to ensure that the economy was well positioned going forward.

Senator Michael D’Arcy: Okay. Can I ask, when you mention the DSG, can you recall what structures were in place prior to the appointment of the DSG to safeguard financial stability within the Department?

Mr. William Beausang: Well, there would have been ... you see ... there was no, there was no financial stability structure in the Department because we had no legal role around financial stability. I mean, there would have been structures in the Central Bank, their financial stability committee.

Senator Michael D’Arcy: I’m asking within the Department-----

Mr. William Beausang: There was no ... no, there was no structures for-----

Senator Michael D’Arcy: No legal role? It’s irrelevant to you?

Mr. William Beausang: Well, it’s not a question of it being irrelevant but there was no structures there. There was no formal structure for looking at financial stability other than as part of the broader responsibilities of the Department and looking at the macroeconomic framework more generally.

Senator Michael D’Arcy: Okay, can I just push on because I’m kind of going around the house there, Chairman. In section 5.10, Mr. Beausang ... yes ... sorry ... hang on now, sorry one moment ... you, in 5.9.4, you quote the FSR reports. Did you see the level of personal indebtedness, the household indebtedness, the increase in those?

Mr. William Beausang: Certainly that-----

Senator Michael D’Arcy: To the point that-----

Mr. William Beausang: -----that information would have been in those reports.

Senator Michael D’Arcy: And, again, did the Department of Finance do anything about those levels of household indebtedness?

Mr. William Beausang: Well, they would have reflected the risk created by that, those high levels of personal indebtedness, in their advice given to the Minister in the context of the budgetary and the fiscal framework, so they would have been accommodated into the broader macroeconomic responsibilities that the Department had.

Senator Michael D’Arcy: And can I ... did ... the Department of Finance, because you didn’t have a legal role, did that mean you didn’t do anything about it?

Mr. William Beausang: Well, I mean, we would’ve been very active... for example, legislation that we did and we initiated, to regulate non-deposit mortgage lenders ... or, sorry, and providers of home reversion products, so that as sub-prime lenders, that was identified over that period if you can recall, Senator, as a significant risk on account of the practices that these people were engaging in and they were unregulated, until the Department took the initiative and made a response to the legislation to regulate-----

Senator Michael D’Arcy: Can I ask what percentage of the loan book, in the mortgage

loan book, household indebtedness was sub-prime?

Mr. William Beausang: I don't have that information available to me.

Senator Michael D'Arcy: 50%?

Mr. William Beausang: I just don't, I wouldn't be prepared to speculate.

Senator Michael D'Arcy: I would suggest that it was probably a small amount.

Mr. William Beausang: A reasonably small amount, but it was a growing amount and it was regarded as-----

Senator Michael D'Arcy: Okay-----

Mr. William Beausang: -----a significant risk at the time.

Senator Michael D'Arcy: What about the establishment by the Irish banks of 100% mortgages? Did you ... the Department of Finance do anything about that?

Mr. William Beausang: Well, I mean, there's, I think, papers in the public domain reflecting ... and a freedom of information request, which deal with that issue at some length. I mean, the issue was raised by the Minister of housing at the time with the Minister for Finance. We examined the issue on the banking side in consultation with our colleagues on the ... on the economic side. We consulted with the Financial Regulator and we ... we responded and we met with the Department of the Environment and we ultimately responded to the Department of Environment on the basis of the analysis that the Financial Regulator communicated to us at that time around that issue. So, I mean, that's ... you know, that's an issue that we were involved in, yes, certainly, and it was an issue that we ... we assessed on the basis of the advice that we got from the Financial Regulator. I mean, you'll recall that the Financial Regulator, that ... we wrote out in November 2005 back to the Department of the Environment but I think in March 2006, the Financial Regulator introduced a higher risk weighting on mortgage lending with LTVs of 100%.

Senator Michael D'Arcy: Okay, can I move on, Mr. Beausang, please? In spring '08, the DSG was party to the drafting of legislation to provide for the nationalisation of a financial institution or the issuance of a guarantee by the Minister. We see that the Attorney General provided levels of secrecy in relation to those that didn't go through the standard structures because of the importance of the legislation. You discussed, with Senator MacSharry, the SSR legislation. Why was the legislation not prioritised in 2007 - the special resolution regimes?

Mr. William Beausang: Well, I can ... I can deal with that issue. I already spoke to Deputy MacSharry's question on that issue. I mean, our analysis at that time was that the legal difficulties involved, the constitutional difficulties involved, the policy difficulties involved in putting in place such a piece of legislation were ... were not surmountable. I mean, we would have been breaking new ground at EU level in introducing that type of legislation. So our analysis at the time was that a nationalisation Bill certainly achieved some of the important objectives of a special resolution regime, for example, by taking out the shareholders, by taking an institution into public ownership, by dealing with the moral hazard that would otherwise be there. So, I mean, it was an analysis at that time that ... that the right approach was to prioritise nationalisation legislation rather than a piece of legislation that might not be technical ... technically achievable and, indeed, might not be implementable, in legal terms, because of the legal risks around it and

the constitutional risks in-----

Senator Michael D’Arcy: The legislation-----

Mr. William Beausang: -----interfering with people’s property rights as special resolution regimes-----

Senator Michael D’Arcy: Yes. The legislation was subsequently enacted in 2011.

Mr. William Beausang: It ... well, there was ... there was a sort of a special resolution regime for the covered institutions in 2010 and that was ... well, that was a kind of an emergency special resolution regime and then a-----

Senator Michael D’Arcy: I don’t remember any referendum in relation to property rights or anything of that nature and if the constitutional issues weren’t dealt with by referendum, well, the legislation stood and was implemented. Why then was it not proceeded with in 2007? It may have been a tool available to the Department of Finance to deal with the ... the institutions who were in greater difficulty.

Mr. William Beausang: Well, I mean, as I said before, unless it had a bail-in mechanism, it wasn’t going to be a panacea for reducing the fiscal costs. In terms of your question on the referendum, I mean, I know the Attorney General will be speaking to you in due course and he might be in a better position to advise on the constitutional issue. I do recall very clearly that at the time that we put in place the first ... the emergency special resolution regime at the end of 2010, that there was a lot of concern at the time, and I think it was articulated in the Houses that the approach wasn’t constitutional and, indeed, I think at the time the President referred it to the Council of State for a consultation but ultimately decided to sign the legislation into law. So it wasn’t ... it wasn’t as if ... I mean, I think that ... that that demonstrates that there was a concern around constitutionality.

Senator Michael D’Arcy: Can I just move on, Mr. Beausang, as well, please? The DSG compromised a group of experienced officials. How did the group fail to conclude that a serious banking crisis was on the rise and given the ... the following indicators? The financial markets were warning from mid-2007 about the Irish loan book concentrations. The reduced availability of liquidity to the financial institutions from late 2007 and the comments of the health of the Irish banks contradicted market sentiment. Market sentiment was quite clear in terms of, in particular, Anglo and INBS, that their loan books were in a very poor state. How did the DSG not predict the extent of which there was a serious problem coming down the tracks?

Mr. William Beausang: Well, I mean, I think if you if you look at the international research, Deputy, it’s very difficult, I mean, notwithstanding the scale of the boom that occurred in Ireland, to actually identify leading indicators of financial distress. And, indeed, when people try to do this work and try to identify a series of indicators that works, or certainly seems to have some predictive value, what they’re kind of identifying ... obviously high domestic credit growth and rapid growth in property prices is there, but they’re also saying, “Oh, low economic activity or low bank profitability are issues as well.” So, I mean, it’s not ... obviously, with speaking with the chief economist earlier today and I wasn’t ... I didn’t see his evidence but I mean it’s ... I don’t think economists really have much of a track record in successfully, or officials, in successfully predicting or forecasting recessions or economic collapses-----

Senator Michael D’Arcy: Some did.

Mr. William Beausang: Yes, and I talk about that in my evidence, that there was a small number of contrarians, let's say, at the international level, but I mean against the number of very eminent and very senior and very authoritative commentators and forecasters and economists and central bankers who, who certainly didn't see things developing the way they are-----

Senator Michael D'Arcy: Sorry, Mr. Beausang, the market analysis knew about the quality of the loan book, in particular, about Anglo and INBS, but few in the Irish regulatory agencies seemed to have any knowledge of those. The Financial Regulator had prudential access to the largest exposures. That was subsequently shared with the Central Bank and CBFSAI, both of whom were party to the DSG with yourself. And both those agencies had that information, and this information wasn't available to the market analysis, but it was available to those of you in regulation, which ... I'm including you and the DSG in that.

Mr. William Beausang: Well, I mean I think, you know, I can't speak for the Financial Regulator, but I think they paused for thought before providing anybody outside the Central Bank system or the Financial Regulator with individual ... information on individual ... that level of granularity around-----

Senator Michael D'Arcy: Sorry, could you explain what that level of granularity is simply please?

Mr. William Beausang: Well, I mean ... people's ... because, obviously when you see or, as I've seen, the full PwC reports into the banks that were done in the autumn of 2008, I mean there's information ... individual ... there's information in that report on the bank, the loans, held by, you know, named individuals and highly confidential, and highly sensitive personal banking information. That wasn't the kind of information that was shared or would, I believe, ever been available to be shared at the DSG.

Senator Michael D'Arcy: Was the actual, not the names of the connections-----

Mr. William Beausang: That information was never-----

Senator Michael D'Arcy: Not the names, but I'm asking did you, for example, know that there was less than 30 connections with €1 billion exposure each?

Mr. William Beausang: No, that information was never brought to the DSG.

Senator Michael D'Arcy: It wasn't shared with the DSG?

Mr. William Beausang: Absolutely not shared with the DSG.

Senator Michael D'Arcy: Can I just ask - and move on, Mr. Beausang -from the information and the analysis provided from by the CBFSAI and our advisers, was it known that a financial institution was in difficulty in late 2007 or early 2008?

Mr. William Beausang: Sorry ... could you elaborate, could you just repeat that-----

Senator Michael D'Arcy: Was it known by the information and the analysis provided by the CBFSAI and/or to its advisers, and I'm talking about you as advisers, as the DSG, if there was a financial institution in difficulty in 2007 or 2008?

Mr. William Beausang: No.

Senator Michael D'Arcy: It wasn't?

Mr. William Beausang: No, it wasn't. No, I mean that's ... yes, I mean, when you talk about 2000s, it's certainly not in 2007. Obviously, as 2008 unfolded and particularly into September 2008, there was a concern around specific institutions, starting off with INBS on account of the Reuters report and then as we ... post-Lehman's, as liquidity pressure seemed to be impacting, in particular, on the finance funding situation of one particular institution. So, I mean, in terms of the triage that you, you know, that apply to these kind of situations, there were certainly two institutions there that were considered more at risk than other institutions but other institutions were obviously under pressure as well.

Senator Michael D'Arcy: Okay. Just-----

Chairman: Final question, Deputy, and then I'll bring in the wrap-up.

Senator Michael D'Arcy: There was an e-mail exchanged between yourself and Brendan McDonagh from the NTMA in relation to the potential costs on the sovereign for a blanket guarantee for all of the financial institutions. I don't think it's in this booklet but it was mentioned this morning-----

Chairman: The e-mail mentioned during Mr. Cardiff's questioning ... I'll see if I can dig that out again.

Senator Michael D'Arcy: Please. The cost to the sovereign, to the State, to provide the guarantee - were you, on the night of the guarantee, were you questioned about that?

Mr. William Beausang: No.

Senator Michael D'Arcy: You weren't. Was that information made available to the people making the decision in relation to a blanket guarantee to all the institutions?

Mr. William Beausang: I've no recollection at ... for that element of the meeting, for that phase of the meeting that I attended, that issue was raised. I can't recall offhand whether there's any reference to it in the Merrill Lynch paper, which obviously informed the presentation that the Department made at that meeting as to the options on the table.

Senator Michael D'Arcy: You were aware that there would be a cost to the sovereign following the exchange of e-mails between-----

Mr. William Beausang: Yes, but I mean-----

Senator Michael D'Arcy: -----Mr. McDonagh and yourself.

Mr. William Beausang: Yes, well I mean I think it's in one of the documents that I submitted with my witness statement for the Minister for a meeting that he had with the chair of one of the banks in the course of September 2008. There's a couple of references to ... you know, it's the ... in circumstances that the case for a guarantee was put to him, well, why wouldn't a guarantee be a good idea? I'm not sure whether the cost of funding was explicitly mentioned on it - I'd just have to consult that note - but certainly, there was a concern that ... you know, there would be a concern that you're taking a contingent liability ... a huge contingent liability and you'd expect that there would be a cost in terms of the cost of funding the sovereign.

Senator Michael D'Arcy: You didn't inform the meeting-----

Chairman: Let's move on. We're going to bring you back in later on.

Senator Michael D’Arcy: I just want to finish this point-----

Chairman: Very quickly, please.

Senator Michael D’Arcy: You didn’t inform the meeting that night that there would be an additional cost to the State if they took on-----

Mr. William Beausang: No, I didn’t.

Chairman: Okay, thank you very much. Next questioner is Senator Susan O’Keefe.

Senator Susan O’Keefe: Thank you, Chair. Mr. Beausang, on page 7 of your own statement, you refer “to the need to establish a formal structure for communication and information exchange on financial stability matters between” - I assume you mean between the Department of Finance and Central Bank and Financial Regulator. Perhaps you might outline the effectiveness of communications that existed prior to the establishment of the domestic standing group - so that’s relationships between ... communications, rather, between the Central Bank, the Financial Regulator and yourselves.

Mr. William Beausang: Senator, that’s from my witness statement, is it?

Senator Susan O’Keefe: Statement, page 7.

Mr. William Beausang: And sorry, do you have the paragraph reference?

Senator Susan O’Keefe: 10.4. 10.4.

Mr. William Beausang: 10.4.

Senator Susan O’Keefe: It’ll come up. It won’t help you in the answer. The answer’s not-----

Mr. William Beausang: No, no.

Senator Susan O’Keefe: -----there.

Mr. William Beausang: Certainly, one of the-----

Senator Susan O’Keefe: What were communications like between the Central Bank, the Financial Regulator and the Department of Finance prior to the establishment of the domestic standing group?

Mr. William Beausang: Okay. I mean, obviously there was, presumably, a very significant engagement between the forecasting side, the economic analysis side of the Central Bank, and the forecasting side of the Department. Because, you know, they’d be tick-tacking on their forecasts in the work that they were going on in that area. From my perspective in the banking, finance and international division, we would’ve had little contact with the Central Bank, *per se*, maybe around issues like the national payments strategy, movement to e-payments and so on and so forth. Our main interaction would’ve been with the Financial Regulator around the discharge of the various accountability requirements put in place in the legislation or the need for approval of the budget or commenting on the strategic plan or issues around the various ... the two panels that were in place. And then down the line in my area, obviously, officials would have had quite intense engagement with experts in the Financial Regulator on particular, what they’d call, dossiers at EU level that would have been negotiated at that point in time. So from

my perspective the relationship was, you know, at my level was quite operational. Of course, the Secretary General of the Department sat on the board of the Central Bank, so that was a separate flow or a separate relationship with the Central Bank.

Senator Susan O’Keeffe: So what deficiencies were addressed by the establishment of the domestic standing group, do you believe?

Mr. William Beausang: Well the deficiency ... the main deficiency that was addressed was ensuring that we had access without being ... on a kind of a regular, on a systematic basis, to their analysis and their assessments as to what was happening in the financial system. You know, the way that the thing worked was we would ... and remember, it kicked off formally just as the liquidity crisis kicked off, maybe if you’re taking the ECB intervention in August 2007 as being the starting point, so from then on, around a whole range of issues that were kicking ... that were arising in the financial sector, we’d access to the DSG, to their analysis, to their briefings, that we could bring to the Minister and the Government. I would have imagined that would’ve been a very cumbersome process up to then, because there would’ve been all kinds of issues around the basis on which that information was being provided but, even in administrative terms, we wouldn’t be meeting them regularly, we wouldn’t be sitting down with them, we wouldn’t have a structure, you know, to move the thing forward.

Senator Susan O’Keeffe: You were part of what Mr. Cardiff described as a secret team doing secret work on banking and the banking problems. How would you describe that secret team or that secret work? Were you working like a flying squad, separate to everything else, or were you in parallel with the domestic standing group, or where did you sit and where are the notes of what you did or the evidence of your work? Because we certainly haven’t seen it.

Mr. William Beausang: Well, I think just-----

Senator Susan O’Keeffe: And perhaps that’s why it was called a secret group?

Mr. William Beausang: -----to maybe to answer the last, or to respond to the last point first. I mean, the reason why you wouldn’t see a lot of that work was a huge amount of it - and it was very intense - was engagement with the Attorney General’s office in the terms of the preparation of emergency legislation, or looking at ... for advice on a whole range of issues that would arise. For example, if ELA was provided for an institution, would it have to be disclosed into the market? You know, transparency requirements under the market’s abuse directive. The Irish Takeover Panel’s rules, how they might work in terms of a market interaction. But ... so all that information wouldn’t ... all that paper trail, I suppose, you wouldn’t have seen it because it’s legally ... it’s legally privileged, it’s not available to the committee.

Senator Susan O’Keeffe: Okay.

Mr. William Beausang: I mean, our track record or the work that we did in financial stability planning goes back to when I joined the Department or rejoined the Department in April 2005 at assistant secretary level, and there’s, you know, as reflected in my written evidence there’s a number of, kind of, you know, milestones or phases to our work over that period, leading to the point that the DSG is established. But, I mean, just to be very clear, I mean, in terms of the work that Kevin was referring to, it was very much under the aegis of the DSG, it was very much related to the DSG, it was us going back to the Financial Regulator and the Central Bank and saying, “Well, this is what we’re doing, this is the legislation that we’re preparing, these are the legal questions that we have”. So that was the ... that was the kind of the frame-

work for the work that was being carried out in that area.

Senator Susan O’Keeffe: On page 14 of your statement, at point 18.7, you talk about the e-mail records showing that at 11 ... 21.11 on the night of the guarantee you:

... received a document intended to be a draft Government Press Release announcing the introduction of a guarantee for the domestic banks ... It appears to have been authored earlier in the evening in the Central Bank in advance of the commencement of the meeting in Government Buildings.

And you talk about how you went on to work on it. I’m wondering why there existed such a draft for the announcement of a guarantee when it was still quite early in the evening and no decision had been taken? How did that happen?

Mr. William Beausang: Yes, well, I mean, I think I was outside the room at that stage and I received an e-mail that was forwarded on by the Secretary General, which was the draft guarantee statement or a draft guarantee statement.

Senator Susan O’Keeffe: Yes, but why did it exist, is my question, given that no decision had been taken?

Mr. William Beausang: Ah well ... well, I don’t know why it existed. I mean, I don’t know why ... I mean, the Central Bank obviously had prepared it earlier in the day in advance of the discussions in Government Building. I suppose-----

Senator Susan O’Keeffe: Why would that happen?

Mr. William Beausang: Pardon?

Senator Susan O’Keeffe: Would it be normal to have a ... given that ... given that this meeting was supposed to be a meeting, we understood, to make a decision about whether to nationalise or rescue or bail out or a guarantee-----

Mr. William Beausang: Well, that’s-----

Senator Susan O’Keeffe: -----why was there a ... why was the only draft that existed a draft that secured a guarantee?

Mr. William Beausang: Well, I mean, I think that’s just the nature of contingency planning, that we knew what options were under discussion, because we knew what outcomes could be facilitated by the legislation, so, you know, you want to be in a position where, when the decision is made, that, you know, you’re ready to move on that decision. I think Kevin Cardiff talked in his evidence around saying at that meeting, at a later stage, “Look, if we’re going to decide to do something, we need to decide, to adopt a particular approach, we need to decide now because work has to proceed.”

Senator Susan O’Keeffe: Yes, but where there several other draft press releases for other outcomes then, is that what you’re saying? Or was there just the one - for the guarantee?

Mr. William Beausang: I’m sorry, there wasn’t, I didn’t see any other press releases-----

Senator Susan O’Keeffe: So there was one draft press release, which was for the guarantee?

Mr. William Beusang: Sorry, I don't think that press release that I was working on referred to 18.7, was or became the final statement.

Senator Susan O'Keeffe: It is.

Mr. William Beusang: No, because when you look at it, sorry, I mean, deferring to your view, Senator, when you look at it, the language is completely different to the language in the guarantee statement. So, it may be, and it refers to the evidence that Kevin Cardiff gave, he talks about being given, being asked by the Taoiseach to draft a guarantee statement and doing that. And if you look at what was released, it doesn't bear any resemblance to the document that I'd been working on.

Senator Susan O'Keeffe: Sorry, I have a document here called the "Government Decision to Safeguard Irish Banking System". I'm sorry, it's come out of its original placing, but it's the one that was given to us as the press release that was given, in which he talks about, "The guarantee will cover all existing aforementioned facilities with these institutions and any new such facilities issued from midnight on 29 September ... will expire at midnight on 28 September 2010." It's a very similar document to the one that you had drafted. I mean, the language is a bit different but it's a very similar, it's the same kind of length, it says the same kind of things.

Mr. William Beusang: No, it certainly says the same kind of things, but I'm sorry, I mean, I'm just looking for the copies of the two versions just as you're talking to me. But my assessment, having looked at it in the last couple of days was, "Well, now it makes sense why the final guarantee statement doesn't look, although it has the same effect-----"

Chairman: Now Senator, if you have them.

Senator Susan O'Keeffe: Well, TAB AN and TAB AM are the two drafts that Mr. Beusang refers to. Unfortunately, this must have ...

Mr. William Beusang: Well you do have the versions that I was working on, Senator.

Senator Susan O'Keeffe: Sorry, this one has appeared in a million different books.

Chairman: Okay, just give me the tab.

Senator Susan O'Keeffe: It doesn't have one, I don't have it, I'm sorry. But the substantial difference seems to me that in your draft there was a six-month recommendation for the guarantee, and by the time it got to the final document it was two years.

Mr. William Beusang: That's the reason why, Deputy, I mean obviously-----

Senator Susan O'Keeffe: That's the only substantial difference, everything else is the same.

Mr. William Beusang: But the language is very different.

Senator Susan O'Keeffe: Okay, well we'll have to agree to differ. Anyway, there is only one draft, that's clear; there wasn't----

Mr. William Beusang: No, there wasn't a press release for a nationalisation of any institution, no.

Senator Susan O'Keeffe: Right, okay. I've one last thing if I may put to you there, please.

Mr. Daly, when he was giving information to the Wright report, Frank Daly, and this reference is the review of the Department, the Wright document. He said:

With regard to the Department's response to the crisis, there was quite late engagement. The Department relied on the Financial Regulator and the Central Bank and was let down by them. Given the tools at the Department's disposal, they responded fairly well. They didn't have the information to determine that there was a liquidity and a solvency problem.

What do you say to that?

Mr. William Beausang: Well, I wouldn't agree with the bulk of that, the only element that I wouldn't agree with was the late engagement. I mean, going back to, going back specifically, say, to November 2007, work kicked off in preparing legislation to provide Government with options to deal with a systemic crisis, or the need to resolve a distressed institution. So I think, you know, the file record demonstrates that there was a significant amount of contingency planning carried out in the period from 2005 and intensified from 2007, late 2007 onwards.

Senator Susan O'Keeffe: And the solvency question?

Mr. William Beausang: The solvency question, I'd agree with the assessment.

Chairman: Thank you very much. Deputy Pearse Doherty.

Deputy Pearse Doherty: Can I begin by asking you, as a senior Department of Finance official charged with what you say in your witness statement, the application of better regulation, how effective in your opinion was the regulatory regime for financial services from the years 2005 to 2008, given your Department's overall responsibility for, I quote, "overseeing the performance of the regulatory structures for financial services", as was reported in the MAC business plan 2005?

Mr. William Beausang: Have you ... does your question relate, Deputy, to the oversight of the regulatory structures or-----

Deputy Pearse Doherty: Well ... how ... the question is: how effective, in your opinion, was the regime - the regulatory regime?

Mr. William Beausang: Well, I mean, at the time I joined the Department in 2005, I mean, obviously there'd been a lot of discussion, debate and controversy about what the structures should be and, you know, in terms of the different options that were there - a stand-alone regulator or a regulator that would report into a single board - and then we came ... we came to the hybrid model that ultimately was put in place under the legislation. But, I mean, wouldn't necessarily accept what perhaps other people have reflected that there was some inherent flaw in the structure itself which contributed hugely to the difficulties of ... the major difficulties that arose in due course. I mean, there's no ... there's no analysis or research which says that one form of structure ... one form of regulatory structure is better than another. I mean in some countries they might have a stand-alone regulator, in others they might have a regulator that's wholly integrated into their Central Bank. There's pros and cons to both, so that I wouldn't ... I wouldn't necessarily accept the analysis that there was something inherently flawed in the structure. Although, I mean, I would defer obviously to the evidence given by other-----

Deputy Pearse Doherty: Outside of the structure, as I said, and you say you're in official charge of the application of better regulation, how did you ... how do you believe ... how effec-

tive, or not, was the regulatory regime that was practised within those structures that you're just talking about?

Mr. William Beausang: The better regulation agenda was the responsibility of the Department of the Taoiseach, although it was obviously an influence on work across all Government Departments. Clearly, looking at the regulatory structure, the supervisory structure, the financial stability structure, there was huge failures. The regulatory structure didn't prove effective. I talk in my witness statement and in my overview that I gave this evening that was seen to be the mainstay of financial regulation, the Basel framework, subsequently has been, you know, by very authoritative bodies, it's ... the conclusion is that it was deficient and it had serious weaknesses and it didn't contribute to ... it didn't contribute to meeting the objectives that had been set for it when it was originally adopted.

Deputy Pearse Doherty: Okay. Mr. Beausang, you mention on page 5 of your statement, you mention the Department of the Taoiseach's Clearing House Group. Can you tell the committee what was the Clearing House Group and what role, if any, did the Department of Finance have in this group?

Mr. William Beausang: Well, the Department of Finance had a very significant role on the group. It was often represented at second secretary level or at assistant secretary level. I mean, what was of interest to participants or members of the Clearing House Group were what was happening on the regulatory front-----

Deputy Pearse Doherty: Who were the participants?

Mr. William Beausang: Pardon?

Deputy Pearse Doherty: Who were the participants?

Mr. William Beausang: Well, there was a broad range of ... I mean, of private sector interests from representative bodies or individual financial institutions that were represented on the Clearing House Group-----

Deputy Pearse Doherty: So, these were bankers, were they?

Mr. William Beausang: Well, representing the whole-----

Deputy Pearse Doherty: Some?

Mr. William Beausang: There would have been some bankers, I'm sure, would have represented the whole gamut of the financial sector, funds, insurance, banks. I mean, I think it's important to say, although there would have been people from the domestic institutions, it was very much an IFSC focus, so the people from the domestic institutions would have been people who were involved in the international or the IFSC activities and institutions-----

Deputy Pearse Doherty: Along with that, was the politicians, was it? Was there politicians on the group, no?

Mr. William Beausang: No, there was no politicians. The chair was the Secretary General of the Department of the Taoiseach, yes.

Deputy Pearse Doherty: Okay, so it was civil servants. And what influence, if any, did it have on legislation regarding the IFSC?

Mr. William Beausang: Well, the people that would have been sitting around the table at the clearing house would have been the people that ... as we ran consultations on particular legislative initiatives that maybe were coming through from Europe, they would have been the people that we talking to. I mean, it wasn't in the main Clearing House Group that that ... that that would happen, I mean, there would be discussions on major initiatives but there was subgroups - maybe for the funds industry, for insurance, for reinsurance perhaps, I don't know - but those subgroups often would take a very keen interest in the legislative initiatives that were under development . And, I mean, the model was and the better regulation approach was that there was a wide consultation with industry, both nationally and at EU level, in looking at the development and the finalisation of, you know, EU financial services regulation.

Deputy Pearse Doherty: Okay, and did any legislation specific from the IFSC, originate from that group or suggestions from that group?

Mr. William Beausang: Not that I am ... not that I am aware of, Deputy.

Deputy Pearse Doherty: Okay. On page 3 of your statement, paragraph 5.9 you say, "my area had no role or mandate in assessing the efficacy of financial supervision or in overseeing systemic stability". So bearing that in mind, in terms of your responsibilities regarding the international financial services area, did you notice or not something was up in the international financial markets from 2006 onwards and were there any examples of institutions within the Irish international financial services areas that found themselves in difficulty?

Mr. William Beausang: Well, I mean the difficulty that eventually crystallised in the IFSC was the ... the Depfa problem and certainly throughout all of the period that we would have been engaging through the DSG getting information on financial institutions on ... on the position, the funding position, the liquidity position of financial institutions, the focus was essentially on the domestic institutions. I mean, I suppose the ... consistent with the approach taken at EU level, member states were responsible for their own financial institutions. So if there was a entity in the IFSC and I wasn't aware that there were any that had difficulty, well, that would be ... that would be an issue for the authorities in the country that it had originated from.

Deputy Pearse Doherty: Depfa was one of those, wasn't it?

Mr. William Beausang: Well, Depfa ... Depfa had been headquartered in Ireland but in, I think as late as ... as autumn 2007, it was actually taken over by a German bank, which meant that it moved ... it was no longer a ... you know-----

Deputy Pearse Doherty: Yes-----

Mr. William Beausang: -----no longer the responsibility of the national authorities here, just in terms of resolution. Obviously supervision and regulation-----

Deputy Pearse Doherty: The Honohan report says that the preoccupation of that weekend ... the weekend of the guarantee was actually in relation to Depfa, not Anglo Irish Bank. Would you agree with that?

Mr. William Beausang: Sorry, could you repeat the question, Deputy?

Deputy Pearse Doherty: There was a ... the preoccupation that was taking place, a lot of concern or consideration was being placed on Depfa that weekend of the night ... of the weekend of the guarantee.

Mr. William Beausang: Well, because the stresses were international, Depfa came under huge pressure itself and I think the German authorities, I was aware of at the time had approached the Irish authorities wondering, and it's going back to this burden sharing issue, what were the Irish authorities willing to do to help stabilise Depfa.

Deputy Pearse Doherty: Okay, in the core books on page 126 up to 128, there is a note there and it's from yourself, Mr. Beausang to the Tánaiste: Briefing on banking sector issues - 24 April 2008.

Mr. William Beausang: Sorry, is that the DOF core documents or is it just the-----

Deputy Pearse Doherty: No, it's your documents.

Mr. William Beausang: I'm sorry, could you give me the page again?

Deputy Pearse Doherty: It's page 126. That ... the briefing note to the Tánaiste on 24 April - banking sector issues - 24 April 2008, that would be the Tánaiste, Brian Cowen, at the time, would that be, would that-----

Mr. William Beausang: He was the Tánaiste at the time, yes.

Deputy Pearse Doherty: And this coincides with his private dinner that he had with the board of Anglo at a venue in St. Stephen's Green. Is this what this briefing paper was ... was prepared for?

Mr. William Beausang: Certainly as you can see from the underlined text at the top, "If the banking sector representatives have any suggestions on how to address the current funding difficulties". I know from, from ... I understood that that was a meeting with a broader group of banking sector representatives, rather than specifically with Anglo. But I understood Anglo, that representatives from Anglo were at that meeting.

Deputy Pearse Doherty: On page 116, there is an e-mail a number of months later in from yourself and it says: "The recent note prepared for [the Tánaiste] meeting with some bankers might provide a good basis for [it]" and this is the note that you are referring to.

Mr. William Beausang: Yes, yes.

Deputy Pearse Doherty: The note talks about the NTMA placing deposits with most of the main financial institutions and it says, "They are keeping this under review and will liaise with the Department and the [Central Bank]/Financial Regulator as necessary." You will be aware that there was a statement made by one of the Anglo senior bankers that a suggestion was made at that event that there was a request made for the NTMA to put deposits into Anglo. Were you ever made aware of any type of suggestion that the NTMA would be requested or was there ever any consideration that they would put money, put deposits on, place deposits with Anglo?

Mr. William Beausang: I mean at the time, broadly what was reflected back, I mean, from colleagues in the Central Bank was that the ... in other jurisdictions, the placing of deposits by their, the equivalent of their NTMA you know, was demonstrating that there was confidence in the institutions that those deposits were placed. So ... and it was something that the ... Kevin Cardiff was closer to and is more directly involved in terms of talking to the NTMA and the Minister at the time. But there was a move to seek to demonstrate confidence in the institutions, to demonstrate confidence in the institutions, all of the institutions, by ensuring that the NTMA placed deposits with those institutions but I'm not really *au fait* with the details.

Chairman: I'll be with you now, Deputy, in a moment, okay?

Deputy Pearse Doherty: Sorry, I'm not asking broadly. Obviously, the note that you prepared for the ... for the Tánaiste for that meeting deals with the fact that the NTMA were keeping this under review and they had, as you say, placed deposits with most of the main financial institutions. The question is: were you aware, or did you become aware through any forum, of a request to the NTMA to place deposits specifically with Anglo?

Mr. William Beausang: I don't know specifically whether ... I ... that specific placed deposit with Anglo was something that I recall from the time. I mean, because the intention was to demonstrate confidence in all of the institutions, Anglo would have been part of that, so there wouldn't have been ... you know, obviously placing deposits with BOI and AIB and not placing them with Anglo and INBS-----

Deputy Pearse Doherty: Was this something you discussed, for example? Was that discussion taking place, that maybe there should be deposits placed with Anglo?

Mr. William Beausang: Certainly ... well ... no. I mean, at the DSG it was more around ... that the NTMA should demonstrate confidence in the domestic financial institutions by either putting deposits with them - with all of the institutions - or at least not taking them away if that was the issue that was seen to be-----

Deputy Pearse Doherty: I'm sorry, and was that reflected to the NTMA? Like, is that not basically the same thing as saying ... if you're saying that the deposits should be placed with the institutions to give confidence to them, is that not the same thing, i.e. "The only institution that you aren't placing deposits with is Anglo so, therefore, we think that you should". Is it not just saying the same thing by a different means?

Mr. William Beausang: Well, it is ... it certainly is ... it is an interpretation. That ... you know, that is another interpretation of what was being said.

Chairman: Was it a correct interpretation, Mr. Beausang?

Mr. William Beausang: Well ... I ... see there was an awareness that the ... that the NTMA ... that the ... that the institutions that NTMA was or wasn't placing deposits with was creating a differentiation. I mean ... and that's my ... my knowledge or my awareness from a ... kind of, a ... from a ... at a bit of a remove because it was something that, as I said, was dealt with by another official in the Department at the time. I wasn't directly involved in those discussions or the ... decision making, or indeed, I mean, directions ultimately issued from the Minister for Finance, I think, to the NTMA to place ... to place deposits because that was the only basis the NTMA would ultimately place them, I understand.

Chairman: All right, we may revisit this again, I just want to go over a couple of matters and then I'm going to propose that we take a bit of a break. I just want to bring one document up on screen there, Mr. Beausang, and it's just to establish the authorship of it. It's in the core document, it's on page 9 and it's coming up on the screen now with the headline "CONFIDENTIAL - Financial Stability Issues - Scoping Paper". Who wrote that?

Mr. William Beausang: That was a piece of work that was done collaboratively in the team that Kevin has ... within the team that Kevin has spoken about.

Chairman: Okay, so who is the principal author or who's the head of this document?

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Mr. William Beausang: Well ... the official who held the pen on the document I can communicate ... she was a junior official, a relatively junior official at the time-----

Chairman: I'm not asking for the typist, I'm asking for the person who actually authored the ... kind of, the intellectual capital that's inside in this paper.

Mr. William Beausang: Well, no, I mean, that's a collective thing among all of the team.

Chairman: What team?

Mr. William Beausang: Pardon?

Chairman: What team?

Mr. William Beausang: Well ... the ... the-----

Chairman: Was it a domestic standing group, the Department of Finance?

Mr. William Beausang: -----the secret team that Kevin has referred to.

Chairman: This is the Johnny Logan group is it?

Mr. William Beausang: What's this?

Chairman: The Johnny Logan group - who is this ... what teams ... we have-----

Senator Susan O'Keefe: Chairman, can I clarify?

Chairman: Yes.

Senator Susan O'Keefe: On page 10 of your own statement you say, "In September 2007 I initiated work on a detailed scoping paper on financial stability which was formally furnished ... in February 2008" and you say "[TAB Z]" and that is TAB Z.

Mr. William Beausang: That is the document, yes.

Chairman: This is it, is it?

Senator Susan O'Keefe: That's what he's talking about.

Mr. William Beausang: Yes. But I referenced that in my own statement.

Senator Susan O'Keefe: Yes, that's what he's talking about. So, you initiated it.

Mr. William Beausang: It was initiated actually ... I might ... I should correct my written evidence because I think it refers to that work being initiated in September, but colleagues in the banking inquiry unit in the Department of Finance have indicated that the work probably started in July. I got the paper, or the first full version of the paper, or the first draft of the paper, arrived with me in November.

Chairman: Okay, who was the audience for this document? Who presented it and who was it presented to?

Mr. William Beausang: It was ... it was first ... the first draft was discussed at the DSG - at the domestic standing group - on 7 November, 2007 and a further version was circulated on 28 November, together with the legal issues that we'd identified from the discussion at that meet-

ing, on 7 November. And that next version was discussed on ... at the DSG on 3 December. We received the formal written observations from the Central Bank on the scoping paper on 10 January and we ... I think the version of the paper that you have there was the final version circulated to the DSG on 28 January.

Chairman: Right, thank you. Okay, I just want to move on to a couple of questions there, so if I can get the first one up there, which is this. I'd like ... it just comes back to your own witness statement on page 1 of it, Mr. Beausang, and to ask you as to what extent was Irish financial regulation policy geared towards development of the IFSC? And do you believe this, in any way, compromised the regulation that would otherwise have been put in place in respect of domestic banks?

Mr. William Beausang: Certainly, at the time, I wouldn't have seen a very strong linkage between what was being done for the IFSC or the regulation in the IFSC, and the impact on the domestic financial institutions, but I know in my preparation for the inquiry I came across that reference in the Honohan report, I think, to the fact that sectoral concentration limits were loosened for domestic financial institutions, because they weren't going to be enforced for the IFSC on competition grounds. So clearly, that's evidence of a situation where there was a, sort of, a backwash from the IFSC into the domestic financial institutions. But I mean, candidly, the domestic financial institutions wouldn't really have been on the radar in terms of the developmental agenda for financial services in Ireland at the time. The focus was very much on the international institutions, some of which, of course, were some of the domestic institutions, providing services on a cross-border basis from the ... out of the IFSC.

Chairman: Okay. There has been some discussion with other witnesses before this committee that because of the development of the IFSC, that ... and the particular type of financial product that they brought with them, and you mentioned then the sectoral concentration limits as being one of them, was there a, kind of ... I'm coming back to Senator D'Arcy's question earlier, that we had the principle-based regulation on a global level, but we seemed to, in Ireland, to have maybe applied it differently or had a different interpretation of it, or how it was actually seen to have been modelled in a different way. By your view, and by what you now know, do you believe that the IFSC had any impact, or other, in determining how principles-based regulation was operated in Ireland in the wider financial-----

Mr. William Beausang: I think, referring back to the UK parliamentary committee report on-----

Chairman: I'm looking for your view. The UK can have their own investigation.

Mr. William Beausang: Well, I suppose the information that's relevant from that report, informing my view, is the, kind of, difficulties that they encountered in the UK with the regulatory approach, with the principles-based regulatory approach, that the FSA adopted, were ... seemed to have been exactly the same as those that we've seen here in Ireland.

Chairman: And that's what you're seeing in the UK, but we're having an Irish inquiry here and I want to get Irish testimony, so can I ask you for your view?

Mr. William Beausang: My view would be that the fact that, or the requirement to have a robust and effective regulatory regime, and to be able to demonstrate that internationally, would be very important to the credibility and the reputation of the IFSC. So, if there were concerns that too loose an approach was being taken, or too flexible approach was being taken in the

IFSC, that would move the IFSC in the direction of being an offshore financial centre rather than an on-shore properly regulated financial centre-----

Chairman: I'll just ... I'll summarise the question once more, like, the ... in what one considered proposition was, to invite businesses into the Irish financial services centre on the quays, obviously a retail window had to be put out to get them into the country, and that the ... one of the considerations, it's even touched upon in the Honohan report, is that that had an impact upon the broader regulation of the existing financial services in the country, and that, if you take an approach that ... you can't approach ... take an approach to one sector over another, you have to take the approach on a broad basis, and the dynamic that that created, created a broad brush approach.

Mr. William Beausang: Okay. The competition issues are certainly ... were very significant, not just looking at the IFSC, but looking at the UK, broadly UK institutions that were providing retail financial services into the domestic banking market, that level playing field issue was certainly influential, and was a concern where the Financial Regulator was talking about, or was considering taking particular steps, they'd say, "Well, the problem that might arise here is that banks will no longer be subsidiaries, and they'll branch in and provide those services and no longer be regulated by ourselves."

Chairman: Okay. I want to move on there to another issue, and that is to deal with the financial stability issue and the scoping paper citing, this comes back to Department of Finance, Vol. 2, page 113 to 120.

The specific page I am talking about is going to come up on screen now. It talks about, if you look at the second paragraph there going down on the page. It says this memo sets out ... the memo is actually a memorandum from Merrill Lynch, Sunday 28 September:

This memo sets out the strategic options available on the Government. There is no right or wrong answer and the situation is very fluid with financial institutions experiencing difficulty and being supported by governments on a daily basis. Preserving flexibility is key and the solution may be different for each institution. The important issue is for the Government to preserve the stability of the Irish financial system overall and to safeguard the interests of individual bank customers to avoid widespread panic. That said, there is a limit on the financial resources available to the Government and there may be a need to preserve fire-power as events unfold. The implications for each option in terms of whatever constitutes State Aid also needs to be carefully considered.

Could I ask you what discussions took place that you were a party to on this potential systemic risk?

Mr. William Beausang: Well, I mean, as set out in my written statement, I mean, I would have been involved in a number of discussions, kind of, around the discussions throughout September 2008 and looking at different options, different approaches to deal with what seemed to be coming to a head in terms of liquidity pressures on the domestic financial institutions.

Chairman: And how informed were you of systemic risk at that time?

Mr. William Beausang: At the time it was clear ... post-Lehman's it was absolutely evident that we moved from a situation ... definitively, from a situation where you were talking about maybe individual institutions to looking at the stability of the system as a whole. That was, I suppose, a clear break if you look at pre and post-Lehman's, the whole sector, the whole system

was vulnerable and at risk. And a solution ... resolutions to these difficulties needed to take into account the whole of the domestic financial institution, rather than looking at any individual institution in isolation.

Chairman: Okay. In terms of weighing these, sort of, many, many difficulties and problems that were obviously being encountered by people who were party to trying to come up with some solution or strategy to deal with this, the issue of systemic risk, how heavily would that weigh against the other difficulties that you would have had such as liquidity and so on and so forth?

Mr. William Beausang: Systemic risk, I think, would have been paramount. If the banking system as a whole collapses, obviously that's calamitous.

Chairman: Okay. So in that regard, if I can maybe move on to the next question. In section 5.9 of your statement you state that your area of the Department of Finance had no role or mandate in assessing the efficiency of financial supervision on overseeing systemic risk. So who then was responsible for overseeing this important area?

Mr. William Beausang: That's the distinction that I talked about earlier, Chairman, about the role of the Department in planning for the resolution with possible Government intervention to systemic crises and the role of the Central Bank in being responsible for the maintenance of financial stability. So it's that distinction between the role of Central Bank and its macro-prudential responsibilities and tools and the role of the Department in ... where situations developed to a point that Government intervention is necessary and being ready to advise Government on what steps might be appropriate.

Chairman: All right. If I can go then to page 3 of your statement, it's the very bottom of the page 5.9 and you say:

Under the legislation or in terms of the accountability framework, my area had no role or mandate in assessing the efficacy of financial supervision or in overseeing systemic stability. We were, however, cognisant of a broad range of factors which appeared to provide substantial assurance over that period that the supervisory and prudential system was operating effectively.

On the next page you go through a lot of the stuff that you have cognisance of and so on. Given that systemic risk, by your own testimony here this afternoon, was the biggest of all the issues in the room in the approach to the guarantee and given by your own admission in your statement here that you had no responsibility for systemic risk, how would you care to comment upon that now?

Mr. William Beausang: Well, I think that it's clear that we had moved to a point where Government intervention was almost inevitable so in that situation the Ministry of Finance - the Department of Finance and the Minister for Finance - obviously takes on a central and a core role.

Chairman: But what I ... what I'm maybe trying to tease out with you, Mr. Beausang is ... and I'll repeat the question again, is that the biggest issue in the ... in the discussion approaching the eve of the guarantee was the risk of systemic-----

Mr. William Beausang: Yes.

Chairman: -----difficulties, that this would run right through banks, and, in your own statement, saying that you were the senior official in the Department of Finance, assistant secretary, who had the responsibility for banking, finance and the international division of the Department of Finance, but you ... you were cognisant of it but you didn't have any lead role in that area. On examining that now, and bearing in mind that this inquiry is about not just the past but the future and avoiding mistakes of the past and ... and other judgments, was that structurally ... was that structure, as it was laid out then, the best structure that could have been arrived at?

Mr. William Beusang: Well, that's one of the major recommendations that arose, let's say, or that were implemented at ... at European level, post-crisis, to put in place a structure with responsibility for looking at all of the risks contributing to ... at the macroeconomic and at the macro ... at the level of macro-financial stability so that was ... I suppose the point that I was making earlier was that if the DSG had been in place at an earlier point, it would have provided the opportunity maybe for a better pulling together of an assessment of those risks because what you would have started to do in that situation is bring together the people from the financial stability area in the bank, the macroeconomic forecasters in the Department of Finance and that you would have created at least an opportunity for more of a teasing out for the whole spectrum of risks facing the economy and the financial system at the time. As it was, because the DSG was established in July 2007, by the time it actually started its work, it was already in sort of crisis mode in reporting on developments in the financial system.

Chairman: Okay. But did you not see that weakness at the time, given that you were cognisant of all these difficulties but you say you had no power to act upon them?

Mr. William Beusang: Well, you see ... sorry to cut across you, the tools to address the financial stability risks were tools held by the Central Bank and the Financial Regulator.

Chairman: Yes, which you had given to in legislation in 2003.

Mr. William Beusang: Pardon?

Chairman: Which ... or, sorry, not you, but which the Department of Finance, through the Minister-----

Mr. William Beusang: Had had some, yes.

Chairman: -----had given to those agencies. Like, they didn't appropriate them themselves, they were given by this House.

Mr. William Beusang: But they would have been traditional ... I mean, they were tools, those macro-prudential tools in terms of direct restrictions on credit or restrictions on LTV ... on LTVs. They would have kind of fallen out of fashion in terms of what regulators or supervisors did internationally, apart from a few notable exceptions, so that wasn't part of what ... for good or for ill, what banking supervisors or central banks did in the period running up to the crash. But that certainly was what was missing in terms of trying to pre-empt the difficulties that ultimately crystallised with the ... with the events of September 2008.

Chairman: But falling out of fashion is distinctly different from not being available on the legislative framework. The legislation was still there to do something. It may not have been fashionable, but the legislation was still there to do something.

Mr. William Beusang: They had all the tools, and I think they've made that clear, to take

steps but they ... well, and, sorry, it's important to make the point because ... in terms of research that I was doing, I mean, there was a number of measures taken by the Financial Regulator which, from my perspective, appeared to be proportionate to the risks that were emerging. They introduced ... the introduction of higher capital weightings on high LTV mortgages, the higher capital weightings on speculative property lending, so there was a number of measures they took and new liquidity ... new liquidity rules, so it wasn't that, from the outside, that they looked hugely passive. They were taking steps to respond to the issues that seemed to be there but, I mean, as we all know at this stage, those steps were inadequate relative to the scale of the risks that were there.

Chairman: Okay, thank you very much, Mr. Beausang. I'm now proposing that we would take a short break. It's just coming up to ten to six and I propose that we will break until just maybe ten minutes after 6 p.m., punctually. With that said, I would now say that the witness ... that the witness ... that the witness is reminded that once he begins giving evidence, he should not confer with any person other than his legal team in relation to his evidence or matters that have been discussed before this committee. With that in mind, I now suspend the meeting until 18:10 and remind the witness that he is still under oath until we resume; is that agreed?

Sitting suspended at 6 p.m. and resumed at 6.21 p.m.

Chairman: Ready to go, yes? Okay, with that said, I now propose that we go back into public session. Is that agreed? And if I can invite Deputy Kieran O'Donnell. Deputy, you've ten minutes.

Deputy Kieran O'Donnell: Chairman. Mr. Beausang, in retrospect are you satisfied that communication between the members of the DSG group, domestic standing group, was maximised during the period of the crisis? What areas, if any, were ineffective in the lead-up and during the crisis itself? And I just want to refer to page 9 in your statement where you say, in paragraph 12.6, "Ultimately in the course of 2008, the formal DSG structure fell into abeyance, replaced by frequent informal *ad-hoc* contacts". So the question I'm asking is: in retrospect, why did it fall into abeyance? And were the communication lines between the members of the group maximised to the maximum effect of the Irish taxpayer?

Mr. William Beausang: Well, Deputy, it was always envisaged - and it was reflected in the papers leading up to the establishment of the DSG - that when a crisis hit, that obviously that would be managed at top level. So that's what transpired. I mean, the principals, you know, that's the Secretary General, the Governor, the Financial Regulator, were obviously operating under DSG rules in terms of the disclosure of information. But, I mean, the DSG was, in practice, never more than a ... a structure to facilitate information flow and information exchange between the authorities. And I think it was very, you know, it was effective in that respect in the regard that the Minister and Government were updated on the information on financial market conditions that the Central Bank and the Financial Regulator provided, which, as I mentioned earlier, might have been a difficulty if no structure was in place or, indeed, if there wasn't an MOU to deal with the ... the confidentiality issue, the stringent confidentiality issue ... stringent restrictions on information exchange that would otherwise operate. I suppose, as I've reflected in my witness statement, where it ... where it fell down was in that broader role that DSGs are intended to discharge around agreeing a kind of consensus view on how financial stability crises should be dealt with and the planning and the approach that should be adopted. And the scoping paper that we were talking about before the break was an attempt to try to create an agreed model or a greater level of consensus about how we would deal with the issues that were unfolding in the financial system. But, as I set out ... as I summarise and for the reasons I set out

in the paper, that didn't come to pass. The ... and ultimately the DSG structure was overtaken by the speed of events.

Deputy Kieran O'Donnell: And did you consider resolution mechanism legislation for banks?

Mr. William Beausang: Well, I think it was through the DSG structure that that issue was first raised, and the Central Bank put it ... you know, raised the issue because ... I mean, it was collectively raised around looking at the existing legal mechanisms under company law to resolve a bank and how unsatisfactory or how, you know-----

Deputy Kieran O'Donnell: Did they proceed?

Mr. William Beausang: They didn't proceed for the reasons that I outlined earlier on, that the ... there was no ... there was no template internationally that we could draw on at that time and for the other reasons that I outlined earlier, that the-----

Deputy Kieran O'Donnell: That's fine, Mr. Beausang. Mr. Beausang, can I go to page 14 of your statement and just take up ... paragraph 18.7, the e-mail records where you received a document intended to be a draft of the Government press state ... press release. This took place ... you got it nearly six hours before the guarantee was put in place. Where did this originate from, this particular press statement, the draft press statement?

Mr. William Beausang: Well, I understand, from looking at the document, that it was authored in the Central Bank earlier on that evening.

Deputy Kieran O'Donnell: Who was the individual that sent you the e-mail?

Mr. William Beausang: Well, the e-mail was sent by the Secretary General to me.

Deputy Kieran O'Donnell: From ... so from Mr. John Hurley?

Mr. William Beausang: No, sorry, from David Doyle.

Deputy Kieran O'Donnell: From David Doyle to you?

Mr. William Beausang: To me. But he received the e-mail from an official in the Central Bank.

Deputy Kieran O'Donnell: And who ... which official in the Central Bank did he receive it from?

Mr. William Beausang: From a sort of mid-ranking official in the Central Bank, obviously operating on the basis of instructions there.

Deputy Kieran O'Donnell: Do you have the name of the person it was-----

Mr. William Beausang: I have the name. I understand ... I'm not absolutely positive about the name, so I'm just-----

Deputy Kieran O'Donnell: But it was from an official in the Central Bank?

Mr. William Beausang: It was from the official in the ... on behalf of the Central Bank. That's how I was treating it.

NEXUS PHASE

Deputy Kieran O'Donnell: And did you spend 20 minutes, you said you spent 20 minutes on this press statement? Who did you send it back to? You said, "My electronic files ...that I was subsequently involved over the next twenty minutes or so in preparing a revised draft of the statement which set out its intended scope [TAB AN]." So, you received the draft press statement from David Doyle, who had received it from the Central Bank. What were you instructed to do by David Doyle?

Mr. William Beausang: In, with the e-mail, there was never, there was no cover, there was no instruction. It was, he just forwarded it on to me.

Deputy Kieran O'Donnell: But sure, there must have been an instruction, you were-----

Mr. William Beausang: Yes, I presume I was, you know, operating on an instruction to have a statement ready if one was required.

Deputy Kieran O'Donnell: And you spent the next 20 minutes - who did you work on with, the statement?

Mr. William Beausang: My recollection is that I worked with the Minister's press secretary, press officer.

Deputy Kieran O'Donnell: The Minister for Finance's press officer?

Mr. William Beausang: The Minister for Finance press officer, but-----

Deputy Kieran O'Donnell: Who was that at the time?

Mr. William Beausang: That was Eoin Dorgan.

Deputy Kieran O'Donnell: And what did you ... so you spent the next 20 minutes working on it.

Mr. William Beausang: Yes.

Deputy Kieran O'Donnell: Where did that press statement subsequently go?

Mr. William Beausang: Well, as reflected in my earlier discussions with Senator O'Keefe, I'm not sure that that was the guarantee that ultimately ... or the press statement that ultimately-----

Deputy Kieran O'Donnell: No, no, all I want to know is the sequence of events.

Mr. William Beausang: I don't know what happened to it.

Deputy Kieran O'Donnell: But sure, did it stay with Eoin Dorgan, the Government press secretary?

Mr. William Beausang: Well, I assume, because ultimately the statement would have been issued through the GIS, that, you know, the press officer and the GIS would have been involved.

Deputy Kieran O'Donnell: Why would you have been involved in doing ... in working on the press statement on this guarantee?

Mr. William Beausang: Well, on the basis of being ready for whatever decision emerged from the-----

Deputy Kieran O'Donnell: But why you? Why you particularly, would they have come to? Had you a position, were you dealing with this particularly?

Mr. William Beausang: Well, I suppose, in terms of how things were, the sort of disposition of resources on the night, the Secretary General and the second Secretary General were in the meeting and I was the only Department of Finance, other Department of Finance official in centre block, in the Department of the Taoiseach, so-----

Deputy Kieran O'Donnell: So you would have got this from David Doyle, who would have been obviously forwarded this on from him to you, you worked with Eoin Dorgan who was the Minister of Finance's press secretary. Now, these two statements, the draft Government press release, which is document TAB AM, and then TAB AN, which is the revised version, right, there's no great difference in those documents bar you say the first one states that "The Government stressed ... all institutions will continue to operate as normal with their customers on the basis of this guarantee", and the revised one said "All customers should continue to operate as normal". First reason, I know I have a limited time, Chairman, the first thing I want to know, why did that change happen? And secondly, comparing it to the Government press statement, that issued on 30 September, the content of it, outside of maybe changes, it's the same language, it's using, it uses "has decided", uses words like "market turmoil", it uses the "Government to remove any uncertainty", "objective ...[take] decisive action ... to maintain financial stability", "designed to safeguard the Irish financial system".

The key differences are: in terms of the language used, I think, Mr. Beausang, it's very similar, one could state that it's just purely an editing of the, of language that's used, but the document, the press statement you prepared with Eoin Dorgan, is a six-month guarantee purely for deposits. The revised, the Government guarantee deals with ... it covers, in addition it covers covered bonds, senior debt and dated subordinated debt, dated lower tier 2 debt. Also, this was purely for six months but the Government's one is a two-year guarantee from 29 September 2008 to 28 September 2010. So the question, I suppose, I'm asking you is, is that, when was the first occasion that you became aware of this Government press statement, where it stated the six-month guarantee, the one you received from David Doyle? When was the first you would have become aware that this matter was being discussed with the Central Bank?

Mr. William Beausang: Well, I mean, obviously we had a strong awareness that the Central Bank was orientated, or had a disposition-----

Deputy Kieran O'Donnell: No, we've had many witnesses come in and say that there was no decision taken on any guarantee until, until a.m. on 30 September 2008. We here have a draft of a Government guarantee which came to you, that you received from David Doyle, the then general secretary of the Department of Finance, at 11 minutes past nine on the evening of the 29th. The question I want to know is ... which is six months ... which is six hours prior to a guarantee being put in place, that we were told, up to now. When did you first become aware that discussions were taking place with the Central Bank in putting in place what you received as the draft?

Mr. William Beausang: I hope I'm answering your question. I mean, having been present for the first part of that meeting, you know, the Governor, the chairman-----

Deputy Kieran O'Donnell: No, no, I only want ... I'm purely dealing with the press statement you received, the draft press statement you received on 29 ... at 9.00-----

Mr. William Beausang: Okay, well, that was the first I'd seen of a draft ... that's the first I'd seen of that draft. I mean, I-----

Deputy Kieran O'Donnell: Had you seen previous drafts?

Mr. William Beausang: No, I hadn't seen previous drafts.

Deputy Kieran O'Donnell: Had you had discussions with the Central Bank regarding looking at putting a guarantee in place?

Mr. William Beausang: No, no, no. I mean, clearly, from the work that I talk about in my witness statement, there was, you know, consideration of different options for stabilising the financial system but there wasn't any specific discussion-----

Chairman: Deputy, if I can draw your attention to the time, can I ask you to round this off, please, if you can?

Deputy Kieran O'Donnell: Yes, final question. Were discussions taking place with the Central Bank and the Department of Finance about putting a guarantee in place, as in this draft, which was a six-month guarantee, just for deposits - did not cover bondholders? Were discussions taking place prior to the night of the guarantee?

Mr. William Beausang: The best answer I can give to that, Deputy, is that on 25 or 26 September, we incorporated in our legislation a power to provide a guarantee which could be narrow or broad, so there was obviously an acknowledgement or an appreciation or recognition that a guarantee was part of the options that would ultimately have to be considered by Government-----

Deputy Kieran O'Donnell: But is it not fair to say, Mr. Beausang-----

Chairman: Sorry, just ask the question. Don't mind the word "fairness", just ask the question.

Deputy Kieran O'Donnell: Mr. Beausang, from what you've provided us here with the draft press statement, was a guarantee not already decided by Government ... the outline of a guarantee, which was a guarantee for all deposit holders for six months for the six institutions? Was that not already decided by Government?

Mr. William Beausang: No, I wouldn't ... I wouldn't agree that it was.

Deputy Kieran O'Donnell: Okay. Why not?

Mr. William Beausang: Because Government hadn't made a decision.

Deputy Kieran O'Donnell: But you had received ... you had received an e-mail from David Doyle, the then general secretary of the Department of Finance, to work with the Government press secretary for the Minister of Finance, Eoin Dorgan, to come up with a statement.

Mr. William Beausang: Can I just very quickly try to address that question? I suppose, from my perspective ... my personal perspective, having sat in at the start of the meeting, seen the Governor come in, seen the Financial Regulator - the chair of the Financial Regulator and the CEO - and argue very strongly for a guarantee, in my own mind I said, you know, "This is going in a particular direction now". Because you'd be very slow at political level - the Taoiseach and the Minister for Finance - to discount the advice of the appropriate authorities for main-

taining financial stability and the soundness of individual institutions. So, from my perspective, once they made that argument, notwithstanding that there was a lot of discussion subsequently, some of which that I was party to, it seemed to me that the direction of travel on things was set by the advice given by the Central Bank and Financial Regulator.

Deputy Kieran O'Donnell: And did that reflect what was in that draft-----

Chairman: Final question, Deputy.

Deputy Kieran O'Donnell: Final ... did that reflect ... from the discussions you saw with the Governor and the Taoiseach when you were present in the meeting on the night of the guarantee, did that reflect what you had come across?

Chairman: The question has been made, Deputy. Don't be repeating.

Mr. William Beausang: I can't recall - and, certainly, it's not borne out by the handwritten notes - that there was any discussion of the shape of the guarantee at that point in time ... in that initial discussion. There was going to be a guarantee and it was going to be a guarantee for all institutions and broad. That was just what I ... we would refer to as the blanket guarantee. How blanket that would be, would be a matter for the decision-----

Deputy Kieran O'Donnell: So there was a blanket guarantee?

Chairman: Deputy, Deputy, no, please, I ...

Deputy Kieran O'Donnell: This is very quick. There was a blanket guarantee-----

Chairman: Sorry, Deputy-----

Deputy Kieran O'Donnell: Very quickly, Chairman ... it's only one-----

Chairman: Excuse me. Can you just ... if ... you're going into an area of repetition where asking a question two or three times over. Unless the question is a new question, I'm moving on.

Deputy Kieran O'Donnell: Was a blanket guarantee in place when this draft ... was a blanket guarantee, had it been decided upon when this draft-----

Mr. William Beausang: No.

Deputy Kieran O'Donnell: -----guarantee ... statement was drafted?

Mr. William Beausang: No.

Chairman: Sorry, can I just put a bit of shape on this? Because we can all understand that the purpose of that meeting that night was to send a very clear signal to the market and it would be very, very understandable that that statement would be a work in draft right through the evening, so that as soon as the decision was made, it would be issued. I mean, we know that from other testimonies from people we've come in. Who gave you the instruction to write the draft?

Mr. William Beausang: Well, I didn't write the draft. I received the draft from the Secretary General.

Chairman: Okay.

Mr. William Beausang: And I have no clear recollection on what ... you know, I mean, the press officer was there. I was the only person outside of the room. So, as you ... as you've just said yourself, Chairman, the issue would be to have a statement ready, if one was required when ultimately a decision was taken.

Chairman: Okay, so when you received a draft, were you told, "Work on this or hang onto this, we'll be back for the time for the revised version of it later", or were you told that "this is the shape of it and we might just finesse it later"? Like, in what context was it presented to you?

Mr. William Beausang: Well, you can see from the work that I did on it that the issue that arose was ... you can see it in terms of the footnote and the text, "confirm scope". So there was an issue around ... here's the draft coming through and then well, what is actually ... what actually might fall under the scope of the guarantee here-----

Chairman: Okay-----

Mr. William Beausang: -----and that's what is reflected in the footnote and the reference to the scope of the guarantee, you know, that's set out at footnote 1.

Chairman: Okay. But the broad construction of that was laid out to you at 9 o'clock in the evening? That's when you had the first copy of it.

Mr. William Beausang: Well, it is a matter of fact that I was working so long as the technology is telling the truth that I was working on that draft at that time, making that change where I was referencing "the scope of the guarantee has been out below". But I would be very clear that no decision had been taken at that time. But that was the guarantee option being scoped out in a draft press release in a contingency basis.

Chairman: All right, thank you. Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman. The Department of Finance and the DSG and the Financial Regulator and the Central Bank, they failed to anticipate the crisis that was just around the corner. Why do you think that happened?

Mr. William Beausang: Well, I have talked previously maybe around ... and I didn't see his evidence myself this morning but I understand John McCarthy referred to the boy who cried wolf. You know, this adage that economists have, you know, forecast eight out of the last five recessions. The credibility of the Department in making such a significant call ... I think that the confidence and the credibility of the Department in doing that was lacking, notwithstanding that, as you know from other evidence, that the case was made that there were risks and that they were increasing risks and they should be influencing the conduct of fiscal policy and budgetary policy generally in the period running up to the crisis.

Senator Sean D. Barrett: Because those listening in are wondering about the €64 billion. Do you regret that this expert group couldn't see that the taxpayer was going to be paying this huge bill?

Chairman: I think it's leading now, Deputy, just ask the question rather than-----

Mr. William Beausang: I think it's clear that, you know, everybody regrets the extent to which there was the, kind of, failure that it well documented in the Honohan report and the Nyberg report and the Regling and Watson report among the public authorities.

Senator Sean D. Barrett: Just, thank you. Can I bring you to page 9, 13.1: “A presentation made to the MAC in DOF dated 31 March 2008 on resolution issues, stated that a special insolvency regime for banks could not be achieved quickly.” Who made that presentation?

Mr. William Beausang: I’m not clear having reviewed the paper trail ... whether that presentation was ever actually delivered as opposed to a PowerPoint presentation being circulated. I just can’t recall at this elapse of time.

Senator Sean D. Barrett: Because we did have evidence earlier that the OECD had prepared, in 2008, a section of their report on Ireland which dealt with ways you could have resolution there, but the Department took it out of the eventual report. So there was some material on resolution regimes that the OECD had provided at that time.

Mr. William Beausang: I assume, Senator, that what the OECD had recommended that we put one in place, but whether they had provided us with any information, analysis, assessment, that would assist us in doing so, I’m not so sure that that would have been the case.

Senator Sean D. Barrett: Could I bring you to 13.6 on the same page? The section ... the last sentence: “Substantial legal risks would have arose in seeking to undertake a bank resolution when the board, senior management and shareholders of that institution would vigorously assert that the institution was fundamentally sound”. Wasn’t that the wrong brief to put to the Attorney General? It was that all the people you mentioned - the board, the senior managers and the management - were asking the Government for a rescue. The hypothesis in the sentence is that, I don’t know, a bunch of Marxists were trying to nationalise banks, but, in fact, it was the people in them were looking for us to bail them out for the €64 billion.

Chairman: I’d tone down the rhetoric there now and the speechifying and ask a question, okay?

Senator Sean D. Barrett: Thank you, yes.

Mr. William Beausang: I mean, I suppose the issue that I’m getting at there is that in a situation ... you see, if you look at the resolution Act from 2011, that gives the Governor the power to pull the trigger on a resolution action. Now, considering that in September 2008, the CBFSAI was saying that these institutions were, in fact, fundamentally sound, the scope to then implement a resolution action, which would diminish shareholder value or impact on the ... well, diminish shareholder value and, essentially, seek to, or start a process to, break up a bank, to bring it to a point where it could be orderly wound ... or liquidated, would not be something that I’m sure that existing bank board, senior management or, indeed, shareholders would have favoured, and would have, presumably, strongly resisted.

Senator Sean D. Barrett: Well, then, we wouldn’t have had to rescue them and you’d save the €64 billion. Could I bring you to 16.2: “The DOF did not have any legal mandate to undertake its own analysis of the banks’ financial position”. Does the Department of Finance not have a financial stability mandate and, in fact, doesn’t the Department of Finance, as the custodian of the public purse, commission research on pretty well everything?

Mr. William Beausang: Yes, well, I mean ... I will refer you to the speech given by the deputy governor of the Central Bank in February 2012, where he’s making the point very strongly in talking about the use of macro-prudential policy and the important role that it needs to play in the future. He says macro-prudential policy makers must enjoy independence because every now and again macro ... there’ll be a requirement to constrain the economy during a boom,

which obviously should have happened, and there would undoubtedly be strong pressure from financial institutions and from the political system, more generally, not to go down that road. So, I mean he made a very strong argument that for as much as central banks, you know, in moving forward on monetary policy there's a need for independence, the same independence has to apply for macro-prudential policymakers.

Chairman: Mr. Beausang, that wasn't the question you were asked. The question was about the Department of Finance and its role in regard to making interventions and being custodians in public purse. The deputy governor of the Central Bank made a speech in 2012 but that's not relevant to the question that the Senator asked you.

Mr. William Beausang: But what we did then in September 2008 was commission work in an attempt to determine what the risk to the public purse might be, albeit at a very late stage, in bringing in Merrill Lynch and bringing in PwC to undertake some kind of a review of asset quality in the institutions because I'm sure it was clear at that stage that market confidence in particular institutions was ... the market sentiment in relation to particular institutions was very negative, reflecting a concern around asset quality. Now, as borne out, the results of what were very top-down-type exercises - stress tests carried out at the time - there was no indication that there were major capital losses in the offing. And that was confirmed I suppose by the PwC work done in the autumn, notwithstanding that they were applying loan-loss rates that were higher than analysts were saying at the time, which is I suppose isn't surprising given that you have to factor into account the subsequent declines in prices that happened post-September 2008, which obviously impacted very significantly on the value of assets in the institutions, in the covered institutions.

Senator Sean D. Barrett: And is the Department of Finance more free to undertake research now than it was-----

Mr. William Beausang: As you know from talking to other witnesses, there's been a transformation in terms of the resources available to the Department. The transfer ... I mean, a post-guarantee designated banking unit was set up in the NTMA with banking experts to work as part of the public response, or the Government's response, to the crisis and that unit was, ultimately, transferred in the Department of Finance to provide the Department of Finance with the expertise that it needed. But that was an expertise that we certainly did not have in the period running up to September 2008.

Senator Sean D. Barrett: Finally, on 2.1: "On my appointment, [I think that was in 2005] I was not advised by Mr O'Gorman or Mr Considine of any substantive concerns regarding the CBFSAI structure." There's a substantial amount of evidence that the bulk of the damage was done by 2005, but you weren't advised that there was any awareness in the Department of how much of the problems to assert themselves in 2008 had already happened before then?

Mr. William Beausang: Well that ... what that .. what that statement is meant to refer to is the ... the structure, the CBFSAI structure, the hybrid structure, rather than any concern around the ... the position of individual institutions and the banking system as a whole, so that's ... the concerns that I'm talking about is ... the argument being made, that there was something, that there was a kind of a structural flaw in the CBFSAI model that had a significant role in the crisis.

Senator Sean D. Barrett: It said that it did not detect a 25% per annum increase in credit.

Mr. William Beausang: Well, I mean, the ... obviously that information was in the public

domain, was available to anybody at the time.

Senator Sean D. Barrett: Sectoral concentration was also in the public domain, isn't that right? It was published by the bank and by the Central Statistics Office, so the Department of Finance should have been aware of sectoral concentration, in the construction industry in particular.

Mr. William Beausang: Well, I'm not sure that the level of information that was in the public domain was the type of information that was of the quality, or, was of the nature, that shed a, kind of, a strong light on that problem.

Senator Sean D. Barrett: A deleted section of the OECD report that we discussed this morning had that 60% of Irish bank lending was in construction, and 40% in the UK, so that we were out of line. Thanks Chairman, thank you, Mr. Beausang.

Chairman: Okay, thank you. Deputy Joe Higgins. Deputy, ten minutes.

Deputy Joe Higgins: Mr. Beausang, what time did you get to Government Buildings on the night when the guarantee started ... the process started?

Mr. William Beausang: I'm afraid, Deputy, that my sense of time around that evening is ... I was there at the start of the meeting, so whatever time that was. I was brought over and the meeting was started more or less immediately.

Deputy Joe Higgins: A few hours before 9 o'clock, or something like that?

Mr. William Beausang: Well, I understand that's the time that the meeting is believed to have started.

Deputy Joe Higgins: Yes. Do you remember what time you left Government Buildings?

Mr. William Beausang: It was 3 or 4 o'clock in the morning.

Deputy Joe Higgins: In the morning. Do you know of any connection between your ... the press statement that you were working on and the later press statement that Mr. Cardiff says he was working on, which he believes originated ... well a ... on the guarantee that originated with the banks?

Mr. William Beausang: I suppose hearing Mr. Cardiff's evidence, that's informed my view that the statement that I'll describe as the Central Bank guarantee statement, wasn't the only draft statement that was in circulation that evening.

Deputy Joe Higgins: Did you see any other draft?

Mr. William Beausang: I have a recollection of another document ... just a recollection of another document being in circulation that evening.

Deputy Joe Higgins: Do you remember where that might have come from?

Mr. William Beausang: I don't remember where it came from. I mean, the reason why it's stuck in my mind was that the ... you know, as I describe it, that the font wasn't an in-house ... it was a different font to what you would see in documentation normally in, you know, in the Department.

Deputy Joe Higgins: Yes. Do you remember what was on that document?

Mr. William Beausang: No, not in specific terms. But, I mean, my impression is that whatever was in that document was informing the drafting of the statement that I was working on, because the ... when you look at that footnote at the bottom of the draft Government press release, the document I circulated with my written evidence, it's got a level of detail that, you know, wouldn't have been available to me at that point in time in talking about long-term bonds, other than bonds constituting tier 1 capital, so I was drawing on some other information. I don't remember talking to anybody other than the press officer, so, that information could ... may well have been drawn from the draft ... the other draft that was in circulation that evening.

Deputy Joe Higgins: But, would you not remember, Mr. Beausang, if you were sitting down, and you're working on an e-mail that was sent by the general secretary, would you not remember that you had to have another document beside you, that you were bringing stuff from it into your-----

Mr. William Beausang: Not with the passage of time, I'm afraid.

Deputy Joe Higgins: Okay. And you ... did you discuss, subsequently, with Mr. Cardiff, about the two drafts, or forms of guarantee, etc.?

Mr. William Beausang: I recall asking him, maybe, once or twice, subsequently, you know, did he recall that other document. But I never got a sense that I got a ... you know, it was never resolved for me in terms of what he said back to me because I always had that recollection that that document was there and, I suppose it was on my mind a bit in reflecting back on the events of the night. So, I remember putting that to him on one or two occasions but not bottoming it out in the way that his evidence has done subsequently.

Deputy Joe Higgins: Yes I am sure the night was a night of confusion and pressure but isn't it really bizarre in a way, Mr. Beausang, do you think that, to an ordinary person out there, that we have a document that is mentioned in the bank's minutes, Mr. Cardiff believes he worked on this document, you think you may have had this or another document that you worked on, but nobody can pinpoint where the heck this document is or where it went to?

Mr. William Beausang: Just in terms of the sequence of events, it wouldn't have been unusual, I was there outside of the room, there was a draft statement being prepared on contingency basis, I was working on it, the press officer I won't say took over, but the meeting concluded and I think Kevin Cardiff has stated in his evidence, he was asked by the Taoiseach to prepare a statement based on the statement circulated to the meeting. He proceeded on that basis.

Deputy Joe Higgins: It must be the most wanted missing document in Irish banking history but we'll have to leave it there for the moment. I just want to move on quickly, Mr. Beausang, to your core evidence page 13. You don't really need to bother looking at it. It is in relation to an institution that is insolvent or approaching insolvency. This document which was referred to earlier, a brief to the domestic standing group ... financial stability issues scoping paper rather. "If a period of liquidity continues it is likely that an [illiquid] institution will move closer to insolvency." And then later, "it becomes insolvent because of its illiquidity". Given the liquidity problems that were becoming evident in financial institutions in 2008, were there mechanisms that you identified or employed to try to identify if financial institutions were becoming insolvent, in danger of becoming insolvent at that time?

Mr. William Beausang: I suppose that was the basis of, or one of the reasons why we pre-

pared the scoping paper, to try to develop an approach where there would be more up-to-date or more relevant information available to the authorities at the point that intervention might need to be taken. I think in that document itself or the presentation that followed on from that, we made the point that it was important that the CBFSAI had the information and tools to make the type of assessment that was needed at short notice, to advise Government on what resolution action should be taken. And the response from the Central Bank was that in a rapidly changing and a rapidly evolving crisis situation, the information that they'd have would be not necessarily up to date or current or relevant, so they pushed back on the idea that there was some sort of core database that might be available to the authorities to assess these issues as final decision making had to be made.

Deputy Joe Higgins: Mr. Beausang in your diary which as you know for several months in 2008 was a subject of a freedom of information, on 28 May and 21 August, you had a meeting which is entitled "Solvency II COM". What does that refer to?

Mr. William Beausang: That was the equivalent of the capital requirements directive for the insurance sector, so it was an EU directive unrelated to the banks. It was trying to put in place a similar risk-based approach to the determination of insurance sector regulation. So it is not related to the terms of reference of this inquiry.

Deputy Joe Higgins: The Central Bank is not allowed to make any emergency liquidity assistance to an institution that is insolvent right. So therefore on the night of the guarantee, it would have been absolutely vital for an institution's interest that it was not insolvent if it was to benefit from, would that be fair? I am making a statement but it is a question.

Mr. William Beausang: That is a fair statement.

Deputy Joe Higgins: But then, Mr. Beausang, you had a meeting on 4 September according to your diary with the chief executive officers of the Bank of Ireland and Allied Irish Banks. Three days later on 7 September they told the Financial Regulator that they believed INBS was insolvent. Did they discuss that with you on 4 September?

Mr. William Beausang: I think ... seeing that in my diary ... I mean, I ... I wouldn't have met with them on my own. Was that a meeting that they had that I attended with the Minister at the time, that there's probably briefing notes for? But, certainly, I didn't have a ... a meeting with them on my own initiative, or without the Minister being present. I'm not-----

Deputy Joe Higgins: Yes, no, it's in your diary but you-----

Mr. William Beausang: But certainly there was no ... at that meeting with the Minister, there's absolutely no ... from my recollection and from my recent review of the note for that meeting, or the briefing for that meeting, that that kind of issue might have ... might have arisen because, I mean, obviously that would have changed the entire dynamic in terms of our preparations and our work throughout September, if those banks were saying that that institution was in that situation.

Deputy Joe Higgins: Yes. Well, they clearly ... we have, in all the evidence that we've presented and it's been presented ... we don't have time now - for time reasons - but, in a minute of the meeting which the Financial Regulator-----

Mr. William Beausang: Yes, I'm ... I'm aware of that-----

Deputy Joe Higgins: You're aware of that?

Mr. William Beusang: -----Deputy, yes.

Deputy Joe Higgins: But then you may also be aware that both Goldman Sachs and Merrill Lynch, and I adduced this evidence this morning with Mr. Cardiff again, in the figures that they gave, on the face of it, showed that INBS was insolvent, its regulatory capital would not cover-----

Chairman: Don't be moving to a conclusion, maybe just ask the question, Deputy.

Deputy Joe Higgins: Right. Well, if ... if you like, we can look very quickly, Chairman, at ... oh dear, it's in ... it's actually in your core documents as well, the Merrill Lynch presentation to the NTMA. What the heck page ... that's ... sorry, that's page 168, Mr. Beusang.

Mr. William Beusang: Of ... of my documents?

Deputy Joe Higgins: Of your document, yes, Vol. 1, your document.

Chairman: Final question now, Deputy.

Deputy Joe Higgins: Yes. On the top, right-hand side, "INBS has €11.7 billion of loans ... Writedowns of 30% - 60% results in an impairment of €3.6bn - €7bn", right? And then the Goldman Sachs, which is in another document, it's said that regulatory capital by INBS was €1.8 billion. I mean, that's ... is that insolvency or not?

Mr. William Beusang: I ... I didn't see this presentation until a later date and, in terms of the Merrill Lynch memorandum, as far as I recall it, it was very clear that all of the ... that their final advice, or the advice on which the Department advised Government, was that all the institutions were solvent. So I can't really comment on-----

Deputy Joe Higgins: You see-----

Mr. William Beusang: -----on the basis to ... the ... the-----

Deputy Joe Higgins: Okay.

Mr. William Beusang: -----presentation in ... that you've drawn my attention to.

Deputy Joe Higgins: Okay. And the very, very last thing, because I really have to ask you this: on page 4 and 5 of your written presentation to us-----

Mr. William Beusang: Could you just tell me the paragraph numbers, Deputy?

Deputy Joe Higgins: The last paragraph, 5.11.

Mr. William Beusang: 5.11.

Deputy Joe Higgins: The Financial ... the very last paragraph, the Financial Regulator "in fact identified the credit union movement as the most significant prudential risk to financial stability during the relevant period". And, in the next paragraph:

This generated a major programme of work for my unit during the relevant period. In practice it focused my area's attention on credit union risks to the exclusion of other sectors and broader financial stability planning.

Is that breathtaking, or not?

Chairman: I'll be breathtaking here if I get value judgments being made.

Deputy Joe Higgins: That ... that ... that ... hang on, developers are walking into banks, walking out with billions in loans. Banks are bloating their lending-----

Chairman: Sorry, Deputy-----

Deputy Joe Higgins: -----but all the consequences-----

Chairman: -----you have a very good question here-----

Deputy Joe Higgins: No, I ... I ... and-----

Chairman: -----if you can avoid the rhetoric and-----

Deputy Joe Higgins: -----and the Financial Regulator identifies credit unions as the main risk.

Mr. William Beausang: At some stage in ... prior to his departure in 2005 and 2006, and you've ... you've all heard, or in the context of the evidence that you've received, you'll understand the constraints that the Secretary General was under, as a member of the Central Bank board in communicating information back to the Department. But I've a clear recollection of, in Mr. Considine's ... during Mr. Considine's tenure, of being called down to his office with my boss, Mr. O'Gorman, and being told, in very emphatic terms, that the credit unions were the prudential ... the most significant prudential risk that the State was facing at this point in time. And that obviously provided a major impetus for me, in my area, to engage with the Financial Regulator, with the registrar of credit unions, to address the issues that were being brought to the table around credit unions. I suppose, in looking and having ... just very quickly having ... in light of further reviews I've carried out since I ... I submitted my written statement, I mean, I think I might have overstated the extent to which ... I wouldn't want to communicate that work stopped on broader financial stability planning at that time, but certainly work on credit unions took up a huge amount of the ... of my division's time and resources during that period, 2005 and 2006.

Deputy Joe Higgins: Thank you, Mr. Beausang.

Chairman: Can we just leave that document on the board because ... 5.11 on the page and 5.12 on the page. 5.11 relates to the credit union movement as the "most significant prudential risk to financial stability during the relevant period". But I'm just interested in the process of that for a moment, Mr. Beausang. What it says is that issues were brought to the table by the IFSRA, such as concerns. Then, and we go on to 5.12, "This generated a major work programme". Now, what this is saying here is that problem identified, action taken, over those two things. Now, in your earlier testimony today, you said that systemic risk was the biggest issue facing into the guarantee period and lead up to the crisis period. Why was the same level of urgency not taken with regard to that problem? You've identified here that you had the ability to identify concerns and you have also identified the ability to be able to take action.

Mr. William Beausang: Two reasons, Chairman. The first reason was because the Financial Regulator was formally bringing to our attention that they saw a major financial stability risk. Secondly, we were, in terms of our legislative responsibilities, we had the tools to address the issues that they say were giving rise to the systemic risk in terms of scope for reforming the

credit union, the legislation governing credit unions, or indeed in dealing with the major issues that was highlighted to us around our savings protection scheme. So that's the distinction I'd draw between this scenario and the scenario we're speaking about earlier on.

The fact the Financial Regulator brought it to us, and that it related to an area where we had the tools to do something about it. Whereas more generally around the growth in credit, they didn't bring that issue to us, but they had the tools anyway and the responsibility for dealing with it as I referred previously to the deputy governor's speech, where he says macro-prudential policy, which would encompass action to address excessive growth and banks' balance sheet, is the responsibility of the Central Bank and the Central Bank and the regulator, and they must be independent in discharging those functions because of the risk of political interference if it was otherwise.

Chairman: Yes, but Mr. Beausang, earlier in your statement, in 5.9 you talk about being, "cognisant of a broad range of factors which appeared to provide substantial assurance over the period that the supervisory and prudential system was operating effectively." And then you go on to 5.9.1, right down as far as 5.12, this is the area of cognisance that you actually have. You also are on record here as saying that systemic risk was the issue in the room. And you demonstrate here, as Deputy Higgins has shown, an issue of concern with the credit unions. You get an analysis on it and you take action. But the-----

Mr. William Beausang: Can I draw your attention to paragraph 11.1, which references the Honohan report, in trying to describe the assignment of responsibilities that arise in this context? So there you have, as the Governor said, IFSRA the body, you know in talking about dealing with financial sector matters, the responsibilities are first of all the Financial Regulator:

the body with the best knowledge and the condition of each bank;

the Central Bank, able to form a policy view on broader financial stability issues and the provision of liquidity;

[and then] the role of the Government relating to covering underlying losses via taxpayer support if necessary.

So that's the demarcation responsibilities.

Chairman: I put the question to you again, Mr. Beausang, as I did earlier. You are the assistant secretary with the responsibility for specifically, like, your role was to deal with banking, finance and international division of the Department of Finance. You were also the point man for the Department on the domestic standing group. Like the domestic standing group was not set up as a ... just another committee, this was a committee, as I understand, with a very specific role to kind of act like a crack commando team with any crisis coming down the line. And so ... and a certain authority was given to this group. So, I put the question to you, the action with regard to credit union is very clearly outlined in your witness statement, but I'm trying to gather the congruence with regard to all the positions that you had, all the information that you had, and yet the issues with regard to systemic risk were not actually acted upon by-----

Mr. William Beausang: I'm afraid the characterisation of the DSG that you presented isn't consistent with the information set out in the documents that I submitted with my written evidence, which makes clear that there was no pooling of responsibility, insofar as the DSG was concerned, that it was a group coming together to share information perspectives but there's no question, just as you characterised it, a crack commando team to deal and to take on, on

some kind of a joint basis the difficulties from, you know, the ... addressing the issues that were emerging in the financial sector. And that's very clear from the scoping paper that was circulated in advance of the ... of the ... in January ... on 10 January ... or, the scoping paper that was drafted after the meeting of 10 January and the ... there's another document I think ... a paper maybe circulated in advance that makes the same point. And, indeed, it's reflected in the MOU itself establishing the DSG, that it did not diminish ... sorry, that it didn't impact on the distinct legal responsibilities of the constituent parts of the constituent members of the ... of the DSG.

Chairman: But can I just ... by your own statement, Mr. Beausang, that it's ... in your witness statement, page 8:

In August 2007, shortly after its formal establishment, the chief role of the DSG, [the domestic standing group,] became to ensure that the [Department of Finance], [the] Minister and Government were fully advised on an ongoing basis of relevant developments impacting [upon] the banking sector for information available to and provided by the Central Bank, [the] IFSRA ... [that] this reflected the marked deterioration in funding conditions from August 2007 onwards.

Now, we're not talking about September 2008, we're talking about August 2007 and the period that led up to that. And this role, as I said earlier this morning, the ... or this afternoon, the ... the construction of the Central Bank, with the sort of two divisions of the Central Bank and the Financial Regulator was a ... was a creation of legislation. There was always the ability, through legislation, to modify or to change. But the job here was to feed in to ensure that the Department of Finance and Minister and Government were fully advised of the ongoing basis. Were you feeding that information in, so that-----

Mr. William Beausang: Absolutely, but, I mean, that's ... all that information, or a lot of it, is in the public domain by virtue of the publication by the public accounts committee of the detailed reports and minutes of the DSG meeting that were being fed into the Department and into ... up to the Minister and to Government in particular instances. So the work of the DSG over that period where it was formally operating is very transparent in that respect and what it was, was a conduit for information from Dame Street to Merrion Street as I set out in my overview statement. We didn't have a role in managing the crisis but our role was to ensure that the principals, people at top level, had the information they required to assess and to take whatever further steps they thought were necessary to deal with the evolving difficulties.

Chairman: All right. Thank you. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Mr. Beausang, good afternoon. Firstly, can I just refer to the document ... or the issue that Deputy Higgins referred to in terms of Irish Nationwide and its report ... or the report into it by Goldman Sachs? Mr. Cardiff, in his statement two weeks ago, stated to the committee, "In the first half of September 2008 [and I'm quoting him now], when it was clear that INBS was in ... difficulty, I told the staff in the [regulator] that [Bank of Ireland] ... and ... AIB ... would have to be called in to assist in a resolution for [Nationwide]." Were you aware that that was happening or were you part of those discussions?

Mr. William Beausang: I think going back ... and I wouldn't know the exact timeframe, Deputy, there was always an appreciation, acknowledgment, and I might have heard it articulated by the Governor of the Central Bank, that if one of the smaller institutions got into difficulty that, as would often be the case, and then trying to facilitate a market solution, that the bigger institutions would be asked to step up to the plate and try to resolve that difficulty. So in terms

of the specific evidence that you refer to, I don't have a clear recollection of being ... certainly, it doesn't sound strange or unusual to me as being what was on the Department's mind at the time in responding to concerns about INBS, which were obviously pronounced at the time.

Deputy John Paul Phelan: Okay. That's fair enough. Mr. Cardiff then went on to outline how the decision to include Nationwide in the guarantee was largely based on this previously mentioned Goldman Sachs report into Nationwide which you have referred to in, I think, paragraph 17.8 of your opening statement. I wanted to ask you, are you aware of ... I suppose you'd call them allegations that were published in a ... in a book called *The FitzPatrick Tapes*, by Mr. Brian Carey and Mr. Tom Lyons, attributed to Mr. FitzPatrick where he was referenced to have made contact with senior staff in Goldman Sachs in ... when they were carrying out the investigations for this report ... lobbying them, effectively, because, and I want to have ... I've a direct quote from the book here, that "he was worried that should the review be extremely negative about Nationwide, that officials might think that things were as bad or worse inside Anglo". Were you aware that there was any such alleged lobbying taking place from Anglo towards Goldman Sachs at the time?

Mr. William Beausang: Certainly ... certainly not. But ... at that point in time, excuse me, and given the importance of trying to get a fix on what we were dealing with, it struck me that the ... that events had unfolded to a point that it was certainly very unfortunate that we were, kind of, relying on Goldman Sachs, for example, who had been contracted ... had been asked by INBS over an extended period of time to work with them to facilitate their trade sale. It certainly seemed to - certainly from my perspective - that there were ... there were issues around relying on ... not so much relying on assessment from Goldman Sachs, that Goldman Sachs were the option available to us, or presented to us by the Financial Regulator, as ... for the review of the loan book in ... in ... in INBS.

Deputy John Paul Phelan: Did you express those reservations at the time?

Mr. William Beausang: It would have been in the ether, I suppose, in terms of our own ... own discussions internally. But, you know, you have to rely on the, you know, professional standing and reputation of these organisations and their ability to deal with conflicts of interest. But it reflects a broader issue, I suppose, that ... and to do with failures in our planning, that it was at a very late stage objectively that we were focusing on trying to get that fix on the institutions. And the information that was then available to Government on the night of the guarantee objectively and you will have seen the papers yourself, were ... were quite limited ... or, sorry, and they weren't ... when I say available to the Government, they informed then the Merrill Lynch memorandum, it was a very ... it wasn't a deep dive. And I think that ... that comment, that term cropped up maybe or may have seen it in some kind of ... maybe I didn't, but ... you know ... we needed information and we didn't have information. We had some information but certainly, as events have proved, it wasn't sufficient information.

Deputy John Paul Phelan: Were you aware of the evidence that Mr ... Mr. Cardiff gave that third parties, for instance, Davy's, I think he mentioned, and Mr. Desmond and others in the earlier part of 2008 were indicating to the Government that a guarantee was something that should be entered into?

Mr. William Beausang: While I wouldn't have an awareness or consciousness of the specific, sort of, named individuals, I would have certainly have an awareness, kind of ... in the ether, that there was lobbying going on as to what the appropriate approach to dealing with the difficulties might be.

Deputy John Paul Phelan: Can you understand then the ... I suppose frustration, to some extent, that people might express that, you know, on the night of the guarantee decision itself ... that there wasn't a fuller basis of information for the Government available, particularly on the two, kind of, crisis institutions before they were included in the guarantee. Why was there no direct action by the Department or other State agencies to investigate the ... those ... the loan books of those two particular institutions?

Mr. William Beausang: Going back to my earlier evidence around our work in producing the scoping paper to try to highlight the need for a model of dealing with emergency situations in the financial sector, which would be informed by information from the Financial Regulator. I mean, that was a recognition, in February 2008, that there was ... there was a need for that. But, unfortunately, we weren't successful in putting that in place and ... you know, there would be ... you know, counter, not so much, argument made, that ... well as the bank said at the time, as I quoted a few moments ago, that information gets out of date quickly. You know all kinds of reasons why ... you know, the argument would be made that the type of information that you say you want can never really be generated in ... in ... in real time. And, I mean, you know, given the whole issue around when does a liquidity issue become a solvency issue? I mean, when you look at the configuration ... when you look at funding markets at that time and you understand the importance of liquidity for asset values, I mean, would you say that any institution anywhere was ... you know, you can make the argument, was it solvent on that night because without any liquidity, there's no value in assets, there's no solvency? And, I mean, what's influential in my view that, you know, that I'm ... I wouldn't be ... in looking at the difficulty that the authorities faced in surfacing that kind of information. I mean, the deep dive that we asked PwC to do and that was done, didn't turn up some can of worms around the institutions, that that really only arose on the basis of the very strict loan-by-loan examination that the European Commission insisted would take place, prior to the transfer of NAMA. So it was only at that point that all the flaws, all the weaknesses, all the issues around the way that loan underwriting had been done in the commercial property sector ... it was only at that point that it really came to light and reflected in the transfer value for the loans at that point in time.

Deputy John Paul Phelan: I want turn in my two minutes that I have left to page 6 of the financial stability issue. And now, I'm not sure exactly if it's in your core documents, but it's scoping paper DOF03183-006, and I presume that can be got up on screen. There's a quote that I want to put to you from that particular document. If it ... stop the clock, John.

Chairman: Stop the clock. Okay, ready to go.

Deputy John Paul Phelan: Okay, the quote is:

The costs of insolvency should not transfer to the State simply because the institution in question is a bank (or other financial institution). The role of the authorities is to maintain financial stability and not to bailout shareholders of insolvent institutions. Thus, the preferred outcome for an insolvent institution may be its failure and subsequent orderly wind-down.

I want to ask you, is that consistent with the advice of the domestic standing group in the period leading up to the bank guarantee?

Mr. William Beausang: The domestic standing group, as evidenced from the information that I've presented, never came to a view on those issues. The model, you know, a, kind of, an agreed or consensus model of crisis resolution, was never put in place. So, that was a reflection of what is indeed, kind of, you know, good practice or the recommended approach for dealing

with a failing institution. I suppose one further distinction that I'd make that's important, at a point in time, you're, kind of, looking at the way things are developing in the financial sector, and you're saying, "Are we dealing with a problem in an individual institution or are we dealing with a systemic crisis?" And I think the approach that you take in either of those situation differs. It's not ... the best practice in dealing with a stand-alone failed institution isn't the same as best practice in dealing with a systemic crisis that's affecting the whole of the banking sector.

Deputy John Paul Phelan: Thank you.

Chairman: Okay, I'm going to move to wrapping things up. First up is Senator MacSharry. Senator.

Senator Marc MacSharry: Yes, thanks very much. Minutes of the meeting of the domestic standing group's suggested that liquidity was frequently reported upon from 2007 right up to the pre-crisis period. However, the drafting of legislation to enable the Minister to nationalise a financial institution suggests that the issue of solvency was also discussed. Can you outline the discussions that took place at the DSG on the issue of solvency?

Mr. William Beausang: There would've been no discussions. I mean, if you're, you know ... if solvency ... in talking about solvency, you're talking about, you know, risks of losses on assets, on loans ... that was never on the agenda or never part of the discussions at the DSG. I mean, from the outset and from July 2007 or, certainly, August 2007, it was very much around the liquidity crisis that was impacting internationally but, obviously, impacting disproportionately on the Irish banks. So, I mean, at what point in time? I mean, the question was asked earlier around, "Well, wasn't the share prices for those institutions saying that there was a difficulty?" But I mean, a year before that, the share prices had been ... might have been interpreted as saying that these were very strong institutions with a very bright future, so the amount of reliance or the information content of share prices is open to question. But, at a point in time certainly, and I suppose it probably would be September 2008, you know, the realisation hit home in the Department that there was very ... that those concerns were concerns that would have to be addressed and examined and understood in advising Government on the way forward in dealing with the crisis in the financial system. And that then informed the approach, well let's ... "Doesn't someone have to come in and look at the loan books here?" And the, kind of, time spent in setting somebody up to that, and arranging for that to happen, and it, ultimately, happening at a very late stage with that advice, without ... with that information coming through, I think, the Sunday before, the day before the guarantee meeting.

Senator Marc MacSharry: But to your knowledge there was no discussion of solvency issues at the DSG?

Mr. William Beausang: No.

Senator Marc MacSharry: Just finally then, and going back to Deputy Higgins's point earlier on, six banks cost €64 billion. To the best of reported situations to do with credit unions, there were alleged problems with three: Newbridge, Castletownbere and Howth. How much did they cost the taxpayer?

Mr. William Beausang: I don't have that information to hand, but I'm-----

Senator Marc MacSharry: Would it be €11 million?

Mr. William Beausang: It would be a very small amount relative to the cost of the banking

crisis.

Senator Marc MacSharry: So with a bit of hindsight, was there a focus, and the focus of the regulator on the credit union system misplaced when one considers what's panned out since?

Mr. William Beausang: Well, they were barking up the wrong tree.

Senator Marc MacSharry: Thanks very much.

Chairman: Thank you. Senator D'Arcy?

Senator Michael D'Arcy: Thank you, Chair. In relation to the draft press release, Mr. Beausang, who else other than David Doyle had received this draft?

Mr. William Beausang: My understanding that it was only David Doyle that received that draft from the official in the Central Bank. That ... when you look at the e-mail, the e-mail was sent by that individual to David Doyle only. There was nobody else on that list.

Senator Michael D'Arcy: And do you know who instructed the official in the Central Bank? You don't?

Mr. William Beausang: No.

Senator Michael D'Arcy: Okay. What time is on the original e-mail to David Doyle?

Mr. William Beausang: Because I wasn't copied into that e-mail, although I've seen it subsequently, I don't have that information to hand. I don't believe that it was very much in advance of the time that it was sent to me.

Senator Michael D'Arcy: Can you make that e-mail available to the inquiry?

Mr. William Beausang: I'm sure that the banking inquiry unit in the Department of Finance could do that.

Senator Michael D'Arcy: You worked on it for 20 minutes, on a revised draft. Who did you e-mail the revised draft to when you finished-----

Mr. William Beausang: There's no ... sorry for cutting across you, Deputy, if I have, or Senator, if I have. There's no ... in my e-mail records, there's no evidence of it being sent on. It was then on a machine, obviously, in the Department of the Taoiseach, so I didn't e-mail it on to anybody else.

Senator Michael D'Arcy: Okay.

Mr. William Beausang: As much as my e-mail records tell me.

Senator Michael D'Arcy: Okay. Did you get involved subsequently during the night in relation to any press statements for the Government?

Mr. William Beausang: No, I certainly wasn't involved in that sequence of events that Kevin Cardiff has outlined in terms of the other guarantee statement and the issues around that, that he had concerns of ... on ... that he reflected to the Taoiseach.

Senator Michael D'Arcy: Okay. And were you aware of any discussions about the bank-

ing crisis at the Cabinet meeting on the Sunday, the day before the banking guarantee? What was the earliest stage you discussed a Government blanket guarantee within the Department?

Mr. William Beausang: Well, we would have a keen awareness, going back to our ... the crisis simulation exercise with the Central Bank and the Financial Regulator-----

Senator Michael D’Arcy: Sorry, just to clarify-----

Mr. William Beausang: Sorry ... you know, I’m sorry, I’ll ... As I said earlier on, I mean, the first time that it went into our Bill was 25 or 26 September. But, obviously, as demonstrated by other documents that we’ve discussed, you know, there was an awareness that a guarantee was potentially part of the toolkit for dealing with a systemic crisis, although, as was pointed out in one of the present ... or maybe it wasn’t pointed out this evening, but the ... we had made the argument that it wasn’t really regarded as best practice in dealing with a financial crisis.

Senator Michael D’Arcy: Sorry, when I say the Government guarantee, blanket guarantee, I’m talking about it moving from the theoretical stage to it being considered a very legitimate option, a very legitimate solution?

Mr. William Beausang: Well, from the paper trail, it’s really around the Merrill Lynch presentation that we discussed earlier on at a meeting that I didn’t attend, and then into the Merrill Lynch memorandum. That is the first time that I would have seen it emerging as a specific stand-alone potential option for dealing with the difficulties that were there at the time. Certainly, up to then, I mean we had obviously had the extension of the deposit guarantee on 20 September, so even at that time we weren’t talking about a blanket guarantee. So it would have been very late in September that it came formally on the table as opposed to a general discussion around the pros and cons of guarantees.

Senator Michael D’Arcy: Okay, and were the banks, or were the financial institutions in question solvent on the night of the bank guarantee, in your view?

Mr. William Beausang: Well, when the chair of the Financial Regulator and the Governor of the Central Bank and the CEO of the Financial Regulator presented at that meeting, the Financial Regulator, and I think it’s documented in the handwritten notes, asserted that the institutions were solvent.

Senator Michael D’Arcy: But I’m asking you your opinion now, with hindsight, in your view were they solvent? Your opinion.

Mr. William Beausang: Well, with the ... in a situation where all liquidity has flown out of the market, and it’s as demonstrated subsequently, that that liquidity was never coming back, there was clearly concern, you know, it would have clearly been right to have concerns around whether those institutions had a future, and particularly because of question marks over their business model and the rate at which they were paying deposit and, you know, all of the other issues that have been explored in various reports to date.

Senator Michael D’Arcy: And is that a “Yes” or a “No”?

Mr. William Beausang: Well, I mean, clearly, in hindsight, those institutions were under huge stresses and huge losses were subsequently incurred. I mean the point, the reason why I am not trying to avoid the question, I think it was Con Horan, the prudential director, who made the ... talked about how it’s really the subsequent declines in prices, in commercial property

prices and house prices was what then-----

Senator Michael D’Arcy: Sorry, Mr. Beausang, is it “Yes” or “No”? Were they solvent or not, please?

Mr. William Beausang: Well I don’t know.

Senator Michael D’Arcy: Your view now. With hindsight?

Mr. William Beausang: Well, I mean, with the benefit, I’m not sure, with the benefit of hindsight ... in hindsight, huge losses were incurred on those institutions subsequently, but on the night, I don’t know.

Chairman: Thank you. I just have two things to wrap up, Mr. Beausang, and we’re done. One is, there’s a document going to come up in front of you there, it’s the minutes of the very first meeting of the domestic standing group, and if you look at minute one, “Role of the DSG”, midway down the paragraph, it says, “The DSG will operate at a macro level overseeing the financial stability environment generally, and appropriate planning arrangements.” Is that minute correct? It’s in the middle of the paragraph.

Mr. William Beausang: The date on that confuses me, because, why is it 6 March?

Chairman: 6 March 2007.

Senator Susan O’Keeffe: 2008.

Mr. William Beausang: Because it was only established in July 2007, so I’m not sure what that ... is that a preparatory note. I think that’s a preparatory note in advance of establishment of the-----

Chairman: It’s a note of a meeting between the Department of Finance and the Central Bank Financial Services Authority-----

Mr. William Beausang: Okay, so that’s the document I was looking for earlier on-----

Chairman: -----re initiating a domestic standing group for crisis management, financial stability, and it’s a meeting of 6 March 2007.

Mr. William Beausang: So what that reflects is what was probably in the guidance from Europe in terms of what a DSG should do. But I think as reflected in the final MOU for the DSG, that role in terms of operate at macro level overseeing the financial stability environment generally, that that was not proceeded with on the basis that there needed be legal certainty around the responsibilities of the different participants in the DSG, and there was no question that it would operate on some kind of pooled or joint basis in exercising the powers the individual institutions had.

Chairman: Okay, well what we’ll do is go look at the other minutes of it and we’ll see if that minute was overruled, or if different terms of reference was actually put in, but you would accept that that minute is correct for that meeting?

Mr. William Beausang: Oh, certainly, I mean if it’s a minute for the ... sorry okay, I accept that, yes.

Chairman: All right. I just want to go to one other thing. There’s a document I referred

to earlier before we went to the break, with regard to this Financial Stability Issues - Scoping Paper, and we established your relationship with that. I just want to go through just a few bits of that with you very briefly, okay? If I can move on to page 10 of it, and it's "3. Scenario 1 - An institution that is illiquid but solvent."

Okay. And then, so ... if I can move on to page 11 to 3.2, okay? It then goes on to the "Department/Minister's role in this situation" and it says: "Traditionally, it would be considered that the Minister for Finance does not have a specific role when an institution is illiquid but solvent and there is no legal role for the Minister in such an event". If I can then move on to page 13 and it talks about Scenario 2 and Scenario 2 is "An institution that is insolvent (or approaching insolvency)." And I move on to page 15, which is on item 4.3 and it says the:

Role/Legal powers of the Minister in this situation [if, as] outlined above, if an insolvent bank sought ELA, the CBFSAI would be legally prohibited from extending it. However, if the bank was systemically important and the Government agreed to extend a guarantee to it[s] liabilities, then [this would in turn, from an insolvency, sorry] ... this would turn it from an insolvent bank into an illiquid but solvent one.

So if I can then move down to the bottom of the page, which is the very, very last sentence there:

The main principle contained in these instructions is that a letter [would] expressly, or by implication, give a guarantee or an undertaking not already authorised by legislation, should not, in any circumstances, be issued. The CBFSAI's view is that [the] letter of comfort from the Minister to cover the CBFSAI's risks would not be sufficient for CBFSAI to lend to an insolvent institution - a comprehensive guarantee would be necessary.

You told us earlier in the meeting, Mr. Beausang, of a draft letter of comfort on the night of the guarantee. Why would this be necessary if ... if scenario 1 or scenario 2 were the accepted position or the dilemma that you found yourself in that night?

Mr. William Beausang: Well, the long-established understanding was that the Central Bank would not be prepared to provide emergency liquidity assistance unless, at a minimum, it had a letter of comfort from the Minister for Finance which wouldn't be a ... you know, as set out in the text that you've already quoted, isn't a legally binding undertaking because the Minister wouldn't have legal powers but it would be a recognition that if the bank experienced losses on those lending ... on that lending, they would be made good.

Chairman: Okay. So, how does that square with the comment on the end of page 15 that the main principle contained in these instructions is that a letter which expressly or by implication gives a guarantee or undertaking not already authorised by legislation, should not in any circumstances be issued? The CBFSAI's view is that a letter of comfort from the Minister to cover the subsequent risks would not be sufficient for the CBFSAI to lend to an insolvent institution, a comprehensive guarantee would be necessary. How does that square with what you just said?

Mr. William Beausang: It would be a matter for the Central Bank to determine the basis on which the ... it would be prepared to advance ELA, so in the circumstances on 29 September ... presumably ... I mean they were clearly happy to advance emergency lending ... ELA on the basis of a letter of comfort but I mean, it then links into what was the ... and the timing and the sequencing of the broader guarantee that was being provided because I mean, the fact that the

State ... the Government were saying that they were guaranteeing the institutions was providing that guarantee that the Central Bank might wish to see in a circumstances where it was lending into institutions that there might be concerns about loan losses and so on. So ... the Central Bank, whenever the question of ELA arises and it might be reflected in the black book, the black red book, if they're going to give ELA, they want a letter of comfort because they don't want to be on the hook for any losses from ELA. So, that's always been the position and it was never ... it was ... I won't say traditional but it was the practice that if there was ever any question of ELA, the Central Bank would require a letter of comfort from the Department.

Chairman: Okay. By your full analysis and with the benefit of all the information that has to come to light, were you in scenario 1 or scenario 2 that night?

Mr. William Beausang: If you just remind me, Chairman. Scenario 1 being-----

Chairman: Scenario 1 is an institution that is illiquid but insolvent and scenario 2 is an institution that is insolvent or approaching insolvency.

Mr. William Beausang: But I think ... and I don't know whether this the final version of the document if you go down to section five. But the final version of the document talks about a third scenario where it's not known whether an institution is insolvent or illiquid. That was certainly in the final version of the document and it was something that ... and it's probably not in the version that you're looking at-----

Chairman: It's another-----

Mr. William Beausang: -----there it is. Scenario 3, "unclear whether the institution is illiquid or insolvent". And that was a third scenario that the Central Bank were very keen that we incorporate in the scoping paper before it was finalised.

Chairman: Okay, so I'll put the question to you again and amend it. By your full analysis, were you in scenario one, two or three that night?

Mr. William Beausang: I would expect that it was scenario three.

Chairman: Okay, thank you. All right, with that said, I'm going to bring matters to a conclusion. Is there anything further that you would like to add, Mr. Beausang?

Mr. William Beausang: No, Chairman.

Chairman: With that said, I would like to thank you for your participation with the inquiry today, Mr. Beausang, and for your engagement with it. The witness is now excused and the meeting is now adjourned until 9:30am on Thursday, 25 June 2015. Is that agreed? Agreed.

The joint committee adjourned at 7.36 p.m. until 9.30 a.m. on Thursday, 25 June 2015.