HOUSES OF THE OIREACHTAS

Volume 2 | **No. 33** **Morning** **No. 34** **Afternoon**

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

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.

Mr. John McCarthy: No, thank you, Chairman.

Chairman: Okay, with that said I'd like to thank Mr. McCarthy for his participation today and for his engagement with the inquiry. The witness is now formally excused and I propose that we suspend until 11.30 a.m., at which time we will recommence our engagement with Mr. Cardiff. Is that agreed? Agreed.

Sitting suspended at 11.12 a.m. The joint committee resumed in private session at 11.36 a.m. and went into public session at 11.39 a.m.

Department of Finance - Mr. Kevin Cardiff

Chairman: Okay, so we will now commence with session 2, public hearing discussion with Mr. Kevin Cardiff, former Secretary General, Department of Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session, and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

Today we continue our hearings with the senior officials from the Department of Finance who had key roles during the crisis period. At our next session this morning we will hear again from Mr. Kevin Cardiff, former Secretary General of the Department of Finance. This second session will focus upon developments during Mr. Cardiff's tenure from January 2009 until he left the Department. Mr. Kevin Cardiff was Secretary General at the Department of Finance from 2010 to 2012. He joined the Department in 1984 and had a number of roles in the Department including responsibility for the taxation and financial services division and tax policy. In March 2012 he was nominated as Ireland's representative to the European Court of Auditors in Luxembourg for a six-year period. Mr. Cardiff, you are welcome back before the inquiry today.

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 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. The utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. 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 the meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So if I can now ask the Clerk to administer the affirmation to Mr. Cardiff.

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

Mr. Kevin Cardiff, former Secretary General, Department of Finance.

Chairman: Once again, Mr. Cardiff, welcome back before the committee today. As you have already made your opening statement in your last appearance before the inquiry, we will proceed directly to questions. However, there is just one or two issues that I would like to address first before we go into the formal questioning.

Mr. Cardiff, on pages 235 to 243 of your composite statement, you include copies of handwritten contemporaneous notes made on the night of 29 September 2008. You also include your own transcription of these notes on pages 231 to 234b of your statement. A substantially identical typewritten version of these notes, provided by the Department of Finance, was included in documentation sent to, among others, Mr. Dermot Gleeson, former chairman of AIB, in connection with his appearance before the joint committee. During his evidence to the joint committee on 23 April 2015, Mr. Gleeson disputed the accuracy of parts of these notes, as he says that remarks attributed to Mr. Burrows were, in fact, made by himself. The reference to this is the final paragraph, page 33, of Mr. Gleeson's evidence transcript. Mr. Gleeson subsequently repeated his assertion in correspondence with the joint committee dated 27 April 2015 and on 15 June 2015. Could you please verify the text of your own note and confirm that the remarks are correctly attributed to Mr. Gleeson?

Mr. Kevin Cardiff: No. Mr. Gleeson is right and wrong at the same time. If you see, my notes are ... as I explained to you, these were notes I wrote in a jotter - a habit - they weren't intended to be a minute, they're not a minute. So you'll see that there are notes there attributed to Mr. Burrows and then, a couple of lines down, there's a change in indentation, which, in the way I generally note these things, means that someone else spoke. So I don't think you can take it ... and I've seen, incidentally, in the package I think there are two different versions of transcripts ... so, my transcripts are accurate transcripts of my notes and, as I think I said to you last time, one shouldn't over-read notes that were intended for that purpose. But what was said was said. What's written down was said; it was said, it was written down at the moment it was said and where there's a line attributed to somebody ... someone said that line, but that doesn't mean they said every line afterwards. And, as I say, in the notes you can see there's changes of indentation and so forth.

Chairman: Okay, thank you. And just on another matter related to your statement, you say that on the night of the guarantee, you do not recall any suggestion from any of the official parties at any stage that undated, unsubordinated debt, should ... would be recovered by the guarantee. However, you refer also to a previous meeting on 26 September at which some of the Merrill Lynch team had felt that inclusion of dated subordinated debt in any broad guarantee was warranted. You go on to state that your mention of this at the meeting of the 29th led to the inclusion of such debt in the guarantee. Was the inclusion of subordinated debt accepted by all present, were any contrarian views expressed in this regard and was any elaboration sought by either the Taoiseach, the Minister or anyone else present? And if you could maybe please elaborate on that.

Mr. Kevin Cardiff: Well, if the answer is no, it will probably be hard to elaborate, but I don't ... I don't recall anybody saying "No". But the matter was discussed in the sense that at least it was raised and discussed. There was a slight bit more discussion - because I discussed a little bit more - about the issue of existing bonds but, no, I don't recall a contrarian view. On the other hand, when I've had contrarian ... when I recall my own contrarian views, not everybody recalls them, so. You recall better what you say yourself, I think, Deputy.

Chairman: Okay. So was the ... the position on 26 September generally reflected as being the same position on the 29th?

Mr. Kevin Cardiff: I believe so, except, remember, on the 26th, people were putting together options and, on the 29th, they were making decisions. So there was a more ... certainly more firmness about it on the 29th.

Chairman: Okay. Thank you very much. We now proceed with our lead questioners this morning and if I can invite Deputy Eoghan Murphy. Deputy, you have 25 minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Cardiff, you're very welcome back. The committee has gone over NAMA in a lot of detail already but there are still certain elements that we want to look into. And one thing I'd like to ask you about is, the first tranche of loan valuations by NAMA was completed in March 2010 and Governor Honohan has written that "it was clear then, extrapolating from this information at the time, that this would be the most costly banking crisis ever recorded", and that's page 76 in the book *Lenihan: In Calm and Crisis*. Was this clear to the Department in March 2010, after that first transfer of loans?

Mr. Kevin Cardiff: I don't think it mattered. We were dealing with the crisis we had, we weren't going around trying to compare this with someone else's crisis and say which was the most costly and which wasn't. That's simply the case. The more pertinent issue for us was that the first round ... the first tranche, was coming in at a discount of, I think, around 50%, certainly heading for that, maybe 47%, and the NAMA draft business plan which was only a short few months old at that stage, had been based around a 30% discount. So the more ... much more pertinent concern than whether it was better or worse than someone else's crisis was what this meant for our crisis. And what this meant, in fact, was more capital and that was a serious consideration - and it was a serious consideration from then on. More seriously still, the discounts got bigger as we went down to the smaller borrowers. Remember the first two tranches, I think it was, covered the first 30 borrowers. The tranches later had a great many more borrowers in smaller amounts and, as I recall it, when NAMA got to those borrowers, they were finding a lot of incomplete legal work, a lot of concern about title, a lot of those kinds of issues, which wouldn't have been evident at the time the NTMA was working on the NAMA business plan because they were working at that point, as was very explicit, on data from the banks themselves. Some other factors in the meanwhile would have been that the ... all this had to be cleared with the European state aid people and they were quite explicit that they wanted very strict adherence both to their guidelines but also to valuation procedures and so forth. So there was a serious issue; but the issue wasn't whether, you know, ours was the best crisis.

Deputy Eoghan Murphy: I think, Mr. Cardiff, Mr. Honohan's point was that this was going to be worse than we'd anticipated ... is the point that he was making, looking at the first tranche passing over. But just to follow on then from that, in May 2010, the IMF mission chief to Ireland phoned the Governor to discuss the possibility of Ireland applying for one of the IMF's new precautionary programmes, just in case. Was this suggestion put to you at the time?

Mr. Kevin Cardiff: In May 2010?

Deputy Eoghan Murphy: Yes.

Mr. Kevin Cardiff: I don't recall it being putting to me at the time, Deputy. I'm not saying it wasn't. Just to be clear, the idea of a NAMA programme or of an IMF programme, one imagined the guarantee and the associated responses in 2008 or 2009 had gone badly wrong. Well, at that point, we might have looked for some .... we might have had to look for some external support. Certainly, it wasn't the plan ... it was nobody's intention but the first time I asked for some very, very preliminary and informal work on, you know, how one actually gets an IMF programme, was in September 2008, and at that point, I was thinking, you know, there was no work done on it. I just asked a colleague to make a discreet inquiry as to how you get into these things, if you do need them, just as a precaution because things were very bad from then. Then in 2009, I believe there were hints in Washington, possibly also in Dublin, that, you know, IMF would be available if we wanted them. At that point, the Minister gave a pretty firm instruction to me and to others that we were not engaging with that suggestion but in part because ... remember, a bank crisis means you have to fill gaps in liquidity and gaps in bank liquidity are enormous. Capital is a lesser problem; liquidity is an enormous gap. And you really need the firepower of a central bank to do that. Now, in 2009 and into 2010, we had no problem getting funds for the Government, which is what the IMF provides. What we had a problem with was the banks getting funds for themselves and, for that, we needed the ECB. So there would have been no huge advantage, let's say, to an IMF programme before we got it, if it didn't come with some ongoing access to bank liquidity. The banks were our problem and then by the time we got into the IMF programme, the sovereign itself had a problem and that's what IMF programmes are for.

Deputy Eoghan Murphy: Perhaps the Governor looking at what was happening with NAMA and speaking to the IMF was looking forward to September and what would happen in terms of a banking problem becoming a sovereign problem but Governor Honohan has written that he was quickly put in his place by Merrion Street officials when he conveyed this request or the suggestion from the IMF person in Ireland. Do you recall any conversation with Governor Honohan around the time in relation to a precautionary programme?

Mr. Kevin Cardiff: Well, that could well have happened but I had conversations with Governor Honohan, sometimes several times a week, about all sorts of potentials. I don't recall myself ever putting him in his place. In fact, we had a very respectful, professional relationship. So, if he's implying that tone, then it couldn't have been me. But, certainly, at that stage, the Minister and myself would have said, "Well, hang on now", if we were asked. There is a real problem there because that programme would not fill our gap. We would need, if there were to be a programme, we would need something bigger and we would need European assistance as well. So, I would have thought ... I don't remember the conversation but I would have thought if I had been asked at the time, I would have thought this is a little bit premature. But I wouldn't have ruled it out because, I mean, we had a difficult situation and had had for two years.

Deputy Eoghan Murphy: Okay. Thank you. Moving forward then to the end of July 2010 and the dependency of the Irish banking system on emergency liquidity assistance is increasing. Anglo is approaching, I think, €15 billion, and the guarantee is due to expire in September and again, Governor Honohan has written how he made sure the ECB was fully aware of how this situation, the dependency on ELA was shaping up and the consequences for the sovereign. Did the Governor make the Department aware ... fully aware in July? Was the Department aware of this September bank funding cliff and the implications for the State in July?

Mr. Kevin Cardiff: Yes, as I just said, myself and the Governor, other colleagues were talking to each other all the time, of course, and the Minister was fully aware as well. There was no ... this was no great secret, Deputy. In fact, we had been working very hard with the European Commission to ensure that the guarantee, on which many of the deposits still relied, was renewed at the end of September, so as to help with that. In fact, they only finally conveyed approval, I think, in ... excuse me, if I have the date a day or two wrong ... but I believe it was around 21-22 September 2010 when the guarantee was due to expire ten days later or, you know, only around a week later. That was a problem.

Deputy Eoghan Murphy: You write about there being a quite lengthy delay in receiving the Commission approval for this limited extension of the bank guarantee system, which may have exacerbated the situation. So what was happening in August that led to this delay and how did it exacerbate it?

Mr. Kevin Cardiff: Not just August. July and August, I think, maybe even June. We were in discussion with the Commission over a lengthy period. I don't recall the details of their objections, Deputy; if you wanted, I could probably find out. But, remember, they didn't like the guarantee. It was a problem for them. It was a state aid that was going on for a long period in all sorts of philosophical and principled ways, it was ... this was not a thing they wanted and, on the other hand, they knew that the Irish financial stability was relying it, so eventually they ... after a lot of toing and froing, negotiating back and forth, they conceded an extension. As I say, I can't remember the details of their objections but I'm sure they're available to you in documents.

Deputy Eoghan Murphy: Did the delay make the situation for Ireland worse as we entered the end ... approached the end of September?

Mr. Kevin Cardiff: It would probably be difficult to quantify it but, yes, it must have because, remember, people ... if you had a one-month deposit with an Irish bank, at the beginning of September 2010, that one-month deposit was no longer guaranteed for the full term. If you had a three-month, then it was going to be unguaranteed for two months. So, I can't see how it would not have had some impact and, in that sense, I think, yes, it must have exacerbated the situation but I don't see how you could quantify it at this stage.

Deputy Eoghan Murphy: But just to clarify, it wasn't due to a lack of action on our side?

Mr. Kevin Cardiff: Well, I think we were actively engaging with the Commission for at least two, and probably three, months beforehand. There was no ... this was seen coming from a long way. And you'll notice, for example, I think when the ELG guarantee expired finally, the Department did a report. I have it if you want it. At the break, I can give it to you. And that report outlines the regular views of the guarantee schemes over the whole period. So, every three or six months, there was a review. So, at the very moment that one review finished, you would be talking to them about the next review.

Deputy Eoghan Murphy: Okay. I want to move forward then to mid-October 2010, if I may. Minister Lenihan went to the IMF annual conference in the US with his adviser, Alan Ahearne. Did you attend that conference?

Mr. Kevin Cardiff: No.

Deputy Eoghan Murphy: On the flight, the Minister and his adviser discussed the pros and cons of a possible euro exit. Did you ever have those conversations with the Minister?

Mr. Kevin Cardiff: There was never a serious suggestion from the Minister to me that we would think about a euro exit.

Deputy Eoghan Murphy: But you had conversations with him about it?

Mr. Kevin Cardiff: He was a gentleman who had very broad conversations and broad interests, so you would have conversations with him about every possible possibility, yes.

Deputy Eoghan Murphy: Okay. And was any risk work done by the Department of Finance while you were there to investigate the pros and cons of a possible Irish exit from the euro?

Mr. Kevin Cardiff: There was certainly work done on what would happen if we found ourselves unceremoniously shown the door or if that became the only option.

Deputy Eoghan Murphy: Okay, and what did that work involve - a unit being set up or a paper being drafted?

Mr. Kevin Cardiff: There was a number of contingency papers drafted but the work was kept to an absolute very small group of people.

Deputy Eoghan Murphy: For confidentiality reasons in case the information-----

Mr. Kevin Cardiff: This was dynamite stuff. I remember being in a committee here when, I think it was Deputy Ross, was trying to get me to admit that we were working on a default and the notion that you would stand up in the ... and default with an exit ... the notion that you would stand up in or sit down in a committee and declare that to the world was just ridiculous. I mean we had to work on it ... of course, we did but it was ... how could one have even hinted in public that this was a serious consideration?

Deputy Eoghan Murphy: So it was a serious consideration?

Mr. Kevin Cardiff: It was a serious contingency consideration. Just as I would imagine that there are people ... well, just as I imagine that at the time, there were people all over Europe who were having similar conversations. I had a conversation with a colleague from another jurisdiction who said, "Kevin, are you working on such and such?" I said, "No, of course not, how could I be working on that?" And he said, "Well, could you have whoever is not working on it telephone whoever who is not working on it in my office?" But no one could admit to this, of course not.

Deputy Eoghan Murphy: Okay. And just to clarify the nature of the work, this secret work. You said about being ... finding yourself I think, unceremoniously outside of the euro. But was it contingency work in case we decided to exit or in case we were forced out?

Mr. Kevin Cardiff: The policy was clear and it was clear. And it was ... the Minister's view that the Government's view was clear. We are not working towards exiting the euro; we were working towards staying in it. That was always clear; there was never a debate.

Deputy Eoghan Murphy: Okay, but we were doing contingency planning in the case that we might, through no fault of our own or through a conscious decision, should events change?

Mr. Kevin Cardiff: Well, remember, we all talk as if this programme we had was a foregone conclusion; it wasn't. Not everybody wanted to give us that money. In the IMF, there were naysayers, people who said: "Look, this is beyond our normal range; this is, I think, ten times the quota that is usually available to a country like Ireland for the size of the borrowing". In the ECB, there were people that were saying, "Look we are too exposed to Ireland, this is ... it's not worth the trouble of keeping them going." Philosophically, legally, we were at the edge and a lot of people in those organisations would have thought, "Actually, this is not ... it's not our role to keep this happening." So when we talk about, as I do quite critically, ECB and even the IMF on some points, the fact is there were people in there who were willing to fight for us and keep us in. So it wasn't a foregone conclusion that we would get that money and it wasn't a foregone conclusion in, say, 2011, early 2011 in particular as things kept getting worse, that we would continue to get the money.

Deputy Eoghan Murphy: When did this unit finish its work? Or when was it stood down?

Mr. Kevin Cardiff: I'm left. I don't know if it's stood down yet.

Deputy Eoghan Murphy: So it was still in operation when you left?

Mr. Kevin Cardiff: Well, there was ... I think ... I mentioned the work had eased a little bit, or the pace of it, because there was no ... by the time I left, things were much, much more, on much more sound ground. But it certainly would have been active. And to be honest, Deputy, we are getting towards the kind of discussion that, I don't know if it's within your terms of reference but it certainly makes me uncomfortable to talk about work that still might be going on or might not still be going on. I'm not aware of it anyway.

Deputy Eoghan Murphy: Let's move on then. Before the bailout, before we actually entered into the bailout, close to €19 billion of unsecured bonds came out of guarantee in September 2010. €4 billion to €5 billion were bonds to Anglo and INBS and between September then and the actual beginning of the bailout programme, €2.4 billion of unguaranteed, unsecured bonds were repaid. Did the Department have any plans for burden-sharing, even on a contingency basis prior to entering the negotiations with the troika?

Mr. Kevin Cardiff: Well, you will have your figures there. Those were senior bonds?

Deputy Eoghan Murphy: These were senior, unguaranteed, unsecured bonds.

Mr. Kevin Cardiff: No, the settled policy at that time was that there would be no burden-sharing. It was based on both legal considerations but, more importantly, on the advice from the NTMA that this would be a bad thing and I think my statement is ... or my long ... what Senator O'Keeffe calls my "long statement" goes into that in a certain amount of detail. Remember, the NTMA was concerned, quite rightly, that it had to fund Ireland in the market. It had a view that if we were burning senior bondholders, we could easily lose that access to the market. Two months on, it was pretty clear that we didn't have access to the market, so the balance of advantage for Ireland changed.

Deputy Eoghan Murphy: Did you seek advice from the Central Bank?

Mr. Kevin Cardiff: Excuse me. I don't recall a formal advice. But I think we were all at one and the view you will see also in my long statement, there's a reference to a document and the document is a statement made by Matthew Elderfield that around that time which, sort of, sets out the Central Bank view of it. And that view is very similar to the one I've just expanded.

Deputy Eoghan Murphy: Are you aware that for a time the Central Bank was contemplating recommending to the Department that there be a bail-in of Anglo and INBS bondholders at the end of August, beginning of September?

Mr. Kevin Cardiff: Well, I think you will remember that, Deputy, you are asking me these questions and throwing dates at me. At various times, we had this discussion. Even in September, I think in my notes I have a conversation in which the NTMA said, ''No, we can't do it now''-----

Deputy Eoghan Murphy: It wasn't settled policy then?

Mr. Kevin Cardiff: Well, it was settled policy.

Deputy Eoghan Murphy: But you were still discussing the possibility?

Mr. Kevin Cardiff: Of course. You talk about what your next step is going to be at all, at any stage, Deputy. So it was settled policy, but the situation was changing and the NTMA was, sort of, saying, "Well, look, we can't, Ireland can't burn bondholders but it might suit us if Europe forced us to because then you wouldn't have any negative impact on, you know, the group of bondholders that were also financing the Irish Government." They wouldn't be upset or offended or they wouldn't pull their funding, he would have thought, if at the same time there was a European diktat in some legal from that said we must. So, I think in September, certainly by September and into October, the balance of advantage was changing and people were talking about, or were thinking about and were talking about, where we would go if things changed, but the policy was, and continued to be, that were not burning senior bondholders through October and into November.

Deputy Eoghan Murphy: You have given us a huge amount of information about processes leading up to the negotiations with the troika and the formal negotiations and the conclusion. But I just want to look at the relationship, maybe, between the Irish Government and the troika partners and in particular, the ECB and I want to look at some of the language you use in relation to the ECB at various parts of your long statement. You talk about the "fiction that the ECB was present in negotiations only to do with banking matters"; "an increasingly hectoring tone on the part of the ECB'' - this is in October after the Deauville Declaration; then moving into November, "increasingly strident rhetoric from the ECB"; "the ECB's panicky state of mind"; the November Trichet letter to Lenihan was "a very direct warning and threat"; "It is easy to attribute a bullying attitude in retrospect"; on recapitalising the banking system, "the ECB had a different agenda"; on the proposed interest rate, "ECB showed a little less solidarity''; on burden-sharing you talk about "the fallacy that the ECB was simply giving advice". So what was the relationship with the ECB like? And do you blame the ECB for the fact that we had to enter a bailout? And do you blame them for those terms that were not favourable to Ireland in that final agreement?

Mr. Kevin Cardiff: No. Look, this is a negotiation. All parties have something they want out of it. So, I mean you have read out a lot of comments I made there and they are honest and I mean every one of them. But almost every single time I made the comment, there is a counter-comment in the next paragraph, almost always, which you haven't read out. Remember, think of us and Anglo or not Anglo. Just take Ireland and a bust bank and just reverse the situation somewhat. We had all of the same problems with the bust banks as the ECB would probably say they had with us. And the bust banks might say that were increasingly hectoring in our tone and so forth. This was a negotiation. People who I was dealing with were very tough at times, definitely hectoring. Sometimes they changed their minds and it didn't suit; other times they seemed to make a promise and it didn't seem to be kept. But they were doing their job to negotiate. So, I mean if you were to go into any negotiation that's a tough negotiation with a lot of different agendas and found that there was no one was being tough, then there was something wrong with the negotiation, frankly. I don't think they were doing anything other than what they saw as their job and, remember, as I make abundantly plain more than once in my statement, they were giving us a huge amount of support. The slight irony in it was that they were dong so with a public reluctance, which actually made the level of support that was required, I think, slight ... bigger. So if the ECB had said November 2010, just after we had agreed to go on the bailout ... if they had said in a very public way, ''Okay, so long as the Irish are stick-ing to the programme, we are supporting them come what may'.' They would probably have actually have to give us less support than actually arose because in the event, they, sort of, said it's a good thing that they are joining the programme but no big supportive statement. The big supportive statement only came in March after a lot of effort and, you know, the ECB will tell you, legally, they couldn't make those kind of statements. I don't know if that's true, I expect it's not, or they might tell you that, you know, it wasn't appropriate because we hadn't done all that they wanted us to do, those kind of things. Or, they might have just been holding their fire in order to make us concede a bit more than we wanted to on the various issues between us. But that's life, that's negotiation, that's discussion. They had their agenda; we had ours.

Deputy Eoghan Murphy: In terms of-----

Mr. Kevin Cardiff: We fought hard too incidentally, not just them.

Deputy Eoghan Murphy: In terms of that agenda, and the agenda ... Mr. Trichet spoke about a global consensus against burden-sharing. Was Minister Lenihan part of that global consensus in November 2010?

Mr. Kevin Cardiff: No, there was no global consensus. If global means everybody, no. What he may mean ... well I explain in my statement. When the IMF programme discussions started and the EU programme discussions started in ... so, 21st thereabouts of November 2010, even a day or two before in truth, the IMF was not just saying, as I say in my statement, that they were in favour of, but I've looked over my notes since then, in some ways they were saying, "We might even make it a requirement, this might be something that we would think is essential," - this burden-sharing with senior bondholders to be clear.

The other partners were clearly not so anxious to do so and while we genuinely tried, because we needed this programme to hold together, we genuinely tried not to force differences between the parties. We did explore a little bit more with the IMF than with anybody else about this. They said, "Look, we've talked to Dominique Strauss-Khan [their managing director], he thinks that he can get the other parties, the big European and American governments over the line, he thinks he can persuade them that this is a good thing to do."

Myself and the Minister in discussion didn't think that we could, so if Strauss-Khan could do it that would be wonderful. So the plan was that Strauss-Khan would speak to these sort of G7 types, the big countries, and he was pretty confident. There was even, at least as recounted to us by the IMF staff on the ground, and there was even a hint back, we got an e-mail ... or I got an e-mail, I think on about the 24 November or thereabouts, 24th or 25th, maybe the 25th, that Strauss-Khan had reason to believe that Geithner, the American secretary ... the American finance minister, Secretary to the Treasury, that he would ... he was sort of showing himself to be a little bit favourable. And then ... so they have the telephone conversation as I understand it and the message we got back was actually the opposite - it was very negative. What we were hearing was that among the negative people were Geithner and Trichet of the ECB, but others too.

Deputy Eoghan Murphy: Is this the conference call that happened between-----

Chairman: You would want to move on to a final supplementary, Deputy, because I do need to move on.

Mr. Kevin Cardiff: I'm sure it was a conference call, yes. It wasn't a meeting; it was call.

Deputy Eoghan Murphy: You weren't on that conference call?

Mr. Kevin Cardiff: No.

Deputy Eoghan Murphy: No. My final question is to clarify then is, in relation to what the IMF was proposing, because when we got to March 2011, I think we're talking about €6 billion, but is it the case that in November were talking about €30 billion of bonds being haircut by as much as two thirds?

Mr. Kevin Cardiff: Well, the IMF numbers would have included the subordinated and the senior and I think the senior was probably by then about €18 billion or €19 billion. Those that were already guaranteed wouldn't have been included in the numbers, those that were secured on loans and so forth probably wouldn't have been included in the numbers because they had other protections. So I recall the number of about €19 billion being in the mix, but the numbers moved around a little bit depending on, you know, exactly how you wanted to define them.

Deputy Eoghan Murphy: But that didn't come to pass obviously following that phone call that you-----

Mr. Kevin Cardiff: Well, it came to pass in regard to some of that €30 billion, in regard to the subordinated debt, but not in regard to the senior.

Deputy Eoghan Murphy: The subordinated debt on a voluntary basis?

Mr. Kevin Cardiff: The legal strategy, Deputy, was that you would do it on a voluntary basis but there wouldn't be much choice.

Deputy Eoghan Murphy: Thank you.

Chairman: Senator Marc MacSharry. Senator, you have 25 minutes.

Senator Marc MacSharry: Thank you very much and welcome, Mr. Cardiff, again. Just two very quick questions at the beginning which arise; we had John McCarthy in earlier from the Department of Finance and while it goes back perhaps to the evidence of the other day, he told me in questioning that his Department were vocal and consistent in their recommendation for counter-cyclical policies throughout the period. He said, right from 2001 up but ... that this, that's how he put it - circumstances always changed between the agreed budget strategy signed by the Minister and what happened later. Do you agree with that statement?

Mr. Kevin Cardiff: For most of that time I wasn't the ... in the division that was given the fiscal ... you know, that was working on the budgetary and fiscal package. At times I was on the tax side, but the people who put it all together were in a different division. So it wouldn't have been me who was doing that but I mean, yes, I'm aware that we were given advice at different times, and I've read the Wright report, like all of you have and it's clear from that that we were given advice. Wright says that we should have been more, I forget the word he says, strident or more vocal, at different points than we were.

Senator Marc MacSharry: He did mention that at different times people would be told, he described it as the pay level above his ... not to say certain things, to take certain things out. Would you have been aware of that and was this political interference or was it pragmatism by the officials who had this authority?

Mr. Kevin Cardiff: Well, it depends on what a document is about, Senator. If a document is a Minister's speech or is a policy statement or whatever, well it's the Minister's statement and it's not ... so long as we have a democracy it's not for civil servants to insist. Civil servants ... and there's a real question about how ... to what extent the Civil Service should be an internal opposition, but I don't think Ministers particularly ever want it that way. But certainly the ... you would, if you were framing a response to a parliamentary question or you were framing a public speech, what you would be framing would be the document that you think the Minister wants. If you were framing your own advice, that would be different. So if you were framing your advice to the Minister that might have one thing in it, but once the Minister has decided a policy or once there is a policy line for something, then in terms of what you have the Minister say, because you draft the speech for him, or a line or a parliamentary question answer, then that's his speech you are trying to draft, not your own.

Senator Marc MacSharry: To what extent, if ever, did the wish to say what the Minister wants, affect the integrity of the facts?

Mr. Kevin Cardiff: The facts as spoken by the Minister or the facts as given to him by the officials?

Senator Marc MacSharry: I mean ... in an important speech, for example, like the budget or an important policy directional thing, I mean, what I'm trying to get at was there political interference to the extent that ... Let's talk - you said you were in tax - about the tax incentives. Would Ministers have said, "Mr. Cardiff, I am not doing that, we'll lose votes if we do that, we're not doing that." I mean, did it ever get down to raw vote getting or was there responsible, mature consideration of policy direction?

Mr. Kevin Cardiff: Ah no, there'd always be raw vote getting, that's how democracies work I'm afraid.

Senator Marc MacSharry: And specifically to do with tax incentives and the property tax incentives that we spoke of, did you feel undue ... did you feel that there was an undue influence with regard to that issue, for example?

Mr. Kevin Cardiff: There was a lot of support by the Minister of the day for the evaluation, the very detailed evaluation we did of those tax incentives and a lot of support also for the ... it was his decision to phase them out ... but I understand and it's sort of a .. the folklore of the place, that there was, you know, the tax incentives had come about mostly because of suggestions from the political level. I don't recall ever hearing of a property tax incentive being something that the official level would have thought was a wonderful thing to suggest. But that's not to say they weren't, but in general we had concerns about property tax incentives, in particular because if you incentivise a lot of things, then the incentive effect actually is reduced. You have ... if you have only one property tax incentive then that ... that policy objective really is incentivised. But if investors have 20 different options, all with an incentive, then the incentive effect for any one of those options is much reduced.

Senator Marc MacSharry: Okay, just one very last question, just to do with the era that, really, we were dealing with the last day, and that was just, on the guarantee, was there a lobby, from anywhere, specifically to include the UK subsidiaries of the banks?

Mr. Kevin Cardiff: Oh it was more than a lobby. It was an absolute insistence from the UK and from Europe.

Senator Marc MacSharry: Was it ... was there any political influence in that, in that decision? Was there political parties calling for that, were there politicians calling for that?

Mr. Kevin Cardiff: Well, the British Prime Minister and their Chancellor were calling for it.

Senator Marc MacSharry: No, here in Ireland, particularly?

Mr. Kevin Cardiff: In Ireland? I've some vague recollection of someone saying in the Dáil, in the ... on the guarantee debate, that, you know, maybe we'd have to look at this, but there was ... I don't think anyone ... any party here was seriously pressing for a broadening of the guarantee beyond what, what it was at.

Senator Marc MacSharry: Okay. At what point, post-nationalisation, did you become aware of the extent of debt concentration to a small number of debtors and were there any indications of this debt concentration prior to NAMA acquiring the portfolio?

Mr. Kevin Cardiff: Oh yes, absolutely. The debt concentrations were becoming quite evident, at the very least, by ... at the very latest, by October 2008, in the PwC documentation.

Senator Marc MacSharry: Okay.

Mr. Kevin Cardiff: In actuality, one of the things that was regarded as a potential advantage for NAMA would be that it would be able to get more value from particular debtors because they would be able to concentrate three or four of their exposures into one place and manage them as a group, rather than having them managed separately in three different places.

Senator Marc MacSharry: What's your assessment of the ultimate consequences to the State of the decision to contribute the National Pensions Reserve Fund?

Mr. Kevin Cardiff: Of the decision to use pension reserve fund money towards the-----

Senator Marc MacSharry: Yes.

Mr. Kevin Cardiff: It's neutral.

Senator Marc MacSharry: Sorry?

Mr. Kevin Cardiff: Neutral.

Senator Marc MacSharry: What do you mean by neutral?

Mr. Kevin Cardiff: Well, if something had to be done then it doesn't really matter whether you take it out of your side pocket or your back pocket.

Senator Marc MacSharry: Okay. Why did the Government proceed with the amount of €3.5 billion for AIB, given that it was clearly outlined that this amount was insufficient to meet their capital needs with, ultimately, them requiring €19.8 billion?

Mr. Kevin Cardiff: I think you're mixing three or four different things there, probably deliberately. The €3.5 billion was an assessment at the time, but, at the time, the assessment was that they needed a couple of billion more, not that they needed €19 billion, and a couple of billion more was to be made up by themselves because they had assets that they could sell which would accrue to capital. In particular they had a Polish subsidiary which was sold later. So their plea, if you like, was, "Don't give us more capital; please, please, not more, not more capital. We'll find it ourselves; we'll find the balance ourselves." So that's why, at the time, they got less capital than was estimated to be required.

Senator Marc MacSharry: In his witness statement, Patrick Honohan states:

> One of the measures pressed on the Irish authorities by the troika was the merger of Anglo with INBS and that of EBS and AIB. From my perspective this measure served no strategic purpose. It seemed largely a pointless cosmetic exercise.

Could you comment on that statement, and these mergers, and his view that they were a pointless cosmetic exercise?

Mr. Kevin Cardiff: €67 billion, Senator ... if they're giving you €67 billion and they want something that's pointless and cosmetic, if it doesn't hurt you, you say "Yes".

Senator Marc MacSharry: Is this view similar to the one given by the Central Bank at the time?

Mr. Kevin Cardiff: I can't remember what they were saying at the time about that, Senator. What was really important was not ... much more salient, if you like, was not whether those would be merged together, and I gave a slightly glib answer, in part because I don't remember all the discussion. Much more important than whether those would be merged together would be what would happen their deposits, which, as you remember, were passed on to other institutions. That mattered because if those institutions lost those deposits they had to rely, even more, on ELA, which meant that we had to rely even more on the ECB to continue to sanction that. So, a lot of our concern about this was not ... about these rearrangements was about protecting the deposit base and ensuring that we would continue to have as much ... as many deposits in the system as possible. And we were afraid we would lose those. So when the deposits were moved out of IBRC, and into other institutions, at the time we were relying on a, sort of, a tacit agreement from the ECB that that would ... you know, they would make up the difference, and they would allow the difference to be made up in ELA.

Senator Marc MacSharry: So, you think it was a good thing.

Mr. Kevin Cardiff: Well, it was a good thing to ... if you could continue to ... if you were sure you had the funding it was a good thing to ... to reduce the scale of the business to the scale of the balance sheet on both sides of those institutions, yes. So, it was a good thing to have them made smaller and to have them on a clear path downwards and out. In that sense, yes, definitely.

Senator Marc MacSharry: Back to the line of questioning that Deputy Murphy had in relation to burning of bondholders. Did you watch the evidence of Mr. Trichet at the event in Dublin Castle?

Mr. Kevin Cardiff: I watched a good bit of it, I don't know that I saw it all.

Senator Marc MacSharry: You described, and, again, I don't want to be-----

Chairman: What-----

Senator Marc MacSharry: Yes, okay, so, the words that you mentioned in your report, while you said that you would give, "on the one hand this and the other hand that", words like "fiction", "fallacy", "hectoring tone", "bullying attitude" and so on. How would you assess the evidence given by Mr. Trichet on the day?

Mr. Kevin Cardiff: Well, I think I've said some of it was perfectly accurate. Other pieces I thought were perfectly valid but maybe he didn't have the whole story and other bits that were ... were just plain ... those kind of truths that, you know, every word is true, but the impression is not. And the impression of, as I said, very explicitly, in my document ... the impression that they were simply giving advice simply isn't true.

Senator Marc MacSharry: Would you have a view as to why the ECB preferred to engage in an external meeting with this inquiry rather than come in, like yourself, under oath, to give evidence?

Mr. Kevin Cardiff: Oh yes, I mean, look, remember ten years ago ... more than ten years ago when the ECB was set up. There was an early ... a legal case quite early on about whether they were ... they could be brought to the ECJ, and they fought that very hard. They ... this is ... they have an absolute belief in their legal position as being independent. And it's not purely self-serving. Remember, some of these people, in some of these countries, don't have a tradition of independent central banking or of a ... or, don't have a tradition of a lack of political interference in central banking. Some of these countries are ... have done enormous things to make themselves democracies in a very short period of time, from a ... you know, a transition from an out and out dictatorship, where nothing was independent. So there's a reality to their desire to be independent but they try to protect that, sometimes in ways that we mightn't all like. And then they have a legal problem, frankly, I imagine, coming and being, you know, directed to attend the committee, because they are ... you know, they have these various protocols and so forth. Just as I would if I were representing the European Court of Auditors here. I would probably come, I would probably have the same discussion but I would not allow you to direct me because that would be contrary to the protocols.

Senator Marc MacSharry: Yes. Again, just to cover the Strauss-Kahn issue, which you have dealt with, would it be your understanding or not that Minister Brian Lenihan at the time felt that the Irish Government were going to be in a position to burn bondholders?

Mr. Kevin Cardiff: He had one very optimistic day, yes.

Senator Marc MacSharry: He had one great optimistic day. You mentioned the call coming in then which said that Trichet and Geithner were not in favour of this and, presumably, this was the call that gave the bad news. Who was that call with?

Mr. Kevin Cardiff: I imagine we got the news first from the IMF themselves because they were the ones who were co-ordinating with Strauss-Kahn. It must have been from there.

Senator Marc MacSharry: It must have been?

Mr. Kevin Cardiff: It must have been the IMF people on the ground in Dublin because I remember they were sitting in the building with us at the time. Sorry, just to be clear-----

Senator Marc MacSharry: Yes?

Mr. Kevin Cardiff: -----I mention Trichet and Geithner because they're, sort of, documented but there were other countries on that call too and I don't know who was for and who was against. I don't know if there really was a global consensus, as Mr. Trichet says.

Senator Marc MacSharry: Who else would be on that call? If it was G7 I mean-----

Mr. Kevin Cardiff: Well, the UK would probably be on it, the Canadians may have been on it, the French, the Dutch, I don't know.

Senator Marc MacSharry: Okay. Have you learned anything since that you could share?

Mr. Kevin Cardiff: No. After six months of fighting with the US Treasury over an FOI request, they gave me one document that was irrelevant. I was almost admiring their manner of handling it. You can have the whole document, if you want it, Deputy, but it's not very helpful. It is, though, documented in Geithner's book in part and so I put the relevant extract in my statement because that is ... we know what happened to an extent but what we don't have is the documentation, because we weren't on the call. So the only documentation I have found is Geithner's book but I can tell you what was recounted back and it was confirmed on phone calls I might have with counterparts in the Treasury that yes, sort of, Geithner was against but the way it was put to me was he wasn't the only one.

Senator Marc MacSharry: I am sorry. Can you remember a passage in the book, did it not say that he found Trichet more animated than he ever found him or something to that effect?

Mr. Kevin Cardiff: I don't remember but I can do better because it is the statement you have there.

Senator Marc MacSharry: Okay. Have you any view on why Trichet, for example, would not have accepted the arguably more experienced position and authority of the IMF on matters such as these in the context of burning bondholders?

Mr. Kevin Cardiff: Yes, because Mr. Trichet was trying to hold together the entire EMU project. So we are there, we have a particular national problem and we're fighting hard and he's trying to think well, what's the implication of this for the entire eurozone. So he has a different perspective. What was really important to us might seem to him, you know, that to achieve a saving of several billion is quite a good deal, if we got a 15% reduction on that 19 that would be nearly €10 billion. That was really important to us but for him ... if you're sitting in Frankfurt and you're saying €10 billion and we could have risked the whole project, you might think it is not worth doing.

Senator Marc MacSharry: Who were the beneficiaries of Ireland's not burning the bondholders?

Mr. Kevin Cardiff: The people who held the bonds.

Senator Marc MacSharry: We know that but in the European context. Who had to gain?

Mr. Kevin Cardiff: I imagine Irish bank and Government bonds were broadly held across Europe and the US, so I would have thought that most large investment funds around Europe would have some small exposure.

Senator Marc MacSharry: You said last week when we spoke and I asked you had Ireland's actions saved the euro and you said that it had but so too had the actions of other countries. How many other countries proportionately paid bondholders in a similar way as us?

Mr. Kevin Cardiff: Nobody paid as much as us.

Senator Marc MacSharry: Nobody. So is it fair or not to say that in the context of saving the euro, that the Irish people have done most?

Mr. Kevin Cardiff: In the context of saving the euro and saving ourselves, we have spent more than anybody else and we have made a much greater fiscal effort than almost everybody else. I mean, the Portuguese and the Greeks have similar problems. The Greek problem is, unfortunately, quite a bit deeper even than ours so your heart goes out to them. If ours was bad, how bad it must be there.

Senator Marc MacSharry: As you mentioned Greece, their negotiating approach, with the benefit of hindsight, would you have done anything differently?

Mr. Kevin Cardiff: My remarks last week were reported in the Greek financial papers. This is not a fair conversation to have. They are in the middle of a really shite problem so let's leave them alone.

Senator Marc MacSharry: Okay. The other issue I wanted to ask you about was on 18 November, Patrick Honohan did an interview with "Morning Ireland" and there are various views of the implications of why that interview took place and no doubt we'll be speaking to Mr. Honohan tomorrow about that. Can you give us your view as to why it happened and the implications of it?

Mr. Kevin Cardiff: Like every other country in Europe, we had set up an independent central bank and we have explicitly in law said to the governors of those central banks, even more so incidentally in Ireland than other places because we put a great deal of responsibility on the Governor himself, as opposed to the board, who we said, "You are independent and you've to act in the public good but entirely independently of government." So he took a view that was different to the Minister's and different to mine at the time as to when was the time to talk more openly to the Irish public. I think, in truth, there was only a day or two in it. It was very clear, at that stage we were having gone, in the lingo, from contacts with the EU-IMF to by then what were being called short and focused discussions actually in Dublin. I mean, it was clear that there was a momentum building. I think probably what Patrick said on the Thursday, the Minister would probably have been willing to say himself on the Friday evening. So I was not especially upset by it, I thought, "Well, I would not have done it but he has to do his duty as he sees it." I think Minister Lenihan thought the same because there was no sense of rancour between them afterwards. I think they just saw each other as doing a slightly different job. It was a little bit... I would have liked an hour more notice of it, that's all.

Senator Marc MacSharry: Would the independence of the Governor of the Central Bank, which, of course, we all respect and uphold ... in that instance do you feel Mr. Honohan was acting as Governor of the Central Bank of Ireland or council member of the European Central Bank?

Mr. Kevin Cardiff: He has a legal obligation in relation to his duties as a council member of the European Central Bank and he would probably never be able to say this himself but I never saw a moment when I didn't think he was working for Ireland.

Senator Marc MacSharry: Do you feel the dual role sometimes is bad, not necessarily specific to Mr. Honohan, but where does one's national responsibility stop and the fiduciary duty to membership of the Governing Council take over?

Mr. Kevin Cardiff: It is a complex thing for a person in that situation to manage but remember the alternative is not to have an Irish Governor sitting on the council of the ECB and that would be a bad thing, I think.

Senator Marc MacSharry: Is it something that is clearly defined?

Mr. Kevin Cardiff: No, it is clearly undefined.

Senator Marc MacSharry: Okay, so it is a grey area.

Mr. Kevin Cardiff: There is no ... there is nothing written down as to how you manage that conflict but it is written down that, of course, you are there as a ... that you have responsibilities as a member of the Governing Council and you have to adhere to those.

Senator Marc MacSharry: So it could be a case perhaps or not of when one is in Frankfurt, one is an ECB Governing Council member and when one is in Dublin, they are not.

Mr. Kevin Cardiff: No, I think one is always in a complex situation. I don't think that it changes because you're in Dublin or Frankfurt. You have to work two jobs. A lot of people do that.

Senator Marc MacSharry: Very finally, do you feel that the interview that morning, 18 November, strengthened or weakened the Ireland position in the context of negotiations at that time in terms of options available?

Mr. Kevin Cardiff: We had already done a lot of negotiation by then, in fact ... I mean, we had done so on the basis of what-ifs because, you know, we couldn't run ahead of Government agreements. Everything was done very closely with the Minister, so the officials were not running ahead of the Minister, but the Minister was having to manage this ... the discussion, the prior discussion was all about "If we were to join a programme, what would be the terms?" So, by then, we were at that point where a lot of the, "Well, if you do, then the terms will be X, Y and Z", a good deal of that had been discussed. So, I'm not sure. So long as his statement didn't lead the other side to start rowing backwards and say, "Well, we could get more", then it wouldn't have made a huge difference. I don't think it did make an enormous difference to the endpoint.

Senator Marc MacSharry: Some?

Mr. Kevin Cardiff: Oh, we'll never know, but-----

Chairman: Okay, thank you, Senator.

Mr. Kevin Cardiff: -----probably not, in truth.

Chairman: I'll bring you back in in the wind-up.

Senator Marc MacSharry: Thanks.

Chairman: I just want to deal with three items there before I move on with the next round of questioners, Mr. Cardiff. Just to put the question to you and that is: did the structure or design of the bank guarantee, along with its period of duration, have any bearing on the Irish State entering a bailout programme two years and two months after the bank guarantee?

Mr. Kevin Cardiff: Clearly, yes, but maybe in a slightly different way to the way people have suggested. It clearly did, because the structure of the guarantee ... the structure of any guarantee puts the sovereign credit behind the bank credit. And the combination of circumstances in ... from about May of 2010 onwards, meant that that was a difficult situation to be in. If you remember, in April, or thereabouts, 2010, there was actually an optimistic moment or two. The Central Bank had announced its stress test results. The Government had announced what it would do, in terms of capital, about those stress test results. I think the Bank of Ireland even got in a modicum of private sector equity, which implied that, for that month, the private sector was convinced that things were changing in Ireland. And then the sovereign crisis happened - April, May, a little bit of it in March, even, but accelerating a lot into April, May, June; the Greek crisis. And at that point bond investors became really, really risk averse, both in relation to banks and in relation to sovereigns. So the Irish guarantee became worth less, if you like. So, by the time we got into September 2010, at the time when ... well, even June, July, August, September 2010, at a time when really the banks ought to have been renewing their long-term loans to deal with the end-September cliff, it simply wasn't possible for them to get into the market because they were relying on the sovereign credit and the sovereign credit was suddenly less good, so in that sense, the combination of the two was difficult but, you know, it wasn't so much the structure of the guarantee as that the end of the guarantee happened to coincide with this huge risk averseness arising from the Greek crisis and then spreading to others later.

Chairman: So, given what you're saying there about the banking guarantee and the cliff that was relating to it, the structural deficit that was in place, the funding cliff that was arising out of the banking guarantee and the sovereign relationship to the banks because it was a written guarantee, as opposed to a political guarantee, could I now ask you were Irish banks that were covered by the guarantee still solvent and, therefore, qualifying for ECB ELA funding at the time of Minister Lenihan's last letter to Mr. Trichet? That was the letter of 21 November 2010.

Mr. Kevin Cardiff: I'm trying to remember timeframes. I think they were at that time. Anglo might have had a brief period when it wasn't really, earlier on, but it was covered by periods of ... well, they were solvent in the sense that it was always the case that the State would stand behind them, so they could only then be insolvent ... and when I mentioned Anglo, there was a moment when, you know, there was ... the State had to say, "Yes, in fact we are behind them" to make sure that they remained solvent." And then your ... the next question would be, if the State is insolvent, how would its credit make the banks solvent? But the State wasn't insolvent, the State was, as has proved to be the point ... proved to be the case, the State was capable of adjusting in such a way as to come out of the ... of its problems provided it had a supply of funding, which came from the EU-IMF programme.

Chairman: And going back to your earlier comments, between fundings for the bank and funding for the State, I think when you were talking to Deputy Murphy, IMF funding would help the State to deal with its deficits and the European Central Bank was dealing with the bank liquidity issues. Given that the adjustment programme ... that the bailout programme actually brought was approximately addressing a €30 billion deficit, could the proposition be made that the Irish State was actually now insolvent and that's why the bailout programme was required and, therefore, the banks were not solvent at the time of that letter?

Mr. Kevin Cardiff: You could make the proposition, Chairman, but I wouldn't see the point of it, I mean, in the sense that it doesn't have any special meaning. The fact was that the Irish State did access funding and, as it turns out, it was not insolvent, it was able to meet all its obligations and, therefore, the banks were not insolvent at the time. But it was not an unreasonable concern of the ECB to be coming to the Minister and sending him a letter saying, "Actually, look at what's going on. We are concerned about the solvency of the Irish banks, who owe us a lot of money and we're concerned, in part, because they are relying on your solvency and you owe the world a lot of money."

Chairman: Okay. In your witness statement, when you were with us last, you comment on Jean-Claude Trichet's letter of 19 November 2010 to the late Minister for Finance and your comments were, "In many ways, this letter was entirely superfluous since it was already clear by the time of the letter that the Government was going to opt into a programme." Speaking on the same, related matter, Jean-Claude Trichet, when he appeared at the IIEA event in Kilmainham, said:

> [As] you know, we could also have continued on our side after having gone up to 100% of GDP go to 200% of ... GDP, and why not 300% of GDP? And why not 300% of GDP? Then what would ... the Commission [of] inquiry [be] asking for [relating to this inquiry]. You would say, "Were you totally crazy at the ECB to continue when we going in the wall at 100 miles per hour to continue to provide liquidity and liquidity and liquidity?"

So, Mr. Cardiff, can I ask you, was Mr. Trichet right in this regard? If this action hadn't happened and the entry to the programme had been delayed, would the cost of the bailout have actually been bigger for Ireland?

Mr. Kevin Cardiff: Well, I'd like to say this was wonderfully planned but remember what happened in 2011: things got a lot worse in sovereign markets before they got better. And had we waited until, say, March 2011 to get the programme, it might have had to be bigger, it might have been ... had conditions that were a lot stricter. It might have had ... it might not have worked, so the amount of moneys required at that point mightn't have been available. Because the programme started in the relative calm ... it didn't feel calm at the time, but the relative calm of November 2010, we had funding for all of 2011 and 2012 and we didn't need to rely on a market that was extraordinarily difficult and so, yes, in that sense, it was better to start earlier than later. Remember, in July 2011, the interest rate on two-year Irish money wasn't the 2% or the 1% or the 0% that you might find it at now, it was at 20%. So, people wouldn't even give you money for a short ... for a relatively short term, unless getting that interest rate. That's how bad things were. By the end of 2011, November-ish probably ... but certainly by the end, that was down to 8%. We weathered the storm. That was the stormiest period and we were able to weather it much more happily, with much less problem than we would have had, had we not had the programme. But remember in that period ... I mean it would be interesting to talk to ... I haven't done it, but it would be interesting to talk to people about what's, what was going on inside the IMF and inside the ECB at the time, because I would bet you that they were starting to say it looks like we've done a really bad deal here, look at the way things are going, if it continues like this we'll never get our money back.

Chairman: So to return to the question again, and as you indicated there, the pension reserve fund, for instance, was indicating that current expenditure may be possibly maintained up to July 2011, that the cost of outgoings were in or around the level of expenditure that the pension reserve fund would be depleted by July of '11. But to come back to the question, was the entry into the programme in November, even though the costs were quite, quite significant, of a lesser cost if the programme had not been entered to at that time and had been delayed into, let's say, quarter one or quarter two of 2011?

Mr. Kevin Cardiff: Well I think, I'm saying not only yes most likely - its hard to predict, retrospectively - but most likely it was cheaper that way. But let's be clear, you might not have been able to get a programme in March, or certainly in July of 2011.

Chairman: How so?

Mr. Kevin Cardiff: Because the people who ... these are lenders.

Chairman: Yes.

Mr. Kevin Cardiff: They're judging the balance of advantage for themselves, as well as for us. And there was a genuine, I think, a genuine sense of solidarity behind it. It wasn't ... there was some altruism in it, it wasn't just a cynical decision. But the decision would have been ... would have been a more difficult one to make in March or in certainly in July of 2011 because things were much worse. You would have less chance of your loan, your very significant loan to Ireland, having the desired outcome at that point.

Chairman: Thank you very much, Mr. Cardiff. Senator Michael D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Cardiff, in your statement you said, "I said, in response to a direct question, that I thought the immediate nationalisation of Anglo, with guarantees as required for that institution, but only a strong political declaration in relation to support for the others, was a better option in my opinion." That was the answer that you gave. Who asked you that question?

Mr. Kevin Cardiff: The Taoiseach was, I think from recollection, asking the room in general. My boss, David Doyle, turned to me and said, "What do you think?" And I was ... and I made my statement direct to the Taoiseach.

Senator Michael D'Arcy: Was that question put to most people in the room or just some of the people in the room?

Mr. Kevin Cardiff: Well, I think it was an open question for the room. I mean I can't recall exactly, Senator, but that's my recollection. But certainly it wasn't, I mean it wasn't put directly to me, it was put ... because my boss turned to me and said, "Kevin, what do you think?" So I had ... I was responding to somebody else's question if you like, or to a general question.

Senator Michael D'Arcy: It wasn't a single question to you, as a person who had perhaps the most knowledge within the Department of Finance?

Mr. Kevin Cardiff: Well, I had been actively engaged in the discussion all night so it wasn't that this was, you know ... that suddenly, you know ... no one spoke to me all night and then they ask me one question. I'd been engaged in the discussion all night but that in ... I made that particular statement in response to Mr. Doyle's asking me to say what my view was.

Senator Michael D'Arcy: And could you offer some insight into why the people in the room were asked that question and why Brendan McDonagh and the NTMA were in the room next door and that question was never put to them?

Mr. Kevin Cardiff: Well, I can ... the reason that the question was put was, I think obvious enough. The Taoiseach was about to ... was coming close, I suppose, at that stage at finalising his mind and other people were coming close to finalising their minds so I suppose it was a check on where we were around the room. As to whether, as to why Brendan was outside, well Brendan was outside because the people in the room ... the senior people in the room, didn't choose to bring him in.

Senator Michael D'Arcy: Was William Beausang in the room and was he asked that question also?

Mr. Kevin Cardiff: I think at that point he was not.

Senator Michael D'Arcy: He was not. Was the ... there was an e-mail between William Beausang and yourself. You ... the e-mail was shared to you from Brendan McDonagh, the question of the impact on the Irish sovereign, I think it was 26 September. Was that e-mail, was it-----

Chairman: Can you make a reference to that, Senator, please?

Senator Michael D'Arcy: I don't have the reference but it was 26 September, Chairman, from Brendan McDonagh. The question went from William Beausang to Brendan McDonagh in relation to the impact on the sovereign of a full Government guarantee.

Chairman: I think I actually have that, that's the e-mail document you're talking about?

Senator Michael D'Arcy: It is.

Chairman: Yes, that's referenced I can get that up on the screen there for you.

Senator Michael D'Arcy: You got it, thanks.

Mr. Kevin Cardiff: Yes, that's fine, I remember the document.

Senator Michael D'Arcy: You remember that one?

Chairman: You referred to this e-mail yourself in your testimony last week, Mr. Cardiff.

Mr. Kevin Cardiff: What was happening was that we were preparing a set of options for the Government and the NTMA was being asked, from recollection, to give its view.

Senator Michael D'Arcy: And was ... were people in the room, given the information on the impact of the sovereign rating, that it would cost the State for a Government guarantee, via that e-mail in question, the view of the NTMA?

Mr. Kevin Cardiff: Yes. People in the room were clear that this would cost ... this would potentially give rise to a damage to the sovereign credit rating. Yes.

Senator Michael D'Arcy: You're ... the Minister-----

Mr. Kevin Cardiff: Sorry, but just to ... just remember, Senator, that night was not the first discussion.

Senator Michael D'Arcy: No, I'm aware of that.

Mr. Kevin Cardiff: So it would have been aware.

Senator Michael D'Arcy: You're ... the ... on the same date, document DOF-01731, which is the Merrill Lynch strategic official document to the NTMA, on ... sorry ... this is William Beausang's-----

Mr. Kevin Cardiff: I think I remember it anyway, go ahead.

Senator Michael D'Arcy: You've a good memory, Mr. Cardiff. The SLS scheme that was being considered, and it says, “a qualification from Merrill Lynch, Anglo had...”. Can I ... I assume I can read this, Chairman? This isn’t section 33AK protected? I don’t think it is anyway.

Chairman: Senator, I’d usually advise members to maybe just talk to legal beforehand.

Senator Michael D’Arcy: Okay. Well, I didn’t get a chance, sorry about that.

Chairman: Let me see. What document are you talking about there-----

Senator Michael D’Arcy: The Merrill Lynch strategic document to the NTMA, strategic options, 26 September 2008.

Mr. Kevin Cardiff: It’s also part of my statement so-----

Senator Michael D’Arcy: Yes it is, yes.

Mr. Kevin Cardiff: -----so it should be-----

Senator Michael D’Arcy: Yes. Qualification, Mr. Cardiff:

Anglo has €3.3 bn of loans on the watchlist.

A 10% fall in commercial property value would result in an additional provision of €7 bn.

€23 bn liquidity deficit by the end of the year.

Additional €17 bn of liquidity expected to be lost once information becomes public.

Total €40 bn.

I mean, those are startling figures. How could the Minister for Finance subsequently - I know they didn’t go down the route of SLS, but the numbers were so enormous - how could it be stated that this would be the cheapest option available to the Government at that stage?

Mr. Kevin Cardiff: I never made that statement, and nor did I ever advise that it be made.

Senator Michael D’Arcy: Do you know who advised the Minister to make that statement?

Mr. Kevin Cardiff: He didn’t always need advice.

Senator Michael D’Arcy: Pardon?

Mr. Kevin Cardiff: He didn’t always need advice to make statements.

Senator Michael D’Arcy: But I assume he would have discussed it with senior officials, prior to the speech being made on the floor of the Dáil.

Mr. Kevin Cardiff: I don’t recall him asking me, certainly, can he say this is the cheapest ever. I don’t want to say that absolutely ... without absolute certainty for fear I’ll go back and discover a document where it said that he was advised to say that. But I doubt, to be honest, that he was advised to say it in those terms certainly. Remember ... look, I don’t know. I ... I ... it was a slightly strange comment.

Senator Michael D’Arcy: I don’t want to be-----

Chairman: If you don't know the origin of it, I wouldn't ask you to speculate on it, Mr. Cardiff.

Senator Michael D'Arcy: Yes, no, that's ... no, that's ... no, that's fine, I just wanted to know was it discussed with senior officials.

Chairman: Okay, so two minutes there now, Senator.

Senator Michael D'Arcy: Yes. Was there an understanding within the Department of Finance ... you said last week, Mr. Cardiff, that you didn't know ... I put it to you that you were the last man standing on the nationalisation of Anglo but that you didn't know that you were right. Was there an understanding that these decisions were going to cost the State tens of billions or billions?

Mr. Kevin Cardiff: No. There was an understanding that they could be expensive and they could ... certainly there was an understanding that it could be in the billions but there was no understanding of the sheer scale of what came after.

Senator Michael D'Arcy: No.

Mr. Kevin Cardiff: Well, did we think that there was a €64 billion bill that ... you know, up-front bill with some of that coming back? No.

Senator Michael D'Arcy: The decision to nationalise Anglo, could you discuss the measures and the associated timelines that were put in place to try to quantify the debt exposure to the State?

Mr. Kevin Cardiff: Okay. Well, the ... the measures to quantify the exposure were twofold: there was the Pricewaterhouse work being done, with Merrill Lynch also working on them, and you have all the documents that are ... that-----

Senator Michael D'Arcy: Sorry, just to clarify that, Mr. Cardiff, the PwC ... that's Project Atlas?

Mr. Kevin Cardiff: Yes.

Senator Michael D'Arcy: Yes. Where PwC took the bank's valuations - they didn't source valuations for themselves?

Mr. Kevin Cardiff: Well, that's true and yet not true because as soon as they had done that work, Jones Lang LaSalle were brought in to look at the valuations as well. I can't recall when they finished that work - probably after the nationalisation. But there was also a due diligence process which looked at the ... some of the legal aspects, some of the blown aspects and so forth of the bank, and that was a process that went on over ... mostly over the course of December and into January in ... of 2008 into 2009. But in the ... of its nature, a one-month exercise doesn't provide for you what, you know, the nine or ten-month NAMA exercise later provided, which is a loan-by-loan exposure.

Senator Michael D'Arcy: The Project Atlas and the PwC report ... in evidence, Peter Bacon said that he was conducting a report almost in conjunction with that and his evidence was that he felt there would be a €35 billion loss. Was that the first occasion anybody started talking in terms of tens of billions of euro loss for the banks?

Mr. Kevin Cardiff: Well, there was no-----

Senator Michael D'Arcy: And, sorry, your reaction ... I think my time is up. And your reaction to the first occasion people started talking in terms of tens of billions of euros loss?

Mr. Kevin Cardiff: Well, I don't know what ... what Peter said because I didn't see his evidence but, as I recall, there were different scenarios in his report and ... including a ... scenarios where you, sort of, support the bank through a process and scenarios where you just let it ... let things collapse or let them fend for themselves in terms of managing these loans. And, as I recall, there were quite different numbers between the two different scenarios. So I don't know precisely which scenario he was talking about when he was talking to you.

Senator Michael D'Arcy: Well, he said there would be a €35 billion impairment.

Mr. Kevin Cardiff: Okay, well, I've no doubt that's correct. But, no, I mean, certainly it would have been around the time that the Pricewaterhouse-Jones Lang LaSalle work was concluding that we started talking about bigger amounts of capital. But, remember, the outcome of their discussions and of the initial thoughts on NAMA were not for anyone to say that, you know, there's a ... there's suddenly a €30 billion hole here. The outcome was that we were looking at a capitalisation of the two big banks that amounted to €7 billion, with a requirement for them also to raise capital. So for the two bigger banks, we're talking about €10 billion and then ... I forget what we were talking about for Anglo. We were saying ... I think by then Anglo was going to be put on a drip feed, so it was ... it was never going to get all of the capital it might want upfront. But even into the middle of that year, I don't think anyone was talking about €10 billion for Anglo.

The ... there were two things happening at once. First of all, with the NAMA process later in 2010, the loans were being exposed and their loan qualities were being exposed in a way that wasn't known before. But, at the same time, the economy was performing worse and worse and the property values within the economy were performing worse and worse. So there was a sort of a rolling worsening on almost all fronts of the situation, which hadn't happened. I mean, it got worse and worse so if you pick any time between September '08 and, you know, the middle of 2010 or into 2011 probably, you could find you'd have a different estimation of capital requirements based on what the particular position of the economy was at that moment.

Chairman: Okay. Thank you very much. Senator Kieran O'Donnell. Sorry, my apologies, Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Welcome back, Mr. Cardiff. Could you elaborate ... on page 23 of your own statement where, speaking about NAMA, when Dr. Bacon and the NTMA presented a proposition they had been working on to the Minister for Finance, it came as something of a shock to the Minister and to the Department of Finance officials. Can you just elaborate on that - your views at the time?

Mr. Kevin Cardiff: Yes. We had been working very closely with the NTMA all along but, I suppose, they had, over a course ... over the course of just a couple of days, they had finalised their view on what NAMA should look like and they were preparing to report on it to the Minister and, I think, just the morning before they reported on it to the Minister they reported on it to a small group of officials. The scale of ambition they had in mind was huge. The value of the property loans that they ... the book value of the property loans that they were intending to ... or suggesting would be taken from the banks was ... I think it was €140 billion or €150 billion, so a huge amount of additional Government paper would have to be issued to make that work.

Deputy Kieran O'Donnell: So they ended up taking half. How did it ... how did it come about to be the €77 billion that they took rather than €150 billion? Can you remember that?

Mr. Kevin Cardiff: Well, I think, yes, it's quite clear. I think there was a discussion in which people, including the Secretary General and the Minister said:

> Look, lads, that looks like it's more than the Exchequer will be able to bear. It will cause problems for the sovereign credit, and are you sure it's necessary?

And they said well ... they, sort of, seemed to have a fall-back position that came ... came readily to hand. So they clearly had given it some thought which was that we take a particular type of loan, the ones which are most likely to be stressed. That would probably achieve most of the benefit with less potential for knock-on effects for the sovereign.

Deputy Kieran O'Donnell: That would have been based on a 30% discount at the time. Am I correct in that, Mr. Cardiff?

Mr. Kevin Cardiff: I forget what discount Bacon had but the-----

Deputy Kieran O'Donnell: The draft was ... yes.

Mr. Kevin Cardiff: But the NAMA business plan which came later was around 30%, yes.

Deputy Kieran O'Donnell: And the amount that the State ended up paying-----

Chairman: Phone interference.

Deputy Kieran O'Donnell: Sorry. The ... my apologies. The amount that NAMA ended up paying, which was around €42 billion, which was nearly a 60% discount, was equivalent to 30% discount on €150 billion, was there any coincidence they ended up both being the same figure, more or less?

Mr. Kevin Cardiff: Well, I think what NAMA ended up paying was probably closer to the €34 billion than €42 billion.

Deputy Kieran O'Donnell: They ended up paying ... sorry, they paid €32 billion, that was actually ... it was ... the discount was significantly higher.

Mr. Kevin Cardiff: Yes, the discount was higher because as NAMA went through the exercise of valuing each loan, one by one, it was finding flaws, and, remember, if you are relying on collateral, most loans you never get to the point about worrying about the collateral in the normal course. People get the loan, they pay it back, that's fine. But if you get to the point where you're worrying about the collateral, then if there's any flaw in the legal documents, just as an example, you're loan is worth less.

Deputy Kieran O'Donnell: And that meeting that took place with the ... the NAMA proposal was considered at a meeting with a large attendance at which the Taoiseach presided. Who would've been at that meeting and were you asked for your own opinion on NAMA and what was your view on NAMA at the time?

Mr. Kevin Cardiff: Oh, there was a very big attendance ... I may even have given you some notes, I'm not sure-----

Deputy Kieran O'Donnell: Was it the same as the night of the guarantee, Mr. Cardiff?

Mr. Kevin Cardiff: Bigger. Different but bigger. I think there were people there from Merrill Lynch, there were people there from the NTMA, there were people there from the Central Bank, there was myself, there was the Secretary General of the Department, there was the Minister for Finance, the Taoiseach, the Governor ... so quite a large attendance. I remember the Taoiseach asked everybody, I think, to say whether they were in favour or against.

Deputy Kieran O'Donnell: And what was the Taoiseach's own view?

Mr. Kevin Cardiff: Well, the Taoiseach ... in the end, the Minister brought it to Government and the Government decided in favour of it, so I'm sure he was in favour of it.

Deputy Kieran O'Donnell: And what was your own view on the night?

Mr. Kevin Cardiff: I think that one might have been a day. My view was that NAMA had a good and strong prospect of improving the situation and, therefore, I was in favour of it-----

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

Mr. Kevin Cardiff: -----as was, incidentally, a number of people who later claimed they weren't.

Deputy Kieran O'Donnell: So you're saying everyone was in agreement on the night. And who would you be ... would you feel at liberty to indicate as to who ... people that were, for want of a term, sitting on both sides of the fence?

Mr. Kevin Cardiff: Well, Dr. Somers of the NTMA later ... at committee, maybe you were there, I think it was a public accounts committee ... made a very negative assessment of NAMA. He didn't do so that day. In fact, he ... he said that he was in favour of it that day. And later, even after the appearance of the committee, he was back in favour of it. So I won't say that he was sitting on the fence, he was on both sides of the fence at different times.

Deputy Kieran O'Donnell: Okay, and who else on the, on that day, Mr. Cardiff?

Mr. Kevin Cardiff: Well, when I said a number of people I was covering for the fact that there was just one.

Deputy Kieran O'Donnell: Just one. Okay. Can I take it that the fact that the original NAMA draft plan was based on a 30% discount, which would have been the ... the ... NAMA paying around €54 billion for €77 billion of gross loans and that ended up ... that NAMA paid over €20 billion less. So for €74 billion they ended up paying €32 billion, so, instead of a 30% discount, it was nearly 60%, so €20 billion less went into the banks and we had reports in 2010 were ... could one bank bring down a country? If those level of discounts hadn't arisen in NAMA, was it ... did it have an impact in bringing a banking crisis to a sovereign crisis and precipitate our, as a country, going into a bailout?

Mr. Kevin Cardiff: If ... well, what you might have had is a different problem. Imagine we paid the full amount ... the ... the ... imagine there was a 30% discount instead of a 60% discount-----

Deputy Kieran O'Donnell: I'm talking about in terms of recapitalisation of the banks.

Mr. Kevin Cardiff: I know. We would have had to put a lot less money into recapitalising the banks and if we had to put a lot less money into recapitalising the banks, in theory, that would have mean ... meant less need for external support. So that ... that's part of the equation. On the other side of the equation is that it would have become evident quite quickly because we would have been transparent about the valuations, unless we were hiding it - it would have been evident quite quickly that NAMA was sitting on a very large loss, which would sit immediately on the Government's balance sheet. So, instead of having the loss in one pocket of area where the State was supporting, you'd put it in another area where the State was supporting. So it would even out. The only way you could have ... it could have avoided a bailout, you know, precipitation or a worsening would be if we were ... if we had hidden this in some way.

Deputy Kieran O'Donnell: I'm not saying that but the point-----

Mr. Kevin Cardiff: I'm not saying you're saying that but it's happened in the past with other crises where there has been less transparency and, ten years on, banks find themselves back in-----

Deputy Kieran O'Donnell: If the discounts hadn't happened at that level, would we have ended up going into a bailout at the time we went in, or would we have ended up going into a bailout at all at any time?

Mr. Kevin Cardiff: If we were €20 billion to the good, let's say, if the NAMA values had genuinely been higher than the were, we would have ... we might just have skirted ... avoided a bailout but probably not. If you think of ... well, that assumes everything else would unroll in the same way but if everything else unrolled in the same way, we might have found that we would be in difficulty in 2011 rather than the end of 2010.

Deputy Kieran O'Donnell: Chairman, can I just move on. In your statement, on page 26, you say, "Rightly or wrongly, there was a view that the ECB did not fight 'fairly' in all cases ... [what] they would ask for actions ... [to] a particular direction". Did the ECB and Mr. Trichet play fairly with Ireland, both in terms of the guarantee and the bailout? And did they have a ...I suppose, did they simply advise in terms of NAMA as well?

Chairman: That's your final question. Thank you very much, Deputy. Mr. Cardiff to reply.

Mr. Kevin Cardiff: Well, in terms of NAMA, they didn't advise at all but they gave huge help. Remember, there were two things ... two almost prerequisites for NAMA to work. One was that it didn't immediately add, in an accounting sense, to the national debt - and that was that was managed by a ... we were very transparent about what we were doing but we created an extraordinarily artificial structure to keep it off the debt in which, you know, the entire NAMA structure sits on about a €20 billion investment from the private sector, it's an amazing ... it's a fiction. It's a real fiction, I mean, there's no credit problem but in terms of accounting, it's a fiction. And we were very transparent that we were doing this.

On the bailout, well, remember what I was talking about was negotiating tactics and in a negotiation there are tactics but, in the round, the ECB gave, at its risk, enormous amounts of capital ... of funding to Irish banks, without which Ireland, as an economy, would have had much greater difficulty. So ... and I think I brought attention to this ... what I think is the irony. The irony is that, at the same time as they were talking down their involvement with Ireland, they were in practice giving us much more. So, practically speaking, they gave us great help but, publicly speaking, they were a little bit reticent. So I ... I ... and that's what I'm trying so bring attention to. This is a public inquiry about bringing the facts to light. Some of the presentation of the ECB actions are not as transparent as they ought to be.

Chairman: Thank you very much, Mr. Cardiff. I just want to tidy up one matter, if you can deal with it promptly, and then we'll take a short break. In describing the principal reasons why the NAMA option was chosen over the only other realistic alternative of an insurance scheme, given especially the scale, complexity and relatively untested nature of the NAMA option - this relates to an engagement you had with Senator Barrett last week - could you maybe just explain why that option, the untested option which was the NAMA option, was ultimately the decision, against maybe some type of insurance scheme or some other model that could have been outlined?

Mr. Kevin Cardiff: Well, the insurance scheme would also have been untested in an Irish circumstance. I mean, a bad bank/NAMA-type operation had been done in a number of different jurisdictions ... and they had always, you know, they had always proved ... always in the jurisdiction they were used in, they proved to have some effect. The asset protection scheme-type approach had been just started in the UK. The big difference ... about pros and cons, the big difference is that, with the NAMA approach you value every single loan and you know exactly what your exposure is but it takes a year to do it - big problem. The asset protection scheme, you take a punt up front on what the values are going to be. Now, as it happens, had we taken the punt up front, we'd have been very wrong. That's a simple fact. The banks would've made a killing at our expense. We were afraid ... at the time, we were afraid that the asset protection scheme exposures were too unknowable - turned out we were right. But in the UK case, where they did much the same, they actually did okay out of it. So ... but they were different type of assets. It was probably one of those instances where you can claim wisdom after the fact. But we didn't ... we weren't sure, which was best, but we thought it was better to have a transparent, though slower, NAMA operation than an asset protection scheme operation. The other great advantage of the NAMA operation was that it meant that the ECB, very willingly, handed over billions and billions ... tens of billions of euro to Irish banks; the asset protection scheme wouldn't do that.

Chairman: Thank you very much. With that said, Mr. Cardiff, I now propose that we take a short recess. In doing so, I would like to just remind the witness that once he starts to give evidence to the committee, you should not confer with any other person other than his legal team in relation to his evidence and matters that are being discussed before this committee. With that in mind, and bear in mind that we still have a fair bit ground to cover with yourself, Mr. Cardiff, and we have Mr. Beausang here this afternoon, I'm proposing a ten-minute break that we would return at 1.30 p.m. Is that agreed? Thank you.

Sitting suspended at 1.21 p.m. and resumed at 1.37 p.m.

Chairman: So with members' agreement I now propose we go back into public session. Is that agreed? Agreed. And commence immediately with Deputy John Paul Phelan. Deputy, you've ten minutes.

Deputy John Paul Phelan: Chairman. Good afternoon, Mr. Cardiff. Briefly, at the start, I want to ask you about NAMA, and, in particular, the effectiveness of NAMA now, I suppose, with ... in reference to what was envisaged before it was established, and, principally, in relation, if you could, maybe, give the main strength or weakness of NAMA in terms of its effectiveness. I also want to ask you in relation to NAMA, we've had evidence from them of interest roll-ups of up to ... of €9 billion on acquired loans, lending backed by paper collateral only, substantial issues relating to varying degrees of due diligence, and significant debtor borrowings across different institutions. And against that background, can you comment on the steps that were taken pre the establishment of NAMA to establish the true loan book positions of the covered institutions?

Mr. Kevin Cardiff: Yes. Before NAMA was established, there was an interim board set up, and an interim chief executive, which was Mr. McDonagh. And as I recall it, because he would have been reporting to us at the time, he was in very intensive discussions with the banks even before NAMA was established to see ... to establish the facts about their loan books. So, in a sense, he's much better placed than I to say, and I'm recounting what he told me, but I know that he has afterwards said to Oireachtas committees that the information he got turned out to be incorrect, and in some ways very incorrect, quite a long way away ... quite a long way from the actual position. I don't know whether that was because the banks themselves didn't understand their situation or because what ... I don't know why. But certainly that's what NAMA found as it worked. It, sort of ... it emphasises the wisdom of acting on the basis of a loan-by-loan valuation for all the big loans, even though that loan-by-loan valuation did have the problem of delaying the whole process. It was a much slower way of acting.

Deputy John Paul Phelan: I want to turn now to evidence that you gave last week in relation to minutes from Bank of lreland where they indicated that just two weeks after the guarantee, that they were exploring the issue of taxpayer capital injection. And you responded by saying, "Well, if they knew that two weeks later, then they were "bowsies", because they didn't tell us that." On the night of the guarantee, just for clarification, did anyone from the State side ask any of the institutions present about the likelihood of capital injection by the taxpayer, can you recall?

Mr. Kevin Cardiff: I don't recall the specific question being asked, no. And also I just, bear in mind, I think the way the question was put was along the lines of that they really needed capital at that point, and the minutes you've sent to me talk a bit more about precautionary capital. Capital is ... in a sense, they're consistent with what I was saying last time, that at this point, there was a need for capital mostly based on changing market expectation, that they're already saying, even on 18 October, "Look, let's look at that." And also, you'll recall from ... I'm not sure if I said it last week ... but we and the official system started to focus on capital also almost immediately, probably around the 15th or so, I think, I sent an e-mail to people saying we have to now do an exercise about capital, and about whether nationalisations may be required, and so forth.

Deputy John Paul Phelan: Okay.

Mr. Kevin Cardiff: So, in that sense ... having said that, I think even now they may have been a little bit coy, at the very least, because it was some months later we were still discussing with them how much capital they needed. I don't think they were entirely upfront, let's say, about their own desires.

Deputy John Paul Phelan: Yes, well I just wanted to put two quotes from the minutes from 13 October and, I think, 17 October, where the first quote from the Court of Bank of Ireland said: "Mr. O'Donovan also reported that he had a signal from a CBI executive who was attending the IMF that Bank of Ireland should approach Government for capital", and in the last paragraph of those minutes it said: "There was however, a general recognition, that it would be inappropriate to push the Government at that time, as the Exchequer budget was due to be announced the following day." And further on, then, on the 17th, Mr. Goggin, the chief executive, was quoted in the minutes. There was proposed a range of immediate actions that he sought endorsement from the Court of Bank of Ireland, including to explore a capital injection by the State; and that was 17 October. Again, I'd just like to ask you briefly for your reaction to that evidence? And seeing those minutes now, you used the word "coy", can you elaborate maybe a little bit more, particularly in light of the fact that Bank of Ireland, proportionately to other institutions, didn't receive as much of an injection subsequently? We haven't had any other evidence from other institutions that at that point in time, in their minutes at least, that they were aware of the need for a possible State injection.

Mr. Kevin Cardiff: I haven't, since I saw this document only last night. I looked at what records I had, and there seems to have been a discussion with the Central Bank round about the 18th. I'm not sure of the date because, as I say, I haven't been able to check for sure, but in and around the same time as that board meeting was happening. And that discussion was probably the first, - it may have been, I don't know - the first discussion where the Central Bank, the regulator, was pressing on the banks to say what were their next plans. It seems from my notes of that conversation - I wasn't at that meeting but it was recounted back - that they were a little bit frustrated by the Bank of Ireland, who seemed to be saying they had less available, less to do. So, that together with the fact that even two months later, we were still having discussions with Bank of Ireland, and other banks, where we were saying, "Look, you know, what's going on? What are you doing? How can we raise capital for you?" And which they weren't averse to taking capital, but there was a sort of a toing and froing going on as to how much, and how-----

Deputy John Paul Phelan: That was kind of at odds, or would you agree that that may be at odds with what is contained in these minutes, where they were specifically referencing a State injection?

Mr. Kevin Cardiff: Well, I think, if they had been more upfront about that, we might have moved along a little bit quicker.

Deputy John Paul Phelan: I want to turn now to your revelation, I suppose, this morning about a tentative approach that you made in 2008 to the IMF about a possible bailout. When in 2008 did it happen? Under whose direction were you seeking or making that particular approach, and was there a response?

Mr. Kevin Cardiff: Now let's be clear, there was no approach to the IMF in 2008. No, I was just doing what a civil servant should, I was just saying to a colleague, "If something big was happening, if we needed some external support, what's the process? Can you do a little bit of desk research?" It was no more than that.

Deputy John Paul Phelan: It was on your own initiative, then, pretty much.

Mr. Kevin Cardiff: Yes.

Deputy John Paul Phelan: You weren't operating under any direction from-----

Mr. Kevin Cardiff: No, but there was no intent behind it, so there was no need to have anyone's imprimatur; it was just me trying to do my job.

Deputy John Paul Phelan: Okay. Then I also want to turn to your comments about communications with Mr. Strauss-Kahn in relation to the burning of bondholders. You say that you received an e-mail from IMF staff members suggesting that he was positive on the matter. Has that e-mail been made public?

Mr. Kevin Cardiff: Unless you've made it public, I haven't.

Deputy John Paul Phelan: Okay.

Mr. Kevin Cardiff: But, in fact, that's not quite what I said. There was an e-mail from the IMF to us, saying that they understood he had an indication that Geithner would be positive. So it was only about one of the members of the potential phone call, let's say.

Deputy John Paul Phelan: Okay.

Mr. Kevin Cardiff: And that would have been, I think, 25 October 2010.

Deputy John Paul Phelan: Finally, can I ask you, in light of what has transpired since, and in public comment by commentators, politicians, whoever else, do you feel yourself that you have been scapegoated for some of the decisions around the guarantee, the capital injections by the taxpayers into the banks, and the subsequent entrance into a bailout?

Mr. Kevin Cardiff: Well, the country's been through an awful thing, so whether I personally have been attacked is not really that important for the country. It has some importance for me personally, or for my family, but it's ... I mean I don't think it's all that important from your point of view as an inquiry. I would say that, probably some things, you know, some criticism is valid and some is so far off the mark as to be laughable. Personally, I only take offence when the criticism seems to be deliberately untrue.

Chairman: Thank you very much, Deputy Phelan. Deputy Joe Higgins.

Deputy Joe Higgins: Thank you. Mr. Cardiff, at the end of 2008, PricewaterhouseCooper's loan bank analysis of the core banks showed 22 borrowers had total loans of €29.4 billion, and, in 2010, in the total debt of €74 billion taken in by NAMA, 29 borrowers accounted for €38 billion. Can I ask you if the Department of Finance tracked, through 2009, for example, the situation *vis-á-vis* the banks, these developers and NAMA, to guard against moral hazard, to safeguard the interests of the taxpayer, and to make sure that no one was taking extra advantage?

Mr. Kevin Cardiff: I don't think we tracked them directly, no, but we did spend a great deal of effort in the NAMA legislation to make sure that it would be proof against that kind of thing. If you look at the NAMA legislation, for example, there are even lobbying offences, I think unheard of before in Ireland, where a person other than an agent of a borrower may not lobby on their behalf. I think that even if ... and if they do, NAMA is legally obliged to report the matter to the guards, or it is committing an offence. There's all sorts of provisions and so forth in there about confidentiality, about ensuring that the State's position is protected. There are even provisions in there about ... we had a concern about ransom strips, in other words that if a borrower had control of both a building and a piece of land outside the building, that he wouldn't be able to manipulate the control of the piece of land outside the building to the, to manipulate also the value of the underlying asset. There were planning provisions and so forth to make sure we could ... that NAMA could get access, could complete its business. So, there was a huge effort in the NAMA legislation to try to anticipate what kind of tactics could a reluctant borrower engage in and to address each one of those as much as we could in legislation. So, a very big effort there and then in relation to the institutions themselves, well, I mean Anglo had been nationalised, new board, new management and they were expected to manage in the best interests of the bank, not in the best interests of any borrower. And in 2010 then ... beginning of 2010, the NTMA was given a ... had a form of roll up to them but it was given the job of being the Minister's ... acting for the Minister in negotiations with the various institutions and to ensure that there was a professionalisation, let's say, of the relationship management with the institutions and at that stage then, new chief executive in NTMA and so forth, they were able to bring in a new approach, a new set of staffing to deal with that. So there was a pretty intensive effort to make sure that ... that things were being looked after more or less right but it still, and still I imagine even now, relies hugely on the managements of individual institutions to ... to do their job. NAMA was a bit different. NAMA, sort of, progressed from a point of not really trusting because we were taking all these loans on to the State's balance sheet. So, there's a lot of anticipated cynicism in the NAMA legislation that probably doesn't ... didn't exist in Irish law before.

Deputy Joe Higgins: Mr. Cardiff, just slightly along the same lines, when recapitalisation of the banks became seen to be inevitable by the Department and the system, was there confidence or was there scepticism within the Department on the veracity of the data shown by the banks themselves to allow you to gauge how much recapitalisation would be necessary?

Mr. Kevin Cardiff: It wasn't a negotiation that was entirely pleasant. It wasn't, a sort of a sense of "Let's all sit around and have a cup of tea and make this work, lads." It was ... the negotiations were quite combative so in that sense, I suppose, we weren't taking too much for granted. But in the end, the banks had the advantage in having access to the information much more closely than we did.

Deputy Joe Higgins: This is a point, is it that ... I mean, more and more recapitalisation became a factor as a year or two or three went on, so was it the case that the banks didn't give full disclosure at the beginning of the process?

Mr. Kevin Cardiff: I ... what I remember, the situation got worse which undermined their book but you don't ... in a negotiation like that, you don't often get the ... it's like playing poker with someone and they don't necessarily turn over their cards at the end to let you know whether you've ... whether it was a bluff or not. So, in fact, this is the forum for turning over the cards, if you like. This is where we'll find out but ... but, no, and through the period we never ... never could be 100% sure.

Deputy Joe Higgins: Mr. Cardiff, can I turn and revisit, as briefly and as concretely as possible, the issue of the solvency of the Irish Nationwide Building Society on the night of the guarantee? Now, last week we looked at a meeting on 7 September of the regulator and the banks where AIB and Bank of Ireland said, "INBS was insolvent". We don't need to go over that again. But, I wish to look in the evidence at two instances which I would put to you would say that clearly INBS was insolvent. So, if we take Doyle, first of all, because this not in your core documents, Mr. Cardiff, but Doyle, Vol. 1, page 163, which is the Goldman Sachs analysis and you are probably familiar with this, anyway, Mr. Cardiff. But, page 163, total loan book of €11.7 billion, then mark-to-market the best mark of 67 ... 69.1%, worst mark 40%. So, giving a situation where a potential loss from €3.6 billion to €7 billion, which is quite a spread, no question about it, and in page 152 of the same document, total regulatory capital of INBS is put down as €1.8 billion. So, on that basis, INBS is clearly insolvent. If I can move forward quickly then-----

Chairman: Rather than going into the judgments on the company, if you could maybe just throw the question at Mr. Cardiff, please, Deputy Higgins. Go on, I'll let you continue but just be mindful of making any narrative on it, okay. Just state the facts.

Deputy Joe Higgins: Just on the face of the figures ... the figures we hope don't lie. Going forward to your own core document, Vol. 2, page 54, Mr. Cardiff, and this is the presentation by Merrill Lynch to the National Treasury Management Agency on 26 September and the top right-hand corner of page 54, "INBS has €11.7 bn of loans ... Writedowns of 30% - 60% results in an impairment of €3.6 bn - €7 bn", which is more or less exactly what Goldman Sachs said and remembering that regulatory capital is €1.8 billion. On the face of those figures, was INBS insolvent?

Mr. Kevin Cardiff: Well, I have slightly the advantage of you, Deputy, because I was also talking to the Goldman Sachs people at the time and I know what they were saying as their sort of general view. First of all, if you mark-to-market ... remember, a bank typically earns ... I don't know, a few per cent on a loan. In fact, it earns the difference between the few per cent they pay to the depositor and the few extra per cent that it gets on the loan. So, it's working on a return of, you know, a net return of a margin of a couple of per cent on any given loan. Now, if you take that loan and you sell it into the market, which is what a mark-to-market approach would do, then you're selling it to people who are looking for a return of maybe 10% or 12% or 15%. So, the market value of that loan will be ... could be quite heavily discounted relative to what the value it would be on the bank's books and the banks assume, generally speaking, unless things have changed very radically, they assume that over time, they will hold that loan over time and they will get the full payment in the end less whatever provision they might make for the likelihood of a default and the amount they get on default. So, the mark-to-market value would be quite different from the going concern value for a bank that is in ongoing mode. Now, at the end of, you know, in the week before 29 September 2008 just to be clear, we spoke to Goldman Sachs and they were saying, "Well, look actually the loan book may be not quite so bad as we had initially thought it might be and that, in fact, over time, they might just trade through all this, they could trade through all this without actually burning through all their capital, assuming they are allowed to trade through." That was the difference in the assumption, I suppose, assuming allowed to trade through, they were saying, "Not, on that basis, insolvent."

Chairman: A very short supplementary, now, Deputy. A very short supplementary.

Deputy Joe Higgins: But, Mr. Cardiff, on 26 September, on the most benign scenarios put forward by both Goldman Sachs and Merrill Lynch, INBS, on the face of it, was it not insolvent? And, when you came in front of the public accounts committee, Mr. Cardiff, why was that information in relation to the NTMA presentation redacted? I haven't time to show it on the screen but you will remember, perhaps, it was redacted ... the information I've just given here. And, secondly, and because I have to wrap up my-----

Chairman: Quickly now, Deputy. Come on, quickly, quickly.

Deputy Joe Higgins: Let me just ask the last question because otherwise I'll be cut off.

Chairman: You will indeed.

Deputy Joe Higgins: And then this presentation on 26 September was to the NTMA, which wasn't consulted on the night of the guarantee, in relation to the state of INBS and, indeed, Anglo. Was somebody or some bodies working to hide the insolvency of any institution on that night?

Mr. Kevin Cardiff: It's a fair question. The answer is no. Nobody that I was aware of was working to hide anything. We wanted the best decision that we could get. Secondly, nobody

... there was no evidence to suggest that INBS was insolvent at that moment. But, certainly, if it had to sell all of its loans straight away or if market conditions deteriorated over time, they would start to burn through their .. first of all, through the whatever profit they were earning, then through their capital and then could eventually fall into a negative capital position. So they were likely at some stage to need capital. Why was the document redacted? It was redacted probably on my judgment for legal reasons or for commercially-sensitive reasons ...sensitivity reasons. But to be clear, Deputy, I spent two hours I believe it was in July 2010 in private session at the public accounts committee - the previous version of it - and we went through the records and I explained why things had been redacted. I explained the philosophy or the approach I had taken to all the redactions. I explained, even, probably going beyond where I should about what was redacted for legal reasons ... or for legal privilege reasons and so forth. So it wasn't that the public accounts committee was given this set of documents and no explanation for redactions. They got explanations for the redactions. But in the end, I had to make a judgment. You might just remember ... well, you won't remember, Deputy, but initially, the public accounts committee asked me for a document ... a single document. I gave a lot more than that because I didn't think they could get a perspective without that. But I had to ... in the light of my job, in the light of the legal position, in the light of the market position, I had to make quite a few redactions which I tried to explain.

Chairman: Thank you very much. Deputy Pearse Doherty. Deputy, ten minutes.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte arís, Can I ask you why, in your view, was bank recapitalisation progressed on a phased basis, given that the original intention was for a recapitalisation programme of up to €10 billion only?

Mr. Kevin Cardiff: Because we went in cheap, Deputy. It would have been very expensive to give them a lot more capital than they clearly needed up front and people didn't want to give them that luxury. Remember-----

Deputy Pearse Doherty: So did you ... when you say than ... give them more than they clearly needed? So at that time, were you aware that they needed more capital than the €10 billion?

Mr. Kevin Cardiff: No. The €10 billion was to ... we knew that they might, later, because if the market keeps going in the direction it was going, then that could be ... could be the point you would get to. Remember, Deputy, if ... for example, we wanted them to contribute to their own recapitalisation, we wanted them to sell assets, we wanted them to look at their profit centres, we wanted them to reduce their costs. So if you give them more than they need-----

Deputy Pearse Doherty: Yes-----

Mr. Kevin Cardiff: -----you give them an incentive not to do any of that.

Deputy Pearse Doherty: Well, that takes me onto my second question. Can you tell us about the level of co-operation by both AIB and Bank of Ireland at the time of the ... capital-raising options, including asset sales, that you mentioned and, in particular, whether the level of co-operation may have contributed to the amount of capital ultimately required by both institutions?

Mr. Kevin Cardiff: I don't know if it made much difference to the end number, Deputy, but we didn't ... AIB, in particular, was very slow on its asset disposals. They really, really liked their Polish subsidiary and they didn't want to sell it. Actually, it was probably a much better bank, as it turns out, than the head office was, so that's understandable - other subsidiaries too. So they ... we thought ... but, again, this is ... as I said, you don't know until the very end, until someone turns over the cards, you don't know exactly what cards people were playing. But we thought that they were going much too slow on that. I recall a quite tough conversation in which AIB said, ''Look, you've always been [I've always been] negative on the Polish subsidiary'', and I said, ''No, I think the Polish subsidiary is great. The problem is I'm negative on AIB and you need to sell the Polish subsidiary to support AIB''. It was the jewel in the crown, naturally they didn't want to get rid of it. But there were other subsidiaries too, other asset disposals they could do. In ... in Bank of Ireland, at least they thought ... they started thinking quite quickly about their UK mortgage book. I mean, it's evident, from that document you just gave me last night, they were at least thinking "Well, here we have this mortgage book if we could sell that we would ... that would generate capital also". So we had a sense that the co-operation could have been better. We pushed, eventually it happened. Had we been able ... had we had the advantage of time, that Polish asset could probably have been sold three days - two or three years later for a good deal more. But we didn't have that advantage.

Deputy Pearse Doherty: Okay, can I ask you ... just I'm just referring to your core booklet, Vol. 3, and it's page 146, and this is the document from the NTMA on the 28 March 2011. It's the document that recommends the burning of bondholders - senior bondholders - in all of the six institutions to the Government at that time. I think the eligible senior debt they estimate across the six banks was €16.367 billion that was up for burning. It goes on to say:

> [Given that] fact that the markets are expecting and have priced in burden sharing with subordinate and senior debt,
>
> it is the recommendation of the NTMA that, subject to a view being taken by Government on the potential implications of an adverse reaction from the external authorities and the implementation of an appropriate legal framework, immediate steps should be taken following the announcement of the PCAR/PLAR results to enable burden sharing with both senior and subordinated debt.

Can I ask you a particular question? Given that the NTMA is responsible for ensuring the country stays in the market and that our funding under the programme would have been exhausted at the end of 2013 and a requirement on us to be back in the markets by mid-2013 ... in your view, how was the NTMA recommending burning senior bondholders while at the same time knowing that they would have to be back in the markets within two years?

Mr. Kevin Cardiff: Actually, it might have been three ... two and a half. And the reason for that is that you know the Johnny Logan song "What's Another Year?", well, we had a thing called the Johnny Logan working group, which was to find from our own resources an extra year of funding and we actually found that we could probably generate quite a little ... quite a lot. Maybe not a full year of funding, but we could find ways to extend the funding of the State beyond the end of ... of 2013. Now, that was important because, even in 2011, people were starting to say well how are they going to be able to fund in 2014? The answer is we were already working on that. It ... it started you know, we had plans, we would have been able to ... we would have been able to extend the moneys we were getting from the programme. That's ... that's ... so ... so we weren't quite so ... quite so pressed as you might suggest. But okay, so there ... a few months at least of extra funding was potentially available.

Now, why would the NTMA suggest this? Well, the ... the suggestion was that if we could reduce our debt by a few billion arising from this exercise - in other words give less capital to banks, reduce debt a little bit - that would improve our overall situation in such a way as to make us a little bit more of a ... a good bet for the market in terms of giving us money. The downside was that if you want to continue to get funds from your funding partners, then they had to be on board. And, in the final analysis, I think the Government's view was that actually, they should certainly or would be anxious to burn the senior bondholders in the banks that are not going to survive.

Deputy Pearse Doherty: At that time, now, the Minister was talking about Anglo and Nationwide, but the NTMA recommendation was across all six banks. And my particular question was that the NTMA were supporting the burning of senior bondholders while at the same time being of the view that they would be able to access money from the ... the international money markets within a number of years. That the case wasn't that we'd be shut out for a period for an extended period. Would that be a true reflection of what the NTMA were arguing at the time?

Mr. Kevin Cardiff: Well, the whole undermining ... the whole underlining philosophy of a ... underlying philosophy of the ... the programme was that you would be able to get back in the market. It was a stopgap arrangement, it wasn't a ... a permanent arrangement. So I don't think there is any ... any conflict between those two positions.

Deputy Pearse Doherty: Can I ask you, in your statement you say, on page 90, in relation to the Government's proposal to the troika, you say:

> As we expected, the Troika were not dissatisfied with the Plan – in some ways it was more ambitious than they might have expected in regard to structural reform. Of course there remained differences arising from differences in the economic forecasts, but the basic thrust was generally acceptable to them.

Can you clarify that to ... for the committee that the memorandum of understanding that was drawn up between the troika and the Government, it was based mainly on Irish Government proposals?

Mr. Kevin Cardiff: Yes, well, the ... if you exclude the banking sector adjustments, the EU-IMF programme documents are not that different from the national recovery plan that was produced by the Government in, I think it was around ... the Government meetings were around or about 18 or 19 November 2010, so the document would have been produced the following week, maybe the 21st or thereabouts.

Deputy Pearse Doherty: So it was mainly made up of Irish Government, with ... excluding the banking part of it?

Mr. Kevin Cardiff: Yes, I can remember it was quite a ... as people, including maybe some of the people in the room, said, it was quite a challenging set of actions, none of them very pleasant. But it was more or less what the Irish Government had decided was the appropriate set of measures, yes.

Deputy Pearse Doherty: Okay. Mr. Cardiff, in your statement, on page 2008 or 208 - 2008, Freudian slip there - 208 you say, "I had spoken to the Minister during the summer [this is the summer of 2010] about the necessity to make greater upfront fiscal adjustments for 2011, and to announce them early." You go on to say that at a gathering of senior civil servants in September or early October you outlined the issues and "demanded their active participation in the adjustment processes that would be required." Is this the "be a hero speech" that you're referring to in terms of your address to the civil servants that is referenced in the documents that you attached?

Chairman: Final question, Deputy. Thank you.

Deputy Pearse Doherty: If I can ask - if that is the final question - at the end of that speech Mr. Cardiff, you ask those, to be a hero, you ask them ... you say, "We have a crisis, get into it, fight for change, fight for savings, fight to deliver more services with less money, get radical, think the unthinkable." And then you pose a question where you say "in four years' time we'll look back and we'll ask ourselves what type of character we were in a crisis, be a hero". It is five year's time since that speech was delivered. Mr. Cardiff, the question I have to you is were you a hero during that period? And is that ... is the actions of these heroes what the Irish public expected in budget 2011 when you were asking them to think the unthinkable, which included cuts to child benefit, to social welfare, the introduction of USC, cuts to the carers' allowance, disability cuts, cuts to the blind, cuts to the minimum wage? Was that the type of heroic actions that the Irish public expected from their heroes?

Mr. Kevin Cardiff: It's a fiercely one-sided presentation of it, Deputy. If you read what I said, I said get into it, deliver the best services you can, with less money, because we had less money, there was no choice about that. We had less money. We had two possibilities at that point; either the country could go bankrupt ... three possibilities ... either the people would continue to lend to us, in which case we could continue to provide services, but nobody would lend to us based on the level of fiscal adjustment that had been planned up to the middle of that year. There had to be more or we would have no lenders ... no market lenders.

The second possibility was that we would have to seek assistance from the EU and IMF, and it was fairly clear at that point that they also would require very substantial fiscal adjustments, therefore, we would have no choice there. And the third possibility was that we would cease to be able to fund ourselves at all, in which case our fiscal adjustment would have had to be, instead of being of the order of 4% or 5% of GDP, it would have to have been of the order of the entire scale of our deficit, which in 2011, even without the adjustment, was around about 10% of GDP. So, that would have meant cuts and tax increases of €16 billion, even before we'd taken account of the negative buoyancy effect, so even more.

We, you know ... look, I also said in that speech that at that time our ... the scale of our deficit was about the budget, I think, of the education and health sector combined. That's what we had to find. Without fiscal adjustment, without cuts that really hurt people, we would have had to do an awful lot more. And even if it was a dreadful situation for us to find ourselves in, it was a situation in which people a whole lot more vulnerable than the people making the decisions would suffer, but the alternative was a decision ... was a non-decision approach where we would let worse things happen. So that's what I was saying and when I was telling people to fight, I meant it. They had to get out there and find ... I mean if we were going to have that much less money, I wanted people to be out there finding the ... fighting to improve the services, to do the best they could for their citizens within that. I don't think that's wrong.

Deputy Pearse Doherty: But the ... sorry, the direct question, because Mr. Cardiff you introduced the quote-----

Chairman: I'm not going to open up a new line now.

Deputy Pearse Doherty: No, it's not a new line. Mr. Cardiff, you introduced this to the committee, your speech, your "be a hero" speech and you posed the question yourself, "In four years' time we'll look back and we'll ask ourselves what type of character we were in the crisis, be a hero." The question I asked you is looking back - it's now five years on - do you classify that your actions were heroic?

Chairman: We'll take Mr. Cardiff, and then I'm going on to Senator O'Keeffe.

Mr. Kevin Cardiff: I had the advantage, Deputy, that I didn't get sick in the middle of this. I didn't fall over, I didn't have the problems that many of the people who were working on this ... on these crisis things did. There were real heroes, people who worked through illness, worked through stress, worked through family difficulties, who really kept going. So I'm not classifying myself with them, but there were real heroes, there were people who ... there were real sufferers but there were real heroes and I saw them. I saw people, you know, in about 2010 I had a series of transfers in the Department in 2011, some of them were just purely because the people concerned were at the end of their physical endurance. So ... and there were the same in other Departments too and the same even in banks, you know, because they had to be rescued and they had to saved too, so I mean, I saw heroes. I'm not going to start naming them, and I'm not saying I was one, but I did see them, they were there.

Chairman: Thank you. Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Cardiff, why was there not a merger of ILP, INBS and EBS as a joint building society? It was one of the options that was considered. Why did it not happen?

Mr. Kevin Cardiff: There was a lot of merger options considered and the real problem, Senator, was that no one of them was really sound enough to take the others on. You see, what you hope when you do a merger is if you take, say, a bank that's reasonably well capitalised but is short on funding, and you put it into a bank that has plenty of funding but may need the capital, you have a synergy there that really works, but there didn't seem to be a strong enough case for doing that, especially since you would lose time and effort in the merger arrangements. There was a significant ... I think the most likely merger that didn't happen, if you like, was between ILP and EBS, in part because EBS had access ... EBS had a set-up of what they call a covered bond bank, so it had a mode of funding which ILP did not have, and ILP had a very high loan-to-deposit ratio and this might have helped. But, to be honest, as things went on, it seemed clear that first of all EBS's loan-to-deposit ratio itself wasn't so healthy and it was not big enough to create a big difference for ILP and even covered bonds, in other words secured bonds, were getting hard to issue, so at that stage, I think people just said, "Well, look, there's not much more to pursue here." So it ... it mostly was because there were no marriages of institutions that looked like it would make a stronger couple than they were as individuals.

Senator Susan O'Keeffe: Did the troika have a particular view or were they taking the advice, the knowledge on the ground, or were they saying, "There has to be something ..."?

Mr. Kevin Cardiff: Later on there was a few different views from the troika and they weren't actually at one on all of this. But you saw the impact of what they were saying ... saying that we put EBS into AIB-----

Senator Susan O'Keeffe: And that was their viewpoint was it?

Mr. Kevin Cardiff: Yes, that was, in part, their viewpoint at least. The idea was to deleverage the sector and to have a couple of pillar banks. The place where there is the most disagreement, if you like, was on ILP, where some parts of the troika wanted to wind it up on the basis that, look, it was hanging out there and it was a bit vulnerable, and, you know, let's be a bit macho now and just close it down. And others were saying, well, like ... for example, the competition people in the European Commission were saying, "But hang on now, we're here, we're supposed to protect competition, and if you do that you only have two banks in ... each with a huge retail franchise in Ireland, so let's keep it going." And we were towards that side. But since ... since ... so we didn't have to fight too hard since they were fighting with each other on that particular point, so ILP survived in part, despite the advice of some parts of the troika, and ... even in the ... because I was interviewed recently by the IMF evaluators, evaluating their own programme, and they were ... this was one of the points they were focusing on. Shouldn't we really have got rid of ILP? So those kinds of discussions did happen, yes.

Senator Susan O'Keeffe: If the bailout had been agreed earlier than it was, would there ... would it have reduced the burden on taxpayers ultimately? Would it have been wiser to go earlier?

Mr. Kevin Cardiff: It's certainly an arguable case, Senator. If you knew that interest rates would be 3% or 4% as opposed to at 6%, then you might have been much more tempted earlier. If you remember, we went in at about the 6% interest rate and then they were negotiated down, and then the Greek thing came along and that helped even more. So, the first discussions ... I mean, they're quite early, but there were discussions on reducing the interest rate even in the spring of 2011, so very soon after the start we were back saying, "Look, you should think about this." And actually, I remember, in March 2011, Minister Noonan's first contact with Mr. Rehn. Mr. Rehn was quite positive. He was saying, "Yes, well, let's see if we can get you a reduced interest rate." But we didn't know that up front. We assumed we could do some negotiation on it, but if he knew he had a 4% interest rate when the Government was being charged 6% or 7% in the market, you might have ... it would have changed the calculus a little bit. We might have been more tempted to go in earlier, yes.

Senator Susan O'Keeffe: When Mr. Honohan made the phone call to RTE that morning, you said earlier that if you'd had even an hour ... I think you said "If I'd had more than an hour's notice ...". Did you have any notice, is the question? Did you know he was going to do that?

Mr. Kevin Cardiff: I don't recall getting any notice.

Senator Susan O'Keeffe: No notice, okay. Now, he will give evidence to say that part of the reason he made the phone call on that day was that the previous day had seen an outflow of €900 million of retail deposits, by far the largest daily figure before or since. Do you remember that figure and do you remember whether there was concern about that figure or that whole question?

Mr. Kevin Cardiff: There was certainly concern that whole month about the pace of outflows, which was high. I don't remember that ... €900 million retail is a very specific number, but I knew ... I would have almost certainly have been hearing the total number, if not the retail number, and it was very large.

Senator Susan O'Keeffe: Mr. Beausang will give in evidence today that his e-mail records show that at 21:11, he's very precise about that, so that's 11 minutes past nine, and I'm going back to the night of the guarantee now ... switch your head ... he 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. My electronic files show ... 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.

I wonder if you can explain to us why there was, in existence, at such an early stage, a press release that said a guarantee has been agreed, when in fact people were still in ... still with the Taoiseach, having the conversation about whether there would be a guarantee.

Mr. Kevin Cardiff: Well, the straight answer is I can't, Senator. I had nothing to do with that at the time, so I just don't know. I can only speculate, and the speculation would be that ... two possibilities, either the Central Bank had in mind, before the meeting started, the possibility that there would be a guarantee, or else they communicated in the course of the meeting, but I simply don't know.

Senator Susan O'Keeffe: Their press releases, the drafts, which Mr. Beausang has actually provided to us, are quite similar to the eventual draft, so, you know, I mean, there are some changes, but they're very similar. So, you never saw those drafts, is that ... am I correct in understanding that - the drafts that Mr. Beausang has provided?

Mr. Kevin Cardiff: I don't want to be as specific as that but I have no recollection at all of having seen those drafts. But Mr. Beausang was there, so he could have been guiding the drafting with me. I mean, when I was passing drafts back and forth, he might well have been involved, so.

Senator Susan O'Keeffe: Yes, I suppose I'm just curious as to know why they were so early in the day. Now, in that original draft it said the Government guarantee will remain in place initially for six months. Obviously, that's not what materialised at the end. Do you recall whether there was an agreement or a suggestion of a six-month guarantee, and at what point it might have changed to a two-year guarantee, which was what was in the final statement?

Mr. Kevin Cardiff: I think, Senator ... do you mind if I just check ... I'll check a note for a second, because I think I might be able to answer that.

Chairman: Sure. I'm just mindful, as well, that you may not have seen Mr. Beausang's-----

Mr. Kevin Cardiff: No, I haven't, but, no harm in that. Bummer, I'm afraid I can't find it, Deputy. I have a vague recollection of the ... of six months being mooted during the course of the evening, and then people saying well, you know, what's gonna change in the six months, you know, so it needs to be longer, but I can't recall and it's not in my notes, apologies.

Senator Susan O'Keeffe: Do you recall whether you might have had a personal view about six months or two years or-----

Mr. Kevin Cardiff: I don't recall, except it seems ... it would have seemed pretty optimistic, let's say, for the world to change so much in six months that that would be an adequate time period.

Senator Susan O'Keeffe: I have two short questions. The night of the guarantee, was that the first, if you like, big meeting that took place with the Taoiseach, in that way?

Mr. Kevin Cardiff: No. No, there----

Senator Susan O'Keeffe: No.

Mr. Kevin Cardiff: There'd been at least one and, maybe, two beforehand, probably two.

Senator Susan O'Keeffe: Okay. And was there ... there has been suggestions made that there was a tacit understanding that nationalisation of Anglo could follow the following weekend, and various suggestions were made that that then didn't happen because the guarantee appeared to work, for want of a better word. Was ... is that your memory or is that a complete fabrication?

Mr. Kevin Cardiff: No, it's ... I don't think it's ... my memory is not exactly like that but it's not a complete fabrication at all. Remember, we didn't know that night that the guarantee would work, so, almost immediately one would ... one would have been thinking, what's next? What's the next thing? And if you look, even at my notes, there's a suggestion. Mr. Doyle asked the Taoiseach, you know, what about such and such a measure, I think swaps, and the Taoiseach says,"Yes, get that prepared", and then he says, "And what about [you know] NPRF?", in other words, getting the ... throwing more public money into them, and the Taoiseach said something like, you know, "Prepare it but don't do it yet." So there was a sense that this was the thing we were doing tomorrow, but it mightn't be the last thing.

Senator Susan O'Keeffe: And finally, can I-----

Chairman: Final supplementary very briefly now, Senator.

Senator Susan O'Keeffe: Finally ... yes ... you ... you wrote an e-mail on the 15 October 2008, which was only two weeks afterwards, in which you actually talked about what recapitalisation might be required, what consolidations might be required, and whether any nationalisation might be required. You wrote that to Patrick Neary and John Hurley, and people like that. You say it's not Government policy, you're just brain-storming, but it seems ... it was soon after that night that you were asking questions, particularly about recapitalisation. So, what was the result of this e-mail?

Mr. Kevin Cardiff: Well, what I was trying to do was refocus. We had focus on the guarantee. There was a great deal of technical work to be done in a very short time, but I didn't think that was going to be the last intervention measure by a long shot. It was clear that we had to be ready for other things, and so I was saying, "Okay, guys, clear your heads a little bit, the guarantee is now moving along, continue that work, but we have to start thinking about the other options and the other things."

Senator Susan O'Keeffe: It's clear to everyone, not just you-----

Chairman: We're moving on, Senator, I have to move on, I'll give you ... I'll give you-----

Senator Susan O'Keeffe: No, that's it. I just want to make sure it wasn't just clear to Mr. Cardiff.

Chairman: No, please. You're pulling on time, now, please. I'm moving on. Can I move on to Deputy Michael McGrath, please?

Deputy Michael McGrath: Thank you very much, Chair. You are very welcome, Mr. Cardiff. Can I just ask you about the Financial Regulator, when you were asked on the last occasion here who the regulator was accountable to, you said the regulator was accountable to the Oireachtas. Can I ask you to clarify who the regulator would be operationally accountable to, would it be the board?

Mr. Kevin Cardiff: Its own authority. The authority, it was called at the time. To be clear, the regulator, people tended to talk about an individual but actually the regulator was the whole authority but the management were responsible to the authority and the authority had its accountability, being independent, to the Oireachtas. But the Minister was entitled legally to ask for information at any time more or less and also they had to clear their budget with the Minister, which never was a problem.

Deputy Michael McGrath: Can I take you to the letter from Jean-Claude Trichet on 19 November 2010 and you express some surprise in your composite statement as to why that letter was sent because the ECB was very much involved in the preliminary discussions with the Irish Government on the possible scope of a programme and so forth. So why do you think that letter was sent and why do you think the threat, for want of a better phrase, on possibly withdrawing the ELA support for the banks, why was that so explicit and why did the letter have to be sent, if all of this was in train anyway?

Mr. Kevin Cardiff: As a rough guess, I would say, and it is only a guess, I am only trying to read peoples' minds but, at a guess, I'd say that they probably decided on the Thursday, which was their council meeting, that this letter would be sent and the decision had been made. The person who sent it probably decided he'd send it anyway.

Deputy Michael McGrath: He had been getting a bit frustrated at governing council level that the expectation that Ireland would enter a programme hadn't materialised quickly enough for them.

Mr. Kevin Cardiff: Let's be clear, they were afraid that first of all the Irish banking system, then the Irish Government and then the rest of the eurozone was going to be pulled down the tubes. You know, like one of those little ... when you throw a weight with a string on the end of it over an edge, you know, it falls but everything attached to it falls too with increasing momentum, so they were afraid of the contagion effect of Irish difficulties on, first of all, Portugal but then on others.

Deputy Michael McGrath: Can I ask you, Mr. Cardiff, notwithstanding what you have said about the Deauville declaration, for example, in October 2010, the reports that were coming out of the G20 in Korea, the possibility that there was briefings going on against Ireland, had it become inevitable in any event that Ireland would require external assistance at that stage?

Mr. Kevin Cardiff: I think my statement probably says yes to that, but certainly even if those things hadn't happened ... well, we don't know about the impact of Deauville on the market but given the market circumstance at that point in time, I think even if there had been no such briefings and so forth, I personally would have advised that we should go into a programme and we should do so sooner rather than later.

Deputy Michael McGrath: We had been borrowing at 6% for eight-year money back in September, which is a high rate in today's terms but, even in the succeeding two months, things had deteriorated and moved quite quickly, that you felt a programme would be required.

Mr. Kevin Cardiff: The real reason I would have advised is because there was no ... there was nothing in sight, there was no particular reason to be hopeful that we would get back into the market on our own, you know, in our own right without assistance. If you could see, you know, if there was some particular thing about to happen that would change the trend, then you would say “Let’s wait for that”, but there wasn’t. The thing we had waited for all along in some one sense was the four-year plan, what became the national recovery plan, and the fiscal parameters of that but those had been known since October in the market and they hadn’t done the trick. The problem was that even if the market was saying “Okay that’s a good effort by Ireland, we could trust that”, they had to look at it against the international backdrop, which was getting worse and worse.

Deputy Michael McGrath: Sure. The interest rate on the official programme, the bailout, 5.8%, was that higher than the Government expected at the time? Certainly there was a letter from the Governor on 21 November when these issues were emerging and at that time he was stating that the interest rate looks like it would be higher than expected. The NTMA subsequently said 5.8% was not unreasonable. So to what extent was it a negotiable element of the programme? The IMF element appears to have been pretty fixed, the European side perhaps less so. So to what extent was there an actual negotiation on the interest rate?

Mr. Kevin Cardiff: It wasn’t much negotiable at that point. The Minister had done some talking to other Ministers in the Eurogroup and so forth, so far as I know. It was fairly clear there was not much shift on that. So the focus was on other things. But even in the memo for Government saying “Let’s join this programme”, there was a line saying “and by the way, the interest rate could be lower and we are going to continue working on that”. And there was, you know, people were making approaches as early as February, I think February, certainly March ... of the ... of the following month. We almost succeeded and it would have been a pity because, in fact, we got an even bigger reduction than we had been looking for or than we had been hoping for, let’s say, in July. So in a sense, the little bit of delay helped. We also had in mind, I mean, we talk about other people being cynical, we were a bit cynical ourselves. We also had in mind that if things got worse in other parts of Europe, the case for an interest rate reduction for those other parts of Europe would be much stronger than for Ireland even and that we would be able to piggy-back on that, which is more or less what happened.

Deputy Michael McGrath: Sure. The national recovery plan which you spoke about was published by the Government on 24 November 2010. Roughly, when did work start at Department level on preparing that national recovery plan?

Mr. Kevin Cardiff: I think-----

Deputy Michael McGrath: Are we talking about weeks, a few months?

Mr. Kevin Cardiff: No, more than ... I think in the late summer probably. We were ... a low point in terms of ... initiative was in probably summer 2010. We had done an awful lot of work, which seemed to be paying dividends in the late spring-early summer and then the - late spring - and then the sovereign crisis accelerated and seemed to be unravelling all the work. We were sort of stuck there and the Government was a bit at a loss I think too. Well, what next, what haven’t we done? The answer was, well we haven’t produced for the market and for the public a picture of how we are going to progress over the next four or five years and perhaps that would produce some credibility to the Government’s actions. So it was in the course of that summer, I can’t remember exactly when, but I do recall taking aside one or two technically very able officials and saying “Guys, can we produce this, do we have the skills to do this?” They said “sure”, so we said “Okay, well start.” Then the Minister would have been much more involved in it because it was becoming more of a product into September and October. But we were talking about it with Europe and so forth a little bit, even in September so it was clearly in train by then.

Deputy Michael McGrath: Okay, so in today's hearing we are looking at the period from the beginning of 2009 onwards and of all the events that happened in 2009 and 2010, from nationalising Anglo to recapitalisation of the banks, the setting up of NAMA, the entering into the bailout programme in November 2010, I am sure in hindsight there are probably many issues you think could have been handled differently or better. But what stands out in your mind today, and with the benefit of hindsight, as to an example of what could have been done better?

Mr. Kevin Cardiff: I think we unwittingly misled people in relation to NAMA. The 30% discount. It's not that ... you know, in a sense that was ... that was a problem. We might have been much better to say nothing about what the discount was going to be and just do the work because we ended up disappointing both the public and the market and it would have been, you know, in terms of a single thing, we were trying to create a credibility as to our actions, as well as, you know, as well as the impacts of the NAMA process itself, which were positive. We were trying to add to our credibility and our status in the market so as to be able to continue borrowing from it and, actually, the continuing ... continued worsening of the NAMA discounts over that year were actually sucking the credibility away from us rather than enhancing it. I got the opportunity a while ago to speak for about three minutes to a finance minister who was considering a bad bank and he said "what would you do different?" I said "Don't, for goodness sake, predict the loan values until you know what they are going to be."

Deputy Michael McGrath: Yes, very finally, Chair, on 31 March 2011, the new Government's major statement on banking, it appears there was a very late change because of the ECB's position on burden sharing and you ... you give an account of it on page 203 of your composite statement. And I know you weren't directly involved in the telephone conversations that day with Frankfurt but what is your understanding of how far the ECB went on that day in conversation with the Taoiseach, with the Minster for Finance? You make reference to a statement from the ECB that they wouldn't come out subsequently and support the banking strategy if the Government had gone ahead and imposed losses on senior bondholders, but did they say that emergency support would be withdrawn? How far did they go, in your view, and what do you understand the position to be?

Mr. Kevin Cardiff: No, no one said explicitly, that I recall, that emergency support would be withdrawn, but remember we had been negotiating for months with them for ... to get some sort of really positive statement that would say the ECB is behind us. Remember, a year or so later, when Draghi made his statement about the euro, the impact of the statement alone, when said by somebody credible with a real intent behind it ... and that's what we wanted for Ireland. We wanted that kind of positive statement with intent behind it. So, that was the prize, if you like.

Deputy Michael McGrath: Yes.

Mr. Kevin Cardiff: And the ... the instruction from the ECB was that, if you want that prize, you do not burn anybody, any way senior, senior bonds, at all. And it was quite explicit. I had my own phone calls with Frankfurt that day and I got the same message. It was a very explicit message and I think I even attached an e-mail to my statement that shows how explicit it was. Remember-----

Deputy Michael McGrath: There would be no statement of support from the ECB-----

Mr. Kevin Cardiff: Yes.

Deputy Michael McGrath: -----following the Government announcement.

Mr. Kevin Cardiff: As clear as that, yes.

Deputy Michael McGrath: And that would have had very serious consequences?

Mr. Kevin Cardiff: Well, it would have ... remember, this was the new Government trying to get a new initiative under way and it would have robbed it of much of its market significance, I think. Maybe we were overdoing that, but that was the view. Also, it would have started the new Government off in a very bad situation with one of its most important business relationships and so forth. So, anyway, I mean, I ... quite explicit. I think I said in my statement you can understand why they were thinking in those ways but we definitely got what was definitely an instruction that ... you could say it was just advice only in the sense that, you know, we could have done something differently but then the consequences would have been different.

Deputy Michael McGrath: Thank you.

Chairman: Okay, thank you very much. Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, and welcome back, Mr. Cardiff. The ... when you said ... when you were here last week, you said, on page 36 of your evidence, "the actual supervision system they were working within wasn't designed that way ... because the political system ... had decided they wanted a different supervision system and ... they imposed that model". Given that the Department of Finance had ultimate responsibility for financial regulatory legislation, can you explain the suggestion that the political system imposed a model of regulatory supervision?

Mr. Kevin Cardiff: We're going back to 2002, 2003.

Senator Sean D. Barrett: Yes.

Mr. Kevin Cardiff: Okay. Well, I mean, the Department of Finance doesn't have ultimate responsibility, the Minister does, and there was strong political direction in relation to the shape of the regulator to the point that if I, as a relatively senior official, wanted to change the drafting of a few lines, it had to be cleared ... even relatively small amounts of technical change had to be cleared at a political level so, for example, I recall having to ring, having to telephone the ... you know, certain ministerial advisers to say, "We're ... we're thinking of changing this; is that all right?" So there was a lot of political ... not just input into the broad thread ... into the broad shape, which is the norm, but also into the ... into the technical detail, which is not.

Senator Sean D. Barrett: Right. And that was political advisers, rather than Ministers, was it, that-----

Mr. Kevin Cardiff: Well, I presume that they were closely ... closely advising their Minister, yes.

Senator Sean D. Barrett: And did that affect your tenure as the Secretary General?

Mr. Kevin Cardiff: Sorry, we're talking back in 2002, 2003, so I'm not sure how you mean did it affect my tenure.

Senator Sean D. Barrett: No, I'm just seeing, in your evidence, that interference in the regulation of banks, which, as we know, caused so much problems in 2008 and afterwards, would you have any wider observation? What should have been done, instead of that kind of interference?

Mr. Kevin Cardiff: Well, what ... what the Department of Finance, my predecessors and myself were concerned about was that in the event of prudential crises, we would have a ... quite a joined-up system that would not be governed by the kind of internal silo thinking, internal jealousies that happen when you set up institutions close together but separate. And we would have advocated ... I would have, had it been ... I mean, by the time I got to the job, it was fairly ... the policy line was fairly distinctly set out but we wanted, in what we were doing, to try and ensure that those silos would be capable of being overcome. So, even in the legislation, you'll see things like a requirement for staff exchange between the two sides of the new structure. You heard that they'd no economists in the regulator. Well, I'm a bit surprised because we set it up so that there could be people moving from side to side within the regulator. But every time we did something like that, there'd be a political instruction to do something else, so, you know, we did that but then ... I'm not sure is it directly in relation to that, but there's a political instruction to ensure that the chief executive of the regulator would have a legal entitlement to hire staff separately, off his own bat, separate from the overall organisation. So, quite a lot of involvement in the legislation itself but, in my tenure later as a Secretary General, I didn't come across anything like that so with the particular change of Minister or the particular Ministers or the particular issues, they weren't as ... as hands-on on legislative change as was the case for this. This was quite unusual.

Senator Sean D. Barrett: In the case of the organisations which were subsequently nationalised, was it mentioned on the night of the guarantee that a *quid pro quo* would be the removal of the boards and the management of ... of those companies?

Mr. Kevin Cardiff: I don't recall, no. No, I don't recall that.

Senator Sean D. Barrett: Because money was lost between the guarantee and the nationalisation. I think it did go up by about €4 billion, I think, is that what Governor Honohan estimated was the extra cost of delaying the nationalisation?

Mr. Kevin Cardiff: Excuse me. What you're saying is was there ... between the night and so on that, at the time of nationalisation-----

Senator Sean D. Barrett: Yes.

Mr. Kevin Cardiff: -----was there ... well, by the time we nationalised Anglo, the chairman and chief executive were gone.

Senator Sean D. Barrett: Would we have saved money if we'd asked them to go on the night of the guarantee?

Mr. Kevin Cardiff: I'd like to say yes because it would make me look wiser, but I'm not sure we would have.

Senator Sean D. Barrett: You mention, on page 6 of your larger document, "In [...] normal times, INBS should not have been a big problem to solve." Isn't there evidence from Nyberg, Honohan and so on that at least one of those banks had been a problem for eight years? I think it's called "Bank A" in one of ... one of the reports. So, why, in normal times, did we not say, "Look, there's a bank which is not fulfilling regulatory requirements"?

Mr. Kevin Cardiff: You'll excuse my ignorance; Bank A being INBS?

Senator Sean D. Barrett: I presume it does, yes. I think that, yes.

Mr. Kevin Cardiff: From time to time ... because we'd be talking to them ... this was entirely their bailiwick but from time to time the regulator would say, "We're doing this" or, "We're doing that" and you did ... I did certainly hear that they had an issue, not so much with the policies within Bank A or INBS, but ... I'll talk about INBS, I know ... whatever Bank A is.

Senator Sean D. Barrett: Yes.

Mr. Kevin Cardiff: They certainly had issues within that, not so much with the lending policy, though in retrospect they should have had, but with the management structure, which they regarded as extraordinarily focused on a single individual. And they seemed, though, to make some progress because there was a new and very experienced, apparently, individual brought into INBS at a particular point in time. It was said at the time, I can't recall if I heard it from the regulator, but it was certainly said around at the time that this was more or less that they're under pressure from the regulator so they had some impact, if you like, and then that individual, I think, after some months or a year, left. So they were back at square one.

Senator Sean D. Barrett: But it was taking eight years. Just in your shorter statement, you said to us, on page 6 I think ... sorry page 14, "There was real concern that the ECB should be kept 'in the loop'." And you criticised Mr. Trichet last week. How should that have operated, the relationship between the ECB and yourselves?

Mr. Kevin Cardiff: Okay, just to be clear, I did criticise Mr. Trichet and I think it's true but I also said a lot of things ... talked about a lot about the things he did that were good for us. But, at that point and this is a different thing, this is not the bailout, this is not the burden sharing, this is something different, this is back in 2008. At that point we were anxious that the ECB would know that we had some stresses, because we wanted them to be positive in terms of the collateral they would accept from our banks. In particular that, and because we wanted them ... we wanted to use them as the bellwether for whether there was anything else going on around Europe that might be of use to us. So there was discussion, and I can say this quite explicitly because its ... I have notes to say so, explicitly there was discussion between a senior Central Bank official around about 17 September, and again around about the 28th, 29th ... the first case, Tony Grimes, who was the director general and at that point might still have been the acting governor, I'm not sure ... 28th, 29th the Governor. And of course there would have been discussion at different levels in between, but explicitly two points at which you can say that the Irish Central Bank system was talking to the ECB and explicitly my notes say, and of course I'm getting this back from the Irish central bankers, not from ... not from having been at the meetings. But explicitly, according to my notes, there was a discussion with Mr. Trichet on the 28th or 29th and he was told that in fact one of our banks was, you know, would be in difficulties within a matter of days.

Chairman: Very short supplementary now Senator, I'm not allowing any questioning.

Senator Sean D. Barrett: Yes. Just ... if ... did anything occur to you in the intervening week on the identity of Mr. DD that you mentioned last week?

Mr. Kevin Cardiff: I'm still sure that I'm not sure, Deputy. Yes, I ... I think I know who it is, but if I say it and it's wrong then I've created a storm for somebody and that's not fair.

Chairman: And that's fair enough. Okay, I'm going to move on.

Senator Sean D. Barrett: Thank you, Chairman.

Chairman: I'm going to bring time to a wrap up. Thank you, Senator. Just a couple of matters. Earlier, when I was speaking to you about the nature, the structure of the design of the banking guarantee and how ... what bearing it had, if any, with the State entering the bailout programme two years later. Would it have possible to design the banking guarantee that would not have lead to a bailout?

Mr. Kevin Cardiff: The bailout happened because the scale of our economic and fiscal difficulties, which were not caused by but seriously exasperated by our banking difficulties. And the real issue was the cost within the banks, the cost of losses within the banks rather than the guarantee itself. We could've designed the guarantee differently in the ways that Professor Honohan has talked about, to make it more possible within Irish circumstances to burn bondholders earlier, especially to burn the senior bondholders earlier. But from a policy point of view, and especially about what we learned later about the European reaction, that might not have been practically possible. So, one could only speculate, Chairman, one might have, you know ... one might have saved a small number of billions here and there according to Professor Honohan, I'm sure he's right, but you might not have, and then would a small number of billions made it difficult ... made a difference to whether we went into the bailout or not. Probably not. But every ... but you have to assume that everything else being equal over a period of years where they might not have been.

Chairman: Okay. Mr. Cardiff, your period in the Department of Finance came to an end when you moved into the Court of Auditors. Did you apply for this position, were you headhunted for it and was there resistance from the Department of Finance for you ... from you leaving to go to the Court of Auditors?

Mr. Kevin Cardiff: I received a phone call from the Taoiseach offering me the Government's nomination. I thought about it for a couple of days and I said "Yes". The Minister of the day, current Minister, told me that he had not ... this was not his suggestion or initiative. I suspect this because I had said to him some months before, not long after he joined the Department, I said to him, "Look, physically speaking, I'm not sure I can keep going for five more years", which would have been my term. In fact, I wasn't sure I could keep going for two more years at the current pace. I might have ceased to be effective, so I had said to him, "Look, you know, let's get you settled in, I'll stick with it for as long as you want, but you have to be aware that there's that issue."

So when the Taoiseach talked to me I thought maybe this was coming from the Minister, the Minister said "No", not from him. So ... but the timing, from my point of view, was reasonably good. The Government was in ... was bedding down, they'd been there for six months, I would be still *in situ* for another four or five months. The transition had happened, so it was, you know, it was positive. I was quite positive also to the idea that we would have a, you know, that the Department could have a new Secretary General that was based ... that was selected from the broad universe of people available, which is what happened in effect. In fact the job was thrown open worldwide and there was a real attempt globally to bring people into the, you know ... to have the best possible field. So that's what happened, there's nothing sinister that I'm aware of.

Chairman: Thank you very much, Mr. Cardiff, I'm going to move now to wrap up a ... I'll be allocating five minutes each to the members but I need questions and answers dealt with in that time. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Cardiff. Just a couple of brief questions. Why even think about a bailout in 2008? If you believed the banks were solvent, if profitable even, according to some reports, there was a fiscal correction to be made but there wasn't a funding problem. So why did it flash across your mind and then why did you act on it?

Mr. Kevin Cardiff: Well, imagine the guarantee hadn't worked, Deputy, and in November of that month we were desperately trying to find someone to give us some money and no one had thought about it beforehand. Then I'd be answering a different question.

Deputy Eoghan Murphy: So it was in case the guarantee hadn't have worked, we might have needed that programme from the IMF?

Mr. Kevin Cardiff: Yes, well, as I said, it was ... while I was ... the first time we thought about it, was then. It was no more than a thought. I got a note, I think in October, saying more or less here's how its done, and we left it at that. We knew what the first step would be if we ever needed that avenue.

Deputy Eoghan Murphy: Moving back then ... or on to May 2010 and this offer from the IMF about maybe going to precautionary line. In April, the Governor of the Central Bank told the Minister that he thought we could be up next for a bailout. And earlier today, you said that the sovereign crisis began in April and exacerbated through May and June and into the summer. So, why wasn't that offer in May explored seriously?

Mr. Kevin Cardiff: Okay, so are we talking ... well, I don't ... I doubt very much that the Governor was saying we might be next for a bailout in April 2010 because the first one was Greece, which was in May 2010.

Deputy Eoghan Murphy: At the time, there were discussions about what support we might give to Greece as part of the bailout and in a conversation, this is according to what Patrick Honohan has written, he did say to the Minister that we should be involved because we could be next.

Mr. Kevin Cardiff: Well, that's quite possible. Why didn't we react more quickly? Well, at the time, we were still funding quite well in the markets so we didn't need an additional funder at that moment, and we didn't have any difficulty in the funding markets really until the end of the summer. So, it would have been one you would file away as being potentially useful. Really, the great thing is so long as you know the facility is there if you need it, or could be there if you need it, you don't need to exercise it. The knowledge that it's there is very powerful in itself. So, I think that it would just be a matter of timing after that, Deputy.

Deputy Eoghan Murphy: The question about ... and there's a view that ... the guarantee happens in September '08, Anglo gets nationalised at the beginning of '09 and NAMA gets to work, and then two years later you have this great movement as part of the bailout to finally bring a solution to the banking problem in Ireland. And you provided a memo to us written on 15 October 2008 in which you write to the NTMA, the regulator and Central Bank, the Attorney General and the Department, and you say:

> I think we need to think about

A. What recapitalisations might be required

B. What consolidations might be required

C. Whether any nationalisations might be required

You say that at the time, it was simply clear that the guarantee would need to be supplemented by other efforts and we may as well get started or restarted. And that was October 2008. And then when you go to the memorandum of understanding for the bailout, you have recapitalisations, consolidations and quasi-nationalisations and you've got a four-month timeline to complete those. So what was happening in the two years then from guarantee to bailout that prevented that work from happening that you then implemented very quickly once the bailout was agreed?

Mr. Kevin Cardiff: Well, that work was happening. I mean, the ... excuse me, you ... the committee's request ... instruction to me to attend arrived before I'd done the capitalisation chapter but, basically, between 2000 and ... well, from ... okay, phases - and I'll go through them very quickly because I know you ... the second ... the last quarter of 2008, engagement with the banks - a lot of it - on whether and what capital they need and, more importantly, on whether there's private sector capital available, so ... and there was a lot of people around to claim they had money available but in the end none of them delivered. First half of ... first quarter of 2009, Anglo nationalisation, actual recap work going on and the first engagements on NAMA. The second half of ... second quarter and third quarter of 2009, great deal of effort on NAMA and more work on recap. That work ... work on NAMA, in particular, goes into the end of 2009. 2010 we're saying, "Look, time to take stock," big effort on stress tests and so forth, PCAR, and, again, just see ... and an effort to see if the recap effort is sufficient. For AIB, it turns out not. More work on Anglo as the Anglo book gets going. So 2010, April-May, two good months, April in particular. Work on private capital for Bank of Ireland, down to their own efforts as much as to the public effort. May, sovereign crisis starts - coping with that through the summer. Then implications of that four-year plan start. There wasn't a moment when we weren't working on it pretty hard. Maybe the consolidations was the only thing that you would accelerate because, remember, the recaps happened as the information became available. Consolidations could have happened earlier but I'm not sure it would have made much difference.

Chairman: Senator MacSharry.

Deputy Eoghan Murphy: Thank you.

Senator Marc MacSharry: Thanks, Mr. Cardiff. I know you're anxious to get going, so just very briefly. You spoke there to Senator Barrett in relation to the nationalisation of Anglo, in particular, and why didn't it happen on the night. You had said to us that you had a preference for that - it didn't pan out. In his report, Mr. Honohan said, "it is hard to argue that the delay of five months in eventually nationalising Anglo had a major financial impact." Are you able to put a number on what cost you think would have been saved or is far too much made of this issue?

Mr. Kevin Cardiff: Well, I think I said to you earlier, I didn't know that there was a number. It may be that too much is made of it, but what might have been saved is the ... I'd have to ... no, I'd have to go into areas that we're not supposed to go in. There was a reputational problem at the end of that year for Anglo. That caused a reputational problem for the whole country. That might have been saved.

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